Bank AlJazira Earnings Call Transcript

Q1-25 Financial Results

May 6– 2025

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Jassim Al-Jubran,

AJC

Good afternoon, everyone. This is Jassim Al-Jubran from Sellside Research at Al Jazira Capital. On behalf of Al Jazira Capital, I would like to thank you all for taking the time to join the call for Q1-2025. I'm pleased to welcome our panelists on the call today. Among our panelists, we have the Chief Executive Officer Mr. Naif AlAbdulkareem, Chief Financial Officer Mr. Hani Noori, Treasurer Mr. Hani Araki, the Head of Corporate and Institutional Banking, Mr. Sami Al-Mehaid, the Head Retail Banking Mr. Mohammed AlMousa and finally the head of Investor Relation Mr. Majid Khan. We will start the call with the management before opening the floor for participants for a Q&A session. I will start by handing over to the group head of Investor Relation, Mr. Majid Khan. Mr. Majid, the mic is yours.

Mr. Majid Khan

Head of IR

Thank you, Jassim, and thank you for hosting our call. Good afternoon, everyone. Welcome to Bank AlJazira Q1-2025 earnings call. Thank you for joining us today. We'll begin with the opening remarks from our CEO Mr. Naif AlAbdulkareem who will cover the bank's performance strategic progress and ESG highlights. Following that, our CFO Hani Noori will take us through with the financial results for the quarter. We will then open the floor for the questions and answers due to time limitation, if any of your questions are unanswered, we are always available. Please feel free to email us at IR@BankAlJazira.com, and we'll be more than happy to respond to you. With this I will hand over the floor to Mr. Naif for the opening remarks.

Mr. Naif AlAbdulkareem

Chief Executive Officer

Thank you, Majid. Good afternoon, everyone. We've started 2025 on a strong footing, sustaining the positive momentum carried over from last year. While the global macroeconomic environment presents new challenges, our outlook remains positive and with no immediate impact on the sector. The non-oil GDP growth is expected to remain robust underpinned by ongoing progress on Vision 2030. Meanwhile, lower oil prices have introduced a degree of first caution despite this, the banking sector continues to demonstrate resilience, and we are benefiting from healthy levels of activity in the commercial sector. We don't expect the current oil price dynamics or tariff development to materially impact the banking sector, or our businesses, but we remain prudent and continue to assess development closely.

In Q1-2025 we maintain strong business activity and made further progress on our transformation agenda. During the quarter, we launched a digital SME onboarding platform and revamped corporate mobile app and web portal. Both are a part of our broader data and technology revamp program. We also introduced new products offering across retail and corporate, and advanced operational excellence initiatives: Modernizing our platform, Enhancing customer experience and Leveraging data and automation have expanded our reach and improve service delivery .

From a financial standpoint, we delivered a solid result, our total assets rose 13% YoY supported by a 20% growth in financing while deposits increased by 13%. Our net income rose 20% YoY supported by 20% increase in operating income. Net financing and investments income grew by 22% driven by asset growth and margin improvements. Cost-to-income ratio improved to 52%, reflecting continued focus and efficiency. Return on equity stood at 8%.

Let me now walk you through our strategic progress in more detail. As you know, this is a 2nd year of our 5-year strategy, In 2025 we focused on accelerating executions by deepening our presence in key customer segments, expanding high demand products and further improving customer experience. First, we are continuing to build a momentum in large and mid-corporate with a focus on deepening relationship and sector-focused portfolio growth while maintaining a balanced approach across all sectors. Second, we plan to introduce a new suits of trade finance and cash management products. These are designed to meet the evolving needs of our corporate clients and strengthen our position in transactions banking.

Third, within the SME space we aim to enhance our value propositions providing financial facilities through kafala and other high demands products resulting in more tailored and accessible solutions for the segments. Fourth we continue to work on developing tools and solutions for Corporate to improve productivity and enable a more response responsive clients experience. Fifth, we're expanding our real estate value propositions including broader set of products with a better handling to attract more customers. Sixth, we plan to expand our Auto Lease offerings across KSA reaching more regions with improved product coverage and stronger after sales service.

