1Q 2025 Earnings Call Transcript - May 8th 2025

Muhammad Faisal Potrik:

Hello, good afternoon and good morning, everyone. My name is Muhammad Faisal Potrik and on behalf of Riyadh Capital, it's my pleasure to welcome you all to Saudi Investment Bank's first quarter 2025 earnings presentation and call. At this point, I'd like to hand over the call to Najla AlMutairi, head of investor relations at Saudi Investment Bank. Najla, please go ahead.

Najla AlMutairi:

Thank you, Muhammad. We're pleased to welcome you all to the Saudi Investment Bank Q1 2025 earnings call. My name is Najla AlMutairi, the bank's head of investor relations. Currently note that our earnings disclosure are available to download on the IR section on the website. Also, be aware that this session is being recorded and the transcript will be made available. If there are any members of the meeting, please share your questions separately with the corporate communications chief. I'm joined today by Faisal Al-Omran, our CEO, and Ahmed Almohsen, our CFO.

Moving on to the agenda, our CEO will cover the performance highlights for Q1 and we'll update you on our strategy. Ahmed will then discuss the financial performance and guidance in more details. After which, we'll open the floor for your questions. With that, I'll hand over to our CEO to begin the presentation. Over to you, Faisal.

Faisal Al-Omran:

As-salamu alaykum, everyone. Good afternoon. We look at slide number three. This is our usual slide that we start with. Alhamdulillah, we had a strong performance in first quarter 2025 and solid progress also toward our strategy and performance metrics. If you can see, loans have had a strong growth of 5% in our first quarter. Also, our net income, we had a growth of 14% year on year, alhamdulillah, reaching 503 million. Also, our return equity have increased by 84 bips year on year, 84 basis points year on year to 13%.

You'll also see the deposits have increased 8% our total customer deposits. We had an improvement in our NPL, which is the credit quality, also remain on a strong capital ratios, alhamdulillah, that also will support our future growth. Our cost of risk remains low at 24 basis point. Also, our cost income ratio, which something that we always keep highlighting and we believe that you will see improvement there, today it stands at 41 and we have also various projects to bring the number down as our strategy continues on and our transformation takes effect in the re-back.

If we move to the next slide, slide number five, this is also a usual slide that we look at every time just to shed light again on the business segments that we have. As we said, our vision is we want to be the trusted bank for our client. The reason for that vision, once we become the trusted bank, then the decision-making of our clients is not driven purely by price, which is something that we always try to shy away from. What we want is to build long-term relationship with our client where they see value and price becomes one metric of determinants rather than it being the main driver of relationship. We are a relationship-driven bank, we are not a transactional bank. So we always try to build the trust with our customers so that they can see the value where we can provide dynamic service, customized solution, fast turn around, things that we believe SAIB has an edge over our competitors.

Our core segments remain to be corporate banking, which is the main driver. Then comes the private banking. Both are asset driven and we believe that there is also potential for growth in our fees in these two segments. Then we have the consumer banking. We believe this will be liability and asset-driven liability to enhance our cost of funding. Asset driven, we believe that market today is favorable for us to look at the mortgage market where rates we believe now are more normalized and can give us a better yield compared to previous years. Then we have the public institution. This is mainly liability driven and we believe also there are potential fee that we can get in the bank by providing the services that we do today to the public institution. Below you'll see the key enablers mainly is the treasury resources, risk marketing and the IT.

If we move to slide number six, this is also just to show you where the initiatives lay in our strategy. Today, we have achieved four initiatives out of the 10. Our strategy ends in 2027. However, there are many initiatives that are ahead of schedule, and alhamdulillah, we are seeing some benefits of them being achieved earlier. Use public institution, we have accomplished two, consumer banking three. Treasury initiatives are done. Also, in the human resources, I think by end of this quarter all initiatives will also have been done. Risk, same thing, we believe also most of the initiatives will be done by end of second quarter, but alhamdulillah, we see progress in the strategy and it's going as planned.

If we move to the next slide, slide number seven, this just to shed light on some of the achievement that we have accomplished year to date or starting from the strategy. In corporate, as we said, we have established a segmentation and new coverage model specifically catering to the contracting segment where we believe that this is a segment that that will grow in the economy and we want to be a focus to give more focus in our business. Alhamdulillah, so far, it's growing and augmenting the growth and the balance sheet expansion. Also, we had the first phase of the CRM implementation and also which helped also in the next bullet point, which is freeing up about 40% of the time from the RM. What we want is to have a pure RM who is dedicated for business development and review of the relationship. We don't want to spend any time of the RM hours on either operational or administration things, so we keep pushing there.

