

Operator: Good day and welcome to the Alinma Bank's Q4 2023 Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Waleed Mohsin. Please go ahead.

Waleed Mohsin: Thank you very much. Good day everyone and thank you for joining today's Alinma Bank's Fourth Quarter, 2023 Earnings Call hosted by Goldman Sachs. The call is intended for investors and analysts only, and any media representatives should disconnect. It's my absolute pleasure to welcome Alinma Bank's management team joining the call today, Mr. Abdullah Ali AlKhalifa, chief executive officer, Mr. Saleh Alzumaie, deputy CEO and head of retail and digital banking. Mr. Jameel Naif AlHamdan, head of corporate banking, Mr. Adel Saleh Abalkhail, chief financial officer, and Mr. Ahmed Sager, head of investor relations. So without any further delays, let me pass the call on to Alinma Bank's CEO. Thank you.

Abdullah Ali AlKhalifa: Thank you Waleed. Hi everyone, and welcome to our earnings call. As usual, I'll take you through a quick presentation about high level financial performance and a reminder of our strategy and our progress on implementing that strategy. Then I'll hand over to the CFO to take you through detailed presentation on the financial state – on the performance of 2023, and the idea, we'll try to make as much time as possible for Q&A.

So with that, we start with page six in the pack that was sent earlier. Our financing – our loans portfolio reach 173.6 and 18.5% growth over last year. Our total assets also witnessed a strong increase of 18% to reach 236.7 as we now are the sixth largest bank in the country. Our operating income increased by 22%. Our net income increased by 34% to reach 4.8 billion. Our NPL ratio reduced to 1.61% and our coverage ratio improved to 155%. Customer deposit. We went through a strong growth 29% to reach 187.9bn, but more importantly, the growth on CASA increased by 10% to reach 90.6bn. Obviously with a strong growth in loans and it had to be financed by time deposits, our CASA has diluted to as a percentage of total deposit to 48.2%.

Cost of income improved from 34.7% last year to 31.3%. Our net profit margin or NIMs increased by 19 basis points to reach 3.81% and ROE increased by 353 basis points to reach 17.2%. Maybe it's a good opportunity since we finished now a third year of our current strategy, this five year journey that we started just to comment on the ROE. We have more than doubled the ROE that was in 2020, it was 8.4%, and within three years, it is more than doubled to reach 17.2%. Also something that we have not actually included in the presentation, but if we take a total shareholder return we reached over the three year journey, 156% while I think the market competitors are averaging around 56%. So it's a good journey that we had over the last three years.

And we flip to page eight, which basically talks about our current strategy. And as you know, we want it to be known as the fastest and most convenient bank in the country. We want to be number one in net promoter score, and we want to be number one in terms of employer of choice, more details on the next page. So in order to deliver in our strategy, we had to obviously deliver on the building a digital factory. We also created and use more of the data in terms of making decisions and using advanced analytics and machine learning technologies. We also had a strong transformation, a culture that really help us to not only to attract, but also retain the talents Saudi talents.

In retail, the three pillars of our strategy there is basically building an affluent and high net worth franchise, focusing on attracting more of the youth segments and offer the best customer experience in corporates it's about being a core bank, not only to large corporates and project finance that we were focused on from the beginning, but also building that or expanding that to cover also mid corporates. We want to develop our SME business and grow our cash and trade finance business. Treasury want to be the core bank partner for our corporates' needs in terms of hedging or investments, as well as building more into the five business and maintain high quality ALM function.

So far, on the next page, page 10. So far out of this strategy that started, I think with 64 initiative, now it reach 77 initiatives. We already delivered 62 of those in three years' time. So just to highlight some of the things that was done during Q4, we expanded and implemented more advanced analytics to help us on the cross sell. We've launched digital subscription for payroll services. We launched digital refinance. We also installed 24 more TCR to reach 108, and we're going to continue on that journey. In corporate, the RM sales tools is being implemented. The first phase at least of it, we had experienced 140% growth on mid-corporates with the 135% are non-funding on mid-corporates. On KAFALAH, 20% growth, and achieved forward FX business of 28 billion.

On the next page, we going to work on final 15 initiatives. And by the way, this is – because of our success and implementing those initiatives on the speed of doing that, we're actually also working now to potentially bring in more initiatives because we have two more years on the strategy. We've delivered already 62, we're going to deliver more this year. So we needed more initiatives and this is what we're working on, but things that we're going to expand or work on it this year, we're going to continue to expand our digital factory. We want to continue to develop retail. We're working on developing a new retail credit scoring system. We're working to digitize our journey in mortgage or mortgage journey, as well as an enhancing the family ecosystem.

