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Presentation

Amr Sager:

Hello, everyone. Thank you very much for dialling in for our earning call of first quarter 2020. First of all, we hope that you and your families are all staying safe during this global pandemic. With us today, our CEO, Waleed Al-Mogbel, who is going to give us an update on the strategy and highlights, followed by Covid-19 measurements we've taken. Then our CFO, Abdulrahman al Fadda, will give us an overview of the Saudi macro environment, followed by our results.

We'll then open the floor for questions and answers. Please note that during this call you can also send questions via webcast. We'll try our best to accommodate all of your questions. We'll give priority, of course, to the questions on the call, and then we'll take a look at the webcast questions. Waleed, over to you.

Waleed Almogbel:

Thanks, Amr. Welcome, everyone. Let me start now by thanking you for attending and wishing you all good health during the current crisis. Now, let's go to the first slide. I believe you have seen from our results that our strategy implementation remains on track. We saw a very strong growth in mortgage, as we expected in our previous call. Our current accounts also increased. We will continue also improving our customer experiance and focusing on our digital leadership.

In terms of the balance sheet, we had a growth in total assets driven mainly from Retail banking as I have mentioned before, with almost 17% growth. We continued to do well in non-profit bearing deposits, we stand at almost 94%. We have also a very strong liquidity ratio, long deposit ratio, at 82%. LCR at 177%. In terms of performance, we are down this quarter by almost 6.8% YoY in net income before Zakat. However, if you look at our operating income, it has increased by almost 7% year on year.

The main reason for the decrease in our net income, is deferring instalments for the health care staff and also the MSME sector. Also, considering the current situation, we have increased our net provision by almost 80%, to reflect the current environment. Therefore, our costs of risk reached 1.05% for this year. The NPL is at 1.07% mainly driven by an increase in Corporate NPL.

The next slide, in terms of the strategic overview, we have been running our 2020 strategy. I would like to go through the key highlights of this strategy. As you can see from the slide, we continue to do very well in mortgage. We grew almost 77% year on year. And our book stands at 65 billion, which is roughly 33% of our retail portfolio and 25% of the total financing book. Given the current macroenvironment and the government initiatives to defer some instalments, margin has decreased by almost 17 bps year on year and stands now at 5.00%.

We have also increased our market share of point-of-sale for digital leadership and we have reached now almost 27% market share. Number of active digital customers also continues to do very well. We have now almost six million active digital users and now we are getting more than 70% of all new opened current accounts on digital channels. And on the execution excellent, we continue to focus on automation and robotics. Last quarter we had completed migrating to our new tier four data centre.

As you can see, the kind of volume that we are processing currently has increased the average volume from 230 million in 2019 to above 250 million in 2020, which is almost an 11% increase. If I take you to the next slide, which will give you a summary of the action taken during this crisis. It is our responsibility to support the community during this challenging environment. Our focus remains the safety of our employees and customers.

60% of our staff are working from home and we have also limited physical meetings and also promoted social distancing.

Also, we initiated sanitisation to all our branches and our head office and the operations centre. As for customers, we deferred the instalments payment for the impacted sector, also we have waived all digital and financing fees. As a part of our digital leadership we have encouraged customers to stay home, stay safe, and use our digital channels. We have seen as a result, digital transactions increase over 50%. We are proud to have contributed to the community by donating almost 50 million.

This crisis, is considered as a real test of the readiness of our business continuity command centre, which has demonstrated its strength. We will continue to develop it in order for us to become more resilient for any future crises. Now, I would to pass over to Abdulrahman, our CFO, to give an update on the financial performance for the quarter.

Abdulrahman Alfadda

Thank you, Waleed. Good afternoon, ladies and gentlemen. Thank you for joining our earning call for Q1 2020. I will start with the macro outlook. From our perspective, we have seen a mixed bag of challenges impacting the Saudi economy in 2020. I'm sure that you guys are aware of the Covid-19 impact, lower oil price and also lower oil production that is impacting the Saudi economy. Those events have created a simultaneous supply and demand shock and our economists project the 2020 GDP to contract by 4.5% and the budget deficit to be around SAR 350 billion.

