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Operator: Good morning or good afternoon all, and welcome to the Alinma Bank Second Quarter Earnings Call. My name is Adam, and I'll be your operator today. If you'd like to ask a question during the Q&A portion of today's call, please use your dial-in details and press star, followed by one on your telephone keypad to enter the key. I will now hand the call to Naresh Bilandani from J.P. Morgan to begin. So, please go ahead when you are ready.

Naresh Bilandani: Thank you, Adam. Good day, everyone, and thank you for joining the Second Quarter 2024 Earnings Call for Alinma Bank, which J.P. Morgan is very pleased to host. I'm Naresh Bilandani, your MENA Bank's analyst at J.P. Morgan, and we have the full management team from Alinma Bank joining us today for the call, including the CEO, Mr Abdullah Al Khalifa, the CFO, Mr Adel Abalkhail, the Deputy CEO and Head of Retail & Digital Banking, Mr Saleh Al Zumaie, Head of Corporate Banking, Mr Jameel Alhamdan, and the Acting Head of IR, Mr Ibrahim Al Khudair. I'll pass the call to the Alinma team now to commence the presentation. Thanks a lot.

Abdullah Al Khalifa: Hello, everyone. Thank you, again, for taking the time to dial in for our Q2 Earnings Call. As usual, I will take you through a quick review of the financial performance and a reminder of our current strategy and the progress in implementing that. Then I'll give the floor to the CFO to take you through a detailed presentation on the financial performance, and then we'll be back for a Q&A, as usual. So, I'll start with just a quick update on slide 4. Now, we are also rated by Standard & Poor's, rated A-minus, just as an important addition to that slide. Then on slide 6, it gives you a high review of the financial performance. Our financing, continuous strong growth.

Year to date, we had 9% growth. Our total assets increased by 10%, year to date. Our operating income, a 15% increase, while our net income is 24% increase. Our NPL ratio, down to 78 basis points, and our coverage ratio improved to 240%. Customer deposits increased by 9%, year to date. However, more importantly is the growth on CASA. As you see on the slide, our growth in CASA, year to date, is 15%, reaching almost SAR 104 billion. And that's why CASA, as a percentage of total customer deposits, improved to almost 51%, despite the growth on loans, which we do take more time deposits. But our effort in attracting more CASA has given us very good results.

Cost/income improved to 31.4% Net interest margin, it's five basis points lower than last year. It's 3.74%, and our first-half ROE is 18%, over 200-basis point improvement from the same period last year. On slide 8, I will take a very quick review on the current strategy. Basically, our strategy is focusing on three main pillars on a high level. One is, obviously, being the fastest and most convenient bank in the country. I want to be the

best, in terms of customer service, through aspiring to be number one in Net Promoter Score, and I want to be number one as an employer of choice amongst Saudi banks.

And the slide after that, slide 9, gives you more details about the business. So, obviously, for a bank who aspires to be the fastest and most convenient, we have to invest a lot in digital. So, we build a digital factory. We continue to expand and scale it up. We're investing a lot on analytics, and the cultural transformation is very important, in order to attain the first employer of choice, through ability to attract the right talent, but also, more importantly, to retain them.

If we go to Retail, there are three main pillars that we focus on. One is building an affluent and high-net worth franchise. Second pillar is focused on the youth segment, and I explained, in the past, that this is important for the growth and future growth of the bank. As these young customers graduate from the university and take a job, then we will take more than our normal share, in terms of acquiring new entry to the workforce, and, of course, be the best, in terms of customer service. In Corporate, we want to want to be the core bank, not only for large and project finance, but also for mid-corporates, and we’ve been growing very, very fast on mid-corporates. I want to also develop high-quality SME franchise business and focus on cross-selling cash and trade products. Treasury want to be the core partner for our corporate clients, in terms of hedging and investment needs, as well as maintaining a high quality.

And slide 10, tells you, what have we worked on, in the second quarter of this year. We launched iz App. This is a youth app. We call it iz, which has a meaning in Arabic, but it's very simple in English, IZ. So, that is something that we finally launched in late May after almost a year in the sandbox, and we've been very successful in that, in terms of, not only total customer, but also new customers in the bank. And obviously, we continue to enhance and add more features into it. We’ve introduced, also, a new portal for Corporates, and we launched new credit scoring that will improve the turnaround time through use of this credit scoring model.

In Retail, we’ve introduced two more new credit card products. We added, implemented, six more mortgage features now, mortgage products. We went live in loan origination system, so that's up, and OMNI channel for some of the products that we have. We installed 36 more TCRs, and the idea is, we want to continue all these branches to have these PCRs on and, basically, convert the old style of tellers and customer service to one universal employee. And that’s, obviously, part of the efficiency and also the quality of service that we provide our customer. We merged 23 more branches. Merged, meaning male and female. So, by the end of this year, we would have completed, in fact, we've completed way before end of the year. All branches will

be just a single branch that have both male and female employees and serving both male and female customers.

In Corporate, we went live with LOS. We went live initially on SME. Now, we incorporated that into other corporate segments. We had a 19% year-on-year growth in Corporate assets, 25% growth in non-funded, and this is a result of our efforts to cross-sell the cash and trade. Also, we had very strong ambitions in mid-corporate, 112% growth, year on year on mid-corporate and another strong performance by SME, reaching almost 43% increase. In Treasury, we've managed to close a $200 million bilateral deal, and we continue to cross-sell and expand the products that we offer.