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Finally, a major focus will be to build a customer centric digital journey across our mobile app and websites, delivering a seamless and personalized experience across platforms. These initiatives will support our ambitions to become the bank of choice for affluent customers, by continuing to build customer centric experience across our mobile app and websites. Enhancing our appeal to our affluent retail clients, strengthening our mid-tier corporate franchise, leading in wealth managements and driving growth through robust treasury operations.

Let's now review the strategic progress of Q1-2025 on slide 5. On the corporate side, we launched a comprehensive suite of B2B services and fully rolled out our revamped corporate mobile app and web portal. In retail, we introduced the new Off-plan Cash Plan products and streamlined digital SME account opening, enhancing accessibility, supporting scalable growth, and reinforcing BAJ's market positions.

Treasury also remained active in optimizing the investments book and participating in key sukuk issuance to diversify returns. Altogether, this progress reflects a strong momentum and disciplined executions in the second year of our strategic cycle.

Let me now turn on our ESG highlights on slide 7. We remain deeply committed to advancing our ESG agenda across all aspects of our operations. And the environmental side, we continue to support green financing with a total approved credit facility exceeding SAR 4.1 Billion . We also made progress in reducing our environmental footprint by recycling plastics and mixed recyclables across our Riyadh and Jeddah offices improving energy efficiency, paper reductions leading to a further reduction and more savings. Socially, we are proud to have achieved 92% employee engagement through extensive training programs delivering over 50,000 training hours. Additionally, our community initiatives reach over 23,000 beneficiaries supported by donations and developments projects.

In governance, we continue to uphold the highest standard. We successfully launched an automated fraud handling pilot project and maintain a strong record of zero customer privacy breaches. Our efforts were once again recognized with an excellent award in corporate governments index for the third consecutive years, awarded by Al Faisal University. We also continue to raise awareness on Shariah compliance banking through partnership with industry associations and new publications.

I am pleased to highlight that Bank AL Jazira was named as best workplace environment by International Finance Awards 2024 and received the CSR award in the Arab countries from regional network for social responsibilities. These recognitions reflect our continued progress and dedicate to the delivering positive impact to all our stakeholders. I will now hand over to Mr. Hani Noori for a close look at our financial performance. Thank you all.

Mr. Hani Noori

Chief Financial Officer

Thank you, Mr. Naif. Good afternoon, everyone. I'm pleased to walk you through our financial results for Q1-2025. We have delivered a strong start to the year with a solid growth across key metrics. Net income increased by 20% YoY, supported by a growth margin, growing fee based revenue and disciplined cost control.

Starting with the balance sheet on page 8, our total assets reached SAR 153.2 Billion, up 13% YoY. This was largely driven by the financing portfolio growth, which has increased by 20% YoY. On the funding side, customer deposit has also grown by 13% YoY alongside the 13% rise in interbank liabilities. Total equity increased by 15% YoY driven by the increase of SAR 1 Billion that we have issued as a tier-one sukuk in January 2025, which has further supported by our return earning and positive movement in our OCI.

Let's now take a closer look at the financing on slide 10. Financing has grown by 20% YoY. The growth was balanced across both commercial and consumer segments. Commercial lending was mainly supported by mid-corporate clients during Q1 2025 with the commerce sector recording the largest increase during the quarter. Consumer financing growth continued to be led by mortgage on the back of a supportive housing market, auto financing has maintained rapid growth, benefiting from network expansion and a stronger generation of leasing partnerships.

Now turning to the investments on slide 11. our portfolio stood at SAR 36.7 billion, showing a modest 1% increase YTD mainly from an increase in fixed-rate instruments. This reflects our deliberate approach to grow the investment book at a slower pace than financing. Government and quasi-government securities continue to dominate the portfolio, supporting liquidity and maintaining a conservative risk profile.

