

4Q25 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

Feb 3, 2026

Sam (Moderator)

Hello, everyone, and welcome to the Al Rajhi Bank's Q4 2025 Earnings Call. My name is Sam, and I'll be the moderator for today's call. All participant lines are currently muted. After the prepared remarks there will be a question and answer session. If you would like to raise a question throughout the call, please use the raise hand button on your Webex toolbar. I would now like to hand you over to today's host, Dr. Sultan Altowaim, Head of Research at Al Rajhi Capital. So please go ahead.

Sultan Altowaim (Head of Research, Al-Rajhi Capital)

Good afternoon, everyone. This is Sultan Altowaim from Al Rajhi Capital. We are pleased to host Al Rajhi Bank Q4 2025 Earnings Call. Welcome, everyone, to this event. Without any further delay, I will hand it to Mr. Sulaiman Alquraishi, the Head of Investor Relations, to introduce the management. Please, the floor is yours.

Sulaiman Alquraishi (Head of Investor Relations)

Thank you, Dr. Sultan. Good day, everyone, and thank you for joining the call. With us on the call today are Managing Director and CEO, Mr. Waleed Al-Mogbel; CFO, Mr. Abdulrahman Al-Fadda; Retail Group General Manager, Mr. Majed Al-Rajhi.

As always, our CEO will start with the results highlights and strategy performance, then the CFO will cover the financial performance in more details. And finally, we will open the floor for your questions. Please note that the results presentation is now available in both Al Rajhi Bank website and Al Rajhi Bank IR app. And now I'll hand over to Mr. Waleed.

Waleed Al-Mogbel (Chief Executive Officer, Managing Director)

Thank you, Sulaiman. Welcome, everyone, and thank you for joining our earnings call for the fourth quarter of 2025. As always, I will start by highlighting our performance, followed by an overview of our strategy to harmonize the group. Then I will give the floor to our CFO to cover the financial performance in more detail.

Before I walk you through the 2025 performance, it is worth to highlight that Al Rajhi Bank announced the Board of Directors' recommendation to increase the bank's capital through the issuance of bonus shares by capitalizing SAR 20 billion from retained earnings. One bonus share will be granted for every 2 shares held, raising the bank's capital to SAR 60 billion from SAR 40 billion.

The increase in the bank's capital is aimed to strengthen the bank's core capital structure, which contributes to achieving our strategic objectives. Also, the banks announced the Board of Directors' recommendation to distribute cash dividend to the shareholder for the second half of 2025 by

distributing SAR 1.75 per share as our commitment to maintain a healthy payout ratio for our shareholders.

Now let's take a closer look at our 2025 financial year performance. If we move to the next slide, for the 2025 financial year, the bank delivered an excellent performance supported by our strategy execution and an improved economic environment resulting in an outstanding net income of almost SAR 25 billion, along with a healthy balance sheet growth.

Starting with the balance sheet, we were able to deliver a 7% growth year-on-year with the total assets standing at 1.04 trillion. This asset growth was driven by a 9% year-on-year increase in our net financing book. On the liability side, total liabilities stand at SAR 9 billion, reflecting a 6% year-on-year increase, which brings our LDR to approximately 83%.

Moving to the profitability. The net income reached almost SAR 5 billion for the 2025 financial year, higher by 26% compared to 2024. Net yield income grew by 20%, while non-yield income increased by 28%. This resulted in a total operating income increase of 22%, reaching around SAR 39 billion.

In terms of credit quality, we continue to maintain best-in-class asset quality with the cost of risk standing at 32 bps. Additionally, NPL stands at 75 bps, supported by a healthy coverage ratio of 152%. If we look at the key ratios, our market-leading cost-to-income ratio has improved to 23.3%, and that's supported by our operational efficiency.

The bank also maintains a strong financial position with a total capital ratio of 22%, which is well above the regulatory minimum. Lastly, our net profit margin increased to 3.16%, supported by our focus on enhancing yield and optimizing the bank's cost of funds.

Moving to the next slide to highlight the progress of our strategy execution, which is worth to mention that this year is the last year of our strategy. If we start with the first pillar of the strategy, which is business-to-consumer, B2C, our focus on retail cross-selling is a primary goal of this strategy, evidenced by an increase in the products per customer ratio to around now 45% since we introduced our strategy in early 2024.

Our sales from the target customer portfolio have witnessed a growth of 340% since 2023, and that's backed by our efforts to expand our customer base across both existing and new segments. Our universal offering and financial solutions have made us the bank of choice for over 20 million customers across the Kingdom, while we maintain high customer satisfaction, reflecting in a Net Promoter Score of 82.

