4Q 2024 Earnings Call Transcript - February 13th 2025

Operator: Good afternoon, and welcome to the Saudi Investment Bank Q4 Earnings Call. My name is Carla, and I will be coordinating your call today. On today's call, you will have some slides presented to you. To see the slides, please follow the link provided on your invitation. If you would like to ask a question, please press star followed by one on your telephone keypad. And if you change your mind, please press star followed by two. I will now hand you over to Hussein Mahfouz to begin. Hussein, please go ahead when you're ready.

Hussein Mahfouz: Thank you, Carla. Good afternoon, everyone, and thanks for joining us today. This is Hussein Mahfouz from Arqaam Capital, and I'm pleased to welcome you to the Saudi Investment Bank fourth quarter 2024 earnings call. I have with me here today from the Investment Bank's management Faisal Al-Omran, Chief Executive Officer, Ahmed Almohsen, Chief Financial Officer, Shankar Chattanathan, the Advisor of the Chief Financial Officer, and Najla AlMutairi, Head of Market Intelligence and Investor Relations.

Please note that if you wish to ask a question during the presentation, please type them in the chat box and send them [inaudible 00:01:07]. Alternatively, you can ask questions after the presentation. Without further ado, I will hand over the call to Najla. Over to you.

Najla AlMutairi: Thank you, Hussein. Good afternoon, everyone. We're pleased to welcome you all to the Saudi Investment Bank earning call for full-year 24. My name is Najla AlMutairi, the bank's head of Investor Relations. Kindly note that our earnings materials are available for download on the IR section of our website. Also, please be aware that the earnings call is recorded, and a transcript will be also made available on our IR web page. If there are any members of the media, please share your questions separately, to SAIB's corporate communication team.

I'm joined today by Faisal Al-Omran, our CEO, and Ahmed Almohsen our CFO. Let's move on to the agenda for today's call. Our CEO will cover the performance highlights for the period and will update you on our strategy. CFO will then discuss the financial performance in more detail and present you our 2025 guidance. We will then open the floor for questions. With that, I'll hand over to our CEO. Over to you, Faisal.

Faisal Abdullah Al-Omran: As-salamu alaykum and good evening, everyone. Happy today to go over our 2024 results. We are really happy and excited about the achievement that we have done. And also, we are gearing up, Insha'Allah, for 2025. And we think, Insha'Allah, with the guidance that will communicate to you today, Insha'Allah, that we are optimistic about the bank and the market in general.

In the slide in front of you, you will see that our loans have grown by 23%. I believe this is the highest growth on loans in the market in 2024. We are happy to report that growth. And we have also said before that if and when the corporate growth starts in the market, that side, we will be one of the highest recipients of that growth. And I'm happy to report today that most of the growth that we have seen was due mainly through the corporate banking portfolio, which includes also syndication. You'll see also, our deposits have increased by 13% to fund that growth. Most of the deposits have come from the interest-bearing deposits. We are still working on our initiatives to reduce our cost of funding, and our CASA or NIMs in the market.

NPL looks healthy from our side. It went down by 46 basis points, stands at 1%, Tier 1 ratio stands at 19.1. We have seen a small reduction. The augmentation that have not reduced that, despite the large growth. The sukuk issuance that we have done, which we will talk about in the presentation. Our net income stood at 1 billion 957 million, a growth of 11%. We believe the trajectory, Insha'Allah, will continue for 2025.

Our NIMs, we have seen a slight reduction, about 30 basis points in our NIMs, to 2.68. SAIB remains one of the highest banks in terms of the asset yield when compared to competitors. However, as I said, due to the funding structure that we have done and the increase in interest bearing deposits, we have seen some contraction in the NIMs. Also, we have seen some competition of banks also entering the corporate banking market, whereby we have seen some price reduction, although what we try to say always is that we don't want to compete on price. SAIB has a clear competitive advantage, that we want that advantage to drive our business.

