Shabbir Good afternoon and good evening, everyone. On behalf of EFG Hermes, I welcome you to Alinma's Second Quarter and First Half Results call. My name is Shabbir Malik. Management will start with a commentary on the results, and then we will open the floor for Q&A.

I will now hand over the call to Ms. Arwa Alshehri, the head of Investor Relations, to commence the call. Arwa, over to you.

Arwa Thank you, Shabbir. Good day, everyone. Welcome and thank you for joining us for Alinma's earnings call for the second quarter 2025. Before I take you through the call's agenda, I would like to invite you to visit our fully revamped IR website that includes much more disclosures and financial publications, including last year's sustainability report, sustainability metrics, and performance data providing more comprehensive and transparent view of the bank activity.

Back to the call agenda, our MD and CEO Mr. Abdullah AlKhalifa will begin by providing an overview of Alinma's performance and financial highlights, followed by strategy recap updates on the strategy financial KPIs and an initiative progress. After that, our CFO Mr. Adel Abalkhail will be presenting a detailed financial performance for the first half of this year, ending with the guidance for the rest of the year. We will make sure to have proper time to conclude the Q&A session where we will be addressing your questions, along with our Deputy CEO, Mr. Saleh Alzumaie covering digital and retail, and our Chief Corporate Officer, Mr. Jameel Al Hamdan.

With that, I'll hand it over to you Abu Faisal.

Abdullah Hello, everyone. Thank you for taking the time to attend our earnings call. As mentioned by Arwa, I'll take you through a quick presentation covering the high level performance as well as a reminder and the progress of our current strategy. I'll start with the slide number 6, where our financing increased by 8% year to date to reach 218.6 and our total asset also witnessed a growth of 7%, strong growth of 7%, and our customer deposit increased by 9% year to date to reach 229.9 while our CASA continued growth of 7% year to date to reach under 116.5, bringing the CASA as a percentage to 50.7.

Our operating income went through an 8% increase to reach 5.76. Our net income increased to 13% to reach 3.081 billion. Cost to income increased slightly to be at 31.6. In terms of credit quality, our NPL ratio stands at 125%, while our coverage ratio is close to 174%.

Our NIMS decreased by 22 basis points compared to the same first half last year to reach standard 3.52. However, compared to the full year of 2024, the decrease is 18 basis points. Our first half ROE increased by 42 basis points to reach 18.4.

On slide number 8, a reminder of our current strategy. By the way, this is the last year of our 2025 strategy. We have already developed a 2030 strategy, and we can present it for board review and hopefully approval in September, then we will come to the market and talk about the new strategy. So, our current strategy basically aspires to be the fastest and most convenient bank in the country, provide the best quality of service, aspire to be number one in Net Promoter score, and be number one as employer of choice.

If we move to slide 9, I'll talk in more detail about the current strategy. Obviously, investing or aspiring to be the fastest and most convenient requires significant investment in digital, so we built a digital factory. We developed our analytics to foster data driven decision-making. And there is a lot of cultural transformation to able to attract and retain best talents in the country.

In retail, the three main pillars are focusing on growing affluent and high net worth business as well as attract more youth segments and offer the best customer experience, operation, and service. In corporate, we wanted to be the core bank for large, mid corporates and project finance including diversified sectors. We want to develop our SME proposition and grow our cash and trade business. For treasury, we wanted to be the core partner for our corporate clients needs, whether it's hedging or investments. We want to grow our FI business as well as maintaining high quality function.

On page 10, it shows all the progress that took place in the second quarter. Out of the current 86 initiatives, we already delivered on 78 of those. We're still working on eight more to be delivered and finalized this year, before we switch into the new strategy. So bank wide, we established an automation lab and implemented test automation in order to improve the quality of service, as well as the time to market improvements. We will also introduce bank as a service to be able to reach more customers outside our customer base. We hired a new graduate team to go through extensive training on Gen AI.

On retail, we have opened five more branches in this quarter. We launched also sustainable saving accounts for non-individuals. And we launched Buy Now/Pay Later for our credit card holders.

In corporate, we launched a new AI engine for next products to buy. We had an overall growth in CBG portfolio from 14%, while we have a stronger growth on mid corporates, 30% in mid corporates, 21% on SME.

On Treasury, we've issued $500 million sustainable AT1 Sukuk, as well as $500 million of senior unsecured Sukuk. And we've done multiple cash flow totaling 5.2 out of Q2 this year.

