Alinma Bank Q3-21 Earnings Conference Webcast Transcript

Tuesday, 02 November 2021

Ahmed Sager: Hello, everyone, and thank you for joining the call. My name is Ahmed Sager, Investor Relation Manager. And now allow me to pass it to the moderator and host, Ribal. Ribal, to you.

Ribal Hachem: Thank you, Ahmed. Hello, everyone, thank you for joining us today. This is Ribal Hachem, and on behalf of our Arqaam Capital, I'm pleased to welcome you to Alinma Bank Q321 earnings call.

With us today from Alinma Bank, Mr Abdullah Ali AlKhalifa, CEO. Mr Adel Saleh Abalkhail, CFO. Saleh bin Abdullah Al-Zamie, Senior VP and Head of Retail and Digital Banking. And Mr Ahmed Sager, IR Manager.

Now, without any further delay, I will turn over the call to the CEO Mr Abdullah Ali AlKhalifa.

Abdullah Ali AlKhalifa: Yes, hello, everyone. Thank you for taking the time to dial in for our first-ever earning call for Q3 2021. Just to give you some introductory information about the bank, as this is our first earning call. The bank started its operation in 2009. And now they are the seventh largest when it comes to assets. As well as the sixth largest when it comes to financing and net income.

On Page 4, you find some statistics about the bank, whether it's the digital, where branch operations reaches almost 99% with the second half of… As the first half, the second-best in the country, which is, of course, to income.

Third in ROA, and fourth in ROE. We have SAR 48 billion of market cap, and we have one large single shareholder, which is PIF, who owns 10%, the rest is floated. The bank, I think this is an important introductory to the strategy. The bank, when they started, they started, really, with a big burden. They had SAR15 billion of capital. And why it's a burden, because in year one, Zakat liability is SAR375 million just because of the heavy slice of the capital.

And that's why the bank focus in two areas were in financing, to broaden financing very fast. And to do this, the bank focus was on very large corporates and very large project finance, with a ticket size in excess of a billion.

On the other hand, on retail, we started with zero market share, the main focus of the retail at that time was, really, to provide the best service possible. Known the bank has the best service possible. And I've seen, in my previous slide, we've seen where the Alinma has been number one in NPS for so many years, until, at least, the quarter, middle of 2019. Unfortunately, though, in the last quarter for end of 2020, we slipped, we're no longer number one in the country.

So, with this background... Sorry, before I get to the strategy, let me just give you some financial highlights, and allow Mr Adel, the detailed discussion and presentation of our CFO. But in the first nine months, we had 15% year-on-year growth on loans. We had assets of growth of 13%. Our operating income, which is a top line, increased by 22. Net income increased by 33%. Our NPL ratio is 2.27, our coverage ratio improve to 157.

Customer deposit grow only by 5%, but that was intentional. We wanted to focus more mainly in CASA, and you can see in the box next door, the orange box, you see that CASA increased year-on-year by 14%. So, we want to have a better control, in terms of funding costs and that's why we did not grow overall in terms of deposits. We actually replaced expensive deposits with CASA.

Cost to income ratio 33.7, a significant increase, improvement, over last year. Our NIMS is 345 basis points. And our CASA percentage of customer deposits reached 65.1%. And we have a very healthy capital adequacy ratio.

Now, the background I introduced at the beginning, about how the bank started operating and the focus of the bank to grow the loan portfolio in a very fast way has led us to developing a new strategy for the bank. Mainly focused on improving areas that we haven't focused on in the past.

So, obviously, being the youngest bank in the country, we have a very modern IT infrastructure we want to capitalise on. And we know that type of competition that's come in the market is no longer just the banks, even though the bank is investing heavily on their digital capability, but also, fintech, non-financial institution, digital banks, and so on.

So, we know it's very critical, especially in a very young population, very tech savvy, to be well-known in the country as the fastest and the most convenient bank in the country. This is not just retail, but it's all across the bank. We want to be bank number one as Net Promoter Score in the country.

On retail, which I will touch on, the individual businesses later on, but want to be the most digital advanced and the fastest and most convenient bank, as I mentioned before, for retail.

Be the corporate bank of choice for our customers, with the best customer experience and focused on areas that we have not done before, which we'll, again, touch on in detail on the next page.

Also, we want to aspire to be the most, I can't, obviously, just say Shariah, just say treasury, but most in the way of Shariah compliant treasury. We've been focusing mainly on managing the excess funds, merging solid liquidity, but we have not actually provided, in terms of treasury of products and services to our corporates.

And obviously, underlying all of this is we want to be the number one employer of choice because that's very critical. Human capital, as you know, is the main asset that the bank has, in terms of delivering all those initiatives.

Now, if I flip to Page 9 and go in more detail. If you look at the left side, this is the bank-wide initiatives. When we, by the way, develop our strategy, which we presented and approved by the board in March this year, so, literally, six months ago. We also, further to this business strategy, develop an accompanying strategy for technology or digital.

So, we have a five-year digital strategy. All in all, that resulted in excess of 75 initiatives for this strategy. I'm not going to, obviously, touch on them, we'll give you the highlights. But we've managed to deliver on ten so far. And hopefully, in a future earning call, we can give you a progress report on our strategy.

But aspiring to be the fastest and the most convenient bank, obviously, means we have to capitalise, big time, our digital infrastructure, on IT infrastructure. And have a very fast and agile way of delivering new products, new services, new features, continue to enrich our applications, our apps, and so on, and our internet banking to more and more features.

So, we want to build digital factory, that's the proven recent methodology that most international banks are adopting. Digital factory has proven its worth, in terms of delivering things much faster. Delivering much more user... Much better user experience and enriched features.

So, we are lucky enough to partner we believe who is the right partner for us, an international company that is responsible for delivering digital solutions for the likes of Goldman Sachs, EPS, and others, who have won awards on these deliveries. So, we believe we selected the right partner. It's going to be a VOT model, whereby they're going to build, operate, and then, after two years, transfer it to our team. So, we will have in-house capability with time to be developed internally to continue to invest on the digital.

