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Transcript

The Saudi Investment Banks Q4 and FY23 Earnings Call

Wednesday, 14 February 2024

Ryan Ayache Good afternoon, ladies and gentlemen. This is Ryan Ayache, head of research for the Middle East for Jefferies. It's my distinct pleasure to host today's earnings call with Saudi Investment Bank. Leading the team of SAIB will be their CEO, Mr Faisal Al-Omran, Mr Shankar Chattanathan, chief financial advisor officer, and Mr David Kenny, who, amongst other things, coordinates the investor relations functions. I'll hand the call over to David shortly. He'll have introductory remarks, and then it'll be a standard format of going through a presentation followed by Q&A. As everybody knows, there are several calls in the pipe, so we'll make every effort to stop at four o'clock sharp. Thank you very much, and over to you, David.

David Kenney Thank you very much, Ryan. Good afternoon, everyone. We're pleased to welcome you all to the Saudi Investment Bank's earnings call for the fourth quarter and full year 2023. As Ryan mentioned, my name is David Kenney, and I'm handling investor relations here at SAIB. A few housekeeping points to mention before we start. Our earnings disclosures are available for download from the IR section of our website. This webcast will be recorded and a transcript of the call will be made available on our IR page. And the third point I want to make is if there are any members of the media, please be reminded to share your question separately with our corporate communications team.

As Ryan mentioned, I'm joined today by our chief executive officer, Faisal Al-Omran, and Shankar Chattanathan, our CFO advisor. Moving on to the agenda for today's call, Faisal, the CEO, will start with a brief overview of the performance highlights for the full year, and then expand on the bank's strategy. Shankar will then discuss the financial performance in more detail and present our outlook and guidance for 2024. We will then open the floor for questions. With that, I will now hand over to our CEO to begin the presentation. Over to you, Faisal.

Faisal Al-Omran Good afternoon, everyone, and a very belated happy new year. We're excited today about showing our full year numbers and the progress that we have on the strategy front. You will see, in the slide in front of you, the growth momentum that we have been able to progress during 2023. Our loans increased about 17%, to 80 billion. This is something that we have highlighted before. We believe the current strong momentum growth in the contracting sector in Saudi is picking up. We see projects being given on a larger scale, and this is something that SAIB is focusing on, and we believe that we are one of the stronger players in that area, so we believe that growth will also continue, inshallah, in the coming years.

Our deposits have increased, and we have also highlighted before that deposits, we see it as a moving target, based on the growth we'll achieve as we go. We were able to grow our deposits by 20%. Those deposits mostly comprise of the interest-bearing deposits, so you'll see our percentage of NIBDs going down just by increasing our interest-bearing deposits.

Also, we had healthy growth of 21% in our operating income. We believe that's being driven by the growth in the loans that we have, and also on the fees associated with the loans. Also, our net income growth was a healthy 17%. We have closed at 1.76 billion, and this is something that we were trying to achieve and we're happy for the achievement. And we believe that that momentum also will continue, inshallah, in coming years. Also, we have been able to maintain good levels in our coverage ratios for our provisions and the percentage of NPL, and we believe that to continue and to be on the lower side.

Moving to the next slide, which is the strategy, on the last call we have given an explanation of our strategy and now I'll just quickly go over some of the high-level numbers, and then I'll give progress on the initiatives that we have on the strategy. In terms of the market share, we have seen an increase in our market share in our corporate, and, as we said, this is our focus area. SAIB is focused on corporate banking and the private banking, with also the affluent segment. So we believe we had good growth, there.

In terms of the growth in retail loans, we haven't yet kickstarted our large initiatives in detail. We believe it will start late this quarter, and we're hoping to see the results during this year, inshallah. As for the NIBDs, as I said, there was a drop in the percentage of NIBDs, just by the growth that we had in our interest-bearing deposits to fund our growth in loans.

