BSF Q2-2024 Earnings Call | J.P. Morgan | August 19, 2024

2
00:00:30.360 --> 00:00:39.560
Naresh Bilandani - J.P. Morgan: Thank you. Good day, everyone. I would like to welcome you all to this second quarter. 2,024 results. Call of Psf. Which Jp. Morgan is very pleased to host.

3
00:00:39.560 --> 00:01:02.450
Naresh Bilandani - J.P. Morgan: I'm Naresh Pilannani, your Mena Banks analyst at Jp. Morgan, and from Bsf. We have Mr. Badr Al saloon, the CEO. Mr. Ramzi Darwish, a chief strategy and finance officer, Mr. Zuhar Martam, Chief Treasury and Investments officer Miss Yasmina Abbas, head of investor relations I will pass the floor now to the Bsf. Team to commence the presentation. Thank you.

4
00:01:05.400 --> 00:01:34.880
..: Thank you naresh. Good afternoon, everyone. Thank you for joining us today on the Q. 2, 2024 earnings call. I will hand over the mic to our CEO. Better, Salome, who will update you on the performance and the strategy of the bank, and as well as talk about the Bsf debut in the market, and then he'll be followed by our Cfo. Ramzi de Rich for a more in depth. Look at the numbers, and then we will open it up for QA. I'll hand over to you whether.

5
00:01:35.180 --> 00:01:38.519
..: Thank you, Yasmina. Good afternoon. Welcome to our call.

6
00:01:38.590 --> 00:01:49.270
..: We thank you all for joining us today as we review our performance, I'm pleased to share our results. For the 1st half of 2024, which highlights our robust performance and continued strategic execution.

7
00:01:49.800 --> 00:01:54.540
..: We've seen solid balance, sheet growth and improvements in net income and our asset quality.

8
00:01:55.750 --> 00:02:00.789
..: Today, I'll briefly, briefly outline the key financial highlights in our strategic advances

9
00:02:01.110 --> 00:02:09.970
..: for a more detailed discussion on our business and strategic developments. We are excited to announce that we will be hosting a capital markets day in London on the 18th of September

10
00:02:10.419 --> 00:02:14.730
..: we currently invite everyone interested to join either online or in person.

11
00:02:15.860 --> 00:02:19.070
..: Let me now take you through the financial highlights for the 1st half of the year

12
00:02:19.980 --> 00:02:26.870
..: our loan book recorded strong growth, increasing by 16% year on year, driven by both corporate and consumer lending

13
00:02:27.200 --> 00:02:31.260
..: customer deposits, saw significant growth of 22% year on year.

14
00:02:31.360 --> 00:02:37.450
..: This growth was primarily fuelled by an increase in interest-bearing deposits as expected in the current trade environment.

15
00:02:38.070 --> 00:02:43.129
..: For the 1st half of 2024, we achieved the net income of 2.2 7 9 billion.

16
00:02:43.180 --> 00:02:46.169
..: marking a 6% increase compared to last year

17
00:02:46.220 --> 00:02:48.880
..: merely to to the improvements in risk costs.

18
00:02:48.990 --> 00:02:56.569
..: We saw nim contraction of 52 basis points year on year over year as the shift in the deposit mix impacted funding cost.

19
00:02:57.140 --> 00:03:06.040
..: Nevertheless, the 15% growth in earning assets and 6% rise in non-interest income helped our operating income stable from last year.

20
00:03:07.080 --> 00:03:09.030
..: Asset quality remains solid.

21
00:03:10.060 --> 00:03:12.659
..: not with improvements compared to last year

22
00:03:12.710 --> 00:03:20.999
..: our Mpl ratio improved to point 9 4%, and Npl coverage increased to 162% showcasing our robust.

23
00:03:21.140 --> 00:03:22.130
..: the beginning.

24
00:03:23.170 --> 00:03:38.459
..: our capital position remains strong with a tier one ratio of 17.4%. Our liquidity metrics are also very comfortable levels with Lcr at 187% and Nsfr at 118% comfortably within regulatory limits.

25
00:03:39.310 --> 00:03:42.739
..: Next, let's take a brief look at our strategy update

26
00:03:43.550 --> 00:03:46.910
..: our strategy. Execution has once again progressed. Well, this quarter.

27
00:03:47.910 --> 00:03:53.160
..: Our overall completion rate now reaches 72% up from 62% in the previous quarter.

28
00:03:54.570 --> 00:03:59.130
..: Now, starting with wholesale banking, we've reached a notable 83% completion rate.

29
00:03:59.360 --> 00:04:05.220
..: The advancements include enhancing our government lending portfolio and expanding our financial institution reach globally.

30
00:04:05.650 --> 00:04:13.939
..: As we've mentioned before, we've successfully introduced 3 new supply chain finance products and strengthened our liquidity and cash management operating model.

31
00:04:14.430 --> 00:04:21.329
..: In personal banking. Our progress stands at 62%, a substantial increase from last quarter's 46%.

32
00:04:21.550 --> 00:04:33.990
..: We've made notable improvements and strengthening relationships between our customers and relationship managers. We've also piloted our new elite plus package and continued to drive efficiency in our partnership with wholesale banking.

33

00:04:34.420 --> 00:04:38.609
..: Furthermore, we're witnessing strong momentum in the Lombard lending products.

34
00:04:39.590 --> 00:04:46.739
..: turning to private banking, I'm proud to share that. We've almost reached full completion now, standing at an impressive 97%.

35
00:04:46.750 --> 00:04:55.380
..: This includes launching key offerings in collaboration with Bsf capital and introducing tailored family products and that cater to our clients. Unique needs.

36
00:04:55.450 --> 00:04:58.919
..: We've also been working with Jb to enhance our product offering.

37
00:04:58.960 --> 00:05:04.579
..: Additionally, we've rolled out an advisory program specifically designed for our relationship managers

38
00:05:05.560 --> 00:05:07.119
..: moving on to the next slide

39
00:05:08.740 --> 00:05:13.750
..: AV has continued to excel with an 88% completion rate this quarter.

40
00:05:13.760 --> 00:05:25.390
..: We've launched the comprehensive Gb transformation plan for 2,024 optimize mobile app services defined a new credit card proposition and begun modernizing its core banking systems.

41
00:05:26.520 --> 00:05:31.509
..: Enhancing digital customer journeys is a top priority. And we're taking significant leaps in this area.

42
00:05:32.080 --> 00:05:37.899
..: Last but definitely, not least, at Vsf capital, we have achieved a progress rate of 45%.

43
00:05:37.950 --> 00:05:47.510
..: We are finalizing the commercial campaign framework and repositioning our real estate, advisory and solutions. The pipeline for real estate funds is robust, offering promising opportunities.

44
00:05:48.190 --> 00:05:51.149
..: Now let's dive into the key. Enablers on the next slide.

45
00:05:52.800 --> 00:05:57.220
..: Our technology infrastructure upgrade continues to progress to progress. Well

46
00:05:57.710 --> 00:06:05.890
..: on the integrated corporate portal phase. One back-end integration testing is completed and phase 2. Front-end design and development is finalized.

47
00:06:05.900 --> 00:06:11.360
..: The delivery of the remaining components is dependent on the core value system and is currently under plan

48
00:06:12.040 --> 00:06:13.679
..: on our omni platform

49
00:06:14.070 --> 00:06:21.830
..: or personal banking and private banking clients. Its 1st release was successfully launched with more than 2,500 staffs.

50
00:06:22.670 --> 00:06:28.369
..: migrated and released 2 with the remaining features expected to go live in the 4th quarter of 2,024.

51
00:06:29.370 --> 00:06:32.590
..: Our core banking system is another cornerstone of our strategy.