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Let's now turn to liability and liquidity on slide 12. Total liabilities has grown by 12% YoY, mainly driven by 13% increase in interbank balances and 13% in the customer deposits. Our liquidity position remains solid with the LCR at 134% and NSFR at 113%, both comfortably above regulatory thresholds. The SAMA allowed LDR ratio increased to 73.3% reflecting a strong financing growth while still maintaining sufficient headroom to support future lending growth.

Now moving to the customer deposit on slide 13. Customer deposit has grown by 13% YoY reaching SAR 109.6 Billion . On a YoY basis CASA has increased by SAR 7.5 Billion, which is an 18% increase, where Time deposits has increased by SAR 5 Billion at a 9% increase. CASA accounted for 44.3% of total deposits, maintaining its position above the 44% threshold. Call accounts represented 9% of the deposit base, with balances intentionally kept stable to manage funding costs. By segment, retail deposits increased, supported by a favorable market environment. Retail now accounts for 44.1% of total deposits.

Let's now turn to the income statement of slide 14. Net income for Q1-2025 is SAR 361 Million , up 20% YoY. The increase was driven by a strong top line performance with a total operating income rising 21%, partially offset by higher expenses and increase in impairments. Operating income was supported by both core components, mid-financing and investment income growth by 22%, driven by asset expansion and margin improvement. Fee and other income also has increased by 21% and contributing meaningful to top-line growth. On a sequential basis net income has increased by 29%.

Now let's discuss net financing and investment income in more detail as shown in page number 15. Net financing and investment income grew 22% YoY, supported by a combination of asset growth and margin improvement. Financing and investment income increased by 13% while the cost of fund rose by 9%, resulting in a positive spread dynamic. The Net margin for the quarter is 2.19%, up by15bps YoY. The margin improvement was supported by a reduction in funding cost as the impact of the late 2024 rate cuts began to materialize. At the same time yield remained broadly stable with continued support from the mortgage portfolio.

Next, let's move to the fee and other income on slide number 16. Fee and other income grew by 21% YoY, primarily driven by higher fee from banking services and exchange income. Fee income from banking services rose 25%, supported by a solid performance across multiple areas. Mutual fund fees grew by 72% YoY, while trade finance fees increased by 21%, reflecting continued strong transaction volumes and corporate activity. This was partially offset by a market-driven decline in local share trading fees. Exchange income was up 40%, supported by higher volumes and seasonal factors.

Let's now turn to operating income and expenses on slide number 17. Operating income has increased 21% on the cost side operating expense increased by 15% YoY. This resulted in a positive operating jaws, and cost-to-income ratio improved to 52.4% for the quarter. The YoY increase in expenses were merely driven by higher general administration spending to support ongoing digital and business growth initiatives along with an increase in employee related costs.

Let's now move to the credit quality on slide number 18. Our overall risk profile remains sound where the NPL ratio rose to 1.44% and the cost of risk increased to 38bps. NPL coverage ratio remains comfortably at 164%, where stage wise coverage remained broadly stable.

Let's now move to capitalization on slide number 19. Capital ratio remained healthy in Q1-2025 with the capital adequacy ratio at 18.1% and the Tier-1 ratio at 15.9%. The ratio was supported by the issuance of the SAR 1 Billion tier-one sukuk along with the return earnings and positive OCI movements. During the quarter, the bank announced the issuance of bonus shares at a ratio of 1 share for every 4 shares, 25% . This initiative will increase the bank's share capital by SAR 2.5 Billion funded through return earnings and served to be reflected in Q2 financials.

We go to slide number 20 where we show the return on average equity which is reported at 8.01% for Q1 2025 and return on average assets as 0.96%. Looking at the segmental performance in page number 21 , the segment performance remained well balanced with the total asset growth led by the retail segment, including private banking and supported by the growth in the corporate segment. On the P&L side, all core segments made meaningful contributions to the bank's net income growth.

