Aljazira Bank Earnings Call Transcript
Q2 2026 Financial Results

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Mr. Jassim AlJubran, ***Aljazira Capital Research***

Good afternoon, everyone. This is Jassim AlJubran from Sell-Side Research at Aljazira Capital. On behalf of Aljazira Capital, I would like to thank you all for taking the time to join Aljazira Bank Earnings Call for Q2 2026. I am pleased to welcome our panelists on the call today. And we'll 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 floor is yours.

Mr. Majid Khan, ***Head of IR***

Thank you, Jassim. Good afternoon, ladies and gentlemen, and welcome to Aljazira Bank's First Half 2026 Earning Call. Thank you for joining us today. On today's call, we have the senior management from Aljazira Bank, including Mr. Sami Al-Mehaid, Head of Corporate and Institutional Banking, the CFO Mr. Hani Noori, Mr. Mohammed Al Mousa, Head of Retail Banking, Mr. Hani Araki, the Group's Treasurer and Mr. Yazid Al-Mobty, Acting Chief Risk Officer. The call will start with Mr. Sami Al-Mehaid, who is deputizing for the CEO, Mr. Naif Al-Abdulkareem. He will walk us through the bank's performance, strategic progress, and ESG achievements. Following that, Mr. Hani Noori will present the financial results for 1H in more detail. After that, we will open the floor for Q&A. With that, I'll hand it over to Mr. Sami.

Mr. Sami Al-Mehaid, ***Head of Corporate and Institutional Banking***

Thank you, Majid, and good afternoon, everyone. Thank you for joining us.

Before reviewing our results, I would like to briefly comment on the operating environment. Regional geopolitical conditions have remained volatile since our previous call and developments continue to evolve. Despite this, Saudi Arabia's economy has remained resilient and strong, with non-oil GDP continuing to expand throughout the first half of the year. The fundamentals remain solid, supported by favorable demographics and prudent fiscal and economic policy, and the government's commitment to the Vision 2030 projects. Against this backdrop, Aljazira Bank has been advancing with transformational agenda, scaling up our business, acquiring new customers, and deepening relationships with existing clients. Our liquidity and capital remain solid, and assets quality is stable. It's important to mention that customer activity throughout the first half of the year was healthy across both retail and corporate segments.

On our headline metrics for the first half, net income reached ⃁ 848 million, up by 14% YoY, with net margin of 2.06% . Net financing grew to ⃁121 billion by 17% YoY and 9% from the start of the year, funded by a very strong 16% YoY and 15% YTD inflow of customer deposits, which reached ⃁133 billion. Cost of risk improved to 30 bps, dropped by 8 bps YoY, and cost-to-assets declined to 1.59%, down by 9 bps YoY. Our capital position was reinforced by the Tier 1 Sukuk issuance completed in the first quarter, with CAR Pillar 1 at 19.2% and up 128 bps YoY.

Moving to slide 3, the broader environment remains supportive, while the oil sector saw a decline in production volumes that was offset by elevated oil price. Meanwhile, the non-oil economy sustained its multi-year growth momentum. Financing growth across the banking sector has remained positive in both retail and corporate sides, and the SAIBOR/SOFR spread has stayed close to its past 2020, average of around 1% consistent with a stable funding environment for banks.

Let's move to slide 5 and turn to our strategy progress. I want to highlight the consistency of our delivery against the seven strategic tracks we have been executing since the end of 2023: growing scale, diversifying revenue, building liquidity, improving efficiency, controlling risk, strengthening capital, and ultimately increasing profitability. On scale, net financing has grown at 17% CAGR since 2023, and we continued the momentum in the first half of 2026. On liquidity: customer deposits have grown at 11% CAGR over the same period. Cost of risk remains ranging between 30 - 40 bps, and 1H remains within guidance.

On the revenue side, operating income grew by 16% CAGR, mainly driven by growth in financing assets and equally supported by fee income. Non-funded assets have grown at 31% CAGR since 2023, contributing to fee income growth, and cost-to-income has continued to fall down to 51.8% in the first half of 2026 from 58.2% in 2023.

Now turning to slide 6, all three of our business segments made a good progress in 1H. In corporates, we delivered double-digit funded portfolio growth across large corporates, mid-corp, and SMEs with YoY growth rate of 17% in large corporates, 21% in mid-corp, 16% in MSME, and 21% in syndicated financing. In addition to our penetration in the multinational segments, we also achieved very impressive 15% YTD and 17% YoY growth in unfunded assets. Last but not least, we launched the new Aljazira business platforms.

