1Q 2022 Earnings Call Transcript

مصرف الراجحي
alrajhi bank

Presentation

Mazen Alsudairi:

Good afternoon, everyone who has joined in the call. Eid Mubarak to you. This is Mazen Alsudairi, Head of Research at Al Rajhi Capital. We're glad to host Q1 2022 earning call for Al Rajhi Bank. We have with us the management of Al Rajhi Bank, led by the CEO, Mr Waleed Almogbel, and the CFO, Mr Abdulrahman Alfadda. Without further delay, we'll pass on the microphone to Al Rajhi Bank.

Rayan Alshuaibi:

Hello, good day, everyone. I would like to add, also, that we have our GM Retail, Majed Alrajhi with us on the call. Without further ado, Waleed, over to you.

Waleed Almogbel:

Thank you, Rayan. Welcome, everyone, and thank you for attending our earning call for the first quarter of 2022. First of all, as you may know, the extraordinary general assembly on Sunday approved the board of directors' recommendation to increase the bank's capital from SAR 25 billion to SAR 40 billion through bonus shares.

Also, we would like to thank you for your trust in us and your vote for Al Rajhi Bank IR programme to win the best IR programme award, presented by Tadawul, for the second year in a row.

We will go, as always, through our first quarter highlights, then I will give you an overview of our strategic performance execution regarding Bank of the Future strategy, which was presented in the beginning of last year. Now, let's go and take a closer look on the first slide.

Starting with the balance sheet, Alhamdulillah, we delivered a 5.4% growth year-to-date and 28% year-on-year. The growth came from all lines of business. 37% from retail, 33% from corporate and 38% from investment book year-on-year. Looking further to the net financing, we delivered further a growth of 7% year-to-date and 36% year-on-year, resulted in a financing portfolio reach now to SAR 484 billion. And, that's mainly driven by mortgage, with a growth of almost 48% year-on-year. Now, the mortgage portfolio represents around 38% of our total book and almost 47% of our retail book.

If we look on the liability side, total liabilities stand at SAR 579 billion, an increase of 4% year-to-date and 28% year-on-year. The LDR of around 88%, is still below the regulatory minimum. On the net income, Alhamdulillah, we delivered solid net income with a growth of 24%, to reach now SAR 4.1 billion in the first quarter. That is driven mainly from both net yield income, which increased by almost 12% year-on-year and non-yield income growth of almost 37% year-on-year. That's mainly driven by fees from brokerage and digital payment. Our total operating income has increased also by almost 17% year-on-year, standing of almost SAR 7 billion.

Going to the third element. We continue to maintain best-in-class asset quality. Cost of risk is healthy, it is standing now at 48 bps, supported by a good recovery happening in the first quarter, compared to 60 bps last year. Additionally, also, we continue to maintain a low NPL, now standing at 62 bps compared to 65 bps last year, with a very healthy and stable coverage ratio of more than 300%. Lastly, the management also continued to deliver on cost efficiency, which led to improve our cost-to-income ratio by more than 2.4 percentage points. That resulted in cost-to-income ratio of 25.4%, compared to 27.8% in the same period of last year.

Moving to the next slide, which covers our strategy execution. If you remember, we started our strategy at the beginning of 2021, so the comparison will be compared to the last quarter of 2020. If you remember, we have four pillars for our strategy. First is building on the core. We continue to focus on retail as core banking. We have seen a finance growth of almost 55% in our retail book since we introduced our Bank of the Future strategy by end of year 2020. Additionally, our corporate portfolio also have witnessed a solid growth of 46% since 2020, which is a result of our continuous effort to expand our corporate portfolio and reposition ourselves.

SME is an integral part of our strategy, positioning ourselves as bank of choice for SME. We have seen a strong growth in our SME book of almost 90% since 2020. Now SME represents 20% of our corporate book, compared to 15% in 2020. Demand deposit continues to be one of our priorities, with a growth of 9% since the kick-off Bank of the Future strategy. One of the items, if you remember, that we focused on in the first pillar is our non-yield income as a percentage of our total operating income. It continues to increase, reaching now 23%, compared to 18% in 2020.