Finally, we'll give some guidance on our financial performance towards the end of the year. In terms of the financing growth, we continue to expect a double-digit growth for the full year in a lower-teens range. Net margin, we maintain our full year guidance of 5-10bps improvement, supported by the impact of rate cuts and favorable asset mix. Cost of risk, our guidance is to maintain the same between 35-44bps, while cost to income ratio, will maintain below 55%. In terms of return on equity and return asset to maintain our guidance as is. Thank you and we now welcome any question that you may have.

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Questions & Answers Section

Ibrahim Elaiwat

AJC

Thank you, panelists, ladies and gentlemen, we will now commence with the Q&A session. You may raise your hand by pressing the hand icon on your screen to speak with the panelists or alternatively, you may drop your question onto the Q and A chat box. With that being said, please limit your questions to two at a time so we may satisfy as many questions from participants as possible. You are, however, more than welcome to join the back of the queue if you have a follow up. And so without further ado, the Q&A session is now open .

The first question comes from the line of Rahul. Rahul, your line is now open. Could you please unmute yourself and go ahead? We cannot hear you. Alright, seems that Rahul has dropped out, however you're more than welcome to Try again. Our next question comes from the line of Murad. Murad, your line is now open. Could you please unmute yourself and go ahead?

Murad Ansari **Q**

Good afternoon. I'm, Iso just a few questions around, the first quarter results, the loan growth numbers has been quite strong. And you're still guiding to low-teens, so just wanted to get, you know just thoughts on how do you expect long growth to evolve over the next couple of quarters clearly it seems like you're, you're expecting some slowdown and in pace of growth.

Secondly, on margins, you know, we've clearly seen some positive sensitivity to rate cuts decline. How do you, I mean you're still maintaining that 5-10bps kind of improvement for the course of the year. Is that an upside risk or if rates don't move I mean, how is the book going to behave on, on margins? Thank you.

Mr. Majid Khan **A**

Head of IR

Thank you, Murad, the answer to your first question relating to the guidance on loan yeah, the Q1 went really well. For the time being it's too early to predict the full year guidance given the situation economics I mean microeconomics that we the risk that we highlighted at the start. So it's kept as is for now. We will continue monitoring that and most likely in Q2 we will see a revision, Q2 will have more clarity towards the full year review and we'll be more like in a comfortable position to revise that guidance. And like will be enough for guidance. Relating to the NIMs, yeah, I agree to be talked about 5-10bps on the higher side. Last quarter, fully reported around 200bps so 2-10. This quarter, though, we reported higher NIMs, it has an element of one-ff also if you normalize, we are like close to our guidance.

Going forward, I agree with your point positive elements are there. We expect that should improve and given the situation we are in and the way we see our asset business specifically from corporate and retail growing, we should see a positive sign there and we should see an improvement in this margin also. So both sides we should see a more realistic picture towards the end of quarter two and when you attend the quarter two earnings call, you should see an upfront guidance in there giving things remain as is.

Murad Ansari **Q**

Thank you. If I could just slip one question on Fee income, that's been a very strong performance this quarter. How should we see this? I mean, are there any one-offs over here I mean you talked about early in the presentation that's been a very broad based contribution from different business lines. But how much of this was linked to loan growth, and if there are any one-offs and what should we see as a baseline for the next coming quarters?

Mr. Majid Khan **A**

Head of IR

Fee income is doing good for quite some time. If you look at our graph that shows fee income as percentage of operating income and expenses, you would see a continuous improvement in that line. And if I just further break it down between like banking fee versus not banking fee banking fees and indicator that shows the consistency, like because that is the income that is coming straight from the loan portfolio performance portfolio that share in banking field the percentage of operating income is continuously improving from like 16% last year to around 18% in Q1 2025. That is a very strong indicator that there is a, a consistency in that line. In Q1 2025 there is no one off. It's all organic and we should see an improvement.

