Ribal Hachem: Thank you, Melissa. Hello, everyone. Thank you for joining us today. This is Ribal Hachem and on behalf of Arqaam Capital, I'm pleased to welcome you to Alinma Bank Q2 2022 Earnings Call. With us today from Alinma Bank, Mr Abdullah Ali Alkhalifa, CEO, Saleh Abdullah Alzumaie, Senior VP and Head of Retail and Digital Banking, Mr Adel Saleh Abalkhail, CFO, and Mr Ahmed Sager, IR Manager. Now without any further delay, I will turn over the call to the CEO, Mr Abdullah.

Abdullah Ali Alkhalifa: Hello, everyone. Once again, we thank you for taking the time to dial into our earnings call for Q2 2022. As usual, we'll take you through a quick presentation from my side covering a high-level overview, plus the progress on our strategy, as well as a reminder of the strategy initiatives that we are working on. Then I'll hand the presentation or the mic to our CFO to take you through a detailed discussion of the financial performance and then we'll come back, both of us and Saleh, to take your questions at the end.

So if we push to page four, which is an overview of the bank, it gives you some snapshot of the retail digital and the market share, financial position, as well as some information about the stock highlights. On the high-level financial performance on page six, we had growth of almost 4% year to date on loans. That is purely driven by retail. Unfortunately, as you see later, we had a slight decline in our corporate loans due to the pressure on pricing. Total assets increased by 6%, reaching almost 185 billion.

Our first half operating income increased by 15%. Our net income increased by 29%. The NPL ratio is at 1.9 and our coverage ratio is 150. Our customer deposits increased by 8%, but the headline there is the actual increase on CASA. We had a very strong growth in CASA, 16% year to date, which now CASA represents almost 71% of total customer deposits and that's a significant increase when we had the end of 2020.

First half cost to income ratio, 34.9. I think it's improved over Q1 as this is the six-month obviously cost to income ratio. Our NIMs year-on-year increased by five basis points, reaching 3.42 basis points and our CAR is 21.8.

Now, in terms of strategy, I'll start typically by just reminding our listeners about what is our strategy and how did we progress there. So, basically, we aspire to be the fastest and the most convenient bank in the country and that, as you know, is very critical, very important considering the smartphone penetration, as well as the average young age of the population. We want to be the number one in Net Promoter Score and number one in employer of choice.

And to talk about high-level on the segments, basically for retail we said, referring to the first point, the most digital advanced retail business in the country that provides the fastest and the most convenient service in terms of obviously getting the product and getting the service in a very short and very convenient way. For corporate, we want to be the corporate of the best customer experience with one of the best turnaround times in the country and we want to be the most innovative Shariah compliant treasury.

If we go into more detail, again, that's high-level because we've got almost 74 initiatives, but as far as the bank-wide reach, the fastest and the most convenient. We have to obviously build Digital Factory to scale customer experience and improve the products across all the banks. We want to foster the advanced analytical capabilities in order to foster data-driven decisions.

We want to obviously continue our cultural transformation to be able to attract and retain the best talent in the country. More specifically in retail, we want to be… We're targeting to build an affluent and high net worth franchise. We want to really focus and attract the youth segment in the country and offer the best customer experience.

For corporate, we want to be not only the core bank for large but also for mid-corporates and project finance and serving all customer needs, not just the finance inside that used to be. We want to develop high quality and grow in SME business and as well as continue to build and focus on cross-selling, cash management and trade. So treasury wants to be the core partner for corporates' hedging needs, whether it's currency or interest. We want to grow our FI business franchise and maintain a high quality ALM service.

Now, in terms of the progress, which you can see on page ten, already, as you know, the actual implementation started after the board approval, which was in March 2021. So far, at the end of Q2, we already delivered on 30 out of the 74. 14 in retail, three… Sorry, 14 bank-wide, three in retail, six in corporate and seven in treasury. So, some of the highlights that were done in this quarter, including, for example, user designing lab has been set up. We're having the digital team moved now to the new floor. We have a full dedicated floor now, we call it the digital floor, very modern and take all the requirements for Digital Factory.

