Moderator Hello and welcome to Alinma Bank Fourth Quarter 2024 Earnings call. My name is Carla and I will be coordinating your call today. During the presentation, you can register to ask questions by pressing star followed by one on your telephone keypad. And if you change your mind, please press star followed by two. I will now hand over to Mr. Shabbir Malik at EFG Hermes to begin. Please go ahead when you're ready.

Shabbir Malik Thank you, Caroline. Good afternoon and good evening, everyone. This is Shabbir Malik, and on behalf of EFG Hermes, I welcome you to Alinma Banks 2024 Results call. I will now hand the call over to Ms. Arwa Alshehri, the head of Investor Relations, to start the call. Arwa, over to you, please.

Arwa Alshehri Thank you, Shabbir. Hello, everyone. Thank you for joining us today for Alinma Bank's earnings call for the fourth quarter of 2024. Our CEO, Mr. Abdullah Al Khalifa will begin by providing an overview of the bank's performance and financial updates, followed by a recap and an update of Alinma strategy for 2025. Next, our CFO, Mr. Adel Abalkhail will present the full year financial performance for 2025 and share the updated guidance for 2025. We will conclude the call with the Q&A session where our CEO, Deputy CEO, Saleh Alzumaie, CFO and Chief Corporate Officer, Mr. Jameel Al Hamdan will address your questions. I will hand it over now to our CEO.

Abdullah AlKhalifa Thank you. Hello, everyone. Welcome to our earnings call. On the high level financial performance review on page 6, you see that our financing reached 2.2 billion. That's a growth of 16.5% over last year. Our total assets increased by 17% to reach almost to 77 billion. Operating income increased by 12.5% to reach 10.9 billion. And as a result, our net income increased by 20.5 to reach 5.8 billion. Our NPL ratio 1.06 and our coverage ratio is 172.

Customer deposits increased by over 12% to reach to 27.5. More importantly, the growth in CASA, 20% growth year-on-year to reach almost 109 billion. As a result, our CASA as a percentage of total customer deposit moved to 51.6.

Cost to income continued to drive to further decline, reduced to reach 30.9. NIPS reaches 3.7 and our ROE we closed the year with 18.8.

The next section on page 8 is a quick reminder on our current five year strategy. Now 2025 will be the last year of the strategy. We're working now to develop a 2030 strategy, and following our earning call in Q4 this year we'll give you an update on the new strategy and main highlights there.

So, our current strategy basically aspires to be as the bank known to be the fastest, most convenient bank in the country, number one in the promoter score, and number one as Employer of Choice among the Saudi banks. We want to be the most digitally advanced and fastest and most convenient bank. Corporates who want to be the best in terms of best customer experience, as well as the faster turnaround time. And for our Sharia to be the most innovative Sharia compliant treasury.

On the next page, page 9 gives you a bit further details. So, in retail, there are the three main pillars in retail: the focus on the affluent and private, the focus on the use segment, and offering the best customer experience. And corporates want to be the core bank for not just large and project files but also corporate banking. We want to develop our SME franchise as well as grow our cash and trade. Treasury obviously becomes our core partner for our clients' needs in terms of hedging interest rate risk or currency risk, and grow FI and of course, maintain high quality ALM function.

Now the next page shows our journey so far. If you recall, we had 86 initiatives. We've already delivered 75 of those. We still have 11 to go this year. So just to give you some flavor of things that has been achieved this year or this quarter, we launched an Alinma new API. This is for open banking. We launched a new corporate portal and retail we launched easy payment plan. We introduced persona behavior, behavior-based segmentation, and we fully completed all the branch male and female mergers, we completed that process. All branches now are one. One branch. No more female and female and male sections.

Corporate with experience, very good growth. And overall growth in corporate 15%, and also growth 14% the non-funded assets. We had a very strong growth on mid corporates, 60% year-on-year growth, as well as 39% growth in SME business. We continue to drive and still more of the effects forward and profit rate swaps. And so far up to Q4 we've done 4.6 billion of cash flow hedge.

Now on page 11, this shows the remaining 11 initiatives, things that we're working on, not naming those 11 initiatives, but things we're working on. I'll try to accelerate the sale of insurance through our network and through our apps and internet. I want to automate customer value management. We want to do cash management and forecasting solutions for our corporate clients. We are close to launching our new E trade system, and we're going to focus on treasury, continue to focus on long term funding, as well as clustering.

And with that, I'll give the floor to our Chief Financial Officer to take you through the details of our financial performance.

Adel Abalkhail Thank you. Good afternoon to you all, and welcome again for our earnings call for Q4 results 2024. As usual, I'm walking you through the financial performance in a bit of detail.

So, starting with slide number 13 in the presentation of the balance sheet trend total assets movement year-on-year is 17%. We've seen 28% increase in interbank, 12% on investment. More importantly 17% to growth year-on-year in the financing portfolio.

