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Presentation

Amr Sager:

Hello, everyone. Thank you for joining our earnings call and webcast for the second Quarter of 2020. With us today on the call is our CEO, Waleed Al Mogbel, our CFO, Abdulrahman Al Fadda and our CRO, Abdulaziz Resais. We'll first start with our CEO, who is going to give us an update on the strategy highlights, followed by our CFO for the financial performance. We'll then open the floor for your questions and answers. You can also ask any questions you may have throughout the webcast. However, we'll be giving the priority to the call. Waleed, over to you.

Waleed Almogbel:

Thanks Amr. Welcome everyone, for our second earnings call for this year. Before I start talking about the second quarter result and our progress in the strategy, I would like to give a quick brief on the second quarter business environment.

If you recall, we had almost three weeks of complete lockdown, and we had two months curfew. As a result, the bank has operated on almost 50% capacity. Our command centre has been working very closely with the government and regulators to put the right preventitive health measures that are necessary to protect our customers and employees. Also, we have already participated in all the government initiatives to support the SME by deferring the payment, and waiving customer fees from all channels, digital or branches.

Nevertheless, the bank has performed very well in the second quarter. If we look at the balance sheet, we have very strong growth in our balance sheet. Net financing has grown almost 10% YTD; Retail almost 12% YTD, and 22% YOY. Mortgage has grown almost 38%

YTD. Current account, has been growing at almost 10%. 96% of our liability is current account as of the end of June 2020.

When we talk about assets quality, our risk policy resulted in a very stable cost of risk. Now we are at 85 basis points, and NPL is at almost 1%. As you may know, Al Rajhi Bank applies very conservative policy when it comes to the provision. We have increased our gross provision by almost 40% year to date.

We have a very strong recovery and collection team as our recovery has increased 30% year on year. Consequently , our coverage ratio stands at 253%. On the Income Statement side, we have demonstrated very good performance year to date achieving SAR 2.7 billion in the second quarter compared to SAR 2.6 billion in the first quarter of 2020. That gave us SAR 5.4 billion before the zakat, which is 5.4% lower than last year's year to date figure.

The impact on NPMs has resulted from three main factors. The first one is the rate environment that currently we are facing. Second is the payment deferral that has been done in first and second quarters as a part of our participation with the government initiatives, to the benfit of the Ministry of Health employees or SME and corporate clients. Also, waiving the fees from our channels, as I mentioned, for digital and branches. As you may know, we are amortising our loan processing fees in yield lines.

If we move to the next slide, which is about our strategy update, we continue to focus on accelerating our growth. And as you know, mortgage is one of our focus areas. We have grown 83% year on year. That represents now almost 36% of our retail book and 28% from the whole financing book.

Also, we continue to focus on developing our employees. Although we have the COVID-19 and the lockdown, we rely more on our investment in digital. We have provided more than 25,000 training days to our employees, and that's between compulsory training or soft skills modules. Our engagement index for our employees now reached 66%. On the customer side, we have launched ten new products, and these new products are mainly for retail and SME.

Our NPS remains very high, especially in digital. We continue leading the market in digital channels. Now we have 6.5 million active customers in our digital channels, and that represents 65% penetration to offer all active customers in the bank. Our digital to manual ratio has increased now and reached 80 to 20 digital to manual. For operational excellence, we're still focusing on automation and relying on robotics for our back office. We have moved completely last quarter to our Tier 4 data centre.

Now we have the average of the transaction. It's reached 240 million, compared to 228 million in December. Now I will pass to our CFO, Abdulrahman, and he will give you more details on our financial preformance for the second quarter.

Abdulrahman Alfadda

Good morning, good afternoon, good evening, ladies and gentlemen. Thank you for attending our Q2 earnings call, and I would like to start by wishing you all good health during the current crisis. As usual, I will go over the financial performance slides very quickly so that you can have a more time in the Q&A session. So, starting on the macro level, although the IMF produced a forecast on the GDP to contract by close to 6.8%, the way that we see it is, we see the oil prices have improved. Given the improved fundamental, we are upgrading our oil price forecast for 2020 to be around $40.5 and close to $50 in 2021.

