Shabbir: Good afternoon everyone. This is Shabbir Malik from EFG Hermes. And we are very pleased to have with us the management team of Saudi Investment Bank, for their inaugural results call. Management will provide strategic and financial highlights for the first 30 minutes or so, and then we will open the floor for Q&A. Please note that this call is for analysts and investors only. I will urge anyone from the media to disconnect from the call now. I will now hand it over to David Kenney, Investor Relations Coordinator, to kick off the call. David, over to you.

David: Thank you, Shabbir. Good afternoon, everyone. We are pleased to welcome you all to the Saudi Investment Bank's inaugural earnings call for the second quarter and first half of 2023. My name is David Kenney, and I'm handling investor relations here at the Saudi Investment Bank. It is my great pleasure to welcome you all to our first 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 web page. Reiterating what Shabbir said, if there are any members of the media, please be reminded to share your questions separately with SAIB's Corporate Communications team.

I am joined today by Faisal Al-Omran, Chief Executive Officer, and Saad Altayyar, our new Chief Financial Officer at SAIB, as well as Shankar Chattanathan, our former CFO and currently advisor to the CFO. And last but not least, Mohammed Alsuhaim, our AGM Financial Planning and Reporting. Moving to the agenda for today's call. Faisal, our CEO, will start with a brief overview of the Saudi Investment Bank, its performance and historical context, and the strong financial position we find ourselves in as a result today. Faisal will then discuss SAIB's strategy, the progress we have made so far, and key initiatives that will help us in achieving these strategic objectives. Given that Saad has joined us only recently, it will be Shankar who will discuss financial performance for the first half of 2023, as well as 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: Thank you, David. Good afternoon, everyone. I would like to thank you all for taking the time to join our investor call. We are excited to launch our investor relations program, and to kickstart our investor call, and we're excited to share the story of Saudi Investment Bank. I will start with an overview firstly. Today, our Bank stands at SAR123 billion of assets, which grew 13% year to date. The Bank is mainly focused on large and mid-corporate, and the private banking segment of the market. You can see that under the total assets by segment, 45% is the corporate portfolio, and that's mainly the large and mid-corporate. And also you will see retail standing at 18%, mainly driven by the private banking segment. It's also worth noting that we do have an investment portfolio that is a dynamic driver of our asset growth. Treasury and investments stand at 35%, being mainly the investment portfolio which will be discussed later on the call by my colleague, Shankar. The bank is geared toward being digital. So you will see that our digital transactions stand north of 99%. As such, our branch number, relative to the market is small. We believe that we are at the right size today. And that has given us the ability to grow our customer base.

Today we stand at 800,000 customers, up 6% year to date. So we believe this is a good spot and gives us the ability to have higher customer satisfaction. Also, the Bank has a positive outlook from the credit rating agencies. For SAIB today, we have an upward trajectory in our financial performance. Our return on equity today stands at 11.5%, growing from the 2022 number. Also our NIM stands at 3.12%, also growing from the 2022 number. Our market cap today stands north of SAR15 billion riyal, with our share having more than 4% yield. Moving on to slide number five. This basically depicts the picture of SAIB the last few years. We are proud of the growth we have achieved, especially in 2022 and 2023, where our total operating income had a notable growth in 2022, closing at SAR3.2 billion, having a CAGR of 5% the last five years. Which also led to a growth in net income CAGR of 27% over the last five years, where we closed 2022 at SAR1.5 billion. We also believe that growth will continue as there is room for improvement for us. Once we have rolled out our strategy, we'll be focusing on reducing our Cost/Income ratio to be within the market average, as there are one offs related to strategic expenses. Also, we are proud of the significant reduction in the cost of risk that we have, where we closed 2022 at 0.25%.

Moving on to slide number six. Same story. SAIB, we believe, has a very good foundation for growth. We have a very comfortable capital adequacy ratio. In 2022, we ended at 18%. We believe we have comfortable liquidity position. In 2022, we closed LCR north of 200% and NSFR of 115%. Hence, you will see the notable loan growth in 2022, where we closed at SAR96 billion, funded by our deposits.