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Murad Ansari

Alright, thank you so much.

Ibrahim Elaiwat

AJC

Our next question comes from the line of Olga. Olga your line is now open, could you please unmute yourself and go ahead?

Olga Veselova Q

Thank you for taking my questions. This is Olga Veselova from Bank of America. I have three quick questions. One is on housing financing. What is the mix between subsidized versus non-subsidized financing now? My second question is how much do you pay on savings accounts? And third question, how would you comment on the competition, including pricing competition in the SME segment? Thank you.

Mr. Majid Khan A

Head of IR

The first question, housing is like 60% is non-subsidized, 40% is like subsidized. That is the composition. I missed your second question relating to SME pricing, right?

Olga Veselova Q

My second question is on interest rates on savings accounts.

Mr. Majid Khan A

Head of IR

Okay. Interest rate on savings specific is around 2%. Call deposit depends on customer to customer so like it varies, but saving is specifically between 2-3%.

Olga Veselova Q

Perfect and my third question was on competition in SME segment, do you see rising, substantially rising competition?

Mr. Sami Al-Mehaid A

Head of Corporate and Institutional Banking

I'll take this question if you allow me. Thank you, Olga, in the SME segment there definitely will be a price competition. However, I believe that banks and Al Jazira in particular, we are more into enhancing this SME service coverage model that will definitely help us to override that kind of competition. The other thing is that that to develop, product base that help us to go to market with plan under risk and retain consideration. That could help us big time and we have seen it during the past couple of years growing, in this specific sector.

Olga Veselova Q

So you don't you don't see any unreasonable price behavior from the competitors ?

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Mr. Sami Al-Mehaid **A**

Head of Corporate and Institutional Banking

No, actually, we don't see that, but as I said, it's more about product lending based programs having an enhanced SME service coverage especially for those SME segment and those customers, they are more into speedy transaction and affording them with all kind of Banking facilities that could help them in activating their own business and without having any cuts during the business time and cycle, It's more important for them than that pricing competition.

Olga Veselova

Thank you so much.

Ibrahim Elaiwat

AJC

Our next question comes from the line of Shabbir Malik. Shabbir, your line is now open, could you please unmute yourself and go ahead?

Shabbir Malik **Q**

So my question is around the NPL ratio. It seems to have gone up a notch this quarter, so if you can please comment on that, number two, I think you've mentioned that in terms of new products you introduced and something called the off plan , cash plan. What, what is that? Is that a product focused on the mortgage segment? So if you can provide some clarity on that, it would be very useful. And number three, with all prices being where they are, and I think you mentioned earlier in the call, you don't see any changes to your business plan this year, but in terms of potential downside risk, which areas potentially do you think there's, there's scope for downside risk? Is it more in terms of liquidity, loan growth or provisioning? So if you can maybe share some light on that, it will be useful. Thank you.

Mr. Majid Khan **A**

Head of IR

The first question relating to NPL ratio, 1.44%. It's higher versus last quarter because of some additional classification which is knocked off against some write offs so there's a net position coming up as 1.44% and you must have seen the NPL coverage ratio also has also reflected both the elements. For your second question, I'll hand it over to Mr. Musa Retail head.

Mr. Mohammed AlMousa **A**

Head of Retail Banking Group

Yes, thank you Majid. Shabbir, as you just said, is a mortgage product. It's a newly introduced in the market simply, customer starts his transaction to buy an offline on cash basis, and in the second or the third payment we decide to convert it to finance, we are capable to cater. Today in market, either it started as a mortgage or agreement for a cash. So it's simply just bridging any cash need for customers buying offline.

Shabbir Malik **Q**

How much of the payment has been made before this kind of mortgage products kicks in.

Mr. Mohammed AlMousa **A**

Head of Retail Banking Group

Depends if he paid the first one, he can't come when we finance the remaining four or five depends on the project that he's in. So if he pay ones, one, the first payments he can come for the remaining or if he paid two, he can come for the rest so today we just financed the remaining balance for the property.