We're delivering 45% of our IT projects through agile model and we've hired 18% of the total hiring. So far, 18% are female. Sorry, 18% increase is the female workforce now. We've actually hired 35% females this quarter. On retail, we've continued to deliver on and expand our offering of products, including off-plan Murabaha. We're using commodity now. We added ten more digital zones, bringing to a total of 87. Hopefully, within a month or two we will have all… Every single branch in the country will have a digital zone. We managed to reduce turnaround times for both personal finance and home finance.

In corporate, we had very strong growth in mid-corporate loans, 88% year to date, as well as 153% year to date growth in non-funding for mid-corporates. 42% growth year to date on point-of-sale financing and 20% year to date growth in kafalah financing, and we've signed even… We added more options for our corporate clients through signing with the e-commerce aggregator.

In treasury, we continue to expand our derivative customer base, continue to implement the system for treasury. We finished the designing stage. We're working on the building stage. We added three more interbank, correspondent bank. We're working this year on delivering 39 out of the 74. Most of them will be delivered this year, some will go all the way to 2023, and bank-wide we're going to finish 12 more initiatives. We're working on it.

So, for example, we're expanding the Digital Factory and continue to enhance or increase the progress of implementing RPAs. We're building digital academy. 35% of women hired so far will be, or target to be hired will be 35% female. On retail, we continue to design exclusive private banking experience. We're enhancing our family accounts ecosystem, working to educate youth on financial products. We're strengthening customer acquisition through partnerships and we continue to enhance our digital journeys in all products.

In corporate, we're launching more program-based lending for SME, more products towards attracting more liability from the corporate side. We're also working to develop our Originate-to-Distribute model for project finance and we're working on product bundling for SME. On treasury, we continue the implementation obviously of the treasury system. We're enhancing saving and investments products. We're trying to provide more long-term borrowing and more structural products for acquiring customer deposits.

So with that, I'll hand it to our CFO to take you through the detailed presentation of our financial performance. I will come back for Q&A at the end of his presentation.

Adel Saleh Abalkhail: Thank you. Good afternoon, everybody joining us today and welcome you again to our earnings call for the second quarter of 2022. I'll be glad to walk you through the financial performance for the first half and I'll try to cover this a bit quickly to allow more time for the Q&A. In slide number 13, in the balance sheet trends we have seen 6% growth in the total assets.

As you can see from the top right chart, we have seen interbank growing 19% investment portfolio. We have seen a 13% growth YTD and also financing has grown 4% YTD. As you can see in the bottom right chart, the total liability has grown YTD 7%. As you can see, this was mainly from an 8% growth in the overall deposits.

The second page, slide 14, in the P&L trends we have seen year-on-year growth in net income 29% and this basically was a result of 15% growth in total operating income and also 30% lower impairment. In the top right-hand chart you can see 29% year-on-year growth in net income, driven by funded income that has grown to 12%. That was a result of five bps expansion in NIMs year-on-year. 24% growth in non-funded income and, as mentioned earlier, 50% was lower provision charges. This was overall offset by 23% growth in overall operating expenses.

In the next slide, on the financing portfolio, a little bit of a deep dive here. We can see a 4% growth YTD and a 2% growth on a sequential basis. This growth came 16% from home financing. We have seen YTD growth of 16%. That's 8% on a sequential basis from Q1. Personal financing and other retail financing also has grown 19%, which is 6% if you look at it on a sequential basis. Corporate, even though we have seen an 88% growth in mid-corporate YTD, the growth in corporate remains almost flat with the Q4 last year position.

In the second slide, slide number 16, in the deposits, as mentioned earlier, 8% growth overall on the customer deposits, but that was mainly driven by 16%, as mentioned earlier by the CEO, 16% growth in CASA YTD. As you can see from the chart in the centre of the page, CASA as a percentage of total deposits represents now around 71% of the overall deposits, in comparison to 63.1% for the same period of last year.

In the next slide, a little bit on the income from financing and investment. We have seen the funded income or the gross has grown by 15%. 29% was the growth in the investment. Income and financing was 13%. Growth in financing and the gross funded income was 12% on a sequential basis. As you can see from the chart in the centre of the page in the net on the NIMs, we have seen from Q1 on a YTD basis 11 basis points improvement and on a year-on-year basis we have seen a five basis point expansion.

On the next slide, slide number 18, which is covering the non-funded income, really the fees and other income, we have seen 24% growth year-on-year and a 5% growth on a sequential basis. Mainly driven, as you can see in the top right chart, 35% from the growth in exchange income. Year-on-year we have seen 78% also growth in the investment related gains and dividend related income.