We're going to continue as you recall, we started last year to merge male and female branches. We've done – we've successfully done 40 last year, and we're going to continue to expand on this process, which given us obviously a much better efficiency in running our branches. We're going to continue to install the TCR as I mentioned before, we're going to continue for corporate to develop our new portal for corporate clients. And we're going to complete the loan origination system. We launched one phase of it last year in 2023, we're going complete it this year, we're going to continue to enhance our offering structure deposits and working hard to basically generate more long-term funding. And with that, trying to be fast, so I can give more time for Q&A. With that, I leave the floor to our CFO to take you through detailed presentation of financial performance.

Adel Saleh Abalkhail: Thank you. A very good afternoon and welcome you again for the earning call for Q4 2023. As usual, I'll be running you through the financial performance and that will be followed by our outlook and the guidance for the year 2024. Starting with slide number 13 on the balance sheet trend and growth, we continue to see a good growth in the financing that resulted in 18% growth in the overall balance sheet. As you can see in the top right graph, the total – the overall asset growth 18% year on year was 28% growth in interbank, 12% growth in investments, and more importantly, 18.5% growth in net financing year on year.

On the liability side, the growth was 20%, and obviously this was mainly led by the 29% growth we have had in the customer deposits. 42.7 billion growth year on year on customer deposit, as you will see in separate slides on deposits, this was mainly driven by time deposit. We also have seen the 10% growth in CASA. Slide number 14, where we've seen the P&L trends, 34% growth year on year. And we will have a separate slide both on funded and non-funded income, operating expenses and impairment. But the funded income we have seen year on year 26% growth. We have seen also continuous growth of 9% in the non-funded income, year on year.

Operating expenses close the year with 10% growth in operating expenses. Impairment was 9% higher than the impairment charges we had last year. In the composition of the overall operating income, 79%, almost 80% is the funded income. Obviously the 15% will be on the fees from banking services, and the 6% will be for exchange and the other. Moving into slide number 15 on the financing specifically, we continue to see growth on gross basis on a sequential basis, for Q4, we have seen 3%.

As of December the financing portfolio in the bank was 68% large corporate and project financing, the mid corporate, which is the commercial segment, represent 4% of the portfolio, another 4% for SMEs, and we have the 24% for retail split equally between personal financing and mortgage. If you can see in the bottom left graph on the segments, the growth year on year was across all segments. 13% in the home financing, personal financing was 19%, large corporate and project financing, 15%. And we have seen higher growth of a smaller base for the mid-corporate, and SMEs 140% and 31% respectively.

On slide number 16 on the deposits, we have seen an overall 29% growth in deposit year on year. Of course, 55% growth for time deposit. That's 34.7 billion growth. Of course, that was funding the growth we have seen in the financing as we mentioned earlier. But more importantly, as mentioned by the CEO before is the 10% we close the year with a growth in CASA. If you can see in the graph in the center of this slide, the CASA as a percentage of time deposits – of total deposits has further diluted. And of course, we have seen growth in time deposits in the sequential basis in Q4. If you recall, this percentage was 49.9% diluted now 48.2%, but mostly on the growth we have seen on time deposit.

Slide number 17. This is sort of the details on the income from financing and investment. Overall, 74% growth in the funded income. As mentioned earlier, 45% was from investment portfolio, and also the 79% was growth from the financing income. If you can see the graph in the bottom left, this is the movement year on year on the NIMs, the net profits margin. We have seen an expansion of 19 basis points and the breakdown of that. We have seen 189 basis points expansion on the financing along with 15 basis points expansion on the investment yield, that was all offset by 185 increasing cost of funding. So we closed the year at a NIM of 3.81%. As mentioned earlier, that was a 19 basis points expansion.

Slide number 18 on the non-funded income fee and other income. In a sequential basis, we have 4% drop from Q3. However, if we look at the top right graph looking into the year on year non-funded income, overall 9% and the breakdown we have seen a 21% growth in the fees from banking services. Exchange income, also another good year to growth, 14%. And also the other income 48, that was lower because of the one-offs book for the other income during 2022.

Slide number 19, on the operating expenses. As we can see in a sequential basis, only 1% growth in the OpEx for Q4 versus Q3. So that is translating into 10% growth in OpEx. This is lower than if we recall, Q3 year on year, the growth in overall OpEx was 13%, so we are seeing slower growth on a sequential basis in our OpEx. The growth in the OpEx year on year, 11% was in personnel cost, depreciation and amortization 17%, and the remaining 8% was from the other G&As. The graph in the center of the graphs is actually showing where the direction, the cost income ratio, the higher income, also, as I mentioned, lower expenses growth have led the cost income ratio to reach 31.3%. This is down from Q3, which it was 31.7%. But overall, this is from where we ended December, 2022 where cost income was 34.7%.