Same thing on the consumer and private banking, you will see also that we are working now on the retail segmentation. We have already developed the account opening a KYC process. We have, alhamdulillah, already launched our new mobile app, new mobile banking app. We haven't officially launched it. Inshallah, we will do an official launch to it, but today it's available and we see excellent reviews. In fact, we see that our rating compared to other banks, SAIB is currently rated the highest at 4.9 compared to other banks. I think the next bank is at 4.8. Although it is new, we know that it's just started, but we believe that we have a lot of features that make our app as a leader in the market and we'll keep monitoring also the feedback of our clients. Same thing, public institution, we have redesigned the operating model to free up the time to focus more on the needs of our clients rather than spend operation or administration time inside the bank.

Most notably, I would say in the HR what we have done is that we have revamped the full organization or org chart of the bank to align it with the strategy and we have seen that we have reduced layers and also we have extracted more, I would say capacity from our existing resources. We have also redesigned the performance framework. We wanted to make sure that we are always on top of our value where we say act like an owner so that we can align the interest of employee with the bank and also to keep remuneration driven by performance. But this is a continuous process, but I think we have achieved the milestone that we wanted to get on the review of the framework. Although it's continuous, but alhamdulillah, we are happy where we are today. Also, we have reviewed and implemented the new HR policy guide to ensure that we incorporate best practices to make SAIB the choice for talent in the financial sector.

If we go to slide number eight, which is the upcoming, inshallah, calls that we want to do, we will see in corporate that we also enhancing again the account opening. We want it to be end to end fully automated. Usually, this is easy done in the retail and private banking. In corporate, you get into issues of authorities, a secondary and other elements. I think we will achieve, inshallah, something excellent here that will help the journey of our corporate. Also, we are finishing up our full CRM. We have finished phase one. Now we want to finish the remaining development that we want to do where the RM is able to see a 360 view of the client.

Same thing with consumer banking, we have already internally finished the exercise of the new segmentation that we want to target affluent with and also we have identified the value proposition for each segment, whereby we believe it'll be, inshallah, a winning proposition in the market. SAIB is looking to target affluent customers. We believe this is a segment that is growing very fast in Saudi, segment that has high purchasing power, has needs on wealth management. They have large savings. The expected, inshallah, business that we will work with is that first we can get asset growth on products that we like, which is card and mortgage. Second, it will supplement our initiative to reduce our cost of funding mainly through saving proposition and wealth management that we provide to that segment.

Same thing with public institution, we are revamping our account opening journey, which is a complex process usually in banking today, but we believe that we have made it friendly and customer experience is excellent there. Also, by deploying the final and phase of the CRM, inshallah, we'll see that the benefit that we would get. Maybe on the support function, it's worth mentioning that we are in the process of launching our cyber academy or I'd say re-designing our cyber academy whereby it will have a lot of initiatives either inside the bank or initiative that can attract talent to come to SAIB. We believe that this is something that will, inshallah, will see benefit of starting 2027.

If we go to the next slide, this is something that we want to share with you, slide number nine, which is the launch of our S60 venture fund. This is a fund that has been established by Alistithmar Capital that is fully funded by a bank total of 100 million bucks. This fund looks to invest in startup. We believe that markets in general still has good growth. With the experience that we have in digital and the other initiatives that we have done in the bank, we wanted to get more exposure and also benefit of that experience that we had. So we have launched this fund, inshallah. It will look at pre-seed C series A. That's our focus. We can go up to series B also. Our main focus will be KSA but also we will have exposure in UAD and Europe. The idea is to look at bringing some strong players to the market and make the Saudi market attractive for them also by our health and growth hacking most of the ventures that we will invest in. With that, I will hand it over to my colleague, Mr. Ahmed, our CFO.

Ahmed Almohsen:

Thank you, Faisal. As-salamu alaykum. Good afternoon, everyone. I would also 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 first quarter of 2025. We have seen a solid improvement in most of our KPIs on the balance sheet. Loans increased 5% year to date and have reached 104.1 billion supported by 8% year-to-date growth in deposits which have rose to reach 101.7 billion. Our profitability improved as well with income growth and positive growth contributing to a 14% increase in net income, and our return on equity registered 13%. At the same time, SAIB maintain a healthy asset quality with MBL ratio improving to 99 basis point while the cost of risk reduced to 24 basis point. Equally, capitalization and liquidity were strong and remain supportive of future growth.