In Retail, our strategic goal is to become the bank of choice for affluent customers and scale up business growth in assets and deposits to build best-in-class core digital capabilities and optimize branch network for better cost efficiency. In the first half, number of affluent customers grew by 4.4%. Affluent customers contributed 47% of sales in retail real estate and 46% of total sales. Also, in the second quarter alone, we launched completely new digital credit card journey, we revamped and improve account opening journey. Each quarter, we are making progress in enhancing customer journeys, coming up with new products and opportunities, acquiring new customers and growing with penetration and cross-sell. In treasury, we sharpened our digital FX capabilities and rolled out FX campaign to focus on FX revenue generation.

We further diversified funding through call accounts, which saw 53% YTD growth through new customer acquisition and improved concentration in brokerage and asset management. Aljazira Capital launched four new real estate funds since the beginning of the year and continued to improve cross sell by increasing capturing bank customers.

Now turning to slide number 7. Our operational transformation continues to power this growth. We put a lot of effort and resources into transforming our operations, and it's delivered tangible results. We have become a more agile and efficient organization, both in terms of internal processes and most importantly in terms of how we interact with our clients, how fast we introduce new products, how we understand customers' needs and come up with solutions that are relevant for each customer segment. We modernized critical systems, accelerated digital delivery, strengthened business resilience, developed data and AI capabilities, improved internal execution, significantly reduced recurring IT costs, and achieved smooth and seamless customer journeys with CRM system. Transformation was enforced with our recent rebranding, and that together allows us to grow customer base and business volumes.

Our enhanced technology platform, TechMAL Garage, consolidated the design, development, and delivery of customer-facing digital journeys, reducing our resilience on external vendors and accelerating time to market, while also materially reducing recurring technology costs. We have modernized critical system across Aljazira mobile and online, Fawri Mobile, Aljazira Business, our corporate website and AI-enabled employee app, alongside strengthening resilience and internal execution. We have continued to roll out GenAI and generic AI framework across the bank in three key areas: Banking, Support and Advisory and Sales. In Banking, it translates into chat and voice-based transaction improvements of existing app features to make journeys even more comfortable and in CarPlay integration. In Support and Advisory, we use AI for learning from CRM and voice log to resolve issues faster, offering personal finance insights and analytics, and for flexible text and voice-based client interaction. And in Sales, AI helps to come up with personalized product offers based on location and habits, push notifications at the right moment and right place, and tailor products through conversional adjustments.

Turning to slide 9 for the ESG update. On the environmental side, we recycled 4,325 kilograms of waste in 1H, offsetting 4,635 kilograms of CO_2 emission, and collected over 46,000 items through our reverse vending machines. Our electricity consumption remained comfortably below our annual efficiency KPI, reaching 5.9% below baseline target.

On the social side, our Hand in Hand employee survey showed strong momentum, with job connectivity up to 73%, internal empowerment up to 70% and engagement up to 93%. We obtained the Social Impact Investment Certificate from the NCNP and our core Qard Hasan portfolio reached a ⃁ 100 million milestone.

On governance, we launched the first phase of our anti-fraud reporting automation initiative and renewed our PCI DSS 4.0.1 certification. We were also recognized during the period with a CSR award in the Arab State banking sector, Best Bank in Islamic Finance from Global Trade Review, and received recognition from the Digital Banker for retail customer service and MSME growth.

Overall, I'm pleased with the consistency of our execution in 1H. We remain firmly on track for our full year 2026 guidance and our broader 2028 strategic ambitious. Now I'm handing it over to my colleague Mr. Hani to discuss the financial results in more detail.

Mr. Hani Noori, ***Chief Financial Officer***

Thank you, Sami, and good afternoon, everyone. And thank you for joining us on this earning call. Our 1H performance reflects disciplined execution across growth, efficiency and risk management. We delivered double-digit earning growth, strengthened our capital position, and maintained excellent liquidity, all while continuing to invest in our franchise, Let me now walk you through the results slide by slide, starting on slide number 11.

On slide 11, total asset reached ⃁ 181.2 billion at the end of the second quarter, up 5% QoQ, and 9% since the start of the year. This was supported by the growth across financing and investments, funded by a strong inflow of customer deposits. Financing grew 6% QoQ to ⃁ 121 billion, and investments grew 2% to ⃁ 41 billion. On the liabilities side, customer deposits reached ⃁ 132.7 billion, up 7% QoQ, while total equity increased 2% QoQ and 7% YTD , and reached ⃁ 23.4 billion, supported by profit capitalization and successful Tier 1 Sukuk issuance.