Also, in the efficiency ratio we saw a drop there in 2023. However, we believe that number will continue around the same level today, given the strategy initiatives that we're having an associated cost with them, and we believe this will be in 2024, we don't see it continuing in 2025.

Overall, we're also happy about the growth that we have seen in our return on equity. We always say that we want to be within our peer group, and I believe we are there today. However, we are continuing to push ourselves. We want that number also to keep growing and to be always higher than our benchmark.

If we move to the next slide, this is showing the framework of our strategy. I'll go over it quickly and then I will go into the status of the initiatives. As we said, we had four core segments, the ones that are in the middle, which is the corporate banking, public institution, consumer banking and private banking.

We believe corporate banking will drive profitability by loan growth and fees. Our focus on public institution will be mainly to get lower-cost deposits and generate fees for offering solutions for public and quasi-public sectors. As for consumer banking, we believe we will be able to have a depreciated proposition to have a footprint in the larger NIBDs that are available in the market, through our segment there. And also in private banking we believe it's a similar play. Within corporate banking, where we will have a clear competitive advantage there to grow mostly our asset side and also the fee side.

As for the key strategic priorities, which are on the top, you will see the first one is the revised segmentation and coverage. The main reason for having that key initiative is to create focus when we do the revisit of the segmentation. Second is the redesign of the operating model. There, we want to achieve speed and we want to be able to be dynamic. Three, revamp value proposition. We want to be able to create a differentiated proposition to ensure SAIB is not competing on price but rather competing on quality of service.

The fifth one, streamline and automate key processes. The game here is digital. Everything we want to be on a digital front. SAIB has always been strong in digital, and we want to keep that string and we want to be focused on our channels and touchpoints with our customer base.

Key enablers below, I think that's self-explanatory. I would say the main focus that we're having now is on the human resources. We want SAIB to be a talent magnet and we want to make sure that we have a clear career path for our talented employees. And we have an ambitious plan to launch specialised training for our employees, so that we can make sure that we always maintain innovation and speed in our operating model.

Next, I would say this is the platform of the initiatives. I will go over them very quickly, because on the next page we will tackle the progress. In corporate, it will be mainly in launching a new CRM and updating the segmentation model, although today we do have lots of the platform, and SAIB was one of the earlier banks to adopt an approach to CRM, however we are always re-looking at and redesigning whatever we have. So our approach is always not to enhance but to look with fresh eyes, as if we are rebuilding it again, how we would do it, so that we are not hostage to any legacy that we have in the bank. So I would say this is the main focus on segmentation.

And also, I would like to highlight the fourth box, which is the streamline and automate key processes under corporate, which is the revamp of [unclear] journeys. We believe this will align us with the expected growth in the contracting sector in the market, where we believe a lot of the trade finance that will be needed and will generate us the fees that we are targeting in our growth. And also, launching the CIB, Corporate Internet Banking. The idea is to digitise everything that we have. Public institution, same front, and I think they are self-explanatory. Same thing with the consumer and private bank.

I will jump to the next slide, which is the strategy execution, and showing the progress that we have. In corporate banking, we are already working on implementing. I will start talking about the last box, which is the next steps that we are currently looking at, and the box above, which is the progress update. I will start with corporate. We have already put in place a very focused segmentation model within our team, whereby we focus on specific sectors in the economy that we believe will have an above-average growth, and we want to be able to get a larger market share there.

So this is something that has already been put in place, we are in the final stages of designing our Corporate Internet Banking, along with the CRM tool, so this is something we expect this year to kickstart, and we'll do our best to finish it this year, as it involves a technology development section.

Also, we have started already the redesigning of our coverage model. So rather than us going enhancement, we're saying, if we were to do it fresh today, how would we do it? And then we will align everything to it. So we're saying how can we be fast and how can we be dynamic when we serve our clients in corporate? So this is our focus area, and this is what I will focus on in this call.