Turning to slide 12, please. The balance sheet expanded 5% during the first quarter driven by 5% loan growth and supported by increase in balances with SAMA and bank placement. This balance sheet growth was mostly funded by an 8% expansion in customer deposits. We will be looking more closely into each of these trends on the following slides. Starting with loan advances, our loan book has shown continued strength with 5% growth for the first quarter. Most of this growth came from corporate lending which grew by 5% during the period. We have seen a widespread credit demand across key economic sectors such as utilities, services, building and construction commerce, manufacturing, as well as other sectors. On the retail side, private banking grew strongly by 8% or by one billion and have reached 15.4 billion, and the remaining consumer loan slightly decreased by 1% year to date due to repayment against modest origination level.

Moving to the next slide. On the investment, our investment portfolio following the strong growth we've seen last year has remained stable and the amounted to 40.4 billion. The quality of the investment book remains strong with 57% of the securities issued by government and 30% by banks and other financial institutions. Moving to the next slide. In the deposits, customer deposits rose 8% year to date and average 101.7 billion. This was driven mainly by 15% growth in interest bearing deposits, while non-interest bearing deposits decreased by 5%. Corporate deposits increased 16% while retail deposits were up 10% year to date. Overall, this resulted in a shift in our funding mix with non-interest bearing deposits now comprising 26.6% of total deposits compared with 53.7 at the end of last year.

Moving to the next slide on the income statement. Net income increased 14% year over year driven by 6% growth in operating income. It was further supported by improved cost of risk and operating efficiency. On a sequential basis, there is a slight 1% decrease mainly due to higher realized gain and one-time fee that we are recognized in the fourth quarter of last year. I will be expanding more on these components in the following slides. First, let's look at the net special commission income.

Turning on slide 17. Net special commission income grew by 5% year over year and reached 891 million driven by the average earning assets growth of 20% and was partially offset by the NIM contraction. As you can see in the waterfall chart at the upper middle section of this slide, increased benchmark rates resulted in higher special commission income from lending and investment, but this was partially counterbalanced by higher funding costs. The year-over-year NIM declined by 34 basis points and slightly by two basis point in a sequential basis and have reached two point 45%. Decrease can be attributed mainly due to 49 basis point decrease in assets yield along with the decrease in the CASA mix which have limited the decrease in cost of funding to be only 15 basis point.

Now, looking at the fees and other income in the next slide. Fee and other income increased 10% during the first quarter. This was mainly driven by robust growth in foreign exchange income reflective of the customer growth and activities. Fee income from banking surface was 3% year over year. Growth in trade finance was partially offset by lower capital market income and made softer overall market turnover that we have seen during the first quarter, along with modest decline investment-related income. On a consequential basis, fees and other income declined 14% primarily due to a one-off fee recognizing Q4 related to a real estate fund transaction by our subsidiaries, Alistithmar Capital.

Moving to the next slide. Doing the operating expenses, but I think this is increased by a modest 1% year over year and reached 432 million. This was mainly due to increase driven by higher employee related costs, rent and related expenses, as well as depreciation and amortization expenses while general and administrative expenses declined. We limited cost increased to just 1% driven by two key factors. First, the bulk of our strategy related investment have already been made, and second, the bank has initiated a cost optimization program which has started to a fruitage with further benefits expected to materialize in the coming quarters. The cost to income ratio improved to the level of 41.2 decreasing from 41.5 in 2024 and 43 in 2023 and in line with our 2027 strategy initiative to reduce cost-to-income ratio.

Now, turning our attention to the credit quality on slide 20. Impairment charge decreased by 25% from previous year to 61 million during the first quarter. This reduced our cost of risk by 15 basis point year to date, reduced our cost of risk by 15 basis point year over year to 24 basis point for the first quarter reflecting benign credit environment and healthy overall assets quality. NPL formation also remained moderate and the MBL ratio was further improved to 99 basis point at the end of March 2025. Our NPLs remain adequately covered with an overall coverage ratio improving and it's now at 161.9%. Stage three ECL coverage decrease modestly to 45.4 while stage two ECL coverage slightly decrease to 13.3%. For the reminder of the year, we do not expect a significant increase in cost of risk or deterioration in our credit quality, yet we acknowledge that macro-economic changes could impact ECL model going forward. Having said that, and up to this point we believe such impact is expected to remain within our guided range of 30 to 35 basis points.