Moving to the second pillar, which is outperforming our competition. We continue to focus on delivering the best customer experience in the market, maintaining NPS leadership at 73%, compared to 66% in the last quarter of 2020. For the banking asset market share, our market share now reach around 21%, compared to almost 17% by the end of 2020. With regard also to the loyalty programme, we have made good progress during the year. Our loyalty programme now the in top-of-mind loyalty brand of the customer in the banking industry, with a total registered customer reach now 4.4 million customers, up from 2.4 million in the end of 2020.

Third pillar, transform the technology. We continue to strengthen our technology and digital infrastructure, as we are continuously improving all of our channels. Digital-to-manual ratio currently stands at 91 to 9, compared to 83 to 17 in the end of 2020. Also, the online account opening reach now 92% of the total retail account opening. In addition, we have seen an improvement in our end-to-end digital finance, which has reached now more than 30% of our personal finance. For the operation excellence, we have currently more than 380 bots, compared to 300 bots in 2020. Our average transaction per month has increased to reach more than 544 million transactions, compared to almost 300 million transactions by end of 2020.

Last pillar of our new strategy is to focus on clients' needs. We continue to improve our payment solution, our point of sale terminal market share have reached now almost 33%, compared to 28.4% in 2020. Number of active customers also reached now 12.2 million customers, compared to 9.1 million in 2020. If you allow me now, I will hand over to Abdulrahman, our CFO, to give you more details and update of our financial performance. And, thank you so much.

Abdulrahman Alfadda:

Thank you, Waleed. Good day, ladies and gentlemen. It is my pleasure to welcome you again in our Q1 earnings call. I'll go over the financial performance slides very quickly, given that most of the information has already been shared in our earnings release quarter results announcement, so that you can have further time during the Q&A session later on.

To start, our total assets stand at SAR 658 billion as of Q1, almost 28% year-on-year growth, 5% growth year-to-date. To analyse further, the year-to-date movement in our assets, as you can see on the bottom left-hand side of the chart, you can see that the cash and interbank has been reduced. This is part of the management action to improve further our average earning assets. Investment have increased by 11% and financing 7%, and we will cover that in further detail on the following slide.

The overall movement in funding, as you can see on the bottom right-hand side of the side, SAR 21 billion growth in the interbank, while our customer deposits have contracted by SAR 4.2 billion year-to-date. The total equity has increased by almost SAR 11 billion riyal, SAR 4.5 billion on the shareholder equity, while, if you recall, we issued a Tier1 Sukuk back in January of SAR 6.5 billion.

Zooming further into the balance sheet movement, our total financing book stands at 485 billion Saudi riyal, 36% year-on-year growth and almost 7% year-to-date growth. The total retail book represents almost 80% of the overall financing book. To analyse further the year-to-date movement under financing, as you can see on the top right-hand side of the chart, we have seen a broad-based growth on all business lines.

Mortgage has grown by 9%, Ex mortgage of the retail book by 4%, which will bring the combined retail book growth of almost 7%. Corporate by 7% and the SME is around 17%. It's worth to highlight that the mortgage book stands at 188 billion Saudi riyal, which represents 47% of the total retail book and 38% of the overall financing book.

Our total customer deposits stand at 508 billion Saudi riyal, 21% growth year-on-year and almost 1% contraction year-to-date. The total CASA as a percentage of the overall customer deposits stands at 73%. To analyse the movement on the customer deposits year-to-date, we've seen a SAR 12.5 billion contraction in our CASA. This is due to a few large wholesale and government account pull their CASA balances right at the tail end of the quarter. However, we see a further improvement on our CASA balances over the last six weeks. Growing CASA is one of our strategic focuses for the organisation. Time deposit has been increased by almost 5% to support the growth in the overall assets.