Something that we need to update you this quarter, we added nine more. If you recall, we used to have 77 initiatives. We added nine more. As we continued to be successful in completing some of these initiatives, we kept adding, so now we have 86 initiatives, out of which we finished, completed 68 initiatives. On the next page, page 11, it tells you just some of the things that we're working on. So, naturally, we're going to continue our efforts to digitize the mortgage journey and try to continue improving our family ecosystem, where we will offer to different new segments within the family, different products that will combine, and call it the family ecosystem.

We're going to continue the implementation, as I mentioned. All branches will be fully merged, male and female branches, and we're going to complete this TCR installation in all branches. In Corporate, we just mentioned that we're, obviously, enhancing, now, the phase two of LOS, which, basically, covers not just the SME, but all Corporate segments. So, naturally, when we launched it, it continued to enhance and add more features and products, foundations that they're facing. So, that's a focus we're going to continue on. We're going to continue our efforts to build a brand-new e-trade system that will be launching, hopefully, maybe early next year.

And we'll, obviously, continue to develop more further products from Treasury and continue to have better efforts, in terms of cross-selling these products to our Corporate and Private customers. So, now I'll give the floor to Mr Adel to give you a detailed presentation on the financial performance, and we'll come back after we finish, for the Q&A. Thank you.

Adel Abalkhail: Thank you. A very good afternoon to you all, and welcome again to our Earnings Call for the second quarter of this year. I'll be, as usual, running the details for the financial performance, and that will be followed by our outlook and the guidance for the remaining of the year. And then I will hand it over, back for the Q&A session, as usual.

So, starting from slide number 13, on the balance sheet trend, we have seen YTD growth, 10% in the total assets. Obviously, this was driven mainly by financing growth, 9%, and also, we have seen a growth in investment portfolio, 8% from December. Also on the total liabilities movement, we have seen 9%, also growth, YTD. And obviously, this is also driven by a 9% growth in customer deposits. We will see further details about the customer deposits on the later slide.

On the second slide, slide number 14, on the P&L trend, solid year-on-year growth in net income, 24%. And as you can see from the top-right graph, net income movement is 24%, driven by 16% growth in the funded income. We have another 12%, also year-on-year growth in the non-funded income. As we will see later, more details on the operating expenses, but we are up 11%, year on year, even though on a sequential basis, Q2 was flat as operating expenses from Q1, and we are 12% lower on impairment charge versus year on year, on the impairment charge, 12% lower.

The overall composition of operating income, as of June, obviously, 78% funded income. We have 15% on the fee from banking services, that is, we’ve seen a growth on that, and we have the details later. And also, we have 3% each for investment income and exchange income and also 1% on the other income as a composition.

On the next slide, slide number 15, zooming into the financing, we have a 5% growth in financing on a sequential basis from Q1, bringing the overall YTD growth of 9%. As you can see from the bottom-left graph, the growth that we have seen, YTD, is 10% growth in Corporate, driven mainly in project finance, and also, as mentioned earlier by the CEO, we have seen a good growth in mid-corporate and also, along with the SME financing. Also, we have seen 4% growth in Retail portfolio overall. The financing composition, as of June, remains similar to where we were in Q1. So, 67% of the financing, as of June, is large Corporate and project financing. Mid-corporate represent 5%, 4% for SMEs, and 12% each for home financing and consumer loans, as end of June.

On the next slide, on slide number 16, on the deposits, as mentioned earlier by the CEO, strong growth, YTD on CASA, 15%. And also, we have seen 4% growth in time deposits. As you can see from the bottom-left graph, the composition of deposits, as of June, 63% is managed by Retail business. Non-retail would be the remaining 37%. CASA, as a percentage of total deposits, remained flat from the Q1 position. If you recall, Q1, we were 50.7%, and this quarter, as of June, it's 50.6%. This is an improvement. If you recall, Q2 last year, we were around 49% of CASA as a percentage of total deposits.

Next slide, slide number 17, zooming into the NIMS and income from financing and investments, we have seen a 4% funded income as growth on a sequential basis, 4% growth from Q1. Year on year, the gross

funded income, gross investment was up by 25% and 31% growth on the funded income as gross, year on year. If you can see the graph in the centre where it says Net Profit Margin, this is, basically, the NIMS trend. The graph that you see is the YTD NIMS.

If you recall Q1, we closed the quarter to date 3.69%. That was 11 basis points from the quarter on quarter from last year, but it was 12 basis points from the full year, which we closed, if you recall, 2023. Full-year NIM was 3.81%.

So, looking into Q2, we have seen eight-basis point improvement from Q1. If you recall, Q1, we had higher cost of funding, versus what we have seen in Q2 of this year. So, first-half YTD NIMS stands at 3.74%.

If we go to next slide, slide number 18, that looks into the non-funded income. We have seen 12% growth, also year on year. 15% of that was from fees from banking services, 1% growth in exchange income. If you recall, Q1 exchange income was down, year on year, by 10%. We will be able to have 1% growth, year on year, on the exchange income this quarter. The investment gains and dividends was 9%, and we have dropped 45% on the other income, which is a smaller amount.

Looking into fees from banking services composition, as you can see from the bottom-left graph, so fund management represents 36%, card businesses is 20%, trade finance, 12%. We have 11% on the fee income, and the remaining 21% is for others. In next slide, slide number 19, on the overall operating expenses, maybe you have seen, if you recall, Q1, we had a sequential growth of 8% between Q4 and Q1. Operating expenses is exactly flat from the level we have seen during Q1. Operating expenses overall, 11%, that represents 13% growth in personal costs, year on year, and 14% in the depreciation and amortization, and other G&A has grown 7%.

