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The Saudi Investment Bank Q3 23 Earnings Conference Webcast

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Ribal Hachem Hello, everyone, and thank you for joining us today. This is Ribal Hachem. On behalf of Arqaam Capital, I'm pleased to welcome you to the Saudi Investment Bank Q3 Earnings Call. With us today, Mr Faisal Al-Omran, Chief Executive Officer, Mr Shankar Chattanathan, Chief Financial Officer Advisor and David Kenny, Investor Relations Coordinator. Now, without any further delay, I will turn over the call to David. David, please go ahead.

David Kenny Thank you, Ribal. Good afternoon, everyone. We are pleased to welcome you all to the Saudi Investment Bank's Earnings Call for the third quarter and the first nine months 2023. As mentioned, my name is David Kenny. I'm handling investor relations here at the Saudi Investment Bank, and it is my great pleasure to welcome you all to our earnings call. Kindly note that our earnings disclosures are available for download from the IR section of our website. Please be aware that this webcast will be recorded, and a transcript of this call will be made available on our IR webpage.

If there are any members of the media, please be reminded to share your questions separately with SAIB's Corporate Communications team. As mentioned by Ribal, I'm joined today by Faisal Al-Omran, Chief Executive Officer, and Shankar Chattanathan, our CFO advisor. Moving onto the agenda for today's call, Faisal, our CEO, will start with a brief overview of the performance highlights for the first nine months of the year, and will then expand on the bank's strategy. Shankar will then discuss the financial performance in more detail and present our outlook and guidance for the remainder of 2023. We will then open the floor for questions. With that, I will now hand over to our CEO, Faisal Al-Omran, to begin the presentation. Over to you, Faisal.

Faisal Al-Omran Good evening, everyone. Thank you for attending our investor call. Apologies for the delay, but we wanted to build suspense because we have the strategy to explain it to you in this call, inshallah. For the third quarter results, we are really happy to show the growth that we have seen in the loans portfolio. Our loans grew about 16%, reaching SR80 billion. Alhamdulillah, this is a new high for SAIB. Also, for our operating income, the growth was 26%, driven by the volume in the loans and also higher margin. We are reaching the SR3 billion, and this is also the highest in SAIB.

And also, our nine-month net income, we have closed above 1.3 billion. Alhamdulillah, that's about 14% year-on-year increase. We're happy with those results, given that we're just starting the strategy now, and we could see some of the results. And it shows, also, in our return on equity, stands today at 12.2%, and inshallah, we are keeping the momentum in SAIB.

And in slide number four, we'll talk about the strategy. I'll speak about how we formulated the strategy, what's our forecast and what's our target. So, you will see, in slide number five, we are excited about the potential for SAIB to grow in the next five years. Our revenue has grown to its highest. We're reaching SR1 billion in the third quarter. This is also the highest, and you see the upward trend. And actually, we have started some of the initiatives already before the official launch of the strategy. So, alhamdulillah, we're seeing some of the results reflected in the numbers. Same thing in the loans. You will see the growth in loans hitting the 80 billion, also deposits, an area that we feel confident about, about the ability to fund our growth, going in the next five years, inshallah.

The next slide, number six, basically brushes on what's the focus that we will have in the strategy. You will see, in the upper-left corner box, that, relatively, we are a smaller bank. We see this as an advantage. That gives us the ability to be niche, dynamic, we move fast, and initiatives that we take will have an impact, so it will move the needle, rather than reaching a maturity level, from our side. So, we see that as something that is a positive for us. Our portfolio, same discussion that we did last time. We are focusing mainly on corporate and high net worth. We believe these are the focus areas for SAIB, and we believe we will be able to win in these two sectors, compared to the market.

You will see, also on the left side, that the growth in the Corporate is being realised since the first quarter. Today, Corporate stands at SR58.3 billion, and we believe that upward momentum will continue. Private Banking, we believe that we'll start seeing the trend starting from next year. There are initiatives that are being implemented in place, so that we can push. We're happy with the growth that we have seen in the last two years. However, we believe that there are more realisation opportunities for SAIB in the next few years, inshallah.

