

**Operator:** Good day everyone, and welcome to the Alinma Bank's Q2, 2023 Earnings conference call. Today's conference is being recorded. At this time, I would like to hand the conference over to Waleed Mohsin from Goldman Sachs. Please go ahead, sir.

**Waleed Mohsin:** Thank you, Linda. Good day, everyone. Welcome to Alinma Bank Second Quarter, 2023 Earnings call, hosted by Goldman Sachs. It is my pleasure to welcome Alinma Management, represented by the CEO Mr. Abdullah Al Khalifa, the CFO Mr. Adel Saleh Abal-Khail, and the Head of investor Relations Mr. Ahmed Sager. The call is intended for analyst and investors only, and any media personnel on the call should disconnect immediately. Please also note that the call is being recorded. So without any further delays, I will pass on the call to Alinma Bank, CEO, Mr. Abdullah Khalifa.

**Abdullah Al Khalifa:** Yes. Good evening, everyone. Thank you again for attending our Earning call. I'll take you through quick presentation as usual about the high-level financial performance, as well as our progress on the implementing our 2025 strategy. That will be followed by detailed presentation by our CFO, and then we'll open the floor for the Q&A. So just jumping onto slide number six in the presentation, our financing increased by 10.4% ytd to reach SR161.8bn driven really by all the segments. And retail we had a strong performance as well as in corporate. So it wasn't like corporate only or retail only. It is really a balanced growth. Total assets increased by 13.2% year to date to reach SR226.9bn. Our first half operating income increased by 23.4%yoy and our net income increased by 25.4% yoy.

NPL ratio reduced ytd to 189 bps. Our coverage ratio improved from Q1 when we used to be at 122%, now we are 130%. Customer deposits increased by 22.5% ytd to reach SR177.9bn. But more importantly, as we mentioned before, we put in a lot of effort and focus on growing our CASA and we've done a good job this year by increasing CASA year to date by 6%. Our cost to income decreased from 34.9% first half last year to 32.6% in 1H23. Our net interest margin increased from 342 bps in first half last year to 379bps in 1H23. Our CASA multiple times mentioned our CASA as a percentage of deposits, because of a strong growth in loans that has to be accompanied by growth in some deposits, continued to dilute to 49%. Nevertheless, the overall balance has grown as I mentioned before, our capital adequacy ratio reached 18.2%.

On the strategy, a quick reminder on page eight basically we want to be the fastest and most convenient bank in the country. We want to be the best service provider in terms of quality of service through being number one in net promoter score, and we want to be employer of choice. On the next page, it shows more details from business-wide. So retail want to focus on the affluent and high net-worth franchise. We want to focus on our youth segments as well as I mentioned before, be the best service provider. And corporate we want to be the core bank, not only for large and project finance partners, but also for mid corporates selling all products that we can offer, whether it's a trade or treasury. The second area of focus in corporates is growing our SME business.

And the third pillar within our corporates is growing the cash and trade. Treasury obviously now they offering the products whether it's hedging, whether it's customer needs and hedging, or investments. Hedging interest rate risk as well as a fixed risk. We grow in our FI business and maintain a high-quality ALM function. To do that obviously, we are building and we built a digital factory to cater for this quick transformation and better innovation in our products. We want to obviously continue to develop our analytics through the use of the huge data that we store as well as obviously a culture transformation not only to attract talents but also to retain them.

On the next page 10, it gives you some level of things that we completed so far. If you recall, we had 77 initiatives of which we finished 58 by end of June. And in fact, this week we closed another one. So as of today, we actually closed 59 initiatives out of 77. We - some of the things that we've done in retail, for example, we launched the youth app at the one I was talking about it before. It's in sandbox stage. It's only for friends and family. We also launched Marketplace through our new improved app that we launched.

We also implemented the systems for the anti-fraud in retail. I'm not going to go through each one, but just give you a flavor. And within also retail, we implemented the digital sales or digital ability to apply for digital products and like credit cards and personal loans. We launched AlFursan miles Credit card. It's a loyalty program with Saudi Airlines, which created good significant demand. We continue to install our TCR machines. So we installed 29. We continue also to our process of merging men and women branches into one. In corporate, we worked with Saudi FinTech fully owned subsidiary by us to focus on growing the e-commerce through click pay.

We've had significant growth in mid-corporate, as you recall that's an area they start focusing on 21 based on our strategy. And we also had significant growth in SME including 70% growth in program-based lending. We continue to expand our derivatives in treasury. We also introduced more products like Repos to maturity. We also have developed Collared profit rates swaps.

On the next page shows some of the things that we are working on. We're working now on 18, technically because we just closed one. So 18 initiatives we're working on things like we want to continue to expand on our digital factory for the transformation needed. We want to develop our credit scoring, which is important for [inaudible]. It's something we're working hard to develop. And retail we're going to enhance the family ecosystem by actually targeting different life stages of the members of family. We want to digitize our mortgage journey. I want to continue to improve the turnaround time through use of digitalization and automation.

