Bank Al Jazira Earnings Call Transcript

Q2-25 Financial Results

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Jassim Al-Jubran

AJC

On behalf of AlJazira Capital, I would like to thank you all for taking the time to join our call for Q2 2025. I'm pleased to welcome our panelists on the call today. The head of retail banking group Mr. Mohammed AlMousa, Mr. Hani Noori Chief Financial Officer, the treasurer Mr. Hani Araki, Mr. Yazid Almobty Chief Credit Officer. And finally, head of IR Mr. Majid Khan. 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 mic is yours.

Mr. Majid Khan

Head of IR

Thank you, Mr. Jubran. Thank you for the introduction. Good afternoon and welcome to the Bank AlJazira's Q2 2025 earning call. We appreciate your time today. This call will begin with the remarks from Mr. Mohammed AlMousa, who is deputizing the CEO, he'll walk us through the bank's financial performance at a higher-level strategic updates and ESG achievements. Following that, our CFO Mr. Hani Noori will present the financial results for the quarter. We will then open the floor for the question and answer. With that, without wasting time, I'll hand it over to Mr. Mohammed AlMousa.

Mr. Mohammed AlMousa

Head of Retail Banking Group

Thank you. Good afternoon, everyone. Thank you for joining us today. Let me start with a quick summary of our performance in H1 2025. We delivered strong results with net income up 20 % YoY and operating income growing 22 %. This was driven by a broad-based business momentum, healthy margins, and more diversified revenue mix. The balance sheet demonstrated a solid growth; total asset rose 14 % YoY and customer deposits increased 16 % reflecting strong franchise strength and continuing with customer trust. On the transformation side we made further progress. We were seeing the impact of AI led efficiencies, digital onboarding and enhanced customer experiences, all of which are helping us to enhance customer penetration and build long term value. In parallel, we continue to invest in our people, system and communities, staying aligned with our long-term vision for inclusive and sustainable growth. And finally, our overall strategy remains firmly on track. We are focused on delivering sustainable shareholder returns. And we are seeing clear progress toward our long-term transformation goals. Let me now give you more details around our strategic progress and start with a quick reminder of where we are in our transformation journey. We are now halfway through 2nd year of executing our refreshed 5-year strategy. It is designed to position us as a boutique bank that is digitally enabled, resilient, and well equipped for future growth. Progress toward our 41 transformation initiatives remains on track. Six short-term initiatives planned for 2024 have been completed and we've now moved into the delivery phase of the medium term targets laid out for 2025 and 2026.

Let's now turn to slide 5 for an update on execution of the of this year's strategic initiatives. Starting with corporate segments, we launched a new trade finance and cash management product suite contributing to 37 % YoY growth and non-funded assets. Our SME franchise continue to build momentum supported by the AMAAL platform with MSME financing growing 35 % YoY. We are also seeing steady growth in mid and large corporate segments with rising contribution from multinational clients. On the digital front, we launched Jazira B2B eCorp and a new digital banking app, all are aimed at elevating customer experience. For the new B2B, products have been added to the platform with continued progress in digitizing payments and transaction banking services.

Now moving to the retail segment, we continue to strengthen our position as the bank of choice for affluent customers. Our top tier and mid-tier affluent segments Al Masi and Al Thahabi grow in QoQ . Digital penetration reached 82% and we've made solid progress in improving customer journeys. We've completed the operating model, integration with AL Jazira Capital to enable greater cross sell opportunities and three AI use cases are already in production, helping enhance the customer experience and even insights. Also, we have launched our new loan origination system enabled with the 1st product as a credit card for now. We also improved turnaround time in real estate lending, began expanding our regional presence in the eastern province.

Next, a few words in technology enablers, our digital transformation program launched in 2024 is already delivering tangible results. The core banking platform upgrade is completed, establishing a linear and more agile foundation for future innovation. At the same time, the rollout of our enterprise CRM system now enables a full 360-degree custom review across signals. Looking ahead with this infrastructure in place, we are preparing to launch our next generation payment hub and are in the process of developing a modern liquidity management system. We are also scaling AI use cases further and beginning to adopt generative AI and large language models across select applications. With the future ready core, the bank is well positioned to accelerate delivery, Innovation and sustainable growth across all areas of businesses.