Moving to capital and liquidity in slide 21. SAIB continues to maintain a strong capitalization and liquidity positions. The liquidity coverage ratio, the LCR increased to 193.3, NSFR at 109.4 and the SAMA LDR reach 81.8%, all at extremely comfortable levels. Total regulatory capital increased 1% during the first quarter with the profit generation and was partially offset by the dividends payments. Our risk weighted assets grew by 4% year to date and reach 113.1 billion driven by the growth in our lending portfolio. Our CAR declined to 19% with the tier one capital ratio at 18.4, while the CET-1s to that 13.7%. We believe that still leaves us in a very comfortable position to balance the growth expectation with shareholders retain and sufficient regulatory comfort levels.

Now, moving to the outlook and guidance for the 2025 year. I believe overall we deliver a solid start to the year broadly in line with our expectations and now we are looking ahead to the rest of the year. We anticipate maintaining a strong lending growth momentum with projected increase of over 15%. This growth while robust is anticipated to be somewhat any lower than the 2024 rate due to an overall moderation in the market growth. In terms of the NIM, we maintain a guidance at 2.45 to 2.55. This assumed some NIM benefits from up to two rate cuts during the year and the modest improvement in our CASA mix.

We expect our operating efficiency to improve to below 41.5% supported by a combination of enhanced cost management and growth income. For returning equity, we deliver 13% during the first quarter and expect to continue strong performance to deliver above 13.25 for the year 2025. On the cost of risk, the benign credit experience that we have seen so far has led us to maintain our guidance range for the upcoming year at the level of 30 to 35 basis points. Finally, our expectation for that tier one capital ratio remains unchanged at above 18.75% for the full year. With that, this include our management presentations. Now, we are happy to answer any questions you may have. Thank you.

Q&A Session

Muhammad Faisal Potrik:

Thank you so much, Saudi Investment Bank management team. We'll now move to the Q&A session. If you want to ask a question, please use the raise hand button on your screen. We'll take the first question from Edmond Christo. Edmond, please go ahead.

Edmond Christou:

Seems you're still guiding for... I mean, above 15% credit growth is a strong one and I understand the need for the scale up of the balance sheet, but how you are aiming to manage the margin in the coming quarters? We are hearing different messages coming from the bank in term of elevated cost of funding. I just want to understand better your sensitivity. If I understand it correctly, it's negatively correlated to interest rate cuts or you will benefit from interest rate cut. Just better understanding how you see the margin for the year, first question.

Second question is on the staging. There have been some deterioration in the coverage for stage two and stage three, if possible to understand what has happened in term of the migration and which sector. The last question I have is on your sensitivity to the ECL model you have in 2024 report under page 89. You show the downside scenario against the base case scenario. You don't give me what is the assumption behind the oil price drops here. I can see, for example, real GDP dropping 1%. Should I assume that oil price drop is also 1% here or is different? So my clarity will be much appreciated. Thank you.

Faisal Al-Omran:

Thank you. Inshallah. That's a question so we'll try to go with one by one. So the first question is two parts. One talks about the growth and NIM, and then it talks about sensitivity. So I will address the first one. What we see is that the first function is the pricing. We always aim to be one of the highest bank in terms of the asset yield, not the NIM, the asset yield, meaning that our yield on our booking of loans. We believe that this is the case. We are always one of the highest, meaning that we don't go for commodity pricing or that we undercut. We want to book loans at the higher end of the outsize factor in terms of pricing.

Now, coming to the NIM, the growth that we are experiencing, alhamdulillah, it's robust, but the initiatives that we have in terms of reducing the cost of funding, some of it we hope to kick in 2025, others could kick in 2026. So waiting for the initiatives to come in for us to grow, I don't think that's economically benefiting for us. So what we are doing is that we are bridging hopefully that growth through the available liquidity in the market, which we said that we are able to raise liquidity if we need, which was the case. Those deposits come within the market terms. We have seen that deposit prices goes up. Eventually, it'll hit our NIM. But if you see it as a end result, it benefits our return equity. So that means although that we could have contraction on the NIM, but overall that increased volume is improving our return on equity and I think this is where we are basing the assumption, I would say, of continuing to growth on. So I would say this is the first part. I think second part is the-

Ahmed Almohsen:

The sensitivity. As we said before, generally speaking, we expect positive impact from rate cut based on our balance sheet structure and we've said we expect two to five basis point improvement for each hundred basis point reduction in interest rate. However, and as we have mentioned before, we are more sensitive to the CASA mix than the rates cut. We do anticipate a slight reduction in NIM in 2025 compared with 2024 as indicated in our guidance. The bank will continue to work on the existing initiative along with some more initiative as highlighted by the CEO to attract DDAs. This should hopefully enhance our CASA mix and will be positive to our NIM.