So, with that, you can see, in the graph on the center of the page, where the cost/income ratio now is 31.4%. So, the 4.2 points-per-1,000 positive Jaws that we have seen during this quarter contributed to a 1.2 points-per-1,000 decrease in the cost/income ratio from 32.6% to 31.4%.

On the next slide, slide number 20, on the impairments for financing, overall, as you can see from the top-right graph, the impairments is lower, 12% year on year, having a net charge of 586 million for the first half. And with that cost of risk, if you can see the graph in the center of the page, it's 63 basis points. If you recall, cost of risk in Q1 was slightly below 60. It was exactly 59 basis points. Our cost of risk, as of June, is 63 basis points.

Looking into the next slide, slide number 21, and then the NPL coverage ratio, as mentioned before by the CEO, we have seen a drop in our NPL ratio in the second quarter, reaching 78 basis points. But if you can see, the NPL coverage ratio at the bottom-left graph improved very well, reaching to 240% at an NPL coverage ratio. Looking into the stage-wise coverage, maybe the number noticeable here is, the Stage 3 coverage went down from the average of 70% in the last three quarters. But this is, basically, a reflection of certain write-offs that were done during the first half for certain accounts that would have had 100% coverage. So, this would result in a lower Stage 3 coverage, as of June.

On slide number 22, on the capitalization and liquidity, capitalization remains strong and healthy at 18.5%. On the profitability as well, ROE has improved, reaching 18% by June. If you recall, ROE was 17.5% in Q1. Return on assets, 2.2%, and that's almost flat for the Q1. The liquidity ratio and regulatory ratios, LCR standing at 129%, and this is still well above the regulatory minimum of 100%. LDR, loan/deposit ratio, the regulatory LDR, is standing at almost 80%, specifically, 79.5%, and that is well below the regulatory maximum. Also, NSFR is 109.4%, a slight improvement from where we were in Q1. It still remains well above the regulatory minimum.

On the next section, I'll just guide you on the outlook and the guidance for the remaining of the year. If you look at the growth that we have seen in the first half, 9% YTD, on the growth in the financing, the guidance for the year has been revised from previously if you recall. We had mid-teens. Now, the new guidance for remaining of the year for December will be high teens. On the net profit margin, 5% actual year-on-year drop on the net profit margin. We are not changing the guidance. The guidance will remain flat, plus-five to minus-five basis points for the full year.

Cost/income ratio standing, the actual, as of June, 31.4%. We are revising the guidance from being around 30 before to below 31%. On the return on equity, no change to the guidance, remains as above 18%. On the cost of risk, and given the healthy level of coverage ratio and lower NPL ratios, the actual cost of risk, as of June, is 63 basis points. We are revising down the previous guidance, that was 65 to 75 basis points, to the new guidance for the full year to be 60 to 70 basis points. On the CAR Pillar 1, given the revision of the financing growth to high teens now, we are revising the CAR Pillar 1 guidance from the previous guidance of 19% to 20%. Now the guidance is 18% to 19%. The 2025 long-term guidance remains unchanged at above 18%. With that, I would hand back over to the operator to start the Q&A. Thank you.

Operator: Thank you. As a reminder, if you'd like to ask a question on today's call, please press star, followed by one on your telephone keypad to enter the queue. When preparing to ask a question, please

ensure you are unmuted locally. Our first question today comes from Nida Iqbal from Morgan Stanley. Nida, your line is open. Please go ahead.

Nida Iqbal: Hi. Thank you for the presentation. Just a few questions, firstly, on the margins. So, margins were up this quarter, yet if you look at asset yields, they were down sequentially, quarter on quarter. So, it would be great if we could get some color around the drivers of the asset yield decline. And then, in terms of your NIM guidance of minus-five to plus-five bips for the year, that implies that, sequentially, the second half of the year will see margins improve. If you can just talk about the drivers behind this, please, that would be great.

My second question is on loan growth, which remains solid for Alinma. So, it would be great to get your views on the outlook from here for corporate loans, and how, if at all, the recent headlines around rationalization of Vision 2030 plans impact the outlook. And then, on the retail side of things, what sort of sensitivity do you see for retail loan demand to lower interest rates, i.e., do you see a strong rebound for retail demand in 2025 as rate cuts come through? Thank you very much.

Abdullah Al Khalifa: Thank you. In terms of the yield, obviously, as you see in the industry, I think the loan growth in the first half for the whole industry is now in double digits. That wasn't the case last year. So, obviously, there is stronger competition, let's say, than we've seen before. So, some of that growth that we've seen, obviously, with this high interest rate, we've seen it's different cycles. It typically reduced the spread on loans, corporate loans, and also retail, you have to compete to attract more customers. So, naturally, there is a little pressure on spreads. However, what's offsetting that, and hopefully the reduction in cost of funding, we've seen the recent three months, as of, for example, yesterday, it's almost like 18 basis points, compared to the average of Q2, which is, obviously, driven by the outlook for potential rate cuts coming soon, maybe in September, or maybe later on.

But that should give us a positive impact on NIMS as a result of reduction in cost of funding. The second point about loan growth, I have to say that, because I'm actually doing this call remotely on location in London, I didn't get the question well, because I think the sound quality wasn't good. That point, I'll leave it to Saleh to address, loan growth and if interest rate goes down on retail. But can you repeat the second point? Sorry.