52
00:06:32.610 --> 00:06:37.339
..: We successfully launched the largest and most complex release, 2.2 B. In the 1st quarter.

53
00:06:37.570 --> 00:06:40.629
..: Now we are working on the next release, which is released today.

54
00:06:40.680 --> 00:06:47.859
..: which focuses on corporate lending and term deposits, and is estimated to be launched at the end of this year, or latest, by the beginning of next year.

55
00:06:48.510 --> 00:06:53.859
..: our rebranding efforts have have significantly boosted our market position and customer engagement

56

00:06:53.990 --> 00:07:01.230
..: since launching the new Bsf identity. We've seen a remarkable surge in account opening and a significant increase in website. Visitors.

57
00:07:01.340 --> 00:07:06.209
..: Looking ahead, we plan to refresh all Bsf branches to match the new brand identity.

58
00:07:06.720 --> 00:07:10.970
..: This will provide a consistent and modern custom experience across all touch points

59
00:07:11.380 --> 00:07:13.730
..: driving greater engagement and satisfaction.

60
00:07:14.080 --> 00:07:18.930
..: Additionally, new cards with the updated brand, identity will be introduced by the end of this year.

61
00:07:18.970 --> 00:07:21.850
..: These steps will further strengthen our Brand's presence.

62
00:07:23.100 --> 00:07:31.070
..: In conclusion, we are making excellent progress toward our strategic goals and continue to focus on the profitability, market presence and superior customer experience.

63
00:07:31.090 --> 00:07:36.469
..: With that, I'll hand it over to our Cfo. Ramjid to provide more details on our financial performance

64
00:07:36.510 --> 00:07:37.670
..: over 2 of them.

65
00:07:38.970 --> 00:07:44.250
..: Thank you, Bridget, and good afternoon, everyone. We appreciate you all joining us today.

66
00:07:44.770 --> 00:07:50.290
..: We are pleased to report a solid financial performance for the 1st half of 2,024,

67
00:07:50.530 --> 00:07:56.090
..: with strong balance, sheet growth, momentum, and an overall, 6% increase in net income.

68
00:07:56.650 --> 00:08:06.899

..: Despite a moderate decline in net interest income, we maintain stable operating income bolstered by solid balance, sheet growth and robust fee income generation.

69
00:08:07.440 --> 00:08:12.410
..: Let's dive into the details. Starting with an overview of the balance sheet on Slide 9

70
00:08:14.030 --> 00:08:17.659
..: assets were up 14% since the beginning of the year.

71
00:08:17.730 --> 00:08:22.760
..: This was driven mainly by higher lending across both commercial and consumer loans.

72
00:08:23.110 --> 00:08:27.459
..: This was further aided by growth in investments and interbank balances

73
00:08:27.700 --> 00:08:31.659
..: which increased due to excess liquidity, deployment. At the end of the quarter

74
00:08:32.530 --> 00:08:35.979
..: the investment portfolio itself grew by 15%,

75
00:08:36.010 --> 00:08:41.039
..: helping us to manage interest, rate, risk, and continue to capture higher yields.

76
00:08:41.250 --> 00:08:49.049
..: The portfolio remains of high quality with government securities representing about 73% of the total portfolio

77
00:08:50.300 --> 00:08:58.880
..: liabilities, on the other hand, grew 16% with customer deposits rising by 14%, and this was mainly from interest, bearing deposits.

78
00:08:59.410 --> 00:09:10.400
..: However, we are also continuing to diversify our funding sources through debt capital markets, such as by initiating our Sukuk and Emtn programs and the most recent tier one program.

79
00:09:11.600 --> 00:09:16.699
..: the last item on the balance sheet. We had equity increasing by 2% year to date.

80

00:09:16.730 --> 00:09:21.689
..: driven by retained earnings, which was partly offset by the dividend payment

81
00:09:23.070 --> 00:09:27.960
..: on the next slide. We provide more context on the lending portfolio on page 10,

82
00:09:29.190 --> 00:09:34.840
..: loans and advances increased by 10% year to date, or 6% on a sequential basis.

83
00:09:34.950 --> 00:09:40.079
..: This was driven by strong demand across both the commercial and consumer portfolios.

84
00:09:40.840 --> 00:09:47.769
..: Starting with the commercial lending, we had 10% growth year to date or 7% on a sequential basis.

85
00:09:47.950 --> 00:09:56.030
..: This growth was accompanied with strong activity in the commerce and manufacturing sectors. Across both large and mid corporate segments.

86
00:09:56.480 --> 00:10:00.920
..: From a demand perspective, we continue to see healthy demand for origination.

87
00:10:00.950 --> 00:10:07.869
..: and our focus on being selective with a keen interest on profitability, remains a key pillar for the second half of the year.

88
00:10:07.890 --> 00:10:12.149
..: balancing between sustained origination volumes and settlements.

89
00:10:13.300 --> 00:10:18.219
..: Consumer lending grew 8% year to date, or 3% on a sequential basis.

90
00:10:18.550 --> 00:10:24.530
..: This year-to-date growth was driven by equal contribution from mortgages which increased by 6%

91
00:10:24.600 --> 00:10:29.600
..: personal loans up 8% and auto loans up 17%.

92
00:10:30.190 --> 00:10:39.270

..: The latter 2 are well supported by the rapid development of Jb. And its digital platform and our effective autoleads campaign. In the 1st quarter

93
00:10:40.060 --> 00:10:46.480
..: we continue to see opportunities to grow in the consumer, lending segment across both the bank and Jb.

94
00:10:46.490 --> 00:10:52.279
..: Taking advantage of the rebrand and infrastructure investments across both entities

95
00:10:53.800 --> 00:11:03.030
..: on Slide 11. On the next page we provide more color on the deposit base which serves as the main liability channel in funding this balance sheet expansion

96
00:11:04.060 --> 00:11:10.769
..: overall as highlighted on the top right chart, the deposit base expanded by 14%

97
00:11:10.830 --> 00:11:11.990
..: year to date

98
00:11:12.650 --> 00:11:18.910
..: primarily due to a 23% increase in interest-bearing deposits to fund our balance sheet growth.

99
00:11:19.460 --> 00:11:30.490
..: The majority of this expansion occurred during the second quarter. Given the balance sheet requirements as total customer deposits increased by 12% between the 1st and second quarters.

100
00:11:31.700 --> 00:11:39.860
..: At the same time we had an inflow of non-interest pairing deposits that rose by 4% for the year with about 1% growth on a sequential basis.

101
00:11:40.570 --> 00:11:43.559
..: even though we did see the cause of deposit growth.

102
00:11:43.600 --> 00:11:55.299
..: The combination of majority funding coming from interest-bearing deposits resulted in our share of non-interest bearing deposits declining to 42.8% of the total deposits.

103
00:11:55.860 --> 00:12:06.989

..: We expect benefits of the various projects in progress which the CEO had highlighted to come from our initiatives in trade finance, cash management. Esf global on the wholesale side

104
00:12:07.020 --> 00:12:10.240
..: and omnichannel rollout on the retail side.

105
00:12:11.640 --> 00:12:15.999
..: Next, we move on to the results so far here to date on slide 12

106
00:12:17.900 --> 00:12:22.819
..: overall net income for the 1st half of 2024 increased by 6%.

107
00:12:22.910 --> 00:12:30.160
..: This was mainly due to a lower and more normalized impairment charge, which was partially offset by growing expenses.

108
00:12:30.820 --> 00:12:43.900
..: Total operating income was stable year on year, whereas non-interest income, which we will delve into on the later slides increased by 6%, which offset a slight 1% decline in net interest. Income

109
00:12:45.570 --> 00:12:53.329
..: return on equity improved slightly by 6 basis points to reach close to 11% ending at 10.9 5.