We believe, that the deficit to contract to be close to around SAR 200 billion. I would also like to highlight that the overall foreign reserve for the Government of Saudi Arabia is close to around SAR 1.6 trillion. Also, our forecast on the inflation side, to go higher to around 2.2%. it is on the back of the VAT increase that has been implemented, 1st of July onwards. Also, our forecast for SAIBOR, average for this year, to be around 1.1%, to be going lower for next year to be around 70 basis points.

Now, moving on to the next slide, we've been getting a lot of questions about the VAT impact on the customer spending and the purchasing power. As you see on the right top line chart, we have seen the combined point of sales and ATM has contracted for the first five months in 2020, compared to the first five months in 2019 by close to 12.5%. Nevertheless, we've seen an improvement in the point of sales and the ATM in June and July.

Saudi consumption, I think is very high compared to the region. For example in 2019, around 63%, compared to the regional market. Household debt percentage of GDP remains at around 12%, which is low, compared to some of the regional markets, and also if you compare it to the average emerging markets. I would also like to highlight that in 2019 close to around 65% of the spending is discretionary, as per the SAMA's data, versus 35% on the essential.

Moving on, this is the slide that we presented in our Q1 earnings call. Basically, the total stimulus package is close to around SAR 350 billion, almost 13% of GDP. If you see, the highlighted in blue are basically the ones that have been introduced in Q2.

Basically, I will not go over it in details, but if I can break it down into five main items, Payment Deferral Programme, which I think, everybody know about it. Second, combination between fee waivers and delaying some of the payments. Third is, subsidising the private sector for either salaries, utilities or municipalities payment. Accelerating the private sector payment, and finally, increasing debt to GDP celling to 50% from 30% in 2020.

Now, if I can move onto the financial results, I will start with the balance sheet. Our balance sheet has increased 9% year to date, mainly driven by the increase that we've seen on the financing and the investment. Net financing has increased by close to around 10%, close to around SAR 25 billion year to date. Mainly strong performance in the retail and specifically on the mortgage side. Having said that, while we are growing our asset side, we've seen, also, a decent growth in our total customer deposit.

Our total customer deposits have increased year to date by close to 7.1%, which is close to around SAR 22 billion. Moving on, these are basically the drivers of the asset growth, basically, SAR 25 billion, as we highlighted on the increase on the financing, and also around SAR 6 billion on the investment. On the liquidity side, we've also grown our current account by SAR 29 billion year to date, and we've managed to shed off some of the time deposit, or the Direct investments, that we have in our book.

In terms of the drivers of the financing growth, as I've highlighted, close to around SAR 25 billion, mainly driven by the growth on the mortgage side. As Waleed mentioned, our mortgage growth is 83% year on year. we grow also our mortgage 38% year to date. Our mortgage represents 36% of our retail book and close to around 28% of the financing book. So, the key message we'd like to highlight over here in this slide is, we keep leveraging our retail franchise by growing our retail financing and current account. Secondly, the retail financing represents 76% of the financing book.

Moving on, on the net income side, operating income went higher by 2.9%, mainly driven by almost 1% increase on the yield income and close to around 13% on the non-yield income, mainly driven by the fees from the banking services and to the other income, which is, basically, our dividends income and some other small items over there.

Our operating expense has increased by close to 6.8% year on year. Impairment charge, as Waleed mentioned, our net charge has gone higher by 48%. That will lead to close to around 5.4% decline in net income before Zakat year on year, and after Zakat, is close to 5.6%.

Moving on to the next slide, basically, you can see the driver of our operating income growth. We have a small increase into the net yield income. As Waleed mentioned, it's basically, the drop is related to the rate environment, the payment referral and some of the fee waiver that has been introduced. And if you can see, our NPM stands at around 4.8%.

In the right bottom side of the chart, you see the NPM drivers. Basically, we had a drop of 16 basis points due to the modification loss that we have done over the last couple of quarters. The fee waiver impact is around six basis points. SAIBOR impact is 42 basis points in our NPM. If you recall, the average SAIBOR for the first six months in 2019 was 288 bps. In 2020, it's around 151 bps, so the drop is close to 137 basis points year on year. And finally, the management action we had an increase of 24 basis points due to the change in mix and focus mainly on the retail side.