I want to continue to implement obviously the branch merger that we mentioned. In corporate we are working to implement a new loan origination system and as well as integrated portal for corporate segments. All corporate segments continue to enhance our work on our originated distribute structuring that we are working on. And of course for trade - for treasury, the focus is obviously cross-selling some of the products that they have. With that, I give [Inaudible] detailed presentation.

**Adel Abalkhail:** Thank you and very good afternoon to you all. Welcome again to our Q2 results conference call. I'll be walking you through the detailed financial performance, and I will be followed by the latest guidance update for the remaining of the year. As usual, I try to cover this a bit faster so that we'll allow more time for the Q&A at the end. Q2 was very excellent quarter, both from balance sheet growth and also from P&L perspective.

If we look at slide number 13 on the balance sheet trend, total assets have grown YTD 13%, and this was mainly driven by 10% ytd growth in the financing. And also we have 4% ytd growth in the investment portfolio. And also we have SR9 billion growth YTD on the interbank and for instance with [Inaudible]. The total liabilities movements with 15% total liabilities growth YTD, and this obviously was driven by SR32.7 billion growth in customer deposits which it translates into 23% growth ytd.

On the next slide, slide number 14, on the P&L trends. The six months year-on-year net income has grown 25%, and this was mainly driven by SR869 million growth, that translates into 32% growth yoy, in funded income. Operating expenses are up 15% yoy for 1H23 and we'll have separate slide on the expenses later on. And year-on-year impairment charges are up 38%.

On the next slide, slide number 15 on the financing. If you recall, we had a 4% growth during Q1. This quarter the growth in financing is 6%. On a sequential basis, this translates into 10% overall growth in financing for YTD. On the top right graph, total corporate financing including SMEs representing 75% of the overall financing of total SR165.9 billion overall financing portfolio for the bank. And the remaining 25% is for the retail financing.

In the bottom left graph on the financing growth, YTD we have seen home financing grow 7% ytd. Personal financing and other retail products which include revolving credit cards and also the newly launched product of auto lease growing 16% ytd. The major growth in volume was on corporate 9% ytd, and this was driven mainly by project financing segment and also SMEs continued to grow with a growth of 17% YTD.

On the next slide, slide number 16 on the deposits. We have as mentioned earlier by the CEO, we managed to grow CASA by 6% YTD. In the meantime also we have a growth in time deposit ytd of SR28 billion, which represents 45% growth ytd. So the graph in the centre of the slide you can see that CASA has a percentage of total deposits as is been mentioned always before that the percentage will dilute as time deposits goes up to fund the growth in the balance sheet. CASA percentage of total deposits stands at 49% end of June down from the peak that we had in Q2 last year of around 71%.

On the next slide, slide number 17. On the income from financing and investment, we have seen a 91% growth year-on-year on the gross commission income in 1H23 - gross yield income. 98% of that was from the financing income, and 51% of that was from the investments. Looking into the NIMS in the slide - in the centre of the slide

net profit margin, if we compare quarter-to-date net profit margin, we are two basis points below the quarter-to-date NIMS of 1Q23. And clearly, there was growth of 37 basis points between Q1 and Q2 in the gross yield income. However, this was offset by 39 basis points across in cost of funding.

The graph in the bottom right on slide 17, net profit margin, if you can see the trend from June last year until June this year we have seen the gross yield increasing from 3.93% in 1H22 to reaching 6.28% in 1H23. And we are seeing the cost of funding moving from 50 basis points back in June last year to 2.49%. So the graph shows the level of the movement of cost of funding that has been offsetting the growth that we used to see as the corporate book is gets repriced. So this resulted on a year on year net profits margin expansion - NIMS expansion of 37 basis points, moving from 3.42% in 1H22 reaching 3.79% in 1H23.

On the next slide on the fee and other income, the non-commission income, we have seen good growth in fees from banking services, even though the overall growth in the non-funded income was almost flat at 1% yoy for 1H23. But the driver of the growth was the fees from banking services. This was offset by slightly lower other income where some of transactions were booked during Q1 of last year.

Fund management represent 33% of the fees from banking services as composition and card services represent 24% in 1H23. Trade finance services represent 11% and brokerage just 9%, and the remaining will be other banking services fees.

On slide number 19, what I was referring to in the operating expenses, and as the bank is almost getting out of the investment cycle, we are seeing the control over expenses and the trend, if we recall a Q1 on a sequential basis expense overall OPEX were up by 1%. In fact, this quarter on a sequential basis, it's lower by 1% as you can see on slide number 19. So this resulted along with the growth in income, resulted in 8.2% positive jaws that also positively impacted cost of income. If you recall, cost income ratio was standing at 34.8% end of Q1 this year as of Q2 cost of income ratio is 32.6%.