On next slide, slide 11, as I mentioned, we have 8 more initiatives to work on. Some of the things that we're working on till maybe end of this year is leveraging more advanced analytics and Gen AI to drive business inside, optimize operations and deliver personalized customer experience. We will continue to enhance our ESG practices. In retail, we will continue to enhance the ratio for product per customer, leveraging the data analytics and Gen AI to generate targeted marketing campaigns, and continue to leverage the branch network in terms of sales of insurance and wealth management products.

In corporate, we're soon to launch phase two of supply chain financing. We want to further enhancements to our digital trade platform. We want to also continue to focus on cross sell and more products and offering to drive higher growth and liabilities.

In Treasury, we want to obviously continue to enhance our offering structure deposits, but as well also enhance the sources of funding through diversified sources of funding, and obviously focus on cross selling our products.

In page 12, the last slide for me before I hand it to the CFO, just shows some of the KPIs as a result of the current strategy. So, on retail, we grew at 37% on revolving credit card portfolio. Auto lease continue to have very strong growth, 57% year-on-year growth. Accounts opening, 93% of our new accounts are open through online. In corporate, we had a bit of a slow start on project finance; however, through the significant approved projects recently, we expect stronger growth in the second half. SME had, as I mentioned before, 21% growth with Mid corporate is 30%.

In Treasury, with both our average yield of investments by 15 basis points, cost of funding reduced by 27 basis points, and exchange income grow by 5%.

With that, I hand the floor to our CFO, Adel.

Adel Thank you. Good afternoon to you all, and welcome again to our call for the second quarter of this year. As usual, I'll be walking you through the financial performance that will be followed by our outlook and the guidance for the remaining of the year. Then we'll open the sessions to Q&A.

So starting with the slide 14 on the balance sheet trend, total assets has grown 7%, reaching roughly SAR 300 billion by end of Q2. This was driven mainly by financing growth of 8% and also 6% was growth in our investment book.

Also on the same slide, total liabilities, we've seen 7% align with the growth in the assets. Total liabilities are roughly SAR 250 billion by end of the quarter. This was clearly driven by customer deposits growth at 9% and we have seen a slight drop in the interbank.

On the next slide, number 15, on the P&L trend. As you have seen, the growth in net income 15% year-on-year, and this was mainly driven by an 8% growth in the top line, which is the total operating income. The 8% was mainly driven by 9% growth in the funded income, and also complemented by a 5% growth in the non-interest income. This was offset by 9% growth in OPEX, and we'll see some detail later on.

If we go to the slide 16, a little bit of details on the financing. 8% growth in YTD, 5% growth on the financing on a sequential basis from first quarter of this year. The YTD growth of 8% was driven by corporate portfolio growth of 9%. Also, the growth for the retail portfolio was 8%. You can see on the same slide in the top right hand, the gross financing composition as of June was 65% large corporate and project financing. Of that, 33% is project finance, and almost 32% for large corporate; mid corporate represented 6% of the overall financing portfolio of the bank, SMEs portfolio is 5% and the remaining 24% is the overall retail financing, which is 12% each between the mortgage portfolio and the other 12% is for the consumer finance.

The next slide, slide 17 on the deposits, we have seen a slight drop in CASA growth on a sequential basis, 1%; however, the CASA growth YTD is 7% and also time deposits have grown 11% since December, so the growth in time deposits on a sequential basis this quarter is more than what we have seen. If you recall, in Q1 the growth in time deposits from December to March was only 1%. We have more growth, 12% of time deposit this quarter, if you compare it to Q1, which, as you can see on the graph in the center of the page, that diluted the CASA, as percentage of total deposits being 50.7% by end of June. By end of March, which was Q1, this percentage was 53.9%.

If we moved to slide 18, which is a little bit of details on the NIM. So we have seen the gross funded income as an amount grown by 8%. It was driven by 6% to growth in the financing related funded income, and also 24% on the investment side. As you can see the graph in the bottom left on the net profit margin movements, as mentioned by the CEO previously, 22 basis points was a contraction on the NIMs from where we were same period last year. And clearly this was as a result of the reduction of 55 basis points in the financing yield, even though there were six basis points improvement in the investment yield. However, the drop in the cost of funding has been the elevated liquidity costs we have seen only a drop of 28 basis points from the same period of last year. So, the graph in the center here, net profit margin YTD, we closed at 3.52. This is an 18 basis point contraction from the full year NIM of last year, which was at 3.7%.