Let's move to slide number 12. Our financing portfolio remains well diversified between commercial at 65.4% of the book and consumer at 34.6%. Within commercial, large corporates represent 41% of the total financing, mid corporate represent 18% and MSMEs represent 6%. Within consumer, residential financing represents 20% and personal finance represent 10%. Total financing grew 9% from the start of the year, with both the commercial and consumer books contributing to growth.

Now turning to slide number 13, our investment book grew 2% QoQ and 5% YTD and reached almost ⃁ 41 billion. We remain well positioned for the current rate environment with fixed rate now representing 82% of our portfolio, allowing us to mitigate the interest rate risk. Government and quasi government securities represents 78% of the portfolio by counterparty, underpinning the high quality and strong liquidity of our book.

Turning to slide number 14, on liquidity, our headline loan-to-deposit ratio was 91% at the end of the second quarter, with SAMA-weighted LDR at 76%. High quality liquid assets grew 7% QoQ and reached ⃁ 37.6 billion, keeping LCR at a comfortable level of 196% and NSFR at 114%, both well above regulatory thresholds giving us ample flexibility to support our continuous balance sheet growth.

Moving to slide number 15. Customer deposits grew 7% QoQ and 15% YTD and reached ⃁ 132.7 billion, driven by organic franchise growth and a stronger brand positioning following our rebranding. CASA improved to 44.6% of the total deposits in the second quarter, up from 41.3% at the end of the first quarter, while time deposits also grew, reflecting healthy diversification of our funding base. By segment, corporate deposits represent 65% of the total, and retail represents 35%.

Now let's move to slide 16 to cover the income statement. We have delivered 14% growth in net income for the period. For 1H, total operating income grew by 9% YoY and reached ⃁ 2.4 billion, with net financing and investment income up 10% to ⃁ 1.7 billion, and fee and other income is up by 6% to ⃁708 million. Operating expenses grew by 8% to ⃁ 1.2 billion, and the impairment charge declined 14% to ⃁170 million, supported by the strong recoveries which we discussed in Q1. This combination leads to a net income before Zakat and income tax of⃁975 million, which is a 15% increase. The net income after Zakat and tax for the period reached ⃁ 848 million, up 14% YoY . In the second quarter alone, net income was ⃁ 443 million, which is a 16% increase YoY and 9% if we compare QoQ. Unfunded income accounted for 31% of the total revenue in the quarter. Cost growth continues to slow, reflecting our disciplined approach even as we keep investing smartly in technology and transformation.

Next slide 17 covers the net financing and investment income in more detail. Net margin was 2.02% in the second quarter, 7 bps lower than the first quarter, as yield eased to 5.69% while cost of funds also declined to 4.02% for the 1H, as a whole.Net margin was 2.06%, down 11 bps YoY, while net financing and investment income rose by 10% and reached ⃁ 1.7 billion. This was supported by continued balance sheet growth that we have discussed.

Let's move to slide number 18. Our focus on non-funding income continued to deliver results. Non-funded exposure, including letters of credit and letters of guarantee, grew by 17% YoY to reach ⃁ 23.2 billion. Fee and other income reached ⃁708 million for the first half, up 6% YoY, with mutual funds and trade finance together accounting for a close of 68% of the net fee income from banking services. Fee and other income represents 30% of the total operating income in 1H, and fee income as a percentage of the average earning assets was 87 bps.

To slide number 19. Cost discipline remains a priority. Operating expenses for 1H were⃁1.2 billion, up 8% YoY, with salaries, other G&A, and depreciation all grew in line with our continuous investment in the franchise. Cost-to-income improved to 51.78% for 1H, down 48 bps YoY, and cost-to-average assets declined to 1.59%, down 9 bps YoY and 11 bps since the start of the year.

Turning to slide number 20. On asset quality, cost of risk for 1H was 30 bps, which is down 8 YoY, and the impairment charge declined by 14% YoY to ⃁171 million. This was supported by strong recoveries in Q1. NPL ratio improved to 87 bps in the second quarter from 1.32% in the first quarter, and our coverage ratio remains strong at 177%, which is up 9 bps since the start of the year. Overall, risk remains firmly under control.