110
00:12:54.660 --> 00:13:02.719
..: On the next few slides, we unpack the main elements of the net income lines, starting with net interest income on slide 13.

111
00:13:04.880 --> 00:13:12.179
..: That interest income decreased 1% year on year as margin contraction offset the growth in average earning assets.

112
00:13:12.380 --> 00:13:20.220
..: The breakouts in the charts show the main drivers with higher lending and investment income countered by the growth and cost of funding

113
00:13:20.590 --> 00:13:27.579
..: predominantly driven by customer deposit costs which increase due to both higher rates and greater volume

114
00:13:29.020 --> 00:13:37.629

..: on Slide 14. We highlight the overall impact on them as net interest income was relatively flat, but on a larger base of assets

115
00:13:38.600 --> 00:13:45.439
..: the year-to-date net interest margin fell by 52 basis points year on year to 3.1%

116
00:13:45.820 --> 00:13:50.870
..: due to the higher funding costs. The constituents are highlighted on the bottom left chart.

117
00:13:51.110 --> 00:13:56.209
..: where lending yields improved by 20 to 25 basis points. In the 1st half of the year.

118
00:13:56.260 --> 00:14:00.340
..: however, the shift in the deposit mix from last year

119
00:14:00.380 --> 00:14:02.540
..: towards interest-bearing deposits

120
00:14:02.620 --> 00:14:08.370
..: led to an increase in the cost of funds which had an impact of 83 basis points on them

121
00:14:09.570 --> 00:14:19.640
..: on a sequential basis. The quarterly net interest margin declined to 302 basis points from 319 basis points in the 1st quarter of this year

122
00:14:19.690 --> 00:14:22.780
..: from the mentioned mentioned shift in the deposit mix

123
00:14:23.670 --> 00:14:30.690
..: our cash flow. Hedge positions had a minimum negative effect on the margin, reducing it by 6 basis points year on year.

124
00:14:32.090 --> 00:14:36.039
..: Now let's delve into the details of our new sensitivity

125
00:14:36.870 --> 00:14:38.380
..: on Slide 15

126
00:14:39.560 --> 00:14:45.559

..: as discussed during previous quarters. Our sensitivity to interest rate changes is now very limited

127
00:14:45.660 --> 00:14:53.580
..: according to our last full year. Reporting it was plus or minus 3 basis points for every 100 basis. Points change in rates.

128
00:14:54.190 --> 00:15:01.370
..: We use fixed rate assets, including a recent increase in our investment portfolio, to actively manage our interest rate risk.

129
00:15:01.640 --> 00:15:05.909
..: and we've almost come close to neutrality to interest rate changes.

130
00:15:07.050 --> 00:15:20.020
..: Nevertheless, as highlighted on the previous slide, the overall level of net interest margin is also dependent on the balance sheet mix, and in particular, on the casa ratio, which in itself is predicated on the asset growth

131
00:15:20.060 --> 00:15:23.129
..: and the resulting requirements in terms of funding.

132
00:15:23.780 --> 00:15:28.710
..: We do expect to continue to focus on non-interest bearing deposit generation.

133
00:15:28.730 --> 00:15:32.260
..: But it had not kept pace with the asset growth in the 1st half

134
00:15:32.910 --> 00:15:40.680
..: with selective growth and profitability, a prime focus. In the second half we do expect a more balanced pace in the second half of the year.

135
00:15:42.210 --> 00:15:48.809
..: Next up we detail the main highlights with reference to non-interest income on slide 16

136
00:15:50.290 --> 00:15:59.749
..: non-interest income grew 6% year on year, reaching 815 million reals from 766 million rials in the previous year.

137
00:16:00.130 --> 00:16:06.710
..: This was driven by higher net fee and commission income, partly offset by lower exchanging.

138
00:16:07.730 --> 00:16:16.269
..: trading and investment, related income also improved, increasing by 9% reflecting favorable market conditions and client activities.

139
00:16:17.400 --> 00:16:23.720
..: Net fee and commissions grew 15% due to an increase in brokerage and asset management income

140
00:16:24.060 --> 00:16:27.160
..: partially attributed to a 1-off during the quarter.

141
00:16:27.680 --> 00:16:35.299
..: Fees and commissions were also supported by growing trade finance fees reflective of our strategic focus on revamping trade finance.

142
00:16:35.890 --> 00:16:44.540
..: The growth of fees was partially offset by lower card fees due to the competitive acquisition campaign that occurred in the 1st half of last year.

143
00:16:46.520 --> 00:16:50.609
..: On Slide 17. We take a look at the operating expense environment

144
00:16:50.650 --> 00:16:54.830
..: where operating expenses increased by 10% year on year.

145
00:16:55.060 --> 00:17:07.120
..: This was mainly due to higher employee costs, reflecting increased headcount and profitability linked pay, as can be seen, with a 12% increase reflected in the chart on the bottom, right

146
00:17:08.930 --> 00:17:18.130
..: in the same chart. Administrative expenses were up by 7% year on year, mainly due to our rebranding project and other transformation initiatives.

147
00:17:19.910 --> 00:17:24.149
..: The cost-to-income ratio rose to 33.9%.

148
00:17:24.290 --> 00:17:38.269
..: But we expect efficiency gains from recent investments and cost optimization initiatives to benefit our cost income ratio in the latter part of the second half of the year with greater realization expected in subsequent years

149
00:17:39.170 --> 00:17:44.539
..: the cost to average interest earning assets, ratio fell to 126 basis points

150
00:17:44.820 --> 00:17:49.699
..: as a result of interest, earning assets, expanding at a faster rate than expenses

151
00:17:51.310 --> 00:17:57.210
..: on the next slide. We provide more color on the credit costs and the normalization thereof

152
00:17:57.580 --> 00:18:02.150
..: with impairment charges decreasing by 34% year on year.

153
00:18:02.250 --> 00:18:04.890
..: demonstrating effective risk management.

154
00:18:04.980 --> 00:18:09.210
..: more dynamic actions taken and an overall healthy portfolio

155
00:18:10.120 --> 00:18:15.679
..: much lower commercial impairments were partly offset by higher consumer impairments.

156
00:18:16.230 --> 00:18:26.050
..: The cost of risk was stable sequentially at 60 basis points with a notable improvement compared to 107 basis points in the same quarter of last year.

157
00:18:27.670 --> 00:18:38.670
..: in the same light on the next slide the credit quality of the portfolio remains strong, with an Npl. Ratio of 94 basis points for the last 2 quarters.

158
00:18:39.940 --> 00:18:47.859
..: The Npl coverage ratio further improved to 161.9% highlighting our prudent provisioning approach.

159
00:18:48.560 --> 00:18:57.500
..: Similarly, in the breakdown of the coverage stage, wise provision coverage remain broadly stable across stage 1, 2, and 3, lending

160
00:18:58.610 --> 00:19:06.800
..: on slide 21. We highlight that our liquidity continues to remain comfortable with an Lcr of 187%

161
00:19:06.970 --> 00:19:10.269
..: and an Nsfr. 118%,

162
00:19:10.640 --> 00:19:15.620
..: both well above regulatory thresholds and still providing room for expansion.

163
00:19:16.670 --> 00:19:22.060
..: Similarly, the regulatory loan to deposit ratio decreased to 81%,

164
00:19:22.140 --> 00:19:24.360
..: leaving further room for growth

165
00:19:25.740 --> 00:19:38.700
..: on the next slide. Our capital ratios remain solid despite a slight decline from higher risk, weighted asset growth. Given the balance, sheet expansion and the dividends payment in the 1st half of the year.

166
00:19:39.380 --> 00:19:46.709
..: the tier one ratio at 17.4%, and the capital adequacy ratio at 18.1%

167
00:19:46.810 --> 00:19:49.590
..: again provide room for continued growth.