Moving on to the next slide, which is our operating expense, our cost to income ratio is at 33.3%, and you can see that our operating expense has increased by close to around 6.8%, mainly driven by the depreciation and a small increase on the salaries and other G&A expenses. Basically, the reason is mainly on the higher IT-related costs, to improve the resilience and the infrastructure spending that we've been doing into the digital and IT side.

On the asset quality, our net charge for first six months is around SAR 1.15 billion. Our cost of risk at 85 basis points, contracted, compared to first quarter of 105 basis points. Our NPL ratio stands at 1.02%. NPL coverage stands at around 253%, so maybe we would like to highlight a couple of items over here. Our core portfolio is retail, given that 76% of the financing book is retail and salary assigned, so the core portfolio, in our opinion, is a bit of low risk at the time being.

While we're focusing and monitoring our exposure and stage migration, a significant effort has been done in Q2 on the recovery side where we have improved our recovery, as Waleed mentioned, by close to 27% year on year.

On the second slide, stage one exposure represents 96% of the entire financing portfolio. We have taken close to around SAR 1.7 billion of gross charge. Including of that, close to around SAR 423 million of Covid-19 overlay. And if you recall, in Q1, it was around SAR 313 million, so we toped it up in Q2.

In addition, we have revised ECL models, taking into consideration the current scenarios, basically, our ECL charge has increased by close to around SAR 316 million. However, that has been consumed through the overlay that has been built up over the last few years. Our overall stage coverage is very healthy, given that stage one is up almost 1%, stage two around 29%, and stage three is around 80.6%.

On the liquidity side, our loan to deposit ratios stand at 78.8%. LCR 164%, and NSFR 127%. So, from our perspective, liquidity is comfortable, and we've seen an improved liquidity situation in the market over the last couple of months.

On the capital side, our RWA has increased by close to 6.2%, mainly driven by the increase on the credit RWA. Our capital stands at around SAR 51.9 billion. Total capital is close to around SAR 55 billion, increased 1.7% year to date. Tier 1 capital stands at 18%, and if you can see that on the left-hand bottom side of the chart, close to 50 basis points of internal capital generated during the first six months.

On the return matrix, our earnings per share stand at 97 Halala in Q2. Our return on equity is close to around 18.8%. ROA at around 2.5%, well ahead in terms of industry standard.

Next slide, if you recall, that we have presented in our Q1 call, which basically highlights what is our take on the situation; whether, be it on the rate environment, on the Covid-19 situation and the oil prices impact, where we have not changed anything in the slide, apart from putting the delivery side. We've grown our portfolio by 10.1% on the financing. On the asset quality, our cost of risks stand at 85 basis points. NPL stands at 102 bps. On the liquidity side, LDR is 78.8%, LCR at 164%. Finally, on the profitability, our net income after the Zakat has contracted by 5.6% year on year.

On the next slide from my perspective, on the guidance for 2020, we are upgrading our guidance for the financing to be low-teens digit growth, and our assumption on that is, we will continue to focus on our retail financing. Especially, we see a lot of opportunity on the retail financing, on the mortgage side, on the personal finance and auto. On the NPM, we have downgraded our guidance by 10 basis points from Q1, mainly reflecting on the revised mortgage pricing, which we have contracted in June after the REDF announcement on the mortgage pricing.

The rest of our guidance is still intact. Cost to income ratio is below 33%. Cost of risk is between 80 and 100 basis points, and finally, on the capital side, is a CET1 ratio between

17% and 19%, and on ROE is 18% to 20%. So, thank you, guys, for listening. Waleed, back to you.

Waleed Almogbel:

Thank you, Abdulrahman. Just before we go to the questions, I would like just to give you one heads-up about the performance after June. As you have seen from our CFO that we have achieved a very good result in the second quarter and that because of the team and the management, they are focusing, and also we have relied a lot on our investment in the digital. If we look at the things after June, we are seeing a good performance and a good momentum, in terms of the business.