Moving now to the strategy section, which is slide number eight. That story, where I said SAIB we believe is positioned for growth, we see our focus to continue on large and medium corporates. We believe there is an attractive growth in market share and increased loan book for us. Today, SAIB has a market share of 3.4% in the large and medium corporate segments. We believe there is room to grow there. And the growth will come from new customer acquisition and having a larger wallet share from existing clients. We also believe that our operating income will be enhanced through optimization of our cost of funding. You will see that our NIB stands at 40%, which is relatively lower than the market. We believe there is room to grow there, which also will help us in our overall growth story. Also worth noting that SAIB has grown in loans in the first half by 24%, higher than market average. Same thing for our operating income, which grew by 31% compared to a 17% market average.

Now moving to slide number nine, which is our strategy. Basically, our strategy, which is currently we are rolling out during Q3, and we will launch it and communicate it towards the end of the quarter. The strategy basically focuses on two principles: focus on our chosen sectors and delivering a differentiated value proposition. You will see that our four business segments - corporate, private banking, public institution, and personal banking - will be our focus in the strategy. Talking about the first two, corporate banking and private banking. These are existing business for us, where we believe we can grow further mainly through revisiting of segmentation and coverage model. And second, digitization and automation. As for public institutions and personal banking, these are new growth markets or new market segments for us. We believe Vision 2030 put lots of requirements on the public sector in terms of financial inclusion, in terms of the automation, digitization of their services. We believe SAIB is able to offer solutions to that sector, rather than just going with plain vanilla products and services currently offered by the market.

Same thing for personal banking. We believe the affluent and mass affluent segments can benefit from a focused value proposition, which SAIB is, I would say, in a good position to be able to capture market share there. Moving to the next slide. These are the initiatives, highlights of initiatives that will be catalysts for achieving the strategic objectives. The first two, corporate banking and private banking, we will focus on offering new products to these market segments, and addressing existing gaps in those markets, especially in the affluent and mass affluent sector. As for the public institution and personal banking, we have a focused operating model where we can really target acquisitions in these two sectors, or two segments in the market. We will also be equipping our RMs with the required tools to be able to offer superior service when compared to our competitors. This will be the focus of the strategy going forward.

Also, we will have a number of strategic initiatives within the strategy, launching new innovative products and services in addition the those already offered such as our Travel Credit Card. And also, we will build partnerships under our Innovation Lab, which currently is up and running; we have an ongoing venture under pilot, which is targeting international remittance business in the market. All of which we will continue to share with you during our upcoming investor calls to show our progress and achievements as we continue the strategy execution. With that, I'll move to Shankar to tackle the financial performance.

Shankar: Thank you, Faisal. Good afternoon, everyone. And again, thank you all for joining the first earnings call. As mentioned by the CEO earlier, the Bank had a good growth story in 2022, with loans and advances, as well as the net income showing impressive growth. And I'm very happy to report that the strong momentum of the financial year 2022 was carried forward to the first half of '23 as well. Year to date, we have seen a healthy growth in the balance sheet. Loans increased by 12% to 77.3 billion, and deposits grew 19% year to date. Our balance sheet expansion, together with higher NIMs, resulted in a double-digit growth in the operating income. Costs increased in the first half of 2023, and we'll cover that in detail in a later slide. The Bank maintained a healthy asset quality. All of this contributed to a 40% year-on-year increase in net income for the first half '23. If we exclude the one-off recovery that happened in Q3 2022, this is the best ever quarter as well as the half year that the Bank has had in the last 10-plus years. All of this has led to a strong improvement in the return on equity to 11.5%, while maintaining a solid capitalization and liquidity position.

We will go through these in the next few slides. Moving on to slide 13. The balance sheet grew by 13% during the first half. Again, this was driven by a broad-based growth across all asset classes. Loans and advances increased by 12%. Investment securities grew 13%. And the excess liquidity that we had was deployed in reverse repos and bank placements. Our balance sheet growth was largely funded by customer deposits. As mentioned earlier, the deposits grew by about 19%. We will now go into details of each of these in the subsequent slides. We'll start with loans and advances on slide 14. Our loan book has shown strong traction, 5% growth this quarter, and 12% for the year so far. You will see in the chart on the top right, that a significant portion, about 72% of the total loan book, is from corporate loans. And corporate loans grew by 17% during this period. The bank actively participated in financing large infrastructure projects through syndicated loans. And this was well supported by loans to other key economic sectors, including commerce, building and construction, manufacturing, and so on.