168
00:19:50.130 --> 00:19:55.010
..: Nevertheless, we continue to strengthen this position with active capital management

169
00:19:55.030 --> 00:19:59.210
..: via debt and Sukuk issuances, to manage the buffers necessary.

170
00:19:59.230 --> 00:20:04.390
..: and diversify the profile by call dates, currencies, and the like.

171
00:20:04.990 --> 00:20:10.720
..: This is especially in light of the strong balance sheet growth and resulting Rwa expansion.

172
00:20:12.320 --> 00:20:15.649
..: Lastly, on the final slide slide 22,

173

00:20:15.720 --> 00:20:17.359
..: we provide an update

174
00:20:17.520 --> 00:20:19.240
..: on the guidance where.

175
00:20:20.010 --> 00:20:31.099
..: based on the rapid growth of the loan portfolio. During the 1st half of the year, we are raising our expectations for full year long growth from low double digits to mid teens.

176
00:20:31.390 --> 00:20:41.020
..: We have already achieved nearly 10% growth year to date and anticipate a more selective approach in the second half of the year, along with some planned repayments.

177
00:20:42.350 --> 00:20:46.379
..: At the same time we are also revising down the net interest margin

178
00:20:46.600 --> 00:20:56.569
..: to a range of 300 to 315 basis points due to the higher than expected growth of interest bearing deposits in the ongoing high interest rates, environment

179
00:20:57.850 --> 00:21:07.460
..: for cost of risk. We are revising the guidance. As we approach Year end we anticipate the cost of risk to stabilize around 55 to 65 basis points

180
00:21:07.550 --> 00:21:10.599
..: down 5 basis points from our previous guidance

181
00:21:11.830 --> 00:21:20.629
..: on cost to income. We aim to bring the cost to income ratio to below 33% by year end, which is higher than our previous guidance.

182
00:21:20.930 --> 00:21:26.130
..: The margin has moderated more than expected, and we have also incurred rebranding costs

183
00:21:26.560 --> 00:21:31.469
..: together. These factors have resulted in a higher than projected cost to income ratio.

184
00:21:31.880 --> 00:21:36.299
..: Having said that we are working on multiple cost, saving initiatives for both

185
00:21:36.430 --> 00:21:44.409
..: gna as well as staff expenses, though we project that it will take time for these initiatives to be fully reflected in the ratios

186
00:21:45.710 --> 00:21:48.859
..: where the return on equity guidance, we remain unchanged.

187
00:21:49.420 --> 00:21:52.479
..: and lastly, for the core equity tier, one ratio.

188
00:21:52.500 --> 00:22:01.980
..: We are revising down our guidance, which we now expect to be around 16% by year end, driven by the rapid loan growth. In the 1st half of 2024,

189
00:22:02.410 --> 00:22:07.680
..: however, the ratios remain at comfortable levels and well above the regulatory minimums.

190
00:22:08.750 --> 00:22:14.360
..: With that we come to the end of the presentation, and I'll hand it over to the operator for Q. And a.

191
00:22:16.610 --> 00:22:37.419
Moderator: As a reminder, we'll be utilizing the raise hand feature for QA. If you're on a computer, this can be found. The bottom of the zoom app as a raise hand icon, or by clicking the reactions button. If you're on a mobile device using the app simply tap into the 3 dots or more button to find the raised hand feature. Lastly, if you're calling in today, Star 9 will actively activate the raise hand and star 6 to mute and unmute.

192
00:22:42.710 --> 00:22:45.819
Moderator: And we have a 1st question coming from Shabir Malik.

193
00:22:49.016 --> 00:22:50.699
Shabbir Malik: Hi! Can you hear me?

194
00:22:53.160 --> 00:22:54.150
Moderator: Yes, we can hear you.

195
00:22:55.790 --> 00:22:57.907
Shabbir Malik: Thank you very much for the presentation

196
00:22:58.230 --> 00:23:10.649
Shabbir Malik: couple of questions from my side. I just wanted to hear your thoughts about how you're balancing between growth and margins. Because we've seen your margins coming under pressure.

197
00:23:10.820 --> 00:23:17.461
Shabbir Malik: It seems in part because you've mobilized a lot of time deposits, and that is to kind of fund your stronger loan growth.

198
00:23:17.770 --> 00:23:25.570
Shabbir Malik: So is is that your does? Is that going to be your strategy that you're going to focus on growth

199
00:23:25.590 --> 00:23:28.280
Shabbir Malik: and maybe compromise a bit on the margins

200
00:23:28.691 --> 00:23:32.209
Shabbir Malik: or or and secondly, maybe what would also help is

201
00:23:32.230 --> 00:23:41.499
Shabbir Malik: what is the was, what is the quality of this new lending. Is it the expected risk of this portfolio, or the new lending? Is it going to be lower

202
00:23:41.590 --> 00:23:46.459
Shabbir Malik: and can potentially help you in the medium term with lower cost of cost of risk.

203
00:23:47.458 --> 00:23:52.620
Shabbir Malik: So so yeah, just wanted to your thoughts on how you're balancing between

204
00:23:53.280 --> 00:23:55.940
Shabbir Malik: growth in the balance sheet and margins.

205
00:23:56.010 --> 00:23:59.829
Shabbir Malik: That's my 1st question. My second question is.

206
00:24:00.261 --> 00:24:08.268
Shabbir Malik: there was some. There is some news around Saudi bin laden a couple of weeks ago.

207
00:24:08.920 --> 00:24:23.689

Shabbir Malik: psf, is in terms of exposure to the building and construction sector. Is exposure to this segment is relatively high compared to the sector. How do you see that news? And is, you see any positive impact on your provisioning?

208
00:24:24.083 --> 00:24:37.530
Shabbir Malik: Going forward? And finally, maybe on. Jb, you've talked about it being a very important part of your business going forward. What is the size of its financing portfolio? And what are its key products? Thank you.

209
00:24:43.810 --> 00:25:06.649
..: Thank you. Shalit. Maybe we'll split up these questions between the group. But just to start with the 1st question in terms of profitability and margin in terms of what we're focus on for the second half of the year. I think we did have expectations to be somewhere around the low double digits in terms of lending growth for the full year

210
00:25:06.996 --> 00:25:23.959
..: we have outpaced that in the 1st half, I think we're we're happy to see that type of origination, but at the same time it does drive higher costs. If you cannot maintain the the casa ratio in terms of keeping pace with that that level of growth.

211
00:25:24.060 --> 00:25:35.640
..: So for the second half of the year, I think we will be more selective, and I think this is reflective in the lending guidance we provided being somewhere close to the mid teens. So it is a slight

212
00:25:35.943 --> 00:25:57.190
..: decline, I would say, in terms of growth aspiration compared to the 1st half of the year, but at the same time giving us the opportunity to be a bit more selective and focus on the margin as well. It doesn't mean that margin will drive the entire set of decision making, but we will bring it more in balance compared to the 1st half of the year.

213
00:25:58.635 --> 00:26:22.740
..: Maybe on the second question, in terms of new lending, I think we have been prudent over the last few years, especially the last 2 years in terms of cleanup, and in terms of the risk that we see being taken on with the new lending. It is as high quality as we have had in the last couple of years, so I I don't suspect that it's going to make a significant change in the cost of risk.

214
00:26:22.740 --> 00:26:37.000
..: We believe now that it's more normalized, we may see a slight decline as as evidenced again by the guidance being slightly lower. But there's really no significant change on the type of credit risk that's being taken

215
00:26:37.910 --> 00:26:57.619

..: for the 3rd question in terms of Saudi bin Laden news, and we wouldn't want to speak about any individual names. But from our perspective, we think it's it's a positive for the sector overall to get some closure there for the bank itself. It will have very limited impact on Bsf.