Slide 19 on the fees and other income, the non-funded income, we have seen a very strong growth during this quarter on sequential basis from Q1 this year. The growth in non-yield income was 27%. This is actually driven by 22% growth in net fees from banking services on a sequential basis, of course, and 58% growth in other income. So, the year-on-year growth on the non-funded income was 6% from fees from banking services and exchange income was 5%, and the investment gains and dividends remains flat year-on-year.

On the next slide, slide number 20, on the operating expenses, we've seen growth in breaking expenses 1% on a sequential basis from Q1. If you recall in Q1 the growth was from Q4 was 5%. This quarter the growth on a sequential basis for the quarter is 1%. So if you look at this year-on-year, the growth overall 9% which was driven by 9% growth in personnel costs and 17% growth in depreciation and amortization, and we have 7% growth in other G&A. So, the growth in overall OPEX 9% which is lower than the growth which we have mentioned on the top line, has actually increased the cost to income ratio. You can see in the cost to income ratio, if you recall, we closed the year December at 50.9. We closed the first half cost to income ratio 51.6. However, the cost to income ratio for the quarter has dropped actually from where we were when we closed in March, where we closed at 32.2 back in Q1, so we have a 60 basis points drop in the cost to income ratio.

On the next slide, slide 21, on the impairments, this year the six months charge is less by 86 million from the same period of last year. This is a 15% lower impairment charge for the same period. Cost of risk actually 4 basis points increased from Q1; however, we look at the cost of risk back in June 2024 comparing this to the same period, cost of risk was at 63 basis points. So, we closed the first half at 47 basis points, which is actually a 60 basis points drop.

On the next slide, slide 22, we have the NPL & NPL coverage. We have seen the NPL coverage has increased by 28%. This is resulting on NPL ratio reaching 1.25% Nevertheless, the NPL coverage ratio has improved. Back in Q1, we were at 156.4%. The coverage ratio as of June 2025 was 173%.

Also looking into the stage-wise coverage, stage one remains flat at 40 basis points coverage. However, as we mentioned in the call for the Q1 results, we are working to improve the stage two coverage, which has increased to 14.4 to 16.5. And also, we have an improvement on stage three coverage that has reached 70.4% from 54.8% back in the first quarter.

Looking also in slide 23 on the capitalization and liquidity, the capitalization has improved by 20 basis points in the total capital, which is tier one and tier two for piller one risks, which was in Q1 at 18.3%, so that's a 20 bps improvement. That's also, as mentioned by the CEO, part of it is because of the $500 million that was issued as a capital Instrument during Q2. We have also a 40 basis points improvement in ROE, we were at 18% ROE in Q1. We closed the quarter, the first half at 18.4% ROE.

Looking into the prudential ratios, so LCR stands at 123%, which is aligned with the previous periods on average, and remains well above the regulatory minimum of 100%. And also we are operating at 82.5% loan to deposit ratio, which is the regulatory or SAMA LDR ratio, which is well below the regulatory maximum. And also, NSFR remained healthy at 108.2%, which, as I mentioned, also was well above the regulatory minimum.

On the second section on the outlook and the guidance, on slide 25, we closed the first half of the year with financing growth at 8% YTD. We're keeping the guidance unchanged for the full year as a mid-teens growth for financing. Even the elevated liquidity costs which you have seen especially in the first half on the cost of funding side where we closed the first half at 22 basis points contraction on the NIMs year-on-year, and also 18 basis points contraction from December to compare it to the full year of 2024. We are revising the guidance from previously zero to minus 10 basis points. The new guidance is minus 10 basis points to minus 20 basis points. And in light of that, we are revising the cost to income ratio guidance, so the guidance will be below 31%. This is revised from the previous guidance, which was 30.5%. And also the ROE, as a result ROE also of the guidance is being revised to be above 18.5%. This is revised from the previous guidance for ROE which was above 19%.

Cost of risk remains unchanged. We closed the first half at 47 basis points. Cost of risk, what was mentioned earlier, we are keeping the cost of risk guidance unchanged 50 to 40 basis points. As far as the capitalization for total capital for pillar one, tier one and tier two, we closed the first half at 18.5 and the guidance is kept unchanged for 18% to 19%.

With that, I will end it over back to the operator for the Q&A's. Thank you.

Shabbir Thank you very much for the presentation. We'll now open the floor for the Q&A. If you would like to ask a question, please raise your hand. You can also type in your question in the text box. We'll start the Q&A section with the audio questions first.

So, we'll first go to the line of Chiro Kosh. Chiro, your line should be open.

Chiro Hi, this is Chiro Kosh. Can you hear me?

Shabbir Yes, please go ahead.