We want to foster our culture of using the analytics. We, as banks, we sit on a wealth of data. Massive wealth of data. And we need to capitalise this across the line for new products that we offer, for, potentially, targeting, highlighting the targeted segments for different products and services. So, we want to use, obviously, advanced analytics with all the latest technology, whether AI, machine learning, and others.

And, of course, cultural transformation, not only to attract, as I mentioned before, but very important to also retain the best talent in the country. Now, let's go in details on the businesses. And retail, we want to focus on the affluent and private high-net-wealth individuals. We have not actually managed to do a good job in the past. Affluent and private are the main source of non-interest-bearing deposit in the country.

So, now we establish a standalone private banking unit, headed by an experienced person that we managed to attract. And we're building the team now. As you know the service to private is really different, or the needs and services different, than just affluent. Previously, it was mingled together, very low number of RMs to serve a huge number of customer per RM. And that was not really working before. Now we have this much better focus.

Obviously, we will try to enrich our proposition, in terms of investments, products that our customers can invest in.

A second one which is really close to my heart, which is the being able to attract customers at the early stages of their life. We, as banks, I believe, are having a very good future of the bank you need to attract customers at the early stage of their life.

That's why we're working closely with universities, we talk about working with specific digital solution for youth, as well as benefiting from the ecosystems that we developed. One of them will be the family ecosystem that we'll be working on. As well as bundling products for them, specifically cater for them.

We want to, obviously, continue to offer the best customer service at this rate into the NPS target.

Now, for corporate, as I mentioned, we were very good at writing cheques. We actually financed large corporate, project finance, massive ticket size, to grow our portfolio fast. But unfortunately, as a result of this, there's an important segment in the country, which is the mid-corporate, has been neglected throughout the early days, early years, of the bank's life. Mid-corporates.

By the way, I mean the companies that have turnover of 200 million, but below a billion. So, over a billion, for us, is large corporates. Below 200 is SME, and in between is the mid-corporates, so we create a separate business unit now under corporate to handle this with the right team of RMs.

We want to benefit from the expected growth in SMEs, we want to develop our capabilities there, provide more product lending propositions to our certain segments of SME. And we're experiencing good growth and we want to continue to focus on that area.

And third, also very important area, has been the cash and trade. This is very important to us, we want to have a one-stop-shop for our corporate clients. By the way, when we finance companies, we no longer look at the risk profile and the pricing and just approve it, we also mandate ancillary business, we want the operator accounts, we want the payroll services, cash and trade, and all other cash management products.

And treasury, we're developing our capabilities, we have a new system of treasure. We want to be able to offer proper trade swaps to protect the interest rate risks for clients, FX risk, and all the others. So, we want to be able to cross... And we did formalise a committee, specifically, that means on a weekly basis. This is unusual to have it on a weekly basis to focus on crossing all throughout the bank, all the businesses.

We want to, obviously, develop FI, and very critical for the bank to maintain a solid liquidity ratios and solid ALM functions.

So that is, basically, as I said, high level introductory of the strategy. And hopefully, in the next meetings, we can continue to give you an update on the progress of the implementation of our strategy.

With that, I leave you to our CFO, Adel, to take you through the detailed discussion [overtalking].

Adel Saleh Abalkhail: Thank you, and good afternoon, everybody. And thank you for joining our earning call. I'll be glad to run your through the financial performance for our result as of Q3.

On the main balance sheet trend, we have seen a 6% growth YTD in our total assets. This is mainly driven by an 8% growth in our investment portfolio. And also, 9% growth in the financing portfolio.

For the total liabilities, we have modest growth there. Total liabilities had grown YTD 3%. The customer deposits have lowered by 2%. And as the CEO was mentioning before, these were mostly expensive deposits that were replaced by CASA.

In the P&L trend in the next slide, we have seen a 33% growth in the net income, mainly driven by a growth 11% in the funded income. 81% growth in the non-funded income. And also, we have seen 9% growth in operating expenses. So, overall, operating income has grown 22%, versus only 9% growth in operating expenses.

This positive growth has reflected positively in our cost income ratio year-on-year, as we will see later.

In the financing slide, the next slide, the financing, we've seen 10% growth in our financing portfolio. This is a 2% in a sequential basis. Main driver for the growth is home financing has grown year-on-year 17% from Q4 last year. So, YTD growth 17%. 4% in personal financing. And we've seen, also, 10% growth in the corporate financing. And also, 6% in SME.

So, the financing growth composition, corporate remains at 79%, versus 20% in retail financing.

In the deposit slide, as mentioned earlier, most modest decline of 2% in total deposits. But this is mainly an 18% contraction in time deposits of an amount of 8.7 billion. But in the other hand, it's 8% growth in CASA, which reflects 5.9 billion growth YTD.

So, CASA, as mentioned by the CEO earlier, stand at 65% from the overall deposits composition. 66% of the bank total deposits are retail, while 54% are non-retail deposits.

In the details for income from financing and investment, we have seen a 3% year-on-year growth in our financing and investment income. 15% driven by the investment, and 2% is from financing. So, 3% year-on-year growth is 11% in sequential basis from Q2. So, in the net profit margin, as we can see in the top-left-hand graph, the net profits margin, we have seen a contraction of 21 basis points from same period last year. So, our NIM stands at 3.45% as of end of September this year.

In the next slide for the fee and other income, we have seen a strong growth in the non-funded income, 81% year-on-year, driven mainly from a 41% growth in the fees from banking services. And also, we have seen slight contraction in the exchange income, also, 197%, almost 200% growth in the investment gains and dividends.

So, the composition for fees from banking and services has a growth, card services present a part of the fees, 47%. We had 37% fund management, and other fees. 8% relates to brokerage fees, and also, 8% trade finance and others.

In the operating expenses as of Q3, as mentioned earlier, there's 9% growth in the year-on-year in the operating expenses. And we can see from, as mentioned earlier, 22% growth in our operating income, versus 9% growth in operating expenses. This shows positively on growth the cost to income ratio, so we are at 33.7% cost to income ratio, versus 37.9% same period last year.

In the impairments from financing, we have increased the provision charges. The provision charges for Q3 alone, 279. That is, obviously, lower from Q2, but we have had an overall increase 21% from Q3, to compare Q3 last year, to this quarter.