In the total liability slide, in the same slide as well, the movement on liability is 16%. And as mentioned by the CEO before, more importantly, we cover the latest CASA customer deposits 12% was driven mainly of 20% of CASA growth. And also, we have 6.5 billion increase on the interbank.

In the next slide, slide number 14, on the P&L trend, net income for the full year of 2024 was 21% increase year-on-year. This was supported by the growth and the operating income. Growth and operating income of 4.5%. So if we can see the operating income composition as of December, 79% of that, obviously, is the net commission income of net interest income, net yield income, then 15% we have on the fees from banking services, 3% each for investment gains and also the Exchange income.

Slide number 15 is diving a bit into the financing. We have seen the financing as 16% on a growth basis, and that's 3% on a sequential basis from Q3. This is also a result of 17% growth in the gross financing of retail portfolio. And also, we have seen 15% growth in the corporate portfolio, including the SMEs.

If you can see in the top right-hand graph the financing as a gross composition of the overall portfolio. The large corporates, along with the project financing, represent 66% of the portfolio. We have 5% on the mid-corporate and also we have 5% in the SMEs, 12% each split between the mortgage business and the personal financing or consumer financing. So, the overall corporate as of December represents 76% of the portfolio, and retail represents 24% of the overall financing portfolio.

Slide number 16 on the deposit. As mentioned earlier, we have seen 12% growth year-on-year, and this obviously came from a very strong growth in CASA, year-on-year 20% and also we have 5% growth in the time deposit. This, as mentioned earlier, brings up the CASA to total deposits to be 15.6% from the overall deposit. We can see from the bottom left graph customer deposits composition, 62% is the overall retail deposits, and the remaining is the deposits defined as non-retail.

Slide number 17, on the NIM, income from financing and investment, gross funded income continues with strong growth driven by 22% both in the investment and also from the financing income. We have seen as an amount the growth on the overall financing funded income as gross year-on-year at 12%. I think the graph in the bottom left slide and the slide in the bottom left net profits margin year-on-year has contracted 10 basis points. This is a result of an improvement, actually, in the investment portfolio, followed by four basis points. 50 basis points also improvement in the financing yield, but this was offset by 44 basis points increase in the cost of funding.

So, you can see on the graph, in the center of the slide, the NIMs, the YTD NIMs were at 3.81% same period last year. And we closed December 2024 with NIMS at 3.7%.

On the next slide, slide number 18, in the fees of the Non-Yield income, also has seen strong growth year-on-year of 11%. This came actually from 10% growth in the fee from banking services, 15% growth year-on-year on the FX income. And we have 12% on the revaluations and investment related gains and dividends. And we have a small drop in the other income.

Slide number 19 on the opex, the operating expenses, this is an 11% growth year-on-year, mainly 15% growth driven by the personnel costs, depreciation and amortization of 9%, and we have the other G&A of 9%. We have seen also the opex growth lower than the previous quarter and sequential basis, only 1% the growth between Q3 and Q4. So if we compare it to the cost income ratio position last year, we were at 31.3%. We close the year of a cost to income ratio at 30.9%.

On the Impairments for financing, the full year 2024 Impairments charge for financing decreased by 17% year-on-year, totaling to 1,050 million. This also drives the cost of risk down from the previous year. So, cost of risk for the full year for 2024 decreased by 23 basis points year-on-year to be 55 basis points. Our cost of risk for the full year of 2023 was 77 basis points.

On the next slide, slide 21 on the NPL and NPL coverage ratio, our coverage ratio, NPL ratio decreased by 55 basis point year-on-year, and we closed the year at 1.06% NPL in Q4. Non-performing loans decreased by 24% year-on-year, and spending at 2.2 billion by December 2024. NPL coverage ratio has increased by 17 points per

1000 year-on-year. We closed the year at 172.3, up from where the coverage ratio was by December of the previous year of around 155%.

The next slide, slide number 22 on the capitalization and liquidity, capital and liquidity ratio remains healthy. We can look at the capitalization, we are up 17.7%. That's CAR pillar one. On the profitability matrix, we have seen an improvement in the return on assets, closing at 2.3% versus 2.2% last year. And also, 18.8% in ROE versus 17.2 same period last year.

On the bottom of the slide is the liquidity measures. We have the LCR, we closed at 122%. This is well above the 100% which is the regulatory minimum. And also, LDR, we closed regulatory LDR, we closed at 83.3, which is again well below the regulatory maximum.For the NSFR, also stable and healthy above the regulatory minimum. We closed at 108.2.

With that, the other section is the outlook and guidance and how we also stand by December against the previously updated guidance for the year. The financing growth, we closed at 16.5%. This remains within the guidance communicated which was high teens. And also the net profits margin, we lost 10 basis points during 2024. We closed at 3.7. The guidance was zero to minus 10 basis points.