On the next slide, slide number 19 and the operating expenses, as mentioned earlier, 23% growth in the operating expenses year-on-year. That, as you can see, driven by 17% growth in salaries and related employee expenses, even though if you look the expense on a sequential basis is lower by 3.9%. We have seen also 35% growth year-on-year on the overall G&A.

Cost income ratio stands, as you can see in the chart in the centre of the slide, cost income ratio stands as end of Q2 at 34.9% and this is 60 basis points lower than the cost income ratio that was in Q1, which was standing at 55.5%.

On slide 20, the next slide, the environment for financing, seen during the first six months of this year 28% lower impairment charges. We had 489 million impairment charges for the first half this year versus 684 net impairment charges and financing. As you can see again on the centre of the slide, the cost of risk fell mostly flat from the levels we have seen in Q1. Standing at the end of June at 74 basis points is the cost of risk. This is down from the same period from last year where the cost of risk was 1.15%.

On the next slide, NPL and NPL coverage ratios we have seen on a sequential basis from Q1 4% lower in non-performing loans. However, looking for YTD it’s an increase of 13%. As you can see in the top right-hand chart, NPL ratio stands at 1.9%, slightly lower from the NPL ratio we have seen in Q1. And you can see from the bottom left chart the NPL coverage ratio remains flat with Q1 standing at 150%. Stage-wise coverage as of Q2, 50 basis points for stage one, 19.4 for stage two and 58.4% for stage three.

On slide 22, capitalisation and liquidity, the bank remains well capitalised. Capitalised equity ratio as of Q2 is 21.8 and, as you can see, the return on equity on the top right-hand chart has reached 13.4%. This is all the way up from the same period last year where return on equity stands at 10.9%. Also, we have seen 30 basis points improvement from same period last year in the ROE of 50 basis points.

And, as you can see from the lower bottom of the slide, the bank remains liquid with almost all ratios. LCR stands at 239%, well and above the regulatory minimum. And loan to deposit ratio stands as of June 82.8%

and well below the regulatory maximum. And talking about NSFR, stands at 110.5%, again, well and above the regulatory minimum. On the next section I'll cover quickly the guidance that we have for 2022. There are some revisions to some of the guidance that was communicated during our call in Q1.

As you can see, the financing growth, we have seen a 10% year-on-year growth and this was... The drivers were coming from the strong mid-corporate growth that has happened already. We're talking about 88% growth YTD. Expecting retail to continue the growth. Modest growth is expected in large corporates given the pricing related issues here I spoke about earlier, so we are revising the guidance here from mid-teens to low teens. So the previous guidance was revised down now to low teens.

On the net profit margin, NIMs you have seen. As mentioned earlier, five bps year-on-year growth. Given the change that has happened since the beginning of the year, we are revising up our NIMs expansion guidance from ten to 15 basis points. Now we're revising this to 20 to 25 basis points. The cost income ratio remains unchanged, below 35% as a guidance.

Return on equity is also unchanged, as a guidance above 13%. Cost of risk reported is 74%. The guidance remains unchanged within the range of 65 to 75 basis points. Common equity tier one, 17.4, unchanged as a guidance to the range of 16 to 17%. Just maybe before I hand over this to the Q&A session, just to remind maybe the listeners that there are a couple of slides in the appendix related to the ESG initiatives that the bank has been working on and there will be more details in the investor presentation to follow. Now for the Q&A.

Operator: Thank you. If you would like to ask a question, we invite you to press star followed by one on your telephone keypad or the flag icon if you've joined us online. And please remember to unmute locally when preparing to ask your question. We will be taking our first question today from Waleed Mohsin of Goldman Sachs. Waleed, over to you.

Waleed Mohsin: Yes, thank you very much. Thank you for the presentation. Good afternoon. So three questions from my side. First, on the CASA balances, you've delivered 16% year to date growth, which is very strong, especially given that the sector has grown at 2% on a year to date basis. So just want to get your thoughts here, what's working for you, what customers are these, because clearly the sector is not seeing that growth that you're actually delivering and it's been consistent for the last few quarters, so that's the first question.