The next slide, impairment, almost – only 3% growth in the impairment charges, overall 6% year on year on the net impairment charge. The overall impairment allowance held is 78%, relates to corporates, remaining 22% will be for the retail portfolio. The graph in the center of the graph is showing the movement of cost of risk. If you recall, cost of risk Q3 was 84bps. This at end of the year, the cost of risk closed at 77bps.

The slide 21 on the NPL and the NPL coverage. If you look at the NPL it's almost flat. The 3% of that would be just for rounding. But for the reduction in NPL from Q3, where we see Q4 NPL ratio standing at 1.61%. The NPL coverage ratio in the bottom left graph, we have seen an improvement from the same period last year where coverage ratio was under 136%. We closed the year almost 155% coverage as we mentioned earlier and before that, we would always intend to be within the 150% average for the coverage ratio. Just in the statewide coverage, we've seen a drop to the stage one coverage slightly decline due to this acquisition of higher quality credit, and also stage two have seen a drop, but this is for certain movement from stage one to stage two with lower coverage. Of course, the reduction that we would see on stage three would most likely be for the write offs during the year. On slide 22, the capitalization and liquidity, Pillar 1, we are at 17.5% and this is lower from last year, of course, for the growth in the risk weighted assets, given the growth in financing that we have. Profitability, ROE as mentioned by the CEO earlier, expansion of the ROE, we reached 17.2%, and also this is also reflected in the ROA as well which is standing at December of 2.2%. LCR on a comfortable level well above the regulatory minimum, standing at 147%. LDR is at 80.5% the regulatory LDR, which is well below the regulatory maximum. And also on NSFR, we close the year at almost 109%. And this is an improvement from Q3, which is well and above the regulatory numbers.

Moving into the outlook and the guidance on slide 24. We have guided for 2023 on the financing growth. Initially in the year, mid-teens, this was revised to high teens, so this is meeting the guidance where the growth year on year is 18.5%. The guidance for next year, expecting this strong growth, mid-corporates, SMEs and also continuing the growth retail and also the project financing corporate we were guiding for mid-teens growth and financing for 2024. On the net profit margin, the NIMs, the guidance was for 2023, +20bps to +30bps, one basis point below the lower range of the guidance where we closed 3.81%, which is a 19 basis points expansion.

Given the expectation of rate cuts and also that would sub-partially or get set by the expected improvements in margins. We are guiding almost of flat NIMs -5bps to +5bps to plus five basis points for 2024. And the cost income ratio, the guidance 2023 was below 32%. We closed well below the guidance, 31.3%. Of course, with the growth in income and also the digitalization and the impact of efficiency, we are guiding for 2024 for around 30% cost

income ratio. And the ROE, the guidance was above 17%. We closed the year at 17.2%, so within the guidance for next year with the improvement in the top line, we expect also efficiency to drive further improvement in ROE, and we are guiding for above 18%, ROE for 2024.

Cost of risk, the guidance was 65 to 75 basis points. It's two basis points more – higher than the higher range of the guidance just for the bank, ensuring that we have a comfortable coverage ratio. We close at 77 basis points. We are cautiously expecting stable credit and the guidance for 2024 remains as of that 2023, which is 65 to 75. As far as the CAR Pillar 1, we're guiding 2023 at 17% to 18%, actually 17.5% with improvement in top line and also better management in equities. We are guiding for CAR Pillar 1, 19% to 20%. And that's just a reminder on the return on equity targets for the long term 2025, which remains about 18%. With that I will hand it back for the Q&As.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, please press star one to ask a question. Our first question comes from the line of Nida Iqbal with Morgan Stanley.

Nida Iqbal: Hi. Thank you for the presentation. I've got two questions. Firstly, on the margin side of things, just wanted to understand your margin guidance of -5 bps to +5 bps. Under what scenario do you expect the margins to expand +5 bps? It would be helpful to get some more details around the assumptions here. And then on your expectations for return on equity in 2025 remaining above 18%, if we could get some color around that, because presumably with rate cuts, we would expect margins to compress. And so therefore, what would you expect to be the offsetting drivers here in terms of keeping returns stable? And secondly, I wanted to ask on asset quality. You mentioned that you're cautiously expecting stable asset quality, so perhaps if you can shed some light on where you see the risks. Thank you.