Regarding the second question related to the stage two coverage, the reduction and reduced from 15.2 to 13.3, this was due to around 230 million loan that's moved to stage two, which was fully collateralized, so the provisioning was not needed and hence the coverage reduced slightly to 13.3 from 15.2. Finally, I think there was a question on the sensitivity of the-

Faisal Al-Omran:

Model assumption, the ACL.

Ahmed Almohsen:

On the ACL model, yes. One of the assumption is GDB and we don't count for the oil price directly to our model, but it's embedded on the scenarios under the GDB. GDB obviously will be affected by the oil prices. Based on the oil prices and along with other factors, we anticipate the stress testing for the GDB. But if you ask about exactly how much we anticipated like oil price reduction in our financial statement and I don't really recall exactly what was the price.

Edmond Christou:

Okay. I can follow up with the IR on this. Just the stage two movement, from stage two to stage three, correct. This is why the weakness in the stage two cover.

Ahmed Almohsen:

No, no, the opposite, from stage one to stage two.

Edmond Christou:

Stage one to stage two, but it weekend stage two because it was not fully covered, right?

Ahmed Almohsen:

It's collateralized. It has a collateral with it.

Edmond Christou:

Okay. SO, not fully covered. Yeah.

Ahmed Almohsen:

So we need to increase the brokerage.

Edmond Christou:

Perfect.

Faisal Al-Omran:

Most of the loans that we give is collateralized.

Ahmed Almohsen:

Actually, just to add to this, we have done an analysis based on the financial and for the billard tree of the banks, we are the highest when it comes to the collateral among all banks.

Edmond Christou:

Okay. This is very useful. Thank you very much. Good luck. Thank you.

Muhammad Faisal Potrik:

Thank you, Edmond. We'll now move on to our next question from Shabbir Malik. Shabbir, please go ahead.

Shabbir Malik:

Can you hear me?

Najla AlMutairi:

Yes, we can hear you. Please go ahead.

Shabbir Malik:

Hi, sorry about that. Just a couple of questions from my side. When I look at your balance sheet this quarter, you've produced funding from interbank and you've increased funding from time deposits. I would like to know what's the pricing differential? Is it more attractive to get funding from time deposits in terms of rates versus interbank? So that's my first question. My second question is around the venture fund, the S60 venture fund. In terms of its contribution to the group's P&L, how soon can we see any positive impact from this venture fund? Is it going to be mainly fee-based income? Is it going to be investment income? So if you can please touch on that would be very useful. Thirdly, in terms of generally the competitive landscape, what has been your experience on the corporate side and on the retail side? Is there been a higher level of competition this quarter versus the last year and what has it meant generally for pricing on loans or the spread loan spreads? Thank you.

Faisal Al-Omran:

Hi, Shabbir. See, I think for the first question, I think it depends also in the market in terms of the IB-based deposit, but generally deposit tend to be more expensive that IN for now. So you'd see us changing there and most of the IBs would be vary. We have a very high quality and diverse investment portfolio that is dollar denominated. So that can help us do a lot of things, either we do a maturity or we do long-term or we do short-term. And I think also that helps SAIB to properly manage its ratio rather than maybe going for more expensive solution. So I think that's the first question.

Second, in terms of S60, usually it's just established now so I think you will see effect after five years still. I don't think it is something in terms of P&L contribution from the fund. Usually, it'll take five years for you to see something meaningful there, but there are other benefits to it which we could attract the startups to augment the bank offering. So either it's a good service or a good product that we can integrate in the bank and that will help in terms of the bank either customer stickiness or a share of wallet. That's something that we could see within maybe two years. Usually, if we do the deal, it takes six to 12 months until you run out and then there's an integration could happen after that. So in terms of S60, that's the answer.

For the competitive landscape, I think there are discussions about appetite to grow in the corporate sector. We have seen that also in the market. So far, we have a healthy pipeline. What we have seen in terms of growth, the volumes we believe for us are there. So inshallah, we expect to continue the growth expected from our side. In terms of pricing, for us we haven't seen that big of a pressure yet. There is pressure, but I don't think it's something that we will start getting concerned about.