So, cost of risk for the nine months this year has declined back to the similar levels as of nine months of last year, at 1.07%. So, the impairment composition has a chart here, 90% goes for corporate portfolio. And we have a 10% for retail.

And the NPL and the NPL coverage, we have seen, almost, a flat non-performing loan from this quarter versus Q4 last year. So, this in the top-right-hand, the NPL ration, almost flat since Q3 last year. So, we have growth, actually, in NPL coverage ratio. NPL coverage ratio stands, as of September, 156.8%. Almost 31 points per 1,000. So, it was Q3 last year, 133.6%. So, the stage-wise coverage, as well as Stage 3 coverage, as of September, 67.1%. We have 24.5% Stage 2 coverage, and 50 basis points coverage in there for Stage 1.

In the last slide of the capitalisation and liquidity, almost in all ratios, [inaudible] capital adequacy ratio. We can see the change from last quarter, we stand at 22.4% as capital adequacy ratio, versus last quarter, which is Q2, 19.2. And obviously, this is the impact of the sukuk during Q3.

And we have the capital movement, we can see, the 5 billion sukuk during Q3. There is very good improvement in ROE and ROA. ROA, which has improved from 9% to 11.2% as of September this year. And also, we have seen 20 basis points improvement in the return on average assets.

So, LCR, 131.1% as of September. We have an internal target, where we are still operating above that. And the internal target is, obviously, above the regulatory requirements of 100%.

So, loan to deposit ratio at 85.5% as of September. Has increased from last year levels of 80.8%. And I want to comment here that this loan to deposit ratio is a reflection of SAMA great lines... On calculating that generation, whereby the deposits gets weighted based on the majorities. So, this is the regulatory loan to deposit ratio, where we are still 5% below the regulatory requirements.

NSFR, with the sukuk, we have seen a 5% increase NSFR. It was 105.8 in Q2. And we are, as of September, 109.4%. So, with that, I will leave it for the Q&A session.

Operator: Thank you. If you would like to ask a question, please press star followed by one on your telephone keypad now. If you'd like to remove your question, please press star followed by two. And for those who have joined online, please press the flag icon.

We take our first question from Mohammed Al-Rasheed from Ashmore. Mohammed, please go ahead.

Mohammed Al-Rasheed: As-Salaam-Alaikum. [Non-English], and congratulations on the results. I have three questions. The first question is regarding your assets here, on the quarter-over-quarter basis, there was a recent increase from 30 basis points. So, what were the reasons of this sequential increase on your assets scale?

My second question is regarding the regulatory and the... What would be your regulatory NPL if we exclude interest-free deposits?

And my final question is regarding the segment classification of the financials. So, when I look at the segments classification, I see that most of your earned interest is coming from the retail segments. That indicated the retail assets of around 9.8%, which is very high. While on the other hand, the core debt and yield is very low. So, if you can explain, please, what are the criteria for this classification? Thank you.

Abdullah Ali AlKhalifa: Thank you, and I think, Aled, on the yield question, the improvement, if I understand correctly, it's improvement between Q3 and Q2.

Adel Saleh Abalkhail: Yes, if I've got the question correctly, it's the improvement in the NIMS from last quarter to this quarter, so, basically, during Q3. If we look at Q2 standalone NIMS, were at 3.32%, while Q3 standalone at 3.62%. So, this 30-basis points movement from Q2 to Q3, 20 basis point of it refers to the fair value benefit booked during Q3 from latest deposits received from SAMA.

And also, we have around 3 basis points, relates to lower modification losses booked in during the Q3 if you compare it to Q2. And this relates to the latest SAMA announcement for referrals until December. And also, there are net other movements.

So, this, basically, is driving, mainly, the improvement in the NIMS for Q3 versus last quarter of Q2.

Abdullah Ali AlKhalifa: I think your other question about the LDR, if we excluded SAMA, I don't know how much value that will add to you because if you look at the liquidity ratios, the last slide that Adel presented, really focused on maintaining a right balance between efficiency and safe liquidity.

If you notice, for example, I think in the LCR, when I came in at the end of last year, it was 188% versus the limit of 100. This is fine if it's come from interest-free deposits, but a flat ration is caused by taking and borrowing more deposits, that didn't make sense to me. Yes, you'd be very safe on liquidity, but you're hitting your bottom line.

So, back to your question, if we didn't have some deposits, yes, of course, we would still target 85 to 86 range, it gives us enough efficiency, much better efficiency, but enough caution to cater for last-minute movement, whether unexpected drawdown or deposits withdrawn and so on.

So, this is, basically, how we operate. We look at the right balance between efficiency and maintaining a proper liquidity limit. And as far as the yield on segment classification, I don't have that in front of me. Adel, any idea...?

Adel Saleh Abalkhail: The question maybe... Can you repeat the question?

Mohammed Al-Rasheed: Yes, so, basically, under your segment classification, most of your interest income is coming from the retail segment. So, if you calculate it on [unclear] on the retail segment assets, it's around 9%, which is very high. So, it's not clear to me why the [overtalking].

Abdullah Ali AlKhalifa: [Overtalking]

Mohammed Al-Rasheed: Income from finance and investments, excluding the fees.

Abdullah Ali AlKhalifa: We will check that and come back to you directly. But I wish we have earned 9% on retail. It could be the impact of... The highest product that we have is, basically, currently priced close to 5%. And you've heard the competition in the market about consumer loan. So, I wish we were anywhere close to that. But it could be the impact of [overtalking]...

Mohammed Al-Rasheed: Yes. That's why it was unclear to me, it indicated the interest very high. But maybe they [overtalking] for the classification.

Abdullah Ali AlKhalifa: Apology, I don't have the right answer, we'll double check it, and we'll come back to you on this explanation. I'm not sure if it's 9%, we'll check.

Mohammed Al-Rasheed: [Non-English].

Operator: We take our next question from Waleed Mohsin from Goldman Sachs. Waleed, your line is now open.

Waleed Mohsin: Yes, thank you much for the presentation, and congrats on the inaugural call. So, three questions for my side, please. Firstly, on your corporate loan quote. A number of your competitors have struggled to deliver net loan growth on the corporate side, given challenges on repayments, new origination, etc.