Moving to slide number 21. Our capital position remains robust following the Tier 1 Sukuk issuance completed earlier this year. CAR Pillar 1 stood at 19.2% at the end of the second quarter, with CET1 at 11.2% and Tier 1 at 17.2%; all are comfortably above regulatory requirements. Risk weighted assets grew to ⃁ 135.9 billion, and the total capital reached ⃁ 26.1 billion, giving us ample capacity to support our continuous growth.

Let's move to slide number 22. Return on average assets was 0.98% in 1H. Return on average tangible equity was 8.59% for 1H. Quarterly EPS was ⃁ 0.26 in the second quarter, up from ⃁ 0.24 in the first quarter, partially reflecting the timing of Tier 1 Sukuk payments alongside the underlying earnings growth.

Now let's cover the segment view on slide number 23. All of our business lines contributed meaningfully to the results. By total assets Corporate represents 36% of the total balance sheet, Treasury 32%, Retail 30% and Brokerage and Asset Management 3%. By net income before Zakat and tax, Corporate contributed 39%, Retail 28%, Treasury 22%, and Brokerage and Asset Management 12% This balance mix across segments continues to support resilience of our earnings.

Finally, let's look at the guidance slide on page number 24. Based on our 1H performance, we confirm our full year outlook. We revised our financing growth guidance from high single-digit to low teens-digit growth, and first-half financing growth of 9% YTD keeps us firmly on track. Net margin of 2.06% sits within our 2.05% to 2.10% guidance range. Cost of risk of 30 bps is running ahead of our 35 - 40 bps guidance, and cost-to-income ratio of 51.78% is below our 52% target. Tier 1 of 17.2% is above our >17% guidance. Return on average equity after Zakat and tax of 7.51% is tracking modestly below our >7.75% full year target, and we expect continuing improvement through the 2H as operating leverage continue to build.

As a conclusion, for 1H, the Bank continued to grow while expanding non-funded income, maintaining strong asset quality, and operating with solid capital and liquidity. We remain well positioned for the rest of the year. Now I turn back to Mr. Majid for taking the questions.

Mr. Jassim AlJubran, ***Aljazira Capital Research***

Thank you, management, ladies and gentlemen. We will now commence the Q&A session. You may raise your hand to speak with our panelists by pressing the hand icon on your screen, or alternatively, drop your question into the Q&A chat box. Please limit your question to two at a time, so we may satisfy as many participants as possible. You may introduce yourself, your name, and the company name. Without further ado, the Q&A session is now open.

Our first question comes from the line of Nauman Khan. Nauman, your mic is now open. Please unmute yourself and go ahead with your question.

Questions & Answers Section

Q: Mr. Nauman Khan, ***SNB Capital***

Thank you for the opportunity. Thank you, management, for making this presentation. This is Nauman Khan from SNB Capital. I have just two very basic questions on financing, I think this is something a lot of other people may ask as well. You have delivered one of the highest quarterly loan growths during Q2 versus anyone else, and it was significantly higher than your national market share. So, looking at the breakdown of the numbers, it seems that the growth has largely come from banking and non-banking financial institutions. So, can you give us a highlight where it has come from, or was it because of the recovery in the margins, or some recovery that is happening from somewhere else as well? Because given your loan breakup, we weren't able to understand where the growth has actually come from. The other thing is on your guidance - given that the rate trajectory have changed over the last for the next 12 months versus what your previous guidance was, so how many rate cuts are baked into your new guidance? And these are my two questions. Thank you.

A: Mr. Majid Khan, ***Head of IR***

Thank you, Noman. The second question first. In terms of guidance on the rate, there is no rate cut presumed for the next six months. So, this guidance is without any rate cut, and we hope that this is how things will go. And this is based on the current trajectory of the way the rates are moving. Coming back to your first question, in terms of growth, financing growth was relatively higher in quarter two versus quarter one. It's mainly driven by, as Sami explained, from corporate banking and retail banking. Within corporate banking, different sectors, including commerce, banking and non-banking FI, and some building and construction sector. So, commerce was the major obviously chunk that is generating the growth, followed by NBFIs and building and construction. So, it's quite a mix of different sectors. Stronger pipeline in quarter one was the reason for strong build-up in quarter two.

A: Mr. Sami Al-Mehaid, ***Head of Corporate and Institutional Banking***

Just to comment also on what Majid said, the growth that we have seen in the first half of the year is a result of executing our strategy rather than one transaction, and it's being driven by strong participation in key projects and cross-selling across all business segments within Corporate Banking Group, as well as deepening our relationship on existing customers, as highlighted in in the opening remarks.