Chiro So I have three very quick questions. So the first one is related to the cost of funding, of course. So, in a scenario of two to three rate cuts, does your cost of funding improve or the competition is still very strong for you to see a NIM improvement? That's my first one.

Second is how, does your CET1 stand? Would you be able to sustain these kind of mid-teen level growth, purely from the CET1 perspective?

And the third one is, again, the project finance growth was relatively softer, like at 5%. Is there a systemic lower demand or it is a strategic decision to stay away from the segment? These are my three questions.

Abdullah As far as the cost of funding, if you look at the three-month average SIBOR for the first half this year compared to last year, it actually went down by 80 to 83 basis points. But the issue here was the demand on liquidity driven by strong growth on loans has forced the bank to pay well above SIBOR to compete for deposits or have further cuts in rates. Certainly it will help, generally speaking, but it's not the same levels of the cuts of say two cuts, let's say 50 basis points does not translate, in my opinion, to a 50 basis point lower cost of funding, because banks are still paying higher than SIBOR. A little bit some of it was mentioned before, like, I think 27, 28 basis point lower cost of funding, because the SIBOR itself will have an extreme on SIBOR decline by 83 - 84 points, so you can see the gap is obviously lower, a higher decline on interest that charge our customers.

It's also coupled with the fact that there is still aggressive pricing in the market for some corporate loans, coupled with higher cost of funding, that's what forced us to change the outlook. And as we said, all of us promised investors that we're going to continue to re-forecas before the earning calls and basically report what we as management see going forward.

As far as CET1, we're fully aware that we're maybe operating below markets average. However, as mentioned before, we keep getting this issue again and again. The issue is that one of the tools that we can obviously do is reduce the dividends payout. We haven't done it yet. We don't see an urgent need to do it, but that's one of the tools. And ultimately going for rights issue, it's always a possibility. We're not planning to do it, but that's one of the other options.

Now, on project finance, and I think I quickly mentioned maybe Jameel here, is our Chief Corporate head, Jameel, do you want to comment –

Jameel Yes. In this regard, yes, maybe there was soft growth, due to the competition, but we are very selective on deals that are priced well. However, we are catching up and we are positive about the continuing growth as projected before.

Chiro So the demand is there. It was a strategic decision, if I can summarize?

Abdullah It's more a timing of projects. I think recently there have been significant size of project finance that's been approved, and we're going to see much stronger growth on the second half.

Chiro That's all from my side. Very clear. Thank you very much.

Abdullah Sure.

Shabbir Thanks. Now we'll move to the next question. This is from the line of Naresh Bilandani. Naresh, your line should be open. Please go ahead.

Naresh Yes. Hi. Thank you very much. It's Naresh Bilandani from Jefferies. Thanks a lot for the presentation. I have three questions, please.

My first question is on the operating environment. So across the board, in the sector, we've seen pressure come through on the NIMS, led by funding costs and definitely EL's not compensating due to competitive pressures, as you indicated in the reply to the previous question. But as is also visible in your numbers, we're not seeing any notable slowdown in credit origination. I mean, even your guidance, you're maintaining a mid-teens guidance even though the revenue is going to be softer probably for the rest of the year. Do you believe this phenomenon of growth, despite tight spread, is likely to continue into the next year given the market structure or the opportunity in the industry? Or, do you believe the industry participants could eventually start opting towards a lower growth option to conserve the spreads? I'm just keen to understand how do you see the situation, which is kind of unique in this Saudi market right now pan out beyond sort of like the year 2025, at this stage. So that's the first question.

The second question I had was on CET1. In addition to the answer that you offered to the previous question, is there a level of CET1 that you're planning to maintain through the medium term? I think the level that we saw at the end of last year was 13.2%. In context of that level, what would be the level that you would opt to maintain over the medium term? That's the second question.

And my third and final question is, we've seen recently changes to the credit cards that were promulgated by the regulator in June. Do you believe these charge changes are going to be meaningful enough to put a pressure on fees in any form in the second half of the year, also keeping in context that the brokerage volumes are relatively sluggish at this stage across the industry? Thank you.

Abdullah Thank you. I think in terms of rate environment, certainly there is a pressure on liquidity. There is also competition on pricing. However, I think in terms of the bank's ability to continue to grow, there is certainly capacity, whether one is liquidity, the other one is capital adequacy. You must have heard in the news that the regulator came up with countercyclical addition to the CAR of 100 basis points. So, that may have a bit of slower growth, but I don't think the growth will be going down to single digits in the industry. I think we'll see multiple years of still double digits in terms of loan growth, the demand is strong, and that's the core business for banks. And despite maybe lower NIMs, the fact that you're adding volume. When you look at cost of funding for banks, because the fact that they have significant CASA balances in their books, their true cost of funding is not actually SIBOR. It's below. So in our case, I think it's below 3% in terms of cost of funding. So, when you lend at SIBOR, the 100 to 90 basis points still adds partly to the bottom line. Yes, it may have contractual bit contractual on NIMs, but the volume impact should be more than offset that.