You've delivered strong corporate growth. I'm curious to hear what's driving it and what's driving these market share gains on the corporate side, on the year-to-date basis.

Secondly, as you show, you've strengthened your provision coverage across stages. Obviously, cost to risk this year and last year were high. Wanting to understand if the clean-up exercise, if I may call it that, is done, and we should expect a more normalised cost to risk charge from hereon. That would be my second question.

Thirdly, on capital. You have one of the highest capital ratios across Saudi banks. I was wondering if this is indicative of some of the growth that you see in the medium term, which will absorb some of these cap ratios? Or would it be fair to say that you are over capitalised as things stand?

And maybe a fourth one, just a final one, which is if you look at the CASA ratio, you are one of the few banks which has been able to increase the CASA mix, any further thoughts on that, on how market share has been picked up would be very useful. Thank you so much.

Abdullah Ali AlKhalifa: Thank you. Let me address all of those and maybe others can chip in. In terms of corporate growth, loan growth, and how we are successful in doing this compared to, maybe, the industry growth in corporate loans. I have to say, and I think I am qualified to give an opinion about the quality of the team that we have in project finance. This is my fifth bank, and one of the strengths that I inherited here when I came in here is a very, very strong, and very experienced project finance team.

And this is maybe driven from the initial targets. Remember when I talked about the bank wanting to grow very fast, and the large ticket comes, really, from project finance, mainly, and from large corporates. I guess that is a strength that we have.

I'll give you examples. The grain mills that was privatised, the first two phases was purely financed by us, nobody else. That tells you how qualified we are. Actually, the other two, also the one by two consortiums that we backed. There are projects coming from, really, everywhere. Whether it's PPPs, whether it's housing relating to… I'm just giving an example housing projects.

Or things like private schools, building private schools, there's so much demand, but you need a very strong project finance team to have this. And luckily we have that capability. And I've always been very polished about the growth of corporate loans because of what's happening in the country of 2030 vision and how things are done now. How most of the projects are done by the private sector, no longer the government is doing these projects. And the upcoming sectors.

To be honest with you, we haven't yet seen activities in some of the promising sectors in the country. So, you can imagine the future growth is going to be even larger.

Back to your second question about cost of risk. Yes, obviously, during Q4 last year, we had some migrated exposure from Stage 2 to Stage 3, and you've seen our coverage ratio dipped, despite the fact that we've taken 600 loss on, 630 I think, provision. And we want to, obviously, improve our coverage ratio and be closer to market average.

And I think, honestly, the level of 150-plus is the level I'm very comfortable with, and I think we're in that stage. So, if you asked me forward, I know we're not giving any guidance of this year because that makes us... As this earning call on Q3, we have, literally, less than two months to go before the end of the year.

However, for Q4, when we give the Q4 earning calls, we will be giving guidance for 2022, including cost of risk. But generally speaking, we haven't yet finalised, obviously, our business plan, but I would imagine that cost of risk should dilute, should reduce next year. That's generally speaking. But we'll give you what sort of guidance later on.

Now, as far as capital, as you know, we've been... When I mentioned ten initiatives for the strategy being delivered, one of them has been diversify our funding. And we've been very successful in our recent issuance of Tier 1 sukuk, despite the fact that that benchmark increased.

But I think a combination of the best timing in the markets to go into, the credibility of being an Islamic bank, and this is sukuk, so, obviously, having more credibility. And the effort done by our team and our lead ranges chosen market. And that's what we managed to issue it at 4% flat, which is unheard of in the Saudi Market. And despite, again, at that time, benchmarking rate increased by at least 30 basis points.

As you know, as investors, that the cost of debt is, obviously, much cheaper than cost of capital. This will allow us to really... We've always been very focused on the ROE. And I think the ROE for the shareholders will be helped by the fact that we're issuing the sukuk because this is, actually, allowing us to increase our leverage.

And as you know, leverage also positively impacts the ROE. It allows us to continue to grow. As I said, the growth that comes with the corporate market is very large. And as well as, hopefully, we've managed to increase our dividends pay out in the future. This year has been, at least, the end should be around 50. Hopefully, with this issuance of sukuk and catering of the future growth, we'll be able to do better in terms of dividends pay out.

Now, CASA ratio, as I said, we really focused... Historically, the bank has been just providing the best service, but now, this year, we've been focusing on growing CASA. We're awarding branches that do this. I personally call staff at the bank, whoever, in any branch around the country, whoever bring new fresh money to the bank, in terms of current accounts.

So that has created... And, of course, we've been very fortunate to win Saleh to this bank. Saleh has very experience, obviously, in retail and digital and payments. And Saleh has joined us a couple of months so far, three months?

Saleh bin Abdullah Al-Zamie: Two months.

Abdullah Ali AlKhalifa: And that, also, the drive of Saleh and the culture change has managed to give us a much more focus on a position on growing the balances, on the affluent, and, as I said, private. We're building the team. We're managing get new accounts signed in.

So, there's a multiple effort there to focus on the CASA. And that's why we've been... Obviously, all banks work with some CASA, but I'm actually more focused on efficiency that I mentioned before. Having efficient ratio that will allow you to get the best results between deal safe, in terms of liquidity, at the same time, have the best impact on your bottom line.

Mohammed Al-Rasheed: Thank you, much, Abdullah. That's very, very helpful. Thank you again.

Operator: We take our next question from Nauman Kahn, from SNB Capital. Please go ahead.

Nauman Khan: Thank you for hosting this call. And congratulations on your first earnings call. Just a couple of questions from my side. One is that you talked about that there was growth in your housing loan programme, as well, about 2 million or so. What is the mortgage as a percentage of your total loan portfolio at this moment of time? So, if you can talk about it. And will you be pursuing that going forward, as well, or your core competency will remain in corporate one?

The other thing I wanted to ask about is, you talked a lot about on digitisation efforts, as well. So, is it safe to assume that the cost to income ratio may go up in the future, as you try to install new technology or upgrade your technology platforms, as well? So, would that be safe to assume, especially that you also talked about revamping your human resource? So, will it safe to assume that may go up in the near term? These were my first two questions.