Overall, we expect the growth of our corporate loan book to be sustained at these levels for the rest of the year. On the retail side, lending stayed broadly stable, as consumer lending was down. Here, I would like to highlight that the bank has been cautious in the last few years in mortgage lending due to the low rates. Private banking loans is one of the other focus areas that the Bank has, and that's increased by about 5% during the year. Moving on to the next slide on investments. The investment portfolio of Saudi Investment Bank largely consists of fixed rated securities. About 96% of the investment book consists of fixed rate debt securities. Investments are of a very high quality. And about 61% of the debt securities are those that have been issued by the government, and 25% by banks and financial institutions. Sixty-four percent of our investments are accounted for at FVOCI, and 35% at amortized cost. During the year, investments increased by 13%, mainly from investments or rather debt securities issued by banks and financial institutions. And this was in line with our strategy to lock in higher interest rates at longer maturities.

Moving on to the next slide on deposits. Customer deposits rose by 19% year to date. And this was largely due to a 29% increase in interest-bearing deposits, mostly from public institutions. We saw a decline in retail and corporate deposits, as the bank decided to access deposits that were available at lower rates. The higher growth in interest bearing deposits compared to non-interest-bearing deposits resulted in the non-interest-bearing ratio to trend down 40.3% at the end of June. However, with the focus that we have, we expect this percentage to remain broadly at current levels into the second half of the year. Having covered the balance sheet, we now move to the income statement. We move to slide 17. Net income during the first half of '23 increased by 40%, compared to the same period last year. And as you can see from the chart on the bottom right, this was driven largely by growth in net special commission income, and was partially offset by increase in operating expenses as well as impairment charges. In the next few slides, we'll look at the individual components of the income statement.

Slide 18. The net special commission income increased 35% year on year. This was partially due to growth in average earning assets by 18%. The improved margins also helped in increasing the net special commission income. As you can see the waterfall chart on the slide, a large part of this growth came from corporate and other loans. Investments, SAMA, and bank placements also contributed to the growth. However, this was offset by increase in cost of funding. Again, due to increase in deposits and higher rates. Looking at margins on the next slide. Our net interest margin improved 40 basis points year on year. Again, corporate lending contributed mostly to this increase, followed by investments and interbank placements. The modest margin decline for the second quarter compared to the first quarter was mainly due to delayed repricing of assets, compared to liabilities from the more recent increases in the benchmark rates.

Moving on to slide 20. Fee and other income increased 7% during the first half of '23. And this was mainly driven by foreign exchange and investment income, and partly offset by lower fee income from banking services. FX income was well supported by strong transaction volumes across all business lines, in particular, travel cards and remittance products. The investment-related losses decreased in the period due to lower MTM losses. Fees from banking services reduced during the first half of '23 due to lower brokerage and cards related income. Moving on to slide 21. The operating expenses increased 21% year on year in the first half of '23. Two main reasons. One was increased employee-related costs, and the second was higher expenses relating to strategic and transformation-related initiatives. However, you will see in the chart at the bottom right, that the cost to income ratio has been reducing over the last few quarters, reducing from 45.9% at the end of June last year, compared to 42.4 end of June '23.

Moving on to the next slide, we look at the credit quality. The total impairment charge for the first half was about SAR161 million, a 76% increase compared to the previous year. Again, this increase was largely because in 2022, we had a large recovery from a single exposure, and so the provisioning was lower in the first half of '22. In terms of cost of risk, it remains at reasonable levels at 43 basis points for the first half of '23. And we'll continue to improve. And the NPL ratio declined further to 1.43% as of June '23. Again, you will see that there is a steady improvement from 1.93% as of second quarter '22, to 1.43% in second quarter '23. And our NPLs are adequately covered with an overall coverage ratio of about 170% and Stage 3 loans coverage stands at 47%. It's worth mentioning here that most of our loans are collateralized and hence, the provision depends on the amount of collateral that we have. This explains our slightly lower level of provisioning compared to some of the other banks which may not have the amount of collateral we have.