Cost of income ratio, the guidance was below 31. We closed at 30.9. Return on equity is 18.8, above 18% which is the guidance provided before. Cost of risk 55 is within the guidance. The guidance was 60 to 50 basis points, and CAR pillar one, 17.2 it's below the guidance provided before 18% to 19%.

So coming into 2025 guidance on the financing growth, the expectation of strong growth in mid corporate, SMEs, and also the continuous growth in retail, also the continuous growth expected in the corporate portfolio, we are guiding for mid-teens for 2025 financing growth. On the NIMs, the guidance for 2025 is flattish, five basis points, plus five basis points to minus five basis points. As far as cost to income ratio for 2025 is below 30%. The guidance for ROE for 2025 is above 19% and the cost of risk guidance is lower than the guidance at the closing, where we are. At December, we are guiding for 55 to 45 basis points cost of risk for 2025. On the CAR Pillar 1 the guidance is 17% to 18% for 2025.

With that, I'll hand it back for the Q&A's. Thank you.

Moderator We will now begin the question and answer session. If you'd like to ask a question, please press star followed by one on your telephone keypad. And if you change your mind, please press star followed by two. When preparing to ask your question, please make sure that your device is unmuted locally. We will make a quick pause for the question to be registered.

Our first question comes from the line of Nida Iqbal from Morgan Stanley. Your line is now open.

Nida Iqbal Hi. Thank you very much for the presentation. My first question is on the guidance for margins in 2025. Your guidance implies an improvement in the NIM trajectory year-on-year versus what we saw in 2024, and the midpoint of the guidance implies essentially flat margins. So just wanted to understand what policy rate assumptions do you embed in your guidance in terms of rate cuts in ’25? And if you can please get the latest NIM sensitivity for each 25 bps. And what are the drivers that are driving you to expect flat margins in a declining rate environment? And then just follow on from this, perhaps more of a bigger picture question, we see loan growth continue to outpace deposit growth in the sector. Can you talk about your views on liquidity conditions in the sector and the risk of costs of funding headwinds in 2025? Thank you.

Abdullah AlKhalifa Thank you. On margin, this year, I’ll maybe cover what happened this year. We were expecting further improvement on NIMs in Q4 as a result of lower rates that should first be reflective in your cost of funding, because this tends to be shorter in terms of repricing. The repricing cycle is much shorter than our assets. But I think what we experience in Q4 has been a bit intense competition on customer deposits that actually resulted – yes, rate has gone down, but the amounts that banks were paying over and above the benchmarks to get down deposit was, put it this way, much higher than we expected. And that's why we end up the year at I think, 10 basis points lower.

Now for next year, we're expecting, obviously just before the earning call, we do take the latest forward yield curve from the markets, and we base our guidance based on that. And of course, as we mentioned, every quarter will do the same based on the following yield curve at that time, plus our results for the previous quarter-on-quarters.

We're assuming, I think we're expected to see 79 basis point, on average three months SAIBOR, 79 basis point decline next year. And as I mentioned, the nature of our liabilities tends to be a shorter term, and that would drive lower cost of funding versus the speed of repricing of the assets.

Then the other part that really helped is that we have a reasonable portion of our portfolio as retail, 24% for retail, and that is typically not surprising, as well as the fixed rate investments that we have. Plus the impact of the cash flow hedge that we've done. So these are three combinations.

In addition to that you've seen probably, if you took our earning call document, let's say a year ago, you see the percentage of mid corporates as well as SME was lower than now, which means they actually better yield, obviously, and we expected to continue that process of driving faster growth in mid corporates and SME, which tend to improve our NIMs. So that's the main functions behind that.

I already covered liquidity. I think we've seen competition on Q4. And in this year, in 2025, I don't think liquidity will be easy. I think loans will continue to grow. I expect the industry to grow double digit again in 2025, which means more demand for liquidity. Obviously, loans create deposits. But I've seen further and further trends in terms of large corporates going to international markets. Saudi banks tapping the international market. I think I saw the news of madeen, Saudi Electricity, Aramco, PIF or the government. So, this borrowing internationally should improve liquidity. In addition to, obviously, the amount of foreign assets managed by the central bank, they have sizable assets that, if the central bank sees liquidity, or requires some injection, they can do that. And they've done that back in 2023, started actually Q4 '22 and we've seen it increasing in '23, been stable in '24 I have to say. But I think that could, could also improve liquidity.

Nida Iqbal Thank you. That's very helpful. Just follow up on the NIM sensitivity, are you able to provide the sensitivity for 25 bps now?

Adel Abalkhail So we'll be uploading our financials, full details of financials tomorrow, so you can see the commercial sensitivity there. We have still a positive GAAP in the first zero to three months. So as of December, this suggests that our sensitivity is for every 25 around 1.7 basis points drops for every 25 basis points rate cuts again. That's with the usual qualifications. This is, again, remains theoretical as of December. And as the CEO mentioned, going forward, we always take the latest yield curve and we apply it based on the business developments, and we update our guidance accordingly.