Abdullah Ali AlKhalifa: I'll tackle the second question whether the team have the numbers as far as percentage of mortgage of total loans. Look, the investing in technology does not necessarily mean an increase on the overall expenses. And more important, to me, even my long experience as CFO has always been focused on growing the top line faster than growth from the bottom line. So, I don't mind growing the expenses as long as I have this picture where the growth on the top line is high.

However, having said that, technology also allow you to reduce operating expenses. The usage of robotics, for example, can replace humans, can reduce the cost.

We've been very actively introducing self-service machines in branches. And also, we're moving towards the TCR machines and, what you call it, universal stuff. And that, in a way, diverts some of the traffic out of the branch and into the service machines. The ability of all our staff, branch staff, to service the customer needs and all kinds of needs, allow you to have a much better efficiency, in terms of headcount for that branch.

So, there are multiple ways where you can improve. And if you do straight-through processing, you manage to do this, you eliminate manual IE, you eliminate some of the positions that you hire the staff for. So, yes, there is, obviously, investment in technology, but, for me, the top-line growth, if it's accelerating, on the expense side, my cost to income ratio continue to growth, I'm happy with that.

And as far as the [overtalking], Adel?

Adel Saleh Abalkhail: Yes, for the mortgage and how much it represents from the overall financing book, as of September, it represents 11% from the overall financing of 121.3 billion. And out of return, it's more... 50% in retail, 11% in overall.

Nauman Khan: Just one last question from my side, again, you talked about increasing your coverage ratio, so you briefly talked about improving your coverage, so what level would you be comfortable at? That would be last question that I have for you.

Abdullah Ali AlKhalifa: Yes, I think I touched on that, I'd feel more comfortable for the next 150. And if I see the market average goes beyond that, I would love to be the market average. I don't want to be the bottom bank when it comes to coverage ratio.

Nauman Khan: Thank you, that was all from my side. Thank you.

Operator: We take our next question from Rahul Bajaj, from the Citi. Please go ahead, Rahul.

Rahul Bajaj: Good evening, this is Rahul Bajaj from Citi, thanks for taking my question. And again, congratulations for your first set of investor calls, this is very useful. I have three questions, broadly. The first is on margins.

So, if I understand the response to the margin question correctly, there was a bit of one-off element in third quarter standalone margin, and please correct me if I am wrong, of about 20 to 23 basis points out of the 30 basis points sequential increase that you have seen.

So, if I think about the near-term future of margins, how should I think about it, should we see this 20 to 23 basis points go away in the fourth quarter, and that would be the run rate, where you would be running in the next couple of quarters? Or how should we think about near-term margins on a quarterly basis?

And linked to this is if you could please remind us what's your margin sensitivity to, say, 100 increase, that would be useful. So that's my first question.

My second question is on cost of risk. So, you kindly explained about cost of risk in the earlier question, but I just want to understand. If I look at your previous few years of performance, there's a bit of seasonality in the cost of risk. The fourth quarter seeing much bigger increase in provisioning in most years.

Should I think this is an intended way in which the bank performs, here the fourth quarter you tend to book higher provisions, and this should continue going forward? Or if you could throw some light on that topic, that would be useful.

And my final question for you is just around the fact that you are probably the youngest bank in the system, and how you think about growing branches at this stage, versus going digital? So, are you slowing down on your branch growth, cutting on your branch growth with digital usage growing? Or you think branches are here to stay and just what you're thinking around this topic. Thank you.

Abdullah Ali AlKhalifa: Thank you, Rahul. In terms of margin, I think, yes, there have been one-off, this day-one gains on the deposits, recent deposits from SAMA has contributed 20 basis points. However, honestly, again, I will be giving guidance following Q4 results.

But I truly believe, at least for us, I'm not talking about the whole industry... Because I've seen, also, very price competition, I've seen price war, even, or price pressure even on the corporate side, but for me, I believe we will almost reach the bottom, as far as the NIMS. I don't think we're expecting significant contraction next year.

To the contrary, hopefully, we'll start seeing this funded cost. It's no secret in the market because of the sizeable growth in the loan portfolio in the country, obviously, NIMS growth cannot match this. And as a requirement on loan to deposit ratio, banks are taking and paying a lot more benchmark for time deposits.

So that, in theory, is, in a way, maybe different reasons, but there is a very good... There is some similarity, at least, of what we've seen towards the second half of 2015 that led to increase in SAIBOR in 2016.

So, I believe that we should see that growth in loans continue. We should see more pressure on the faulting cost, leading to SAIBOR increase next year. This is even without having any assumptions or rating hike in deals, but I would imagine that SAIBOR, because of this competition in deposits, will see some increase next year, which is a positive impact to us. I link it to, I think, the other question about the... Before the cost of risk. I think, Rahul, you mentioned something about the margin options.

Rahul Bajaj: Sensitivity.

Abdullah Ali AlKhalifa: Yes, sensitivity. Obviously, I'm sure you've asked me that question at multiple banks that I've been, too, and I have to say it's very difficult to give you this. What I can tell you is that, as you see in our portfolio, it's pretty much close to 80% is wholesale side. Which means, in the case of interest rates rising, our ability to reprice large percentage on our portfolio is very high, compared to, maybe, banks who have less wholesale side.

Obviously, retail is attractive, and mortgages yield, but retail, given the market that was mainly fixed rate. And when the markets goes up, you can't really reprice. So, I think for us we'll see an improvement there.

But as far as your other question of cost of risk. Yes, there have been some instances, even other banks we've seen this trend, risk management typically say we're still in the same year, let's wait and see, let's gather more data, and we'll take a final decision, really, on Q4. That's really different now.

Yes, we had a migration, as I mentioned, of some large exposure in Q4 last year, and that resulted in higher provision. But I can assure you, going forward, you won't see the seasonality that happened before. The seasonality, again, it's the same year, we have information about the customer.

But you know what, maybe we'll have more information by the end of the year, and that allows us to give a much better provision. And maybe that's the reason. But I can assure that, you'll no longer experience at this bank.

Yes, branches, Saleh, I didn't give you much time, so sorry. Branches, are you going to expand our branches?