Moving on to the next slide. The CEO mentioned as part of his presentation, that we continue to maintain strong capitalization and liquidity positions. The LCR stood at 205% as of June. NSFR was at 111%. And the total regulatory capital remained broadly stable, with strong profit generation offset by payment of dividend for 2022, as well as reduction in our Tier 1 Sukuk. With the implementation of Basel III enhancements in 2023, risk weighted assets declined during the period on lower credit risk weighted assets. And this was due to the SAMA regulations which allow banks to use share collateral for reduction of risk weighted assets. This, however, was partially offset by an increase in market risk weighted assets due to implementation, again, of the new Basel guidelines. As a result of all of this, our capital adequacy ratio stood at 20.1%, and the Tier 1 capital ratio was 19.4, with CET at 16.3. This leaves us in a very comfortable position to grow our balance sheet and meet shareholders expectations on returns, and maintain adequate capital as required by the regulators.

We'll now move to the outlook and guidance for 2023. The economic outlook for the Kingdom remains very positive. Project spending on giga projects and other large infrastructure projects bodes well for overall credit demand. And we, at SAIB, are well positioned to capitalize on this demand because we have a large exposure to the corporate sector, and with the active participation in the large project financing syndicated loans market. Against this healthy macroeconomic background, we are optimistic about the financial performance of the Bank. We're now initiating our 2023 guidance for the first time. And you will see we expect growth in loans and advances to sustain for '23, with mid to high teens growth, largely driven by corporate and private banking. While we expect the growth momentum to continue in the second half, we also anticipate some large repayments in the fourth quarter.

In terms of profitability, we expect NIMs to be in the 3.1% to 3.2%, range, driven by a modest rise in interest rates in the third quarter. And as we continue to execute the strategic initiatives, we expect the cost to income ratio to remain near the current levels, between 42% to 43%. As a result of strong growth in income and focus on cost efficiency, we expect the return on tangible equity to stay at about 11.5% and maintain an upward trajectory. We also expect the overall credit quality to remain resilient, with cost of risk between 45 to 55 basis points, and a healthy capitalization, with Tier 1 ratio about 18.75%. With that, we conclude the management presentation. And we are now happy to answer any questions you may have.

Shabbir: Thank you very much, Shankar. And thank you Faisal and David for the comments. I will now open the floor for Q&A. If you would like to ask a question, please, you may raise your hand or you can ask your question by typing it in the Q&A box. Again, if you would like to ask a question, please raise your hand, or type in your question in the Q&A box. We'll give it a minute for the participants to log in their questions. As we wait for the questions, maybe one or two questions or clarifications from my side, please. When you disclosed your exposure by segments in the retail side, you have two pie charts, one showing retail exposure at roughly 20%, 25% of your loan book, and consumer exposure was I think about 10% to 15%, if I remember the numbers correctly. Why is that discrepancy there? Does retail also include private banking lending exposure?

Shankar: You're right, the retail exposure includes the consumer loans, mortgages, the credit cards, as well as the private banking related loans. And that's the reason there is a difference between consumer and the overall retail banking groups.

Shabbir: Okay, perfect. We have a question from a participant. Just give me a moment, please. Al Fareed [SP], your line is open. Please go ahead.

Al Fareed: Thank you, Shabbir. And thank you very much management, for a very insightful inaugural presentation. I have two questions. The first one is regarding your loan growth guidance. You're guiding mid to high teens. You've already achieved about 12% for the first half. So are you foreseeing any slowdown in the growth momentum in the second half? Because your guidance is implying about 2% to 3% loan growth per quarter going into the second half, versus you've achieved about 6% per quarter. So some more color on that will be really helpful. And my second question is regarding your mid-cycle ROE guidance. What would you say for a bank with SAIB's profile would have a mid-cycle ROE over the next five years? Those are my two questions. Thank you so much.