216
00:26:59.430 --> 00:27:27.329
..: and then sorry the last question on Jb, in terms of the size of the portfolio, it can range close to 5 billion rials. But we do have an arrangement where the bank typically will buy out the that are provided for by jb, so you you won't see significant growth on the balance sheet as a standalone basis. But if you were to include the offloading that's done with with the bank, it is going to be,

217
00:27:27.700 --> 00:27:29.020
..: probably double that

218
00:27:29.789 --> 00:27:52.560
..: and in terms of products that the Jb is offering, it has started off initially, as you recall, with auto lease only. But since then, last year, with the Rebrand, we expanded into personal finance products. But it's also looking at credit card business. In addition to other personal finance across the board.

219
00:27:54.386 --> 00:28:00.818
Shabbir Malik: So does it have to abide by more relaxed Dbr versus

220
00:28:02.439 --> 00:28:09.840
Shabbir Malik: versus Bsf, and is is this the target customer for this is, maybe non salary aside, retail.

221
00:28:13.790 --> 00:28:22.910
..: Yes, so, as a separate and independent financing company, they do operate under separate regulations from the Central Bank.

222
00:28:23.352 --> 00:28:26.790
..: and the tar. There would be a difference there.

223
00:28:28.540 --> 00:28:36.850
..: and in terms of the the type of client base that's being looked at, it would be mostly non salary backed.

224
00:28:38.700 --> 00:28:39.669
Shabbir Malik: Great. Thank you.

225
00:28:41.610 --> 00:28:42.310
Shabbir Malik: It's.

226
00:28:42.970 --> 00:28:43.700
..: Brokaw.

227
00:28:58.960 --> 00:29:02.550
Moderator: Next question next question comes from Ibek. Islamov.

228
00:29:06.925 --> 00:29:14.929
Aybek Islamov: Yes, thank you for the conference. Call and I pretty much have one question, you know. Following your results. There was another announcement, your

229
00:29:15.150 --> 00:29:20.090
Aybek Islamov: intending to raise 8 billion Saudi Arabia in tier one funding

230
00:29:21.581 --> 00:29:24.319
Aybek Islamov: can you comment a bit about the

231
00:29:24.959 --> 00:29:32.939
Aybek Islamov: the pricing of of this? 81. What kind of coupon do you expect to pay? If possible. But also, I think I'm curious about

232
00:29:33.160 --> 00:29:37.808
Aybek Islamov: why such a big volume? Right? It's quite a significant increase in the

233
00:29:38.210 --> 00:29:46.580
Aybek Islamov: in your 81, and I think the other follow up question will be on your roe guidance. That you did not change. I presume this is before

234
00:29:46.660 --> 00:29:51.380
Aybek Islamov: payment of any interest expense on 81 debt. Right? Is that correct? Thank you.

235
00:29:56.020 --> 00:30:05.370
..: Yeah, Hi, Vick, so I'll take that one so with regards to our tier, one issuance, the current announcement is based on

236
00:30:05.410 --> 00:30:08.210
..: the recent significant growth. We've seen

237
00:30:08.748 --> 00:30:10.420
..: in our loan book.

238
00:30:10.760 --> 00:30:15.300
..: in addition to replacing, or, let's say, partially replace.

239
00:30:15.390 --> 00:30:20.590
..: Next year's a call date of 5 billion riyadh

240
00:30:21.399 --> 00:30:26.999
..: in terms of pricing, we'll be raising it at around mid swap, plus 1, 45,

241
00:30:27.160 --> 00:30:30.639
..: or 6% to be specific on a fixed rate basis.

242
00:30:31.298 --> 00:30:37.119
..: And as for your last comment on the Roas, it would exclude the interest payments.

243
00:30:39.258 --> 00:30:46.029
..: maybe, just to clarify that epic. So the question on roe. This is within, for the guidance that we've given.

244
00:30:46.040 --> 00:30:48.689
..: It does not exclude the

245
00:30:49.152 --> 00:30:58.140
..: tier. One coupon payments, but different than some banks that we've seen. It does include all capital. So it's a common equity tier one and tier 2.

246
00:31:00.790 --> 00:31:08.260
Aybek Islamov: Understood. Yeah. So so you're raising 8 billion to partially refinance the 5 billion, which is where you have a call date next year, right?

247
00:31:09.516 --> 00:31:10.530
Aybek Islamov: To clarify.

248
00:31:10.780 --> 00:31:11.460
..: Yes.

249
00:31:11.660 --> 00:31:19.110
..: partially partially replacing, in addition to a much faster than anticipated growth in the loan book.

250
00:31:21.110 --> 00:31:29.200
..: Just just to comment also on the program. The program is 8 billion. However, we will not be targeting the 8 billion. And the current insurance.

251
00:31:30.730 --> 00:31:32.680
Aybek Islamov: Hmm. Understood. Very clear. Thank you.

252
00:31:32.680 --> 00:31:34.589
..: Yes. So maybe just to give us a second.

253
00:31:34.930 --> 00:31:39.279
..: some thought logic there ibex with with the call that we have

254
00:31:39.659 --> 00:31:48.149
..: next year. It's roughly 5 billion. I think we do want to try to stagger out the potential call dates going forward. So

255
00:31:48.200 --> 00:31:52.880
..: I think it's safe to say for this issuance it'll be far less than 5 billion.

256
00:31:54.733 --> 00:31:56.800
Aybek Islamov: Understood. Thank you. Very helpful.

257
00:32:06.740 --> 00:32:08.410
Moderator: There are no raised hands at this time.

258
00:32:09.750 --> 00:32:10.370
Moderator: Okay.

259
00:32:10.370 --> 00:32:29.429
Naresh Bilandani - J.P. Morgan: Operator. Maybe I'll just step in with a question or 2 while we give a chance to participant participants to raise hands. Hi again. Everyone. It's Naresh Belannani from Jp. Morgan. So just a a few questions, please. One just I mean, maybe this is too early, but you know, would be useful from a modeling purpose just keen to understand

260
00:32:29.490 --> 00:32:42.379
Naresh Bilandani - J.P. Morgan: any initial thoughts on how should we see the nim evolve into the next year? I mean, given the shape of the yield curve. Currently. I mean, is it fair to think that the nim contraction that you are

261
00:32:42.460 --> 00:32:55.349
Naresh Bilandani - J.P. Morgan: guiding for this year much higher than your peers is likely to be worse of the cycle, and the nim decline next year, as rates come off could be a lot more measured. Given the hedges

262
00:32:55.350 --> 00:33:14.402
Naresh Bilandani - J.P. Morgan: and benefits coming from the lower funding costs. I know it's hard to be precise at at this point in the year, but any broad thoughts that you can provide. Would, I think, be useful to the analyst community to be able to model the stock better. If if it helps you know also,

263
00:33:14.780 --> 00:33:17.929
Naresh Bilandani - J.P. Morgan: is there any indication that you can provide on?

264
00:33:18.606 --> 00:33:23.320
Naresh Bilandani - J.P. Morgan: I know we are seeing a sharp decline in the nymphs. But any indication you can provide on. How should we think of the

265
00:33:23.330 --> 00:33:26.689
Naresh Bilandani - J.P. Morgan: Nii growth in context of the nim guidance that you have provided?

266
00:33:27.202 --> 00:33:42.129
Naresh Bilandani - J.P. Morgan: So I think that's the second question, and my 3rd and the final question would be, I I mean, you've had a very good trend on the cost of risk compared to what you've what we've seen in the previous quarters. Just keen to understand what key strategic initiatives

267
00:33:42.220 --> 00:33:56.949
Naresh Bilandani - J.P. Morgan: have led to this improvement in asset quality metrics, and how sustainable should we think of the current cost? Cost of risk trends going into the year end? I know you have improved the cost of risk guidance, but

268
00:33:57.290 --> 00:33:59.989
Naresh Bilandani - J.P. Morgan: mainly just keen to understand if you're seeing any

269
00:34:01.120 --> 00:34:02.500
Naresh Bilandani - J.P. Morgan: risks emerge

270
00:34:02.900 --> 00:34:09.859
Naresh Bilandani - J.P. Morgan: in in into the year end. Given the volatility that we can always see, so any color there would be super helpful. Thank you.