On the CET1, we don't really have a specific targeted level. I think we see the level currently is comfortable. Will it decline further? Certainly there's a possibility. But as I mentioned, we certainly want to see this double digits. We want to make sure it never goes to single digits. But it does not mean that our target is 10%. It could be obviously higher, but we'll see. What I said on this periodically, we don't have a specific target, or the credit card changes, Adel?

Adel I can take the credit card part, so the recent regulation, as you know, came to impact recently, and as you maybe have seen the news public actually that specified some of the fees for banks, what they can charge as an issuer. We did the assessment, and we think the impact is immaterial, especially when you think about it Naresh, from the point of view that also it might increase the acquiring part. So, the lower fees could also trigger more utilization for the acquiring business. So, we did the assessment. It's not really material. And some of the fees actually just put there for banks, just to specify the rate, because it will not be led to banks to charge more or less, right, just to be unified among banks. But yes, we did the assessment and it's not really material.

Naresh Thank you so much. I appreciate it. Just one final, small follow up. Could you just clarify what is the level of CET1 for the second quarter?

Adel 13.2%.

Naresh Thank you so much.

Shabbir Thank you. We'll now move to the next question. This is from the line of Murad Ansari. Murad, your line should be open. Please go ahead.

Murad Yes. Hey everyone, thanks for the presentation. So, on the asset quality, you've made significant improvement on stage three coverage in particular. I just wanted to get a sense of has there been a reduction in your stage three loan balances we saw a pick up in the last quarter? So, I wanted to get a bit more insight on how it's evolved over the last quarter.

Secondly, on NIMs, just on the rate cuts that have come through, is the book largely now reflecting those rate cuts? Do you see further repricing possibility, downward repricing possibility over there?

And third is on loan growth. So you've had a good first half, 8% year to date, your guidance is for about a mid-teen, so about a 15%, 16% growth would mean an additional about 16 billion to 17 billion growth in absolute terms, which is similar to what your first half absolute expansion has been in the loan book. But Mr. Abdullah, early on the call, you said you're expecting second half to be much stronger, so just wanted to get a sense is there an upside risk on that loan growth guidance to being higher teens?

And lastly, on fee income, a good quarter. Are there any kind of one-offs over there? Just some insight on what are the key drivers for this pickup that we've seen in the fee income. Thank you.

Adel I can take maybe the two questions on stage three, and also maybe the fees. So, on the fees, the growth in Q2 was strong on a sequential basis, that 27%. So, the 22% growth from Q1 actually was mainly on the banking services fees. We have seen 38% growth in the other income that is part of the Non-Yeild. So, if we look at the fees from banking services for Q2, we have seen improvement across many metrics.

We have seen the improvement on the point of sale business. We have seen a pickup versus what you have seen in Q1 and even Q4 where there was a drop from Q3. And also, we have seen a good improvement on the level of fees we are getting as part of the assets management that is being done by our Alinma Capital, which is our investment arm.

We have seen also slight drop in the cards related expenses, but also there was a big improvement coming from the cards business that would be linked in one bar to the improvement that we have done in the operating model with some of the international schemes that provides the credit card services, but also the utilization of cards, which resulted in more interchange income. So collectively, this translated into the Q2 result.

And also on the other income, not specifically the fees from banking services, we also have seen a pickup from Q1 of 6% growth in our tax income given the volume that has been transacted. And also, we have seen a decent growth in gains and dividends from those investments that are held at fair value for income statement. We have seen also some growth in dividends for some investments and for fair value through other comprehensive income. Also there was small increase on the overall other income as well.

Maybe back to stage three, stage three as a movement, we haven't seen any significant movement in stage three during the quarter, as far as certain accounts that by model will be usually get staged into stage three. And clearly, there will be stage two before. I think what is more meaningful to us, look at the stage coverage itself, which has improved significantly from the previous quarter, stage 3 coverage was around 55%. As I mentioned in my slides, we are now at 75%, which is slightly higher than what you would see at the rise in the market.