Second, you touched upon it, but if you could provide a little bit more colour on the corporate and large corporate growth outlook, progress on the ground, project awards, etc? So any colour on that would be very helpful. And my third and final question on your net interest margin outlook. So if I look at your guidance of 20 to 25 basis points improvement on a year-on-year basis, it effectively implies roughly a net interest margin for the second half of between 3.8 to 3.9%. Now, what I wanted to see was how much of a risk do you think competition is to your NIM guidance which you've upgraded? Thank you.

Abdullah Ali Alkhalifa: Thank you, Waleed, for your questions. First on the CASA, I think I touched on it last time. It's actually multi-dimension. As we mentioned before, we really didn't have any proper franchising on the affluent and private, so we focus on this one. That has given us some help. We had also a focus within retail on the government. Previously, we were not doing much effort. We've done a fantastic job in attracting balances and new accounts open with us from multiple different government agencies.

The third area is our focus on mid-corporates and you've seen the growth in loan portfolio and this is helping us to get more operate headcount from the mid-corporates, as well as the SME. So in corporates, the SME as the mid-corporates doing this is helping us on the CASA. And I also mentioned the way we were conducting our business in corporates in general, even for large corporates we were really focused on lending.

We were not mandating operating accounts to be with us. We were not mandating payroll to be done with us. And all this, the focus that now we're saying we're doing on corporates through cash and through cross-selling and through the insistence of getting the business of the operating accounts and others and payroll and others, all these factors are helping us to achieve this growth.

On the large corporate growth, yes, we have seen earlier repayments, prepayments coming from customers who, I talked about it before, was getting very aggressive pricing and we've seen how it's impacted us. However, we're anticipating a good utilisation in the second half. We've already seen very good utilisation in July. Unfortunately, some of that large utilisation came literally days after the quarter end, so we couldn't show it end of June. But the amount that we're providing and the expectation on the utilisation is supportive for our changed NIMs guidance to low teens.

On the NIMs, you're probably close to that range, Waleed, in your assessment. However, we're talking about the full year impact. Our exit NIMs, by the way, is getting really higher, much higher, but because we have to look at the whole year NIM and this is the guidance, as I say, in 20-25 basis points. We also, because of the price competition, we also forced ourselves to reduce some of the spreads on some of the large corporates in order to compete and not lose any further business, but not to the level that... The examples I gave before of 55 basis points or even lower.

I heard some ridiculously priced facilities. But we have to compete. But there's a big difference if you decrease it from 175 to, say, 160 or 150 versus going from 120 to 50 or 60. So these are the combinations that impacted obviously the NIMs and the faster growth in corporates was expected earlier at the beginning for the full year. It did not materialise, so that obviously has some negative impact on NIMs.

Waleed Mohsin: Got it. Thank you very much. That's very helpful, thank you.

Operator: Thank you, Waleed. As a reminder, if you would like to ask a question, you can press star followed by one on your telephone keypad or the flag icon. If you do change your mind and wish to withdraw your question, you can press star followed by two to cancel it. Our next question today comes from Rahul Bajaj of Citi. Rahul, over to you.

Rahul Bajaj: Yes, hi, thanks for taking my question. This is Rahul Bajaj from Citi. I have two quick questions, actually. Quick ones. The first one is on cost and some medium-term outlook on cost. So I see that your cost guidance or cost income ratio is less than 25%. What I'm trying to understand is, if I look at your cost growth numbers and if I compare with revenue growth, this year the cost growth has been running much faster than revenue growth so far. How should I think about this in the future?

I understand you are investing into digital and you're investing in a lot of key priority areas, but if I think about 2023, 2024, is it fair to expect revenue growth to catch up and exceed cost growth or is the current plane something that you think will persist for medium-term? And hence linked to this is, what would be a medium-term cost to income range, a normalised range that you think the bank will settle in the next two to tree years? Something below 25, 33, 32, I don't know, any comments on that? That would be my first question.

My second question would be on the SAMA liquidity injection as it was reported back in June. I just wanted to understand how that event has helped Alinma. I see your regulatory LDR has come down quite meaningfully, so to what extent the decline in regulatory LDR is driven by the SAMA injection and how do you see the overall liquidity environment? That would be very useful. Thank you.