Retail is growing in the same run rate currently for the average of the year to date. Selected sectors in SME is picking up. Consumer spending, in terms of point of sale or card transactions, are back to average run rate for February and the reason why I'm mentioning February, because COVID-19 has started in Saudi in the middle of March, so we are seeing a good pick up where the business is back to the normal life.

Now, we would like to move to the Q&A, and I will leave it for you guys. If you have any questions, go ahead.

Operator:

Thank you. If you would like to ask a question, please press star, one on your telephone keypad now, or if you're listening to the call via the web browser, please click on the flag icon to ask your question. The first question today comes from Waleed Mohsin from Goldman Sachs. Please, go ahead.

Waleed Mohsin: Thank you for the presentation, and congratulations on a solid set of results. Three questions from my side. First of all, what is the quantum of mortgage and personal loan origination in July, versus the month of May and June? The reason why I ask this is that the changes in the Housing Support Programme came into effect, starting 1st June, and the VAT came into effect, starting 1st July. So, just wondering how the trends have changed in July, versus May and June, and we see that a large part of the growth in the retail portfolio is still driven by mortgages. That's my first question.

My second question is on the difference in the margin on the front book versus the back book on the mortgage side, and how much of the back book has reflected, one, the change When I talk about the back book, I'm talking about the overall loan book, not just the mortgage book. How much of the back book has reflected the year-to-date decline in interest rates? And my last question is on, we haven't really seen any announcements from banks regarding dividends so far. Just wanted to get some clarity, and any reasons for the delay so far? Thank you.

Abdulrahman Al Fadda: Thank you, Waleed, for the question. On your first question related on the quantum of the retail growth in July, honestly, we've seen a good pickup on the retail financing.

Also, I'd like to highlight, in terms of the VAT impact, and I think, as per the recent circular from the government, for the first-home buyer, if their house is below SAR 850,000, still, the government will subsidise their VAT amount, so whether it's at 5% or 15%. Now, what we have seen is, basically, a good growth in the mortgage in July. As Waleed mentioned, it is on the same run rate that is seen before the lockdown before May.

In terms of the second question related to the mortgage pricing, we have seen in June, after the REDF subsidies announcement late May, that mortgage origination rates have contracted close to anywhere between 50 and 75 basis points, depending on the tenor of the mortgage. In terms of the back book, I would like to highlight, 76% of our financing is retail. They are fixed-rate. Also auto and personal finance, are five years. Mortgage is anywhere between 15 and 20 years. So, there hasn't been any impact on the back book pricing.

On the floating rate side, which is the corporate and treasury, you've seen the impact on our NPM, which is highlighted into slide 10, is around 42 basis points that we have seen in the first half. And the NPM guidance that we've provided for the full year is taken into consideration, the full impact of SAIBOR for the remaining of the year.

Waleed Almogbel: Waleed, in terms of your third question regarding the dividend, we believe, that Covid-19 and its impact is not over yet. As you may see, some countries remain in the peak of the pandemic and some other countries who entered wave two also. We strongly believe, banks locally and globally should reserve more capital and increase their capital adequacy ratio in the current situation. Therefore, we believe it is too early now to discuss dividends, and we will continue to assess our situation and performance until the year-end.

Waleed Mohsin: Got it. Thank you for that. Just a couple of follow-ups on that. So my question on dividends would be that the bank remains very well capitalised and extremely profitable. The decline in profitability was minimal, and if we look at Rajhi, it's one of the best capitalised banks across EM. So, in that regard, it just seems to be a very prudent decision to hold more capital for growth and to deal with the pandemic. Is this a fair takeaway on why no dividends for the first half?

Waleed Almogbel: Waleed, as I mentioned, two points here I would like to clarify. Still, the pandemic is not over yet, and the full impact of Covid hasn't been realised yet. Second, our capital position will allow us to take advantage of the growth opportunity, now we are having, especially, as Abdulrahman mentioned, that the mortgage now we are growing almost more than 80%. Our retail book is growing more than 20%. So, we need this capital, plus the impact of Covid is not realised yet.