And the next slide which talk about slide number 20 on the impairments for financing. First half impairment charge for financing increased by 35% yoy. That translates into SR174 million increase even though on a sequential basis provision charges are lower by 3% from Q1. The graph in the centre of the slide shows the movement on cost of risk. We have seen an improved cost of risk in Q2, 1H23 reaching 84 basis points versus 88 bps cost of risk in 1Q23.

On slide number 21 on the NPL and NPL coverage, we have seen on a sequential basis drop in the nonperforming loans by 5% in 2Q23. And this further improved the NPL ratio reaching now 1.89% down from 2.11% in Q1. In the bottom left graph on the inbuilt coverage ratio as mentioned by the CEO earlier, coverage ratio has improved

from 122% - around 122% in 1Q23 to reaching 130.1% end of Q2. We have seen an improvement in stage two and stage three coverages. And stage one coverages remain almost flat with the previous quarters.

Slide number 22, last slide in the capitalization and liquidity, capital adequacy ratio standing at 18.2%. This is down from 21.8% that was back in June last year, and that's of course the result of the growth that the bank has seen since then. On the profitability, we've seen an improvement in ROE, also reaching 16% in 1H23 versus 13.4% end of June last year.

Looking into the liquidity ratio of the regulatory KPIs, LCR stand well above the regulatory minimum at 156% as end of June. SAMA LDR ratio, the regulatory ratio is 76.4%. That is well below the regulatory minimum. And also we have seen an improvement in NSFR end of June, standing at 112.1% by end of June.

Moving into the outlook and the guidance, on the first guidance talking about the financing growth, and as we experienced the 10% growth, YTD as end of June, and you're seeing the big companies in the corporate financing also the continuous growth from retail as well. We are revising the guidance from mid-teens to high teens. On the net profit margin, already 37 basis points year on year expansion, I would expect slight pressure from cost of funding. We are revising the range of the expansion on the guidance from 35 to 45 bps to a range of 30 to 40 basis points.

Cost to income guidance unchanged, below 32%. The return on equity also guidance remains above 17%, no change. On Cost of risk and an effort to improve further the coverage ratio levels. The cost of risk guidance we revised that from range 60 to 70 basis points, to 65 to 75 basis points. CAR Pillar 1 currently at 18.2%, guidance remains unchanged at 17% to 18%. A reminder of the 2025 long-term guidance ROE also unchanged, at above 18%.

Just maybe before I hand over, in the Appendix, bank has issued during Q2, its first sustainability report which has actually been prepared using a materiality matrix methodology, which identifies ESG elements of our business that will carry the most importance for both the bank and all the stakeholders. So the report is already uploaded in Alinma's website. With that, I'll hand it over back to the operator for the Q&A. Thank you.

**Operator:** Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are joining us today using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is the star key, followed by the digit one. While we wait for questions, I would like to hand the conference back over to Waleed.

**Waleed Mohsin:** Perfect. Thank you much. While we wait for questions, maybe I can ask a couple of questions. Alinma Bank delivered one of the strongest growths across the sector on in terms of balance sheet and the NIM trends were also amongst the strongest. And we've been seeing cost of funding pressure across the banks. Now, if you

look at your revised guidance on net interest margin, it implies roughly a 4% NIMS for the second half of the year versus first half at around 3.8%.

So just wanted to get a sense of the drivers to achieving that 20 bps of expansion during the second half so that you meet your guidance range. If you could talk about that, that would be helpful. Secondly, it seems cost of risk across the sector has been sticky. Most banks have reported cost of risk, which is in the 80s. If you could talk about what would lead to second half being lower? Is it the recovery that you've historically talked about which will move it lower in any updates on timing? And finally, we are seeing very good momentum on the loan growth side. And even beyond June, we've seen some new loans being signed. So just wanted to get your sense on timing on drawdowns and if there is further upside to your revised loan growth guidance. Thank you.

**Abdullah Al Khalifa:** Thank you, Waleed. Now obviously on the NIMS we had to revise it down because obviously the pressure on the price - cost of funding if I - for example, look at the average SAIBOR, three months SAIBOR in Q1 versus the average three months SAIBOR in Q2 that increased by 33 basis points. You've seen the news year last night, so we would imagine that could be more pressure because of the faster growth now in loans has to be supported by higher levels of deposits.

So that is not a significant change. But we basically saying the rate impact from end of June all the way the second half of the year, and the rate movement is going to be less of severity in terms of what we saw and repricing that came in late last year which has obviously an impact on this quarter - on this first half. As well as the deposit taken at higher rate this quarter, we believe there could be volume because we continue to grow our loan, there'll be volume backed, but it'll be lower volume of NIMS, but on - sorry, cost of funding but we just had - we continue to forecast and that's how we see it.