If you move on into the profitability, our net income after the Zakat stands at around SAR 4.1 billion, 24% year-on-year growth and almost 3% on a sequential basis. To analyse the year-on-year movement, as you can see on the bottom left-hand side of the chart, our yield income has increased by 12%, non-yield by almost 37%, our total Opex has increased by 7%, which will drive the pre-provision profit growth of almost 21%, impairment is almost flat.

On a sequential basis, as you can see on the bottom right-hand side of the chart, yield income is almost flat, although our gross yield was higher by 2.4% on a sequential basis. However, that's negated by higher cost of fund, given that SAIBOR has increased from an average of 84 basis points in Q4 to almost 1.39% in Q1. Non-yield income has seen a growth of 8%. Opex we've seen a contraction by 1.2%, which will drive the pre-provision profit to be 2.4% higher on a sequential basis. Impairment were almost 2% lower, compared to Q4 last year.

If you further zoom into the net income, I'll start with operating income. Our total operating income shied away of the SAR 7 billion mark, which has grown by almost 17% year-on-year and 2% on a sequential basis. To provide further detail on the year-on-year movement, as you can see on the top right-hand side of the chart. Although our average earning assets have increased by 34%, however, our NII increased by only 12% due to the NIM contraction.

Fees from banking services have seen a 26% growth year-on-year, where we have seen a broad-based improvement in most of the business lines, trade, cash management, remittance and, especially, on the payment side. Whereby we've seen a further acceleration into the cashless payment method, whereby ATM transactions were lower by 12%, point of sale was higher by 53%, ecommerce by 93%. Coupled with increase in our market share and our point of sale terminals, as well as increase in the consumer spending.

Exchange income have posted nicely, 35% on a year-on-year and 9% on a sequential basis. Other income almost 150% higher, due to the fact that we had an opportunity to lock in capital gain in Q1, taking an advantage of the rate environment before it went higher over the course of the last few months. On the NIM side, as you can see on the bottom left-hand side of the chart, NIM stands at 380 bps, 13 basis points contraction compared to Q4. However, 41 basis point contraction, compared to the average of 2021, which is in line of the 40 to 55 basis points range that we have provided initially.

The drivers of the NIM contraction on a year-on-year basis were as follows, and it's highlighted on the bottom right-hand side of the chart. 67 basis points were due to the retail book. We've seen mortgage yield were lower, compared to the same period last year, coupled with the increased competition into the retail financing. Although that SAIBOR has increased, but nevertheless, we've seen the competition in the corporate, where the corporate spread has been almost flat, compared to the same period last year.

Treasury posted 11 basis points improvement. Cost of fund has increased by 25 basis points for two reasons, increase in time deposit balances, as well as an increase in SAIBOR. And, finally, the management action has improved overall by 7 basis points on a year-on-year basis.

To move on and analyse the second driver of the net income, our Opex stands at almost SAR 1.8 billion, 7% year-on-year and almost 1% lower on a sequential basis. The drivers of the increase in our Opex were in all line items. On the staff side by almost SAR 48 million, due to support the increase in the total assets of the book where we increased, as we mentioned earlier, 28%. Depreciation was higher by SAR 43 million due to the fact that we continue to increase our Capex and improve as part of our Bank of the Future strategy, to transform our technology.

And, finally, the G&A, given the number of transaction increased, as mentioned by Waleed earlier. Delivering operating income growth of 17% versus Opex growth of 7%. That gave us a very nice positive jaws and have helped us to improve our cost-to-income ratio by 234 basis points where, as you can see, the cost-to-income stands at 25.4% versus 27.8% in the same period last year.

On the impairment side, our total impairment for Q1 was close to around SAR 580 million, flat year-on-year and 2% lower on a sequential basis. Our cost of risk have come down to almost 48 basis points, which is below our cost of risk guidance of 50 to 60 basis point range. The movement on our impairment, as you can see it on the bottom side of the chart, our gross charges were lower by close to SAR 170 million, negated by lower recovery by SAR 170 million. Although we have a good recovery for Q1, but when you compare it on a year-on-year basis, we had a one large, one-off recovery in Q1 last year.