Also, some of the key focuses that we look at, as we said, first was the agility, the ability to move fast. Two, our focus area is the Corporate and high net worth. Third is innovation. We believe SAIB has always been on the edge of innovation. We are able to bring products and solutions to the market that give us the edge, either to get more loans or get more fees or the ability to access NIBs for our balance sheet. So, we believe those three are focus area enablement for us. And SAIB also tries to build long-term relationship with our customers. We have shared a number with you that we think is representative of what we are trying to achieve.

Our average mid-corporate relationship period is about 13 years, and we believe that gives us the ability to have a bigger wallet share from the customer and also the ability to have a relative pricing advantage, when discussing with clients. Slide number seven, we'll go over it quickly. This, basically, shows that we are bullish about the corporate sector. We believe corporate sector will drive SAIB's growth for the next few years, and we think that our market share is relatively lower, and the ability to grow it is achievable for us. So, you'll see, mainly, our focus on large and medium corporate and medium enterprises.

We stand at 3.4%. We believe, getting a bigger market share here first is something that is achievable from our side, and it will move the needle for SAIB. So, we believe that this is an opportunity for us to grow higher. Next are the areas where we think, also, we can realise some of the efficiencies. You will see that SAIB has one of the highest efficiencies, when looked at as branches. We have done large digitisation, on our part, to automate most of the transactions in SAIB. Nevertheless, we see that we can have more improvement, for example, on us increasing our NIBs share in the market, our [unclear].

Today, we stand at 40%, market average of 54. We believe we can have higher realisation there. Same thing on coverage of the digital channels. We believe that will help cost/income ratio for SAIB to go down from the current 32.4. We believe that's a little bit elevated, given the transformation costs that we are doing this year, which we have elaborated last time. But we believe that is temperate, rather than it being permanent in our cost/income ratio.

Slide number nine, basically, talks about the strategy, and this, I'll spend some time on it. The way that we drove the strategy is, we're going from two concepts. First, where are the areas that we believe have value for SAIB? Those areas, from our side, we have gotten to be corporate, public institution, private banking and the affluent side of the consumer banking. So, we believe those areas are areas that have value for SAIB. Second is, can we win in these areas, or not? So, the sector has to have value, and we should have the ability to win in those sectors.

So, from that discussion, we had those four areas, which basically, represent the business segment in Saudi Investment Bank. So, we have the Corporate, Public Institution, Private Banking and Consumer Banking, which is in the middle. We believe, in Corporate, we can win loans, fees and FX. Our target is to go through the large and medium corporates where we can have the ability to be dynamic and quick in providing our services to those clients. Hence, we think that we will be able to have higher elasticity on our pricing, meaning that we can have a favourable pricing, when compared to other banks. So, this is the first area. Public Institution, we believe that will drive the NIBs in SAIB and fees.

There are a lot of initiatives on the Government for financial and to go cashless in some of the universities, agencies, Government ministries, and there are solutions that need to be provided, such as the one that we have done for one of the Government agencies to go, basically, to manage all the petty cash. So, we think that there are many initiatives that SAIB currently is working on that will be able to increase the NIBs in SAIB and also increase the fees.

In the Private Banking, we think SAIB has a strong franchise there, given our RMs and ability for our products and services to cater to that segment, and we understand it. So, we believe the driver from that segment will be loans, fees, and most of the fees also will come from the wealth management/investment products where we'll have strong collaboration with our capital, which is in place today. But we believe there are higher realisations that we could do from that side.

Third is the FX. So, these are the drivers of that segment. On the Consumer Banking, we are focusing on the affluent. We believe that there is a segment in the market that would value digital, would value quality of service, would value the customer journey, rather than just determining the description based on price. So, if we leave that segment, SAIB is positioned well to be able to capture that segment. The main driver for that segment, in terms of value, will be the current accounts that we were able to get from them and the loan products. To achieve those, we have listed down the key enablers.

Treasury. SAIB has always been strong on treasury, and we do have a very robust investment portfolio, today stands about SR30 billion. It's an excellent source for SAIB for liquidity, whether dirham or riyal, and we believe that also diversifies the income, given it has an international exposure for the bank. Also, digital, SAIB has always been the front run on the digital, and products such as the Travel Card and Petty Cash and the launch of the Agent Banking, the first bank to launch Agent Banking, Saudi Arabia. We believe those will continue to give us an edge and the ability to either price better or realise cost efficiencies.

