Bank Al Jazira Earnings Call Transcript

Q3-25 Financial Results

November 3– 2025

Shabbir

EFG Hermes

Good day, everyone. On behalf of EFG Hermes, I welcome you to Bank Aljazira Third Quarter Results Call. My name is Shabbir Malik. Joining us today is the management team of Bank Aljazira. They will first go over the presentation, and then we will open the floor for question and answers.

At this time, I will hand the call over to Mr. Majid Khan, the Head of Investor Relations. Majid, over to you.

Mr. Majid Khan

Head of IR

Thank you, Shabbir. Good afternoon, everyone. This is Majid Khan, head of Investor Relations at Bank Aljazira. I'd like to welcome all of you for our third quarter earnings presentation. Joining with me is our management team. Mr. Naif Abdulkareem, the CEO of the bank; Mr. Hani Noori; Chief Financial Officer; Mr. Sami Al-Mehaid, Head of Corporate Banking; Mr. Mohammed Al Mousa, Head of Retail Banking; and Mr. Hani Araki, Treasurer, along with other management members.

To start with, I'll request Mr. Naif to cover the financial performance of the bank briefly, the strategic update, ESG achievement, followed by Mr. Hani Noori, he will discuss the financial results in more detail for the quarter. With this, I'll hand over the floor to Mr. Naif Abdulkareem.

Mr. Naif Abdulkareem

Chief Executive Officer

Thank you, Majid. Good afternoon, everyone. We appreciate your time today. I will begin with a quick snapshot of our nine month 2025 performance. The financial results for the first nine months were robust, a 20% year on year increase in net income supported by 17% growth in operating income. This performance was driven by broad-based business growth, healthy margins and an improved revenue mix. The growth in the top line was driven by a strong 17% year on year growth in net financing and investments income supported by a 15% increase in fee and other income. Both the corporate and retail franchises contributed meaningfully to this growth, demonstrating the balance in our portfolio. The balance sheet expanded by 12% year on year, funded by solid growth in customer deposits, reflections of sustained customer confidence and engagements, the solid foundations that will power future growth.

On the transformation front, we have seen continued momentum in our transformations agenda, initiatives around digital efficiencies, onboarding and improved customer journey are yielding tangible results, enhancing productivity and customer satisfaction. At the same time, our people, system and community initiatives remain our priority, ensuring that growth remains inclusive and future focused. Finally, our strategy remains on track, keeping us focused on delivering sustainable return for our shareholders in line with our transformations goal.

In summary, the first nine months of 2025 have validated our strategic directions, and we are confident that we will continue to build on these strong foundations. I will now move on to discuss our broader strategy and key milestones achieved in our transformation journey so far.

As we enter the second year of our five year strategic plan, our transformations agenda continues to move forward. Our strategy remains firmly on track, and we will continue to make steady progress across our transformation initiatives. We are strengthening our core capabilities and enhancing efficiency through a digital first approach. This transformations is positioning the bank to become the bank of choice. The execution of 41 strategic initiatives which were phased across 2024 to 2028 is rigorously tracked to ensure delivery against strategic outcomes. With clear priorities and disciplined executions, we remain confident in achieving our strategic ambitions and delivering sustainable, long term value.

Let's now move to slide 5 to discuss the progress of this year's strategic initiatives. Our corporate banking business has maintained strong momentum this year. Non-funded assets expanded 36% year to date, reflecting strong adoptions of new trade finance and cash management offerings, enhancing MSME engagements with targeted cross selling initiatives, optimized service time, leading to accelerated product adoptions across the segments.

In parallel, we deepened engagements with large and multinational corporates through sector based strategies and syndicated lending opportunities. The strengthened B2B service portfolio provides relationship managers with an upgraded suite of digital capabilities, enabling more efficient client service.

Now, moving to the retail segment. In our affluent retail segment, our effort to become the bank of choice for affluent clients are paying off, with a client growth in top tier affluent customers up 14% year to date, and the heavy mid-tier affluent customers up 16% year to date. This reflects the success of our tailored offerings and relationship management for high value clients.