Government has taken measures to combat the impact from the lower oil prices through a rationalisation of the government spending that has been communicated recently. Also, raising the VAT, the cost of living allowance removal. Those steps are intended to address the fiscal deficit for the government. In addition, there has been a lot of stimulus that has been announced by several government entities.

On the outlook, we've seen a lot of uncertainties and we'll be refining our forecast in the next part of the year. Moving on, this is a snapshot of the government stimulus package that has been highlighted. Around SAR +200 billion, close to 8% of GDP that has been communicated by various government entities. Those measures can be classified into several parts.

A, payment deferral programmes that have been announced. B, fee waivers and some of the delays on registration on payments. C, subsidising some of the private sector salaries, or subsidising the utility bills. D, increase the debt-to-GDP ceiling to 50%. And, finally, accelerate the private sector payments. So these are the stimulus package that has been announced. And we would be happy to discuss it in further detail if you guys are interested later on. However, we believe that those measures will help the private sector and the householders to better be able to manage the impact that we've seen.

On the financial result, I know that we have been receiving alot of questions regarding the modification impact or the payment deferral that we have announced. This is what Waleed has discussed earlier.

In Q1, we have deferred six-month payments of the MSME customer whereby the net impact of that is close to SAR -77 million. In addition, we have postponed three-month payments for the public and private medical sector employees. The impact is a SAR -244 million. Subsequently, we've taken close to SAR 1.75 billion of free deposits from SAMA. The impact for that is SAR 125 million.

Those adjustments have resulted in a net NPV modification loss that we have taken in Q1 by SAR 195 million, as a part of the yield income. As you can see over here, the impact on the modification loss on the NIM, which is around 24 basis points in Q1, SAR 195 million on the net income, plus 220 basis points in the cost to income ratio.

on the balance sheet side we grow our balance sheet by 8% year on year, mainly driven by the growth on the financing portfolio, which we grow 11% year on year.

Customer deposits, we have grown 8% and I think we are quite happy about the result and we're looking forward, over the coming period to further grow our market share. Digging deep on the balance sheet, 11% increase on the financing portfolio is mainly coming from retail financing, which we have grown by close to SAR 27 billion.

Mortgage, as Waleed mentioned, we have grown 77% year on year, close to 19% quarter to quarter. Current accounts, we've grown close to SAR 14 billion, which is 5% year on year. On the net income side, our net income was down by 7%, mainly driven by the higher operating expense by 16% and the higher provision by 78%. However, we delivered YoY yield income growth, despite the modification loss, close to 4% higher, also non-yield income of close to around 23% year on year.

On the operating income side a 7% growth, and fee income growth that we have seen around 31%, the reason for that is on the digital and payment, which is considered to be our strategical focus for 2020 and beyond. Net profit margin has decreased by 24 basis points, due to the modification loss. If you had removed it, actually it went up to 5.24%. In a nutshell, we managed to pick up, despite the modification loss, two basis points QoQ. And the reason behind that is the same reason that we've been communicating over the last couple of years, which is on the mix change and the focus on mortgage financing.

On the expense side, around 16% higher year on year. Cost to income ratios around 32.6%. The main increase on the operating expense is due to upgrading our IT and digital infrastructure and also we've taken a small operating expense in Q1 related to Covid-19 related expenses.

Moving on, on the asset quality, as Waleed mentioned, we've increased our provision by 78% to reach SAR 693 million net in Q1. NPL ratios around 107 basis points. Retail is almost flat, in the range of 30 bps. Nevertheless, corporate, we've seen a pick-up in the corporate NPL. The main reason is that we've seen few names in our corporate book that are experiencing some cash flow squeeze, which we moved to stage three and they were in stage two previously.

Our NPL coverage stands at around 253%, well ahead of comparable industry averages, as of the end of 2019. Cost of risk stands at around 105 basis points, which is in line of Q4 and 41 bp higher than Q1 last year. We would like to also highlight that 96% of our financing portfolio is stage one. And if you look at the stage coverage, in stage one we're at around 0.9%. Stage two at 29%, stage three at 91%, well ahead of the industry, which is a very comfortable position to manage any unforeseeable challenges that we might see going forward. Also we'd like to highlight the gross charge, we have taken SAR 933 million in Q1. Out of that we have taken SAR 313 million as a management overlay related to the Covid-19 expected losses. Around SAR 180 million is for retail, SAR 132 million for corporate as a gross provision.