Another potential lower rate by 5 basis points of the - it's not significant move, but as I always promise we will give the guidance as we as management see the forecast. In terms of cost of risk we've taken higher this year so far compared to the first half last year, but it's true we are expecting very highly likelihood in the second half we're going to have settlements on two exposures.

One, we are expecting full settlement for recovery. So that will help. And obviously on the coverage ratio, there's another case that we're expecting better recovery than what we provided for. So we've had those in sort of solid, we're trying to just finalize them within a few months that will really improve our coverage ratio. However, we said "Okay, we aspire to even go even higher than 150% on coverage, significantly higher. So that's why we picked a little bit of the cost of risk. Long growth actually as I mentioned earlier, we had - if we take retail as a whole, they grew 11.6% year to date. If we take corporates, they grow almost 10%, 9.8%. So that's what I said.

All segments are contributing to this, obviously in terms of percentage of growth as Adam mentioned, the newly launched auto lease is obviously the highest, followed by the mid-corporate, the commercial lending. But as an amount, a significant one came from obviously project finance. We see the pipeline; we see what's happening, the expected drawdown and the amounts as expected. We always continue to forecast every quarter, we continue to forecast, and that's why we upgraded the guidance to high teens.

Could there be an upside risk? It could but as I said, we continue to forecast. This is how the best forecast so far come into next quarter. You may get some customers utilizing more than what we expected today. You may book higher loans which wasn't really in the pipeline. Utilization may help to improve this guidance by the moment. As I said, we report our guidance is exactly what we see it to the best of our knowledge.

**Waleed Mohsin:** Perfect. Thank you much operator, back to you.

**Abdullah Al Khalifa:** Thank you.

**Operator:** Thank you. Again, that is the star key, followed by the digit one if you have a question or a comment. We'll take our first question from Naresh Bilandani from JP Morgan.

**Naresh Bilandani:** Thank you. Hi, Abdullah, Adel, Ahmed. Thanks for the presentation. It's Naresh Bilandani from JP Morgan. I have four questions, please. The first one is on the fee income. Now the strength is quite robust. Could you please talk about the sustainability of the strength that we've seen in the fee incomes into the second half and beyond? I'm just keen to know if there's any seasonality in this number or a one-off that does not repeat in this 2H, or will the momentum continue? That's the first question.

Second, just looking at the liquidity with your time deposits mix having increased steadily. I mean, it feels like in an era when assuming rates decline next year, your NIM could actually be a lot more resilient than what the sensitivities would have suggested at the start of this year. Is that right? Could you please refresh on the sensitivity of your NIM to the rates based on the current balance sheet structure? That's the second.

The third one is on you have a very comfortable LD ratio now, and the NSFR seems to be improving quite rapidly. So keen to understand if we should expect the current healthy pace of deposits to continue, or will the deposit growth from this point on now pretty much match the loan growth and you will maintain the current LD ratio, or do you still feel the need to build this up further?

And my final question is given that you have had a strong consumption on the capital side, given the fast growth, can you please talk through some of the initiatives that you're taking or intend to take to build up the buffer for future funding growth? Thank you.

**Abdullah Al Khalifa:** Hi, Naresh. Yeah, I'll take the first question on the non-yield income. As you rightly said, we have a 30% total non-yield income growth qoq where we have reached during the Q2 to SR577 million. As I mentioned in my presentation, this was mainly driven by the fees from banking services. And we are seeing the results coming out of the - when you talk about the fees from banking services, whether being fund management in the card services we are being - we are seeing a pickup on the fees there.

Also trade finance contributed to that, brokerage fees as well. We are seeing an improvement. And also on the other side, when we talk about the other non-yield fees drivers talking about the payrolls and all the transaction banking. If you are talking about this quarter, there is a one-off actually, the one-off was, as you mentioned, the Q1 last year. And you can see this is obviously in slide 18. Again, my presentation, we have around SR50 million which was booked in the last year.

So we are seeing the value coming from the various diversifications and offerings, but also the results of the cross-sell that we are seeing, effects also from foreign exchange income where we have seen 29% growth if we compare this year on year for 1H23. And we are seeing the pickup also in this area. So it's actually, it's a balanced growth from most of the non-fee - non-yield or non-commission income drivers. So we confirmed that not really one-offs that was booked in the non-yield in this quarter. On the other [Inaudible]

**Naresh Bilandani:** My question also, yeah, pardon me, pardon the interruption. My question was also on whether this strength is - do you expect this to continue or whether there was a seasonality of some form that contributed to the strong fee income growth?

**Abdullah Al Khalifa:** I wouldn't, Naresh, relate this to any seasonality which we're seeing as I mentioned, the growth in the various drivers of the non-yield income. And it's an income that as I mentioned, cross-balanced growth in most of the drivers. As I mentioned, when we talk about the fees from banking services and also the drivers related to the effects income as we are seeing the volumes and also the cross-sell being materializing as we go along.