Digital adoption remains strong, as we continue to streamline customers' journeys. We successfully integrated Google Pay, expanding the digital payments toolkit for our customers. The new loan origination system was successfully implemented during the quarter. The credit card applications process has also been enhanced, allowing applications to be submitted without the need for an account. Auto finance expanded regionally, with a sales up to 20% quarter on quarter, as the franchise scaled across target market.

Next, we will talk about technology enablers. We successfully implemented five AI use cases, accelerating our adoption of intelligent technologies and enabling our business with artificial intelligence. Digital momentum was strong, as we achieved high digital sales penetration. We further enhanced our technologies infrastructure by completing the CRM rollout across all branches, and fully integrating credit card service on new digital platform. For more additional B2B services have been delivered, which enables corporate to attract more customers. The near term roadmap also includes a modern liquidity management system. More B2B services, new applications for remittance, expansions of CRM and more AI use cases moving into production.

We will now move to slide 6 to discuss the impact of digitization on our transformations agenda. Digitization continues to be an important pillar for the bank's strategy. The progress and efficiency delivered across business segments indicates the success of our digital transformation initiatives. Digital penetration remain strong at 83%, leading to a record 90% of retail accounts being opened through mobile. Deposits attracted through online channels grew by 17% year to date.

In response to strong customer demand, we successfully launched Naqa, which is the brand of our time deposits, digitally, further strengthening our positions as the bank of choice for affluent customers. The service has gained strong traction since launch, with over 300 subscriptions totaling nearly 140 million riyals. We also initiated a pilot for open banking account aggregations, allowing retail customers to view and manage all their financial relationships in one place. This is an important step toward greater personalization and financial transparency, which will lead to deeper and broader customer relationships.

Customer satisfaction, one of our primary objectives, remains strong, as the app rating increased to 4.7 in the App Store and 4.8 on Google Play, a notable increase compared to last year, as well as sequentially. The momentum across our corporate segment continued and adopting among customers remains high. Aljazira B2B platform is clients' preferred mode of transactions, with transactions through the platforms increasing by 39% year to date. Online, onboarding continues to be popular as we registered 165% year to date increase in SME accounts opened digitally.

All these efforts in the digital space are transforming how we engage with customers. We are leveraging technology to deepen customer relationships, reduce service costs and create new business opportunities, which will drive our growth in the year ahead.

Let me now turn to our progress on the ESG front this quarter on slide 8. We believe in driving growth while maintaining sustainability, and the first nine months of the year saw some strong developments across all the ESG pillars. In terms of environmental efforts, we continue to make progress in green finance, and we see this as a growing opportunity, as the Kingdom advanced its alternative energy infrastructure. So far in 2025 we have recycled around 3,500 kilograms of waste, offsetting more than 4,000 kilograms of carbon emissions. We promote continuous use of resources and have delivered savings in electricity consumption and reductions in water use.

On the social front, we remain committed to professional developments of our employees, offering best in class services to customers, while giving back to the community. We launched an updated e-learning platform in partnership with Knowledge City to upskill and mentor our people. We also participated in the National Blood Donations launched by his Majesty, the Crown Prince. We uphold superior government standards, and work continuously to strengthen them. During the quarter, we clustered our framework by obtaining ISO certificates from customers' experience and protections department.

Finally, I'm happy to share that our efforts are being recognized externally. We recently were recognized by the Digital Bankers as the Best Retail Bank in Saudi Arabia, 2025. We are also proud to announce that Bank Aljazira has received the Corporate Social Responsibility Award recognized by the Ministry of Human Resources and Social Development. This achievement comes in recognitions of the bank's effort in the field of empowerment and community services, reaffirming our leading role in promoting sustainability and social responsibilities.

With that, I will now hand over to Hani to walk you through the financial results.

Mr. Hani Noori

Chief Financial Officer

Thank you, Mr. Naif. And good afternoon, everyone. Looking at the financial performance of the bank, our balance sheet continued to show solid momentum through the first nine months of 2025, 10% year to date and 4% over the previous quarter. This growth was primarily driven by an 11% rise in financing portfolio supported by 7% year to date increase in customer deposits. Equity strengthened by 24% year to date, reflecting the 1 billion riyals Tier 1 Sukuk issued in January and further $500 million Tier 1 Sukuk issued during this quarter. Return on earnings and positive movement in OCI also contributed to this increase. Overall, these trends underscore the bank healthy balance sheet growth and strong capital position driven by consistent business momentum and prudent financial management.