Our cost of risk also remained subdued at 0.32%, a reduction of 15 basis points from last year. And also cost-to-income ratio, we have seen a small reduction of 26 basis points, where it stood at 41.5. As we said before, that we are working on reducing that number due to most of the transformation has been done. And we believe that number should gradually start coming down.

As we move to the next slide, we'll talk about the strategy. And allow me, because I have seen some of the participants, a larger number that are new, so maybe I'll just go quickly over what we have recapped before on the strategy. SAIB's vision is that we want to be the trusted bank. This is something that we believe in. We want to be the trusted bank for our clients. Why? Because once you become the trusted bank, the relationship will not be transactional driven. It will not be driven by pricing. It will not be driven by reduction of credit criteria. It will be driven by trust, by relationship, ensuring that when we acquire a client, we want to have a long-term relationship with them. This vision is something that is entrenched in how we do business, and also properly cascaded to the business and support area in the bank.

Our core segments are divided into four. We have corporate banking, public institution, consumer banking, and private banking. In the corporate banking, this is the main driver of the bank, we believe that this will always be the main share of business in Saudi Investment Bank. We compete on our services, our ability to be fast, our ability to be dynamic, rather than trying to be the most cost-efficient provider of loans to our clients. We try to be competitive, but we believe we have a strong competitive advantage that can build strong relationships with our clients.

The private banking, the same story. SAIB has a strong franchise in private banking, has always been like this. And we believe also that we want to grow that portfolio. In our private banking, we keep growing our client base and also the volume of our loans. And we believe also the trajectory is positive for 2025.

For public institution, we see this segment as mostly fee income driven and the source of cheaper liquidity for the bank. The way we will win there is that we want to be able to provide solutions for the public institutions, mainly government, semi-government, quasi government. They all do have ambitious KPIs on them. On the financial side of the Vision 2030, we believe SAIB is able to help them fulfil those KPIs. We have several milestones and accomplishment that we have done in that sector, and we believe this is something that will continue it.

For consumer banking, SAIB is focusing on the affluent sector. We believe affluent sector is not very well served still in the market. We believe there is a very unique value proposition that we can provide, whereby that this segment could be a driver of the asset side, but also mostly on the liability side of getting larger funding base with a relatively lower structure than existing in Saudi Investment Bank. I would say these are the core segments.

If I move to the next slide, this is basically stating the transformation and the initiatives that we have in SAIB. We have more than 40 initiatives, and we are happy that we are progressing well on our targets. Maybe I'll shed light on the focus areas. If you see on the left side, what is the strategic segmentation and differentiation for value proposition? This basically has been already done on the corporate side, and now it's being finalized to the affluent segment for Saudi Investment Bank. We believe that we can bring a unique proposition, so that we can have a notable market share for us in that segment.

Also, we are trying to have an end-to-end journey, digital, that is customer friendly, that's also employee friendly, that saves the time, saves the process, ensures clarity of the employees' jobs, so that we are able to fulfil our competitive advantage to our client, which is really fast and really dynamic.

If you allow to move to the next slide, that we can go more granular on some of the initiatives that we have done. Firstly, we are very happy that we have closed $750 million of sustainable sukuk that has been launched in November 2024. We are very proud to say that this was one of the highly subscribed issuance of 2024 in the region, if not the highest. We have got a very diversified investor base in terms of the number and in terms of the country that they represent. We still have very high appetite from those investors, and we are keeping the dialogue open to see when would be appropriate for SAIB to tap the market again.

We have also launched our venture studio, which I would also add here that we have launched the venture capital fund under the name S60. This is a fund that is funded under a $100 million commitment. The idea is that SAIB has always been strong digital, but we want to be able to translate that knowledge and expertise to a more focused, profitable proposition through our fund. That fund will sell on having a higher return for us, and also building a stronger ecosystem for SAIB aligning with those around it.