Nida Iqbal Thank you.

Moderator And our next question comes from Olga Veselova with Bank of America.

Olga Veselova Thank you. Thank you and good day. Thank you for taking my question. Several questions. One is on provisioning, how cost of risk and project finance now compares with the cost of risk and the rest of the loan book? And I understand it can be in a wide range, but if you could give us maybe blended average for project finance versus not project finance. And generally, also how much is project finance as a percent of outstanding financing and new credit decisions? So this is my first question.

Second, there was a slowdown in financing and deposit growth in the fourth quarter. It came below sector average, especially in the corporate segment, which is not really usual for Alinma. So, I wanted to ask, why was this slowed down, and what shall help you to reverse this trend in 2025?

And finally, if you could comment what was behind the increase in NPL's in the fourth quarter, and where do you see coverage going forward? Thank you.

Abdullah AlKhalifa Okay, let me cover the slowdown on the corporate loans in Q4. I think maybe I should have commented on this when I was explaining the growth in financing this year. If you recall, our guidance was high teens, and we ended up with 16.5%. Technically, you may or may not consider it high teens, but what we faced on Q4 was two combinations. Strangely, despite the sort of competitors, intense competition on deposits, we had some prepayments, significant prepayment that happened in Q4 and corporate books, driven mainly for two reasons. One significant reason was some a bit aggressive pricing that some of our customers were offered and we didn't want to meet that. We felt that it didn't make sense. At a time when liquidity cost is going up, this is not really the time to reduce margins. Actually, I don't know if you've seen in 2015 or '16 when all banks are forced, faced with the higher cost of liquidity and we were forced to increase their spread on clients. So, we find it a bit strange, but that was some of the reasons.

The other reason is the excess liquidity from clients has got in Q4 as a result of government payments or others, and we prefer to reduce their roles, so a significant portion of prepayments that came in Q4, that's the main reason.

Now, as far as provision of project finance, it's pretty much similar to stage one provision. The impact, whether it's project finance or not, is not really on provision. It's really on the car calculation, because the risk rating is different. But as far as provision is very similar to any stage one corporate loans that we give.

Project files as a percentage?

Adel Abalkhail As far as the project financing as a percentage of the overall financing, it's actually half of what I mentioned before. Large corporate and project financing represent 76%, so roughly project financing is half of that, which is 54% as of December on the overall financing.

Just maybe a few questions on the NPL's for Q4. It was a couple of names sitting at stage two, it was just normal movement to stage three. Nothing specific to any sector.

Olga Veselova Thank you. Can I check what is the risk weight for project finance? How is it different from the rest of the portfolio?

Adel Abalkhail Project financing, as you know, is about the three reforms. Now there are two types. You have to segregate the projects into good quality operational, non-operational and low quality. Most of what we do is in the non-operational. There are still some projects on the operational side. So, the trigger there is most of which if you look at the project financing as non-operational, good quality would be 150% as a capital risk charge for certain budget financing.

Olga Veselova That's great. Thank you.

Moderator The next question comes from John Pease with UBS.

John Pease Thank you. So, my first question please is on the cost of risk and the guidance that you've given for 2025 of 45 to 55 basis points. Do you see that as a sustainable number into the long term, given the mix that you've got, or is this a little bit below the through the cycle rates because the economy is strong?

And then my second question please is, what was your CET1 ratio, and how low would you be comfortable with that going? I'm just wondering how long you think you can sustain mid-teens loan growth and still have a very good payout at 50% or would you consider moving to a script dividend again to fund the strong balance sheet growth? Thank you.

Abdullah AlKhalifa Thank you. In terms of cost of risk, I think if you look at the trend for the last few years, it has been declining. This was attributed to the significant economic activity. All sectors are doing very well. Unemployment is declining significantly. Economic activity is really buzzing, the whole country, almost every sector and the economy. So naturally, this typically and throughout the cycles we've seen this before, when things are very rosy, typically cost of risk goes down.

However, at least in the industry, you'll see that we tend to be among the high, if not the highest, in terms of customers who are very conservative. I think I've said before that 40 to 50 is throughout the cycles of total provision, and I think we're getting very close to it. You've seen our NPL ratio low, coverage ratio high. The outlook for the economy in Saudi is going to be quite rosy for the next three to five years. I would expect that to be maybe a little bit further decline maybe next year, but I don't think we're going to go aggressive in terms of lower cost of risk. We always tend to be conservative projects in terms of taking provisions or building more protection within our portfolio.

Adel Abalkhail Yes, CET1, it's around 13% and this is well above, as you know, the minimum BASEL requirements. There is typically no specific requirements as far as CET1 as far as the requirements relates total capital, tier one and tier two over the pillar one and pillar two risks, which is something that gets assigned as a requirement by the central bank. So, of course, the internal generated capital, and also we always look into the options relates to the capital management, and we forecast ahead the growth that we are expecting, along with how much dividend payout that is expected as well, and to see what are the actions needed to be taken to support the capital.