Same thing for human resources. Our goal is to be a talent magnet, so we are able to attract the best of the market to fuel our innovation and our agility in SAIB. And risk management, SAIB have always been… Risk management is part of our decision-making, where all risks captured properly in the enterprise risk, and we make sure that this is also integrated in every product or service that we launch in the bank. To tackle those, we'll go in each one. We'll look at the segmentation coverage on each business area. We'll look at the operating model. We'll look at the value proposition, and we'll also look at how do we automate and streamline the work.

So, going to page 10, these are, I would say, areas, also, that we think that we will grow and focus on. As I said, increase our market share in corporate loans in the Saudi market. And we believe that's achievable, and we believe that will grow, so that it moves the needle for SAIB in a meaningful way. Same thing for NIBs. We believe that there is a large room for realisation of opportunities, from a SAIB point of view. Same thing for the retail loans. We'll be always selective on which segment we tackle and at what pricing we do. SAIB has been very cautious to grow in some of the products, specifically mortgages, in the last few years, given the pricing and given the liquidity mismatch. So, we will always be, I would say, diligent in how we approach those products.

In terms of the growth of the return on equity, you will see the realisation of the work that we have done, getting the return equity to 12.2. We believe that upward momentum will continue. Our target will always be shared on an annual basis, and our eventual target is that we see who are our competitors, in terms of the balance sheet breakdown. Our aim is to be, at minimum, [unclear], and we are always putting ourselves to achieve a target that we be above our competition. So, I would say this is the rolling target for us. With that, I'll move the speaker to Shankar to tackle the financial performance.

Shankar Chattanathan Thank you, Faisal, and good afternoon, everyone. I would also like to extend my warm welcome to all of you who have joined us today. I am happy to report that the strong momentum that the bank had in the first half, we have carried that over into the third quarter of 2023 as well. We have seen some solid improvements in most of our numbers during the nine-month period. On the balance sheet side, loans have increased by 16% year to date to 18.2 billion, and deposits grew 23% to 85.5 billion. Our profitability improved strongly during the period, again, due to the lending growth, the NIM expansion and the positive [unclear] contributing to 14% net income growth.

Our return on equity, as Faisal mentioned earlier, is at 12.2% for the nine-month period. I mentioned this in the previous earnings call, and I'm happy to, again, say that this has been the best ever quarter for us, in terms of net income. if you exclude the one-off recovery that happened in Q3 22, this is the highest net income that the Bank has made in a quarter. The Bank also maintained a very healthy asset quality with both NPL, as well as the NPL coverage ratios, improving. The cost of risk was at a modest 43 basis points. The capitalisation and liquidity were also strong, and they remain supportive for future growth.

Moving on to slide 13, the balance sheet expanded 19% during the nine-month period. Again, it was driven by 16% loan growth, as well as a 16% increase in investments. This was also supported by increase in summer and bank placements. The balance sheet growth was largely funded by customer deposits. We will look at each of these in more detail in the subsequent slides. We will start with loans and advances on slide 14. Our loan book has continued to grow. This quarter, it grew by 4% and 16% for the full year. Most of the growth has come from corporate lending, which grew by about 23% during the period.

We have actively participated in financing large infrastructure projects through syndicated loans, again, supported by loans to other key economic sectors, such as commerce, building and constriction, as well as services. We expect the growth of our corporate loan book to continue at these levels, going into 2024. On the retail side, lending grew [unclear] 2% year to date. 6% growth in private banking was partially offset by a 2% decline on consumer loan balances.

Moving on to the next slide, investments increased 16% during the first nine months to reach 32.8 billion. The new investments in securities largely pertain to debt securities issued by banks and financial institutions. This is in line with our strategy to lock in higher interest rates at longer maturities. We continue to maintain a very high-quality investment book. 60% of our securities are those, which are assured by the Government, and 26% by banks and other financial institutions.

Moving on to slide 16 on deposits, customer deposits increased by 23% to reach 85.5 billion. This was driven mainly by a 41% growth in interest-bearing deposits. In the interest rate environment that we are currently living in, the additional deposits that the bank has received are largely interest-bearing deposits. The non-interest-bearing deposits have been more or less the same on a year-to-date basis. Most of the growth in the interest-bearing deposits came from public institutions. Retail and Corporate deposits declined during the year. Overall, what this has resulted in is that the funding mix has changed.