Nida Iqbal: I just wanted to ask, on the corporate loan growth, is the outlook for corporate loan growth impacted at all from the recent headlines around rationalization of Vision 2030 projects? How do you see

corporate loan growth from here? And, secondly, retail loan demand as interest rates decline, do you expect this to pick up in demand as you look into 2025?

Abdullah Al Khalifa: Sure. Obviously, on the loan growth we've seen already, us revising the guidance upward, in terms of growth in loans. So, yes, there is definitely headlines coming, media and so on, about the internationalization of projects and so on, but we really didn't see that. We saw continuous growth, strong growth in the Corporate segment. And also, you have to keep in mind that additional things that come in, whether events to be hosted by Saudi Arabia in 2027 and 2029, and then obviously World Cup in 2034, the Expo in 2030. So, we didn't see, actually, a reduction on demand coming from the corporate side. We've seen the strong growth that we had already on Corporate, so we have not seen, and that's why we're actually upgrading our guidance for the rest of the year, because we see what's in the pipeline. It's very healthy growth.

And as far as the loan growth and the appetite for loan growth when interest rate goes down in Retail, Saleh will be the right person to answer this.

Saleh Al Zumaie: Hi, everyone. Yes, of course, there is a relation between interest rate and growth of loans and personal loans, and specifically, in the mortgages. Today, what we are facing with mortgages is the affordability by the client. The mortgage in the country is now becoming expensive, to be honest. Adding to that, the high interest rate makes it more expensive, so affordability of the client becomes less. Once interest rate goes down, there will be bigger demand in both personal loans and mortgages, and also the demand for microfinancing, because the economic cycle becomes much faster. So, we'll be able to also finance microfinancing for small businesses in a quicker way and at a reasonable price.

Nida Iqbal: Thank you.

Operator: The next question comes from Jon Peace at UBS. Jon, your line is open. Please go ahead.

Jon Peace: Thank you. Just another question, please, on the large corporate loan growth. Of the 67% of the portfolio you classify as that, how much of that is project finance at the moment? And how do the margins and the risk-weighted assets compare on project finance versus the rest of the large corporate business? And my second question is, you've got this fantastic growth rate, but obviously, it's putting some downward pressure on your capital ratios. Do you think that 45% payout is sustainable in the medium term? Do you think growth will slow down to make it all self-financing, or should we anticipate, potentially, further SCRIP dividends in the future? Thank you.

Abdullah Al Khalifa: Thank you. I'll take the second point, and I'll leave. Mr Jameel, our head of corporate, to talk about the project finance. On the capital ratio, yes, certainly, if you recall, we went in late February this year, and we issued perpetual for $1 billion. We had very good appetites. The demand was strong, $4.5 billion worth of demand. So, we managed to issue this at a very reasonable price at that time, compared, at least, to the big international names that issued literally a day before us or three/four days after us. So, it was priced better, which tells you the appetite is pretty good on Alinma risk. So, I mentioned this before. This is something that will most likely will be repeating that issue, maybe sometime in the future to sustain our growth.

Obviously, the payout ratio was maybe, if you noticed, at least in the first three quarters last year, close to 50, and we didn't, obviously, pay dividends in Q4 last year because we gave bonus shares. And this time, obviously, the dividend is reduced from 50. So, I think was 44 in Q2. The ratio, obviously, paying dividends on a quarterly basis. Want to maintain paying dividends now. The level, whether 45 can, theoretically, go below that, it's possible. Obviously, with a strong growth on assets and risk-weighted assets growing fast, we need to have the sustainability, in terms of affording this in the capital and also liquidity.

So, one aspect is, potentially, could be a further lowering of payout ratio, but no suspension of interest of dividends payment. And the second is, obviously, potentially, issuing, again, capital instruments in the international market, which provides, not only capital support, but also liquidity support because, as you know, as part of the LDR calculation now, it's actually weighted. So, the 1 billion that we issued is actually equivalent for the LDR as 1.7 billion. Jameel, I'll leave you the question about corporate finance and project finance, thank you.

Jameel Alhamdan: Yes, good afternoon. Project Finance represents 36% from overall bank finance.

Jon Peace: Thank you, and do you have a comment on how the margins and the risk weightings, the risk-weighted asset density, compares on project finance versus other corporate finance?

Adel Abalkhail: We look into the risk weighting for project financing. And as you know, all banks now have started, since January this year, officially applying the Basel III reforms. And there were changes, actually, to the risk-weighted assets when it comes to project financing. As you know, the new reforms have segmented the project financing into certain type of projects, good-quality projects with operational versus non-operational. For us, if we compare this to where we were under Basel III before, which was, the numbers were reported up to December 2023, we haven't really seen a significant change to that.

And actually, it's the same message, also we have seen where you can see, also for Q2. Previously, you would assume that, under the previous Basel, 100% risk weighting to be transferred across the Corporate. Of course, now, if you have good-quality projects that are already operational, then you will have slightly lower than 100. But of course, you might have some projects that would trigger higher risk weighting. So, overall, we haven't really seen the significant impact versus the two Basel requirements, III and the new reforms.

Jon Peace: Great. Thank you very much.

Abdullah Al Khalifa: And maybe after that, in terms of margin, I think you asked about, also, margin, project finance tends to be lower competition compared to a normal bilateral loan because the number of banks that have capability to deliver on this is lower than the total number of banks. It's usually around four banks that have strong credibility in project finance. And the fact that you actually lend to the project and if the project fails, you have no recourse to the corporate, because of these two factors, the foreseen risk is higher, you typically get better margin than a normal bilateral loan.