**Naresh Bilandani:** Got it. Thank you on and sorry for the interruption again [Inaudible]

**Abdullah Al Khalifa:** No, it's all right. On the liquidity and the outlook for NIMS as we always do, we will give the outlook for the year. Generally speaking though, when interest rates are declining, the first step that comes into the - as an impact is the cost of funding because it always tend to be shorter term. So the repricing is an impact. For assets, you do have a combination, obviously, of like some of the [inaudible] and maybe retail, which doesn't get any price. But on top of that, the corporate side, you have assets linked to six months LIBOR or even sometimes 12 months LIBOR.



So it'll take longer time. It's pretty much early to talk about the NIMS guidance for next year. But I'm just talking in general terms. On the LDR there is I think a technical and Adel, maybe you can explain the technical impact on the [Inaudible]

**Adel Abalkhail:** Of course. I mean to add on this, SAMA has effectively allowed banks starting from June 1st this year to weigh the sukuk when it comes to the deposit for the calculation of the regulatory LDR. So previously, issued sukuk used to be weighted as the current accounts are and as 100%. So this starting from June this year, sukuk is allowed to be weighted. And as you know, we hold the 5 billion tier one sukuk that's is being weighted now. And this around 200 basis points or slightly more impact in the LDR itself.

**Abdullah Al Khalifa:** So if you're comparing the previous methodology, LDR here at 76% would've been 78% if it wasn't for that change. However, 78% is still low. But if you look at maybe slide 22 and I spoke about this before. We had a period, we were really targeting to be very efficient in liquidity and we experienced a significant drop in the NSFR. We reached 103.2% in third quarter 2022, and this obviously we could not tolerate. We made it clear to the business that we need to improve this significantly. We can't really be close to the 100% limit.

And that's how you see LDR has gone up significantly - Sorry, NSFR. That having said that though, I mean, there is enough liquidity to support further growth in the third quarter without necessarily having to take more deposits. But surely for the growth in Q4, we still have to take more deposits. In terms of capital as we were mentioning before, in terms to be efficient in liquidity, we were not happy about - I think a couple of years ago we were the highest in capital adequacy.

That wasn't an efficient use of the capital. I think we are reaching a level that is much more efficient i.e. more better ROE. However, in order to continue our growth next year and the year after, which we expect this cycle of growth to continue really because driven by the significant project due to the 2030 vision. We are planning to work some sort of sukuk, capital sukuk either tier one, tier two. Most likely in the first half next year in order to continue that level of growth.

**Naresh Bilandani:** Got it. Thank you very much. That was very clear.

**Operator:** Again, that is the star key followed by the digit one. If you find that your question has been answered, you may remove yourself from the queue by pressing the star key followed by the digit two. We'll move next to Shabbir Malik from EFG-Hermes.

**Shabbir Malik:** Hi, thank you very much. I have a question around your deposit growth. So you've - we've seen pretty robust growth for the last three quarters. So is - and I felt that even at the end of first quarter, your liquidity had

become quite satisfactory. So can you maybe tell us how this recent quarter, second quarter, we've seen another good quarter terms of deposit growth. Where is this deposit coming from? Is this being actively mobilized by the bank, or are we seeing more of a sector-wide trend? And Alinma benefiting from that? that's my first question.

My second question is back in after the first quarter, I think you indicated that you have adequate liquidity and that should help you achieve your NIMS target for 2023 which where you were expecting it to be around 35 to 45 basis points. In the second quarter what has changed? I think you've explained some - given some details, but if you can please reiterate what has changed for you to reduce that guidance by five basis points?

And thirdly in terms of return on equity, the first half you're trending at around 16%. Your full-year target is about 17%. So that's a bit of a step up for the second half. So what do you think are going to be the levers that you're going to - that is going to take you there? Thank you.

**Abdullah Al Khalifa:** Okay, thank you, Shabbir. In terms of the deposit growth, I have to admit that what we've seen so far from the announced and the other banks growth in loans wasn't all in double digits. And let's put it this way, that made it easier for us when we don't have to compete as hard. Having said that, I don't expect that trend to continue for the other banks to be also in a single digit going forward. Maybe we see higher growth, which means more competition in deposits. The sources deposits obviously multiple sources.