Moving to the second pillar, which is B2B, business-to-business, our corporate portfolio has continued to grow, reaching around SAR 271 billion, 24% higher year-on-year. This growth resulted from our ongoing

efforts to expand wholesale lending and focus more and more on SMEs, which have grown massively by more than 50% year-on-year.

And now the SME book represents 22% of our non-retail book and 8% of our financing book. The bank is also focused on developing the investment banking business as a part of our strategy and that is to enhance the yield income with revenue from investment banking activity also growing by 270% since 2023.

Looking to our third pillar, which is the support business, we continue to invest in technology and automation across the group to drive innovation and operational excellence, reflected by the percentage of processes automated, which has reached now 60% as of 2025. While the percentage of applications that are ready, cloud-ready has also increased to reach now 90% of our IT infrastructure.

On the last pillar, which is digital and data, our digital to money ratio has improved to 96% by the end of 2025, highlighting our digital expansion. In addition, AI and data-driven activity are gaining momentum, generating revenue through data-driven marketing, which has increased by almost 450% since 2023. If you allow me now, I will hand over to Abdulrahman, our CFO, to give you more details on our financial performance for 2025. Thank you.

Abdulrahman Al-Fadda (Chief Financial Officer)

Good day, ladies and gentlemen. I will go over the financial performance slides very quickly so that you can have a further time during the Q&A session later on. I'll start with the balance sheet. Our total balance sheet stands at almost SAR 1 trillion, where we have seen 7% growth year-on-year and almost 2% drop on a sequential basis.

It's worth to highlight that in Q4, this is the first time that we had a sequential drop since Q3 2019 due to a few securitizations that we've done in the second half of 2025. To analyze the 7% growth year-on-year on our total assets, as you can see on the bottom left-hand side of the chart, it's mainly driven by our financing book, which has grown by almost 9% year-on-year.

On the funding side, we continue to further diversify our funding sources, where you can see that the majority of our funding sources are contributed to almost SAR 12 billion increase in our customer deposits, 39 bn from Sukuk issuance and others, and a further SAR 15 million equity buildup that we have done in 2025.

Zooming in further into the main driver of the balance sheet movements, our total financing book stands at SAR 753 billion as of the year-end, almost 9% growth year-on-year and flat on a sequential basis. Retail book represent almost 64%, while non-retail book represents 36% of our financing book.

To analyze the 9% financing book growth year-to-date, as you can see on the top right-hand side of the chart, we have mortgages have grown by SAR 8.5 billion, i.e., 3%, although that we have securitized SAR 10 billion of our mortgage book in the second half of 2025, which brings the overall mortgage book growth of almost SAR 18.5 billion.

Ex-mortgage of the retail book has shown a contraction of almost SAR 2 billion. However, we have grown -- we have securitized almost SAR 4 billion of ex-mortgage of the retail book that has brought the overall retail book growth of almost 4.3% year-to-date. Corporate and SME have grown by 19% and 50%, respectively.

Mortgage book stands at SAR 276 billion as of the year-end, which represents 57.2% of the retail book and 36.2% of the overall financing book. Our customer deposits stand at SAR 667 billion, almost 2% growth year-on-year and 4% drop on a sequential basis. It's worth to highlight that our CASA as a percentage of customer deposits stand at 64.8% as of the year-end compared to 63.3% in Q3.

Our CASA movement of our customer deposits, as you can see on the bottom right-hand side of the chart, CASA have dropped by SAR 25 billion. And if you recall, in the first quarter, we had a major large account that has transited to time deposits. However, we managed over the last 9 months since the first quarter to negate that impact. Time deposits have increased by almost SAR 41 billion, i.e., 21% year-on-year.

Our investment book stands at SAR 174 billion, almost flat on a year-to-year basis. It's worth to highlight that we had a slight drop in the fourth quarter. This is to rebalance our investment portfolio to take advantage of the interest rate environment. Sukuk represents 87% of our investment book, fixed rate represents almost 74%, while 83% of the book is in domestic.

We move to the profitability section. Our Q4 net income stands at SAR 6.4 billion, 16% increase year-on-year and flat on a sequential basis. To analyze the sequential movement, as you can see on the bottom left-hand side of the chart, our NII increased by almost 12%. Non-yield income has dropped by almost 12%. However, the core fee income, coupled with exchange income, have shown a very healthy growth on a sequential basis.

Our expenses have increased by SAR 463 million. This is due to increase in communication, utility expenses, IT and software expenses. Our total impairment charge has increased by only SAR 56 million on a sequential basis.

The net income for the period stands at SAR 24.8 billion, 26% year-on-year; drivers, as you can see on the bottom right-hand side of the chart, NII has increased by 20%. Non-yield income, a healthy growth of 28.2%, while OpEx have increased by 14.5%, which brings the pre-provision profit to higher by 24.4%, while net impairment charge was 10% higher year-on-year.