Abdullah Ali AlKhalifa: Thank you. Now, on the margins risk, when we prepare our business plan, we take the latest forward yield curve, and in preparation for the earning call, we even refresh that with the even more recent forward yield curve. And that's what it came to. Now, what can help to expand this is obviously maybe if our expectation on rate or rate decline next year or the market expectation, if it was delayed, the rate cut is obviously will be helping in expanding our margin.

In terms of ROE, I think we look at ROE, you have to remember that obviously NIMs is important but also volume is important, the mixture product. So we're more expanding, also doing very well in expanding in the more profitable sectors like mid-corporate and SME that obviously better margins than large corporates or even project finance. But also decline in rates typically give you a positive impact initially on the funding deposits, because obviously time deposits tend to be shorter term, so the rate cuts typically comes first as good news in terms of your funding costs.

Then probably you've noticed maybe compared to other corporate banks in the country, we're more – we're slower in repricing our assets. So in a way, it's really helping also our efforts on cross-selling, generating non-funded income from fees and FX and derivatives and so on. That's also helping to add to our ROE. On asset quality, I think they – I've always, I think I've been asked before about the cost of risk cycle, what would be normalized level? And I said, "It really shouldn't be dropping significantly below 50bps," 50bps to 60bps, maybe that's the right level.

So within that process, we're moving towards that level. I think the economic activity that you see in the country, not only on the corporate side, but also on the impact on it on retail is quite positive. But we said, look, continue to improve our coverage ratio. Want to be mindful of some of the legacy exposure if something deteriorates with that impact, for example, our provision. So we just trying to be – at the beginning of the year, to be as cautious as possible. Now, that obviously as we promise you within a quarterly basis, you're going to reassess those guidance based on what we see. Obviously, when you put these targets at the beginning of the year, you have full year ahead of you later on, maybe in after six months, the picture may be much easier in terms of the credit risk, and that could be also subject to amendment.

Nida Iqbal: Thank you so much. Can I just follow up on the margin question once more? You mentioned that you take the forward curve when you're doing a budgeting, that's been moving quite a bit. So if you could just flag exactly how many rate cuts have been baked into this guidance would be helpful. Thank you.

Abdullah Ali AlKhalifa: Yeah. As I said, we look at the forward yield curve as the market see. This is like from Bloomberg. So we don't really build our own expectation. We just take what the whole market collectively sees, and that's what is reflective of the forward yield care.

Nida Iqbal: Thank you.

Operator: We'll go next to Naresh Bilandani with JP Morgan, Dubai.

Naresh Bilandani: Yes. Hi, Abdullah, Adel, thank you very much for the presentation. A few questions, please. One, could you please just – following on from the previous set of questions, would you please be able to guide what is your average three month SAIBOR expectation for this year? I'm sure you've created an expectation which you're basing your interest margin, so any guidance there would be very helpful.

Second is, as you've rightly pointed out, I think one reason for your NIM defensiveness was also the extended repricing duration of your asset book. Now, I know you represent this only once in a year. This was indeed the case in FY 2022. Has that trend and mix continued in FY 2023, have you been able to book more loans, which are linked to six months and 12 months SAIBOR, which kind of gives you some defensiveness on the NIM. Has that been the case?

Also, I think continuing on the volumes, would you please be able to guide whether you still expect a faster growth in the time deposits portion of your deposit book versus CASA this year? Is that fair? And my final question is. If you can please throw some light on why the cost of risk fell slightly above your expectations. I know it's not too far, but typically I think when you give a range, the top end tends to build in a conservative expectation already. So just keen to understand what the negative surprise was that came through in the fourth quarter. Thank you.

Abdullah Ali AlKhalifa: Thank you. But can you repeat the third point? I think I missed it.

Saleh Abdullah Alzumaie: On the CASA.

Naresh Bilandani: Yeah. The third question was mainly the expectation of the trend of growth in time deposits versus CASA this year. Do you still expect the time deposits to grow faster than CASA? And maybe just to clarify, my previous question prior to that was the defensive of NIM and the extended repricing duration of the book, if that trend has continued and at what pace in 2023?

Abdullah Ali AlKhalifa: Yeah. Okay. Thanks. I'll cover some points and I think Adel can maybe the three month. I don't recall exactly the three months that we use based on the forward yield curve. But in terms of trend and repricing, previously, we were pushing for shorter benchmark, like three months. We resistant on given six months or 12 months. And to be honest with you, in the last – at least the last half of the year or 2023, we were much more relaxed. In fact, we're encouraging clients to go for a longer duration. So in a way, that is not only necessarily very similar to what we had before, maybe improved even a little bit further.