As we said, we focus on the affluent segments, more customer acquisition; trade especially cash products, but also trade, the margins that generated the CASA. So we focus on acquiring new customer, cross-selling that helps, things that encourage clients to move from one segment to another through depositing additional funds in their accounts. But obviously, the biggest provider of this is the normal usual institutional deposits. I don't have to go through the names, but I think it's been clear in the markets,

In terms of guidance and what has made us change, we saw actually higher impacts in the cost of funding in the first half. We've seen we lost one or two basis points compared to the Q1. That's why we say - we forecast, again, we expect into consideration the expected rate as well as the volume and the growth and the assets that this may reduce this guidance to 30 to 35 - sorry, 30 to 40 instead of 35 to 45. It's not a big change. We could have left it as it to be honest with you, but as we promised you all the time, whenever we forecast before doing this earning call, we give you exactly how the management see these numbers.

**Shabbir Malik:** Great. So at back at the end of first quarter, the interest rate expectation in some ways more favorable. So [Inaudible]

**Abdullah Al Khalifa:** I think your - keep your voice keep cutting. I don't, I can't hear you.

**Shabbir Malik:** Sorry. I was just - I was saying that at the end of the first quarter, probably the rates outlook was less favorable for you than it is now. I think back then they were, I guess, higher expectations of rates probably flat-lining or maybe even declining. But now the rate outlook is more upwards trending. So that doesn't favorably shape your NIM outlook?

**Abdullah Al Khalifa:** Yeah. No, I mean, I sort of honestly, in the following Q1, we were expecting - at that time the yield curve was a bit different than now. And when there is expected more growth on rates, typically what hits you first is the cost of funding. It'll take time for your assets to reprice it to this. That's why it's a small change. But nonetheless, as I said, we could have left it as is, but as we promised you, we keep reporting it as we see it.

**Shabbir Malik:** Great, thank you.

**Operator:** Will hear next from Rahul Bajaj from Citi.

**Rahul Bajaj:** Hi. This is Rahul Bajaj from Citi. Thanks for taking my question. I have two quick ones, actually. If you look at slide 15, the chart on slide 15 which talks about different components of lending growth year to date. So I see that home financing has grown by 7%ytd, which is kind of the smaller growth rates there across all the buckets. Just wanted to understand, is this growth coming from subsidized home financing products or non-subsidized product? And if it is subsidized, to what extent have you seen the recent or not recent actually the one queue subsidy changes impact growth in subsidized mortgages at your end? So that's my first question.

My second question is around the app refresh which was done I think towards the end of 1Q and the youth app, which was launched around the same time. So just wanted to understand if there are - it's been almost like two, three months now since you've launched your new app. What has been, if any interesting learnings for you from the launch, and have you seen any major sort of delta in terms of business volumes or any other factors post the launch of your refreshed app? Thank you.

**Abdullah Al Khalifa:** All right. I'll take the first question, Rahul, as you referred to slide 15. 7%ytd growth in home financing. Again, if you compare this percentage with the other business line. Again, SMEs was higher of course, and the corporate was mainly driver as well. But also if you look at the business financing and also other retail products, we have a smaller base when it comes to revolving credit card. And also, as I mentioned early, the auto - the newly launched product, which is the auto lease. So on financing continue to grow, I would say the growth of 7% on home financing will be a balance growth between subsidized and also non-subsidized loans, which we continue to see the growth in both of these segments and of the home financing.

So I would not say the bulk of it subsidized as we are seeing a balanced growth in the home financing portfolio as a bank in both. And hence the 7% growth that we have seen YTD. And also Rahul, on the app the specifically - obviously we launched a new version of our banking application. We have not yet - It's still keeping the old version possibly towards the end of this month. We go to suspend the old ones and force migrate to the new app. Just want to make sure the experience some of the stability. But I think we're in a good position now to do this.

On the youth app though, it's different story because the approval we got from Central Bank for a period of initially it was like three months, there were some conditions required which did not allow us to launch it immediately. We have to reprogram some of this, I mean they put a limit, for example, on maximum financial transactions for each client during every month. That is not something that you can just launch a project and say, "hope your customer will not breach this."

You have to force and that means reprogramming. So that also delayed us, but it's now we have a few thousands already registered. We have a long waiting list. We haven't gone public yet, but we're calling friends and family, and some of the populations that we selected. We continue to enhance this. When do we go public? It'll depend on the Central Bank. I suspect obviously maybe towards before the end of Q3 this year, hopefully, otherwise will be early Q4.

**Rahul Bajaj:** [Inaudible]. Thanks.

**Operator:** At this time, we'll move next to Sangam Iyer from Consilium.

**Sangam Iyer:** Yeah. Hi. A couple of questions. One, in terms of your asset repricing you said that there's a lag that happens. What percentage of your asset is said to be repriced?

**Abdullah Al Khalifa:** Sorry, what's the last part of your question? Sorry?

**Sangam Iyer:** What percentage of your loan book is yet to be repriced?

**Abdullah Al Khalifa:** Percentage. Okay. Okay. Anything else?

**Sangam Iyer:** That's One. And secondly, the 30 basis points increase in SAIBOR that was witnessed in Q2 or Q1. Is that completely absorbed in terms of the deposit in the cost of funds, or do you think that there could be a little more effecting in Q3 as well? I mean, just to understand, the names guidance, a little bit more clarity.