As we said, we tend to shy away from the commodity market. We want to be the bank of choice for our customers because they know SAIB can turn around very fast, SAIB can be dynamic in terms of structuring the loans. Our contract financing is very detailed so it gives more comfort when you deal with the SAIB, change of order comes, changes comes to the project, we know how to deal with them. So today these are our clients and we are growing with them so far and pressure of pricing is always happening whether today or 10 years ago or the next also years to come, but I think for now, I think we are still well.

Shabbir Malik:

Thank you. So just going back to the first question around interbank funding and time deposit. So it was basically you try to optimize your cost of funds and the decide between the two sources of funds, either time deposits or interbank? Because as you mentioned as well that time deposits typically are more expensive because they can be taken as part of the LDR calculation, whereas interbank cannot. So it's just you're trying to optimize the cost of funding.

Faisal Al-Omran:

Today, for example, if we see that we are okay in terms of ratios that pertain to no deposit ratio, so if I see I'm okay there, we might let go some of the deposits and substitute them into interbank because it is still needed. But as you said, the deposit would be more under demanded today given the growth that is there, we will let go and substitute with the IB and I think this is where we play. For example, if there is a need for longer term deposit to look at NSFR, we can augment that or address that through maturity. We do have high quality bonds that mature after three, five years. We can do maturity there and that will help us on a very competitive basis. Rather than me going issuing a bond for five years at the spread of 150 basis point, I can go and do report maturity at a very much lower cost than compared to me issuing this core order bond. So I think this is where the treasury and it's going to continue with spaces.

Shabbir Malik:

Clear. Thank you so much.

Faisal Al-Omran:

You're welcome.

Muhammad Faisal Potrik:

Thank you, Shabbir. We'll now move on to our next question from Reem Alkhulayfi. Reem, please go ahead.

Reem Alkhulayfi:

Am I audible?

Muhammad Faisal Potrik:

Yes, we can hear you now. Go ahead, please.

Reem Alkhulayfi:

Okay. This is Reem Alkhulayfi from Riyadh Capital. Thank you for the presentation. I have two questions. The first one, NIM half the client 34 basis points on the basis this quarter. So considering the structural assets sensitivity embedded in your balance sheet, are you exploring any strategies like interest rates swap to help mitigate potential NIMs contraction and declining rate environment? The second one, can you comment on your exposure to government-related projects and whether any of them contributed materially to long growth this quarter? Thank you.

Faisal Al-Omran:

Reem, for the first question, I think the major thing we could do on our NIM contraction, it's either two things, either you increase your prices or reduce your cost of fund. The first part which is increasing our pricing, I think SAIB is one of the top banks in terms of asset team, so there is so much you can do. If you are number one or number two bank in terms of asset yield, perhaps maybe going even higher would be difficult, but that means that part is already done.

However, the second part which is the cost of fund, this is where most of our initiatives are happening this year. Right now, we want to reduce our cost of funding through different initiatives. One, we said before that we are working with PI so that we can attract lower cost funding from their site. So this is one. Two, we are targeting the affluence and this year, inshallah, we are launching the initiatives on savings so we can get a lower funding compared to the normal deposits that we have. So I think this is also number two. These two we believe will bring cost down, inshallah.

Is NIM going down something that we expect? No, we expected to move down. Why? Because we are in a growth phase now. So either we wait for the initiatives to happen so that we can protect our NIM or we quickly reach the gap and bring the available funding in the market, which is at a higher cost than we want it to be compared to where we want to be after two years, inshallah. However, they have a positive impact on our current equity. So that volume that comes in, although the

NIM has went down to 2.45, but an absolute amount, it still has a positive accretion to our return equity. This is the first part. Second, [inaudible 00:44:36], I didn't hear that part.

Ahmed Almohsen:

Project finance.

Faisal Al-Omran:

Can you please repeat the second question?

Reem Alkhulayfi:

The second one is related to your exposure to government-related projects, whether any of them contributed material to long growth this quarter.

Faisal Al-Omran:

In government project, this quite a direct one. Contribution are 600 million out of the four billion growth that we had, but we believe that the government projects are a main driver for the whole economy and for the banking sector. I would say higher appetite that we see from Saudi banks on corporate, see the main driver happening is the government project. We see a lot of projects much a lot undergoing. We see Al-Abidiyah, King Salman gardens. We see [inaudible 00:45:38] of also there is a couple of projects, but alhamdulillah, we think that continues.

Muhammad Faisal Potrik:

Thank you. We'll move on to our next question from Murad Ansari, please go ahead. Please go ahead, Murad.