Jon Peace: That's great. Thank you very much.

Operator: The next question comes from Shabbir Malik from EFG Hermes. Shabbir, your line is open. Please go ahead.

Shabbir Malik: Thank you very much. Your NPL coverage has reached 240%, which is higher, relative to your own history. I remember once, in the past, you said that you tried to keep it around the market level. I don't know what the market level is currently, but it's probably not as high as that. So, do you think this is an area where you can, potentially, see NPL coverage coming down, going forward? Or is this something that you don't actively track, and it's based on how the NPL ratio progresses over the coming quarters? That's my first question.

The second question, you talked about merging some of the branches. I think you said you've merged about 23 branches. When you merge branches, does it lead to cost savings, or is it more of an operational change? And when I connect this to cost/income guidance revision, you've revised your cost/income guidance. Is it being driven more by the cost side? And if it is, what has been the driver, which you were expecting to be lower, but turned out to be higher? So, if you can, please, shed some light on that? Thank you.

Abdullah Al Khalifa: Thank you. On the NPL coverage ratio, I said before that we should, we aspire, not to be below 150. I didn't, obviously, say we have to be at 150, so it's gone up. Probably, you've seen, in the presentation that the CFO has given before, our coverage on Stage 3 was close to, I think, 49%. We did reduce the cost of risk from 65 to 75 in light of higher coverage ratio overall. When you look at the coverage ratio,

you're taking provision or coverage on Stage 1 plus provision on Stage 2 and provision on Stage 3, and you divide them into Stage 3 exposure only. You've seen, individually, that we still need to improve on our Stage 3 coverage from 49. We need to improve it further.

Now, can that lead to a bit higher coverage? Possible, but we're assessing this, and that's why we said we'd reduce our cost of risk. Does this mean this cost of risk may not be adjusted again? We'll see. Obviously, there has been some news in the market recently about certain exposures, and that can lead to improvements, in terms of coverage, which may lead to lower cost of risk. But at the moment, this is what we deem until we give the full details on that. In terms of cost/income ratio, yes, the price closure is certainly an efficiency measure, because obviously, if you look at the separate male and female branches, typically, you get anywhere like 50 or 60, on average, head count. While, when you merge the branches, you probably could operate on 10 to 11, max. And some branches, large branches, have large volume, a lot of customers come in, maybe increase it further.

So, certainly, there is a cost saving there. Then your natural question is, well, if that's the case, why are you revising the cost/income ratio? And I mentioned, this time, we're adding nine more initiatives. We're going to continue to invest in our capabilities, and so whatever saving we achieve, we put the investment into our future. So, this is not a major shift between the guidance around 30 to be below 30. It's not going to be a significant shift. But, as we mentioned, as we promise all the time, we're going to give you the guidance as really what the management sees.

So, we're expecting, maybe, a better improvement in the top line that may lead to better cost/income ratio. But I think the difference between original guidance and the amended guidance is really small, not a major difference there. I think that's your question, right? I think I answered all of them. Did I miss anything?

Shabbir Malik: No, that's very helpful. Thank you very much.

Abdullah Al Khalifa: Thank you.

Operator: The next question comes from Aybek Islamov from HSBC. Please go ahead. Your line is now open.

Aybek Islamov: Thank you for the conference call and all the answers so far. Very helpful. I want to get back to the asset quality. I think what's really surprising in the second quarter is the big write-offs that you had, around SAR 1 billion Saudi, which is triple the write-offs you had in Q1. If we add back the write-offs to the NPL that you reported, and then the NPL ratio is definitely up, compared to Q1. So, the question is, what are the write-offs about? And are we in a cycle where you're going to be accumulating non-performing

assets and then, at some point, writing them off? And these write-offs, obviously, also boost your coverage ratios, so I want to understand what's happening here on the asset quality.

And I think, secondly, as you mentioned earlier, you did issue almost $1 billion in additional Tier 1 notes. I don't see the interest expense on this additional Tier 1 debited from retained earnings in the first half. Can you guide on what kind of interest expense on this AT1 you're going to see in the second half? Thank you.

Abdullah Al Khalifa: So, I'll leave the second point to Adel. The first point is about the write-off. We are not aggressive in doing write-offs. Some of them are legacy and plus some retail that we write off. And actually, from my own experience, Alinma is slower, in terms of write-off. So, this is what happened. We maybe should have written off some of that in the past, but we're not aggressive in write-offs. So, there was a legacy exposure, as well as a variety of retail exposure, but way above 180 days. Some banks, they mechanically write off after 180 days. We actually write off even further.

So, in terms of asset quality, have you seen NPL ratios? Yes, obviously, the write-off has contributed to the reduction of NPL ratio, but in terms of migration from Stage 1 to Stage 2, and then from Stage 2 to Stage 3, we really don't see that develop. And I think, if you look at the economic activity in the country, not even a single sector would represent a strong concern. Everybody, unemployment is declining in companies and private sector. This is mainly private sector. It's hiring more. Projects are being announced left and right. Those PPPs, large projects have, also, knock-on impact on different sectors, whether it's steel manufacture or whether it's pipe manufacturers. And you can go through this list.

So, I don't expect asset quality to be a concern. For me, I'm always optimistic, but at least I would say, in the next three to five years, with the background of what's happened in the country, in terms of projects, in terms of events, in terms of preparation for those events and so on, and the aspiration of the country to develop further sectors in the country, tourism, mining, industries, you name it. So, I don't see it is going to be a concern. And I mentioned before that cost of risk, I think last year, I was talking about cost of risk, maybe this year, will be lower to the industry, and that's what we saw.