From a group perspective, the majority of the increase in our impairment was on the non-retail. It's worth to highlight that, as per the best practice and in line with the IFRS 9 requirement, we have updated our ECL model, taking into consideration the revised macro outlook for the Kingdom.

Our NPL has almost reached almost 3 billion Saudi riyal. The increase from Q4 was only 50 million riyal, mainly coming from the non-retail book.

On the NPL formation, although that we have a SAR 692 million of write-off, that has been negated by a net flow of SAR 743 million on year-to-date basis. Our NPL at 62 basis points, 8 basis points lower compared to the same period last year and almost 3 basis points lower compared to the year-end. NPL coverage still maintains a very healthy level at 308 and above the benchmark for the banking system in Saudi.

Our total ECL stock stands at SAR 9.4 billion as of Q1 and, as you can see on the top right-hand side of the chart, the majority on a year-on-year growth were posted into the non-retail book. Stage 1 exposure stands at 480 billion Saudi riyal, which represents almost 97.3% of the overall financing book. On our stage coverage, as you can see it on the bottom right-hand side of the chart, stage 1 a small contraction compared to the year-end, where we stand at 79 basis points. Improvement in the stage 2 to 25.4% and almost flat on stage 3, where it stands at 75%.

Liquidity remains very healthy and within the regulatory requirement. Our HQLA at almost SAR 99 billion. Although our headline LDR is at 95%, nevertheless, our regulatory LDR stands at almost 88%. LCR and NSFR at still a healthy level and above the minimum regulatory requirement.

On the capital side, our total RWA stands at 447 billion Saudi riyal, 26% increase year-on-year, 5% increase on a sequential basis. The growth on the RWA mainly coming from 31% growth on the credit risk RWA by 31% on a year-to-year basis and almost 5% on a sequential basis. It's worth to highlight that the RWA density stands at 67.9% versus 69% in the same period last year. Our total capital at SAR 86 billion, out of which SAR 81 billion of our tier 1 capital, which includes the shareholder equity as well as the sukuk, in addition to the FTA, which related to the IFRS 9 transition.

Our tier 1 capital, as you can see it on the bottom left-hand side of the chart, stands at 18.1%, almost 164 basis points higher compared to the year-end and slightly above our guidance range of 17% to 18%. To analyse the movement of our tier 1 capital ratio, if you can see it on the bottom right-hand side of the chart, we've seen 147 basis points improvement due to the issuance of the tier 1 sukuk, as well as the FTA. However, the RWA have negated that by 90 basis points. Nevertheless, the internal capital generation reached nicely 106 basis points year-to-date.

The bank delivery of a record quarter enabled us to improve the return matrices. RORWA stands at almost 3.8%, earnings per share SAR 1.65, almost 24% higher year-on-year, and our ROE at 23.8%, within the guidance range of 23% to 24%. And, finally, our ROA at 2.6%. Before I provide the guidance for 22, I just want to spend a couple of minutes on our assumption.

We've seen IMF have upgraded the Saudi GDP to expand by 7.6% versus 4.8% initially. The flash figure for Saudi GDP for Q1 has expanded by 9.6% on a year-to-year basis, mainly driven by 20% oil GDP growth and a 3.7% growth in non-oil GDP. Consumer spending, probably one of the record quarters, SAR 300 billion of consumer spending, which has increased by 9.2% compared to the same period last year.

On the interest rates side, we've seen the Fed has delivered three hikes and we revised our base case forecast for the remainder of the year, to have further hikes over the Fed for the remainder of 2022. Competition still stiff, both on the retail and into the corporate side. However, on the positive side, SRC has revised the mortgage rate on 14th April by 50 basis points. Current mortgage origination are in the range of 4.5% to 5.5%. And, finally, we continue well to execute our strategy, as Waleed mentioned earlier.

Having said that, we are upgrading our guidance on the financing portfolio to be in the low 20s. We are downgrading our NIM by 10 basis points to be in the range between 65 to 55 basis points. We are upgrading our cost-to-income ratio to be below 26.5%. No change on our ROE. We're also upgrading our cost of risk guidance by 10 basis points, to be in the range of 40 to 50. And, finally, our tier 1 ratio to be in the range of 17% to 18%. Waleed, back to you.