Q: Mr. Nauman Khan, ***SNB Capital***

Again, it's just something which is actually surprising. Is because of the fact that if you look at the other banks, like all that have reported so far, their loan growth have been quite timid. So that is why it came as a pleasant surprise for Aljazira Bank showing such a strong growth. That's why I wanted to understand which segment. I know you have put in a very broadened picture that it's NBFIs, it's commerce that have grown. So, do you expect this to continue for Q3 and Q4 as well? Because given the guidance that you're given, low teen digits, you see that the second half would be slightly slower than the first half was.

A: Mr. Sami Al-Mehaid, ***Head of Corporate and Institutional Banking***

I think yes, as you have noticed in the opening remarks, the growth in all segments. There is no business segment that specifically contributed to the growth, but you could see it in the large corporate . You see it in syndicated lending and SME, in all business segments, and again, let me emphasize the existing strategy, so, it's not a one transaction. The second half of your question is what we forecast for the coming period. We do have healthy pipeline in all business segments. However, we remain disciplined when it comes to the quality of assets in which we want to grow. That’s why I don't anticipate significant growth. However, we do have healthy pipelines in our plans.

A: Mr. Nauman Khan, ***SNB Capital***

Thank you very much. I think this is all for now. I will put myself back in the in the in the queue. Thank you.

Mr. Jassim AlJubran, ***Aljazira Capital Research***

Thank you, management. Thank you, Nauman. Our next question comes from Rohan Patel. Rohan, you are unmuted. Please unmute yourself and go ahead with your question. Just a kind reminder, please, everyone, limit your question to two at a time, so we may satisfy as many participants as possible. And you are more than welcome you in the queue for any follow-up question.

Q: Mr. Rohan Patel, ***Aranca***

Thank you, management, for the presentation and congratulations on a good set of results. I have my first question on the commercial portfolio. So, within this, are we seeing any specific pockets of stress? And in this context, do we expect cost of risk to remain around the current levels, or do you see a risk of further normalization upwards?

A: Mr. Majid Khan, ***Head of IR***

In terms of commercial portfolio, I think the quality of the portfolio is good. You should not be seeing any significant stress in cost of risk. We have given our guidance of around 35 - 40 bps. Right now, we are at 30 bps, so maybe you should be seeing between 30 -35 bps in 2H.

Q: Mr. Rohan Patel, ***Aranca***

Okay, and my next question is: given the competitive landscape in the Saudi banking sector and the recent pressure on the system liquidity, how do we see the deposit growth evolving over the next 12 months? Should we expect the funding costs to ease alongside the lower rates, or do you think the competition for deposits will kind of keep the cost of funding elevated for a longer period of time?

A: Mr. Hani Araki, ***Head of Treasury***

Thank you for the question on the liquidity side. Liquidity generally has been resilient in the market starting from the beginning of this year. However, some cyclicality when it comes to the spreads paid to customers is changing month over month due to the tensions in the region. Generally speaking, the spread is reasonable. The accessibility is there, using a different line of liquidity being it interbank or customer funding. So going forward, the compression is expected to remain. However, the accessibility will be there. When I say compression, it is when it comes to the spread paid to customers.

Mr. Jassim AlJubran, ***Aljazira Capital Research***

Thank you, management. Our next question comes from the line of BIJOY J. Could you please unmute yourself locally and go ahead with your question?

Q: Mr. BIJOY J, ***GIC***

Hello, Thank you, gentlemen, for the call. My question is specifically on your ROE. So, given the cost of equity of around 12% you know, which is debatable, up or down, approximated that level. Aljazira Bank has been quite far from the average cost of equity, right? It could be your higher cost base or the overall business model, so, What initiatives is the management taking in order to bridge that gap, and will that gap be bridged, you know, in the future, probably it may just reduce, or that's how the max it can go to?

A: Mr. Majid Khan, *Head of IR*

Thank you. We reported ROE of around 7.5% in 1H, increasing it by around 25 bps in Q2 versus Q1. We discussed on our previous call that the five-year strategy has certain targets, and those targets are mostly about improving certain key ratios, and ROE is one of them. A continuous improvement in profitability, increasing from less than ⃁ 400 million in Q4 last year, reaching ⃁ 400 million in Q1, and now achieving almost ⃁443 million in Q2. I think profitability is the one that will drive the rate up. While we know that ROE is a combination of profit and the capital base, and capital base required some strengthening in 2025 because of additional capital buffers. This capital build-up impacted ROE. But what you should see from now onward is, because profit growth is continuous, good pick-up in ROE. In terms of the gap, I think gap will be filled over a period of time, and we should see some improvement in that issue QoQ from now onward.