Saleh bin Abdullah Al-Zamie: As the CEO mentioned, the role of the branch could be totally different in our new strategy. It would be changed to transactional to service and advisory. The size of the branches, number of stuff inside the branch, will be less. There will be little expansion where we need a new area. Riyadh, especially, is expanding, and with the 2030 vision, will become one of the biggest capitals in the G20 countries. There will be slight expansion on our branches, but it will not be big.

As you know, physical presence of our branches will enforce the brand and, also, attract the availability of CASA in one way or another. We are not going to expand big time. Selected expansion, and we will redeploy our license in areas where we'll close the branches and reopen in new areas. This is mainly observant in the expansion.

Abdullah Ali AlKhalifa: I also have to add one more thing.

Rahul Bajaj: Understood.

Abdullah Ali AlKhalifa: Even during my day, as well, the bank, the whole nexus of 500. To the size of the country and the number of cities and villages in the country, that's not much, in terms of when you compare it to other markets in Europe or other GCC, by the way. So, in our case, 104 branches, yes, we'll always have a need for new branches, but that's not going to be a significant increase. The efficiency is more important now. We're talking about size, we're talking about average headcount.

Rahul Bajaj: Understood, thank you so much.

Operator: We take our next question from Waruna Kumarage from the SECO Bank. Please go ahead.

Waruna Kumarage: Hello. Hi, gentlemen, this is Waruna Kumarage from SECO Bahrain. I have one question. First of all, congratulations to Abdullah. Nice to see you again in the top seat of Alinma. My question is actually on the real estate segment. Now, this is the segment where I think 2020, we can see a bit more than usual in deal formation.

Now, I understand that you have your particular structure of financing for these segments, and it is focused, primarily, on the holy cities. The projects in the holy cities. So, if you can give some colour on how you are seeing you're progressing in this area and how has the performance of these loans have been during 2021? Thank you.

Abdullah Ali AlKhalifa: Your question, just to understand, it's on the mortgage, right? On the mortgage?

Waruna Kumarage: No, no, it's actually on the corporate side, on the real estate loans.

Abdullah Ali AlKhalifa: Ah, the real estate loans, I see okay.

Waruna Kumarage: Yes, yes.

Abdullah Ali AlKhalifa: Actually, I have to be very frank with you, when I came to the bank, obviously, as a CFO previously, we analysed the performance of the bank. And I see that Alinma had reasonable or sizeable exposure, in terms of real estate sector.

And when I sat with the team... Again, I forgot to mention this, this is one of the strengths that we have at Alinma. Most of these real estate loans are done through creating a fund under our subsidiary AIC, Alinma Investment Company. And they've created a very, very experienced team.

Not only the governance of this, but also monitoring the projects, selecting the developer, the contractor. Monitoring the progress of the contractor. And they have built massive experience. And they have very strong record of delivering a lot of projects, not to the holy cities only, but to other areas.

So that's, actually, a strength, rather than, typically, a bank lend to developer or the investor, now we lend to the fund. As a bank, we lend to the fund. And the fund has a much better governance and control over the purpose of the project, where the money is spent, how the contractors are selected, how the contractor are progressing in their project.

And to the extent that, I was joking with them, I said, we should create a real estate company now ourself. We have massive knowledge and experience in this. So, it’s a bit unique, and I think the track record that they have gives us very good comfort. Not saying that it’s an area that we’re going to continue to grow into, but I think, so far, what we’ve seen, what their track record and deliver of those has been a very good experience for us.

Waruna Kumarage: Okay. In terms of underlying performance, I agree that the structure is very foolproof. But in terms of underlying assets of these funds, how have they performed and are there any concerns regarding these assets?

Abdullah Ali AlKhalifa : No, as I mentioned to you, what I've mentioned before, the track record of delivering successful projects. They're very experienced to judge the pricing, or the market value of the land before development and after development. And typically, it’s land development. So, some developed land, they have this ability to monitor and deliver on this. And we’ve been successful in auctioning these plots of land after being developed. That's the bulk of it.

Yes, there’ll be some exceptions in terms of providing other commercial real estate, especially in hospitality, but that has done very well. We have not seen deterioration or issue with that.

Waruna Kumarage: Okay, thank you very much.

Abdullah Ali AlKhalifa: Thank you.

Operator: As a reminder, to ask a question, please press star followed by one on your telephone keypad. And if you've joined us online, please press the flag icon. Our next question comes from Shabbir Malik from EFG Hermes. Please go ahead.

Shabbir Malik: Hi, thank you very much for this presentation. Two quick questions from me. In terms of when I look at your loan book, two key sector considerations for your bank is government and services sector. Maybe if you can provide... This is unique, relative to some of the other banks, maybe if you can comment on that it would be very useful.

Second question is on deferrals because of the pandemic. Can you gives us some sense of the size of those deferrals? And what is your sense on the credit quality of those deferred loans, thank you?

Abdullah Ali AlKhalifa: Thank you, Shabbir. Sorry, I missed the first part where you said two sectors we have consideration on, which ones?

Shabbir Malik: Yes, one is government, and quasi-government, and the other is services sector. It's a bit unique for you. Relative to the other banks, you seem to have a higher concentration in these two areas. I just wanted to understand if there's any reason for that.

Abdullah Ali AlKhalifa: Yes, obviously, on government and quasi-government, I mentioned to you, our deep experience and project finance and the capable team that we have, and we said the bank would be established focusing on large ticket loans. And typically, most of these projects are sponsored by the government. Either government or quasi-government, like in [unclear] and so on. So that's the reason we have... It tends to be safe, and the ticket size is big.

On services, I don't have specific answer on it. I'm sure we can look at this compared to the industry, but I thought we didn't have large exposure in service. Specifically, services.

Shabbir Malik: Okay, no worries. And anything on the deferrals? How is that portfolio doing, and can you give us some idea about the size of how much of the loans have been deferred?

Adel Saleh Abalkhail: Yes, so, you can also look at the COVID-19 in our financials, which were uploaded into [unclear] just before this call. Since the programme started to look at the period from March 2020 up to June 2021, a total of 1.2 billion of instalments has been deferred. And this was going down as we moved towards the latest extensions.