The non-interest-bearing deposits, which was about 40% of the total deposit book in quarter one, is now at about 37%, as of Q3. We expect this trend to continue, but this should start improving once we gain further traction on our strategic initiatives. And again, as Faisal mentioned, there are a lot of initiatives, which are aimed at addressing this specific issue, in terms of getting more non-interest-bearing deposits to the bank.

Having covered the balance sheet, we will move to the income statement, slide 17. Net income increased 14% year on year, driven by very strong growth of 26% in operating income. this was partially offset by an increase in operating expenses and an increase, again, in impairment charges. Impairment charges are higher for the nine-month period when you compare it to the same period last year, largely because we had a large one-off recovery that happened in 2022. Again, as mentioned by the CEO, we would like to highlight, this is the first time that we have reached 1 billion of operating income in a quarter. We will go into further details on the subsequent slides.

Slide 18, talking about the net special commission income and the interest margin. The net special commission income increased 29%. Again, this was helped by a 19% growth in average earning assets and margin expansion of 24 basis points to 3.07%. You can see, in the charts, that a large part of this growth came from corporate and other loans. The NIM improvement resulted from increased benchmark rates as well. On the funding side, there were two factors that resulted in increased commission expense, higher rates, as well as the shifting deposit mix towards interest-bearing deposits.

The net interest margin improved year on year, but you can see that it peaked in quarter one and has modestly declined over the last two quarters, again, because the impact of the deposit mix on the funding side has been higher than the impact of repricing on the asset side.

Moving on to slide 19, non-funded income increased 9% during the first nine months of 23. This was largely driven by the FX and the investment income and partially offset by lower fee income from banking services. The FX income was well supported by strong transaction volumes in travel cards, as well as remittance-related products. The investment-related losses decreased in the period, thanks to lower MTM losses. Fees from banking services, this accounts for 65% of the total fee and other income, declined slightly, year on year, from lower fees from other banking services.

Moving on to slide 20 on operating expenses, expenses increased 18% to SR1.2 billion. This was due to increased employee-related costs, as well as higher expenses on professional services, which, again, is to support our strategic growth initiatives. The cost/income ratio, however, has continued its downward trend. The ratio for the third quarter was 14.3%, and if you look at the full year, it's 41.7%.

Moving on to slide 21 on credit quality, the total impairment charge increased during the year to reach to 48 million for the first nine months. Again, it's higher, compared to the previous year, largely because of the lower provisioning last year. In terms of cost of risk, it's about 43 basis points for the first nine months of 23, and the underlying credit quality is quite healthy. The NPL remain moderate, and the NPL ratio declined, due to the lending growth of 1.48%. Our NPLs are adequately covered with overall coverage ratio increasing towards 169%, as of September 23.

Moving on to the next slide on capital, we continue to maintain strong capitalisation and liquidity positions. LCR was at 202%, NSFR at about 111, and the summer loan/deposit ratio at 74.4%. The total regulatory capital declined 3% over the last nine months. Again, there's strong profit generation that has been offset by dividend payments and reduction in our Tier 1 [unclear]. Risk-weighted assets declined during the period on lower credit risk-weighted assets, following the new summer regulations, which allow share collateral to be used for production of risk-weighted assets.

The capital adequacy ratio improved to 19.3% and the Tier 1 capital ratio increased to 18.6% with a CET1 at 15.3. This leaves us in a very comfortable position to balance growth expectations with shareholder returns and adequate regulatory comfort levels.

Moving on to the outlook and guidance for 23, we expect the economic outlook for the Kingdom to remain positive. Spending on bigger projects and other large infrastructure projects bodes well for the overall credit demand, and we, as a bank, are well positioned to capitalise on this demand. Against this healthy macroeconomic background, we remain optimistic about the financial performance of the Bank.

In terms of our full-year 23 guidance, we have achieved 16% loan growth so far this year, and we remain comfortable with our guidance of mid- to high teens. Profitability. We have downgraded our NIMs guidance to 3 to 3.05% on the back of a faster-than-expected shift in the deposit mix, which we explained in earlier slides. And, as far as operating efficiency is concerned, we're comfortable with our earlier guidance of 41 to 42%. Return on equity, we're already at 12.2%, and it gives us sufficient certainty to increase the guidance to about 12% for the full year. Cost of risk, we have tightened some more to 45 to 50 basis points, and in terms of capital, our guidance remains unchanged at greater than 18.75%.