Q: Mr. BIJOY J, *GIC*

The second question is on the cost side. Your cost base is quite high. I know the business model, but is there any scope to incorporate some strategies around automation, AI, digitization, which can bring the costs base down? Given that is a major chunk in the ROE target, which is eating up your ROE.

A: Mr. Majid Khan, *Head of IR*

Yeah, in terms of cost, we reported cost-to-income ratio of 51.8%. It's been going down from around 56% back in 2025, so we are seeing a continuous improvement of cost-to-income. Now, cost-income improvement is driven primarily from the top line, which is the revenue line. As we are building our revenue, building our book, in our internal discussions we talked about a consistent build up in assets, and we've seen 17% CAGR in asset build-up. Likewise, fee income is growing well. So, the cost-to-income improvement is being driven from the top line. If you look at the expense side alone, we are reporting cost-to-assets ratio of 1.59%, We started 1H last year at around 1.7% So we are seeing some improvement in underlying cost. But I mean, if you compare absolute number, you see growth. But if you look at the ratio to assets, you see improvement of 8-10 bps between the periods. So, it's a twofold strategy. Expenses remain under control, we are following it up very closely, ensuring that we keep optimizing our cost-to-income ratio. But in future, you should see improvement in cost-to-income driven by the revenue line.

Q: Mr. BIJOY J, *GIC*

Understood. And are there any initiatives to improve the margin profile? Probably on the lending side, to go towards the higher risk profile, so that you can enjoy some better margins, taking into consideration the risks?

A: Mr. Majid Khan, *Head of IR*

This is the ongoing process. I mean, we looked at our portfolio very carefully across different dimensions, risk, returns, and developing a combination of those two. If you look at our assets base, it's a combination of large and mid-corporates and SMEs and on the retail side it's mortgage and personal finance, that is in closely monitored by the management, and the targets are set around. So, that is one area we monitor very carefully across the board.

Mr. Jassim AlJubran, *Aljazira Capital Research*

Thank you very much, management, for the very detailed answer. Our next question comes from Mr. Murad Ansari. Mr. Murad, you are unmuted. Please unmute yourself and go ahead with your question.

Q: Mr. Murad Ansari, *GTN*

Yes, thank you. Good afternoon, everyone. Thanks for the presentation. So, just two questions. First, picking on the margin discussion. I just wanted to get a sense. I mean, we've heard from the start of the year, or even towards the end of last year, that banks were trying to push for better pricing on loans. Just wanted to get your view on how the market is reacting or the customer base is reacting to that. I mean, is that something that you're seeing at your end that you're able to push pricing higher, or is it that remains a challenging area for banks in general, and for you as well? That you know, it is difficult to push pricing up on corporate customers, and the environment remains competitive.

The second question is on the asset quality. While your headline NPL coverage is strong, we see a dip in stage 3 coverage, and we see some pickup, and there was a buildup in stage 2 loans. So, just wanted to get a sense of how that's evolved into the second quarter, and how do you see these provisioning buildup efforts going into 2H? Is stage 3 coverage that you're looking to build up further? And is there, you know, some higher-level view that you can give on how the stage 2 loan book has kind of evolved into second quarter? Thank you.

A: Mr. Sami Al-Mehaid, *Head of Corporate and Institutional Banking*

I will answer the first half of your question, and my colleague Mr. Yazid Al-Mobty will address the second half. We see competition for high-quality corporate assets continue to be one of the key challenges, and it's putting pressure on pricing. However, maintaining asset growth while optimizing funding costs remains a priority for Aljazira Bank. We continue to address these challenges through specific client selection and improving our cross-selling and growing fee generation from the relationships that we have on the corporate banking side.

A: Mr. Yazid Al-Mobty, *Acting Chief Risk Officer*

You mentioned Stage 3 loans in your question. I think we have very strong justification for that. During 1H, we had some write-offs on some accounts. In addition, there was one major account, as part of our remedial process with the other banks, as it was a syndication. We moved that from the NPL portfolio to treat it as Sukuk to a bank that was under curing period. Also, keep in mind those accounts that have moved to Sukuk or have been moved back to stage 2. They are under the same level of provisioning. In terms of the gap between NPLs and Stage 3, we follow very strict rules when it comes to classifying accounts as NPLs as part of our policy, and those accounts fit very well with those criteria.