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Mr. Majid Khan A

Head of IR

The third question relating to macro, I think it's more to do an impact on, on the asset side, both in terms of execution and the health of the portfolio because you know it's one of the macroeconomic indicators that we use in our first nine and when we run that we get done, But as we mentioned right at the start as we've seen. Based on our current position, we don't see any impact coming up in this period unless than something really gets aware which we won't expect. So today we are quite in a positive note now that thing shall have to move on and then will be as such very invisible because if you look at the other side, the momentum and growth and asset is really good in Q1 2025, across the sector and we should be expected that the momentum will continue. So like offsetting them, there are a lot of offsetting energies that will automatically add tone if there's any.

Shabbir Malik Q

Maybe one last question from my side , your CET-1 dipped below 12% this quarter. How, how is, what's your general comfort level around your core equity levels?

Mr. Majid Khan A

Head of IR

The CET one went below 12% to 11.8, but you look at the other side, which is like we have increased our financing around 20% YoY from last year and even almost similar growth year before. So there's an internal self-profit capitalization that is helping us other elements are helping us. We are still quite comfortable with this ratio. The other capital initiative that are going on to support Tier-1 and total capital ratio, but as we speak, we are comfortable with that range well above the limits that we have set internally and. We'll see as soon as any initiative related to that comes into the picture.

Shabbir Malik
Thank You.

Ibrahim Elaiwat

AJC

Rahul is back into the queue. I hope he has sorted out his mic issue. Rahul Bajaj, your line is now open. Could you please unmute yourself and try again?

Rahul Bajaj Q

Okay, thanks management for sharing the presentation and thanks AlJazira capital for hosting the call. I have two questions. So first there is a 44.5% sequential increase in the fee income. So what exactly is driving this increase and what is the sustainable level for this income?

Mr. Sami Al-Mehaid A

Head of Corporate and Institutional Banking

It's, actually for number of reasons but in specifically it's more about implementing more granular risk rating models for specific unfunded trade products that has helped us through monitoring. The cross bonding banking relationship and more focusing on risk participation agreements between us and international banks. So that I would say representing more than 60-75% of the fees income that generated so far. The other thing is that coupled with the management fees and other GTS products, which have also contributed for the remaining portion of the equation.

Rahul Bajaj Q

Thanks. So my second question is, what is the earnings growth rate if we adjust for the one off benefit from the cured stage three and also the benefit from not including the Sukuk costs in Q1-2025?

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Mr. Majid Khan A

Head of IR

The sukuk cost is around like if you if you want to take an impact on NIMs it will be from 2.19 and it could be 2.15 so around 3-4 bps as such. There's not very significant, and because this was done somewhere towards the later part of Jan.

Rahul Bajaj Q

So what is the earnings growth rate if we adjust for the one off benefit from the cured stage three.

Mr. Majid Khan A

Head of IR

Yeah, I think earning growth there if you just take out this impact we meant we actually have disclosed this in our in our earning presentation across different sites, but on us, on a safely basis, we did say that earning probably will continue to grow at current momentum, the one we reported adjusted by 3-4 %. Net income is showed around tw20% adjusting to that would be around 15-16 % . That is the BAU trend that we see here on a YoY basis and it will continue.

Rahul Bajaj

Okay, thanks. I'll join back the queue. Thank you.

Ibrahim Elaiwat Q

AJC

Thank you, panelists. We do have some questions piling up on the, in the Q & A box, so I'll read some of those off and just a reminder to participants that you may raise your hand speak with the panelists by pressing the hand icon on your screen.

So, taking some of the questions from the Q & A box, we've got a question from Hammed Alsultan asking. Can the bank comment on interbank liquidity conditions and update on sukuk issuance guideline for 2025?

Mr. Hani Araki A

Head of Treasury Group

Thank you for the question. On the interbank side, I think we still see resilient access of liquidity through the interbank market. However, it is a bit volatile for the past period and I think it will continue throughout the year with this volatility yet. We will have access some to some liquidity throughout the year.