To further zoom in on the net income driver, I'll start with the operating income. Operating income for Q4 stands at SAR 10.4 billion, 19% year-on-year increase and 5% increase on a sequential basis. Our operating income for the period was stood at SAR 39.1 billion, 22% higher, mainly driven, as highlighted earlier, by 20% growth in our NII due to the increase in our average earning assets, coupled with 3 basis point NIM expansion.

Fees have grown by 25% year-on-year across all line items. We've seen a very good healthy growth in the trade, cash management on the retail side. As Waleed highlighted earlier, we made very good progress in improving our cross-sell activities. Exchange income has shown a very healthy growth of almost 21% year-on-year.

Finally, other income has shown a 48% increase due to securitizing some of the ex-mortgage of the retail book where we have taken the upfront gain in the second and third quarter of 2025. NIM stands at 3.16%, 3 basis point year-on-year expansion. We have seen a very healthy growth in the fourth quarter, driven by the management initiative to reprice our asset and increase on the gross yield, coupled with a 16 basis point improvement in our cost of fund on a sequential basis.

The driver of 3 basis points NIM expansion, as you can see on the bottom right-hand side of the chart, 2 basis points on the retail repricing given the management initiative to reprice our retail assets. Corporate had a 7 basis point drop due to the SAIBOR movement, which is almost the same reason on the treasury where we have 1 basis point drop. Finally, our cost of fund has improved by 5 basis points.

To move and analyze the second driver of our net income growth, our OpEx for the fourth quarter was around SAR 2.7 billion, 30% increase year-on-year and 20% increase on a sequential basis. The driver of our OpEx increase of 14.5% year-on-year, as you can see on the top right-hand side of the chart, salaries have increased by 8%. Depreciation has increased by almost 20%. This is due to capitalizing some of the projects that helped us to execute the 2026 strategy.

Finally, G&A has increased by almost 20%, given the earlier explanation. While our OpEx have increased by 14.5% year-on-year, our operating income has increased by 22%. That healthy positive jaws helped us to reduce our cost-income ratio from 24.9% to 23.3%. Moving on, on to the asset quality.

Our NCL for the fourth quarter was SAR 626 million, 13% year-on-year. However, our cost of risk remained flat at around 32 basis points. As you can see on the bottom left-hand side of the chart, although that our gross charge has increased by SAR 1.1 billion, however, on the recovery initiatives, we managed to negate that increase by SAR 900 million, which brings the net NCL movement of close to around SAR 200 million.

Moving on, our NPL balance stands at SAR 5.7 billion, 6.7% year-on-year growth. And as you can see on the top right-hand side of the chart, we have written off close to SAR 5.3 billion, while the net inflows

were around SAR 5.6 billion. Having said that, our NPL ratio remained almost flat, both on a year-to-year basis and on a sequential basis at around 75 basis points, driven by stable retail NPL while the improvement we've seen on the corporate NPL.

Our NPL coverage stands at a healthy level at around 152%. Our ECL stock is around SAR 8.7 billion as of the year-end. And as you can see on the top right-hand side of the chart, we have a top-up our non-retail book, giving that we have a healthy growth in our financing book by almost 24% year-on-year.

Stage 1 exposure as of the year-end stands at 96.9%, flat compared to the same period last year. This is to show the healthy origination that we've been doing in 2025. Stage coverage remained almost unchanged, flat on a year-to-year basis and on a sequential basis, where Stage 1 coverage is 37 basis points, Stage 2 at 10.6% and finally, Stage 3 at 55.5%.

Liquidity ratios remained healthy and within the regulatory requirement. Although that our headline LDR stands at around 113%, unweighted LDR, which takes into consideration the Sukuk syndicate loan, stands at 95.2%, while our regulatory LDR is almost 83%. LCR, NSFR are at a comfortable level and above the regulatory requirement.

On the capital side, our total RWA stands at SAR 674 billion, almost 10% growth year-on-year, mainly driven by 10.6% growth in our credit RWA. It's worth to highlight that our RWA density has increased to 64.6% compared to 63.3% as of the third quarter of 2025. Our capital ratio, CET1 stands at 16.6%, Tier 1 at 20.5% and finally, our total capital at 21.9%.

In 2025, we managed to improve our Tier 1 capital ratio by 120 basis points year-on-year. And as you can see, the driver on the bottom right-hand side of the chart, although that the credit growth, coupled with the dividend distribution has contributed to almost 370 basis points in a drop in our capital ratio. However, there was almost 400 basis point improvement in our capital ratio due to internal capital generation given the healthy RWA density.