Waleed Almogbel:

Thank you, Abdulrahman, for the financial performance review. The good progress made in our Bank of the Future strategy helped us to achieve strong results. We will continue driving excellence to go beyond the unthinkable in creating a financial ecosystem that provides our valuable customer with innovative and smart financial solutions. Now we will open, if you'll allow me, the floor for Q&A session. Operator, back to you, please.

Operator:

Thank you. If you would like to ask a question and have joined the call via WebEx, please press the raise hand icon on your screen or, alternatively, you can type your question in the Q&A chat box. If you have joined on the phone, please press star one on our telephone keypad. Our first question comes from Waleed Mohsin from Goldman Sachs. Waleed, please go ahead.

Waleed Mohsin:

Thank you for the presentation. Three questions from my side. Firstly on growth. You've upgraded your loan growth guidance. I wanted to get a sense of which part of the book are you more optimistic on versus your fourth quarter guidance. Mortgages obviously had a very strong month during March, so if you could also comment on the volatility that we saw in the mortgage data between February when new mortgage origination in the sector was only 9 billion and then it increased to 15 billion. I was wondering if that's one of the reasons that you're more constructive on our loan growth guidance? That's the first question.

Second one on margins. If you look at the two factors, high rates versus what you were incorporating at your full-year results plus the 50 basis points increase in the subsidy caps by the SRC. Despite that, you're downgrading your margin guidance. I want to understand, is that more driven by the cost of funding, or is it driven by competition on the asset yield side? Because incorporating a slightly higher rate on new mortgage plus higher rates plus your increase in your investment book, I would assume that should have had a slight offset.

My third and final question is on your deposits. We saw a small contraction during the quarter. For the first time in many quarters we've actually seen an actual decline in your CASA balances. I wanted to get a sense of what drove that, is it just high rates which is driving the decline in CASA balances?

And are you happy with your regulatory LDR going up to 88%, or should we expect this to move lower as you build on your deposits in the coming quarters? Thank you very much.

Abdulrahman Alfadda:

Thank you, Waleed for those three questions. In terms of the first question related to which part of the book that we're expecting the growth. I think as you can see from the delivery of the first quarter, it was a broad base. Retail has increased by 7%, corporate is almost 7% to 8%, and also on SME. We are forecasting that the growth is going to be a broad base across all business lines.

In terms of the mortgage execution that we have seen, we've seen in March as per the SAMA data, the total mortgage origination was close to around 15.3 billion Saudi riyal, which has improved compared to Feb, where it had a dip. In Feb there was regulatory changes in terms of asking for the permits, which has been a one-off. Which is a similar thing that we have seen in last year. Also, it is a short month, 28 days, with a lower number of business days. And I think we've seen the improvement overall. We're still quite positive about the mortgage growth outlook, and I think we still haven't changed our view about growth outlook in mortgage. And we continue to focus from our perspective, to improve both retail and corporate book, as well.

As far as the NIM, I think we take into consideration the following factors. Previous quarter when we've done our forecast, we were forecasting a five-rate hike by the Fed. However, three has been delivered and now we are forecasting seven additional rate hike by the Fed for the remainder of 2022. We take into consideration, as well, the competition. We've also taken into consideration the cost of fund. However, if you ask our humble opinion, the main impact is coming from the cost of fund impact due to the NIM contraction, given that the SAIBOR average forecast for this year, our base revised forecast, is much higher than whatever we forecasted at the beginning of the year.

Finally, on the deposits or the CASA drop, I think I've mentioned that earlier, we've had a few large wholesale and government accounts have pull their deposit right at the quarter end. Nevertheless, we've seen a further improvement over the last six weeks. Growing CASA is one of our strategical focuses for the organisation. We'll continue to further improve our CASA going forward.