Abdullah Ali Alkhalifa: Thank you, Rahul. Obviously on the cost income, yes, we were obviously targeting on the long run on these five years, as you do, to perform or grow much faster in top line versus cost. But you've seen, Rahul, for example, the strong growth we had in sale on retail, whether it's wholesale, whether it's mortgage or consumer loans, the success that we had in building the CASA. All this came because we have to invest in our capability. We have to get the right people in. We have to build teams, whether it's sales or targeting those customers, as well as cash management and mid-corporate and SME and so on.

So all this obviously had day one impact on cost while the other takes time to build. We're quite focused, quite expecting that this positive trend will develop in the second half and definitely that's our target for 2023 onwards, so we're... I mentioned before that we can show you that all financial KPIs, including cost of income, will continue to improve year-on-year. It may not necessarily improve on the first half this year, but pretty sure this year will be better than last year at the end of the year.

In terms of SAMA liquidity injections, it's not surprising. There have been some concerns about liquidity levels in the market. SAMA are always very supportive to the banking sector. SAMA did that in 2016, they actually injected money into the system. So SAMA is willing, capable, very supportive and whenever they see a need, even from a psychological impact to see, that the central bank has actually done, placed more money, just to comfort the markets. This is what happened. They did give us, as well as all other banks, gave us deposits that can be used, that's the important thing, can be used for loan to deposit ratio calculation.

If you see, we let go some time deposits, but the level, the LDR that we closed on is not the target level. Obviously I mentioned before we're targeting 85, to be operating between 85 to 86, which is much more efficient in terms of liquidity, but we did have... An unexpected large deposit came as NIBs. Some expected drawdowns, as I mentioned, literally days after the quarter end, so it did not materialise and that's the reason why the LDR dropped to 82.8.

Rahul Bajaj: Understood. Thank you so much.

Operator: Thank you for your question. Taking our next question today from Adnan Farooq of Jadwa Investment. Adnan, please go ahead.

Adnan Farooq: Salam Alaikum, Abdullah. Congratulations on a strong set of numbers. I just have a couple of questions. One on investment gains booked during the first half at the bank, they have been significantly higher than they have been in the past. If you could highlight what they are related to. Are there equity gains, private funds, what are they related to?

And the second question is more related to competition, especially on the retail side. You grew your retail book quite nicely year to date. How has the competition shaped up there? Has it improved since [unclear] increased significantly? Have other banks increased the rates on personal finance and mortgages, or you still see the market being quite competitive?

Adel Saleh Abalkhail: Okay, so I'll take the first question. On the growth that you're talking about in the investment income, which is part of our non-funded income, it's a composition of both. You can refer to it as part of an equity revaluation, we were talking about also investment related dividends, and also some mark ups that comes to the sum of the funds that is being invested by the bank. So this is market to market mainly. We're talking about also, as I mentioned, some of the evaluations to some of the funds. Plus, as I mentioned, the dividend that has been added from the increase that we have seen also in the equity portfolio itself.

Abdullah Ali Alkhalifa: And I guess the question on retail, we'll give it to the retail guru, Saleh.

Saleh Abdullah Alzumaie: Hi, good afternoon, everyone. Regarding your question, still we are providing mortgage and personal loans, the highest rate in the market. Despite our significant growth and our portfolio, we've seen a decline in mortgage sales in Q2 this year by 20%, while we grew around 100% versus last quarter on the mortgage side. We respond to the interest rate hikes immediately, so we are not... As I mentioned last time in the earnings call, we will refrain ourselves from this price war.

We invest a lot in our customer experience. Today, if we are measuring the Net Promoter Score, NPS, in terms of product, we are... In mortgage, for example, we score 82%, which is... This number I have never seen during my career life. So we manage to do the mortgage end-to-end within seven days and no other bank is doing this, so we are competing in service not in price.

Abdullah Ali Alkhalifa: In the UK, it took me two or three months to get mine.

Saleh Abdullah Alzumaie: Yes, this is... We invest, as I mentioned, in training of the people. We introduce a very good incentive program to the teams. We inject the team with more salesforce and we see the result, the growth in our financing portfolio, without going into this price war.

Adnan Farooq: And have you seen any improvement in the environment? Have others started to raise rates or not yet?

Saleh Abdullah Alzumaie: To my astonishment, some of the banks, even after the hike, even after the minister of housing increased the rate, some of them are still giving very, very low prices. So some of the banks did not respond. Some of the banks respond partially. In terms of Alinma Bank, we respond fully to the new interest rate hikes.