Also, we have launched a travel app, it's fully launched in the market. We are very happy with the achievement that we have done. It's more than 300,000 downloaded. We acquiring new customers under that application. That has great insight and great tool to get affluent customers, which is our focused client segment, by understanding the spend analysis, the transaction, the property REITs of those clients. This is something that we're very proud of.

Also, we're happy to launch our new mobile app. It's currently under the pilot phase. We keep onboarding clients every day. Total clients, I think, onboard about 20,000 to 30,000 and keep adding clients on phases. We're very happy with the efficiency that we have achieved, and it keeps emphasizing SAIB's drive of digital first. We want to be able to book loans through our app, our mortgages through our app, issue card, managing card registration, being able to fix your deposit, liabilities, all under one applications. We'll keep having that as our Omni channel for our clients.

Another account that we have set up was the travel account. We have seen in the market that most of the competition is happening on the credit cards, in terms of getting the miles and associated with the airlines. We opted to do a different product, which is based on your current account balance, to calculate the rewards that you would get. We're very happy to report that we had a very high number of clients under that account, and also have provided us with very cheap funding for the bank. We expect to increase the proposition of that travel account to a second phase, and I think soon we'll be coming to the market with a more innovative approach to that account.

The last one, which is the partnerships with FinTechs, we are happy to report that we have done some partnerships, namely Merit, which is a leader in the loyalty program. We believe that will augment our focused segment, which is affluent, and also our travel proposition.

If you go to the next slide, this basically also talks about of the goals that we are looking forward to in 2025. In the corporate banking we're doing a revamp on our corporate internet banking platform, where we want to streamline all or most of our dealings with corporate, to give a little experience to our corporate, but also better utilize our employees' time. I think you will see us coming to the market with the proposition there.

Also, there's a complete revamp of CRM, whereby our relationship managers are able to make better informed decisions on our corporate clients, and also to be able to better cross-sell our products.

In terms of the consumer and private banking side, as I said, we're looking to launch officially our app in 25, after we finish the pilot phase. This is something that we're looking forward to. Also enhancing our lending product journey. This is under the app, so that we want to make it a seamless journey for us. And also to optimize our branches, which mostly target higher efficiencies for SAIB.

For public institutions, same thing that we are doing for the corporates is applying also for PI, which is enhancing our internet proposition for them, and also increasing the value proposition so that we are clear about our competitive advantage when we go and pitch SAIB [inaudible 00:16:30] to them. This is something also we are very keen on. It's worth noting that our app so far has a rating of 4.5 of the consumer side. I think it's one of the highest rated, but I think that rating also will be properly augmented by having more client base on boarded, so we'll keep an eye. We want to be one of the top, if not the top-rated app in the App Store.

I think on the support functions, mainly, the most important one is launching our SAIB academy. This is something that we feel very strongly about. We want to be able to equip our employees with the right skillset, to be able to fulfil our vision. We want to equip them with the right tools, so that they are able to fulfil our vision, be the trusted bank. I think this is something that we are working on and we'll launch it this year. We have done a soft launch so far, but I think we'll come up with a great proposition to our employees. And also, we believe this will be an attractive proposition for attracting and acquiring talent for the bank.

If I go to the next slide, this has some very happy numbers for us. Most notably is our return on equity. Today, we have closed 2024 and 13.1% return on equity. This is a long way where we have started on our strategy. We have published to be driven by our return on equity enhancement. What we are looking forward also is to increase that number and to make very focused decisions on initiatives that we have to take, to make sure that anything we do increases our return on equity.

Another notable number is the commercial loan, which is a corporate. We keep getting market share, our market share in the third quarter was 5.5, we believe in the fourth quarter also. That number is close or higher than this. The idea is that we want to get market share without sacrificing either our credit criteria or our pricing. And this is something we are happy that we are achieving. And we will also keep growing that market share.

I think with that, I have finished the finance sector, and I'll give it back to Najla.