Shankar: Fareed, thank you. Regarding the first question in terms of guidance for loans, we expect the growth to continue in the second quarter. However, as, you know, I briefly mentioned during the guidance note, we also expect large repayments in the second half of the year, particularly in Q4. And that's the reason we have given a slightly lower indication in terms of expectations for the second half and hence for the full year.

Faisal: Fareed, as for the second question, in terms of when you asked about what's the return on equity envisaged in the future. Our main, I would say, target or benchmark is to look at our competitors. And this will be the benchmark for where we should be. Our competitors, meaning that banks that have a similar asset break down and loan break down as SAIB. And the rolling out of strategy and the communication that we will have toward the end of quarter three and going forward, I think will shed more light on where we believe that number will be.

Shabbir: Thank you. As a reminder to the audience, if you would like to ask a question, please raise your hand or you can type it in the Q&A box. We have another audio question. Just bear with me for a moment. Adnan, your line is open. Sorry, we can't hear you, so we will move to the next question. We have a question in the Q&A box: with rates expected to remain higher for longer, by when can we expect the NIM number to bottom out?

Faisal: Well, I think that answer will be within the context of the market itself. In SAIB, I think if you look historically, where SAIB stands in terms of the NIBs and NIMs in the market, we believe that we will be moving within the market, where the market eventually will bottom out. We see resilience in the NIBs in the market so far, even with interest rates going up. But it's not moving in the same, I would say, magnitude or pace of the interest rate. We think that behavior will still hold. So, we expect where I would say NIMs and NIBs be, will be aligned with the market movements in general. So nothing out of the ordinary for SAIB.

Shabbir: Thanks. I'll try Adnan one more time. Adnan, can you hear us?

Adnan: Yeah. Can you hear me?

Shabbir We can hear you. Please go ahead.

Adnan: I'm sorry about that before. Thank you for the presentation. I have a few questions. First, you mentioned that this year, your cost growth was slightly higher than normal, because of the strategic initiatives. How should we look at percentage cost growth going forward? Should it normalize to what your peers are guiding at between 5% to 8%, given the inflation where it is? That's the first question. The second question is on your investment book. You have a sizable investment book, given your asset size. And you mentioned 96% of that is fixed rate. Can we know the duration of this fixed rate investment book? And what is the current yield of that book? And my last question is on your NIM trajectory. So you mentioned you ended second quarter or first half with 3.12%. And your full year guidance is 3.1 to 3.2. I just wanted to understand why... And you mentioned that second quarter, the NIM slightly declined because of quicker repricing of liabilities as compared to assets. So why don't we expect slightly higher NIMs going into the second half, given the corporate nature of your loan book?

Shankar: So I will answer the first couple of questions. The first question that you had was basically on cost growth. Once the strategic initiatives are completed, then I think we should be in line with the market in terms of cost growth. The second one was in terms of investment book, so the weighted average duration of the book currently is about 4.66 years. And the average yield that we have as of date is about 3.92. This is net of finance. And I think the third question was on the NIMs, which is basically like why are we saying it's between 3.1 and 3.2. We expect it to be around 3.1. Maybe it will go up marginally from 3.12 to around 3.15. But we've just kept the range to cater for uncertainty and likely repayments.

Shabbir: Thank you, Shankar. We'll now move to the next question. This is from Abdulaziz. Can you address how is the bank planning to grow non-interest-bearing deposits as a percentage of total deposits while targeting to grow corporate loan book? Are you witnessing any pressure on funding incremental growth through interest-bearing deposits? So, that's a question from Abdulaziz Albawardi.

Faisal: Okay. Our strategy to grow our NIBs is through the two new segments that we will be focusing on, which is the public institutions and the personal banking, affluent and mass affluent. We believe these two will have a good liability play for Saudi Investment Bank. And we have witnessed a growth in NIBs for us from these two segments. That's why in the next strategy, or this strategy that currently we're running out, the focus on these two will be high for getting the NIBs, and it is a focus for us to increase our 40% of NIBs to a higher number.