And I suspect that trend to continue for lower or low cost of risk in the next few years. And this unexpected case is always going to happen. Nothing is guaranteed. But typically, you've seen the economic activities and the outlook for these economic activities to be very supportive for a very healthy asset quality. Second point, I will leave it to Adel.

Adel Abalkhail: Thank you. You're right, Aybek. If you look at the Q2 financials that we've uploaded today, you wouldn't see the dividend or the payments for the Tier 1 dollar sukuk that we issued, because

you'll only see that in Q3. Just to remind you the terms of the new issuance, it's different from the Tier 1 riyal that we have issued, where payments were quarterly, and you continue to see the payments on the previous issuance in SAR on the financials on a quarterly basis. The terms of the $1 Tier 1 that we've issued, $1 billion is semi-annual. We've closed the transaction on 6th March, so the first payment will be around 6th September. So, obviously, we'll see this within the equity in the Q3 financials.

Aybek Islamov: Thank you.

Operator: The next question comes from Mohammed Al-Rasheed from Ashmore Investment Management. Mohammed, your line is open. Please go ahead.

Mohammed Al-Rasheed: Salaam Alaikum. So, I have two follow-up questions from my side. The first is regarding the recent news of government decision to support Bin Laden group. I would like to hear more details on that and your view. Specifically, how sizeable do you think the reversal of provision that might result out of this decision for the overall sector? And my second question, I just want to confirm that you say that 36% of your Corporate book is project finance?

Adel Abalkhail: Yes, confirmed, Mohammed. It's 6% of the overall financing.

Mohammed Al-Rasheed: Okay. So, it's around SAR 53 billion and your Pillar 3 disclosure, only around 34 billion has been classified as specialized lending. So, this difference, 20 billion, if you can help me understand what is the resulting difference of classification? Because the 34 billion, that is directly......

Adel Abalkhail: Actually, Mohammed, as of June, the project financing is 68 billion out of 190 billion overall financing with the bank. You wouldn't look at the specialized lending alone. It would include other roles and financing.

Mohammed Al-Rasheed: Okay, so the specialized lending would be, basically, the project company SPV, while other non-directly related project financing is classified as general products?

Adel Abalkhail: Specialized lending, Mohammed, will be part of the overall project financing.

Mohammed Al-Rasheed: And regarding the first question?

Abdullah Al Khalifa: Yes, on the first question, you're referring to the announcement of Ministry of Finance on the SPG support. We don't know yet, the terms. It's a recent announcement. I don't talk specifically on any customer exposure. Certainly, majority of the bank, being that it's a very prominent company in the past, and still is a large company, naturally, I would expect the industry to have sizeable exposure. So, I don't have

the numbers. We have some exposure onto that, and I'm sure most of the banks have. But I can't speak about the industry size and so on.

Mohammed Al-Rasheed: Okay, but it's fair to assume that it has been highly provisioned for, since it was suffering for a very long period of time?

Abdullah Al Khalifa: I think it's a reasonable assumption, yes.

Mohammed Al-Rasheed: Thank you very much.

Abdullah Al Khalifa: Thank you.

Operator: The next question comes from Adnan Farooq from Jadwar Investment. Adnan, your line is open. Please go ahead.

Adnan Farooq: Salaam Alaikum. Thank you for the call, and congrats on the strong set of numbers. I just have two questions. First, on the very strong exchange income, you alluded to it earlier in the call. If you could repeat what led to this strong exchange income and whether you expect it to continue or not? And the second question is on your Stage 3 coverage. You did mention that you would want to take it slightly higher. What level of Stage 3 coverage do you believe would be comfortable, given the collaterals that you have?

Abdullah Al Khalifa: Thank you, Adnan. On the Stage 3 coverage, I'll address this first. Typically, you would see, or would prefer to see, a bit higher than 49%. Now, naturally, I wouldn't say that the decline in Stage 3 has to have higher. Some may have lower because of the presence of reasonable collaterals that you have to assess. It's not something that we, as Management, say, we want to have this level or that level. It's left to the Risk team, following IFRS 9 regulation, but typically, I would say it should be higher. But we don't have specific targets. Obviously, we have to assess this coverage and customer by customer within Stage 3, taking into account multiple factors, including, obviously, one very important collateral and the value of those collaterals and the ease of actually recognize or covering these collaterals.

But this is something that I mentioned, why that 240% coverage might not give you a full picture. The exchange income, as you know, there are parts, value of what is coming from normal flow of remittances, for example, and so on, which we typically don't see significant variation, month to month. Yes, they could be up and down. And this is like a sort of normal flow of exchange income. But then you have, obviously, large deals that could be done by certain corporates, and that is not something, really, you can see it on every day. So, you have, maybe, large forward effects or spot effects. And so, that is what improved.

So, we're seeing large deals, and we've seen higher growth of remittance, that both of them contributed to improvement on the effects. It's very hard to say what, are we going to see this one-off or sizeable deal that comes from Corporate every quarter? It's very hard to tell that.

Adnan Farooq: Thank you.

Operator: I will now hand over to Naresh Bilandani for a question.

Naresh Bilandani: Yes, hi. Thank you very much. So, just two quick questions from my side, please. One is, you've seen a sizeable reversal on impairments on non-funded items, which I think, has supported the overall impairment charge in the second quarter. Could you, please, offer some insight into that? And second is, within the fee incomes, there is an increasing mix coming, being originated now from fund management. It would be, also very helpful if you can, please, once again remind us of the sources of this fee income and how sustainable this trend is likely to be in the future quarters. Thank you.