On the liquidity side, loan to deposit ratio still healthy at around 82%, far away from the SAMA cap limit of 90%. Liquidity ratios are very healthy, LCR 177%, NSFR 127%. Also from our perspective we've seen our liquidity position is stable. We're monitoring the position on a day-to-day basis and it's not like what we've seen in 2016. Bottom line for liquidity is a very comfortable position at the time being.

On the capital side, our shareholder equity went down by close to SAR 1.2 billion compared to the same period last year, mainly due to the dividend payments that we have paid for 2019 period. Our tier I is around 17.6%. CAR is around 18.6%. Again, the reason is due to the increase in the credit risk RWA, which is related to the financing growth that we have seen. ROE, we have highlighted before the modification loss and after the modification loss, ROE stands at around 18.36%. And ROA at around 2.49%.

We've been receiving a lot of questions in terms of what is our plan short-term and medium-term. And from our perspective we believe that we are having a lot of challenges, whether it be the Covid-19 impact, whether it be the rate environment, whether it be the oil prices. Now that will lead to multiple pillars of challenges that we have seen, growth forecast, asset quality, liquidity, and finally the profitability.

However, what we have done as a management team, we've basically set a plan to manage all those challenges. We have developed a lot of task forces, managing each pillar of those challenges that we have seen to be able to manage the current challenges. However, on a high level, if I could highlight from the growth forecast, mortgage is a growth story for us over the last few years. We're leveraging from the success story that we've built up and we'll continue to leverage from that.

On the asset quality, from our perspective, the core portfolio is a low risk, mainly salary-assigned retail portfolio. Nevertheless, we are monitoring our corporate exposure and SME exposure and leveraging from the SAMA and government stimulus package and monitoring exposure efficiently. Liquidity, 94% of our customer deposits are current account. Nevertheless, we're monitoring the liquidity position on a day-to-day basis and taking any prudent actions.

Finally, on the profitability side, we're focusing on changing the mix of the portfolio. That will help us improve the return and also focusing on the key strategical items of our ABCDE strategy and one of the main pillars is the digital and the payment leadership.

Now, although there are a lot of significant uncertainties and challenges that we have seen that make it somehow difficult for us to provide an accurate guidance, however, I'll try to provide some kind of, sort of an indication, which I'm sure that you have seen we have widened the range.

But nevertheless, as the picture becomes more clearer and when we come to the second quarter, we'll be refining those guidance accordingly. So I'll start with the financing. We are upgrading our financing growth for 2020 to be high-single digit growth. I think you've seen our year to date growth in the financing portfolio is close to around 5%.

We believe still there will be a demand, mainly on the retail and specifically on the mortgage. And that's why we believe that there is a good opportunity for us to grow. On the net profit margin, we are downgrading our guidance to -45 to -25 basis points. The reason behind the reduction on the guidance is basically to take into consideration the Fed rate cut and basically SAMA follow through. Q1 last year, the average SAIBOR was 294bps; Q1 this year, average three-month SAIBOR is at 187bps

So we have a contraction of 107 bps on the three-month SAIBOR. In full year 2019, average SAIBOR was 264bps; our forecast for the SAIBOR this year is around 105 bps, so close to 160 basis points lower on the SAIBOR. That will have an impact on our corporate and treasury portfolio, especially the floating. That's one. The other reason is as we've mentioned, we have waived the processing fees for the retail loan.

And that will have an impact, and those fees are amortised as a part of the yield income and that has an impact into the NIM guidance for 2020. Our cost to income ratio, we've downgraded our guidance to below 33%. Cost of risk, we've downgraded our guidance to 80 - 100 bps. And the rest is on the capital adequacy and ROE. Finally, I would just like to conclude that, again, these are our best estimates at the time being, from the limited information that we have, and we will be refining as and when we are going on the remaining of the year. Thank you very much for listening and I wish you all the best.