Najla AlMutairi: The financial performance section, which is led by our CFO, Mr Ahmed Almohsen. Go ahead.

Ahmed Abdulrahman Almohsen: Thank you, Najla. As-salamu alaykum and good evening, everyone. I would like to extend my warm welcome to all of you joining us today, and I'm pleased to report a strong set of results for the year 2024.

We have seen solid improvement in most of our KPIs. We have delivered a strong financial performance, which was largely in line with our expectation and guidance. On the balance sheet loan increased 23% year-over-year and reached 99.5 billion, supported by 13% growth in deposits, which rose to 94 billion. Our growth in profitability improved as well, with income growth and positive jaws, contributing to an 11% increase in net income and our return on equity registered 13.1%. At the same time, SAIB maintained its asset quality, with NPL ratio improving to 1.04%, while cost of risk reduced to 32 basis points. Equally, capitalization and liquidity were strong and remain supportive of future growth.

Turning to slide 12, please. The balance sheet during the year 2024 expanded by 21%, driven by 23% loan growth, and 25% rise in investment. This was partially offset by 10% decrease in cash and SAMA balances, and 11% reduction in bank and bank placements. This balance sheet growth was mostly funded by 13% expansion in customer deposits and increased interbank funding. Additionally, and as mentioned by the by the CEO, SAIB issued its first US dollar denominated additional Tier 1 sustainable sukuk, totaling $750 million. We will be looking more closely into each of these trends in the following slides, starting with loan and expenses on slide 13.

Our loan book has shown continued strength, with 23% growth for the year, and 5% in the fourth quarter. We see most of this growth coming from corporate lending, which has grown by 25% during the year. Active participation in financing large infrastructure projects in the syndicated loans continue to support growth, and this was further aided by widespread credit across key economic sectors. We've seen it in utilities, consumer, building, construction, commerce, and manufacturing, along with other sectors. On the retail side, private banking grew by a notable 18% and increased by 2.2 billion and reached 14.3 billion. The remaining consumer loan book grew 14% year-over-year. Moving to the next slide.

Our investment portfolio increased by 25% during the year 2024 and reach for 40.4 billion. And here we continue to invest in fixed rate debt securities to manage our interest rate risk and lock it in higher rates. New investments were mainly in high-quality instruments, either sovereign or international financial institutions. The quality of the investment book remain strong, with 56% of securities issued by governments and 31% by banks and other financial institutions.

Moving to the next slide and deposits. Customer deposits rose 13% year-over-year and reached 94 billion. This was driven mainly by 17% growth in interest bearing deposits, while non-interest-bearing deposits increased by 6%. Corporate deposits increased by 41%, while retail deposits seen 17% growth year-over-year. Overall, this growth has resulted in a shift in our funding mix, with non-interest-bearing deposits now comprising 33.7% of total deposits, compared with 36 at the end of last year. On a quarterly basis, total deposits declined by 4%, reflecting our Tier 1 sukuk issuance, and our ongoing efforts to optimize the funding mix and cost. Additionally, the strong adoption of our account contributed to a sequential improvement in the non-interest-bearing deposits over the last two consecutive quarters.

Now turning to a summary of our income statement on slide 16. Net income increased by 11% year-over-year, driven by 5% growth in operating income, and was further supported by improved cost of risk and operating efficiency. I will be expanding on this component in the following slides.

On net special income, we've seen a growth of 3% over the year and have reached 3.5 billion. And the average earning assets grew 15%, which was partially offset by NIM construction. And as you may see in the waterfall chart in the upper middle section of the slide, increased benchmark rates resulted in higher special commission income from lending and investment, but was partially counterbalanced by higher funding costs.

The year-on-year NIM declined by 30 basis points and reached 2.68 due to a 51-basis point rise in cost of funding from increased benchmark rates and shift in deposit mix, which was partially offset by a 25 basis points asset yield expansion. On a quarterly basis the NIM also declined 29 basis points and reached 2.5%, mainly due to funding cost pressure that had been witnessed during the last quarter.