The second focus is the public institution. We are also kickstarting there. We have had a very focused discussion on how do we do accounting planning, how do we do targeting of our client base, how can we offer value to our clients and ensure we deliver whatever we promise, and also to finalise all those in a clear platform to enable RM, to enable middle office, to enable back office, so that everybody sees the same picture, everybody can work towards serving the client, rather than us having, maybe, a fragmented approach to new clients onboard. So I would say these are the two ones that we are currently focusing on, and we will launch the private banking and personal banking affluent late this first quarter, so that we can kickstart the initiatives there.

The next slide is one of the proud initiatives that we had, which is setting up our Venture Studio. Our approach there is that we see opportunities for [unclear] customer journeys, customer experience, needs that are unfulfilled. So we wanted to create the Venture Studio whereby it is outside of SAIB in terms of having autonomy and decision-making, however it can still capitalise on the strength of the bank and can also kickstart their initiatives, and also do their growth hacking by getting the customer base that is available at the bank.

So we have started this and we are proud that soon we will launch the travel app for Saudi Investment Bank. This has been an innovative product that the bank has been offering the last several years, and we have believe we have been growing by much-above-average growth, and we think that we can also create a stronger competitive advantage by launching the app to get a customer base, and increase our footprint in consumer banking, which I highlighted before as one of the core segments that we have. So this is something that we will launch soon and we will urge everybody to enjoy and experience our app. So with that, I have finished the strategy and I'll leave it back to David.

David Kenney Thank you very much, Faisal. It's Shankar now, with the financial performance.

Shankar Chattanathan Thank you, Faisal and David. Good afternoon and a warm welcome to all of you. I'm very happy to report that the strong momentum in the first nine months carried forward to the fourth quarter as well. We've seen solid improvements in all KPIs during 2023. On the balance sheet side, loans increased 17% to reach 80.8 billion. We grew deposits by 20% and reached 83.2 billion. And as Faisal mentioned before, growth was largely on the interest-bearing deposits.

Our profitability improved strongly during the year, again because of lending growth as well as positive jaws, contributing to about 17% net income growth. This is in spite of NIMs contraction in the fourth quarter, and our return on equity stood at about 11.7%. The bank also maintained a very healthy asset quality. NPL ratio improved by seven basis points compared to 2022. Cost of risk remained modest at about 47 basis points. Capitalisation and liquidity was strong and remained supportive of future growth.

Moving on to slide 12, the balance sheet grew by 19% during the full year, largely driven by a 17% loan growth and a 15% rise in investments. This was also supported by sizeable increases in SAMA bank placements. On the funding side, it was largely the customer deposits, which grew by about 20% during the year. We'll go into detail on these in the subsequent slides.

We'll start with the loans and advances on slide 13. Our loan book has shown continued strength with 1% growth in the fourth quarter and 17% for the full year. Growth in the fourth quarter was lower, largely due to repayments that we had anticipated and we had mentioned in the previous call as well, and that was the reason for us to pick our growth to high-to-mid-teens level and reaching 20%. Most of this growth came from corporate lending, which grew by 23% during the year.

We again remained active participants in financing large infrastructure projects through syndicated loans. Other economic sectors that we grew also include commerce, manufacturing, building and construction and services. On the retail side, lending grew by about 7% for the full year. Private banking loans grew by 16%, but this was partially offset by a 3% decline on the consumer loan balances.

Moving on to the next slide, our investment portfolio increased by 15% during the year, to reach 32.3 billion. This was driven by new securities to lock in and benefit from the high interest rates. New investments were largely in fixed rate securities, which were assured by financial institutions. We maintained a high-quality investment book. 58% of securities, 58% of our book are basically securities assured by government, 27% with banks, and the remaining 15% by corporates.

Moving on to the next slide on deposits, customer deposits increased by 20% to reach 83.2 billion. This was largely driven by 39% growth in the interest-bearing deposits. The non-interest-bearing deposits declined by 4% during the year. Most of the growth came from public institutions which are managed in our tertiary segments. Retail deposits were flat and corporate deposits reduced during the year.