Abdullah And also on the NIMs, as I said, every time we do the reforecasting before the earnings call, we take the latest forward yield curve from the markets, we don't build our own yield curve, we just take whatever the markets at that time believes, so that's already taken to consideration. Now the loan growth we had a slow start on compare year-on-year growth on project finance. But recently, there have been significant amounts of projects being approved, and we're going to see stronger growth in project finance in the second half. As mentioned by Adel, 33% of the total portfolio is actually project finance. You can imagine that the growth rate accelerated as a percentage that has a bigger impact on the overall portfolio growth. And we're going to continue to grow strongly in the areas of SME, mid corporates, as well as good growth, very strong growth on the retail side.

Murad Thank you so much.

Shabbir Thank you, Murad. The next question is from the line of Mehmet. Mehmet, your line should be open. Please go ahead.

Mehmet Good evening. Thanks very much for taking my question. I have just two follow up questions on capital, please, if I may. So firstly, you had executed some RWA optimization measures in the first quarter, and back then it was, I think, on the back of eligible collateral. I'm just wondering if you've taken any specific measures this quarter, in the second quarter, and if there are any other pockets of optimization possible going forward?

And secondly, just the clarification on the increase in the countercyclical buffer requirement by SAMA, I remember from our previous conversations that there were still some clarifications needed, whether it be CET1 or total capital in terms of the increase in the requirement. So, could you please clarify whether this will be filled through CET1 or is it seen from a total capital perspective? Thanks very much.

Shabbir Would you mind repeating your question again, please?

Mehmet Oh, yes, absolutely. I was just wondering if there are any RWA optimization measures that you took in the second quarter similar to the first one? And if there are any other pockets of optimization that you see that you can take going forward?

Adel Oh, now clear. As you rightly said, during Q1 the risk density is positively impacted. The optimization is actually an ongoing exercise. So, during Q1 like you mentioned, we mentioned before that there was certain liquidity legible collateral that we started now to take into account. Nothing really specific to Q2; however, the overall optimization process, the risk weighted assets, is an ongoing exercise. But I wouldn't say that it's something purely specific for Q2.

On the CTYB, the countercyclical buffer, the circular that came out from the regulator, which I believe is public, that the countercyclical buffer will be moved from zero to 1%, so from zero to 100 basis points, and that, as mentioned in the circular itself, that it's going to be of the total risk weighted assets, so that will be the requirements all and above the overall capital requirements.

Mehmet Okay, that's very clear. Thank you very much, Adel. I appreciate it.

Shabbir We'll move to the next question. This is from the line of Rahul. Rahul, your line should be open. Please go ahead.

Rahul Thank you for the presentation. A couple of questions from my end. Firstly, on the NIM guidance, you have sort of downgraded the NIM guidance. We are minus 18 basis points year to date and the guidance of 10 to 20 basis points implies that you either see a flat NIM through the year end or an improvement in the NIM. So, what is driving this NIM? Like how many rate cuts do you factor in?, this is number one, and number two is, assuming no rate cuts further from you, how do you see NIM panning out? That is number one.

And secondly, on the cost of risk perspective, again given your coverage ratio has increased while net your NPL hasn't increased, are you expecting the coverage to increase further from here, or do you expect NPLs to go up? That would be helpful.

And sorry, one last question. On the loan growth perspective, the last three quarters we have seen that Alinma sort of grew either at the market or slightly slower than the market, whereas this quarter, again, you've started to grow faster. So, you mentioned project finance, but apart from that, could you add more color on that, or is it that you would be clearly focusing on growth over profitability? Thank you.

Adel So I'll take the first point on the NIMs. So as mentioned by our CEO early on, on the answer to the previous question, every quarter we really take the portfolio composition and the profile of the liabilities along with the expected growth on the assets, and also the latest yield curve that we have with the assumptions of the CASA growth as well. And we do that actively and also before the earnings call, we always run our forecast for the full year, given also how the NIMs have performed in the last previous quarters.

So, looking at the yield curve in the market now, the assumption is for two rate cuts: one at the end of the year and another possibly in December. Today, there is a meeting with the probability that the yield curve we have used may see no cuts. If rates remain flat, where NIMs will move will be heavily reliant on where the elevated liquidity costs will be from now until year-end. We have already seen this in the first half.

Maybe in the other part related cost of risk is because the risk was increased, even though NPLs is not really clear they increased at least on a sequential basis. I have seen an improvement on the coverage ratio itself, and this was a driver also from what I mentioned on our prudence to always have stage two coverage viewed in the market, and also to have a better stage three coverage that has also dropped in the last two quarters as you can see. As we mentioned, we'll always be happy to be around 150% on coverage ratio. We'll never lose its if that goes above, but that's also part of the prudence managing the coverage ratio itself.