Operator:

Ladies and gentlemen, to ask a question please press star followed by one on your telephone keypad. Alternatively, for those connected online, please type your question into the At box. The next question we have today comes from Naresh Bilandani from JP Morgan. Naresh, your line is now open.

Naresh Bilandani: Yes, hi, thank you very much. It's Naresh Bilandani from JP Morgan. A bunch of questions, please. And thank you very much for the detailed presentation. Much appreciated. My first question is can you please share some thoughts on the pricing of mortgages in the current environment? How much do you think that the pricing can potentially correct, because it's not directly related to the rates and SIBOR? Can you share some thoughts on how much lower can it go from here?

And do you see any risk of regulatory interference into pricing of these mortgages, especially retrospectively on the existing mortgages? So that would be my first question. My second question is on the cost of risk. With the fact that we are seeing critical consolidation in the system, we've seen the reduction in the cost of living allowances. Do you foresee the need for taking any higher provision under IFRS 9, because these changes may have some impact on the debt burden ratios for the households?

So any thoughts you can share on that, that would be helpful. The third question is of course on the dividends. We are entering into a period when Saudi banks start planning their interim dividends, so any thoughts you can share on that, that would be super appreciated. Thank you.

Abdulrahman Al Fadda: Thank you Naresh for the questions. I'll start with answering on the mortgage pricing. I just want to clarify, I don't think it's a bit correlated that much to the SAIBOR rate. It's more of supply and demand and I think it's a market share play, From, what we have seenSo far We haven't seen that much of the margin contraction YTD. Honestly, I don't see that much of, big pricing compression in the remainder of the year. As far as any regulatory changes, it's unlikely to see it at the time being on the mortgage pricing.

On the third question, Naresh, we have a set of financial KPIs in terms of the results and we have not changed any dividend policy at the time being. It's too early for us to decide what's going to happen, but at the time being our dividend policy is still intact. Maybe if you can repeat your second question related to the cost of risk.

Naresh Bilandani: Yes, sure, Abdulrahman. So I just wanted to check, because we've seen some book consolidation announcements recently with regards to cancellation of the cost of living allowances. So these will certainly have some kind of impact on the debt burden ratios. Do you think that because debt burden ratios can come under a bit of a stress you will potentially need to take some extra provisions under IFRS 9?

Abdulrahman Al Fadda: Thank you, very good question. Let me clarify. The cost of living allowance is not part of our global DBR calculation. So there's nothing that has to do with it. It has nothing to do with our DBR, at the time being no change.

Naresh Bilandani: Okay, understood. Maybe just very quick, two follow-up questions. First of all, so if you think that the mortgage pricing is likely to be sticky, then your guidance of 25 to 45 basis points decline I assume is largely building in the impact of the modification into the margin. Am I right on that term, and on the reduction in the yield on the balance 25% of your corporate loan book, which is linked to the SIBOR? Is that a fair understanding?

Abdulrahman Al Fadda: Let me give you the waterfall of where our guidance is coming from. The 24 basis points that I've highlighted in Q1, that will lead to around close to 6 basis points on an annualised basis. The waiver of the processing fees that we have highlighted at the beginning of the presentation, that is around 10 to 15 basis points. The impact on the 160 basis points SIBOR reduction on a year to year basis, is close to around 45 to 55 basis points.

Those are without taking any management action, and if you're taking the mix change by the management and putting the mortgage and the retail, which have yield pick up of 20 to 30 basis points, we're driving our NIM guidance of -45 to -25 basis points for 2020.

Naresh Bilandani: Got it, okay. Thank you. And I promise this is going to be my final question. Now, since we are already late into the second quarter of this year, can you just guide on what have been the trends in the business volume, in say, the second quarter to date? What you see from the SAMA data that the liquidity metrics and the deposit volumes have been more or less okay, plus any broad comments that you can share on the loan growth in the margins, that you've only seen in the second quarter to date?