As far as CET1 is around 15% and there's no specific requirements to maintain a minimum as far as where we are versus BASEL as well above.

John Pease Thank you. Just to clarify, do you think you'll be able to retain the 50% payout this year, or is that a decision you'll take later, if you might pay a shares dividend or something different? Thank you.

Abdullah AlKhalifa The payout for this year is 47%, so already announced. We always try to retain at least 50% for net income. Obviously, with faster growth, and if we feel the need lower payout ratios is an option on the table always. I don't think we're considering stopping paying dividends, but as our income growth, our net income grow, and the value of dividends continues to increase, it may lead to a little bit or further decline in terms of payout ratio.

John Pease Thank you.

Moderator And our next question comes from Aybek Islamov at HSBC.

Aybek Islamov Hi, everyone. Thank you for the conference call. So, I wanted to clarify a few things. Firstly, on the net interest margin, can you comment what kind of benefits you've seen so far from the rate cuts? It looks like your asset deals in Q4 actually fell a bit sequentially. I've heard your comment about the funding cost, that there was a bit of a pricing war in the deposit side. So, any benefits from the rate cuts you've seen so far in Q4. And if not, do you expect to see them later in 2025? I think based on your guidance, you imply that you will. That's the first question.

Secondly, you do mention quite frequently about SME lending that you are quite active there. It's asset yield decrease, and so on and so forth. So, truly appreciate this information. Has anything changed in terms of the credit quality of SME lending in Saudi Arabia? What kind of risk environment or credit risk environment do you see in the SME segment?

Abdullah AlKhalifa Okay, in terms of NIMs, the main reasons for natural improvement in Q4, in fact, I think we've also contracted NIMs, was what I mentioned on cost of funding. Honestly, through my 30 plus years in banking, I wasn't aware of some of the deals that we've heard in the market. Things like going significantly higher than usual. I mean, we've seen periods where banks will pay 20, 30, 40 basis points. The levels we've seen in the market was significant. Obviously, with us continuing to grow, we had to wait to fund this. We've done a fantastic job in growing our non-transparent deposits. However, we had to obviously finance this growth, and we had to compete on deposits. Not to the crazy level, to be honest with you, I've seen in the market in Q4. And hopefully things stabilizes further. In terms of SME lending—

Jameel AlHamdan Nothing changed in the lending environment for SME. We will continue the same thing. We do have the government support program, and we expressed, as well, a new initiative from some entity risks to the government. Moreover, we are very diversified when it comes to program-based lending, as well traditional lending through risk acceptance criteria, plus collateralized is also covers major portions on that one.

Moderator Our next question comes from Tazeem Andak with Goldman Sachs.

Tazeem Andak Hi, my questions have already been answered. Thank you. Cheers.

Moderator Perfect. So while we wait for any other questions in the queue, I will hand back over to Shabbir Malik for any questions.

Shabbir Malik Thanks. Maybe two questions from my side. I was wondering if there are any changes or updates on corporate tax, because in some of the other markets or jurisdictions, we've been hearing about corporate tax in line with OECD requirements. So, I wanted to hear if there's any updates for Saudi Arabia.

Secondly, in terms of the competitive landscape, reading some news around new digital banks planning to set up in Saudi Arabia, or have that already been set up in Saudi Arabia, how do you see that? And you see that potentially as challenges to your business or your retail business? And how would you rate your digital offering relative to some of these new challenger banks? Thank you.

Saleh Alzumaie In terms of digital, we'll continue investing in digital, and today we have a lot of products and services on digital. We also developed a new portal for our corporate customers, plus a very advanced mobile application for corporates will be released very soon. Also, we have a very good service for our youth customers through a different application where it is like a lifestyle application. Called iz application. Also, we are delivering a new SME'S attacker will be for micro financing and for the smaller merchants and SMEs. So yes, I think we put ourselves now in the top tier of digital offering towards our customers, whether retail or corporate.

Abdullah AlKhalifa So obviously, I think already two banks, two digital banks have started operating. Honestly, the level of digitalization that the Saudi banks in general, us for sure, we don't see that as a major risk in our market share in terms of the tax.

Adel Abalkhail So Malik on the corporate tax, we are honestly hearing what you hear. So nothing, as we speak, officially was received from the authorities in this regard. And so, we are paying zakat's around 10% on the net earnings, but nothing officially received on this regard. So really cannot come to that.

Shabbir Malik Got it. So maybe one more follow up question. When I look at the SAMA data and mortgage seems to be pretty solid in December. Is this mainly because of the reduction in interest rates when we saw this increase in mortgage sales? And is that something that we saw for your bank as well?