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

Coordinator: Our next question on the line comes from Hootan Yazhari from Bank of America. Please, go ahead.

Hootan Yazhari: Hi there, gentlemen. Thank you so much for the call. Can we maybe get a confirmation of what growth rates you are now using through your ECL models? Is the growth rate from the IMF what you're now running through your ECL models? My second question is regarding some of the management actions that you took in order to offset the decline in NPMs. Do you feel that there's still more to be gained by management actions, or do you feel that you have exhausted what could be done, and that we shouldn't be expecting any further positive impacts for the balance of the year?

And then the last question I have is just a confirmation on what you were saying, with regards to dividends. Is it fair to say that you will refrain from announcing a first-half dividend, but if the situation resolves and we see impact of Covid subsiding by year-end that you would then announce a full-year dividend, which would also take into account the first-half dividend that you haven't yet announced? Or are you completely foregoing the first-half dividend? Thank you.

Waleed Almogbel: I will take the last one, then I will leave the first two to Abdulrahman. Again, I have to emphasise that the pandemic impact is not realised fully yet. We are assessing every month, the situation. The option that you've mentioned is on the table for the management to recommend to the board. Approving the dividend is a board decision. Our job as management is to assess all possible options.

Abdulrahman Al Fadda: Now, coming back to your question on the ECL model, basically, we have taken several factors within our ECL model. One is the GDP growth. Second is the unemployment rate. Third is oil prices, and some other quantifiable measurements that we are taking.

So, you've highlighted about the IMF forecast. I believe, yes, it is the one that we've been using in devising our ECL model, which we have changed in Q2.

Related to the second question is, in terms of the management actions, what has been done so far? Again, you've seen, on our NPM table, we've managed to deliver 24 basis points higher for the NPM improvement due to the management action, which has been mainly. If you see, one of the things, we've grown our investment book by close SAR 6 billion. We're reducing our Interbank, so it's almost the same risk, but maybe duration and probably liquidity is much better.

Also, we've seen a growth in the mortgage versus other retail lending, and also, we've seen other growth retail versus corporate, so that's contributed to the management action that we have taken in consideration in the first half. In the NPM guidance for 2020, all of that has been taken into consideration to provide the guidance that we're providing on the NPM. I would like to highlight, in terms of the SAIBOR, in the full-year 2019, average SAIBOR is around 263 basis points.

For our forecasts, for average SAIBOR for the full year is around 108 basis points, so close to 155 basis points. That, by any chance, will impact, but nevertheless, we are focused to improve the shareholder value, in terms of the delivery that we are planning to do the shareholder. Thanks.

Coordinator: Our next question comes from Naresh Bilandani from J.P. Morgan. Please, go ahead.

Naresh Bilandani: Yes, hi. Thank you very much for the presentation. It's Naresh Bilandani from J.P. Morgan. Just three questions, please. First one, sorry to come back again on the mortgages. You kindly provided a guidance that you've seen the traits on the portfolio decline by approximately 50 to 75 basis points. I was wondering if you could also, please, clarify, what is the median rate right now for mortgages in your portfolio, compared to, say, for example, if I remember the number from Q1, you were running at a rate of close to around, just shy of, 7%.

So, compared to that drop, is that the right benchmark to start with and think that the rates have dropped by 50 to 75 basis points? My understanding from having spoken to the market participants is that the decline is actually slightly higher, so if you can, please, just confirm a starting point on the rates, that would be super-helpful.

The second is, just keen to understand how much of your loan portfolio was eventually subject to deferrals, and if you have recorded further modification losses and the technical gains on the deposit injections in June. We had a SAR 50 billion of an injection in early June. In your balance sheet, is that booked in due to banks? And if you can, please, confirm if you have recorded gains again in your NII from that injection, that would be extremely helpful.

And, third, my final question is one the fee incomes. Now, you've highlighted in slide number 12 that the fee incomes' growth was supported by payments and digital channels. Now, my understanding is that a lot of these fees were exempted by SAMA under the Covid support measures, so if you can, please, throw some more light on what was the underlying driver of the strength in the fees, because that's a bit unclear, so that would be very helpful. Thank you.