Abdulrahman Al Fadda: First of all, on the margin, I think it's almost in line with what we've seen in the last part of Q1. And, this is Ramadan. Usually Ramadan is a slow month. However, what we have seen, a small sale volumes went through, but also what I would like to highlight is the POS, the transaction, the payment, the spend, we have seen it lower due to the lockdown that the government has taken back in since mid-march. So that's the highlight of what we have seen so far.

Naresh Bilandani: But, say, to assume that the volumes in April would have been originated, would have been close to zero, right?

Abdulrahman Al Fadda: Volumes are basically in line with our expectations and in line that we have seen in the last month of the quarter. Overall, the volume is trending better than our expectations but lower than the historical figures, given those challenges. T

Operator: The next question comes from Hootan Yazhari of Bank of America. Hootan, your line is now open.

Hootan Yazhari: Thank you, gentlemen. I had a follow-on question on the cost of risk. So you have guiding 80 to 100 basis points cost of risk for the year. Can you confirm as to whether this guidance takes into consideration the changes we've seen to the fiscal consolidation measures, including the tripling of VAT? The next question I have was regarding your cost base. You mentioned that you are focusing on costs.

Can you clarify how much, what measures are available to you to reduce costs in this environment, as well as how easy is it to reduce costs when you're focusing on significant amounts of digital spends that you're undertaking? Is it really possible to engage in a meaningful cost reduction programme at this time? Yes, those are the two questions I'd like, please.

Abdulrahman Al Fadda: Thank you very much for the questions. Regarding your first one, related to the cost of risk. Yes, we take into consideration all the recent announcements, whether it be the fiscal consolidation, the cost of living allowances. Again, let me try to clarify or to re-state. The core portfolio is salary-assigned, and when we do our calculation for providing financing to our customers, the cost of living is not part of the DBR calculation, number one. The majority of our financing customers are government-related employees, so that's on the cost of risk side.

Now, on the question related to the operating expense, we believe that the operating environment has changed. And one of the things that we are doing is we are accelerating our digital transformation programme. We've seen that whether it be by choice or by the customer intention, but nevertheless it was music to our ears to transform further on the digital. We'll keep investing.

However, from our perspective, one of the things that we are looking at is we're rationalising our CAPEX and OPEX spend. I would say the rationalisation impact will not have that material impact in the short term, but on the longer term, where we're investing in digital, the robotics, all of the initiative that we were doing on the digital side, it will have a long term cost-saving opportunity.

Hootan Yazhari: Understood. Presumably, given that you're going down the routes of digital, your branch network is something that you might look to rationalise. Given that you've been able to very effectively accumulate deposits via the branch network, are you now looking more towards the wholesale market, and issuing longer-dated liabilities? Maybe to close the mix match with your growing mortgage book, as well? Is that something that you're considering in the current market?

Abdulrahman Al Fadda: Again, the asset and liability maturity mismatch is a natural with all of the Saudi banks. At the time being, we don't have any plan but in case we do, the market is open, and we can do it at any point in time, in terms of issuing long-term denominated Sukuk.

Hootan Yazhari: Understood, thank you.

Operator: The next question comes from Taseer Abbas, of Derayah. Taseer, your line is now open.

Taseer Abbas: Hi, this is Taseer Abbas from Derayah Financial. Thank you for the presentation and the call. A couple of questions from my side, if I may ask. First, there was a strong loan loss in the first quarter, and I assume part of it was because some clients, their payments were deferred. So what would have been the loan load if it were business as usual? And especially what was the loan loss in the first month of the year?

Second, I know there are a lot of variables involved, but I just wanted to have the management view on the interest rates. Do you see the interest rates happening? And the last question is on the fee income. There was very strong growth in fee income. Can you provide some more colour on that and is this the new level we should be looking forward now?

Abdulrahman Al Fadda: The modification impact that we have done in Q1. That has a limited impact into the financing portfolio; in fact, the financing portfolio went lower by SAR 320 million, which is the NPV of the cash flows. It's almost close to 4.7% in growth year to date. As far as the interest rate outlook, I think your guess is like our guess. We still believe that the interest rate is going to be low for quite some time. And that's our view. Your third question related to the fee income.

Again, it is leveraging from our dedicated focus into the digital and payment. The fee income has grown by close to 31%. We've seen also growth into the FX, which is close to around 19% year on year FX fees growth. But mainly it's coming from the digital and payment fees.