This takes us to the end of the Management presentation, and we are now happy to answer any questions that you may have.

Operator Thank you. Of course, if you'd like to ask a question, you can do so by clicking the raise hand icon on your screen. You may also submit a question in writing via the Q&A chat box. Alternatively, if you have joined via the telephone lines, please dial star, followed by one on your telephone keypad. As a reminder, if you've joined online, please click the raise hand icon on your screen. Our first question comes from Shabbir Malik of EFG Hermes. Shabbir, your line is open. Please go ahead.

Shabbir Malik Hi, can you hear me?

Operator Loud and clear.

Shabbir Malik Yes, great. Thank you, Faisal, thank you, Shankar, for the presentation. Three questions from my side. Number one, in terms of your capital position, your CET1 looks pretty comfortable right now, but given your growth aspirations, do you feel comfortable that you have enough capital at hand to execute your five-year strategy? That's my first question.

My second question is, return on equity value, you've not given a target. Maybe if you can touch on areas where you think you can, potentially, increase on? So, you've highlighted growth as an important part of your aspiration, but what about, maybe, in terms of cost/income and maybe non-funded income contribution/revenue? Is that something that could, potentially, also be a lever for you or ways to improve? I just want to get a sense of where you think the most opportunity, in terms of improving your return on equity is.

Yes, those two questions, please, and one last point. So, initially, when you started a discussion on strategy, you talked about having a niche. So, if you can, maybe, please, elaborate, in terms of your positioning, what would you call your niche right now? Is it the fact that you're looking more on the retail affluence side? Is that your niche in retail? Maybe if you can just elaborate that point a bit more, that will be very helpful. Thank you.

Shankar Chattanathan Yes, I'll take the first two questions. So, in terms of capital position, as you rightly mentioned, we are quite well positioned today, and our strategy actually also looks at the capital requirement over the next five years, in terms of what is the growth that we are looking at, and what is our additional capital that we're building. So, as and when it is needed, we will look at what are the things that we need to do to enhance our capital.

Faisal Al-Omran We have Tier 1, also, programme today.

Shankar Chattanathan We also have a Tier 1 programme, which is already approved by the Central Bank, and which we can issue at any point in time. We have an approval that goes until end of 2024. And, if required, we can go back and get fresh approvals to issue additional Tier 1 to book as well. Now, in terms of return on equity, as you rightly mentioned, we will tackle both the cost/income ratio as well as non-funded and commerce. Faisal mentioned, as part of the strategic presentation, across the various segments, be it the private banking, be it affluent or public institutions, each and every stream also has certain initiatives to build the non-funded income.

We understand that our non-funded income today is not as good as some of the other peers may have, so there are steps that are being taken to improve non-funded income as well. Cost/income ratio definitely is an area that we are working on. As you would have seen over the last year-plus, the cost/income ratio has reduced. We are, right now, at less than 41% for the third quarter, and we expect that it will improve over the quarters to come. I will leave the third question to the CEO to answer.

Faisal Al-Omran Shabbir, as for your question, in terms of what is our niche, so I understand it as what's our competitive advantage. So, if you look at, for example, the corporate sector, we are trying to stay away from a commodity market. So, we want to find something that's really of value to our customer and understand their needs. We see our competitive advantage too. One is speed. SAIB is very fast. If we meet a client, that has a quick need for financing or refinancing or ability to change a structure, we are very responsive, we are very fast, and we are able to meet with clients. And you are always accessible, so I wouldn't say that bureaucracy takes over our process. So, one is speed. SAIB is very fast.

Two, the ability of structuring solutions, based to our clients' need. And I'm not talking about where we undermine credit or undermine pricing, no. I'm talking about the ability of structuring a deal where a customer or the company would have subsidiaries. One is cashflow, one is capex-heavy, one is profitmaking, one is maybe still an early age of profitability. We are able to sit, understand, we go into details with clients, and we are able to bring the right people at the table with the client. Although that is easy said, it's always easier said than done. If you compare SAIB to other banks, we always have an edge, and this is something that we hear our clients always say, that you are able to structure our lending in a way that is, basically, not comparable, something that is not plain vanilla.