Let's move on the financing slide on page 11. Financing grew by 11% year to date, Commercial financing, comprised of 65% of the total, which grew by 13% year to date, while consumer financing registered an 8% increase.

When we talk about our investment on slide 12, the investment portfolio increased by a modest 5% year to date. It reflects our strategic priority to rebalance our asset mix by growing financing faster than investment. The portfolio continued to remain highly liquid, with 78% of the investment in government and quasi-government securities.

Let's now look at the liquidity on the next slide. Liabilities grew by 8% year to date, driven by Deposits and interbank funding. Our headline LDR ratio increased slightly to 93.5%, while the SAMA weighted LDR remained broadly stable Q-on-Q at 73.6%, aided by the recent Tier 1 Sukuk issuance and providing ample capacity to support further lending growth. Our liquidity position remained solid, with our LCR at 131% and the NSFR was stable at 115%, comfortably above regulatory thresholds.

Let's now move to slide 14. Customer deposits expanded by 7% during the nine months of 2025. Time deposits continued to lead the growth with 11% usage date increase supported by a strong 28% rise in saving and in particular call accounts, which was driven by corporate clients. Demand deposits continued to remain under pressure, given the liquidity situation in the market. As a result, we saw a shift in the deposit mix, with the corporate now contributing 58% and retail 42%.

CASA share remained stable at 42%, representing the bank's continued effort to optimize funding costs by attracting low cost deposits. Total call account now represents around 11% of total deposits, increasing from 10% on a quarter to quarter basis.

Let's now move to the income statement, slide 15. Net income for the nine months of 2025 rose 5% year on year, driven by strong operating income, partially offset by higher expense and impairments. Operating income grew 17%, supported by a 17% rise in net financing and investment income from asset growth and margin improvement and a 15% increase in fees from banking services, dividend and FX anchor, while operating expenses were up 11%, mainly to due higher staff and other G&A costs and while impairments rose by 39% from higher commercial charges. Wealth unit income reached 400 million Riyal in quarter three, up 5% from last quarter, comparing quarter three to quarter two and maintaining solid momentum.

Let's now take a closer look at the breakdown of income performance on the next slide. Net financing and investment income rose by 17% year on year in nine months 2025 supported by strong financing income growth of 16% year on year and modest net margin improvement. Net margin expanded by 8 basis points year on year to reach 2.08%, driven by asset yield expansion and lower funding costs and lower average benchmark rates.

Let's look in detail on slide 17. Fee and other income grew by 15% year on year, driven by net fees from banking services and FX and divided income. Exchange income remained strong, rising 32% year on year, supported by targeting initiative aimed at promoting foreign exchange business. Also, net fees from banking services increased by 29% year on year on the back of strong growth in mutual funds, card business and trade financing.

Let's continue to operating cost on slide 18. Operating income remained resilient, with efficiency improving supported by positive Jaws , as income growth outpaced cost growth for the nine months of 2025. Quarterly operating income was up 8% year on year, and it remained steady and sequentially improved. Quarterly operating expenses grew by 5% year in year, while for the nine month expenses increased 11%, driven by other G&A and employee related expenses. This ongoing investment transformation and digital capabilities are expected to continue and deliver structural efficiencies that lower the cost to income ratio over time.

Let's now turn to credit quality on page 19. Cost of risk moderated to 29 basis points for nine months of 2025 compared to 38 basis points in the first half of 2025. Higher commission impairment were offset by lower consumer impairment and higher recoveries. The NPL ratio declined to 1.10% in quarter 3 2025, while stage 3 ratio moderated to 2.22%, primary driven by a write-off of credit impaired loans during the quarter. Also, the NPL coverage ratios stood at 168%, which was an increase of 5 basis points quarter on quarter.

Moving to the capitalization slide on page 20. Capital ratio strengthened during the quarter, supported by the Tier 1 Sukuk issuance and solid net income generation, partially offset by the growth in the risk weighted assets. The Tier 1 ratio improved to 17%, while the capital adequacy ratio increased to 19.1%. Also, the CET1 ratio remained stable at 11.7%. Our capital position remained comfortably well above regulatory requirements.