271
00:34:14.949 --> 00:34:19.949
..: Thank you, naresh. Maybe I'll begin with the the 1st question on on net interest margin.

272
00:34:19.979 --> 00:34:40.123
..: So I I think the way we've been looking at. It is how the sensitivity really to rates and basically the market risk we have there, as we've highlighted, I think, in the previous quarter. This quarter as well. The risk sensitivity is now more to a neutral level. So we really don't expect

273
00:34:41.119 --> 00:34:46.249
..: the variability in market rates to impact net interest margins significantly.

274
00:34:46.489 --> 00:34:50.439
..: I think the the biggest driver we've seen so far this year

275
00:34:50.449 --> 00:35:11.289
..: has been on the mix deposit mix and the impact it's had on cost of funding, and really it's driven by whether we're able to keep up the same level. Roughly, 50 50 as we had had in the past of Casa versus other interest bearing deposits.

276
00:35:11.379 --> 00:35:18.189
..: I think if we are able to maintain that level, then we should continue to see our net digits. Margins stabilize

277
00:35:18.659 --> 00:35:28.639
..: but without that growth in the non-interspairing office it will become more challenged as a rate, but more impactful in terms of the bottom line.

278
00:35:29.219 --> 00:35:35.299
..: And I'd say that same response really is for the the second part, in terms of net interest, income growth.

279
00:35:35.389 --> 00:36:00.169
..: I think, for the continuation for this year we should still see it be relatively stable. I think the majority of the impact. We'll see it kicking next year. But it will not be significant again. Given the deposit mix that we have so far, so really trying to focus on the other line items that we have in terms of non-interest income costs and the cost of risk

280
00:36:00.269 --> 00:36:03.759
..: to drive the the growth. Thereafter

281

00:36:05.079 --> 00:36:10.099
..: I'll pass on, maybe to the CEO for the the risk question.

282
00:36:10.518 --> 00:36:37.779
..: Now, regarding the cost of risk strategy going forward. Of course. Now, after the cleanup that we we had last year, and and normalizing the the cost of risk now to sub 1% our strategy is, of course, to maintain it at a lower level. We will continue to diversify our loan portfolio and at the same time focusing on higher quality loans and higher quality assets.

283
00:36:37.779 --> 00:36:42.139
..: And that is, of course, what has pressured margins for the 1st half of the year

284
00:36:42.474 --> 00:37:03.539
..: we did significantly grow in the 1st half of the year, but at the same time our focus was on growth and quality. Hence the tighter margins. And as the Cfo. Mentioned for the second half of the year, we're going to be focusing more on margins, while at the same time maintaining the high quality of our assets.

285
00:37:05.880 --> 00:37:09.040
Naresh Bilandani - J.P. Morgan: Thank you, brother, thanks, Ramsey. I'll bring it back to you.

286
00:37:09.850 --> 00:37:13.820
Moderator: Okay. So we do have a couple of questions. The 1st one comes from Murad Ansari.

287
00:37:16.790 --> 00:37:34.550
Murad Ansari: Yes. Hi, thank you for the presentation. Just a couple of quick questions on so so you, you know, just from your comments if I just wanted to get a sense. If if this is the way I'm looking at it is right is that you've you've mentioned that you're looking at more. You know you had strong growth in this quarter.

288
00:37:35.730 --> 00:37:43.323
Murad Ansari: and you're looking second half to be much more balanced in terms of you know, loan and balance sheet crew deposit growth. So

289
00:37:43.730 --> 00:37:52.189
Murad Ansari: fair to assume that we'll see some slowdown and loan growth during the second half versus what we've seen in the 1st half.

290
00:37:52.680 --> 00:38:14.149
Murad Ansari: And link to that. I mean this. You know, kind of. We've had a very strong quarter on growth. And you know, other corporate focus banks have also seen, you know, bits of that coming

through in in the second quarter. So seems like it's a. You know. There this corporate focus banks have benefited from strong volumes in this quarter. Would

291
00:38:14.720 --> 00:38:21.089
Murad Ansari: is this largely project driven drawdowns that we've seen in the second quarter.

292
00:38:21.740 --> 00:38:27.740
Murad Ansari: come through or is this you know, are we seeing some pickup in

293
00:38:27.930 --> 00:38:35.209
Murad Ansari: ancillary corporate loan growth linked to these projects as well, and lastly, on on retail growth.

294
00:38:35.430 --> 00:38:40.570
Murad Ansari: You know very decent volumes, considering market and interest, rate environment.

295
00:38:41.018 --> 00:38:52.750
Murad Ansari: Where, you know, there is a general consensus on rates going down. How? How do you see? Retail loan growth evolving over the second half of of the current year?

296
00:38:53.430 --> 00:38:56.730
Murad Ansari: And last question on expenses?

297
00:38:57.480 --> 00:39:02.390
Murad Ansari: So there's you mentioned. There's a bit of rebranding costs that have come through

298
00:39:02.951 --> 00:39:05.058
Murad Ansari: in this quarter as well.

299
00:39:05.650 --> 00:39:14.139
Murad Ansari: is. Are. Is that all done now, or are we? There's bit of it left that could come through in the second half of the year as well. Thank you.

300
00:39:23.780 --> 00:39:29.060
..: Maybe we'll start by in reverse. I'll I'll start with the cost

301
00:39:29.160 --> 00:39:54.160
..: elements. So yes, there were rebranding expenses slightly higher than originally expected. I would say, going forward for the second half of the year, we would still see probably a little bit more in the 3rd

quarter. Especially since we're still doing investments on other initiatives in addition to the brand and the marketing that has come along with it.

302
00:39:54.731 --> 00:39:57.860
..: But we are investing to eventually

303
00:39:58.090 --> 00:40:20.840
..: become more efficient in terms of the cost side. So we do expect by the 4th quarter to have more meaningful traction. But I would say, when we're looking at it. We're really trying to analyze it on an annual basis. And there's been quite a lot of work done already. But it will take time for it to feed through in terms of the cost side. And again, this is on both

304
00:40:20.940 --> 00:40:23.549
..: the G. And a expenses.

305
00:40:23.640 --> 00:40:26.160
..: and also the the staff expenses as well

306
00:40:28.000 --> 00:40:29.530
..: for the lending.

307
00:40:29.850 --> 00:40:34.213
..: Well, I'll I'll take that one. Which is the the 1st question which you asked about the

308
00:40:34.490 --> 00:40:49.239
..: slow down and growth for the second half. And now, of course, given the the aggressive growth on the 1st half of 10%. And of course our revision of the guidance to mid teens revised from low double digit

309
00:40:49.568 --> 00:41:09.589
..: it does indicate that in the second half of the year, and as we mentioned, we will be trying to balance growth and end margins, and of course, always maintaining quality. So that that does allow us for the second half of the year to be more selective from a pricing perspective, and of course maintaining the high quality of of

310
00:41:09.870 --> 00:41:17.130
..: The loans book. That's when it comes to the second half of the year when it comes to loan growth. There was also a question on retail growth.