On the time deposits, obviously when we give targets of loan growth in the mid-teens, naturally that is – cannot be only funded by CASA. So we're going to continue to obviously take more time deposits than we take CASA. We focus a lot on a customer acquisition, on customer cross-selling products that help us in growing more CASA and we're going to continue. I think we had a good track record. I think in 2023, we had 10% growth. If you look at – I think if you look at the markets will be – I'm sure it'll be less than this. So I think we're one of the best in terms of improving on CASA.

And the last point I'm going to cover it is the cost of risk. Why did it go slightly beyond our guidance? I think maybe to explain this is, it's helpful that a selected company, that we reached a settlement, I think they announced that they reached a settlement with the bank, and they were actually instructed by I think the stock exchange to actually explain what's – or disclose the name of the bank, and they did disclose, it's Alinma. That agreement, unfortunately, we were expected to take place on Q4.

That was based our guidance, even when we refresh that guidance for Q3, we still kept it at 75 because of that settlement was pretty much almost assured, but it delayed and the, the actual agreement was signed on the last day of the month, so we couldn't really book it because the agreement itself is not enough. We need obviously some sort of additional regulatory approvals. It's going to happen in Q1 now, it's no longer a story of Q4. Had it happened in Q4, we would have been within our guidance.

Adel Saleh Abalkhail: Yeah. Yes, Naresh, and on the SAIBOR three months built-in on the guidance. So as mentioned before, as we keep on updating our yield curve and see how the impacts in the overall portfolio and I can say that the three months SAIBOR average built in on the guidance is 5.74% for the full year average.

Naresh Bilandani: Got it. Okay. Thank you. That's very helpful. Thanks a lot for your answers.

Operator: We'll go next to Aybek Islamov with HSBC.

Aybek Islamov: Oh, yeah. Thank you for the conference call and for all the Q&A so far, your insights, appreciate that. I would say a couple questions. The first one is about your capital adequacy. I've seen your guidance on the CAR, you see it improving in 2024. What's your assumption behind that improvement? Do you assume some active issuance of additional tier 1 debt? And yeah, could you also comment on your CET1 ratio? What kind of cramps do you expect to see in the CET1 ratio in 2024? And also, how do you think about your balance sheet leverage? I'm referring to asset to equity multiple. do you see further expansion in asset to equity multiple at the same time when you see your CAR increasing in 2024 versus last year?

That's my first question. Now, secondly, could you comment at what level of interest rates would you expect to see mortgage refinancing demand becoming quite active in the market, right? And what would be Alinma Bank's attitude should that refinancing demand pick up significantly, let's say towards end of this year or early next year? And then thirdly, what I'd like to ask is the repo funding. I see that Alinma Bank is not using repo funding as actively as some large cap competitors. And we've been on the conference call earlier. Alrajhi Bank has a strategy of growing their investment book, and I can see how they're using that to maximize the repo funding. What's the view of the Alinma bank on the repo funding?

Abdullah Ali AlKhalifa: Okay. Thanks, Aybek. Obviously, when we guide for a 18.5%, sorry, not 18.5%, it's mid-teens in loans, and yet our CAR is improving, is because, and I mentioned this before, we're going to issue tier 1 instruments hopefully in this quarter. And that will obviously help the CAR, and obviously leverage will continue to increase. One of the features of Saudi banks historically been low leverage, but I think this long growth and more issuance of debt instruments will help to continue to raise the leverage, and that will – obviously has a positive impact on ROE.

In terms of your question about the repo funding, we are using, we've actually done repo to maturity where we actually use Saudi Riyals to get dollars. That was a sort of repo to maturity. And we've also expanding and exploring. Obviously we can do more, but it's always been a balance between the funding side, but also the cost of funding. So we're trying to get more attractive deals. And we are doing this. As you know, we have 500 million dollar senior Sukuk program. We haven't issued any of that. We're looking for better rates so we can issue.

So that long term funding is explored. We are also talking to some international regional players for potential long-term funding and even some institutions in Saudi to go for multiple years financing rather than the normal short term time deposit that we have. I think on mortgage, it's really hard to assess what's the level of interest we'll go to before organiting significant refinance on mortgage. Honestly, don't expect to see that in 2024. Could be a story, for 2025 onwards.

Saleh Abdullah Alzumaie: At least we need to see a 100bp reduction in SAIBOR, so we can be able to see if we can move from one bank to another. We didn't see this in personal finance because personal finance usually is two years and the customer refinance themselves. But for mortgage, I think a 100 to 150 basis point reduction might cause customers to move from a bank to a bank.

Aybek Islamov: Thank you. And on the first question, just one follow up. CET 1 ratio, obviously quite a strong capital consumption. You have not published your CET 1 ratio yet, but I believe it's around 14% or just over 14% compared to 15.8% in 2022. I know you're boosting CAR with additional tier one, but what's the flow for your CET1 ? Obviously, the growth is quite impressive. You are executing very well, but how are you thinking about your minimum CET1?