Turning now to profitability on slide 21. Quarter 3 2025 saw a solid earnings generation, as EPS increased by 30%. Return on average equity for the nine months increased year on year to 7.81%, although dropped off slightly quarter on quarter from the expansion. Return on average assets continued the upward trend, reaching 0.98%. This consistent improvement affirms our enhanced efficiency in generating earnings from our other assets.

Let's now look at the segment performance on slide 22. Growth during the period was broad based, affecting solid performance across all business lines. Total asset increased 10% year to date, reaching 163.4 billion riyal. Expansion was led by the corporate segment, which grew 15%, supported by 8% in retail and a steady contribution from Treasury and brokerage and asset management. also demonstrated strong, with the net income before the current tax rising 20%. Growth was primarily driven by corporate retail and resilient all segments of the bank.

Moving to slide 24 on the guidance, where we are maintaining our guidance performance for financing growth, supported by the during the first nine months, though moderated somewhat by our expansion of typical elevated repayments toward the year end. Our NIM guidance remained unchanged, despite some pressure in the third quarter. We expect to see a benefit in quarter four from the full quarter impact of the September and last week rate cuts.

The bank remains well positioned to maintain cost of risk within the range of 30 to 35 basis points, which is lower than our earlier guidance range, driven by corporate recovery during the quarter. We expect to keep the cost to income ratio comfortably below our guidance of 55%. The Tier 1 ratio reached 17%, and is clearly expected to continue exceeding 16% by year end.

Finally, we remain committed to generate better shareholder returns, with a revised return on average equity target of above 7.5%, reflecting the impact of the recent Tier 1 issuance and our continuing focus on sustainable [audio interruption 24:30].

Thank you, and we will open now for questions.

Shabbir

EFG Hermes

Thank you very much for the presentation. We'll now open the floor for Q&A. If you'd like to ask a question, please raise your hand, or you can also type in your question in the Q&A box.

Questions & Answers Section

Q Shabbir

As we wait for the questions to be logged in, maybe one question from my side. How much capital, or by how much do you expect your minimum capital requirements to increase between now and the middle of next year, because of either counter cyclical buffer, plus any other regulatory changes, such as the interest rate risk in the banking book?

And my second question is around your deposit franchise. You focus a lot on the affluent, and you highlight the point of being a boutique bank. How has the percentage of large depositors to total depositors, how have they changed versus last year? Large depositors, do they make up a larger part of your deposit book now versus a year ago, or they are broadly the same or lower? Thank you.

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

Thanks, Shabbir. Shabbir, in answer to your first question, the capitals part, it is around 100 bps. That is driven by this counter cyclicality that we talked about earlier also.

Regarding your second question, large depositors versus others, I think the mix is broadly the same. There's no significant change. Some players come in and go out, but broadly, the mix of large versus medium and low deposit customers are more or less the same. No change.

Shabbir

Got it. We'll now open the floor for Q&A. The first question is from the line of Varuna Kumaraj . Varuna, please go ahead. Your line should be open.

Q Varuna

Thank you, Shabbir. Thank you to the management. I have questions regarding the net interest margins and capital. The question on NIM is that basically you maintain the guidance for 2025 and expect benefits of the rate cuts to come in the fourth quarter, but basically your guidance implies a significant uptick in earnings from 3Q to 4Q. Is that a fair statement? And if you consider that as like an entry point to next year, what kind of expectations can we have for next year in terms of margins, assuming that there will be probably another one or two cuts coming up? I just want to hear your thoughts on that. That's my first question.

And secondly, a follow up on Shabbir's question on capital. In addition to this counter cyclical buffer, I guess banks have been asked to do internal stress testing on ICAP assessment. And I want to know, have you been asked to keep additional buffer compared to last year, starting from January because of this internal assessment?

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

Thank you, Varuna. If I understand your question correctly, because there was some distraction in voice, that you wanted to understand the NIM guidance, specifically how the bank will achieve that and the expectation for next year. If my understanding is correct, then the answer is that NIM guidance for this area remains unchanged. Last year, around a similar period, we published our guidance in the range of 5 to 10 bps over and above our actual number of 2024, which was around 199 bps. Though, as the CFO mentioned, that quarter three was a bit stressed in terms of liquidity, and we saw a decline in net margin, but we expect that quarter four will come back. You should see some improvement in margin, and we are still targeting the guidance range and it shall be in that range.