Overall, this resulted in a shift in our funding mix, with the non-interest-bearing deposits contributing to about 36% compared to 45% as of the end of the previous year. We anticipate this trend to start stabilising. We expect this to continue at least in the first one or two quarters, and at least by the third or fourth quarter we expect this to improve as we implement our strategy initiatives to increase the non-interest-bearing deposits.

Moving on to the income statement on slide 16, net income increased 17% year on year, driven by a strong growth of 21% in operating income, and this was partially offset by an increase in operating expenses and rising impairment charge. I think we mentioned this in previous calls, we had a significant recovery in 2022 and that was a reason for a lower impairment charge in 2020. We will talk about these components in detail in subsequent slides.

Slide 17, net special commission income increased 20% year on year, driven by 18% growth on average in earning assets. Full year NIMs was 2.99%. This dropped in the fourth quarter, we only had NIMs of about 2.73%. You can see, the waterfall chart on the slide, that the large part of the growth came from corporate and other loans. NSEA [? 00:21:58] improvement resulted obviously from the increased benchmark rates.

On the funding side, the increase in benchmark rates was also the reason in shifting the deposit mix towards interest-bearing deposits. NIMs moderated through [inaudible]… Investment-related losses decreased in the period thanks to lower NPM losses. Fees from banking services, which account for 55% of total fees and other income, increased slightly year on year, largely due to higher fees from other banking services.

Moving on to the next slide, the operating expenses increased 15% compared to 2022, and we closed at 1.6 billion. This was due to increased G&A costs, factoring in the overall inflation, and higher expenses on professional services, advertising and others to support the strategic growth initiatives. The cost-income ratio remained on target, and we closed the year on 41.8%, because of the positive operating leverage.

Moving on to credit quality, on the next slide, our total impairment charges increased by 110 million in the fourth quarter, to reach SAR 359 million for the full year. Again, this was 87% higher than 2022, but that was because of lower provisioning in 2022 because of a large one-off recovery.

In terms of cost of risk, it remained at lower levels, 47 basis points for the full year, and the underlying credit quality continues to be [unclear]. NPLs remained moderate, and the NPL ratio remained flat at about 1.5%, as of the end of December. Our NPLs are adequately covered. Overall coverage ratio is at 155.2%, stage three coverage improved to 55.2%.

Moving on to the next slide on capital and liquidity, the bank continues to maintain strong capitalisation and liquidity positions. The NCR was at 196%, NSFR at about 113%, and the SAMA loan-to-deposit ratio was at 76.5%. Total regulatory capital increased by 1% over the full year. Strong profit generation was partially offset by dividend payments as well as reduction in [unclear] loans.

The risk-weighted assets also declined to SAR 90.2 billion during the period, on lower credit risk-weighted assets, and this was again due to the new SAMA regulations in 2023 which allowed shared collateral to be used for the risk-weighted asset reduction.

As a result of this, our capital adequacy ratio improved to 20.1%, and the tier 1 capital ratio increased to 19.4. CET1 stood at 16.4% as of the end of 2023. This I think leaves the bank in a very comfortable position, to balance growth expectations, good shareholder returns and adequate regulatory comfort levels.

We then move to the sales for 2023 and the guidance for 2024. We expect the economic outlook in the Kingdom to remain positive. Projects pending on bigger projects and other large infrastructure projects bodes well for the overall credit demand. The bank is well-positioned to capitalise on this demand through its large exposure to the corporate sector and active participation in the large project financing syndicated loans market.

Against this healthy macroeconomic background, we remain very optimistic about the financial performance of the bank. In terms of our full year 2024 guidance, we achieved a 17% loan growth in 2023 as far as loans are concerned, and we expect growth to continue in excess of 15% for 2024. In terms of profitability, the number we had in the previous year was 2.98%, though, as I mentioned for the fourth quarter the NIMs was to 2.73%.