Let's now turn to slide 6 to highlight how digitization is powering this transformation. Digital progress is driving business innovation across the bank. Our accelerated digital rollout across both retail and corporate has significantly improved client engagement thanks to a fully upgraded mobile app and new digital platforms. Digital penetration reached 82 % and onboarding times full shopping. With 64 % of our accounts now being opened through mobile , retail business saw a 25 % increase in overall online account opening and 20 % YoY in digital deposits. We are also seeing improvement in customer experience with our app rating increasing to 4.6 in Apple store and 4.3 in Google play, significantly higher than last year.

In the corporate space, the new AlJazira B2B platform is delivering results with 44 % growth in transaction year over year. And in SME we're seeing the impact of seamless onboarding with 340 increase in the new digital account offering. Overall digital has become a clear growth enabler for us, whether in streamlining processes, deepening customer relationship or opening a new revenue streams.

Let me now turn to our progress on ESG front this quarter on slide 8. On the environmental front, in addition to our ongoing work in green financing, waste reduction and resource efficiency, we also launched a recycling program across our offices. These initiatives aim to encourage environmentally responsible practices within the workplace. Socially, our leadership team successfully completed the INSEAD leadership program. And the ELEVATE leadership program both conducted in partnership within INSEAD business school. From a governance perspective, we strengthen our compliance framework and obtain the latest data security standard certification in the payment card industry underscoring our strong commitment to data security. We also enhanced employee awareness and financial crime reporting obligations through internal campaigns and learning materials.

Lastly, I'm pleased to share that our efforts were recognized with several notable awards like best Islamic finance banking in the kingdom, and digital customer experience award for account opening and customer onboarding. With that, I'll now hand it over to Mr. Hani Noori to walk you through the financial result.

Mr. Hani Noori

Chief Financial Officer

Thank you, Mohammed and good afternoon, everyone. In H1 2025, we delivered strong financial performance. Net profit rose by 20 % YoY basis supported by solid income growth, better margins, and higher fee generation. Our cost base remained well managed and returned improved as well.

Looking at the balance sheet, total assets increased by 14 % YoY and 6 % YTD basis from December 2024, mainly due to the growth in the financing book. Customer deposits grew by 16 % in a YoY basis and 6 % from December of last year, helping to fund the balance sheet expansion. Equity as well rose by 11 % YTD basis supported by return earning and our SAR 1 billion Tier-1 sukuk that we have issued at the beginning of this year.

Let's move on the financing on the slide number 11. Our financing portfolio expanded by 7 % from start of the year with a contribution from both corporate and retail signals. Commercial financing lead the way increasing by 9 %. Growth was concentrated mainly in midsized companies which grow by 24 % YTD. And was supported by MSMEs, which expanded by 10 %. The commercial pipeline remains very strong and we expect to see continued loan growth in 2nd half of this year.

Consumer financing grew by 4 % YTD. The growth was driven by auto lease, which continued to benefit from last year's network expansion and ongoing strategic focus on that line of our business. Personal finance as will grow in line with the market.

We will now turn to investment slide on page number 12. Our investment portfolio increased. In a modest level by 3 % YTD, we continue to rebalance the asset mix strategically by growing our financing portfolio at a faster pace than investments. This reflects our focus optimizing the balance sheet in line with the peers and supporting more efficient capital deployments. We also increase our shared in fixed rate conservants, which now represent over 83 % of the total book. This shift helped offset some declines in floating rate and other categories.

Let's now look at the liquidity on the next slide. Our liquidity position remains solid, supported by strong deposit inflows. Total liability increased by 5 % YTD in line with the deposit growth. Our headlines LDR ended the quarter at 90.8 % and the SAMA weighted average LDR at 73.8 %. We continue to maintain substantial high quality liquid assets with our LCR at 125 % and the NSFR was stable at 113 %, well above the regulatory thresholds.