Relating to your second question on capital buffer. I'll pass it on to my colleague, Rajesh.

A **Rajesh Shah** , *Head of Enterprise Risk Management*

Hi, Varuna. You had two set of questions on the capital. The first was that apart from the counter cyclical buffer, is there any stress test requirement done by the central bank? This is not exactly the stress testing requirement they have done. They have just updated the stress testing shocks, which are used in interest rate in the banking book, the IRR BB. So they have updated the shocks. They are supposed to do it every five years. So they have updated the shocks, and we are going to incorporate there in our capital adequacy, plus our IRR BB disclosures, you will see that going forward from first and onwards.

Overall, the impact has been quite moderate on us. We have done the internal assessment, so nothing significant. And other than that, this counter cyclical buffer will kick in from the quarter two. But the bank, as my colleague had already highlighted, that we will be maintaining a healthy buffer which we have until now. And given the portfolio mix, which is very optimally mixed between the risk weights, so we might want to go for a little bit of capital infusion, or we'll want to maintain the same healthy buffer. But otherwise, even if you don't do that, we still have a very good quality buffer available to us to manage our portfolio growth next year.

Q **Varuna**

Okay. Did it imply that you need some kind of capital infusion?

A **Rajesh Shah** , *Head of Enterprise Risk Management*

Given the present situation, we don't.

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

Varuna, just a quick one on this. As we speak, our capital ratios are in the range of 19% capital adequacy total plus 17% of Tier 1. And given our growth projections for next year, our capital is good enough to even absorb the shock of CCYB plus any potential impact, if it comes, from IRR BB, which Rajesh already mentioned is not material enough. So in that context, there is no need as such, there's good enough capital. But we have plans and programs approved. So in case needed, we can always go. But as we speak, enough capital to support growth of 2026.

Q **Varuna**

Okay. And with regards to the margins, although you expect some kind of improvement in 4Q, normally, there is a rush, in the case of banks towards the end of the year, to gather liquidity, to mobilize deposits. Do you think that can put pressure on the cost of funding towards end of the year?

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

I think no, because if you look at our liquidity flight position, and if you look at our LDR positioning, it's quite comfortable. So we don't need it as such to get into that hot money towards the end of the year. Generally, it happens at the end of the quarter, almost like in any quarter. But as the CFO mentioned, there are a few things that we are counting on, a couple of things already happened, which is the rate cuts. So based on that, we expect that not only should you see an improvement in margin, but we're kicking in our guidance also, and we'll meet our guidance.

Varuna

Okay, that's helpful. Thank you very much, gentlemen.

Shabbir

Thank you, Varuna. We'll now move to our next question. Our next question is from the line of Olga . Olga, your line should be open.

Q **Olga**

Thank you, and good day. I have several questions. One is on capital. Can you confirm that there was no increase in pillar two requirements recently for your bank? That's number one.

Number two is, during the presentation, you mentioned that there is a new loan origination system. What is different in the new system versus the old system, and what is different versus competitors? That's question number two.

And there is a question number three. From your presentation, I see that you more than doubled Off Plan mortgage issuance year to date. Does Off Plan mean this is before a property right is registered? And sorry my ignorance. And what is the share of Off Plan in total outstanding mortgage loans, and how different is interest rate on Off Plan versus the rest of portfolio? Thank you.

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

Thank you, Olga. I'll answer your first question, first, which is pillar two requirement. There is no such impact on this additional requirement.

Relating to the second question on originating system, this is the new system that has been implemented. The objective is to enhance efficiencies and improve the turnaround time plus the digitization part. So it is a comprehensive system that is expected to not only improve the onboarding of customers, but also the approval process and disbursement process. That is quite a new system, well aligned with the market, and put us at par in that context.

Relating to the third question on Off mortgage, I'll request Mr. Al Mousa, head of Retail Banking, to respond to that.

A Mr. Mohammed AlMousa , *Head of Retail Banking Group*

Good afternoon. For Off Plan, our portfolio is a bit small. Almost 3% of the overall portfolio is coming from Off Plan. We do some tactic sales campaign for pricing, but there is no big difference between Off Plan and Other. So we do not get into engagement for special pricing or any agreement with market makers for Off Plan. Thank you.