Abdullah I think in the loan growth, you mentioned that it's true that we had this problem of growth in the second quarter versus first quarter. I keep mentioning that slow year-on-year growth on the project finance wise, we had strong growth on SME, on retail, on mid corporates and large corporates. I forgot to mention large corporates, we had good growth in the second quarter. These are the main drivers for the growth that we've seen in the second quarter.

Mehmet Thank you.

Shabbir Thank you. We'll move to the next question in the queue. This is from the line of Mozamil. Please go ahead. Mozamil, can you hear us?

Mozamil Okay, so this is Mozamil from Axios Research. I have just one question. Can you tell me what are the spreads you are making on your corporate loan portfolio, combined with SME portfolio? And if they are already low, what will be the strategy that you will offer the loan to the customers, given the rates are already very competitive? Thank you.

Abdullah Honestly, I didn't get the question. Can you repeat that? Please?

Mozamil Sure. I was saying that your spreads on the corporate loan portfolio combined with SME portfolio, what are these spreads? And if they are low, then what will be the bank's strategy to catch a customer from the market which was already getting lower rates on the financing? Thank you.

Abdullah Okay, obviously I did mention in the beginning, I think it was a question about loan growth. Certainly, we've seen some aggressive pricing for certain customers. We had to compete, but we don't go aggressive on pricing. But then if you don't compete, you lose significant market share, so we did adjust some pricing lower, but not to the level that we heard some clients are getting outside. We let go of some clients if the rate is really uncompetitive for us to participate to that level.

We're focusing on project finance, mid corporates, SME, retail provides good rates, and we're very selective in large corporate, but we're very successful second quarter in terms of growing large corporates. That's why I think over the last few years that's the first time we've seen our loan growth was below the industry average, in the first half this year. We do want to be aggressive on loan pricing.

Mozamil Okay, thank you. That was just a question from my side.

Shabbir Thank you. I'll move to the next question in the queue. This is from Talal. Talal, please go ahead. Your line is open now.

Talal Thank you, management, for the presentation. Just one question from my end, regarding asset yields. Just if you can elaborate a little bit about the segments or from where you see a sharp decline in the asset yield? During this quarter, we have seen some banks expanded their asset yield. Can you say what sector or segment have been any decrease in Third quarter? Thank you.

Abdullah I think that in terms of the segments that you see in terms of top compensation, in terms of pricing, has been the large corporates. We start feeling it in project finance to a certain extent, but mid corporates also facing some aggressive pricing, but not to the level that you see in large corporates.

Talal That's clear. Thank you.

Shabbir Okay, we don't have any audio questions, so maybe I'll move to one of the questions in the chat box. The name is not clear to me, but it basically asks for your NIM sensitivity of 25 basis points cut in US rates.

Adel So on the NIM sensitivity, again, the latest sensitivity we have did not gain move much. We've seen this in Q1 which we communicated that around 1.6 to 1.7 basis points drop for every 25 basis points cuts. But as usual, Shabbir decides to be always qualified that this is really a point in time sensitivity, because this is subject to many factors and remains theoretical as you move one day ahead, and then he changes to the overall balance sheets composition, or other than your growth assumptions this could always change, but did not change as a sensitivity from what was communicated back somewhere in Q1. It just was like part of the basis points drop, which remains almost the same.

Shabbir Great. Maybe I can add a couple of questions here. First one is on your deposit growth. I think about 5% quarter over quarter ahead of the sector growth, should we see this as basically building liquidity anticipation of stronger loan growth in the second half of this year? That's number one.

Number two, I know you've discussed this point earlier in some of the questions, but when we talk about the countercyclical buffer of 100 basis points, is this going to be applied uniformly across all the banks, or it will be dependent on the growth outlook or the historical growth rates? And related to that, it wasn't immediately clear to me based on your answer if additional tier one capital and tier two capital can also be used to cover for this additional countercyclical buffer?

And my third question on the capital side, you were quite clear that in 2Q there was no RWA optimization as such. But I was wondering if there are other pockets of opportunities for you in terms of asset sales, etc., which could help you generate some extra capital that can be used for these capital requirements? So those questions, please. Thank you.