Let's now move to the customer deposit on slide number 14. Customer deposit grew up by 6 % from the start of the year. The increase came mainly from time deposits , which were up 11 % YTD, supported by strong inflows from corporate clients. In contrast, demand declined by 5 % reflecting a tide market, liquidity and competition in the market for a low cost deposit during Q2 2025. To offset, we saw growth in saving and call accounts, particularly in retail side to maintain overall funding stability. The deposit mix shifted accordingly with CASA share reported at 41.6 %. If liquidity remain tight and competition continue, we may continue to see some pressure on the CASA ratio going forward. Call accounts now represent around 10 % of the totals.

Let's now move to the income statement site in slide number 15. Net profit for the 1H of this year close by 20 % year in year. This performance was mainly driven by strong revenue growth, partially offset by 14 % growth in operating expenses and higher impairments. Notably both net financing and investment income and fee and other income grow more than 20 % in a YoY basis. On a quarterly basis, net income for the Q2 2025 came at SAR 382 million which is 6 % increase QoQ and 20 % compared to Q2 2024.

Let's now take a closer look at the breakdown of the income components on the next slide. Net financing and investment income grew by 21 % YoY in the 1H 2025. This was supported by a solid growth in financing volumes and margin expansion. Helped by a lower funding cost following the rate cuts. As previously indicated in Q1 2025, margin of the Q1 2025 reflect the impact of a certain one off non-recurring item with reported margin at 2.19% while the normalized margins 2.11%, compared to normalized Q1 2025 margin, the next margin improved by further 2bps in a QoQ basis reaching 2.13% in Q2 2025.

Let's now move to the fee and other income in slide number 17. Fee & Other Income grew by 23 % in year-on-year basis supported by net fees from banking services and Exchange Income. Net fees from banking service grew by 29 % led by strong growth in mutual funds, Cards and trade financing. Mutual funds benefited from Al Jazira Capital's product expansion which continued to gain traction. Cards fee income was lifted by product repricing in Q2 2025 to align product profitability with a marketplace mark. This should continue to support revenue going forward. Trade finance also saw a healthy activity with associated income growing by 20 %. Also exchange income grew by 49 % YoY, mostly driven by volume growth and internal initiative to promote FX conversion activity . A trend that's been strong over the past three quarters.

Continuing to operating costs on slide number 18 , During the quarter and throughout the 1H 2025, we continue to benefit from positive operating jaws with the operating rising by 22% in the 1H 2025 while our operating expenses increased by 14%. The rising expenses were mainly driven by higher general & administration costs and salaries. Both were impacted by strategic in project spending which began since 2nd half of last year. As a result of the positive jaws, our cost to income ratio improved to 52.3 % in the 1H 2025. The improvement is around 370bps.

Let's now turn to credit quality on slide number 19 , Cost of risk increased to 38 bps in the 1H 2025 up from 28 bps compared to last year. It remained stable in QoQ basis.

The rise in impairment charges was mainly due to commercial exposures reflecting growth in the portfolio. The NPL ratio rose to 1. 47 %, stage 3 increased to 3.16 %. Again, driven by business as usual migration of commercial accounts. The coverage ratio is now reported at 162%, which remain probably stable in a QoQ basis where stage 3 coverage continued to improve to reach 58.4 %.

Moving to capitalization of slide number 20. Capital ratio remained broadly stable in the 1H 2025, supported by SAR 1 Billion in tier-1 sukuk issued in January and net income generated during the same period. CET-1 stood at 11.7 % where the capital adequacy ratio was 17.9 %. Risk weighted assets density remained above the level of the beginning of the year at 77.1%, but slightly a decline from a QoQ basis.

So let's turn now to the profitability on the slide number 21. Returns continue to improve in the 1H 2025. Return on average equity reached 8.19% and return on average assets has increased to 0.97% , compared to 0.88% in the last year. EPS for Q2 2025 was 0.22, up 30 % YoY.

Let's now look at our segment performance on slide number 22. We continue to see a healthy and well balanced performance across segments. Total assets rose by 6 % YTD led by a strong contribution from both corporate and retail businesses. Brokerage assets management also posted solid growth of 18 %. In term of earnings, net income before zakat and tax increased by 20 % YoY. Retail was biggest contributor, growing 28 % YoY followed by brokerage and assets management at 43 % and corporate at 10 %. Segment mixed remained balanced, corporate and retail each contributed around 42 % of the total income while treasury and brokerage made up the remaining of the net income.