Q Olga

Perfect. Thank you. So if I can squeeze in one more question. What is your outlook on loan growth for 2026? And I know at this point you're not providing official guidance for next year, but maybe you can give us some sense for the banking sector and if you would want to be in line with the sector below or above.

A Mr. Majid Khan , *Head of IR*

Thanks, Olga. I think it will be high single digit in this range. We carried a similar trend in 2025 also, but a lot depends on liquidity and other factors, so it's a bit early to respond on that. But this is the more or less guidance part.

Olga

Perfect. Thank you very much.

Shabbir

Thank you, Olga. We'll move to the next question. This is from the line of Murad Al Sari . Murad, your line should be open.

Q Murad

Thank you for the presentation. I just wanted to get a bit more insight on your fee income. We spoke about this on the last call as well, and you mentioned that there's a decent contribution coming in from mutual fund related income. So, if you could give a little bit more detail into what's driving that in terms of growth over the last year on the mutual fund contribution and other avenues on the fee income side that you're looking to grow.

And secondly, you've had a decent reversal on written off loans in this quarter. Single exposure, multiple exposures, corporate retail, any insight that you can provide on what's driven that reversal? Thank you.

A Mr. Majid Khan , *Head of IR*

Thanks. Relating to fee income, I think mutual fund we discussed last time, also. You're right. Mutual fund is one area that is doing quite good, 77 million, if you look at slide 17, you look at the movement between nine months versus nine months of 2025. What's driving that? A couple of things. One is the new funds that our capital company launched, and that helped generating additional revenues. One, in terms of you get an upfront fee, and number two is your management fee that you get over a period of time. It's a combination of both, generally upfront fee. When you go for an issuance, you get a higher fee. That is one element.

But as you mentioned, last time also that the revenue trend in Aljazira capital related revenues and the non-fee income in general of the bank has been growing consistently, gaining the share of operating income. Last year, we were around 30%, 31% of operating income. This year, as we speak, we are 32% . The trend has been quite consistent, and this is how this will move on.

Regarding your second question write off, I'll pass it on to my colleague, Mr. Yazid.

A Mr. Yazid Al-mobty, ***Chief Credit Officer***

With regards to the write off we did in Q3, it's more of a portfolio trend, rather than a single sector or a single client, and we have to be aligned with our right of policy. However, that does not mean we stop our recovery efforts with those clients.

Q Murad

Thank you. But if I look through your accounts, in nine months you have had recoveries of about, this is 150.8 million recoveries from debts previously written off, versus 21 million last year. And a lot of it seems to be coming in this quarter. So you've seen some recoveries on those NPLs that you had written off.

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

Yes, correct. This quarter we had a higher rate of recoveries versus the previous.

Murad

All right, thank you.

Shabbir

Thank you, Murad. We will move to the next question. This is from the line of Adnan Farook [ph-39:49]. Adnan, your line should be open.

Q Adnan

Hello. Thank you for the opportunity. I just had a couple of questions. One, I just wanted to clarify, did you mention that next year you expect loan growth to be in low single digit or low double digit?

A Mr. Naif Abdulkareem , ***Chief executive officer***

We're still working in our AOP plan, but we're aiming for mid to high single digits.

Q Adnan

Mid to high single digits?

A Mr. Naif Abdulkareem , ***Chief executive office***

Yes, mid to high. But we haven't finalized our AOP. We have dependency on the liquidity and availability of projects.

Q Adnan

Great. I just wanted to confirm. My line wasn't clear when Majid mentioned it.

And the second question was on the cost of funding, this quarter especially, it does seem like it was an extremely high origination cost of funding for you. I just wanted to understand what happened during the quarter, because it does seem like the cost was significantly high quarter on quarter. And do you expect normalization in the fourth quarter of this trend? Or what do you see trends into October? Have things calmed down a little, or the same liquidity pressure continued?

Majid

I will answer your first part of this question, and then on the liquidity part I'll hand it over to treasurer Mr.Hani.