311
00:41:17.455 --> 00:41:35.750

..: Now, you know, with the high interest rate environment. We are seeing a pick up and more traction when it comes to retail or consumer loan growth after the high interest rate, of course, was dampening the loan growth on the personal loans. We did see a 13% year on year growth

312
00:41:35.750 --> 00:41:47.340
..: home loans. We actually did see a pickup when it comes to home loans 6% year on year. Bringing our home loan portfolio mortgage portfolio to 16.4

313
00:41:47.340 --> 00:42:02.900
..: the second quarter we did see the highest level of home loan growth mortgages in the last 8 quarters, indicating a pickup when it comes to mortgages and a recovery in the market overall.

314
00:42:03.810 --> 00:42:16.319
..: We also saw it when it comes to credit cards with 5.3% quarter on quarter growth when it comes to credit cards. So to answer your question. Yes, we are seeing a pickup when it comes to retail loan growth or consumer loan growth.

315
00:42:16.440 --> 00:42:22.329
..: and we expect it to continue that pickup as we start to see rates come down.

316
00:42:24.600 --> 00:42:35.549
Murad Ansari: Thank you. Just one question I had on on the corporate side. That, you know, is this largely a drawdown on on the projects. That have been committed to

317
00:42:36.370 --> 00:42:41.099
Murad Ansari: that we've seen in this quarter is is a large part of lending on the corporate side, coming from there.

318
00:42:43.760 --> 00:43:13.260
..: Well when when it comes to the corporate loan growth for the 1st half of the year. Of course, we continue to see traction when it comes to vision. 2030 initiatives Mega and Mega projects that traction continues to to increase, and our diversified participation when it comes to those projects. Continues to be there when it comes to project finance and and when it comes to project finance, we also, continue to see pick up when it comes to the project finance.

319
00:43:13.260 --> 00:43:28.450
..: more specific focus when it comes to project finance or our participation was in the utilities area. For Q. 2 to be specific when it comes to the sectors that we did see a pickup. It was in manufacturing and Comps. For Q. 2.

320
00:43:29.980 --> 00:43:31.229
Murad Ansari: Alright. Thank you.

321
00:43:36.190 --> 00:43:38.699
Moderator: Next question comes from Ryan Ayash.

322
00:43:47.530 --> 00:43:49.800
Moderator: Please, Ryan, unmute your microphone to ask your question.

323
00:44:07.520 --> 00:44:08.879
Moderator: Hi, Ryan, you can unmute.

324
00:44:08.880 --> 00:44:11.340
..: So we can't. We can't.

325
00:44:18.350 --> 00:44:20.620
Moderator: Hi, Ryan, you can mute yourself now and ask your question.

326
00:44:38.420 --> 00:44:41.010
Moderator: Okay, there are no recent at this time.

327
00:44:44.850 --> 00:45:11.029
Naresh Bilandani - J.P. Morgan: Let's give it a minute to see if given the fact that we have some time to see if we have anybody else wanting to ask a question I have that has been emailed to me by a client in the interim. Could you please clarify if the small decline of the notion of the irs for hedging over the quarter is something to read into or not. Necessarily. I think, the client is

328
00:45:11.030 --> 00:45:25.239
Naresh Bilandani - J.P. Morgan: asking specifically with regards to the notion of the Irs, which has declined slightly in this quarter. And if there's been any change in the strategy, or is this something to read into at this stage. If you could, please just offer some clarity on that.

329
00:45:28.530 --> 00:45:29.512
..: Yeah, sure, it's

330
00:45:30.010 --> 00:45:34.154
..: So with regards to the hedging activities, it's a function of

331
00:45:34.520 --> 00:45:36.700
..: interest rate risk management.

332

00:45:36.930 --> 00:45:45.449
..: So we have guided the market. That will be increasing the size throughout the year. However, we have seen quite significant tree pricing

333
00:45:45.470 --> 00:45:49.799
..: in the Saudi Government bond issuances since January of this year.

334
00:45:49.910 --> 00:45:58.190
..: So we have decided to increase the size of the investment book when compared to the hedging.

335
00:45:58.410 --> 00:46:08.809
..: Again, maybe to reiterate, reiterate the interest rate. The risk management. The day we work within the bank is that we're agnostic. To what kind of product

336
00:46:09.381 --> 00:46:14.990
..: we work with, whether it's a retail consumer lending, which is naturally fixed.

337
00:46:15.580 --> 00:46:18.729
..: Cash, flow hedges or fixed rate investments.

338
00:46:19.080 --> 00:46:24.079
..: Maybe to add as well, we have increased our interest rate risk duration

339
00:46:24.763 --> 00:46:25.306
..: from

340
00:46:27.288 --> 00:46:33.379
..: up up until around to 4.1% on our investment. Further, 4.1 1 year

341
00:46:33.420 --> 00:46:34.750
..: in our investment book.

342
00:46:35.300 --> 00:46:38.230
..: So that's a significant increase to where we have started here.

343
00:46:38.320 --> 00:46:53.659
..: Maybe I'll just add to that, Narisha, in terms of the interest rate risk we're looking at really both sides of the balance sheet treasure had mentioned a lot on the asset side, especially with the growth on the investment book, which is typically fixed rate.

344
00:46:53.670 --> 00:46:57.900
..: But at the same time we look at the liability side of the balance sheet we

345
00:46:57.930 --> 00:47:09.979
..: highlighted already that the interest bearing deposits which are floating variable interest rate also have increased. So the sensitivity to interest rate risk has changed as a result of both

346
00:47:10.040 --> 00:47:11.429
..: be the

347
00:47:11.450 --> 00:47:21.210
..: fixed asset growth and the floating liability growth, therefore, requiring less hedging to manage the interest rate risk.

348
00:47:22.340 --> 00:47:33.770
Naresh Bilandani - J.P. Morgan: Understood. Thank you for the clarification, Ramsey. Sorry, Zoe. Just the Nu. The number that you mentioned on 4 to 4 and a half years as an average duration. Could you please just repeat that. What was that for.

349
00:47:38.208 --> 00:47:43.030
..: So coming into into 2024, we had relatively short

350
00:47:43.658 --> 00:47:45.152
..: duration in our

351
00:47:45.670 --> 00:47:53.690
..: investment book. So as the Ndmc has been issuing so corks, we have replaced significant maturities

352
00:47:54.240 --> 00:48:08.530
..: and significant of our government supports, as well as newly bought Hqla's that are naturally longer in duration, which has increased the average investment population.

353
00:48:09.000 --> 00:48:11.229
Naresh Bilandani - J.P. Morgan: Understood. Thank you. That's very clear. Thanks. A lot

354
00:48:11.280 --> 00:48:12.669
Naresh Bilandani - J.P. Morgan: operator back to you.

355
00:48:13.470 --> 00:48:15.280

Moderator: Okay. So we have Ryan again.

356
00:48:16.750 --> 00:48:18.050
Moderator: Ryan, if you need your microphone.

357
00:48:18.050 --> 00:48:19.809
Ryan Ayache: Brian, if you meet you, Mike.

358
00:48:20.320 --> 00:48:23.400
Ryan Ayache: Yeah. Hi, good afternoon. Apologies for earlier.

359
00:48:24.180 --> 00:48:25.759
Ryan Ayache: I wanted to ask.

360
00:48:26.310 --> 00:48:41.259
Ryan Ayache: because it feels a little bit inconsistent to me to hear, on the one hand, that the biggest threat to the outcome is margin and a lower cost ratio, for while, on the other hand you grow out and you grow time deposits by this amount.

361
00:48:42.740 --> 00:48:46.900
Ryan Ayache: it. It also doesn't entirely gel with what we heard.

362
00:48:47.300 --> 00:48:50.169
Ryan Ayache: I think last year, which was that

363
00:48:50.210 --> 00:48:55.040
Ryan Ayache: there'd be more of an emphasis on profitability versus volumes.