As we move into 2H, we expect, as we build more provisions under Stage 3, we expect the coverage for Stage 3 to improve. With regard to the second part of your question, on Stage 2, there is nothing to highlight in terms of accounts where we have witnessed more DPTs of any kind. It's only that we have taken a more conservative approach due to the geopolitical that we have decided to classify some FI exposures under Stage 2. Once the tensions, geopolitical tensions, ease in as we go forward, those accounts will be classified back to Stage 1, and it's important to highlight those are regular accounts with no DPTs or any concern to highlight at all. So, that would give us comfort regarding the size of exposure under Stage 2.

Mr. Jassim AlJubran, *Aljazira Capital Research*

Thank you very much, management, ladies and gentlemen, due to time constraints and longer queue of participants, please limit your question to one at a time, so we can satisfy as many as possible. Our next question comes from Adnan Farooq. Adnan, you are unmuted. Please go ahead with your question.

Q: Mr. Adnan Farooq, *Jadwa Investment*

Hello, thank you for the presentation. This is Adnan from Jadwa Investment. I wanted to ask about the growth in non-funded income. Presentation shows that there was a significant increase in investment income during the quarter. Can you highlight what it was related to and whether there was any opportunistic or one-off component there?

A: Mr. Majid Khan, *Head of IR*

Non-interest income, which is the fee income, is indeed strong in Q2 versus Q1. It's mainly driven by the dividend. Although some of the asset-related income improved, the increase mainly due to two elements. One is the dividend income was higher versus the previous quarter, and there's some trading income that is booked in this quarter compared to the previous one. These two were driving the growth in in the fee income difference between Q2 and Q1.

Mr. Jassim AlJubran, *Aljazira Capital Research*

Thank you, management. Next question comes from Mr. Aditya Nirmal Modi, please unmute yourself and go ahead.

Q: Mr. Aditya Nirmal Mody, *Aranca*

Thanks a lot for the opportunity. Basically, I just have one question in your ROE guidance. Previously, when I saw your guidance, I could see that you're not guiding for a lot of volume growth in the second half. NIM guidance might be a couple of basis points higher from here in the second half, and even your CIR has been maintained. So, my question is, what is driving the improvement in ROE in the second half? Because we landed at around 7.51% in the first half, and our guidance is about 7.75% Given that cost of risk might deteriorate by another couple of basis points, I just wanted a little clarification as to how we were expecting to arrive to that. That's my first question. And if you can take a second one, it is just on asset yields. As Murad was saying, you know, we were expecting as we've been hearing that banks are repricing their loan books, so I was expecting asset yields to either be resilient or strengthen upwards. But in the chart that you provided, we can see that asset yield, along with your cost of funds, also has slipped down . So what is driving this slip because we are concentrating on high margin growth, and you know, industry as a whole is talking about repricing. So, what is driving this downward movement on your asset yields? That's it. Thank you, sir.

A: Mr. Majid Khan, *Head of IR*

Thank you. Regarding your first question. ROE, as we discussed, we reported 7.5% plus in Q2, it increased by around 20-25 bps versus Q1, and we are still very hopeful that we'll be touching the guidance, which is 7.75%, driven by higher profitability between Q1 and Q2. We have seen a 9% growth in net profit, and we hope that we'll be maintaining the growth, and that profitability will drive the return on equity target, and this is precisely calculated. So, we've got still sticking on this particular target, though challenging, but still, we are on for this challenge.

Regarding your second question, which is asset yield, asset yield for the quarter. In terms of repricing element that you talked about, repricing generally takes time to transform it into yield. So, all those initiatives are going on. You should see some improvement in the margin and yield, but that definitely will come at its own time. In terms of yield build up, as we've seen, that most of the growth in the book is coming from corporate banking, which is the floating rate plus spreads, and that that's exactly the reason why we expect that the margin, any volatility in the cost of funding will be offset by the floating rate assets buildup, and the margin should see some improvement in Q3 and Q4.

This is why margin guidance 2.05-2.10% is unchanged as we are at 2.06% at the end of Q2. We expect that we'll be maintained, we'll be meeting our guidance for the year.