As far as the last part of the third question, the regulatory requirement under LDR at 90% and I think we've taken a call during Q1, whereby we have not tapped heavily on the customer deposit market and you've seen we've increased interbank borrowing by almost SAR 21 billion, to be able to manage the overall cost of fund. This is a tactical move, depending on what are the rates between, the delta, between the customer deposit rate and the interbank rate. Nevertheless, rest assured that, in case it's required, we could improve further our LDR to support us for the growth going forward.

Operator:

Thank you. Our next question comes from Shabbir Malik from EFG Hermes. Shabbir, please go ahead.

Shabbir Malik:

Thank you very much. I have a question on your credit quality guidance. You've obviously turned more positive on your cost to risk. What gives you the confidence that cost of risk is going to be lower? I think I under first quarter provisioning was low, but we also have, like you said, you're expecting about ten interest rate hikes in total this year. Have you incorporated any potential negative impact of those changes in interest rates on your credit quality? And maybe, also, if you can comment on your ECL coverage, which I think has come down relative to last year. What has been the driver of that reduction and are you still comfortable with this stage three coverage and decline?

My next question is on the deposits again. There was some news that SAMA has temporarily suspended online account opening. Does that have any meaningful impact on your customer mobilisation efforts? If it did, if you can highlight that, that would be great. That's all from me. Thank you.

Abdulrahman Alfadda:

Shabbir, in terms of the cost of risk guidance which is lower by 10 basis points, this is basically taking into consideration multiple factors. A, we've taken into consideration the revised improved outlook that has been communicated by everybody on the Saudi GDP. Especially where oil prices at the current level, especially at the triple digit. That has been taken into consideration, also the positive, some of that economical factor that has already been posted on consumer spending and many other measures. In addition to taking in the interest rate increase that has already been taken and modelled in our ECL model so as a combined impact. That's led to the improved outlook from when we provided our guidance a couple of months ago. That's on the cost of risk.

Related on the stage coverage, I think you've mentioned that we had a slight drop into the stage coverage. But, nevertheless, let me compare our self with the rest of the competition, given that the result that the bank has already published. I'll take December as a benchmark. For our stage 1 coverage at the year-end was 83 basis points. The competition was 47 basis points. Stage 2, Al Rajhi Bank has a 24% coverage and the competition has a 13% coverage. Stage 3, we are 75.6%, market is already 54.3%. I can guarantee you that, and I assure you that, having a prudent risk management policy for the bank is something, it's our bread and butter, and we have not compromised, and we will not compromise going forward. Waleed.

Waleed Almogbel:

In terms of your third question, just to remind you, SAMA regulation at that time, it was in April, nothing to do with the first quarter. And, also, it was for a couple of days only and then they went back to normal for digital and online current account opening.

Operator:

Our next question comes from Naresh Bilandani from JP Morgan. Naresh, please go ahead.

Naresh Bilandani:

Thank you. Hi, it's Naresh Bilandani from JP Morgan. Three questions, please, from my side. One is would you please be able to offer some insight into how your NIM has ended as we have moved forward into the second quarter? Have you seen the NIM going to turn somewhat better, as compared to the sharp contraction that we saw in Q1? Or does this still remain under substantial pressure at this stage? That's one. Second is with regards to change on the mortgage, the pricing on the MGS scheme from SRC. To what extent is this being reflected in the market pricing? Or is the high level of competition still constricting the pricing that should be coming on these mortgages after the guidance from SRC?

Also, on this context, if you could share some thoughts on what underlying trends you've seen from the regulatory change on the mortgages, with regards to permissions on buyout and continuation of subsidies there of? Have you seen any outflows on that product in any form? That's the second question.

My third and final question is with regards to pricing on the personal loans, that we understand right now is being offered at pretty rational levels below the SAIBOR. It will be very helpful for us if you can please spare a few minutes to explain the strategy or the economics behind such an offering? And if you can please also guide whether such loans are being offered only as a part of the one plus one product with the mortgages, or on an independent basis, also? Thank you very much.