Abdullah Al Khalifa: Thank you, Naresh. I'll take the second point, and Adel will address the first point. On the fee income, obviously, we've been successful, through our fully owned subsidiary, to launch more funds and grow our assets under management in multiple funds that we launched, as well as, obviously, brokerage has improved. Overall, volume has improved, compared to similar period last year. So, both of those are helping us, in terms of generating more fees from that side of the business. And Adel, I leave the first point to you.

Adel Abalkhail: Generation of the non-funded, if I understand the question correctly, you're saying we've seen reversal from non-funded. Nothing really specific there, It's just in movement on the off-balance sheet. And again, it's specific and it depends on the customer. So, it's not really something that we can say, it was a one-off. It's a normal, model-driven provisioning that would allocate both to funded versus the non-funded. Even though we have seen slight growth may be lower than what we have seen previously on the off-balance sheet when you look at the detailed notes to the financials, but that, by itself does not trigger, really, any trend that we will see, just taken from non-funded. It's just purely IFRS 9 model provisioning methodology that we are following. Nothing specific there.

Naresh Bilandani: Understood. Thank you very much. Adam, back to you for the rest of the questions in the queue.

Operator: Thank you. The next question comes from Chiro Ghosh from SICO. Chiro, your line is open. Please go ahead.

Chiro Ghosh: Yes, this is Chiro Ghosh from SICO. Two quick questions. The first one is, do you see a downward trend in the interbank rate? So, just want to get a sense, in your current situation, how should we factor in our model? Like for every 25-basis point decline, how would you see your NIM contracting? If you can just, please, remind us of it? That's the first one. Second is purely from the deposit side. So, your deposit growth continues to be quite strong, so I just want to get a sense how sustainable it is. I just want to get a ground reality, because I can see that there is a lot of borrowing demand from the deposit side, if you can throw some light.

And the third thing, just I observed in your presentation that the retail deposit part, the retail side is a bigger component in your deposit book, while the retail part is a much smaller component in your loan book. So, can you, please, help us understand why is this? Yes, these are my questions.

Abdullah Al Khalifa: Okay, thanks. I'll leave the first point to Adel. I always leave it to Adel. On the second point, on deposit growth, as I mentioned this in previous earnings calls, that we really focus into developing, or to grow the CASA business, specifically, the CASA deposits, through two main efforts. One is acquisition. So, we're continually acquiring more and more customers, be it in the affluent, in the private, in the mass, on the youth, on the retail side, as well as SME, mid-corporate, and large and project finance. So, more and more customers automatically generate more CASA.

The second effort, which is also very important, is our efforts to grow cash and trade. So, a lot of trade, for example, may require margins, and this is obviously CASA. And then you have, also, the variety of products within cash. And I'll give you an example, three just now. One is payroll services. Obviously, the more successful you sign with corporates to process their payroll, then obviously, they will keep balances with you to pay these payroll, and as well, encourage their employees to open accounts with us, because that will save them the remittance cost to another bank.

So, the more we successfully attract more customers to this product, the more CASA is generated. The other example that I can give you on cash is the point-of-sale, and also the e-commerce. So, the more companies you sign up for their point-of-sale business or the e-commerce business means you're going to have average balances higher than before. And so, focusing on a customer acquisition in one aspect, as well as cross-selling cash and trade, this is what's helping us grow on this. And I know it's not easy growing 15% in CASA, in light of the current interest rate that we have. We're going to continue that effort and to survive and maybe introduce further products there.

Now, in terms of Retail making up the bulk of deposits, while loans is actually done by Corporate, or bulk of loans is by Corporate, that's normal. That, you see it everywhere because the main source of deposits,

especially CASA, are typically the Retail side. So, in different segments within Retail, and by the way, SME, also have significant amount of SME open accounts within Retail. No borrower. Once the borrower is there, whether funded or unfunded, then they move to the Corporate side under SME. But there's a lot of SMEs opening an account in different branches around the country. So, it's normal.

Obviously, this is the view you're going to see through all Saudi banks. All Saudi banks have similar, higher, obviously, expectation from retail on deposits and lower percentage of retail compared to corporate in the loans, except obviously, one of the biggest retail bank in the country, my previous bank. So, obviously, that has been previously focused on growing the loans on the retail. But I would imagine that, even in the coming years, this higher percentage of corporates within the loan portfolio is going to increase, even for my previous bank, because obviously, demand is big and going to continue to be strong for the next... As I said, I was very optimistic on this. In, say, at least three to five years, you're going to continue to have some growth on the corporate demand. And the first point on rates, I'll leave it to Adel, another action.

Chiro Ghosh: It's nothing to do with an Islamic?

Abdullah Al Khalifa: No, Islamic is, obviously, really important to us, and it's one of the things that we're really focused on. It's important, but I think, in the old days, where I would say, in retail, you have, whether Islamic or not, typically you don't see... I understand, especially in the older days, certain segments will only deal with Islamic banks, in terms of deposits. But it's not as strong a representation of the segment that used to be before, compared to what we see now. A lot of people are very mindful. They do put current accounts in conventional banks. They certainly don't borrow from conventional banks unless Islamic.

That's why all consumer loans, all mortgage loans in the country, whether it's offered by the four Islamic banks, or Sharia-compliant banks, or by the conventional banks, they're all Sharia-compliant products because of the demand. But I wouldn't say that is a huge competitive advantage for Islamic, in terms of customer deposits, than the case, let's say, ten/15 years ago. Adel, can you address the first point?