Moving on the guidance on slide 24, our performance in the 1H 2025 is aligned with expectations. And we are maintaining our full year's guidance. We continue to expect financing growth in lower teens. NIMs is progressing ahead of expectation, benefiting from a lower funding cost following the rate cuts. Cost of risk was 38bps in the 1H 2025 , which is within the guidance that we have Provided which is 30-40bps. This reflects continued discipline, including underwriting a risk management. Cost to income improved to 52.3 % and expect to keep this below the 55 %. Tier-1 reached 15.7 % and expected to continue trending above 16 % by the year end.

Finally, return assets and return equity achieved within our guidance , and we are keeping the same guidance for the full year of this year. Thank you and we are now happy to take any questions that you need.

Mr. Majid Khan

Head of IR

Jassim, so we can open the floor for Q &A.

Jassim Al-Jubran

AJC

Thank you, panelists. Ladies and gentlemen, we will now commence with 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 onto the Q & A chat box.

With that being said, please limit your question to two at a time so we may cater to all the participants. You are more than welcome, however, to join the back of the queue if you have a follow up question. You may introduce yourself with your name and the company's name without further ado, the Q & A session is now open.

Questions & Answers Section

Ibrahim Elaiwat , *AJC*

Thank you, Jassim. Just a kind reminder to participants that if you do not see the Q & A chat box, it's under the apps button on your screen. Otherwise, if you're on your phone, it'll be under the three dots button at the bottom of your screen. So with that being said, we'll be taking the 1st question from the line of Shabbir Malik. Shabbir your line is now open. Could you please unmute yourself and go ahead?

Q Shabbir Malik

Hi, thank you very much. This is Shabir from EFG Hermes. I have two questions, please. Can you talk about how the Q3 has looked in terms of liquidity and competitive pressures on known pricing? Has it, has there been any improvement versus Q2? So that's my 1st question.

My second question is around your capital position. Your CET-1 one is 11.7%, there is a counter cyclical buffer that is likely to be implemented from next year. How do you see yourself positioned to absorb that additional capital buffer? And what will be your capital plans going over the medium term? Thank you.

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

I'll brief and I'll then hand it over to treasurer to explain it further. Q2, as you saw that we saw some pressures in liquidity and we saw some migration from CASA to Time Deposit domain that has happened towards the later part of Q2. Q3 as we speak is still following the pattern, but I think more insights probably will be available for the later part of the quarter.

From the bank's perspective, we are still quite active in terms of diversifying our funding profile through different means be it a deposit into bank and the instruments also. So that activity is still going on and will continue to go on. I'll hand it over to treasurer, but before that, just to answer your 2nd question, CET-1 counter cyclicality. I think CET-1 is at 11.7% and if you know the counter cyclicality over and above the minimum benchmark rate is still there decent buffer between these two and assets there is NO direct impact. Yes, it reduced some buffer in between the two ratios but the bank has to be actually above certain above those ratios and we see a very decent gap is still in between the two, be it CET-1 or the CAR ratio that we report. So in that context as such, we don't see any immediate specific pressure coming on CET-1.

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

Thank you, Majid. I think it was well said from your side on the liquidity side and adding to that from the liquidity perspective we foresee some challenges coming to the market if the market continue to grow a balanced sheet. However, from our side we have mentioned that we have a solid liability base. It is of course moving from one line of business to other, that is from CASA to customer deposit or to contractual deposit or vice versa. And we will see that or we foresee that this trajectory will continue throughout the year. We do have our accesses to liquidity from multiple sources and we are exploring more resources during the upcoming months, And that's it on the on the liquidity side.

Q **Shabbir Malik**

I got it, maybe just one clarification. So when we talk about the countercyclical buffer, is it that the bank needs to meet those requirements using just the CET-1 capital or it can also use additional tier-1 and tier-2 capital to meet those requirements?

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

So let me add on you over here on the countercyclical buffer, like SAMA has advised like a 1 % addition to the other buffers which were already there in place, and it is effective May 2026. So as a banking institution, we are supposed to maintain a healthy buffer for CET-1, tier -1 and also the overall Capital. So it translates across both the set of capital numbers like both for CET-1 and the tier-1.