Shabbir: Thank you. Next question is from Ambereen. Hello and thank you for the call. Please, could you discuss pricing for various segments of corporate lending? What is your view on giga project spending in a low oil price scenario? Please comment on the competition in the capital market space. So three questions there.

Faisal: As for pricing, generally, we look at every transaction on a standalone basis. However, we say in SAIB that we have the ability to customize solutions and be dynamic too. We are fast in terms of turnaround time in corporates compared to our competitors. We believe these two offer us the ability to increase, I would say, the willingness to pay in our client base. So this is generally how do we go about strategizing the pricing for SAIB. As for spending on the two giga projects. It is very clear the government has a high commitment on these giga projects and the required spending on them, SAIB actually have been financing directly and indirectly, giga projects through direct lending or through contractors. So we have seen the pace to continue and we expect it to continue in the future.

As for the capital market questions, I'm not sure which part of the capital markets question refers to, but I'll try to address it generally. SAIB is addressing the capital markets through its Alistithmar Capital subsidiary. We believe we have a good franchise there in terms of the asset management and in terms of the fund structuring, especially in real estate. You will see the performance of SAIB in 2020, '21, '22. Our public funds have been performing well compared to the market. Also the funds that we have launched are sought after in the market, and the ones that we have closed have returned, I would say, attractive returns to the shareholder. So, we believe that we are positioned well in the capital markets. Also, the strategy is focusing on Saudi Investment Bank's subsidiary, which is Alistithmar Capital, in terms of having more, I would say, product services and a synergized offering for our customers.

Shabbir: Thank you, Faisal. Ambereen, if you have any follow up... I hope that addressed your questions. If you have any unanswered questions, you can type that again. Now we move to the next question. This is from Ajay [SP]. Is it a plan to reduce cost of fund by increasing percentage of NIBs? I think you've addressed this partially. If you want to add any other additional comments, please go ahead.

Shankar: Yes, the main objective would obviously be to increase our non-interested bearing deposits. And that would reduce our cost of funding.

Shabbir: Another question from Ajay. What is the percentage of mortgage loans of your total book? Do you want to target the segment at the current rates?

Faisal: Mortgage lending Is currently a small percentage of the overall loan book. It's less than 3%. As for the current rate, we see current rates are attractive. And actually, the strategy roll out that we are currently in, we believe that this is a segment that we would love to target and grow in.

Shabbir: Thank you. A question from Indica [SP]. Despite having 40% exposure to relatively lower credit quality, grade five and below, we don't see any NPLs in commercial and other loan segments. Can you please clarify?

Faisal: Shabbir, I'm not sure we understand the rationale or the question. Maybe Shankar can add...

Shabbir: Yeah, please go ahead, Shankar. Indica, if you want to maybe provide a clarification, please do so in the Q&A box. Shankar, sorry, you wanted to add something?

Shankar: We have a large exposure of Grade 5 "Acceptable" accounts across all segments. So far, the performance on this has been pretty good. And we have not had, you know, large number of cases which have gone bad or where the NPLs have gone significantly higher. Grade 5 for us is an acceptable rating grade. We do monitor and the ECL model takes care of any sort of changes that happen in the customer repayment pattern, etc. And as and when it changes, the ECLs or the NPLs do go up. But as of now, rating rate is set as an acceptable rating rate. And we've had customers performing well.

Faisal: Maybe I'll also add to Shankar's explanation. Also in Grade 5 are our funding projects that have a clear source of repayment, they have acknowledged receipt, they have guarantees behind them and collateralization. So it's a good performing sector for us.

Shabbir: Thank you. We move to the next question. This is from [inaudible 00:43:24]. With cost to income ratio at 41% for Q2 2023, and based on your full year guidance, should we see the current quarter cost to income as the best possible number and deterioration is expected in coming quarters from this number? Basically, is this as good as it gets in terms of cost to income ratio? And shall we expect a deterioration in the coming quarters in the cost to income ratio?

Shankar: See, again, the guidance for this year is 42% to 43%. And that's largely because we are in the middle of the strategy implementation. And, you know, a lot of transformation projects are being done. And that's the reason the cost is expected to slightly go up. It's not that we expect a significant increase, and that's the reason we have calculated between 42% and 43%. Having said that, once the transformation of the strategy related processes are completed, we expect the cost to income ratio to improve further. And the increase in cost to be in line with the market increase.