Return metrics are considered still at a comfortable and above the industry standard, RORWA at 3.86%, ROE at 23.4% and finally, our ROA at 2.4%. Our outlook for 2026, we still expect the GDP to grow in the range between 4% to 5%, mainly driven by non-oil GDP growth, which is expected to deliver the same momentum that we've seen in 2025.

Consumer spending is still healthy, where we have seen almost 11% increase year-on-year. And finally, our expectation that the credit demand in 2026 will be slower than compared to the historical standard. Under the interest rate outlook, our best-case forecast is to cut one in July and the other one at the tail end of 2026.

However, in the lower rate environment, we are still geared for a better NIM expansion given the healthy fixed rate component of our total assets. Having said that, our financing book guidance for 2026

is low to mid-single-digit growth, NIM to expand between 25 to 35 basis points, cost-income ratio to be below 23% ROE to be above 23.5%, cost of risk stable in the range between 30 to 40 basis points. And finally, our total capital ratio to be above 20%. Waleed, back to you.

Waleed Al-Mogbel (Chief Executive Officer, Managing Director)

Thank you, Abdulrahman, for the financial highlights. We are so proud of our outstanding performance and the progress made across all KPIs of our Harmonize the Group strategy. As I mentioned earlier, this year is the last year of this strategy, Harmonize the Group. We will work on the new strategy in the beginning of this year. And once we get approved from the Board end of this year, we will present it inshallah next year at the same time 2027. Now we will open the floor for the Q&A session. Operator, back to you.

Sam (Moderator)

Thank you. We'll now go ahead and open up for questions. As a reminder, if you would like to register a question, please use the raise hand button on your Webex toolbar. Our first question comes from the line of Naresh Bilandani from Jefferies. Please unmute and go ahead with your question. Naresh, please unmute.

Unfortunately, we're not receiving any audio from Naresh, so we'll move on to the next question, which comes from the line of Olga Veselova from Bank of America. Please unmute and proceed with your question.

Olga Veselova (Analyst)

Thank you so much. Thank you, Abdulrahman, and the management team. Please allow me to ask 3 questions. One is on the asset yield. Can you give us a sense on the pace of your loan book repricing? By how much do you increase the spreads on which products you do and you don't? And how much more can you do this year? So that's question number one.

Question number two is on costs. You mentioned during the presentation that there was some capitalizing on some of the projects. What exactly was this capitalizing, and how shall we think about depreciation and amortization going forward? We noticed there was acceleration in the D&A pace in the past several years. What should be the outlook for the next several years?

And my last question is on your slide about the outlook. Asking about new strategy, I understand you will be working on this during the year. You do mention that when your strategy will be focused on providing financial ecosystem through a universal bank offering, what is different in building financial ecosystem versus what you actually already have and build now? Thank you very much.

Abdulrahman Al-Fadda (Chief Financial Officer)

Olga, On the asset yield, I think if you recall, on several occasions last year, we mentioned that the management focus is to improve the value rather than to focus on the volume. We focus on the high-yielding assets. We have seen good growth in the SME. We see a certain growth in some portion of the retail assets that provide the higher-yielding assets.

We see that a percentage of the new origination or the new sales that happened in 2025, we have defined a percentage of the high-yielding assets that has been improving. And this is one of the management initiatives to negate the interest rate drop on the assets by maintaining a very healthy asset. The management will continue to focus on improving that in 2026 and beyond. That's on the asset yield.

As far as the second question related to the cost, we -- yes, indeed, we have capitalized some of the projects, especially in improving our IT infrastructure to speed up the customer execution, to improve the customer journey, to digitize the transactions, to build an ecosystem between the bank and the subsidiaries.

All of those projects have contributed to executing the Harmonize the Group strategy, which you've seen as of the main initiatives for us as a management, to improve the cross-sell. In 2023, 38% of the customer base having more than one product, that has improved to 45%. Now as far as the cost outlook, we, as a management, we are looking to further improve the customer journey, digitize and provide an improvement in our IT infrastructure. However -- improve the customer experience. However, the focus for us is to build that positive jaws year after year to improve our operational efficiency going forward. On the strategy?

Waleed Al-Mogbel (Chief Executive Officer, Managing Director)

On the strategy, if you remember, when we started our building the ecosystem 6 years ago, we looked at the market and we built our ecosystem, and we called it Unbank the Bank. Then in this strategy for the last 2 years and this year, we focused more on Harmonize the Group, which is basically making sure that the bank, along with the 8 subsidiaries are working together, getting benefits from the customer base that has the bank and increasing the contribution of subsidiary net profit to the total profit of the group.

We will work this year with the team, some workshops to identify the new strategy, as I mentioned. And once it gets approved by the end of this year inshallah from the Board, we will present it in more detail next year at the same time.