Saleh Alzumaie I think the CEO mentioned that the cost of funds in December wasn't really very, very low compared to previous quarter, but we related this to a very renowned real estate exhibition called Cityscape, where it attracts a lot of big developers, plus the National Housing Company, who offer their latest project during this exhibition and thousands of units are sold during this exhibition. The developers tend to offer exclusive discounts or offers during the exhibition, and the bank participates on this, a lender rank was operating in this as well, along with other banks during this exhibition. So, November, the sales happen, usually after one month evaluation, so December was big for everyone.

Shabbir Malik Got it. Thank you. Are there any other questions in the queue? Operator, are there any questions in the queue?

Moderator Our next question comes from Rahul Rajan from Bank of America. Please go ahead. Your line is now open.

Rahul Rajan Thank you once again for giving the opportunity. Couple of questions from my end. One is on the non-NSCI income, there was a quarterly decline in 4Q, which I see is also coming from the other income side of things within that. So, what was the reason which drove this decline in 4Q, if you could shed some light on that, that's number one.

Number two is more at a sectoral level. You mentioned earlier that deposits or the lending growth would continue to be faster than the deposit growth at a sectoral level in 2025. So from a SAMA LDR perspective, while it's at 90% is sort of the limit, at what level do you think SAMA would typically approach a bank and start intervening? Would it be at, say, 85, 86 levels, or would it be higher? So, any light of that would be helpful. Thank you.

Adel Abalkhail Yes. The question on the non-commissioned income drop on a sequential basis from Q3 is at 8%, but if you look at this from how we divide in net interest income, actually the fees from banking services, there is a net growth on a sequential basis by 6 million. The drop basically came from the other income, as you likely said, and this basically comes from the normal quarter valuations relating to our own investments, or the Sum of the investments and funds that is being held or invested by our investment, which is Alinma Invest.

Moderator Our next question comes from Olga Veselova with Bank of America.

Olga Veselova Thank you. Thank you for taking my follow up questions. I have two. One is, I'm trying to connect the dots in your guidance for the full year. You're saying that margins will be flattish, cost of risk down, cost income ratio down, balanced growth in mid-teens. I feel like it should translate into broadly mid-teens, at least mid-teens growth of the P&L. However, your RE guidance is not suggesting that. So, you're saying it will be slightly, marginally up to single digit growth of EPS. What are we missing? So which line is the missing component, unless I'm connecting the dots in a wrong way?

And third question is on liquidity. Can SAMA ease mandatory reserve requirements to help liquidity in your view? This instrument has been used by some other central banks. Remind us, what are these requirements now, if possible. Thank you.

Abdullah AlKhalifa I'll cover the second question, because I'm not very clear about the first one. Adel maybe he would.

In terms of liquidity, SAMA is very, very proactive monitoring the systems. Always ensuring the safety and robust to the banking system. I obviously can't answer this on SAMA whether they can relax or not, but I see no sign of that. I don't think they may. I think they certainly can support the level of liquidity if needed. But as far as easing off some of the limits, I wouldn't expect that. This is what I read, but I'm obviously not the right person to answer this. But I would be very surprised if they do.

Adel Abalkhail Back to the question, if I understand correctly, as part of the guidance for 2025, looking to flattish NIMs and also further improvements as far as the guidance and cost of income, as we say, from the growth in the top line, and also the efficiency in the opex themselves, and also the lower guidance from this year or actual cost of 55 this year, lower guidance for cost of risk next year. Of course, if you can look at this translates into the normal results of our guidance of ROE, which is above 19% as a guidance for 2025.

Abdullah AlKhalifa So now the answer to the question, just add to what was Adel mentioned, we have mid-teens growth, we're expecting mid-teen growth in loans. Even if NIMs is flat, that would result in Improvement to the bottom line, as well, obviously, grow in the non-yield income fees and others, and better control, I guess, although slower growth on the operating expenses. All that coupled, as Adel mentioned, with lower cost of risk will lead to the forecasted ROE or the guided ROE.

Olga Veselova I just wanted to clarify maybe what I'm asking. So, your ROE guidance suggests probably single digit growth of the bottom line. However, if I combine all the lines of the guidance, including balance sheet and margin and everything, it should be a higher number. It should be double digit. So, what's the difference between these two? Do I make any sense?

Abdullah AlKhalifa Sorry, we did not give any guidance on the bottom line. We didn't say double digit or single digit. We gave guidance on the loan growth, on the cost of risk, on the NIMs, on the cost to income ratio. We have not given any guidance on this. I think you can derive from the guidance that ROE above 19%.

Adel Abalkhail Yes, just to clarify, the guidance for ROE is above 19%, not 19%.

Olga Veselova Okay, makes sense. Thank you.

Moderator Our next question comes from Adnan Faruk with Jadwa Investment.

Adnan Faruk Thank you for the call. I have three quick questions. One, you mentioned cash flow hedges as something that was likely to support your mid-teens in 2025. Can you comment on the size of these cash flow hedges?

Secondly, in the past, last year you issued a tier one instrument. You mentioned you might be looking into that going forward as well. What are your plans regarding any issuances in the market during 2025?