Now, let's look at fee and other income on slide 18. Fee and income increased 17% during the year. This was mainly driven by robust growth in investment-related income and fees banking services. Investment related income increase, largely due to mark-to-market fair value gains. And fee income from banking service rose 13% year-over-year on higher fees from brokerage and fund management, as well as higher trade finance income. This was partially offset by a modest decline in the fixed income.

Moving to the next slide, this is on operating expense. Operating expense rose by a modest 5% year-over-year and reached 1.73 billion. This was mainly due to increase in general and administrative costs, factoring in the overall inflationary environment and higher expenses in professional services, along with advertising to support our strategic growth initiatives. Employee related costs also increased the cost base, although growth was contained at 5% year-over-year. Rent and premises-related expenses, as well as depreciation and amortization expenses, declined compared with last year's. The cost-to-income ratio has reached the level of 41.5, decreasing from 41.8 by 23 year end.

Now turning our attention to credit quality on the next slide, slide 20. Impairment charges decreased by 19% from the previous year and registered 290 million for the year 2024. This is reduced our cost of risk by 15 basis points to 52 bips in 2024, reflecting a benign credit environment and a healthy overall asset quality. NPL formation also remained moderate, and the NPL ratio has further improved to 1.04, aided by write-offs of almost 600 during the fourth quarter. Our NPL remain adequate, coupled with an overall coverage ratio, now at 156.7. In terms of stage wise coverage, the Q-over-Q reduction in stage three coverage resulted from write-offs during Q4 [inaudible 00:28:31], for which we had fully provisioned, and stage two coverage improved due to settlement of a single large exposure during the last quarter.

Moving to a capital and liquidity. SAIB continue to maintain a strong capitalization and liquidity position. Liquidity coverage ratio, the NCR stood at 164.7%, NSFR at 108.7%, and the SAMA LTD Ratio, 83.3. All at extremely comfortable level, despite some moderation in the last quarter. Regulatory capital increased 18% during the year with the profit generation and new Tier 1 issuance partially offset by dividend payment. Risk-weighted assets grew by 20% and reached 108.5 billion during the period and growth in lending and investments. Our CAR declined modestly to 19.7, with Tier 1 capital ratio at 19.1. [Inaudible 00:29:52] during Q4 by the Tier 1 sukuk issuance, while CET1 stood at 14.2%. We believe this still leaves us in a comfortable position to balance growth expectations with sufficient regulatory comfort levels.

Now, we'll be moving to our outlook and guidance for the year 2025. Overall, as we mentioned, we have delivered a strong financial performance in 2024, which was largely in line with our expectation and guidance. And now we are looking ahead to 2025. We anticipate maintaining a strong lending growth momentum, with a projected increase of over 15% on the loan and advances. In terms of NIMs, we are guiding 2.45% to 2.55%, which is broadly stable compared to Q4 exit NIM 2.5%. This assumes some NIM benefits from up to one rate cut during the year, offset by continued reliance on funding growth toward cost bearing deposits.

I think it's important to highlight here that our NIM projection is also based on the current deposit mix. Any increase in DDAs, which we are working on, will definitely enhance our NIM. And we'll be updating the NIM guidance during the year.

We expect our operating efficiency to improve to below 41.5%, supported by a combination of growth and income and enhanced cost management. For return on equity, we delivered 13.1% in the year 2024, and we expect to continue strength performance to deliver above 13.25% in the year 2025. On cost of risk, the benign credit experience that we have seen has led us to maintain our guidance range for the upcoming year at the level of 30 to 35 basis points. And finally, our expectation for the Tier 1 capital ratio remains unchanged at above 18.75% for the full year.

This concludes the management's presentation. Now, we are happy to answer any questions you may have. Thank you.