So tier-1 will support the tier-1 buffer, which is quite healthy as for us, and similarly for CET-1, the CET-1 will support on top of the minimum requirement like which is 4.5% is the minimum requirement, 2.5% is the capital conservation buffer and this 1% countercyclical is added. So above this 8% we have to maintain our CET-1 and there's a healthy headroom available for us, so we should be, like we should be able to manage it quite well.

Shabbir Malik

Thank you.

Ibrahim Elaiwat , *AJC*

Thank you, panelists, Our next question comes from the line of Murad. Your line is now open. Could you please unmute yourself and go ahead?

Q **Murad Ansari**

Yes, Thank you for the presentation. Just a couple of questions on firstly on your guidance, you know, you've had a good 1H 2025, solid growth, strong improvement in margins. And you did mention during the presentation when discussing the financing book that you continue to see strong loan growth going into second half of the year on the corporate side as well. So just wondering. Just trying to make sense. I mean are you expecting some slowdown on seasonality payments etc. going into 2nd half? just trying to tie in your guidance with 1H performance and similarly on margins again a solid 1H 2025.

I'm just trying to get sense of how you see 2nd half on kind of expectations you have put in on, on rate cuts on the interest rates. Yeah, that's it. Thank you.

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

Thank you. Regarding your 1st question, rather both question relating to guidance, so the 1st was relating to financing. if you look at the 1H 2025 , it's quite decent and there's strong pipeline, but in terms of numbers, around 7 % growth in 1H 2025, we see that we'll be touching a bit lower. This is quite expected because there are some expected settlements come towards the end later part of the year. So those are taken care of and this is exactly our guidance and we probably will see it in Q3 and Q4 aligning around this level.

Regarding 2nd question, which is NIMs guidance . As we speak, we are at around 2.13 in Q2. Going forward we have kept the guidance unchanged , because when we when we set up the guidance, we assume few things and some of those didn't go along as we expected. So right now why we kept a bit conservative is one, the rate cuts relating uncertainties is still around. We are not really clear when this will happen, those are some clarities but the timing is still very uncertain and it happened before also.

Number two is tightening liquidity is another challenge. We saw some CASA migration in Q2, Q3 is still to go. So let's see where we end up and then the Q4 left, so given these two challenges which are quite significant challenges, we kept the NIMs guidance as is for this quarter and we'll revisit towards the end of next quarter if things otherwise.

Q Murad Ansari

Thank you. And if I could just add a follow up on Fee income & others, it's been on a steady uptrend since I think last year half and you know you've got reported SAR 203 Million in the Q2. I mean I know you've kind of broken it down in the presentation in terms of various components, but how much of it is driven by your growth in loan book and, and where do you expect this growth, how do you expect this trend to continue over the over 2nd half of the year particularly on the theme side?

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

Yeah, I think if you break down this question into two, so like in terms of fee income is quite following a trend over a period of time, we are seeing some growth. If you look at YoY, it's around 29 % from banking fee, if you look at overall fee, it is around 23 %, so this is the group trend and if you look at QoQ in our last six to eight quarters, you'll see some consistency there.

In terms of like major areas, loan is one, but definitely you know loan fee income is mostly get amortized over a period of time. So it's not the significant part of this number. Most of the income that we see is coming from mutual funds, trade finance. Credit card is one big major area, local Share trading and brokerage is one major area. These are the major areas that increase. In addition to our FX income and investment income. So these are the major sources, they are quite consistent. FX income is consistently growing, following a very decent growth trend over a period. going forward if I tell you that like my Fee income as a margin is still quite aligned to market, we still have some space we are still quite aggressive and most likely we will see a momentum here.

Murad Ansari

Alright, Thank you.

Q Ibrahim Elaiwat , *AJC*

Thank you, panelists. Alright, we do have some questions piling on from the Q &A chat box, so I'll read some of those out. Asks, what is the target for your additional tier-1 sukuk issuance and timeline?