Taseer Abbas: Okay, great, thank you.

Operator: The next question comes from Aybek Islamov, of HSBC. Aybek, your line is now open.

Aybek Islamov: Thank you, it's Aybek Islamov from HSBC. I have three questions I'll take. The first one, can you tell us about the difference between your reported net income and comprehensive net income? Your comprehensive is 10% lower than reported. This difference is a lot wider with other Saudi banks which reported so far. That's my first question. The second is are you taking loan distribution expenses on loans where payments are deferred under the SAMA scheme, under the central bank guidance?

What happens with the costs of risk and bad asset charges when the deferral period expires? The effect will build up in your cost of risk? That's my second question. And my third question is around your loan growth guidance, how's your vision? I guess you see a reasonable amount of customer demand, since you're giving this guidance. Are you surprised to see this relatively strong demand at this point of the economic cycle and why do you think demand is so strong at this stage? And that's all.

Abdulrahman Al Fadda: In the first question, related to the other comprehensive income. In Q1 this year, there was a net change in our fair value of OCI of close to SAR 193 million negative. And also there was an exchange translation difference of around SAR 42 million. The net combined effect is around SAR 235 million, which has brought the net income after Zakat for the period of SAR 2,380 million, and total comprehensive income to SAR 2,145 million. So that's an answer to your first question related to the other comprehensive income reason.

The second question related to utilising the SAMA stimulus package by deferring that payment for the SME. Are we moving those customers from stage one to stage two and whether that will have an impact on the cost of risk? We're not moving it from stage one to stage two.And we are assessing client by client; we are assessing sector by sector; we are assessing the portfolio at the overall level. If the client is experiencing cash flow and for some reason is not utilising or not part of the SAMA stimulus package, definitely we will move him either top up or moving within the staging, stage migration. That will lead to a higher cost of risk.

The third question is on the loan growth. What we believe is although that probably the retail financing from our perspective, 75% of all our financing portfolio is retail. And given our distribution, given our brand, given our network, given our investment in marketing, the improvement in the back-office processes, turnaround time, etc, we believe that an opportunity is still from the home ownership, is still way ahead. Mortgage is a key priority and a key focus for us. And we believe still there is a further demand for the mortgage product going forward.

Aybek Islamov: Okay, thank you. And just one last question, if I may, and a very quick one. On your operating costs, last time VAT was introduced, there was a sensible, visible impact on your operating costs. I think you applied VAT on your mortgage fees. What do you expect to see this time around, in terms of VAT tripled from 5% to 15%? How do you think it will impact your operating cost base?

Abdulrahman Al Fadda: The direct impact onto operating cost is not material. If you see our operating cost, it's broken down by staff, the depreciation and amortisation and you have the G&A. And as part of the G&A there are several service-related that we are getting either from local vendors, international vendors. The international vendor, the withholding tax has not been changed, it's still at 5%. Some of the services that we are getting from local vendors, and, mind you, the VAT will be implemented from 1 July, so we'll have a second half of the year. So the direct impact is not material into our operating costs.

Aybek Islamov: Thank you very much.

Operator: The next question comes from Shabbir Malik, of EFG Hermes. Shabbir, your line is now open.

Shabbir Malik: Thank you very much. Thanks for the presentation. Most of my questions have been answered. Just a couple of questions. We saw a complete lockdown in major cities in the month of April. Did that disrupt your mortgage growth in that particular month, the closure of branches, etc? My second question is on the modification loss. Can you give us a sense of how it is computed, and I think there have been two lines?

One, you said there is an impact on the net interest income, on the special commission income and there is also an impact on the loan book. So if you can just maybe give us some fundamental drivers of what caused those changes? And is this a one-off impact that came through in 1Q? Could there potentially be an unwinding of this impact in the coming quarters? Any colour on these would be helpful, thank you.