Olga Veselova (Analyst)

Thank you. Thank you, and all the best to the team in 2026.

Sam (Moderator)

And I can see we have Naresh back in the queue. So if we try again, Naresh Bilandani from Jefferies, please unmute and go ahead with your question.

Naresh Bilandani (Analyst)

Yes. Hi, can you hear me now?

Sam (Moderator)

Yes, we can. Please go ahead.

Naresh Bilandani (Analyst)

Excellent. Thank you. And sorry for that. Thank you for the presentation. Congrats on the results. I'm sorry if these questions were already asked by the previous participant. I have 3, please. One, can you kindly comment on the extent to which you feel the need to raise a further AT1 debt this year beyond the \$1 billion that you already raised last month and the fact that you are undertaking a capital release from securitization?

I'm just trying to estimate the implied ROTE in your guidance post the AT1 cost unless you can offer some ROTE indication for the year here? That's the first question. My second question, would you please be able to quantify the impact to your fee income run rate from the recent regulatory changes, the first ones that we had in the second quarter on credit cards and the recent, again, on the retail fees in early January? Are these going to be a meaningful impact to the fee income trajectory for this year?

And my third and final question is, we recently saw some unfavorable developments in the brokerage landscape with one of the largest brokers in the system, lowering their brokerage commissions on Saudi equities to 0. Can you please elaborate how meaningful an impact a similar move could have to your revenues given your lead positioning in the brokerage space, please? Thank you so much.

Majed Alrajhi (GM of Retail Group)

Thank you, Naresh. In regard to the fee guidance that has been imposed as a SAMA regulation, there are 2 elements. One on the admin fee. It is part of our yield income and it's amortized over the contract period. It is calculated as a percentage of the financing provided.

The changes will be only applied to the personal finance and the auto lease. Mortgage will remain the same as it used to be. The impact will not be that material and Al Rajhi Bank has an effective price strategy that can mitigate this impact.

On the other banking services, they are part of the fee income, with, varying impact across different services. However, the bank continues to assess, and evaluate market dynamics to adapt accordingly. We believe the impact can be mitigated by focusing on increasing volume in the transaction of these services. Some of the fees will become more affordable to the consumer and we believe that it will continue growing.

Overall, we believe that the positive momentum of the fee income will continue for the bank despite these changes and the management initiative on the harmonize the group strategy will overcome this impact as the effort has resulted in outstanding growth year-on-year of over 25%.

Abdulrahman Al-Fadda (Chief Financial Officer)

Naresh, on the first question on if there is any planned issuance of an AT1 in 2026 apart from the one that we have done, usually, as a part of our annual operating plan, we put the best-case forecast in terms of the growth -- first of all, the funding capacity, then we plan our growth outlook accordingly. Based on our base-case forecast that we put for 2026, we have not modeled any further AT1 issuance in 2026 apart from the one that we have tapped into last month.

As far as the last question related to the brokerage, Al Rajhi Capital, our investment arm, is considered to be one of the top players in the brokerage in the Saudi market. They have maintained a very healthy market share. We've seen those kinds of announcements. Usually, it's a tactical rather than a strategic.

We don't believe that will have a material impact as we speak. Nevertheless, Al Rajhi Capital management team is looking like the bank in terms of the market development, looking for initiatives, how they can improve their bottom line. We've seen a very good contribution to Al Rajhi Capital's bottom line and contribution to the Al Rajhi Group overall.

Naresh Bilandani (Analyst)

Would you please be able to -- thank you so much for the information. Would you please be able to offer any insight on what portion of the gross fee income is coming as a brokerage from Saudi equity market trading only? Is there any rough indication that you can provide at this stage?

Abdulrahman Al-Fadda (Chief Financial Officer)

It's mainly the majority of that, I think close to 90% of that. giving that Al Rajhi retail customer of 20 million customers. This is one of the competitive advantages that Al Rajhi Capital is leveraging from the Al Rajhi Bank customers to be having the highest retail market share brokerage in Saudi.

Naresh Bilandani (Analyst)

Okay, got it. Thank you very much.

Sam (Moderator)

Thank you. Our next question comes from Jon Peace of UBS. Please unmute and proceed with your question.

Jon Peace (Analyst)

Hello. Thank you very much for taking the question. Firstly, on the loan growth forecast, would you please be able to break that out by category for us? How much is retail versus corporate? And second question, please, is on the NIM guidance, the net profit margin guidance. What do you assume in terms of the liability mix and the CASA share?

And then lastly, great to see the dividend being restored for the second half. How should we think about your comfort level with your CET1 ratio? Obviously, when it was at 15.5% in the second quarter, you reduced the dividend today at 16.6%, you've restored the dividend. Is there a certain number in between that you'd like to manage your CET1 above? Thank you.