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

Well, we did one at the start of the year, that happened in Q1 2025 and we saw the numbers. The program still has some space based on need basis will move on and we'll do the issuance. So I think there's something limited space we have and this is some source of liquidity also and long-term liquidity. So it depends on the need from the capital perspective, you saw in the slide capital ratios are quite steady and that we Implementing around 11.78% of CET-1 around 17.9 to 18.5 of total one total Capital adequacy ratios so these ratios are quite aligned but in terms of this additional Tier- one whenever there's a space definitely will move on because we haven't approved program alert.

Q Ibrahim Elaiwat , *AJC*

Clear, thank you. Another question from Abdulaziz asks about the increase in fixed income. He's specifically asking if it's due to seasonality or is that a normal level for this income?

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

It is quite systematic, like there's NO one offs as such in the income numbers. It's coming with the process backed by initiatives. We talked about those initiatives in the strategy last three to four quarters those are working out and giving us some headwinds so like these are quite a sustainable number as we speak.

Ibrahim Elaiwat , *AJC*

Very clear. Thank you. We'll be taking a question from the line of Yash. Yash, your line is now open. Could you please unmute yourself and go ahead?

Q Yash Joglekar

Yeah, thank you management for sharing the presentation and thank you AlJazira capital for hosting the call. I've got two questions. So 1st there is 33.2 % increase in the fee income. So what is driving this increase? And What is the sustainable level for this income going forward?

My second question is, the net loans are up approximately 19 % on a YoY basis, and this is much higher than the industry loan growth. So what exactly is driving this increase and what is the target for FY 25?

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

Yeah Yash, relating to Fee income . we just talked about that, that fee income is maintaining a trend six to eight quarters and we are seeing some progress and on the back of some of the initiative that we started through our strategy program back in 2024 plus initiative around FX income, really getting better positivity plus Mutual fund is supporting a lot so Aljazira Capital is driving that initiative. So these are the initiatives that are Helping us growing our fee income.

If you look at the fee income comparison to operating income, it's around 30- 31 % and it's been there for quite some time. So if you look at from a different perspective, different optics, the numbers are quite aligned. There is NO one off, there is it's not very inclined trajectory , yes when you compare YoY , it does. And the reason is that profitability improved , the operating income increased between these periods in double digits itself. Between 21 % increase and you are seeing so all these are driving this growth.

2024 was a lower base, so if you compare the percentage growth probably high but over a period of time it this percentage growth will get settled.

Q Yash Joglekar

So my second question was that the net loans are up around 19 % approximately on a YoY basis. And this has been much higher than the industry loan growth. So what exactly is driving this increase and what is the target for 2025?

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

Yeah, YoY we quite aggressive and if you see the commercial and retail , commercial is driving most of the growth. Retail is also doing good part from the mortgage and some from auto finance and that these two products are doing really well from this number going to next year. This year , as you can see in our guidance we reported a big teen.

We are expecting that so far, our 7 % growth probably will translate to around 13% to 14 % growth for this year. If we go with the multiplier impact, next year the number is more less aligned depending on forward projection. Depending on the liquidity part, the tightening of liquidity, the availability of liquidity and specifically how diversified your liquidity is and based on that, you would be able to give a proper answer. So this is the projection now, a lot depend on Q3 and Q4, how the liquidity moves, how the interest rate cuts comes in in between the equation and that will drive the real number.

Yash Joglekar

Okay, thank you so much for sharing your insights and all the best for the coming quarters.

Ibrahim Elaiwat

AJC

Thank you, panelists. We have a follow up from the line of Murad. Murad, your line is now open .

Q **Murad Ansari**

Just to two follow up questions. One again is on fee income. I mean this we just wanted to understand you know this contribution that on fee income and mutual funds if you could explain what and how contributes to this .

secondly on going back to your CET-1 , you do mention that you have a fairly comfortable buffer on where would you draw the line, what would be your minimum CET-1 ratio where you won't want to go down below? Thank you.

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

Relating to CET-1 , we just explained earlier relating to the buffer that we have on top of it regulatory requirement, some internal buffer also though we maintain a where we ensure that our CET-1 level is optimally maintained and if there is any need, we move on and take the corrective action in a precise time frame without taking a lot of risk. So that is an internal ratio, that we maintain ensuring that our CET-1 level remain Sufficient and healthy.