364
00:48:55.650 --> 00:48:57.030
Ryan Ayache: And so

365
00:48:57.230 --> 00:49:02.830
Ryan Ayache: this one is. Is liability driven asset driven it? It questions

366
00:49:03.110 --> 00:49:08.528
Ryan Ayache: I. Why, at at this this juncture in interest rate rate cycle.

367
00:49:09.110 --> 00:49:10.710
Ryan Ayache: That's the 1st

368
00:49:11.030 --> 00:49:14.399
Ryan Ayache: broad set set. The the second point is.

369
00:49:15.920 --> 00:49:33.950
Ryan Ayache: I've received an invitation for a capital markets day or slash strategy day, as I assume everyone else in the audience has, so you know, well done for taking the plunge and shift to topics that I expect you'll be addressing then, extensively, but it'd be good to

370
00:49:34.000 --> 00:49:35.479
Ryan Ayache: have a sense of

371
00:49:35.500 --> 00:49:38.839
Ryan Ayache: the the other half from medium to zoom tours

372
00:49:39.020 --> 00:49:44.240
Ryan Ayache: already structured actually lower margin than many, many peers. Because of your asset mix

373
00:49:44.340 --> 00:49:48.049
Ryan Ayache: you carry quite a lot of capital, and so your roe's

374
00:49:48.260 --> 00:49:52.100
Ryan Ayache: generally don't rank very well compared to to your peers.

375
00:49:52.695 --> 00:49:55.430
Ryan Ayache: So you know, what can we

376
00:49:55.530 --> 00:49:58.859
Ryan Ayache: expect? And on a kind of long term basis.

377
00:49:58.910 --> 00:50:02.439
Ryan Ayache: from management as a as a level that

378
00:50:02.640 --> 00:50:05.140
Ryan Ayache: we can. We can. We can help. Thank you.

379
00:50:11.340 --> 00:50:15.489
..: Thank you, Ryan. It broke up a a few times there, so we'll we'll

380
00:50:15.600 --> 00:50:17.300
..: try to

381
00:50:17.480 --> 00:50:19.550
..: not like respond based on what we.

382
00:50:19.550 --> 00:50:19.950
Ryan Ayache: Want, this.

383
00:50:19.950 --> 00:50:20.490
..: So

384
00:50:21.690 --> 00:50:22.620
..: there we go.

385
00:50:23.140 --> 00:50:23.630
..: Yeah.

386
00:50:25.340 --> 00:50:25.843
..: So

387
00:50:27.650 --> 00:50:29.010
Ryan Ayache: So maybe just to.

388
00:50:29.010 --> 00:50:30.750
..: Respond to what we.

389
00:50:31.320 --> 00:50:33.270
Ryan Ayache: Maybe just to respond.

390
00:50:35.800 --> 00:50:38.590
Naresh Bilandani - J.P. Morgan: Operator. Can you just mute Ryan's line, please? I reckon that.

391
00:50:38.590 --> 00:50:40.010
Ryan Ayache: Alberta. Roberta, can you just.

392
00:50:40.010 --> 00:50:40.690

Naresh Bilandani - J.P. Morgan: That's like.

393
00:50:44.160 --> 00:50:45.940
Naresh Bilandani - J.P. Morgan: yeah, I think should be better now. Thank you.

394
00:50:46.276 --> 00:50:47.619
..: Thank you for that.

395
00:50:48.895 --> 00:51:01.879
..: So again, it was a bit choppy. So we'll try to respond, based on what we we understood. So in terms of the margin compression. Again, I think it's a factor of many things. Part of it is going to be driven

396
00:51:01.940 --> 00:51:15.690
..: by the interest bearing deposit growth which was led by the asset growth that we've had in the bank. And some of these are requirements. For example, the investments would grow typically for liquidity, ratio

397
00:51:15.740 --> 00:51:18.300
..: and interest rate risk management.

398
00:51:18.713 --> 00:51:33.620
..: Whereas on the lending side, it's really more for profitability and roe generation, in addition to that, it's not purely on the funded side of the business that we're focusing on, but also on the non funded. So the non-interest income.

399
00:51:33.880 --> 00:51:35.970
..: But we have had good traction.

400
00:51:36.050 --> 00:51:43.439
..: Our intention is to bring this up closer to peers, but also in line with the growth that we've seen on the balance sheet.

401
00:51:43.550 --> 00:51:54.010
..: I think the growth that we had seen so far really outpaced again the the growth that we could generate on the non-interest bearing deposits.

402
00:51:54.040 --> 00:52:08.359
..: And this has led to the conclusion that we do need to be a bit more selective and balance between growth and the margin, but again not signed heavily either on one side or the other.

403

00:52:09.771 --> 00:52:25.518
..: In terms of roe. I think this is an an area that where we've had improvement over the last year, it continues to be a focus, but it will be more of a medium to longer term play. And it's going to be focused on, not just the

404
00:52:26.460 --> 00:52:44.990
..: undecided business. Again, we're looking at all the the levers that are available, whether it's on non-interest income cost cost of risk. And together each of these has initiatives that we've identified to try to execute, to improve on the roe ratio.

405
00:52:45.330 --> 00:52:49.829
..: and maybe just one final comment from my side. That sounds like you were

406
00:52:50.401 --> 00:52:58.129
..: you received invitation for the capital markets day or the investor day. So we look forward to receiving you that thank you.

407
00:53:07.640 --> 00:53:09.960
Moderator: Next question comes from Murat. Ansari.

408
00:53:13.060 --> 00:53:24.390
Murad Ansari: Yes, thank you again. Just a couple of questions out of you know one of the comments you made you. You said that at the start of the year. You've gotten you know, government bonds to increase the duration of the

409
00:53:24.630 --> 00:53:36.059
Murad Ansari: of the investment book. Is it possible to get a sense of what the average duration of of the investment book book would be. Currently

410
00:53:36.683 --> 00:53:52.969
Murad Ansari: and secondly, on the deposit side, typical repricing maturity cycle for for a time. Deposit in your portfolio. If you could give a sense of that as well, thank you.

411
00:53:59.680 --> 00:54:04.000
..: May, I'll start with the last question, typically the time deposits

412
00:54:04.313 --> 00:54:07.860
..: or let's say, the bulk of the time deposits are on short term basis

413
00:54:09.560 --> 00:54:11.440
..: And as for the

414
00:54:12.820 --> 00:54:18.290
..: on the duration of the investment book, just to be clear, it's 4.1 years

415
00:54:18.480 --> 00:54:19.730
..: average duration.

416
00:54:20.650 --> 00:54:25.640
Murad Ansari: Thank you. So just on the time deposit you said shorter term, would you know? 3 months and below

417
00:54:26.670 --> 00:54:28.330
Murad Ansari: would be fair closing.

418
00:54:28.330 --> 00:54:31.860
..: Yeah, I would say, I would say, try to say, between one to 3 months.

419
00:54:31.860 --> 00:54:32.790
Murad Ansari: 1, 2, 3. This is.

420
00:54:32.790 --> 00:54:47.339
..: This is going to be for the the majority. But it doesn't preclude time deposits that would go beyond all the way up to 5 years, but they would not constitute the majority. I think the the vast would be in that 3 by 3 month. Bucket range.

421
00:54:49.920 --> 00:54:50.979
Murad Ansari: Thank you so much.

422
00:54:58.100 --> 00:54:59.750
Moderator: There are no raised hand at this time.

423
00:55:01.110 --> 00:55:14.959
Naresh Bilandani - J.P. Morgan: Okay, it looks like we've reached the end of the presentation. If we have no further questions, then I'd like to thank all the participants for joining the call today, and thanks a lot to the Bsf management for the valuable time and insights over the call today. Have a good day, everyone.

424
00:55:15.100 --> 00:55:15.980
Naresh Bilandani - J.P. Morgan: Thank you.