Abdulrahman Al-Fadda (Chief Financial Officer)

On the loan growth outlook for 2026, we expect a similar growth outlook or growth trajectory that we see -- or sorry, growth mix. We believe that the SME is going to grow faster, given the demand. Retail will continue to provide a healthy growth outlook in 2026. However, we've been very selective, and we are pricing the risk accordingly, taking into consideration the liquidity premium. Corporate, again, we have been very selective.

Overall, we believe the non-retail book will grow faster than the retail book in 2026, similar to the trend that we've seen in '25. As far as the NIM outlook, one of the biggest one factors is the CASA balance in terms of the mix, how much that is projected to be on the overall.

However, we still believe that the CASA as a percentage might drop from the current level. However, it's not going to be materially lower from the current level, given that if you forecast an interest rate cut this

year and beyond, that would reduce the percentage movement that we've seen historically in the CASA as a percentage of the overall CASA balance.

Lastly on the CET1, what is our comfort zone? our CET1 stands at a very healthy level of close to 16.6%, well above the Basel requirement, but be mindful, Jon, that this is only Pillar 1. We have the adds -on of Pillar 2, which we have taken into consideration. The management position is to always maintain a very healthy buffer of a 50 to 100 basis point range above the Pillar 1 plus Pillar 2 to maintain a very healthy capital ratio and to continue to pay dividends as the historical range of the payout ratio between 50% to 60%.

Sam (Moderator)

Thank you. Moving on to the next question. The next question comes from Gabor Kemeny from Autonomous Research. Please unmute and proceed with your question.

Gabor Kemeny (Analyst)

Hello. A couple of questions on similar topics, please. Firstly, on the NIM guidance, some further clarification. You guide for a 25 to 35 bps NIM improvement this year. I think your Q4 NIM was already about 20 basis points above the full year level, so maybe 5 to 15 basis point improvement from here.

When we think about the timing, to what extent do you think it should be backloaded, given -- I mean, the further improvement, I mean, given that you expect the rate cuts to occur in the second half of this year?

So, so shall we expect, like, more like flattish dynamics in the first half and improvement in the second half, or do you see room to improve your NIM in the first half already? That's the first question.

And the second one would be on the -- again, on the loan growth, I think you mentioned credit demand in your opening remarks and already -- and also talked about like some supply questions you being selective in your remarks. Can you talk a bit about the situation in the mortgage market and its interaction with the availability of funding? To what extent do you see funding driving your growth outlook there? Thank you.

Abdulrahman Al-Fadda (Chief Financial Officer)

Gabor, in terms of the NIM, absolutely correct. The NIM for the fourth quarter were around 3.35%. The guidance that we provided from 2026 is to expand by 25 to 35 basis points. So that is expected to be around, close to the 3.41% to 3.51% range, for 2026. Now, historically, or based on the last couple of years, usually for the NIM to start, I would say, to improve, it takes around a 2 to 3 months to see the full impact, given that the customer deposits are usually within a 2 to 3-month duration.

And given that we are having our total floating liabilities, almost 2.1x of total assets, that you're absolutely correct, that directionally the NIM is expected to improve as and when we've seen a further reduction in the cycle, in 2026.

Majed Alrajhi (GM of Retail Group)

As per mortgage, there was a slowdown in sales during 2025, and that is compared to last year, that has come from several reasons, new regulation on White Lands, the government initiative in affordable residential, freezing rent and liquidity and interest rate. But overall, we believe that the mortgage will continue to grow over the long term, backed by the government initiative towards achieving the vision 2030 of increasing homeownership to 70%, where it's currently at 65%. So, we believe that it will continue on the long term.

Gabor Kemeny (Analyst)

Thank you.

Sam (Moderator)

Thank you. Our next question comes from Mohammed Al Rasheed from Hassana. Please unmute and proceed with your question.

Mohammed Al Rasheed (Analyst)

Alsalam Alykum, Am I audible?

Sam (Moderator)

Yes, you are loud and clear.

Mohammed Al Rasheed (Analyst)

Yes. Thank you, gentlemen, for the presentation, and congratulations on the results. Just one follow-up question from my side, which is regarding the repricing. So based on the repricing table in your annual financial statement, the interest-bearing assets that gets repriced within 3 months is around 25% to 30% of your total interest-bearing assets.

And if I see the impressive improvement in your asset yield sequentially and try to calculate how much was the repricing, it sounds very massive, it's up about 80 to 100 basis points. So I just want to understand whether this movement in asset yield was purely driven by repricing and mix? Or was there other factors such as timing of the loan book growth during the quarter, et cetera?