Operator

We will now begin the question-and-answer session. If you'd like to ask a question, please press star, followed by one on your telephone keypad. And if you change your mind, please press star, followed by two. When preparing to ask your question, please ensure your device is unmuted locally. If you'd like to register your written question, please use the Q&A chat box that is available on the slides page. We'll make a quick pause here for the questions to be registered.

Our first question is, why do we not see benefit of scale and drop in cost income ratio in the forecast horizon, while you operate at higher cost levels compared to other Saudi banks?

Faisal Abdullah Al-Omran

I think this is a process. That's something that happens in 2024. I think we have communicated this before in an earlier call, saying that we believe that the benefits of the transformation that we are seeing, we start seeing in 2025. We believe that the drop in cost/income ratio, we will witness it at the start of 2025. But we do have a cost optimization plan in the bank that we believe has an ambitious process to reduce the ratio. I think you'll start seeing it in 2025.

Operator

We will now take an audio question. Our first question comes from Shabbir Malik with EFG Hermes.

Shabbir Malik

Hi. Thank you very much for the presentation. I have a question around your margins. Last year, your growth has been quite exceptional. But when I look at your margin, the margin compression has been relatively high as well. Maybe if you can share some of your thoughts on the margin.

And I think in the beginning, you've talked about how you're trying to be less transactional and more relationship oriented. While it seems like it is translating nicely on the loan growth side, how has been the experience on the deposit side? Is that also leading to good deposit inflows?

Faisal Abdullah Al-Omran

Hi, Shabbir. Thank you for the question. I think, as you mentioned, the growth is something that we were aiming for and pushing hard to. And that has been achieved in terms of the growth side.

As for the margin, we expected that margin to go down for mainly two reasons. First, funding most of the loans are not happening under the new initiatives. And the strategy where we said most of the funding, we want to get it from the PI and from the affluent, where we believe there are a lower structure in terms of the cost. I think until that happens, in 2025, we might see some compression there. However, if you see the compression is not that big compared to how much market share we have gotten. We want to make sure that when we win business, it's not because prices are down. From what we have observed, we have seen some really low prices in the market. We believe if we were to book it at that prices, market compression would be much higher than where they are today. But we opted to keep our booking on the segment that we believe augments our income.

As for the second question, in terms of where do we expect most of the funding. Is that correct, Shabbir, is that the second part, where most of the funding has happened?

Shabbir Malik : Basically, what I wanted to understand is, since you're focusing on relationships, and that seems to help drive your loan growth. But also, on the deposit side, is it translating into relatively low-cost deposits compared to what you would pay if you were trying to be competitive on pricing?

Faisal Abdullah Al-Omran: Yes, I understand it now. I don't think it is a sales strategy. The strategy to get the loans, I think it's totally different in terms of the competitive advantage that we are pitching to our clients. I think on the deposit side, we are targeting a different client base. And the deposit side, we believe the competitive advantage is geared towards the PI and the affluent sector. We believe PI, we're seeing good movements there, and there are some pickup in the DDAs in the bank and the NIMs in the bank. However, in the affluent segment, we have finished the segmentation close to value proposition in operating model for them. We think we'll see some of the results this year, but late this year. I don't think it is the first half. But the competitive advantage will not be the same that we have used to get the loans.

Shabbir Malik : Got it. If I may ask one or two other questions. In terms of I think there was a comment made about a settlement of an exposure. I think there has been news around Saudi Binladin. Did that have any material impact on your provisioning last year?

And maybe another question on your cost of risk guidance. Do you see any risk for that to be higher than what you've guided for? And maybe if you can outline any potential risk to that cost of risk guidance?

Shankar Chattanathan: On Saudi Binladin, we were one of the banks which were in a unique position, where we had a significant amount of collateral. The amount of provisioning that we carried [inaudible 00:38:56] was relatively insignificant. That's the reason you see stage two numbers, where the current coverage has significantly gone up, because that exposure has moved out, whereas the overall provisioning for the other customers remains the same.