So, the deferred amount from June until September was around 450 million. And from September to December, we're talking about, roughly, 200 million worth of instalments. So, in total, it's 1.2 billion. But the latest two extensions by SAMA for the deferral was lowered. The last one was 200 and then the one before that was 450.

Shabbir Malik: So, your sense is that once this programme ends, these customers are largely going to be able to repay those payments?

Abdullah Ali AlKhalifa: Well, honestly, Shabbir, if you take the whole thing as a package, yes, there have been deferral now since, what, March 2020 until the end of this year. When you think about it, almost two full years of no payment from their side. That excess cash, or that money that they should have paid to banks are, in a way, maybe reinvesting in the business or reinvesting in another form of investment that give some return.

When you look at the government support, in terms of jobs for the Saudis, in terms of deferral of fees, deferral of VAT, or taxes, and so on, there have been significant support. Of course, there will be always certain sectors that have had very hard. You take hospitalities and med care. It's no secret, yes volumes are back now, to, hopefully, close to normal, but they've been hit very hard with this one.

However, if you look at other sectors, there impact we take as a package. When you look at all the initiatives the government has done in addition to the deferral, I think, overall, we should not expect significant defaults. But, yes, obviously, it's a business, the nature of business that we will always have sectors or certain customers that will struggle. And maybe we'll see, anyway, once this payment deferral is lifted, how they perform, but I won't expect it to be significant.

Adel Saleh Abalkhail: And can I, maybe, add to that. If we go back to the extensions that started from June to September this year, there were certain guidelines on who should be eligible for the deferral. So, obviously, not all the clients has been deferred. And earlier, announcements were deferred from June to September,

So, in our case, almost half of the clients that were deferred from June to September were deferred from September to end of this year. So, we see the number of clients going down. So, the number of clients were [unclear], it's not the same number of the clients that are currently in middle ground, so some of them are repaying already.

Shabbir Malik: Thank you. If I may ask you just one final question, would you say you would have a higher proportion of exposure to Hajj- and Umrah-linked businesses, relative to the other banks, or that would not be the case?

Abdullah Ali AlKhalifa: Well, because we're a Shariah-compliant bank, you assume that we have higher... No, I don't think we are significantly different.

Shabbir Malik: Okay.

Abdullah Ali AlKhalifa: Otherwise our [unclear] will be dominating this.

Shabbir Malik: Sure. Okay, well, thank you. Thanks for that, thank you.

Operator: As a final reminder, to ask a question, please press star followed by one on your telephone keypad or press the flag icon if you've joined us online. Our next question comes from Edmond Christou from Bloomberg. Please go ahead.

Edmond Christou: Good evening, this is Edmond from Bloomberg Intelligence. Just, if possible, to understand the strategy. So, historically, you were focused on large corporate infrastructure projects, etc., and now you want to diversify that book on the corporate into mid-size corporate, if I understand correctly. What type of credit to provide to the mid-size corporate? I just want to want to understand what type of product are likely to be product finance, I guess.

The second question, which is related to the first, if I understand correctly, when it comes to infrastructure projects, etc., it's still priced within six months on the SAIBOR. But the maturity is longer compared to typical corporate banks.

If this is correct, how you are planning to manage the maturity mismatch risk here, given that the deposit shift, going forward, you prefer it to be on the CASA, current account, etc? And your NFSR is around 105 or 106 as of June. I haven't looked at the Q3 yet. So, I just want to understand if you are aiming for more issuance of Tier 1, etc.

The third one, always insightful to get your comments on the market, as well. So, when we look at the issuance for debt, most of it was Tier 1. If I look at a bank like your bank, very strong capital ratios, so there is no need to issue Tier 1. So, why we are issuing Tier 1? I understand it's held the LDR and other liquidity measures, but why the bank is not issuing on secure debt, for example? I guess it should be less costly, compared to Tier 1. Thank you.

Abdullah Ali AlKhalifa: Thank you, Edmond. In terms of corporate strategy, when I mentioned, obviously, the focus was on providing financing for large corporates. We're not stopping that, by the way, it's an inherent risk... Sorry, it's a strength that we have.

However, we want to do develop other sector within corporate. So, as I said, the mid-corporates was virtually neglected, so that, typically, gives you better benefit. I.e., one, typically the pricing is better, so yield on that deal is better. Give you diversification concentration, higher concentration, but large ones. Typically, they do have multibank relationship but not many, compared to large corporates, which I can assure you, large corporates have relationship with all the banks in the country.

So, you have a better chance of getting a better share of the wallet with the customer, especially our focus on developing all ancillary business, we want the operator account, we want the cash and trade, we want the payroll services. And all other products that we can, obviously, treasury-related products.

And once we get the payroll then we can expand that relationship further by offering consumer loans to their employees. And get, obviously, more CASA because the employees may be tempted to open an account with us, and we get the operator account. The payroll also generates flows for us.

So, when you look at the package, it's actually very helpful to the bottom line. Corporates, again, we continue to focus on, but now mandate more business. It cannot just be writing cheque, we need more business from them. So, I hope that covers the corporate.

Now, in the mismatch, as you know, Edmond, this is an inherent feature of the Saudi banking system. We've always had longer term assets from finance via short-term liability. Banks, typically, have this privilege of large percentage of non-interest-bearing deposits as customer deposits. So, the funding is very sticky. Even though it's a current account, it's not actually volatile. If you look at the growth, it's constantly growing. So, it's very sticking but also growing.

Industry-wise, obviously, as I said, this Vision 2030 will lead to more project finance. And you're right, typically, the duration of the budget is longer. But what we've seen, and this is the industry trend, projects started with, let's say, 20-year loan or 25-year loan, but it gets refinanced once the project has started operating, and they get re-financed, typically.

So, projects is does not necessarily mean 20-year means it will remain for 20 years. We've seen refinancing after seven, after five years, that's a normal trend that we've seen. So that helps.

Obviously, banks are growing in the mortgage business, and that also increases the duration of the assets. We manage to offset debits by funding by issuing on Tier 1, it's perpetual. Yes, maybe, obviously, as market expect, normal market practices, this loan would be recalled after five years. And maybe issue again. So, we always have a longer-term liability.