On the second part of the question on the debt or issuing debt during 2025, the management has on the table a few options. Yet we have some questions on the, on the CAR side and on the liquidity side, but we always look at options and it is yet to be decided on which direction we would go. But as I said, we still have questions and it meets, discussion meets our expected growth for 2025.

Ibrahim Elaiwat Q

AJC

Thank you. There are three questions on the white land tax regulations. specifically about the increase in fees to ten percent and the revised eligibility threshold to a minimum of five hundred, five thousand square meters. So the first question is, how do you see this impacting mortgage demand and what are your expectations on property prices? And then we have a another question by Mohammed who's asking how that might impact Collateral and coverage of the bank.

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Mr. Naif AlAbdulkareem A

Chief Executive Officer

Can I take this question Majid, about the impact of the new issued regulations. I think it's waiting to see the final regulations that DT detailed regulations not yet finalized. But we're watching closely. We're gonna see how the market will react to the new regulations. It's yet to be implemented and we see how it will ripple effect through the market accordingly. But as of today, we're being cautious and monitoring the situation.

Mr. Sami Al-Mehaid A

Head of Corporate and Institutional Banking

If you allow me Mr. CEO , can I just add a couple of comments here, I think as highlighted by the CEO, however, what we are expecting from the market definitely lifting the development transaction on North Riyadh, that will definitely have a positive impact on developers where they will be benefiting from the access to over than 81,000 square meters of the newly enabled for the large scale residential and commercial projects that will definitely be easing land supply especially for the, individuals that that we can see it as a positive impact. The other impact that we see it on retailers, the expansion of the new residential and the commercial zones will over a fresh retail space. From that side, I, we do expect once it will be fully issued, the detailed regulations, it will definitely speed up the level and the process of residential as well as real estate development projects.

Take into consideration the other fact is the country itself. We are involved in Mega and Giga projects related to a number of initiatives for the world and AlMurabaa . So we do have, I don't see that a huge impact when it comes from the banking perspective. Today we are seeing people, they are waiting for the regulations itself and the details of the regulation to be issued. However, we don't I don't foresee any negative impacts in the near future.

Ibrahim Elaiwat Q

AJC

Thank you, Panelists, we've got a question from Fahad, is there, is the zero point fifteen percent increase in financing yield driven by one off cured stage three? If yes, what is the yield on normalized basis?

Mr. Majid Khan A

Head of IR

We already disclosed in our presentation and thought if we just take it off the one off part, net interest margin will be around 2.11 – 2.12 bps .

Ibrahim Elaiwat, AJC

Thank you. Going back to the raised hands, we've got Rahul Bajaj again with a follow up. Rahul, your line is now open. Could you please unmute yourself and go ahead?

Rahul Bajaj Q

Thanks for the opportunity. So, I have two questions. First the NPL ratio has seen a big sequential increase from 1.2% in Q4-2024 to around one 1.44% in Q1-2025. So as a result the coverage ratio has dropped from 210% to 164% in Q1-2025. So can the management share some light on Where is this increase coming from, and does it plan to increase the coverage back to 200%?

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Mr. Majid Khan A

Head of IR

Rahul, the answer to this question, NPL ratio actually increased from 1.1% to 1.44% as I mentioned against, I think the question from that this reflects our two elements, one is impact of right off followed by a fresh classification in the NPL that made it. 1.2% to 1.4 % consequentially and NPL coverage automatically went down from 200% to 164%.
The Answer to the second question , whether 1.64% is the right number. I mean internally it's still higher than the benchmark, internal benchmark 200% was quite high, but 160% higher than the internal benchmark that we set. We'll continue monitoring that because there are a number of factors that impact that, but I think a good thing that you will see is the stage three. share , which was 3.45 % down to 3.26% again the reflection of the right of that I just talked about.
So both the equations are kind of dependent to each other, as I said like 164% is good enough ratio for NPL coverage and we'll keep monitoring it still higher than our internal.