As far as cost of risk guidance for this year is concerned, I think we will be able to comfortably meet the number. We do not see any challenges at this point in time. I think we are comfortably positioned in terms of cost of risk.

Shabbir Malik: Thank you.

Operator

Our next question comes from [Inaudible 00:39:39] Financial.

Unidentified Male: Thank you for the call and taking your questions. I have a couple from my side. On your deposits, we saw a sequential decline. And looking at the presentation, looks like it came from your retail deposits. Could you shed some colour as to what caused this decline in deposits? And also, going into next year, what sort of trends should we expect, especially with regards to CASA? Now, I remember during the previous calls, you have mentioned that part of your strategy is to grow your CASA by tapping the government and quasi-government institutions. How is that strategy working out? And can we expect some material improvements of CASA going into this year, 2025?

Faisal Abdullah Al-Omran: Thank you for the question. Generally speaking, our deposit growth will mirror the loan growth. I think the reduction that we see in the fourth quarter was mostly cost optimization, I would say. We have issued our sukuk issuance during the fourth quarter, and we were able to reduce some bearing liabilities that has enhanced our NIM. I just the reduction was to competition, although I would admit that we have seen a huge competition in the banking sector in general in deposits. But this was mostly cost optimization.

Unidentified Male: And the second question is on CASA. What sort of trends that we can expect going into this year, 2025.

Ahmed Abdulrahman Almohsen

As mentioned by the CEO, many initiatives that we are working on is to reduce our non-interest-bearing deposits to total deposits. This is something we have been working on and we will continue to maintain. I think it's also fair to say that in our projection for the NIM, for the year 2025, and conservatively, we assume the same funding mix that we've seen in 2024. That's why we are projecting broadly as our NIM compared to 2024. Having said that, and as we mentioned, our initiative is still continuing to increase our non-interest-bearing deposits. We have launched the travel account, which have helped us increase some current accounts. And we will still continue working on these initiatives.

Unidentified Male: Thank you very much. That's all from me.

Operator: And our next question comes from Murad Ansari with GTN Middle East.

Murad Ansari

As-salamu alaykum and good evening. Thanks for the presentation. Some broader questions on the makeup of the loan growth that we've seen through most of 2024 and what you're guiding for 2025. And you mentioned that syndicated loan has been quite a decent part of it. Can I get a sense, just a broad sense, of how much of the corporate loan book growth that we've seen in 2024 is coming from syndicated loans? And is that something that you expect that trend to continue into 2025 as well?

My second question is just reconfirming, I think you've mentioned, I just wanted to make sure that I have this correctly, I think you mentioned about the large exposure that was settled last year, that you were not carrying a lot of provisions on it. Is that correct? And I think, on your deposit book, we've seen some contraction in the book in the fourth quarter, sequential decline. A number of your peers have indicated towards very high pricing levels that were prevalent towards the end of the year. Just wanted to get your thoughts on, was that one of the key factors driving the sequential decline? And how has that pricing environment evolved since the start of this year? Thank you so much.

Faisal Abdullah Al-Omran

Thank you. General speaking, on the loan growth momentum, we see momentum continuing in 2025. We've seen very good growth in 2024. And we expect, as we guided, more than 15% growth in 2025. This will be largely from corporate and syndication, as we have seen in 2024. And I have to mention also, if further rate cuts happen during the 2025, we expect also to see an increase in the retail side, especially on the mortgage. That's on the loan side.

I think you mentioned about the provisioning on stage two, and I think my colleague, Shankar, mentioned this. This is due to the Binladin loan, which was collateralised, that's why we were not having large provisions through this exposure. And this has been reclassified from stage two, we've seen the increase in coverage stage two increasing as well.

On the deposits, as we mentioned, the decline in Q4 was not really largely due to competition on a high basis, but it was a cost optimisation, as we have acquired our sukuk and our Tier 1 sukuk issuance, and we were able to reduce some of our cost bearing liabilities.