We anticipate a bit of contraction in 2024 compared to 2023, because of higher rates and unfavourable deposit mix, but we expect to achieve about 2.75% of NIMs for the full year. Cost-income ratio, we expect it to be in the range of 41.5 to 42.5, again largely because of the investments that we make relating to the strategic initiatives.

The return on equity, the return on tangible equity, we expect it to be in excess of 12%. As far as cost of risk is concerned, the guidance remains unchanged. We expect it to be between 45 and 50 basis points. And the tier 1 ratio, also the guidance remains unchanged, and we expect it to be greater than 18.75%. This concludes the management presentation, and we're now very happy to answer any questions that you may have.

Ryan Ayache Great. Perhaps I can start with a couple of questions, if that's all right?

David Kenney Certainly, yes, please go ahead, Ryan.

Ryan Ayache My first question would be on the loan growth drivers for 2023. You performed well, above sector average. There was some reference to a strong corporate pipeline, but also to some activity on the retail side, so I'd like to understand, going forward, where you see the balance of retail growth versus corporate growth.

And then my second question would be on the deposit mix in the last quarter, and how you see this going forward. Obviously, the whole rate cut topic is a bit of a moving target, particularly because of the hot CPI print yesterday, but as we look into 2024, the shift into deposit will have a big impact on margin, so the street's very focused on that, so if you could just address that, that would be very helpful. Thank you.

Shankar Chattanathan Sure. First on the loans, we expect growth on corporate loans as well on high net worth individual loans to continue. As I mentioned before, last year we grew corporate loans by 23% and the high net worth individual loans grew by about 16%. So we expect the growth to continue in both these segments. Consumer loans and the home loans also, we expect growth during 2024, but that will probably happen in the third and fourth quarters as we are rolling out initiatives on these loan segments at this point in time.

And as far as the non-interest-bearing deposits are concerned, and the mix in terms of NIBDs, I think we expect it to be around 36, or slightly lower than that, as we go forward, because again to fund our loan book we would need additional deposits, and that, I think, would largely come from interest-bearing deposits. We already started initiatives in terms of improving our non-interest-bearing deposits, but I think those will start showing results probably towards Q3 and Q4. So at least for this quarter and next quarter, we expect the mix to slightly deteriorate, but after that sort of improve.

Ryan Ayache Great, thank you.

Megan Rambarran Okay, we're going to go to the first question on the line. Abdulaziz, I am unmuting your line. You should now be able to ask your question.

Ryan Ayache That's Abdulaziz Albawadi, please.

Abdulaziz Albawadi Hi, just a follow-up question on Ryan's. Can you shed some light on what are the initiatives that have been done to grow and end consumer portfolio? And if you could help us quantifying a range for the full year 2024, is it high-single-digit, double-digit?

Faisal Al-Omran Abdulaziz, I think I'll split the growth, if you allow me, that we expect it to come from two areas, the public institutions and also the consumer banking, which you have asked about. So I'll shed light on both. We believe most of the growth will come from the public institutions. Public institutions means public and quasi-public. SAIB has the ability for crafting solutions and designing customised technology quests for the public sector, whereby we are able mostly to capture the float, the cash flow from our client.

One example of what the investment bank has, the petty cash programme that has been launched two years ago and now it's catching momentum. We have I think more than 100 government institutions onboarded. We believe that will generate cash flow for us in terms of the CASA that we expect to grow, along with also the fees.

As for consumer, we believe we want to go with a differentiated offer, so we see customers who are quality-driven, customer experience-driven, rather than price-driven. We believe that that segment is big enough in the market whereby we can focus on it and generate the non-interest-bearing deposits that we are looking at. So for that, I would say the value proposition that we will give, which currently we're working on, we believe that's one.