Abdulrahman Al Fadda: Thank you, Shabbir. So related to your first part of the question, the lockdown I think started somewhere in mid-March, when we had a partial lockdown. Basically, during lockdown we operated close to 40 to 45% of our branch capacity. Staff, we operated less than 40% at the head office and operation centre. We've seen also the customer, I would say visits to our branches came lower, a bit. Nevertheless, what we have done is a lot of loan origination that has been done was in the digital side.

We've been investing in our digital platform and especially on our mobile application. Customer can sign promissory notes electronically, sign over the communication electronically, that at least speeds up the process. Again Shabbir and for the rest of the audience, to highlight one of the things that we have put in place. We believe that going forward we are preparing for the next normal, the phrase that everybody is communicating at the time being. Waleed is chairing a dedicated task force, including all of the senior management team, to be able to leverage from the success model, the learning exercise that we kept during the lockdown.

We analyse the experience that we had with our customers, with our staff, turnaround time, the vendors, the regulators, the community, etc. We believe there will be a change in the operating model. We are planning to take an advantage of the lending exercise that we got to position Al Rajhi going forward and also to improve our business continuity plan.

Shabbir Malik: I think if you could just give us an overview of how you computed the modification loss. I think in your slide you say that there is an impact on special commission income and there is also an impact on loan volumes. Second, if this impact is a one-off, and third, could this modification impact, can this potentially be reverse in the coming quarters?

Abdulrahman Al Fadda: Basically, we've extended the payments without a profit due to both sectors, the MSME and the health sector. So what we have done is we're discounting the cash flows at the original contract rate and the NPV of the original cash flows vs the discounted cash flows are generating an NPV one-off cost into our special commission income by SAR 195 million.

Shabbir Malik: And there's going to be a reversal of this impact in the coming quarters? Could this discount be unwound?

Abdulrahman Al Fadda: From an accounting perspective, that SAR 195 million, we are taking the NPV as day one hit. However, you get the amortised back, that SAR 195 million, over the life of the deferral, whether that be the personal finance, which is up to five years, auto up to five years and a mortgage up to 20 to 25 years. So it's going to be a long-term until we're getting the benefit or compensating back that NPV impact in Q1.

Shabbir Malik: Has there been any assumption made that how much of your portfolio has actually taken this programme? Have you assumed 100% acceptance or is it a partial acceptance of the programme, which has led to this modification impact? Basically, could there be another one in the coming quarters?

Abdulrahman Al Fadda: The first part of your question, 100% have utilised the programme. The second part of your question, I don't have any further information for the time being.

Shabbir Malik: Thank you, thanks a lot.

Operator: The next question comes from Saul Rans, of Morgan Stanley. Saul, your line is now open.

Saul Rans: Yes, thank you. Two questions from my side, please. Most of my questions are answered. Just to follow on the loan deferrals. Just to be absolutely clear, othe accounting, the way you account for it is that you don't take a holiday, if you like, in terms of you don't stop booking interest on those loans for the period of deferral, it's just that you spread the interest over the longer term of the loan and then book the one-off hit in this quarter, to recognise the fact that you've incurred a loss.

But in other words, you just spread the interest over the period, including the period when you're not getting any payments on those loans, just to be clear. That's my first question. And the second one, just returning to your mortgage business. Perhaps I could just ask if you look at the rate of request for new mortgage loans that you've been receiving in the last few weeks, if you compare that rate of the applications with the rate that was happening two or six months ago, what's happened to that rate of new loan applications?

And, generally, I don't know if you'll be able to comment, but do you have a view on the extent to which the bottlenecks and problems and logistical issues that would be involved in the house building sector related to actual construction of the houses that you would lend on, do you have a view about the extent to which that may potentially create a risk to your ability to continue disbursing the mortgage loans at the rate that you have if the housing supply is constrained? Those are my two questions, please.

Abdulrahman Al Fadda: The first part of your question, which is a clarification, is absolutely correct. Given that we are deferring the payments, we are not accruing any profit on that. So basically the interest is being spread across the entire loan and we NPV that and that's why we're taking the NPV cost of SAR 195 million net in Q1. As far as the mortgage booking and requests, the pipeline is healthy. We've seen the requests are coming through. But, this month we are in the last week of Ramadan. Probably Ramadan was a bit slow in terms of given the limited working hours, but nevertheless our digital platform is kicking in and helping us in terms of the booking process.