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

In terms of cost of fund, your point is spot on. The cost of fund is high actually in this quarter, quarter three, but a lot of it has to do with the carryover impact from quarter two, some of the liquidity that went out from [indiscernible 41:55] time, and that full quarter’s impact we have observed in this quarter, apart from the stress in margin liquidity, and that is also one of the reasons why the cost of fund was higher in this quarter.

Going forward, in quarter four we expect a couple of benefits. One is the deposit composition, things are getting normalized, so we see a relatively better position in quarter four.

Number two is we saw one rate cut in September, and the full quarter impact should come in quarter four. And the second rate cut that happened a week or 10 days back, that impact will translate for full quarterly position. So both of these two, along with the relatively better liquidity position and composition of our deposit, we expect that quarter four we should see cost of fund going down and margin should go up. This is one reason why we didn't change our net interest margin despite being on the edge.

On liquidity, I think we've seen the language from the Fed. The market was expecting a softening from the Fed side, and therefore thereafter an expectation on further rate cut during December has been changed after the language, that is hawkish in general. And this puts some pressure on the liquidity or the outlook going forward, where banks and customers are prepared now to pay up to maintain the same level of liquidity and the spreads are still high and expected to remain the same. So that's generally the outlook for the remaining of this year.

Q Shabbir

Thank you for that. As a reminder, if you would like to ask a question you can raise your hand. Also, you can type in your question in the Q&A box. As we wait for questions to come in, maybe one or two questions from my side.

The gap between your stage three ratio and NPL ratio has come down. I think it's now roughly about 100 basis points. How do you see these two ratios trending going forward? Do you expect them to kind of converge, meaning the stage three ratio would come down to the NPL ratio level, or vice versa? And what does it mean for your cost of risk in 2026? How do you see cost of risk in 2026 versus 2025?

And my second question is around your capital, your Tier 1. Your Tier 1 one to total equity ratio is about 30%. What level are you comfortable with on more of a medium term basis?

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

Stage three and NPL ratio, both are converging. You are correct. One of the reasons why it happened relatively faster in quarter three was the write-offs, which were part of NPL, and that has reduced the gap by 110 bps. But if you look at from last year, like quarter to quarter three, the gap has consistently been going down, so that was our effort to increase the stage three and reduce the gap between these two. Ideally, it should go down over a period of time, maybe the next 12 to 18 months it should be a lot closer.

In terms of cost of risk, the projection for this year is between 30 to 35, as per our guidance. For next year, it shouldn't be materially different, but things still are working on, AOP is still to be finalized. I think we'll be able to better guide you towards quarter four, when we give you the full year guidance for 2026.

Q Shabbir

And also, in terms of AT1 capital, is there a level that you are comfortable with? Is the current level, do you think, give you space to add more AT 1 ? It's about 30% of total equity, I think.

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

Yes, I think we measured it from a CET1 perspective first. So if you look at our CET1 ratio, that is quite comfortably in the 11.7, 11.8 percentage range, and that has been in this range for [indiscernible 46:31], while we're increasing the balance sheet by around 12% to 15% in assets. We expect that this ratio should maintain, because profitability is strong, and plus we get the benefit from , that helped.

In all, broadly this ratio stayed quite comfortable. We already have a couple of approved plans for Tier 1. Those plans, we can execute at any point in time. We did a couple of transactions in 2025. On a need basis, we can do those transactions in 2026 also. But as I mentioned previously on one of the questions, that current capital ratios are quite good enough to support the asset growth of 2026, so any decision on capital will be taken based on a need basis.

Q Shabbir

Thank you. We have a question in the text box from Berean. "Are you seeing any signs of payment delays which could lead to weakness in asset quality?"

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

Actually, nothing that we have seen so far. There has been some little delay for government payment for some contractors, which we see that in the MSME segment. However, we're very cautious in financing that segment as well, although we haven't seen any major impact towards our portfolio so far.

Shabbir

Thank you very much. I think that's all the questions we have for today. If you would like to make any concluding remarks, please do so.

Mr. Naif Abdulkareem , ***Chief Executive Officer***

Thank you for your time today. As we move through the remainder of the year, we remain committed to disciplined execution, sustained performance and driving long term value. We appreciate your continued interest and support. Thank you so much.

Shabbir

Thank you very much. Thanks, everyone, for joining. Hope you have a nice day. Thank you.