Two is launching our travel app. We believe that's also an excellent hook for our client base and we believe that will also bring us deposits there. Three, you will see in the presentation that also we have mentioned that we are working on our new Retail Internet Banking, and we believe that will launch in the second half of the year. We believe also that should help us get more customers and then get the share of CASA. So I would say this is where we see the initiatives coming from.

Abdulaziz Albawadi Super, okay. Just to understand your guidance, can you help us understand how you see the momentum for corporate growth? Given if you see a pick-up in retail growth 2024, but your guidance implies lower growth rate than 17%, is there an expectation of slowdown in the corporate portfolio?

Shankar Chattanathan No, there is no expectation of a slowdown. We've indicated a higher than 15% growth at this point in time, and we will review it as progress, and we will revise the guidance if we think that we will be able to achieve more than that. But at this point in time, we do not anticipate any slowdown as far as corporate growth is concerned. The reason for keeping it slightly lower is, again, because there are some repayments that are anticipated during the year. In fact, in the first of the second quarter, we're expecting a couple of large repayments, and that would basically bring down our loan book. And that's a reason for us to be a bit conservative at this point in time and say the growth will be at about 15%.

Abdulaziz Albawadi Super-clear. So there is an upside risk to your guidance?

Shankar Chattanathan I would say, a little bit, yes.

Abdulaziz Albawadi Super-clear. And then if I look at exit NIM in 2024, on slide 16, it was 2.73, and then your guidance implies 2.75. Can you help us understand the assumptions behind the guidance of 2.75?

Shankar Chattanathan Yes. 2.75% that we have indicated is for the full year. A couple of things that we expect. One, of course because we started late on initiatives that we are doing, we expect the NIMs to improve, and so our deposit mix to improve, compared to where we were as of the end of 2023. And so that would basically help us in terms of improving the overall NIMs percentage for the full year. Maybe the first quarter will be closer to 2.73, or maybe around that, but as we progress, I think once the NIBDs start improving, then we expect higher NIMs.

Abdulaziz Albawadi Super-clear. Is there any assumption of rate cuts?

Shankar Chattanathan Yes, the bank thinks that there'll be about four rate cuts at least for the year, 23 basis points, three to four [unclear] rate cuts.

Abdulaziz Albawadi Super-clear. Okay, that's all from my side.

Megan Rambarran That's lovely. The next question on the line is from Mohammed Al-Hadhrami. Mohammed, I'm going to open your line, so you should be able to talk.

Mohammed Al-Hadhrami Thank you very much. I would like to understand the bank's target customers in the corporate. Are you targeting all the segments from large-size to small-size, or do you have a niche market you are targeting to drive growth?

Faisal Al-Omran I would say that we target… In corporate, there are many segments in the corporate section. What we target is the large corporates to mid-sized corporates. I would say that is the SMEs and below. Above SMEs we have the mid-corporate, and then we have large corporate, and then we have the biggest corporates in the Saudi market.

We believe our focus is on the mid and large. And the reason for that, we believe that those relationships are driven by a medium to long-term relationship. We believe the upper corporate is sometimes driven by transactions, so price plays a big role in decisions, whereas in the mid and large, we believe it's relationship-driven, and there we believe SAIB can have that competitive advantage, meaning crafting that understanding, being dynamic, being very fast in the response, ability to understand the credit and maybe have a non-standard approach to our credit. So I would say this is our market segment.

Mohammed Al-Hadhrami Okay. And if you can explain why you don't want to target small, below medium-sized?

Faisal Al-Omran I'm not saying we don't target them. I say that's the focus. However, we do have a large segment in the SMEs, today it's about 9%. Also, we do have large corporates. We tackle them through the bond market and through the syndication. However, the focus is there because SAIB cannot be everything to everybody. We have to be able to use our resources in areas where we can win. And winning meaning that I can get a larger market share compared to my peers, and also I wouldn't compete on price.

Mohammed Al-Hadhrami Okay, very clear. And your strategy is participating in the large deals through syndicate, or as standalone?