Abdulrahman Al Fadda: Thank you, Naresh. That's a very long list of questions, but I will address them one by one. Now, in terms of the mortgage, as I've mentioned, that we've seen the mortgage rate decline, close to 50 to 75 basis points. Basically, that's outstanding on the balance sheet. We're taking advantage in June. Some of, I would say, the old mortgages that will be coming to be financed and a portion of that, especially on the self-construction, are kicking off in June as well.

So, on average, from our book perspective, it's around 50 to 75 basis point contraction on the mortgage rate in the month of June, but usually, our pricing is anywhere between six and a quarter to seven and a quarter previously, so that's whatever the contraction that we've seen. That's number one. On the second question there are two parts. One is on the deferral. We've deferred close to around SAR 4.4 billion for close to 175,000 customers between retail, SME and Corporate. That represents close to 1.6% of our net financing book.

In terms of the second part of your second question as well, is on the SAMA deposit, we have taken close to around SAR 5.2 billion worth of a deposit, which has been disclosed in our financials as due from bank at a zero rate for one year, and we have not taken any gain due to that NPV amount.

The final question is on the non-yield income. I think, on a sequential basis, yes, we've seen a drop in our payment and digital fees Q2 versus Q1, but overall if you recall, our Q1 numbers were very healthy.

If I would like to clarify, Q1 was on the fee from banking service, around SAR 618 million versus SAR 529 million in Q2. In addition, we've seen a better improvement from our subsidiary, Rajhi Capital on the brokerage, a good volume that we've seen in Q2. Thank you.

Naresh Bilandani: Thank you. This is quite clear. Thanks a lot.

Coordinator: Our next question comes from Shabbir Malik from EFG Hermes. Please, go ahead.

Shabbir Malik: Hi, thank you very much for this call. Two questions from my side. I notice that Rajhi's deposit growth in the second quarter has been quite good. I just wanted to understand what drove this growth, and does this SAMA stimulus actually feed into this growth for the bank, or as you mentioned, all of it is reflected in other liabilities? And my second question is on credit quality. There was no noticeable change in your stage two and stage three level. Would you attribute this relatively stable credit quality to the SAMA stimulus programme?

Abdulrahman Al Fadda: Shabbir, I will address the first question, and I think, from a retail franchise, we have been leveraging a lot from our network and our expansion into the digital side. We've been opening a lot of current accounts or a new account with a digital channel. Majority are coming from our digital channel. And just to clarify, all the SAMA deposits that have been coming are not booked as a part of our current account. In fact, they're booked as inter-bank borrowing rather than a current account. In terms of the second question, I will leave the mic to our chief risk officer, Abdulaziz Resais.

Abdulaziz Al Resais: Hi, good evening. Regarding your second question about the migrations in stage two and stage three, if I reiterate the point raised by my colleague Abdulrahman around our core portfolios, our core portfolio, which is the retail government employee salary assigned is quite stable, so we're not seeing significant stage migration on that. That represents roughly 76% of total financing. If I look at the areas impacted within corporate and SME sectors.

Those accounts that we've identified as having stress or requiring additional focus from a credit perspective, we actually take them into that consideration when we stage them, stage two or stage three, irrespective of the deferral programme that is being carried out by SAMA.

We haven't seen any major deterioration that requires additional provisions or staging on top of what you've already done during the first quarter or second quarter. And just to be clear, we're not linking any type of deferral or stimulus programme that supports payments without assessment of the staging needs of the customer.

We keep talking to our customers frequently. We assess their payment capacity, and we make judgements if there is a significant deterioration in credit quality to stage those customers, irrespective of the deferrals of their payments. I hope that answers the question.

Shabbir Malik: Thanks a lot for that.

Coordinator: Our next question comes from Sharat Dua from Fierra Capital. Please, go ahead.