So, we believe these two give us the ability to price better than other banks, so I'd say this is for corporate. Add to that, when I'm talking about private banking, it's relationship. We pride ourselves that SAIB has excellent RM teams in place when we're speaking to private banking customers. so, we understand their needs, so if they need funding, we immediately cater to it. if they need something that is requiring bank and capital collaboration, you would see SAIB understanding what is the need. And we do have many examples in our private banking clients being provided solutions like this.

So, I would say, in summary, one is the ability to structure solutions. Two, speed. These two, we always take care of, and we make sure that any processes or policies we do in the bank that don't undermine these two.

Shabbir Malik That's very helpful. Thank you very much. If I can, maybe, ask one more question, since you've downgraded your NIM guidance slightly from about ten basis points, just want to get a sense of the expectations that you have, in terms of asset yield and cost of funds. Now, cost of funds, you've talked about, the fact that you have seen some net migration that's negatively impacted your cost of fund admission to rising interest rates.

But on the asset yield side, do you think that most of the benefit of rising rates has reflected in the asset yield, and there is not going to be much further improvement on that front? So, if you can, maybe, talk about both sides of cost of funding and asset yield, and what are your expectations there? Thank you.

Shankar Chattanathan Yes, so in terms of asset yields, I think most of the assets have been repriced already. We do not expect significant upsides on that, and clearly, the downgrade that we have done, or basically, the deterioration that has happened, is largely because of the change in the product mix. So, again, as I mentioned earlier, it was about 44% at the beginning of the year, moved to about 40% in Q1, and it moved to about 37% in terms of end of Q3. So, that deterioration is what has resulted in reduced NIM, and we expect that we should be able to end there between 3 and 3.05 on an overall basis.

Having said that, Q4 could be slightly less than 2.98 as well, again, with the continuing move from non-interest-bearing deposits to interest-bearing deposits. So, I think it could be slightly lower, but at the overall full-year basis, we would end between 3 and 3.05.

Shabbir Malik Great, thank you.

Operator Thank you. As a reminder, if you've joined online, please click the raise hand icon if you'd like to submit a question. You can also submit a question in writing, and if you've joined via the telephone lines, please dial star, followed by one. Our next question comes from Abdulaziz Albawardi of Hassana Investment Company. Abdulaziz, your line is open. Please go ahead.

Abdulaziz Albawardi Hi, can you hear me?

Operator Loud and clear.

Abdulaziz Albawardi Okay, thanks for the call. So, I have two questions on loan growth and another on NIMs. But on loan growth, how sustainable is it, for the next two years, to see a current run rate of growth, mid- to high teens? And do you see any competition in pricing or irrational pricing on loans? And on NIMs, just help us to understand NIMs progression if we have no rate cuts or hikes. Also, just remind us of NIM sensitivity to each hike or cut. And last, on ROE, given if we have any lower rates by 2025, what levers do you have to offset any margins reduction and protect your ROE?

Faisal Al-Omran Okay, I'll tackle the first part, which is the loan growth. We believe that the loans that we are seeing, that momentum is sustainable. If you see the last few years, the market was mainly driven by mortgages, which wasn't, I would say, an area that we were very bullish about as SAIB. Given the rate cycle was at the bottom and given the fixed nature of those loans, we didn't believe that SAIB should compete in that market, and we shied away from growth in that market. So, you see us not having the loan growth that was experienced in the banking sector. However, in 2022 and 2023, you see us growing relatively higher than other banks, who, I would say, grew heavily, maybe, in the mortgage sector.

From our side, we believe that the corporate with the Government projects coming online, that growth is sustainable. So, in terms of the size, in terms of the growth, we think that momentum is sustainable. Two, in terms of pricing, SAIB has always been cautious about pricing, so we don't go after [unclear]. We try to find market segments or pockets that we are able to win in, and winning doesn't mean that we are the lowest pricing provider in that market. So, we make sure that our client base, do they value pricing, or do they value the service that we do? If a client comes in with a ready term sheet, going to the market, looking for pricing, usually, this is not our client.

But for a client who's actually having a need of structured loans or the ability of having a very, very responsive bank, somebody who has requirements for, I would say, quick responses, whether yes or no, SAIB will always be the winner in that segment. So, this is, I would say, how we try to protect our pricing. And once that sector becomes, I would say, filled or crowded, we are always innovative to find other sectors. So, I would say that is the part of the loan question. I will leave the two other parts for Shankar.