Faisal Al-Omran Mostly syndication.

Mohammed Al-Hadhrami Okay, clear, thank you.

Megan Rambarran The next question on the line is Jagadish. Jagdish, I'm going to open your line and you should now be able to speak.

Jagadishwar Pasunoori Hello, how are you?

Faisal Al-Omran Good, how about you?

Jagadishwar Pasunoori Good. First of all, thanks a lot for the call. A couple of questions from my end. What is the minimum required CET1 for the bank? That's the first question. And the second question, I know you're trying to improve non-interest-bearing deposit share, but it's for the overall sector I'm trying to ask, if you look at non-interest-bearing deposits, either they have been flat or marginally lower for the sector last year, and they were down in 2022 also, when do you think there will be an improvement in this sector overall? At what level of interest rates will you start seeing improvement? That's the second question.

And the third question is can you talk to us about how is the demand for consumer loans? I believe consumers are not able to top up because they reached their debt-servicing limits. How far is that true? And I just want to know your views. And thank you.

Faisal Al-Omran I think I will tackle the third part of the question, where you say that reaching the limit of this… I believe, from our side, we don't see the bigger flow of the consumer market. Why? Because SAIB is focusing mostly on the affluent and private banking. So maybe others would have more insight there to shed more light.

However, we think the market is growing. We think projects are growing. We believe, consequently, also salaries will grow and purchasing power goes up, new entrants to the market, so that market in general is growing. So I would say this is our view on that market. I will leave the first and second part to Shankar.

Shankar Chattanathan As far as CET1 is concerned, I think we would be comfortable with anything in excess of 13.5% to 14%, though we are currently at about 16-plus. And I think we would even be comfortable with 13.5% to 14%, if we were to increase loan books significantly. The second question was…

Jagadishwar Pasunoori Sorry, if you don't mind, what is the central bank mandate? I know you'll have some buffer over the central bank.

Shankar Chattanathan The central bank has a different mandate, and that's specific to each bank. We [inaudible 00:43:02] and so we would not be able to communicate that in this forum, but we are at very comfortable levels in terms of as far as central bank mandated ratios are concerned.

Jagadishwar Pasunoori Why I asked is because in the UAE the banks openly talk about what are the minimum required CET1s, so that's not the case in Saudi?

Shankar Chattanathan No, it is not because each bank has a different ratio. And again, what central bank looks at is not a CET1 ratio but they basically look at something which is a mix of both pillar 1 and pillar 2 combined. So they have a different way to calculate it, and that's what central bank mandates the banks to maintain.

Jagadishwar Pasunoori Okay, great, thanks.

Shankar Chattanathan So the bank will always ensure that we're at least about 2% higher than whatever is the minimum mandated by the central bank.

Jagadishwar Pasunoori Okay, great. And then the CASA deposits, please?

Faisal Al-Omran Can you please just explain more on the second question, because I didn't fully understand the question?

Jagadishwar Pasunoori Sure. My question was the non-interest-bearing deposits have been flat or marginally lower in 2023, and they declined in 2022, just because of the higher interest rates, so my question to you is when do you think you could see some improvement in absolute numbers in non-interest-bearing deposits? I understand you are taking your own steps to do it, but at a sector level, at what level of interest rates do you see an improvement in non-interest-bearing deposits?

Faisal Al-Omran If you see the level of CASA in the market, it's mostly about 1.3 trillion, the volume, and the volume goes up 1%, 2% and goes down 1%, 2%, so we haven't seen lots of sensitivity there. And when you see what is the percentage of the non-interest-bearing deposits to total deposits, when you see that percentage goes down, it's not because of the volume of the non-interest-bearing deposits going down. No, it's because of the interest-bearing deposits going up to fund the loans. Hence, you will see a lower percentage. However, the amount is not moving a lot. We think as the interest rate keeps going down, that's definitely a benefit to the sector. In terms of sensitivity, we haven't seen a big sensitivity there on the non-interest-bearing deposits.