Abdullah Thank you. I'll cover the first point, and leave the others to Adel. In terms of deposit growth, as I mentioned, and it's known in the market that liquidity is a bit tight in the market. The future growth in loans is strong. The demand in loans is strong. So, we do all our efforts to basically bring up whatever liquidity that we can find at a reasonable price. We've been very successful in growing our CASA. We're successful in on boarding new relationships, whether in government, corporates, affluent, privates, and also in youth segments and large segments and so on. So, this is all helping whatever department we see reasonable rates, we take it.

Certainly, I mentioned I expect stronger growth on second half on project finance and continue our strong growth on other sectors. So certainly, that's going to help us maintain that level of growth.

Adel On the question relating to the CGYB and the countercyclical buffer, this circular is already public and can still find it in this regulator website. It's basically zero to 100, zero to 1% which, as I mentioned, that it's going to be of the total risk weighted assets. So that suggests that it's both for the total capital, as I mentioned, including Tier 2 sukuk.

Is this unified for all banks? Our understanding is this circular was sent to all banks and not specific to certain banks.

On the risk weighted assets, as I mentioned, the optimization is an ongoing exercise, honestly. Was there anything specific this quarter versus last quarter? Not really. However, going forward, as I mentioned, this is an exercise that there is always tools. One of them you directly mentioned could be the sale of certain mortgages to SRC. We would be also active going forward to optimize the risks weighted assets, of course, in order to aim to reduce the risk density for the overall.

Shabbir Great. Just one question from my side. There has been some news about, for instance, the most recent one is about the PIF reevaluating some of the NEOM projects. And it's interesting that you mentioned that you've seen a good pipeline going into the second half. So, it's very encouraging to see that the pipeline is still looking good. But I think in terms of your industry focus, in terms of your project focus, what is that pipeline being driven by? And has these reprioritization activities not affected you?

Abdullah In terms of project finance, there has been multiple focus. One of the strong areas of growth for us has been the renewables, significant amounts of solar stations been awarded and needed finance, as well as other projects in the country, mainly in the infrastructure. And, of course, all the companies that been set up by PIF is also in the market for finance.

Shabbir Got it. There's one question from Fatima AlDoseri in the chat box. "What led to the increase in NPL loans? Any specific sector or industry?"

Adel So, the increase in NPL did not happen this quarter. If you go back to the last two, three quarters, this is where we started to see the pickup. If you recall, we did sizable write offs actually in the first half of last year. It was even higher than the historical averages of the write-offs. And, of course, the accounting write offs that we do directly impact the level of NPL's as an amount in the books, and also have a reflection on the NPL as a percentage, so it's not really growing as maybe the base was low, if you compare it to the Q2 or maybe a Q1 or end of last year.

Shabbir Thank you. We have one audio question. Do you have a few minutes to take that question, please?

Arwa That's okay. Shabbir.

Shabbir This question is from the line of Yasir. Yasir, your line should be open. Please go ahead.

Yasir This is Yasir from AlNahdi Holding Company. I have one question regarding the asset yield and cost of funding. If we are taking the previous data that you shared in the first half in 2024, the asset yield stood around 6.9. If we add six basis point, we are talking about approximately 7% in the asset yield side. In terms of the cost of rate or funding side, 3.2 up to 3.5 we are talking about 28 basis points and come up with a NIM of 3.5. So my question is, do you have any plan to increase CASA ratio through the remaining of the year?

Adel I mean, of course, CASA is always a focus for the bank. If you look back at the history, we have really seen strong growth in CASA specifically. If you see this quarter now 1% drop, it's only six months, and we already have seen a 7% growth in CASA. It's also compared to double digit growth that we have seen last year and the year before. So yes, it will continue to be a focus. And, of course, it's not only the current accounts, but also even the saving accounts we are seeing a growth there, and also what goes into that at other accounts. So, of course, given when we are on the environment and the elevated liquidity cost and the cost of funding, it's actually more important than ever, so it's the focus. Of course it's the focus going forward.

Yasir Okay, so could you please give us a guidance in terms of how do you see the cost of funding in the full year?

Adel I'm afraid we don't really guide on regarding the cost of funding itself specifically, or maybe the growth yield itself. However, as we mentioned, our NIM guidance is for the full year. If you recall, it was 3.7% for the full year. Now we just provide the guidance to be minus 10 basis points to minus 20 basis points.

Yasir Okay, clear. Thank you.

Shabbir All right, I think that concludes the Q&A section of the call. I'll now hand it back to the management for any concluding remarks.

Arwa Thank you, Shabbir, for hosting the call, and thank you everyone for your time. If you have any follow-up questions, please contact us as at IR email and have a great day.

Shabbir Thank you Arwa, thank you everyone for joining the call. Have a nice evening.