Abdulrahman Alfadda:

Naresh, thank you. I'll cover the first part and the remaining part I will leave to my colleague, Majed. On the NIM progression for the remainder of the year, although if you compare it against an average of last year, the drop is 41 basis points. The drop on a sequential basis is only 13 basis points compared to Q4. Q4 NIM was 390 basis points, so almost 10 to 13 basis points. We don't expect the NIM contraction to have a steep drop like what we've seen in Q1, given that our exit rate for 2021 was 385 basis points, hence we are expecting the NIM, yes it will be in line with the guidance, however, we will not see a further steep drop, as we have seen in Q1.

Also, maybe it will give me an opportunity to explain to you why we're expecting that. I think usually, if you see for a retail bank and especially for Al Rajhi Bank, given that we have on our retail book, which is almost 390 billion Saudi riyal, around SAR 186 billion mortgage, which is a fixed rate for 20 years. While the remaining of the retail book of around close to SAR 200 billion, this is usually re-priced anywhere between one to three years, given that the customer will usually come and top up. Hence, the Al Rajhi Bank improvement on the NIM is not muted, it's delayed. Majed.

Majed Alrajhi:

Thank you, Abdulrahman, and good afternoon, everyone. For the mortgage sales competition is competing in the mortgage space with increase in pricing of SRC. We have seen over the end of the last quarter and beginning of April banks start to raise the pricing on mortgage and we do believe that it will continue for the month of May and June on that regard. In terms of the buyout, the number of buyout is very low, given the fact that the relationship between the customer and the bank is not linked to one product, it's different products. If there is anything that the bank has its own strategy to maintain the customer and to offer them with the competition what is being offered.

In terms of the personal finance, personal finance prices as of end of last year has gone down significantly, but we have seen that first quarter prices have gone up and the beginning of the second quarter even going up further. We do believe that personal finance, it's a matter of certain strategy by certain banks to be as a strategic tool to grab customer, but that will be on the short-term only. But we believe that personal finance prices are back to normal, I would say.

Abdulrahman Alfadda:

Also, if I may elaborate to my colleague, Majed, and the last point. I think you've mentioned some of the personal finance probably could be priced below SAIBOR, but if you look at the blended overall personal finance origination, it is much higher than the SAIBOR.

Operator:

Our next question comes from Aybek Islamov from HSBC. Aybek, please go ahead.

Aybek Islamov:

Thank you. This is Aybek Islamov of HSBC. I have a couple of questions. Firstly, the year-to-date decline in your new mortgages looks pretty decent. Well, it looks better than the industry, let's put it that way. And you're managing your mortgage book in a saturating environment pretty well. I just want to find out how are you able to do that, to what extent pricing plays in your ability to manage the decline in new mortgage originations at a rate which is better than the industry? That's my first question.

I think secondly, I wanted to have your thoughts about your exposure to mortgages, real estate. Obviously we know that the LTVs on the mortgage books are quite high, 90% or higher. What could be the implications from the capital requirements perspective? I think there's a context that some of the GCC central banks have started to encourage banks to have lower LTV real estate portfolios. There's that revision going on. What could be the implications for the banking sector in Saudi Arabia, which is increasingly driven by high LTV mortgages, from the regulatory point of view? Obviously that makes one of the challenges for the sector and for Al Rajhi Bank. These are my two questions. Thank you.

Majed Alrajhi:

Thank you. For mortgage, the reason is our leverage is based on our platform of operation and turnaround time in terms of other applications. In addition, as well, the product variety that we are offering to our customers give them the chance, all type of customers, we can give them the right solution and product offering. In addition, we have added, as well, the digital journey to enhance it to the customer on the mortgage side. And our network across the Kingdom, we do believe that gives us the leverage to overcome the market on that perspective. On the second question, I'll leave it to Mr. Abdulrahman.

Abdulrahman Alfadda:

Before we move on, I think we also picked up a mortgage market share by 50 basis points in the first quarter. I think again, our colleagues in the network, they're doing exactly what they have been doing over the last few years, Alhamdulillah. And we continue, Inshallah, to focus to be able to further improve our market share accordingly.