Sharat Dua: Hi, good afternoon. I just wanted to understand a bit more about the recoveries. You've mentioned that they are 30%, I think. I don't know about the number in absolute terms, but I'm looking just to understand, in this environment, given all that's going on, how are you aggressively growing recoveries? Is it actually just realising value on previous collateral? Just talk me through what the actual mechanism is of being successful in recoveries in this environment, please.

Abdulaziz Al Resais: Yes, so, three elements drove our ability to improve recovery during the half. One is, we've created additional focus around realisation of collaterals where we've improved our ability to realise these collaterals from multiple channels. And in most cases, securing the cooperation of the customers to do so.

So, we're trying to avoid going through the legal routes as much as possible. That creates that benefit.

The second element is around increasing or improving the capacity and the capability of the recovery team where we are able to offer multiple options to the customer to enhance the recovery and provide solution on resolution of the debt, as opposed to a simple legal process.

The third element is investing in technology and analytics where we are able to leverage data analytics, and some allocation of retail recovery trends so that we are able to target our efforts and focus our efforts into the areas of recovery that give us the better recovery options. So, it's a combination of a change of approach, collaborative with our customers, improvement in our ability to realise physical collaterals, as well as leveraging digital and machine learning.

Abdulrahman Alfadda: And just to answer, in terms of the exact number, our recovery for 2020 first half, is SAR 581 versus SAR 456 million, an increased recovery of SAR 125 million. That's close to 27%.

Sharat Dua: Okay, thank you. And the improvement in the processes that you've talked about, those sound to be long-lasting. They're not one-offs for this quarter. They are changes in the way that you do things, which you'll continue to see benefit from, you'd expect?

Abdulaziz Al Resais: Yes. So, some elements, yes, but as we work through the backlog of NPLs and as we improve our underwriting process, new NPL flows are lower, so overall, you should be seeing a trend where the NPL rate improves and the collection ability improves, versus recovery.

Sharat Dua: Okay, thank you.

Coordinator: Our next question comes Saul Rans from Morgan Stanley. Please, go ahead.

Saul Rans: Yes, good afternoon. Most of my questions were answered. Just one question. Obviously, your mortgage business continues to do very well. Are you not seeing any negative effects in the change that was made regarding REDF down payment loans, or is that something where it would only impact the market with a time delay because of the need for processing of applications and so on?

Waleed Almogbel: As I mentioned in the end of the presentation, according to July numbers and June numbers also, because the effect of REDF change, starting from 1st June, we haven't seen that much of change, in terms of mortgage for the REDF.

Saul Rans: Yes. I just mean, is the change that was made, something that would only normally impact loan demand for new mortgage loans with a significant time delay, or is it something that you would think, normally, would show through quite quickly in the demand that you see from new loans? I don't know how quickly it would feed through to what you see.

Abdulrahman Alfadda: No, we haven't seen that at all. In fact, we've been growing very healthy pipeline in the mortgage, and we haven't seen that. We have been discussing with our retail team and branch network. we have been on a daily contact with our customers, and we have not seen that so far.

Saul Rans: Okay. Thanks very much.

Coordinator: Our next question comes from Farid Aliani at NCB Capital. Please, go ahead.

Farid Aliani: Hello, gentlemen. Thank you very much for the call. I had a question around the NPM. If you could clarify as to, in terms of cost of funds, we are seeing about 20% quarter-on-quarter decline in the cost of fund, so if you could clarify on the drivers of that as to how much of it would be because of free SAMA deposit and how much of it would be because of the benchmark date declining. We've also seen significantly higher levels of decline in the cost of funds in the other banks as well, so some colour on this will be helpful.

And, secondly, in terms of asset yield, on a quarter-on-quarter basis, there's about 4% decline in the growth interest income. So, how much of it would you say, in terms of asset yield, is the impact of the deferral programme, and how much of it is a sustainable kind of asset yield pressure that you will keep seeing in the upcoming quarters? So, we understand this guidance in terms of NPM, but if we could this colour, in terms of asset yields and the cost of funds. Thank you very much.