And another question, I think you touched upon it, but if you can get some more color on the pickup in NPL ratio during the fourth quarter, if it was related to any particular sector? And do you expect any further deterioration in your NPL ratio going forward?

And then maybe one last question on your non-interest income, you have done exceptionally well last year. How do you see that line item growing going forward? If you can comment on which areas you expect significant growth in 2025 as well.

Abdullah AlKhalifa So in terms of cash flow, I think I mentioned in the presentation on the progress on this strategy, that we've done 4.6 billion as end of Q4. And also I mentioned I think during the earnings call that we're forecasting three months cyber average three months to go down by 79 basis points, and that is supportive to the cash flow hedge. So that's obviously fixed income. So, cash flow hedges, basically, we give up the floating leg and we start receiving fixed rate.

In terms of tier one, yes, I think I was very clear multiple times that we are not, we didn't go in '24 for one time, we should be able to come back to the market. And most likely we'll do another issue once this year.

In terms of the fees guidance, or something like that, obviously we've been growing our business. You see mid-teens in loans. We're really focusing on gathering or growing fast on the retail side. We very much focus on growing our cash and trade. And all these combinations will continuously lead to us improving the fee income. However, we don't typically give guidance on specific lines of the P&L, but you should expect to see continuous growth on that income.

Adel Abalkhail Just to follow up on the NPL's for Q4 versus Q3, as I mentioned, just couple of names were sitting in stage two Moved to stage 3 as per the model. Nothing really there that we should be worried about for now. And as I mentioned before, it's not really specific to any sector.

Moderator Our next question comes from Murab Ansari with GTN.

Murab Ansari Most of my questions have been asked, but maybe just a couple of follow ups on the retail side. You've had a good year in 2024, 17% growth in the book. I'm just trying to get a sense of how much does the lower interest rate environment help in kind of accelerating this growth in 2025?

And secondly, just a follow up on the forward curve and the interest rate outlook and fourth quarter kind of deposit composition, we've seen some of the results from the other banks. They're saying that there has been Q-on-Q decline in a number of banks in terms of deposit, so there seems to be some banks that have lost deposits in this competition where you've kind of held on to your deposit base. When you talk about interest, forward guidance on rates and the forward curve being lower, is this deposit competition something that was more specific to the end of the year? Is that something that you're already seeing signs of slowing down in terms of pricing that was visible in fourth quarter?

And finally, on your stage three coverage, you've built that up steadily over the past three quarters now at about 55% to 60% for fourth quarter. Is there a target that you're looking at? Because, I mean, pre second quarter, it was Roughly around the 70 kind of range. Is that something that you will look to build up further towards the end through this year? Thank you.

Abdullah AlKhalifa Thank you. Obviously, on the retail versus lower rates expected going forward, certainly that makes the retail business much more attractive compared to a couple of years ago, for example. Mortgage, there was competition, fixed price, rate was going up, so margins was not as attractive as the retail or the mortgage going forward. Same thing for personal finance. So, we're expecting to see a better sort of margin on retail when rates go down. Yes, obviously you can offer lower rates and have to compete, but I think it's not directly linked. The lending to retail is not purely directly linked to cyber plus all the time. There's competition, there's also segmentation, pricing, the different justification for better spread. So, with lower interest rates, that becomes more attractive.

Now on deposits, I really wish that it is a yearend trend that's not expected to see. Also, I tend to be conservative, I tend to be cautious, but I suspect that we could do fast growth on loans next year, and hopefully we'll see higher level of FDI and higher international borrowing from all the banks and as well as the large corporates and the government that should continue to improve the liquidity. In terms of the stage three coverage—

Adel Abalkhail Yes. So on the stage three coverage, you're right. We were about 71% coverage for stage three back in end of 2023. If you recall, this has dropped to around 50% stage three coverage in Q2 2024. And the reason behind that, as we explained at that time, we had sizable write off during Q2 which was actually, as you know, the write off would be for accounts that is fully covered. So, you're writing off some accounts that is with high coverage. And we have been building the coverage for stage three since Q2 last year. So Q3 was 53, stage three coverage for Q4 was 55 and, of course, the Q2 as well, because eventually we are monitoring the overall coverage ratio. But the drop, as I mentioned, was in Q2 and the coverage has improved since Q2 last year.

Murab Ansari Thank you. So, is there a target that you're looking at, or is this just something that will steadily build up over the course of the year? Is there some targets on stage three coverage that you want to—?

Adel Abalkhail No specific target, no specific target, actually, for stage three coverage. For every stage coverage, it's, as you know, it's an IFRS9 model results. And there is no specific –

Abdullah AlKhalifa I want to be aligned with the industry. I think that you can reasonably say that in a way we don't want to be below the market and we don't want to be the highest.