Abdulrahman Al-Fadda (Chief Financial Officer)

There wasn't a one-off into the yield income in the fourth quarter due to repricing coupled with changing the asset mix.

Mohammed Al Rasheed (Analyst)

Okay. Very clear. Thank you.

Sam (Moderator)

Thank you. And our next question comes from the line of Mehmet Sevim from J.P. Morgan. Please unmute and proceed with your question.

Mehmet Sevim (Analyst)

Good evening. Thanks very much for the presentation and taking my questions. Just on the NIM outlook, if I may ask, could you please elaborate once again from my understanding on the underlying assumptions and the drivers of this pretty positive outlook given, as I understand, there's only one rate cut, the one in July baked in that would affect this year's results?

And just on the loan growth, I recall you saying in the past that mid- to high single-digit levels would be more normal for Al Rajhi now given your focus on protecting NIMs. And basically, what you were saying on value over volume. What is driving this gap this year as you're guiding for now even a more slower outlook? Is this just the liquidity pressures? Or is there any other reason like, for example, protecting capital or anything else?

And finally, just on the harmonized group strategy, I believe one of the most visible results of it has been the increase in the share of customers that have more than 1 product. But it seems like recently, this has been slowing down, at least the increase quarter-on-quarter over the last 2 quarters or so after a very strong delivery. I was just wondering if we have come to the end of it for now, especially as now you're also looking at the new strategy? Or should we expect some further growth in that through 2026? Thanks very much.

Abdulrahman Al-Fadda (Chief Financial Officer)

On the growth outlook, yes, I think probably until the tail end of '23 and probably in '24 and even last year, I said that the medium-term outlook or the normalized is somewhere around mid-single to high single-digit growth.

However, as a management, we're looking at the operating environment, assessing the liquidity situation, assessing the capital requirement, assessing the credit demand and the opportunity to protect

our competitive advantage of a very conservative organization with a stable cost of risk. And the demand is still there.

We could further increase our, I would say, growth outlook on the financing. However, we don't believe it is wise to chase volume rather than value, especially as we see an opportunity to improve the ROE for the shareholder. We see a further deterioration in our forecasting and the ROE, that will be a different discussion. We assess the operating environment, taking into consideration all the aspects, liquidity, capital, demand, cost of risk, the cross-sell activities as well.

Waleed Al-Mogbel (Chief Executive Officer, Managing Director)

In terms of your last question, I think we should look at the customer base when we started our strategy Harmonize the Group. If you remember, we started with below 16 million client customers at the beginning of the strategy. And now we are talking about almost 21 million customers.

Abdulrahman Al-Fadda (Chief Financial Officer)

So, although the percentage is probably going lower the last couple of quarters than what we have delivered in '24 and beginning of '25, however, on an absolute basis, it is still growing, which has contributed positively to the 25% fee income growth that we have delivered in our 2025 result.

Mehmet Sevim (Analyst)

Yes. Super. That's very clear. Thank you. And may I ask if you had any further comments on the NIM drivers, the improvement in the first half, especially because there will be no rate cuts in your assumptions?

Abdulrahman Al-Fadda (Chief Financial Officer)

Again, our guidance is 25 to 35 basis points. Our best case forecast in terms of the rate cut is that the first cut is in July, followed by the tail end of 2026, which is in line with the Fed fund forecast.

Mehmet Sevim (Analyst)

Okay, thanks very much.

Sam (Moderator)

Thank you. And our next question comes from Rahul Bajaj from Citi. Please unmute and go ahead with your question.

Rahul Bajaj (Analyst)

Rahul Bajaj from Citi. Thanks for taking my question. I have 3 quick ones, actually. The first one is on loan growth. Just wanted to understand this low to mid-single-digit guidance that you've provided. Are you baking in any securitization as part of this guidance? Or any securitization you will do will be on top of that?

And also, you mentioned there were some securitization transactions in the second half of the year. Could you clarify both on the mortgage side and the non-mortgage retail side, has there been any securitization in the fourth quarter? So that's my first question.

My second question is on dividends and kind of capital. After the dividend adjustment, so to say, you've done in 2025, is it fair to assume you would revert back to the kind of usual 50% to 60% payout ratio in 2026? Or you expect further adjustments in 2026 as well? So that's my second question.

And my third and final question, if I may squeeze in, please. This is on loan-to-deposit ratio, the SAMA loan-to-deposit ratio. Has there been any discussion from the regulator around changing how they calculate the SAMA LDR? Those are my 3 questions. Thank you.