Relating to your 1st question, we saw some good growth from mutual fund that is mostly driven from AlJazira Capital that is relating to some of the issuance plus their own revenue generating activities. And if you look at the QoQ basis or half year to half year basis, you'll see some decent growth. And that trend is continuing and we are quite hopeful that we'll be continuously reporting this number in a positive trajectory.

Q **Murad Ansari**

So just to clarify, these mutual fund fees are essentially, funds and loads type of fees that you earn on subscription to these funds, I mean performance related, is this essentially, a shade of profit from the capital? I'll just say the capital business, how should I see this?

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

It's a combination of the subscription fee plus the asset management fee plus the new insurances of mutual fund and the fee generated from there. So it's a combination of multiple elements.

Murad Ansari

Alright, thank you .

Ibrahim Elaiwat

AJC

Thank you, panelists. We'll be taking a question from the line of Fahad. Fahad your line is now open. Could you please unmute yourself and go ahead.

Q Fahad Irfan

So I have two questions. My 1st question is, on the mortgage lending, so in the latest reading shared by someone there is a significant moderation in mortgage insurances. So can you get some light on what are the drivers for the slowdown and is it something seasonal or do you expect it to, go back to the level a couple quarters back?

And my second question is related to your guidance where The bank has kept its guidance on loan growth and NIMs unchanged from Q1. This is despite that there is a significant shift in interest rate outlook. So can we expect any change going forward? Thank you.

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

Yes, thank you for the question. So starting with the mortgage, if we go back to Q1 it was continuous of the same trend, However, in Q2 post the announcement that made by the government for the review and the white lands taxation, the new regression that's been announced, which is not yet fully cleared for everyone. Splits away from customers waiting to see the results of the outcomes from the new regression. This would make little bit slow down we see it in mortgage.

For us on a small phase in the market and we are maintaining the same levels of growth , sales and mortgage. However, this will be clarified once regulation are out. Momentum possibly will go back again the same level.

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

Thank you Mr. Mousa, Relating to your second question for our guidance, long growth and NIM guidance we talked about these as I explained earlier, these are based on the current available insights that. We have yeah interested cuts definitely will support and if it happens earlier the better it is for the bank because you know we are one of the banks which are negatively sensitive to the rate environment so rate cut will definitely support us. If, given that as we speak due to uncertainties and as I mentioned. The tightening liquidity requirement now we wanted to keep a bit considerative and we'll see the situation in Q3.

Fahad Irfan

Thank you so much.

Q Ibrahim Elaiwat , ***AJC***

Thank you, panelists. We have a follow up from the line of Yash. could you unmute yourself and go ahead? I see that Yash has dropped out of the line. You're more than welcome to join again. Until then we'll be taking questions from the Q & A box.

We've got a question from Yaseer that asks, could you please clarify more on how cost of funding is decreasing while CASA ratios decreased and time deposit is increasing?

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

The cost of funding actually decreased because of the factors relating to CASA itself. As you see in the numbers that you submit are end of period numbers. If you look at the average period, we get some benefit of the CASA buildup that we did in Q1 and that benefit translated into Lower cost of fund in this period.

Going forward, Q3 and Q4 , we'll see how the market goes, how the interest rate curves happens, their impact could be visible towards the end of Q3 end or maybe Q4 and that's then things will be a lot more clear. But in this quarter, these are the reason why we see some benefit in cost of fund for the bank.

Q Ibrahim Elaiwat , ***AJC***

Clear, thank you. So the 2nd question asks about NIM's sensitivity with rate cuts.

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

The NIM's sensitivity for rate cut, around 14 to 15 bps for a 100 bps cut, and again it is calculated based on fixing the value sheet as a certain period and then doing the same calculation based on the maturity profile of your asset and liabilities, but as we know, the rate could happen over a 25 or 50 bps range, then definitely the impact will get utilized. But this is a 100 bps impact as of a specific period of time.

Ibrahim Elaiwat , ***AJC***

Clear, thank you. We have a question from the line of Aditya. Your line is now open. Could you please unmute yourself and go ahead.