Murab Ansari Great. Thank you. Just to follow up on your answer on the liquidity side, so my sense from your answer is that the pricing environment has continued to be quite challenging on the deposit side. Is that correct, over January and early February? And secondly, is there a push to kind of pass on some of this cost increase on the funding side to end customer in terms of better loan pricing?

Abdullah AlKhalifa I mean, obviously, we continue our success drive in terms of growing CASA, and that did not happen only because of cross selling cash and trade, which has also contributed well to that growth. But our ability to attract more and more customers in all segments, whether on the corporate side segment or all segments within the retail, including obviously affluent, private, government and smaller SMEs, number on SMEs and so on. So that has been a fantastic journey that we've achieved so far over the years, and we're going to continue that strong focus on growing our CASA.

Now in terms of ability to reprise or pass out the liquidity, additional liquidity cost to the customers, we have been in many deals. We've been increasing some prices. However, I mentioned to you that during Q4, despite the higher liquidity costs we've seen, we lost significant amounts, material amounts in the corporate side because of lower pricing from some of our competitors. So, I leave it to them, but for us, we don't go that. It doesn't make sense. It's very destructive. If I'm paying higher cost for funding, and yet, I'm going aggressive on pricing, my corporate lost.

Murab Ansari Thank you so much, and all the best for '25.

Moderator Our last question comes from the line of Norman Kahn with SNB Capital.

Norman Kahn Thank you. A couple of questions, very brief ones. One is, basically, you're guiding mid-teens for this year and it's your growth guidance. What's the assumption for the industry that you are assuming? Would you be going in line with industry, or will you be gaining market share? So my first question is on that front. What about the broader industry loan growth guidance that you are factoring in?

Abdullah AlKhalifa Obviously, we're going to continue to focus on growing project finance. We are among the leaders in that business, and we expect more and more projects to come in line. Just take the example of renewables, which is the amount of investment on a yearly basis, is significant, as well as other project finance, of course. So that's always going to be an area of good growth for us. But also, as I mentioned during the earning call, we are also focused on the mid corporates, large corporates, the SMEs. So that will continue.

With what's happening in the country in terms of economic activity, we expect not just alinma, we expect to see, in my opinion, the industry will be double digit again this year as this year already.

In terms of the retail, also unemployment, demographics, all of that is supportive of higher mortgage and higher personal, credit card, auto loans and all retail business, we're going to continue to do better than the industry growth. We've already have good two years of track record at least, of growing faster than the market. We're going to continue that trend. So, I think all these will lead to the mid-teen assumptions that we have.

Norman Kahn So you're assuming higher than what the industry will grow, you'll grow higher than the industry, right? That's safe to assume.

Abdullah AlKhalifa Well, I'm not forecasting how much exactly the industry to be compared to us. But I said I expect to see double digit growth. But I think if you see our at least our three years of track record, you see that we've been growing higher than the market average.

Norman Kahn Okay, thank you. One last question, based on the guidance that you provided, it seems that you will be relying more on Sukuk and tier one Sukuk SAR as well as US dollar. It's one thing given the interest rate, say, for example, the recent issuance that different banks have done, they've all been in a range of like 5.3 to 6+. So what's your rationale and do you think that rates will start normalizing going forward? Because, given your yield at 6% to 6.5%, your Sukuk is offering at like 5.5% to 6%, what's the economic sense of it?

Abdullah AlKhalifa Well, maybe the shortest answer, how much ROE they generate versus how much we pay in the Sukuk? So I think that's an important point. However, obviously, tier one Sukuk, tier two, even senior Sukuk tend to be a product of the US Treasury five year rate. And that keeps going up and down. We've seen examples where rates were lower, I wish we tapped at that time. One of our competitors did a good rate on that because US Treasury five-year rate declined significantly at that time. We were going to choose, obviously, we tried to focus on the right time, most likely maybe in the first half this year. And we'll see.

In terms of pricing, we actually got good pricing compared in our first issues, compared to some international names that issue similar instruments, literally a day before. So I think being Islamic and being open to all kinds of investors, including Islamic investors may create, obviously, we've see a very good track record in terms of demand, sorry, in terms of the demand or the book, the order book last year. And I think that would be similar story this year. And last year was our first international issuance.

Now, at least theoretically, that should make it easier. People are more familiar with us. They've seen our name. They've seen issued before. Makes it easier to issue another one, and hopefully may lead to lower in terms of spread over US treasuries.

Norman Kahn Thank you.

Moderator So that was our final question from the Q&A portion. I will now hand you over to Shabbir for any final remarks.

Shabbir Malik That's all. Thank you very much. I'll hand it over to Abdullah or Arwa to see if they have any concluding remarks.

Arwa Alshehri Thank you, Shabbir and thank you everyone for your time.

Abdullah AlKhalifa Thank you.

Shabbir Malik Thanks a lot, everyone. Have a good evening.

Moderator Thank you. This concludes todays call. Have a nice day. You may now disconnect.