Adel Abalkhail: Yes, sure. So, back to the sensitivity. If you recall back, we have communicated two to three basis points for every 25. And honestly, this did not change much as we speak. But I think a very important point to notice here is that, when we look at, when we say two to three basis points for every 25, that is, basically, a 12-month forward-looking period, keeping everything equal. So, what would I say, as of June now? This is our sensitivity. It remains theoretical, honestly, because you wouldn't apply this to end of December. That would be for a full-year impact, but also keeping all other assumptions intact.

For example, the internal targets we have for CASA growth for the upcoming 12 months, or talking about the behaviors by customers, including early payments, or even the change in maturity profile of assets for the new volume to be longer term versus short term. And also, as I mentioned, the CASA growth internally that would be achieved, but also being sure that we're mobilizing time deposits, also with the rate that's being assumed within the sensitivity. So, a lot of factors go into this theoretical sensitivity, but it remains, as we communicated earlier, as I mentioned, two or three for every 25, but that, again, is for a full-year impact, keeping all other assumptions intact as well.

Chiro Ghosh: Thank you. That's it from my side.

Operator: Our final question today is from Harad Ansari from GCM Middle East. Harad, your line is open. Please, go ahead.

Harad Ansari: Yes, thank you. Salaam Alaikum. Congratulations on a strong set of results. A couple of questions from me. We've seen Alinma deliver quite strongly over the past few quarters on CASA growth, and this quarter was no different. But I just wanted to get a sense from you on how you are seeing the illiquidity environment in general for yourself and in the sector. And then a question on your funding costs. Now, there was a spillover in the previous quarter on your funding costs coming from the deposit rates at the end of the year in fourth quarter last year. So, just wanted a confirmation that majority of the impact of that deposit raised in fourth quarter on funding cost is now off.

And my last question, again, building on one of the earlier questions on mortgages. Where do you see…? Or rather, let's put it this way, where would rates have to come down to for mortgage growth to start picking up again? Thank you.

Abdullah Al Khalifa: Thank you. I think, probably the last point about mortgage, I'll leave it to Saleh, but on liquidity, I did mention that, in the first half of this year, we see industrywide, I'm not saying every single bank has double-digit growth in loans, but we've seen, overall, the industry has been growing at double digit. That automatically translates to, obviously, higher demand and liquidity, because obviously, to sustain that growth, you need liquidity. So, higher demand on liquidity may intensify the cost of funding in one aspect. But on the other hand, the outlook for interest rates, as I mentioned the example yesterday was 18 basis points below Q2, average cyber for the quarter.

And the nature of the time deposits tend to be shorter term than new repricing on the assets. So, that will, obviously, support faster growth, hopefully, and CASA, as well as reduce the cost of funding overall. But competition, I would imagine, I would expect, to increase versus what we saw, like, for example, in the

second half last year. Competition was lower than that, and possibly this first half, and that trend continued, double digit, and we see more and more banks going for double-digit growth. That, obviously, would be a stress on liquidity. At the moment, liquidity level is pretty good. We're not seeing the level of liquidity, that pressure that we've seen, like, possibly first half 2022. That was more intense than now.

The government starts putting deposits in Saudi banks, and that's what we call it AGI, and this has helped the liquidity issue. Obviously, we've seen, recently, more and more banks going international or issuing a sukuk or bonds, and that's also going to add liquidity. You're going to see more, hopefully, higher level of FTI coming in for some of these projects, which will help liquidity. So, it's not something that we're very worried about. However, we're going to continue to have a strong growth in loans, naturally, your capacity, in terms of funding, in terms of capital adequacy, is always going to be something that you have to be watchful of.

Funding cost, I think you asked about the funding cost. Yes, typically, as I mentioned, most of the time deposits tend to be short term, so some of them matured in Q1. Certainly, majority of them already matured. The one we've taken at higher price in Q4 has already matured and replaced by, we've seen a slight drop and average cyber, compared to Q4. And then I think, seven basis points in general, seven to eight basis points. And in Q2, we've seen a cap of only one basis point. But as I say, the outlook now with the expectation of interest rate cuts, maybe in September, is pushing cyber lower, which means is very good for the deposit deck. And at that time, it could be lower than what you've taken, let's say, a quarter ago.

And on the mortgage, I leave it to Saleh, but I would say that certainly, on mortgage, it's the affordability, in terms of value of these and available stock of affordable houses, that's really important. I know there are a lot of projects going on, but Saleh, if you can take that point about mortgage?

Saleh Al Zumaie: I think, as you mentioned, Abu Faisal, it's not only one factor of the supply, as one issue on the supply is not enough, because also, this rate is higher for developers on the project. So, I do believe, if we see a decrease of 100 basis points in the interest rate, the cycle will go on the upward trend again. The cost of funding of projects will be less, and also the cost of buying the units will be less for the customers, and the profit margin will be reduced if the supply becomes higher in the market.

Operator: We have no further questions, so I'll hand the call back to Naresh Bilandani and from J.P. Morgan for some closing remarks.

Naresh Bilandani: Okay, we've reached the end of the call here, so I'd like to thank the Alinma Management team for their time and excellent insights today. And once again, thanks to all the participants for joining in for this call. Thanks, and have a good day ahead. Thank you.

Operator: This concludes today's call. Thank you very much for your attendance. You may now disconnect your lines.