Adel Saleh Abalkhail: So Aybek, on the CET of course, the financials was not published. It'll be up on the, on the website maybe tomorrow evening or Sunday. But CET1 did not move much in Q4 from what you have seen. Q3, it's around the 14%. And as you know, the limitation on capital adequacy will be the overall capitalization. That would be for Pillar 1 and Pillar 2 risk. So as mentioned before in the intention for further support to the capital or to the equity is the AT1 Sukuk that would support the growth that is mentioned as mid-teens. And again, the CET1, the number of, as I mentioned, Q4 as much as from what we have seen Q4. And usually we don't really guide on the CET1, but that's the Pillar 1 capital that we are guiding from 19% to 20%. And obviously in your question on leverage, of course, the leverage will increase both the – any planned issuance for AT1 issuance.

Abdullah Ali AlKhalifa: You have to be mindful Aybek that the limit, the central bank actually given – chosen minimum capital required is actually the total of tier 1 and tier 2 divided by risk weighted assets on Pillar 1 and Pillar 2. That's how it's calculated. So it's important to look at this. Obviously we don't disclose Pillar 2, we're not allowed to do that, but this is what we have measured and this is the minimum capital that was required by us.

Aybek Islamov: Okay. That's clear. And if I may, one last one, your ROE guidance, is it before interest on tier 1 debt?

Abdullah Ali AlKhalifa: Our ROE is basically shareholders return and equity, it does not include the Sukuk, yeah, before Sukuk.

Aybek Islamov: Okay. Thank you.

Operator: We'll go next to Shabbir Malik with EFG Hermes.

Shabbir Malik: Yes. Hi. Thank you very much. A question around fee income. How much of your fee income in 2023 would be volume linked or loan growth linked? That's my first question. And secondly, in your comment on your NIM guidance, you mentioned that the drivers, that these declining rates mix in the improving margins. What do you mean by improving margins? Is it loan spreads or is it basically targeting higher yielding segments? So if you can please elaborate on that. Thank you.

Abdullah Ali AlKhalifa: Sorry, Shabbir. I think the sound quality is not that good from your connection. Can you repeat the first point?

Shabbir Malik: Yes, sir. My first question was how much of your fees would be loan growth linked in 2023? And secondly, in your comments on NIMs guidance in the drivers, you've mentioned that it's declining rates and improving margins. What do you mean by improving margins? Does it mean increase in loan spreads or does it mean shift in loans from let's say high quality corporates to mid-corps, etc.? So some clarification on what do you mean by improving margins? And the first question is on fees.

Abdullah Ali AlKhalifa: Clear. Thanks. On the NIMs when I was talking about margin, I was obviously referring to NIMs because I mentioned to you that when rates decline, typically we get the benefit first in terms of reducing cost of funding because cost of funding is much shorter term and we're a bit slower compared to other corporate banks in terms of repricing our assets. So I was referring – I think there was a question on how – what would make it a NIMs expansion? And this is the scenario, I was giving a fee for that. On the fee, Adel.

Adel Saleh Abalkhail: Yeah. Shabbir on the fees and how much, if I get the question right, on how much of the loan growth is linked to the fees. As you know, the bulk of the fee is linked directly to financing as per the standards is classified as part of the funded income and being amortized and recognized through the period. So that wouldn't be part of the fee from banking services or the non-funded income. Of course, there will be the commission related to the finance, that would be part of the fee income. But also the indirect link of, if you take the revolving credit card and whatever yield is related there, but then the interchange and issuance fees will be part of the funded income. So it's mostly in the fee services. The fee is linked directly to the lending itself, would most likely be classified under the yield income in the top line.

Shabbir Malik: Got it. Thank you.

Operator: We'll go next to Olga Veselova with Bank of America.

Olga Veselova: Thank you. Thank you for hosting the call and for taking the questions. I have several remaining. One is on, again, on capital adequacy. It's clear that the near term priority is raising AT1. If we look longer term, not necessarily on 2024, would you consider any tools to CET1? And if yes, then what would be preferred choices for you? What do you go for potential capital issuance, so maybe lower dividends? So how you would think about this in the – not in about the next year, but about the next maybe two, three years given how well you grow your risk weighted assets.

My second question is again, on capital. At the beginning of January, you announced this bonus share issuance took the 5 billion Riyal from retained earnings. From what I understand, it doesn't really impact your CET1 ratio, given that it doesn't, why is it helpful? Which ratios in the bank depend on this? So they do not depend on capital size, but they depend on this shift from one pocket to another. And the third question is on CASA ratio again, so you gave some comments on CASA, but just for me to clarify, do you expect CASA as a percentage of deposits to go further down in 2024? Thank you.