Abdulrahman Alfadda: Sure. Thank you for the question, and I think that our current account represents close to 96% of our total customer deposit. And in a rising interest rate environment, it's basically a competitive advantage for us because we will not see a higher cost of fund. But unfortunately, given the declining interest rate environment, you don't see that much, I would say, improvement that much, compared to the industry where they don't have that close to 96%. In Q1, our cost of fund was 18 basis points. In Q2, it was 14 basis points. So, I think, only four basis point improvement.

And it's a blended rate between the free deposit from SAMA, as well as the growth in CA, and you can see that year to date, we've grown our current account by SAR 29 billion. and Q on Q we've grown our current account by close to by around 24 billion. In a rising interest rate environment, we will see the competitive advantage in Al Rajhi.

Now, in terms of your question related to the asset yield decline, definitely, the SAIBOR has an impact. We have seen the the drop in SAIBOR Q2 versus Q1 was close to around 70 basis points. Q1, the average SAIBOR was 187 basis points. Q2 was 113 basis points.

So, that's impacting, basically, the floating rate side of our financing book. Thank you.

Farid Aliani: Understood, thank you.

Coordinator: Our next question comes from Nauman Khan from NCB Capital. Please, go ahead.

Nauman Khan: Thank you. I think, the majority of my questions have been answered. Just a few questions on fee and commission income. As you said, that a majority, some of the fee and commission income was deferred under SAMA support programme, but I think, the same thing has not been flowing the numbers. If you'll see, the other income has been, actually, very robust. During the quarter, for example, it's up year on year by 5%, and it's going down only by 2%. So, how is the support programme being accounted for in these numbers, or is there any other factor, which is causing the fee income to grow?

Abdulrahman Alfadda: So, first of all, it's a fee waiver i.e. we don't charge the customer using our digital channels. So, for example, if he transfers, if he even books a financing, for the financing origination, we don't charge any processing fees. So, basically, it's an income that's supposed to be coming but we don't account for it. However, there are some other elements, which we've seen a good growth, which is mainly on the point of sales, ecommerce and the marketplace.

If you recall, one of the key focus areas for 2020, which has been highlighted to you guys consistently over the last few months is, payment and digital is one of the key focus areas. Now, we've seen a good growth, for example a customer, although they're not going around during the lockdown and the curfew, but still, we've seen a good growth in our ecommerce and a marketplace.

Nauman Khan: Okay, and the other thing, again, is, I know, previously, people have asked about the drop in the yield in the earning assets, but our assumption, again, was more in line with the fact that Al Rajhi cost of yield on the earning assets is actually more sticky, given it skewed with the retail book. The retail book doesn't regularly reprice as frequently as the corporate book does. So, is there any other element that is causing the drop in the earning assets, or it's just the SAIBOR effect coming in? because it seems a little hard to gauge why is it a profound impact on Q on Q basis on Rajhi?

Abdulrahman Alfadda: No, I think, it's not only the SAIBOR. I've mentioned, it's the drop in 40 basis points, and 16 basis point modification loss that we have taken as an NPV. The fee waiver, we usually, whenever a customer applies for a financing, charge 1% as a processing fee. That has been waived, and that has an impact in terms of if you compare it Q on Q. And mind you, the few waiver programme started late March, and it's only 15 days in Q1, versus full quarter in Q2.

Nauman Khan: Okay. One last question is, will this modification loss be there in Q3 as well? Because the support programme continues until the end of September, if I remember correctly, so will there be some sort of modification loss in Q3 coming in as well, or we see the major part of the loss being adjusted in Q2?

Abdulrahman Alfadda: As far as we know, and the information that we have, at the time being, we don't expect anything, as we speak.

Nauman Khan: Thank you very much. Again, thank you for the call.

Coordinator: So, that concludes the Q&A session, so I'll hand back to the CEO for closing remarks.

Waleed Almogbel: Yes, we thank you all for your trust in us, and we are very proud, not only for our solid result that has been achieved year to date, but also of our contribution to the society and participation in the various government support initiatives. Again, we will continue to focus on our strategy for this year, and in order to achieve our goals, while taking into consideration the safety of our customers and employees. Thank you so much, and see you on the next call.