**Abdullah Al Khalifa:** Okay. Obviously, I'll cover the second part and Adel will tackle the first one. Yes, there have been obviously as I mentioned, there have been a change in the average SAIBOR Some of the loan, some of - sorry,

deposits that repriced during the Q2 will obviously have a full quarter impact in Q3. Assuming it remains with us, because obviously they tend to be short term. But its rate has been, I would say for the last couple of months been stable maybe around 590 plus. So hasn't significantly moved a lot compared to the average last first quarter, yes, has moved by that three basis point.

But so it's a safe assumption that majority would've already attracted the recent price, may not be a full quarter backed again. It could be something that repriced a month and a half within the quarter. So it'll have a three month if it stays with us, three months during the next quarter. I don't know the percent pricing.

**Adel Abalkhail:** Yeah. The assets - the percentage of the assets repricing. Again, as you know, we issued the assets and liabilities - the whole balance sheet profile and majority as part of the financials every year. Obviously, in the quarter you the repricing or also the majority profile keep on changing of course. And that's why maybe the previous comment that was maybe mentioned in the previous in calls about the theoretical sensitivity and to what extent this is really a reflection of what's going to happen in the reality.

Most of the corporate book is either maturing or gets repriced. If we talk about the three-month window, that would be of course a lower percentage if you compare to six months window, which is something around 60% to 70%. Of course, if you go to the 12 months window, you will see within the corporate portfolio the maturity of short term or also the repricing of most of the loans, which would be as a percentage of 90%. So - but that repricing profile as I mentioned earlier, keep on changing. But of course, as I mentioned in my slides on the composition of financing, 75% as a profile to Alinma is corporate.

And given the smaller base for SMEs and also mid corporates, most of the large corporate on project financing, this [Inaudible] pricing. And goes to what I was saying, when you look at - depends on the window that you're looking at, but you believe if you are taking the longer term window of 12 months from now, you would see almost a 90% plus repricing percentage of corporate loans out of the total corporate.

**Sangam Iyer:** So ideally what we are looking at is that incrementally we have a tailwind of further expansion in our names beyond the current calendar year because of this benefit of the [Inaudible] pricing happening.

**Adel Abalkhail:** Of course, we have mentioned that [Inaudible] go ahead.

**Sangam Iyer:** Sorry. Sorry. Please, please go ahead.

**Adel Abalkhail:** Yeah. I mean we are talking, when we talk - we are referring on the guidance and the expansion, and of course this expansion comes as the repricing happen. Of course, we have been talking about a lag that we haven't maybe experienced during Q4 and also maybe start to see this Q1. And also we are seeing the this coming in Q2

in bigger values. But we are guiding for an expansion and we're talking about 30 to 40, the changes to the 35 to the 45 is just the maybe expected some pressure from cost of funding itself. So you could still deprice when it comes to NIMS if you're being really on deposits that you take to fund the growth.

And also depends on the liquidity situation. You'll still be having an expansion on NIMS. But as you price of course there might be a lag. There might be still some assets here to be revised, but that wouldn't be a bigger portion. And again, you'll still also be paying on deposits differently as the market changes. And this is as I mentioned, the guidance - the reflection on the guidance revision of only five bips, which as the CEO was saying, this could have been even kept the same, but this is how we report it the way we see it.

**Sangam Iyer:** Got it. Got it. And so on the asset quality front if I may, we are writing for 60 to 64 basis points credit cost but we did mention about two particular settlements happening the later half of this year. So we be retaining the current run rate, or do we see in terms of the provision coverage, or do we see that there would be a sharp utilization of the buffer provision that would be coming in because of this recovery?

**Adel Abalkhail:** So the question on the coverage ratio, as I mentioned, coverage ratio has improved to 130% from 122% in Q1 as was mentioned by the CEO. And the expected settlements that we were talking about before is this is the improvement of course of settlements for NPL accounts that of course positively impact coverage ratio. And as I mentioned also in the guidance, we are beefing this up to reach 150% or also above that is to definitely revise the guidance from cost of risk for the year-end. And the range that we are changing is five bps as I mentioned, the range of 60 to 70 to 65 to 75 by year-end.

**Sangam Iyer:** Got it, got it. Okay. Thanks a lot, sir.

**Operator:** We'll move next to Olga Veselova, from Bank of America.

**Olga Veselova:** Thank you and good day. I have several questions. My first question is about financing growth again. So in personal financing - in personal retail financing, yield year to date growth of 16% has been very solid, really, versus the sector average. What is behind this large difference? Do you offer much better interest rates or this is the digital advantage which you have, or did you have any active marketing campaign? Is there any color would be appreciated? What was happening there really? And who are these customers? Is it mass or affluent market new rather than existing customers? So anything that could explain to us why the difference was so, so big. So this is my first question.