Murad Ansari:

Hi. As-salamu alaykum. So just a few questions around your results on the NIMs in first quarter is around 245, which is towards the lower end of the guidance range that you've provided. Do you expect any room for improvement from here as we go towards the end of the year or there is possibly downside risk given pressures on cost of funding? The second question I have was on loan growth. If you could just give us some overview on how much of the incremental loan growth that we've seen in first quarter is syndicated versus bilateral. Lastly, on your capital ratios, I mean, on a standalone basis, absolute basis, they're quite robust, well above base requirements, but the loan growth that we've seen this over the last three, four quarters has taken away or consumed about 200 basis points of your CET-1 capital.

Tier one, tier two been broadly less impacted over the course of last 12 months, but CET-1 is down by about 200 basis points. Is there a base level or minimum base level that you would like to maintain on CET-1 capital ratios and where that would be? Lastly, on loan growth. Going back, I mean, very solid performance in the first quarter. Your guidance is above 15%, so this is clearly well above the guidance that you've provided. Understood it's just the first quarter. But would you expect some moderation going into the rest of the year or you think that there's still strong appetite for you to deliver similar kind of growth over the next two to three quarters? Thank you.

Faisal Al-Omran:

Thank you. Thank you, Murad. So I'll answer the first two questions and the second two questions will be answered by Mr. Ahmed, our CFO, right? The first one to contraction, your question whether how do we see it? Well, overall, it's still within our guidance. Our guidance, we said 245, 255. So far, we're hoping, inshallah, it will rest there, but market dynamics keep changing. If we see there is more pressure on deposit pricing, we will come back and revise.

But will that deter us from growth? Are we going to slow growth because our NIM is contracting? No, because what we see is that all incremental booking that we are doing today have an accretion effect on our return equity and we'll continue because that's the main NIM is looked at for sustainability reason. The current equity is the actual result that we shareholder gets. So if it has an personal accretion will continue, but inshallah, we are hoping on the 245. Inshallah, we try to be there. If we see this deteriorating more or continuous deteriorate, we will evaluate and definitely we'll come back to you on the guidance. We believe the initiatives that we're doing, inshallah, will help there.

The second question you are asking how much of the growth that was through syndication? Actually, the 600 million is from syndication, which we said related to government. How we mostly finance our growth that has government exposure, we do it usually through syndication because we see pricing there are more attractive for us than going for the bilateral. So I think we will see some growth also there because we like the pricing in the syndication market. Your third question about CET-1, I think Ahmed will tackle it.

Ahmed Almohsen:

That's clear. I think the question was relating to the CET-1 and I would say that the slightly declining trends. Bank, if you're reviewing its CET-1, it's around 3.7 as of the first quarter of this year. If there is a mistake the bank is working on right now to optimize its risk-weighted assets by perhaps evaluating some unutilized limits, this should enhance and positively impact the capital ratios including the CET-1. The bank naturally also always continue to review its dividends policy to balance the capital growth with the assets growth.

Faisal Al-Omran:

Before the loan.

Ahmed Almohsen:

Repeat the last question about regarding the loan, please.

Murad Ansari:

No, so my last question was about loan growth. So you've delivered 23% year on year, 5% year to date. The 23% year on year is obviously strongly ahead of the over 15% guidance that you've given, so it is in line with your guidance but much stronger than that. I'm just thinking whether we should expect some moderation as we go into the rest of the year because typically first quarter tends to be the strongest in terms of loan growth. Should we see this as the strongest quarter and maybe a slight slowdown in year-on-year growth momentum as we go into the rest of the year?

Ahmed Almohsen:

Generally, no, up to this point, we didn't anticipate or we don't see any slowdown in the asset growth. Our case, 5%, if you annualize it, I would say yes, it's ahead of our guidance, but we don't intend to revise any guidance, especially in the first quarter.

We always review our guidance. We will be reviewing it again in the second quarter for this one and for all other KPIs.

Faisal Al-Omran:

Repayments. Loan repayments, right?

Ahmed Almohsen:

Exactly, and some repayments is expected, so this might affect the loan growth. So we shouldn't look at only the growth, I think, Q1 and anticipate it will continue with the same numeric momentum for the rest of the year.