Q Aditya Nirmal Modi

Thank you for the call gentlemen. I have a few questions on the liquidity situation. I think all the banks that we are hearing they seem to be indicating you know the tightness of liquidity that is impacting their 1st funding.

My 1st question regarding is has anybody heard anything from SAMA regarding this? Is there any Injections that is anticipated in time the sector or you yourself. Secondly, my second question is I mean, I know it's a technical and difficult one, but is there any sort of sensitivity analysis that you have done like let's say for a 50 bps of parts that come in. How much you expect the cost of funding to basically reduce against that because right now it is you know a lot of guesswork is to how rate cuts are impacting your cost of funding.

Finally, if you can tell me. I would like to know like right now, a lot of banks are shifting to AT 1 one against this tight liquidity situation. So I would like to know if you can comment on this , how the the absolute cost on AT 1 compared to like let's say your time deposits and interbank , or any other traditional forms that we generally go to. If you can answer these, it will be very helpful. Thank you.

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

Yeah, relating to SAMA, there is NO injection in the liquidity market and all the banks are generally generating the liquidity either from internal market or they are issuing instrument and attracting liquidity from the overseas market.

Relating to your second question, which is 50 bps impact on sensitivity. It's Like 13 to 14 bps of sensitivity on 100 basis points on a specific point in time 50 bps could be 6 to 7 bps. Splitting it into asset and liability is a bit tactical at this time because you know asset liabilities have their own maturity profiling compared to asset, and some of them are requested immediately, some of them repriced between one to three months and the very limited part goes beyond three month to twelve month period.

So specifically we can't quote any number around that but at the enterprise level we can give the sensitivity guidance. On cost of AT 1, I'll hand it over to the treasurer.

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

Cost of AT 1 and It's well given the liquidity situation currently. In the market , we have seen a trend by all banks issuing whether tier-1 or debt instruments. Both of which when it compared it to against the customer deposit, the post is, sort of aligned. For both instruments, however, issuing tier-1 or long term debt will give normally banks better long term liquidity access and it eventually enhanced also the liquidity profile for each banks and which is most important. Factor here is the enhancement of all regulatory ratios.

Aditya Nirmal Modi

Got it. Thank you.

Ibrahim Elaiwat , *AJC*

Thank you, panelists. Seems that Yash is back in the queue for a follow up. Yash, I've opened up your line.

Q **Yash Joglekar**

I have one follow up question. So the bank has expanded the deposit base by 16% YoY. However, mostly the increases from remunerative deposits. So will the bank continue on this strategy or will focus more on demand deposits from year on?

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

Yeah, as you explained, the deposit is a very critical element as you speaking from the balance sheet perspective. If we talk about funding, we are working on different initiatives around to ensure our funding base is not only diversified, but it is optimal also and it is cost efficient. Around that demand definitely is one area where a lot of initiatives are going on and that is why we have seen some progress in the 1H 2025 , and then later on we saw some liquidity tightness and that liquidity tightness resulted in some migration between deposits bucket.

Going forward, as I mentioned earlier in relating to 1st of your question, we see that as we speak for Q3, the current deposit composition probably will go on as is. The liquidity pressure will remain as is rate cuts are expected, but rate cuts are still very susceptible in terms of like their timing .

We saw in Q1 if you remember that we were expecting a decent cut towards the end of Q2 but it migrated to move to Q3 and still there's some clarification although some clarity is there. So it's a, evolving situation from the bank side, we have enough diversified resources to ensure that we not only remain liquid funded and we remain fund our asset balance sheet size with an appropriate liquidity measures.

Ibrahim Elaiwat , *AJC*

Thank you for that. So as we are approaching the end of the allotted time that we have for this call, that would have to mark the final question for this session. And on behalf of AlJazira Capital, we'd like to extend our sincere thanks to management for their time and the presentation and to our guests for taking the time to join the call.

Panelists, the floor is yours for any closing remarks.

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

Thank you once again for being with us today. As we navigate the rest of the year, we stay focused and strengthening our performance, executing with discipline and building on a momentum what will have achieved.

We appreciate your continued interest and look forward to staying in touch. Thank you. Have a good day.

Ibrahim Elaiwat , *AJC*

Thank you everyone. This session is now over.