Jagadishwar Pasunoori Okay, thank you, and good luck.

Faisal Al-Omran Thank you.

Megan Rambarran Thank you. The next question on the line is from Olga. Olga, I've unmuted your line, you should now be able to talk.

Olga Veselova Thank you for taking my question. My question is about asset quality. Saudi Bank universally guides flattish cost of risk in 2024 versus 2023, and this is despite the fact that interest rates stay high, and IMF revises the GDP forecast down. So can I ask you, what do you think can go wrong? Are there any segments or sectors where you think credit risks could be elevated if the macro environment deteriorates this year? Thank you.

Faisal Al-Omran I think, in general, SAIB is very conservative in its approach to loans. If you see generally our peers, the growth in loans, although we have grown very notably, some of our peers grow also at the same level. The reason is that we are looking at risk and assessing as we continue our growth story.

For the macroeconomic conditions, we believe that they are very favourable in Saudi Arabia. We believe the launch of new projects, the new megaprojects, they have finished mostly the design phase, they are underway in the larger execution part of it, we see a lot of the new initiatives that are under Vision 2030. We see that as very favourable, and we think the growth story is continuing. We don't see the downside now.

We see the reserves as being healthy. We see the control of budget is very prudent. Projects have been run on a very high governance, high focus. And we have seen that because we have also been part of the funding of the projects. So honestly, I would say the downside limited. We see it very limited. And Saudi is the place to be over the next seven years, and even further in terms of growth story.

Olga Veselova I appreciate that. My question was a little bit theoretical. I hear that the environment is very solid now, it will continue to be solid in your eyes, but if you were to compare the sector, the segments, which sector do you think would be relatively high risk? Is it construction, real estate, contractors, subcontractors, maybe project finance? Anything that you would say this is where, theoretically, credit risks could be higher than average for the economy? Thank you.

Faisal Al-Omran Olga, I'm not very good in theories. I have to see the numbers to have a very solid answer for you. So I wouldn't say our market is special in terms of if you see a certain sector carries a higher risk compared to other sectors. I think it would be the case here also, so it's the same.

Olga Veselova Okay, thank you.

Faisal Al-Omran Thank you very much.

Megan Rambarran Currently, there are no more other hands raised on the line. Just to remind you, if you have a question, please raise your hand. If not, I'll pass… Oh, bear with me. Adnan, I have now opened your line, you should be able to talk.

Adnan Farooq Salaam-Alaikum. Thank you for the presentation and the call. I have just one question. If you could elaborate on the NIMs in the fourth quarter, what were the main reasons that impacted fourth quarter NIMs? It seems that the asset yields have not repriced much. Was there any one-off adjustment in the net interest income during the fourth quarter or anything? If you could highlight that, that would be really helpful.

Shankar Chattanathan There were no one-off adjustments in the fourth quarter. I think the main reason was because we had a certain long-term deposit that were repriced in the fourth quarter, and that did not happen in the earlier quarters. And that's the reason why the NIMs reduced a bit in terms of going down to 2.73.

Adnan Farooq Thank you so much.

Megan Rambarran Do we have any other questions on the line? Currently none. Ryan, I'll pass the call back to yourself. Ryan, can you hear me?

David Kenney You're muted.

Ryan Ayache Yes, I can hear you.

Megan Rambarran There are no other questions on the line.

David Kenney Perhaps, Ryan, I could just jump in to wrap up the call and to say thank you to Jefferies for facilitating the call, in particular yourself and Megan in the UK, and for inviting your clients to join along with our own. So thank you very much for that.

Ryan Ayache It's been a great pleasure to work with you, David, and the whole team at SAIB. We really enjoyed the Q&A in particular, I think it was awesome colour. So best of luck going forward, we'll be in touch, and thank you to everybody who dialled in today. Thank you. Thank you, all.

David Kenney Thank you very much.