My second question is where do you see CASA ratio stabilizing? or do you think it will keep going down gradually despite the net inflow of CASA in the next quarters or years? My third question - no, actually two more questions. My third question is why do you think SAMA eases LDR regulation if the sector average LDR is actually comfortably

below 90% limit? And the last question is on corporate loans, did you have any large ticket loans? The figure of year to date growth is again, very good figure which is well above the sector average. And if we move on a level up holistically, why project finance segment is growing so much better for you than the other types of lending? Thank you.

**Abdullah Al Khalifa:** Okay. That's a long list. Now obviously on retail, we said year to date growth is 11.6%. Explaining how did we achieve this? it's pretty difficult for us to explain the methodology that we follow, but however, we focus on as I mentioned multiple times before, we focus on customer acquisition. We've introduced incentives for our sales team. We've brought in the right team to run these sales forces. We've introduced balance scorecard. We really on a monthly basis discuss with the business their exact performance, including new sales and so on.

So there is a much more focus on our sales efforts as well as the more customer acquisitions. That's why we achieved this. On the CASA ratio, honestly may expect further dilution industry-wise for sure, because now obviously we don't grow your loans only in a mid-single-digit, for example. It's less for pressure for you in terms of taking time deposits, which means you may maintain, or even maybe a little bit above the CASA percent for to growing fast, so I would expect further dilution. But what really matter is we continue to grow our CASA as a balance.

That's important through customer acquisition, through as I mentioned before, and different things. On why would SAMA have introduced this change, it's pretty much similar to the long-term liability. If you take in a three-year time deposits and you issue like a three-year sukuk in a way it's pretty similar. But I guess that question exactly why I can't speak on behalf of our regulator. If you get access to them, that's maybe the question that you can raise to them. On CBG, well I remember the project finance questions because I think multiple questions but project finance why are we doing better? project finance is no secret.

You have the competition is less; we are focused on growing our loan portfolio in the fast way through the early days of the bank days. I mean, 2009 we started, at that time we launched project finance. We want to grow a loans portfolio very fast. So we build that credibility, we build it through so many deals we've done in the past. So we're among the best in the market. I'm not saying we are by far the best, but we are among the best in the market when it comes to project finance.

So we're very successful in winning deals and that is reflected in the growth that you continue. Project finance is really the supply side at least from our point of view has been mainly the introduction of the new country strategy, the 2030 vision, which calls for a lot of projects to be done on the PPP model, private public partnerships where the private sector is actually building, operating, and financing these products. So that creates so much pipeline for us. I forgot the questions about CBG, somebody - you covered? Okay. Hope we covered your questions.

**Olga Veselova:** Yes, exactly. You covered all my four questions. Just to follow up on the last one. Alinma has been indeed very strong in this project finance segment. Why do you think your strengths are not replicable? So why other banks are not jumping into the segment and not compete for high-yield financing in the segment?

**Abdullah Al Khalifa:** I think on the earnings calls with other banks, you may ask them these questions. I know there are two, maybe other banks who have very good capabilities. When you want to be really a strong player in this field, it takes time to build the credibility. Obviously the team, you need to build a team, but more importantly, you need to have the track record in running these projects or finance these project and structure in these projects. So it takes time. I'm sure our competitors are aware of what's happening in the country. Maybe they are building, but at the moment, it takes time to build the track record,

**Olga Veselova:** So there would be know-how in credit assessment process, which would be very different [Inaudible] platform which you use - yeah, so there wouldn't be no [Inaudible] Yeah. So there wouldn't be nothing specific that you would say, "Look, we designed a standout platform in credit assessment." So it's just it's just time which is needed.

**Abdullah Al Khalifa:** No credit. You're right. Credit assessment is different because when you learn to through project finance, if that project failed, you have no recourse on the company that or the investors that build this project. You are really financing the project. If it's failed, your money is gone. So that's why I said track record is very important because that really allow you to understand these projects, allow you to understand the partners, the technical partners that's running, who's who. And that's really important to assess the risk, that capability, it'll take time, it'll take people, the resources, calipers as well as a long track record to be part of it.

**Olga Veselova:** Right. Thank you very much.

**Waleed Mohsin:** Perfect. As we close to the hour Mr. Abdullah, I'll pass on the call to you for any final remarks.

**Abdullah Al Khalifa:** Oh, thank you all for attending this meeting. I know it's summertime, but I thank everybody for taking the time to attend this.

**Waleed Mohsin:** Thank you very much to everyone for attending. And thank you very much to the Alinma management for their time and insights. Thank you much. This concludes today's call.

**Operator:** That does conclude today's teleconference. We thank you all for your participation. You may now disconnect.