Murad Ansari

Thank you. Then, if I could just ask a follow-up question in terms of the pricing on your direct corporate lending versus syndicated financing, is there a differential there, a significant differential? And also, if you could maybe give some colour, you mentioned it earlier in the call, that your asset yields are one of the highest in the sector. What are the key drivers behind this advantage that you enjoy with some of your peers in the sector?

Ahmed Abdulrahman Almohsen

Generally speaking, bilateral loans. It depends how are you managing compared to syndications. Also, there is on syndication usually higher. In terms of yielding, as mentioned by the CEO, we have a competitive advantage that can be seen more, actually, on the private banking. And also, our business has a lot in enhancing our yields on investments. I think we carry more than 26% of our total balance sheet on investments. This is among the highest in the banking.

Murad Ansari: Thank you.

Operator

Just as a reminder, if you'd like to ask a question, it is star one on your telephone keypad. We will pass to the written questions. The first question comes from Rahul Bajaj with Citigroup. The first question, do you think smaller banks are getting squeezed out more in the current, very tight liquidity environment in KSA?

The second question, do you think the strategy of prioritizing volume over value makes sense in the current environment?

Faisal Abdullah Al-Omran

I think the first part, I don't think they are. I'll speak about size. I don't think we are squeezed. If you see our growth and deposit, it's something that we said before, that if we need the deposit, we are able to source it. And I think that has been proven in 2023 and 2024. I don't think liquidity, at least for us in size, is an issue.

As for second question, this is something that we try to avoid. We want to be able to book the loans or business that is in sync with our strategy. If it makes sense individually, if it makes sense on a scalable basis. It's more on possible growth.

Operator

Thank you. The next question is this from Zahir Investments. What is your loan portfolio in MSME sector? Are you seeing pressure on fee-based income from new-age technology companies?

Faisal Abdullah Al-Omran

I think if I tackle the MSME, our loan portfolio is about 11 billion, which is about 11% of the loan portfolio. As whether we have seen fee compression or fee competition, I think the market will always have competition. We try to acquire relationships that are relatively less price sensitive compared to others, so that it's driven by relationship, driven by the company's advantage, that we can offer them speed, dynamic solutions. I don't think this is something that we have experienced in the MSME section.

Operator: Thank you. The next question. Thank you for the call. A few questions. First, are there any regulations up for implementation in Saudi Arabia? Second, can you give us some insight into deposits [inaudible 00:50:14] in the country? And the third question, please can you comment on price competition and how are banks are able to justify that, given the high cost of funds?

Faisal Abdullah Al-Omran

As for the first question, I think it's too general. There is always new regulation coming up in the market, whether it has to do with the credit, liquidity, customer protection. There's a lot, so I think this is too general, but there is always new regulations coming in the market.

As for the second question, I think deposit movement, I think that's very clear if you go to the Central Bank's report, I think the movement there are very clear. I think it's very self-explanatory if you go to that report.

As for the comment on the price competition and other banks, I can comment on SAIB. In SAIB we always look at profitable growth. We will not reduce our criteria or our pricing. If we have higher cost of funding, then we seek a loan that takes into account the increased costs that we have in funding. And that's how we do business. And for us, it's been working.

Operator: Thank you. Our next question comes from Omnia Kadri with EFG Hermes. How much is call deposits as a percentage of total deposits?

Faisal Abdullah Al-Omran: It's less than 4%.

Operator: Thank you very much. We have no further questions in the queue, I'll hand back over to the management team for any final remarks.

Najla AlMutairi

Thank you for joining our call today. We appreciate your time, questions and continued support. We remain available for any follow-up questions, and we look forward to updating you on our next quarter. Have a good day. Thank you.

Operator: Thank you, everyone. This concludes today's call. You may now disconnect. Have a great day.