Shankar Chattanathan Okay, I'll tackle the third one first. The third question was, basically, on what are the levers that we have to sustain our ROE or improve our ROE if the rates go down by 2025, or as and when the rates go down by 2025. Clearly, the strategy looks at various options, and we have also looked at the rates that go down over the next three to five years. So, one has, of course, the non-funded income that we are putting a lot of emphasis on, in terms of how we can improve our non-funded income. Two, while the rates could go down, the loan growth would still give us sufficient NIMs.

And even if you go back and look at our NIMs history, even in 21, our NIMs was about 2.7%. Plus, we've also got investments that we have bought over the last one and a half/two years at higher yields, which would help us because these are fixed-rate instruments. This will help us, even when the rates go down. So, that'll help us improve our ROEs, even when the rates go down. Sorry, what was your second question specifically on NIMs?

Abdulaziz Albawardi Yes, on NIMs, how can we see NIMs progression if we have no rate cuts, no rate hikes? And also, just remind us, on NIM sensitivity, per hike or cut?

Shankar Chattanathan So, NIM sensitivity is, basically, about 9 to 11 basis points for every 100 basis points of rate change, and in terms of how we see NIMs progressing over the next three to four quarters, I think we are currently at about 2.98% for this quarter. We could see this between 2.9 and 3 over the next two to three quarters, assuming that rates do not change, and we still see a slight decrease, in terms of non-interest-bearing deposits.

Abdulaziz Albawardi I'm sorry, that 9, 11 per 25 bips increase in rate?

Shankar Chattanathan No, per 100 bips.

Abdulaziz Albawardi Per 100, okay. Just, if I can also ask one more question on asset quality, do you expect any deterioration, given the high-rate environment on asset quality, if we sustain this level of rates?

Shankar Chattanathan We do not anticipate any significant deterioration on the credit side.

Abdulaziz Albawardi Got it. Extremely clear, thank you. That is all from my side.

Operator Thank you. As a reminder, if you'd like to ask a question, please use the raise hand icon on your screen. You may also dial star, followed by one on your telephone keypad. We also take questions in writing, so please use the Q&A chat box feature on your screen. Our first question in writing here, should we expect the NIM compression to continue over the next two to three quarters, with rates expected to remain higher for longer?

Shankar Chattanathan No, again, I think we answered it partially in the previous question. So, we do not expect a significant compression going forward. Having said that, it'll all depend on the percentage of non-interest-bearing deposits of the total deposits. We expect it to drop marginally, compared to where we are today. Having said that, we expect the NIMs to be between 2.9 and 3% over the next two to three quarters.

Operator Perfect, thank you. A few more questions here. Do you see the shift into term deposits has already stabilised, or do you expect a further decline in your CASA deposit share in 2024? And can you comment on liquidity conditions for Saudi banking sector? How do you expect conditions to evolve in the coming quarters?

Shankar Chattanathan I'll answer the first question. Basically, in terms of absolute value of non-interest-bearing deposits, that's, more or less, remained the same over the last year or so. But having said that, our loan book has increased, so we need additional deposits, so incremental funding that we are getting is largely from interest-bearing deposits. So, if you look at percentage of NIBDs to total deposits, it has deteriorated, but the absolute value of the non-interest-bearing deposits has, more or less remained the same. I will leave the second question to Faisal to answer.

Faisal Al-Omran As for the liquidity, I will comment on SAIB, rather than the whole banking sector. For SAIB, we see us having a relatively better position, when compared to our competitors, in terms of liquidity. SAIB has strong public institution relationships that we hold the operating account for the some of the large institutions, that we are able to have a better, I would say, visibility and accessibility on those liquidities. You also notice the first growth in our deposit base, given the growth of loans that we have experienced, and that liquidity was accessible from before. But we manage liquidity, that if it's needed, we believe we are better positioned than our competitors to get the liquidity at a favourable price.

Operator Perfect, thank you. We have no further questions registered on today's call, so I'll hand back over to the Management team for any final remarks.

Faisal Al-Omran I would thank everybody for attending the call and taking the time, and we thank, also, Arqaam for hosting and arranging this call. And, inshallah, we look forward to our next earnings call, and with that, thank you, everybody.