Mr. Jassim AlJubran, *Aljazira Capital Research*

Thank you, management. Due to time constraints, we'll be taking the last two questions. The next question comes from Mr. Eranjan Kulatunga, please unmute yourself and go ahead.

Q: Mr. Eranjan Kulatunga , *Derayah*

My question is on the capital side. Your CET1 is now down to 11.2% Taking that into consideration, let's assume that the overall demand for credit in the economy remains strong. Is this type of asset growth, that is mid-teens or low-teens loan growth, sustainable, or are we focusing too much on the CET1 and should we think more about the total T1 capital because your ROE is also only around 7.5-8%, which means the internal capital generation is also fairly low. So how should we look at your capital position and, considering that, how sustainable are these low teens loan growth?

A: Mr. Majid Khan, *Head of IR*

Regarding your question on capital, we reported 11.2% CET1 in Q2. Our Q1 CET1 ratio was 11.3% and if you look at our total capital ratio, it was 19.6%, which is down to 19.2%, and the RWA density, one critical factor, moving down from 75.7% to almost 75%. So RWA density is going down. That reflects that most of the book that has been built up is of low risk weightage and the growth between Q1 and Q2 was around 9% in financing. So, despite growing that book size, RWA density is going down and maintaining the capital ratios shows that. By the way, during this period, during this quarter, there was no incremental increase in tier one. It's only coming from the core capital, so capital CET1 ratio is maintained fairly - 11.3% going down by 11.2%, 10 bps impact given that we were aggressive in asset build up as part of the question asked by Noman earlier. As Mr. Sami mentioned, 2H growth is not going to be as strong as in 1H. So we expect that CET1 ratio will be maintained above 11% and The total capital ratio, which is 19% is quite healthy. I mean broadly, and we expect that that ratio will remain in that range. So, there is no stress from that particular angle. Self capitalization remains one of the major tools for capital upgrade, and that will continue. We already built ⃁ 800 million plus profit in 1H. We expect the momentum to continue, giving us enough support from capital side.

Mr. Jassim AlJubran, *Aljazira Capital Research*

Thank you very much, management. The last question will be from Elena Sanchez. Please unmute yourself locally and go ahead with your question.

Q: Ms. Elena Sanchez, *EFG Hermes*

Hi, good afternoon. Thank you very much for the presentation. Two quick questions. First of all, on fee income, if we were to assume similar market activity, traded value on the exchange, etc. can we assume that the Q2 fee income base is sustainable for the remainder of the year? And a second question on the strong increase in CASA that was impressive. Is there an element or a component of transitory, temporary deposits in that in that growth? Thank you.

A: Mr. Majid Khan, *Head of IR*

Thanks, Elena. In Q2, as you mentioned, versus Q1, there are two major elements that drive growth. One is the dividend income, which expects to continue. The other is the trading income, which depends on the market volatility. It may go up, go down, but that is one area which we keep monitoring very closely. So, this is one driver that is more of the floating nature in the income. Regarding deposit build-up, it's mainly driven by CASA, yes, and within CASA, it's mainly driven by savings and call deposits. So, if you look at our CASA ratio, 45%, 26 to 27% is NIBs, and the remaining is CASA, which is savings and call deposits, around 18%.

Q: Ms. Elena Sanchez, *EFG Hermes*

And is there no temporary transitory element in this increase in CASA deposits?

A: Mr. Majid Khan, ***Head of IR***

No. It is mostly from the customers that we deal with. So, it's all.

Mr. Jassim AlJubran, ***Aljazira Capital Research***

Thank you, Elena. That marked the final question for our session, and on behalf of Aljazira Capital, I would like to extend our sincere thanks to the management of Aljazira Bank and the participants for taking their time for the call. And now I will hand back to the management for closing remarks.

Mr. Sami Al-Mehaid, ***Head of Corporate and Institutional Banking***

Thank you all for your question and for your support of Aljazira Bank. Our 1H results reflect the discipline and consistency of the strategy we have been executing since 2023, and we remain confident in our ability to deliver against our full year guidance and our 2028 ambitions. We appreciate the trust that our shareholders, customers, and regulators place in us, and we look forward to updating you again on our third quarter results. Should you have any further questions, please do not hesitate to reach out to the investor relations team at ajb.

Thank you and Goodbye

Mr. Jassim AlJubran, ***Aljazira Capital Research***

Thank you, management. Thanks, everyone. The meeting is now over.