So in a nutshell, I think the mortgage growth that we've seen this month or the last couple of months, it is slightly but then I think it is above our expectations, taking into consideration the current challenges and current environment.

Finally, on whether I have seen any bottlenecks on the construction, on the housing and constructing of housing, etc. We have not seen that for the time being. I'm sure, the bottleneck as related to the supply chain has created some kind of a bottleneck at the time being, but I don't think it's that material. The majority of the sales in the mortgage are ready units, which should not have an impact on I would say short to medium term on the mortgage, but on the longer term, depending how the Covid-19 situation evolves, that's a different discussion.

Saul Rans: Okay, thank you very much.

Operator: The next question comes from Sharat Dua, of Fiera Capital. Sharat, your line is now open.

Sharat Dua: Hi, good afternoon, thank you very much. Just following up on the mortgages. The question I had is that this has obviously been a high growth area for you for some time and we know it's been supported by government initiatives as far as housing is concerned.

Given the pressure that government finances are now under following the oil price drop, and some of the cyclical changes that we've already seen, how do you see the risk to that support for the housing industry and therefore the more medium-term growth prospects of the mortgage books? How have things changed in your view, if at all, as a result of the lower oil price?

And my second question was you mentioned in the presentation that you deferred digital fees in this quarter. Can you give us an idea of how much that hurt your non-interest revenue and are those fees still deferred or are you charging those again? What is the process for going back to some of the investments mortgage fees? Thank you.

Abdulrahman Al Fadda: Thank you for those couple of questions. A, related to the mortgage subsidies, we have not heard anything about removing any subsidies on the mortgage at the time being. It is one of the top pillars of the 2030 Vision to increase the home ownership for the Saudi household. We don't believe that there will be any changes into providing subsidies to the household and to the mortgage sector. That's the first part.

On the second part, related to the fee, from our perspective, the fee waiver for the customer utilising the digital channels, whether it be transaction fees, whether it be transfer fees, whether it be processing fees, that will definitely have an impact on the fee income for Q2, but again, the fee income is not that material overall compared to the total operating income,.

Sharat Dua: Can you tell us how much it was in Q1?

Abdulrahman Al Fadda: The overall fee income for Q1 was close to around SAR 618 million. That was including digital payment, including many others.

Sharat Dua: And so how much would it have been if you had not waived the digital fees?

Abdulrahman Al Fadda: We waived starting from mid-March, not from the beginning of the year.

Sharat Dua: Okay, sorry. And it was waived up until. they're still waived today, yes?

Abdulrahman Al Fadda: They're waived starting from mid-March until mid-September, so around six month programme for that.

Sharat Dua: Okay, understood. Fine, thank you.

Operator: The final question today comes from Nouman Khan, of NCB Capital. Nouman, your line is now open.

Nouman Khan: Thank you, gentlemen, for taking my call. Most of my questions have been answered, just a few of them remain. I must have missed out if you have done this before, how much is the mortgage book as of the reported book right now? One. And the other thing is as the rates have actually come down, so the mortgages that have been booked on the newer rate, the new rates on the new mortgages, how much is it down from the ones you were doing six months ago or 20 years ago?

Abdulrahman Al Fadda: The mortgage book represents close to 33% of the entire retail portfolio. And close to 25% of the entire financing portfolio.

Nouman Khan: The rate on the new mortgages that you're booking right now, what was the rates that you were booking about a year ago, as well? The different rates then.

Abdulrahman Al Fadda: Not a material impact, Nouman. Yes, there is a bit of contraction, but it's not a major one, to be honest.

Operator: And now I'd like to hand over back to Amr Sager, to do his closing.

Amr Sager: Thank you, everybody, for your trust in us. We're very proud not only of our results, given the current environment, but also of our contribution to the society and participation in the various government initiatives. We'll continue to focus on our strategy for this year to achieve our goals, while taking into consideration the safety of our customers and employees.

Please note that due to time constraints, we're going to be answering the webcast questions via email to all of those who asked questions. And please feel free to reach out to IR department any time you like. Thank you very much and Stay Safe.