Shabbir: Shankar, just stepping in here. Would it be possible to quantify the amount set aside for the restructuring or how much of the cost increase has been driven by the restructuring or the new strategy implementation?

Shankar: We do not have it at this point in time ready in hand, but we can provide it maybe separately offline.

Shabbir: Thank you. We'll move to the next question. This is from Indica Himanta. Overdraft segment has been the main contributor for both NPLs and cost of risk. Why has the Bank continued to expand in this segment?

Shankar: I think this has more to do with the way the process works. Once the loans become overdue, then they actually move into an overdraft. And then eventually, they move into NPL etc. as part of the overdraft itself. So it's not that overdraft NPL means it was initially an overdraft. Could have been a loan, and at a certain point in time, the customer stops repaying, it moves into an overdraft account into the customer's current account, which becomes overdrawn. And then it goes into an NPL from there. That's the reason why you see in that segment.

Shabbir: Thank you. A follow up question from Adnan. What percentage of your time deposits reflect the current SIBOR rates? And what is the duration of the time deposit book?

Faisal: Shabbir, I'm not sure we have that information handy. But generally, our duration for deposits, I think, it's within the market norm. And you'd see most reported at three months to six months, but maybe difficult to have longer than that. Pricing, most banks would be pricing the same pricing, above maybe 15, 10 basis points between banks. So I don't think there is something special in SAIB in terms of pricing deposits, whether higher or lower. I would say we are in line with the market pricing.

Shabbir: Thank you. A question from [inaudible 00:47:04]. Can you quantify the NIM sensitivity to rate changes, especially when rate cuts kick in?

Shankar: I think every 100-basis points change would result in probably about 9 to 12 basis points change in the NIMs. I mean, that's what we've seen over the last few years.

Shabbir: Just stepping in here. I think you mentioned in the commentary that you've increased allocation to investments and increased duration. Is that being done to kind of potentially mitigate the impact of lower interest rates on your NIMs?

Shankar: Absolutely. In the current interest rate environment, we get investments that are attractive yield. So we have bought those to take care when rates go down in future. And these being fixed rate debt securities, we benefit from the lower interest rates going forward.

Shabbir: So the sensitivity potentially could go down, or you think this is based on what your balance sheet looks like today, the 10 to 12 basis points sensitivity that you outlined?

Shankar: This is based on the balance sheet that we have as...

Shabbir: Thank you. A question from Abdulazeez. Can you elaborate more on improving your cost to income ratio? And what would be the drivers? Is it going to be from branches or from growth in the revenue line?

Shankar: I think it's a combination of both. Growth in revenue lines definitely is something that we are targeting in the new strategy. Branch optimization is something that we would definitely love to look at. But again, we need to be sensitive in terms of closing branches, it's very difficult, and we need to optimize the current branch network that we have in terms of the infrastructure, people, etc. But obviously, we're also looking at cost efficiencies. The more we digitize, the more we automate, we will be able to handle more transactions with the current set of people and with the current infrastructure we have. And I think these are two...both the pillars should work in partnership, and this is how we expect to reduce the cost to income ratio.

Shabbir: Thank you. A follow up question from Adnan. Can you please explain the difference between the Stage 3 loans and the NPL ratio of the bank? What percentage of the Stage 3 loans are under curing period currently?

Shankar: Yeah. So, the stage three, which are not part of NPL, basically consists of, I would say, broadly three categories. One is the curing that Adnan has mentioned. The second one is basically where it is in Stage 3 because of cross-facilitate default. So the customer has multiple exposures, he has defaulted in one exposure, and that's moved to NPL. But he is performing in the others. And so that also moves to Stage 3. And the third one is where the management proactively sees issues in certain customers. And so we move those to Stage 3, while they still continue to service their loan, service their debt. It's a proactive and conservative response by management to move such accounts in Stage 3. Curing, I would think is roughly about...maybe about 50% of the Stage 3 loans.