Murad Ansari:

Sure. If I could just add one more on funding costs. So you mentioned there are some initiatives in place to help reduce cost of funding. You expect that to come off towards the end of the year. You also mentioned about focus on improving CASA mix. I'm just trying to understand if this CASA deposit improvement that you expect, is that largely dependent on further cut in rates or do you think that even in this environment, the current interest rate environment, if you don't see further rate cuts, there are opportunities to significantly improve CASA mix from here?

Faisal Al-Omran:

Look at the non-interest bearing deposit in the market as a whole, if you see the amount, it's mostly consistent. It didn't change by much either in the lower interest rate or the high. So you'll see the amount is the same. What we have seen is that there is a percentage went down of an interest-bearing deposit. It's because there's an increase on the interest-bearing deposit. So we believe that behavior continued. But the new money that's coming and with the affluent also coming in, we see that there is a room for us to target a segment with, I would say, more progressive saving propositions, saving propositions, some of the, I would say, flexible time deposit that you could have. I think this is where we want to target. So this is one that we know, inshallah, that we will be launching this year.

Second, for the non-interest bearing deposit, we think that mostly will come either from affluent or from the public institution. We don't see lots of private banking or corporate and contributing too much. They're giving their behavior. So from the PI, there are initiatives going in place. We see some benefits of it, but I think that will take time for it to ramp up to a very meaningful city size. For the affluent, this is I would say where is our most debt is we think that we can offer. SAIB has an excellent skill set on the private banking and I think we're one of the leading bank in private banking. What we could do that we said is that let's transfer that skill set to the affluent segment that we want to target and to give that customized, I would say you don't paint everybody with the same brush.

So I think these are the things that we want to do, inshallah, that can help us in getting either the saving account which is base in terms of the cost or to get their cash that they don't want to spend basically the remaining of their salaries, some of the money that is left in the account. This is where we, inshallah, hoping to target.

Murad Ansari:

All right. Thank you so much.

Muhammad Faisal Potrik:

Thank you. We'll take out final question from Mr. Khalid Al-Sibiani. Khalid, please go ahead.

Khalid Al-Sibiani:

Thank you for sharing the Q1 result. It's a good positive momentum and operating income and overall growth. I have two question. Operating income grow by 5.3%, while expenses rose by 4.69%. What is the steps up are being taken to further improve the cost-to-income ratio and that drive efficiency? My second questions is about provisions for credit loss dropped by 19.5%. Could you clarify how the bank ensures these remain educate especially with especially with the current pace for the long growth?

Faisal Al-Omran:

Thank you, Khalid. I'll The first question. The second question, maybe I'll have to repeat it again after we answer that. It's about cost-to-income ratio and how do we plan to bring it down? I think two faults. One, there's a natural reduction that's going to come and there is, I would say, initiative that we're doing to bring the cost-to-income ratio down. The first one, as we have middle strategy, most of the expenses related to transformation, it other related strategy costs have mostly been incurred in our case. That means there is a natural reduction in the expense. So you'll see a natural reduction, inshallah, happening there given that the cost has ceased to exist in those transformation.

Second one is initiatives that we have. The bank is doing, I would say, various initiatives to bring to review everything, review our IT costs, review our connection costs, look at related cost for some services and products, looking at some of the efficiencies that we can get in terms of increasing productivity so that we don't have to hire as much. Alhamdulillah, we had excellent growth and if you look at our growth in terms of headcount, it didn't move as much. Why? Because we were able to do some free up of RMs to give them more time to steal the clients. So there is a lot of initiatives happening there that we think, inshallah, we will bring the cost-income ratio down. So I think that's the first question if I answer this any fully. Please if you can repeat the second question.

Khalid Al-Sibiani:

Sorry. My second question, provisions for credit losses dropped by 19.15%. Could you clarify how the bank ensures this remain integrated, especially with the current base for long growth?

Ahmed Almohsen:

I think that as we stated and provision is based on the outcome of our analysis at the ACL model and currently, it's below our guided range of 30 to 35 basis point. I think it's around 24 basis points. We don't see any reason to either increase or decrease it for the rest of the year.

Khalid Al-Sibiani:

Thank you.

Muhammad Faisal Potrik:

I think we've reached the end of our time for this call, so I'd like to thank the site management, as well as all the participants for their time today. Finally, I'll just hand it over to Najla to please if you have any final remarks or comments.

Najla AlMutairi:

Everyone, if you have any follow-up questions, please don't hesitate to reach out to our investigations group even. Thank you once again for joining us today. We appreciate your continued interest and engagement. We're optimistic about the opportunities ahead and look forward to keeping you updated in the quarters to come. Thank you once again and goodbye.