Abdullah Ali AlKhalifa: Thank you. Now on the CAR, as we mentioned, obviously we're issuing a tier 1 Sukuk. We're issuing to – we're targeting a level where it should be enough for the next 12 to 18 months. And the idea is that we continue that growth and not seeing – and obviously with higher income, there'll be more retained if you continue with the assumptions of similar level of dividends payout so that the internal generated capital will continue to be supporting our CAR. But it's an option – our preferred option if we need to is to go for more instruments either tier 1, or tier 2. The idea was why not go for the whole size of issuance that cover the next three to four years. It's not that – nowadays, obviously the interest rate is high, so this should cover us for at least 18 months and then later on, obviously it's following some rate cuts and so on, that this instrument will be cheaper to issue compared to the current level.

In terms of bonus shares, why we done it. And in a way, I understand that it does not – it's just an accounting in a way. It's from return earnings to paid up capital. However the market, and you've seen the reaction in the market historically in Saudi, they typically like that, the shareholders or investors, they typically like that. In a way, it dilutes initially the price, which makes it more liquid and more people can afford it. And I can't explain why they love it, but this is something that we've been getting feedback from investors, from shareholders and obviously we're not going to do it on a yearly basis, but we felt that there was more demand for it, so we issued it.

And CASA, in terms of potentially can dilute, yes. If we had very little growth next year on loans or mid-single digits or something, then yes, we can afford obviously to take less time deposits and continue our drive to grow our CASA, which means we'll improve the ratio. But as we grow fast as mid-teens, as I mentioned, that need to be financed by more time deposits. So we grow in CASA, but the same time CASA as a percentage may continue to dilute.

Olga Veselova: Thank you very much. Sorry, just to come back on the second question. Thank you that you disclosed your feel about that. So you mentioned that it's just an accounting, so then what motivates you to do that, was this SAMA who approached you and said it's the right exercise to do?

Abdullah Ali AlKhalifa: No, no. SAMA has nothing to do with this. This is basically, has to be approved by SAMA naturally, but it's an initiative that we as a bank have taken. So this is something, as I mentioned to you, there is good demands, strong demand coming, and we can hear comments and discussion with shareholders and investors that there's a good demand for this. And I said, historically, it's been always seen as a very positive news when a company issued bonus shares, and you've seen how the market react, and I think it went through the same trend. So to improve the – I think at least when the news came out, it improved the price of the share. That's the reason we did it.

Olga Veselova: Thank you. Thank you very much.

Operator: We'll go next to Shouq Alshahrani with Lazard.

Shouq Alshahrani: Hello? Hi, can you hear me?

Abdullah Ali AlKhalifa: Yes, we can.

Operator: Yes, we can hear you.

Shouq Alshahrani: Thank you. This is Shouq Alshahrani from Lazard. Thank you for having the call. I just have a question from my side. We saw the government announcing about SAH Sukuk, which is for Saudi retail, which is a saving product. And seeing that the rate on this Sukuk is five points [inaudible] –

Operator: I'm sorry [inaudible] –

Abdullah Ali AlKhalifa: I think you're having a bad connection.

Operator: You did not come through quite clearly. If you could repeat your question.

Shouq Alshahrani: [inaudible] and they have a profit rate on that of 5.6%. Do you think that is putting any pressure on the cost of funding for banking system for commercial banks?

Abdullah Ali AlKhalifa: Okay. Thank you, Shouq. Obviously, the program is to encourage more of a saving in the culture, the Saudi. Yeah. As you know, the limit is 200,000 maximum. The rate currently is offered for one year. It's not

multi-year. Compared with the market rate, is not really very, very competitive that will drive a lot. We still obviously matter in this. Naturally, the more deposits taken, will ultimately go back to the system in the form of payments to vendors, payment to salaries and so on, and maybe more deposit. We've been receiving AGIs or government deposits since Q4 last 2022. And in a way they felt, the Ministry of Finance or Central Bank felt that this is negatively impacting liquidity, then these deposits can flow back to the system. I don't expect it to be significant at the moment, but it remains to be seen.

Shouq Alshahrani: I heard something about that's going to be in monthly basis. Do you have any information on that? They will continue to issue that like on monthly basis going forward.

Abdullah Ali AlKhalifa: Yeah. Monthly subscription, but it's one year term. But still the whole you cannot as a customer, my understanding, you cannot go for 200 every month. Once you reach 200 over this one year period, you can no longer subscribe further.