Why did we issue Tier 1 versus, let's say, Tier 2 or senior? I think there are multiple benefits for Tier 1, which, for example, is, obviously, supporting the growth. It allow us to... As I mentioned, this is a target that we will be doing, is increase our dividends pay outs.

And also, another feature of that is, yes, it adds to loan ratio, the liquidity ratio, and so on, and it also increase are single upper-core limit. Your single upper-core limit, which is currently for CASA, 16%. And when you issue Tier 1, that is added to the calculation to single upper-core limits.

So, let's say you have a very strong corporate like Aramco, or so, and you want to continue to increase that business with them because you see it as very safe, a very profitable business. By issuing Tier 1, you are allowing yourself more limits with this customer. I'm not saying Aramco [unclear] at 15%, but just to give an example.

So, yes, this is, basically, the real reasons why we issued... I think the third question was, yes...

Edmond Christou: Yes, this is very helpful. Just on the following one, should I correctly assume that the cost of funding could pick up going into next year, or could normalise into next year? And you are able to capture higher asset yields on the loan mix?

Abdullah Ali AlKhalifa: Yes. Cost of funding is, obviously, a combination of two things. One is how successful are you growing your CASA. That will be an important factor. And the other factor is how much is the rate moving next year.

As I mentioned in one of my comments, I believe that we may see a SAIBOR creeping up next year, which means you'll, obviously, be forced to pay more on your time deposits. However, on the other side, and this represents, what, 35, maybe, hopefully, even go down lower than this, 34% cost of deposits. While your assets, you're able to price a lot more on your assets. So, the impact of NIMS would be absolutely positive once we see SAIBOR go up.

Edmond Christou: Okay, so the asset yield is mainly because of the increase in the SAIBOR, due to competition or liquidity.

Abdullah Ali AlKhalifa: Correct. [Overtalking] for the markets.

Edmond Christou: Thank you.

Abdullah Ali AlKhalifa: Yes, go on.

Edmond Christou: Yes, the last one is strong capital scalability has been a key priority for the bank for a long time, do you see opportunity for M&A for a smaller Islamic bank?

Abdullah Ali AlKhalifa: I've always learnt to say never say never. We don't have any plans. However, if the opportunity comes, we will, obviously, be openminded, will be a certain. Previously, I would say that was not a feature in the Saudi market, but we've seen a couple of large deals already. Does this mean that will be no further deals, I don't know, honestly.

But I've always said, very frankly, what helps M&A is if you have strong common ownership. We've seen this example in the previous two cases. I no longer see a strong common ownership in these other banks that have not M&A. so that makes it, maybe, more difficult.

Edmond Christou: Okay, but your appetite is there for the potential?

Abdullah Ali AlKhalifa: Look, I can tell you it's not part of our strategy. But as I said, we've always... I get invitation for attending certain fintech and so on, and even though it's not specifically in... We keep an open mind, we meet them.

So, if the opportunity comes, if we realise that some banks are interested, we'll assess it. If we believe it adds to the shareholders value, we will do it. Otherwise, we would not. But are we actively doing? No. Are we scanning the market to do? No. But opportunity, if it comes, yes, we may assess it.

Edmond Christou: Thank you very much.

Abdullah Ali AlKhalifa: Thank you.

Operator:The next question comes from Adnan Farooq from Jadwa Investment. Please to ahead.

Adnan Farooq: As-Salaam-Alaikum, thank you for the call. Just two question, please. How much is the bank currently paying on the savings deposits. Savings deposits have increased substantially for the bank, and probably one of the few banks that is offering that product aggressively.

And the second question is you have spoken in the past about the rise of competition in the market. If that continues, would you slow down your growth plans, or would you like to compete with the other banks that are being very aggressive with prices in both corporate and retail segments?

Abdullah Ali AlKhalifa: Look as far as saving, I think it's a good success story. The bank has managed to grow saving accounts significantly percentage wise. Where, when you compare... We don't specifically disclose, but I could say it's relatively lower than overnight rates that we pay. That's a much cheaper option than paying SAIBOR. Or even, nowadays, banks are competing SAIBOR-plus. And we heard 20, 25, 30 basis points more.

And the stickiness is more, also, in saving accounts. I think we've done a good job in promoting these products, and we continue to do this. And what I missed to mention in my presentation on the strategy side is that we're developing ecosystems around mortgage, around SME, but also around family. And family, obviously, saving, will play an important role in that.

Your other question is about... I feel I missed it. Anybody reminds me what the other question...? Okay. Only at saving, okay.

Adnan Farooq: Can you hear me, Abdullah?

Abdullah Ali AlKhalifa: Sorry, I wasn't sure if it was two questions or one, but my team says it was one question. You have one question about saving, right?

Adnan Farooq: And the other question was about competition in the market, and whether you would...?

Abdullah Ali AlKhalifa: Okay. Look, we've seen very aggressive competition in the market, especially on the retail side, on the consumer loans, to the level where, effectively, given a three-year duration of lower than overnight rates, SAIBOR overnight rates didn't makes sense. And it's not profitable, in my view, to do this, and we've stayed away. Obviously, we managed to keep important clients that we believed... We have this retention, we try to do as much as possible to keep our clients.

However, we never actually went to that level. It just didn't makes sense. It's not sustainable. And it's also not only the incremental business that you're going to bring by lowering your price to that level, it's also encouraging your existing portfolio with better yield than what's more for the market to go and refinance. So, all of a sudden, not only your incremental loan that you're booking, your existing loan also repriced because people will go for this rate.

So, it's not something that we will... Now, we are seeing, also, aggressiveness and pricing on the corporate. Again, we don't play the pricing game. I truly believe with the increasing the funding cost that I mentioned, the competition on time deposits will slow down this aggressiveness and pricing on the corporate side, as well.

Adnan Farooq: Thank you so much.

Operator: This concludes the Q&A session. So, I now hand the call back over to the CEO for closing remarks.

Abdullah Ali AlKhalifa : Yes, obviously, this has been our first earning call. I really appreciate all of your efforts to dial in and listen to us. Hopefully, we didn't bore you so much. And hopefully, we'll see you dialling in on the future earning calls. Thank you very much.