Abdulrahman Al-Fadda (Chief Financial Officer)

You asked 4 questions, not 3, Rahul. I'll answer them one by one. Securitization, did we forecast anything? Yes, we did. So what you see is a net of gross. That's the first part. Second question, mortgage securitization. Yes, we've done close to around SAR 10 billion in the second half, SAR 5 billion in Q3 and another SAR 5 billion in Q4. In the ex-mortgage of the retail book, we've done SAR 4 billion, around 50% of that in Q2, and 50% in Q3. That's in terms of the securitization.

Third question, dividends. For the first half dividend, we reduced our payout ratio to build and to restore our minimum capital buffer. And we said that we believe that it's going to be a short term. We believe over the medium term, we'll continue to maintain the healthy payout ratio range, 50% to 60%.

As Waleed mentioned earlier in his opening remarks, our second half dividends were around 1.75 DPS, which contributed to almost a 55% payout ratio. We will -- management -- or the way that we look at the payout ratio, we will reassess on a regular basis, but the growth outlook versus maintaining our capital versus going to the debt capital market. So a lot of factors that we take into consideration. However, best-case forecast, we still believe that we are restoring our old payout ratio range between 50% to 60% in the medium term.

The fourth question related to the LDR, we are -- we, along with the other colleagues on the street, we are part of the ecosystem. We continue to have a dialogue with the regulator in terms of the loan-to-deposit ratio, not only the loan-to-deposit ratio, but multiple subjects that we've been discussed. So far,

we are not aware of any potential changes, and it is something that we will continue to assess on a regular basis.

Rahul Bajaj (Analyst)

Absolutely clear. Thank you so much.

Sam (Moderator)

And our next question comes from Chiro Ghosh from SICO. Please unmute and proceed with your question.

Chiro Ghosh (Analyst)

Chiro Ghosh from SICO -- hi, this is Chiro Ghosh from SICO, Bahrain. A couple of questions. So first one is on securitization again. Over the years, you have spoken a lot about it. But just want to get a sense of strategy behind securitization, especially of longer duration fixed-rated loans, especially in a downward trending interest rate environment. What kind of calculations do you do? How do you decide on that part? That is slightly intriguing for me, especially if you are considering more going ahead.

And on similar context, the next question is you are having a loan growth guidance of, say, low to mid-single digits, let's assume 3% to 4%. Within this also, you're assuming a lower retail loan growth compared to the rest of it, so might be even lower than that. Again, in a downward trending interest rate cycle, why is there such a gloomy picture, especially for the retail side of the loan book, especially you have such a big base and you have made a lot of favorable inroads in that direction. So why is such a gloomy picture on the retail side? Those are my 2 questions.

Abdulrahman Al-Fadda (Chief Financial Officer)

On the first part, securitization, I think it's very simple. As long as the delta between the new origination versus what the rate of the securitized book is a net positive that NIM and NII accretive over time. All the securitization that we've done since 2022, we have not sold it at a discount.

If you look at our capital and liquidity ratios, they are at a very comfortable level, so we're not looking to do any fire sale. If we see an opportunity to further improve the yield, we will take a call. We've done it, and we'll continue to do this over the medium term.

As far as the second question on the retail side, the growth, indeed, and I think if you recall our earlier comments either mentioned by Waleed, my colleague, Majed, the management focus is on the value rather than volume. Despite that, we have a very huge retail book as of the year-end. Our total retail book is close around SAR 482 billion, but still we managed to improve the overall yield by almost 2 basis points, 482. This is the management focus on value rather than volume. There is no question about the

demand. It's just a matter of how we plan our funding first, then we plan our growth outlook accordingly. Thank you.

Chiro Ghosh (Analyst)

Got it. That's all from my side. Thank you.

Sam (Moderator)

And our last question on today's call comes from Adnan Farooq from Jadwa Investment. Please unmute and proceed with your question.

Adnan Farooq (Analyst)

Hello, Alsalam Alykum. Thank you for the opportunity. I just had one question on the cost side. Just wondering if there were any one-offs in the operating costs during the fourth quarter?

Abdulrahman Al-Fadda (Chief Financial Officer)

No one-off.

Adnan Farooq (Analyst)

Would it be fair to say because there was quite a jump in other G&A. Could it be because of accruals during the year shored up during the fourth quarter?

Abdulrahman Al-Fadda (Chief Financial Officer)

Again, no one-offs. We've seen a bit of an increase in the communication utilities expense, also IT and software. There has been a lot of licenses that we have taken -- imported into our IT infrastructure to help execute the 2026 Harmonize the Group strategy.

Sam (Moderator)

And we have reached the end of the Q&A session. So handing back to the management team for closing remarks.

Waleed Al-Mogbel (Chief Executive Officer, Managing Director)

Thank you, everyone, for attending the call and for your trust in us. We will continue to achieve our strategic goals for this year and beyond, Inshallah, with our new strategy. We look forward to meeting you on the next earnings call. Thank you.