Shouq Alshahrani: Okay. Clear. Thank you so much.

Abdullah Ali AlKhalifa: Most of the banks now offer one year rate as better than what is – that's my understanding of the current rates now, so I don't see it as a major risk on us.

Shouq Alshahrani: Okay. Clear. Thank you so much.

Operator: We'll go next to Mohammed Al-Rasheed with Ashmore.

Mohammed Al-Rasheed: As-salamu alaykum, this is Mohammed Rasheed from Ashmore. I have two questions from my side. The first question is regarding the overall added quality in the sector specifically for overall sector, we see that there has been a widening gap between stage three and NPL, where stage three is becoming higher and higher compared to NPL. That's not the case for Alinma, where stage three is almost identical to the non-performing loans. So I would just like to hear your thoughts on this divergence that we are seeing. What's the main reasons behind it? And theoretically, shouldn't just gather eventually closed. That stage three should be very close to NPL

My second question is regarding the maturity of your corporate books. So the way I see it, with a higher average SAIBOR, everyone was forced to reduce the spread over SAIBOR. So in the case, lower average SAIBOR, shall we expect some change or some refinancing to actually relate to return the said to normal levels, or that might actually pressure the asset yield in the overall sector of the corporate client?

Adel Saleh Abalkhail: Yeah sure, Mohammed, I'll take the first question on the asset quality that where you might have seen in other banks difference between stage three and NPLs. It's not the case for Alinma. And this usually should

be the case. The exceptions, you've seen in other banks could be asked for those banks, but there could be many reasons. First, there could be some stage override for certain information that an account is maybe not moved to stage three, but still considered NPL or the other way is relates to the stage three itself. An account that will be still 90 days past due, but for certain qualitative information that is not impaired yet, and yet it's not moved to stage three. But as you're rightly said, the ideal situation is the NPL to be equal to where you usually see under stage three, but we didn't have a specific reason for that.

Abdullah Ali AlKhalifa: And on the spreads on relevant to the SAIBOR rate, yeah, typically when we saw when interest rate, the good old days is 70, 80 basis point, the spread was much higher than what we see now. And this is not unusual. We've seen this in multiple cycles before. So when rate goes to five plus, whatever, usually the spread is lower. But interest rates for 2024 is not going to be significantly, let's say a 100 let's say by the end of the year. I don't think that automatically leads to higher spreads, however, that could be the story for 2025 onward.

Mohammed Al-Rasheed: Okay. Very clear. Thank you

Operator: We'll go next to Adnan Farooq with Jadwa Investments.

Adnan Farooq: As-salamu alaykum. Thank you for the call. My question is related to fee income. Fee income grew very nicely during 2023. How do you see the trend in fee income going into 2024? And if you could highlight any areas where you expect a significant growth in 2024 as well as you witnessed in 2023. And also if you can comment on growth in the exchange income, it was also pretty strong during the year, what led to it and should we expect similar growth going forward as well?

Adel Saleh Abalkhail: Yeah. So on the non-funded the income, you rightly said the – we've seen a strong growth coming in 2023. There are many reasons actually. If you look at also specifically, about your second question on the FX, as I repeat mentioning earlier in previous calls, on the efforts we are doing on the cross selling, that is positively impacting the non-funded income. Also, we look into the new product offerings that we have been – credit card is one of the examples, is besides the normal fees that you would get is also the interchange that is ongoing based on the utilizations of the card. So in FX it's a volume, it's a cross sell and part of it is also the new products and FX forwards that has been introduced as part of the progress that we've seen in the strategy. And also some part of it would relates to normal – as the nature of the business, the normal investments, valuations that goes sometimes ups and downs. But the fees from banking services, if you look at the major contributors, there will be also the fund management from the Alinma Investment, our subsidiary, the card services, as I said in general for dividend credit and also the trade finance. We've seen the substantial growth in the trade finance where the commission there is also part of the non-funded income. And of course the remaining for brokerage and also the other remittance business, that with the business growth will obviously expect it to –

we have seen the growth already and with further cross selling and also the growth of the business itself, we expect the non-funded also to be aligned with that.

Adnan Farooq: Thank you.

Waleed Mohsin: Perfect.

Operator: There are no other questions.

Waleed Mohsin: As we are approaching the end of the hour, I will pass the call back to management for any closing remarks.

Abdullah Ali AlKhalifa: As usual, thank you all for your time to attend the call. We look forward for the next earning call.
Thank you.

Waleed Mohsin: Thank you very much. That wraps up today's earnings call. Thank you very much to all for joining. Thank you.

Operator: That does conclude today's conference call. Thank you for your participation. You may now disconnect.