Shabbir: Thank you. Yeah, I think Abdulazeez's question, I think, can you quantify the one-off related to strategy expense? I think you've addressed that. A follow up question from Fareed. When you guide targets within market for your various KPIs, will you please clarify who would you consider your peer group, smaller banks in the segment or all corporate focused banks? The ratios would differ materially depending on the peer group.

Faisal: I think Fareed's question is basically about our...

Shabbir: Appropriate peer group for comparison.

Faisal: Yes. I think we'll explain it more as we roll out and announce the strategy in the coming investor calls. But as of today, we believe banks that have the same structure as SAIB in terms of the balance sheet and segment focus and similar size. We'd say these are the benchmark of competitors that we are competing on. I mean, our main segment is corporate and private banking.

Shabbir: Great, thank you. We have a question from Sarah Boutrous [SP]. Any thoughts on how we should think about the direction of margins, NIMs, cost to income ratio, cost of risk, and ROE in 2024? And thank you so much for the presentation.

Shankar: I think we will probably discuss this in the next earnings call. We're still working on the strategy, there are numbers that we're still working on. So we need to complete this before we can provide guidance for 2024. However, in general, we expect a positive trajectory as far as net income, cost income ratio to improve further, and NIMs, again, it would depend on how the interest rates move and when they start reducing. So it would depend on this.

Shabbir: Thank you very much. Just a final reminder to everyone that if you would like to ask a question, you can raise your hands or type it in the Q&A box. A question from Indica. While Saudi Investment Bank is guiding towards NIM expansion in two ways 2023, most of the other banks have projected a contraction of NIMs as rates are peaking. Any specific reason behind the positive NIM guidance, please?

Shankar: One of the main reasons is also because there is always a time lag between your asset repricing and the liability repricing. So we have some part of the assets which are to be repriced, you know, for the last set of rate changes, and we also expect a further 25 basis points increase in rates in the third quarter. And because of this... And again, one of the main reasons is also because we do not have a large mortgage portfolio, but a lot of other banks have a significant mortgage portfolio. And so the fixed rate loans that we have are largely consumer and mortgage. And almost the entire corporate loan book is variable rate. And so that could be the difference between why we are projecting increase in NIMs as compared to some of the other banks.

Shabbir: Thank you. I don't see any further questions. Maybe two questions, last questions from my side. One, if I look at your market share over the last five years, you've lost some market share on the loan side. And it seems mainly because of the retail segment. And I think you've touched upon not being very actively focused on the mortgage segment. Was that the main reason, you think? And do you have any aspirations of regaining some of that lost market share going forward? And finally, in terms of deposit and loan concentration, is there anything notable that you want to highlight? Is there any significant deposit concentration or loan concentration in your balance sheet?

Faisal: Okay, I'll answer the first part, Shabbir, about the loss of market share. I think as highlighted by Shankar earlier, it's mainly due to the market growth that has happened in mortgages, where SAIB was cautious to grow in that market given the low-price environment at that time. So this is the main reason for not growing the loans previouslt. As for the appetite to grow, the answer is yes. We believe rates today in mortgages are favorable. And this is an area that we would like to grow in with the new strategy. So that's the first part. Second part, in terms of deposit concentration, SAIB has been improving its deposit concentration the last few years. We believe today, we are at a good level in terms of the diversification that we have achieved. But I think it's still within Saudi market norms. It's not something special to SAIB also.

Shabbir: Thank you. I don't see any further questions. Do you have any concluding remarks? I'll hand it over to you for any concluding remarks.

Faisal: Just to thank everybody for their time to join us in the call. And thank you, Shabbir and EFG Hermes for hosting the first investor call. We are excited to share our story. And looking forward also to upcoming calls.

Shabbir: Thank you very much. If anyone has any further questions, who should they reach out to from your side?

Faisal: I think the presentation, it highlights the email that they can contact. And David is also available for any calls or questions.

Shabbir: Thank you. Thank you very much. Thanks, everyone, for participating. Thank you to the management for making this presentation and answering the questions. Have a good evening, everyone.

Faisal: Thank you very much, Shabbir.

David: Thank you, Shabbir.

Shabbir: Thank you. Thanks.