Rahul Bajaj Q

Thanks for this. This is quite helpful. My second question is, in the guidance the management has mentioned a 5-10bps improvement in the names. So this is based on how many rates cut assumptions.

Mr. Majid Khan A

Head of IR

We have assumed two rate cuts in the later part of the second half.

Rahul Bajaj

Okay, thanks and all the best.

Ibrahim Elaiwat Q

AJC

Alright, a kind reminder, two participants that you may ask a question to the panelists by raising your hand by pressing the hand icon on your screen or dropping a question onto the Q& A chat box.
So, panelists, you have touched on this a little bit on the falling oil prices, but Mohammed Fareed Aldean from Principal asset management wants to ask a little bit more generalists about the business environment in Saudi Arabia. If you have any outlooks on the business environment given the decline in oil prices as well as the Tariff war . If there's anything you can comment on that.

Mr. Majid Khan A

Head of IR

Yeah, I think continuing to what we said earlier so far, the impact of our price is still to be visible. Things are good. If you look at the non-GDP growth that is quite healthy and it's still continuing at a good place. If you compare it with similar period last year or a year before. So all the fundamentals, all the indicators are positive and we hope and expect that things will continue as is in the sector, if you look at the sector's perspective also, the asset growth reflect this momentum and we expect that this will continue, so as such no significantly negative impact that I can see now based on the available information.

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Ibrahim Elaiwat Q

AJC

Very clear. Thank you. We do have a question from Yasser , and Yasser asks which sectors or customer segments contributed the most to the impairment charge and why?

Mr. Majid Khan A

Head of IR

Not one specific sector is a mix of the sector if you look at the disclosure and the financial statement when we'll publish, you'll find that it's not building up across one segment, it's a mix of segment. There were some customers that were dealing for classification, the moment they meet the criteria, they will move forward and classify it and if you remember our discussion in Q4 2024 learning call and before plus our guidance, these impacts have been incorporated in our guidance right at the start. So that's why we kept forty webs at that time and we are still within that limit.

Ibrahim Elaiwat Q

AJC

All right. Thank you. So we'll give a few moments for participants for anybody that has a follow up or any other query that you'd like to ask to the panelists. This is your chance to please raise your hand or drop a question to the Q &A chat box.

We have one more question from Mohammed, Mohammed asks in a hypothetical scenario, what is the impact to the banks and business environment if the Saudi took cut spending on vision 2030?

Mr. Majid Khan A

Head of IR

We'll keep our assumption based on the most recent information that we have mentioned like on all GDP going positive contribution is higher than 50%, if you look at the other economic indicators doing good. Banking sector growth, last year around 15 – 16 % this quarter is still more than 5%. We show that maybe we are touching the same level of growth that we have touched last year. So given all these indicators I think things are positive, we'll be like as you mentioned earlier also we'll keep monitoring the situation, but things looks good so far and we expect that Q2-2025 result will be even stronger.

Ibrahim Elaiwat

AJC

So it seems that there are no more questions and that would mark the final question for the Q &A session. So, thank you panelists and Mr. Jassim , if you have any closing remarks, the floor is yours.

Jassim Al-Jubran

AJC

Thank you so much, Ibrahim. I think this concludes the Q & A session, and as Mr. Majid said , if anyone has any unresolved query you are more than welcome to reach Bank AlJazira IR team via their email shared and on behalf of AlJazira capital, we would like to express sincere thanks to the management of Bank AlJazira and participants for taking their time for the call. I will now hand back to the management for closing remarks.

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Mr. Naif AlAbdulkareem

Chief Executive Officer

Thank you for your time and continue with interest. We appreciate your engagement and look forward to updating you on our progress next quarter. Thank you.

Jassim Al-Jubran,

AJC

Thanks everyone. The meeting is now over .

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