Aybek, related to the second question, let me clarify. You've mentioned the LTV is 90% plus. Actually, it's an inaccurate statement. As per the regulation, maximum LTV is 90% for REDF. Nevertheless, our average LTV is much lower than that. That's number one. That's on the REDF. For non-REDF it is much, much lower than that. So on average, our average LTV on the mortgage book, whether it be REDF, non-REDF, is much lower than the number you have indicated earlier. That's number one.

Second, I cannot speak on behalf of the regulator, but nevertheless, the current RWA for mortgage is 50% RWA. I'm sure that all of you guys know that in line with the Basel recommendation, the Basel III reform, which will be implemented 1 January 2023, will assign a different RWA for a different LTV. But, nevertheless, you need to take into consideration Aybek that since Al Rajhi Bank started focusing into mortgage back in 2018, real estate prices have improved higher. What you see LTV, that was based on the origination, but the actual is much, much lower than that. Thank you.

Operator:

Our next question comes from Waruna Kumarage from SICO Bank. Waruna, please go ahead.

Waruna Kumarage:

Thank you very much, Abdulrahman. I have this one question on the mortgage transfer. This is related to a news article which came in Argaam last week. As per this news article, it was announced that mortgages under Sakani programme, they had introduced the mortgage transfer and subsided loan reschedule. Does it mean that these mortgage loans under Sakani, they were not allowing the transfer of these loans prior to this? This is something new that has come into the picture?

Abdulrahman Alfadda:

Thank you, Waruna. Whatever the article that you're referring to, it's nothing new from whatever been announced earlier. So, nothing new. In line with the previous announcement whereby the customers are allowed to move from bank A to another bank.

Waruna Kumarage:

Mortgages under Sakani programme, they have been allowed to be transferred, is it?

Abdulrahman Alfadda:

It's nothing new, apart from what has been announced earlier.

Waruna Kumarage:

Okay, that's clear. Thank you very much.

Operator:

Our next question comes from Edmondos Christou from Bloomberg Intelligence. Edmondos, please go ahead.

Edmondos Christou:

Hi, thanks for the call. Apologies for dialling in late, so maybe some of my questions have already been answered. Just trying to understand, Abdulrahman, your review on the product mix going forward. Clearly the capital at risk sensitivity had increased compared to 2020 and the room to grow mortgage is more limited than what we have seen in the last few years. So, going forward, what's your view in terms of the loan mix structure and how do you see much of the growth coming from retail compared to corporate? Which I see there is a gradual increase and shift into corporate, which looks favourable in a rising interest environment.

The second one, if possible, on the LDR. I don't have the presentation next to me, but I believe regulatory LDR has increased despite the issuance of tier 1. Going forward, how do you aim to fund the strong growth guidance with liquidity? We haven't seen liquidity increasing significantly in the market yet, so what's your view on this? If it's more time deposit, more issuance of debt or refining the growth guidance going down the line and the year. Thank you.

Abdulrahman Alfadda:

First of all, thank you, Edmondos, for the question. In terms of a product mix, I think we've mentioned it a couple of times, with either myself or Waleed, current mix on the financing portfolio is 80% retail, 20% on the corporate side. When we came up at end of 2020 with our revised strategy, despite the focus on the corporate, where I think you've seen it grow 42% on the corporate side since then, SME 88%. Still, the mix hasn't changed that much. We don't expect that the mix will move the needle that much. Our historical average, retail versus non-retail is 75% to 25%, so we're not far away from our historical average. That's number one.

Secondly, when you said that we had a limited room to grow our mortgage, and given that you've mentioned about the delta EVE, I would tend to disagree. Yes, you've seen it on our pillar three disclosure, nevertheless, you need to take into consideration the tier 1 sukuk issuance that we have done, that's number one. Second, from the management perspective, and I think our colleagues both from treasury and risk, and ourselves, under ALCO, we always evaluate, what is the most convenient way of funding and improving our capital structure. To do it in the most convenient and to maximise the shareholder value of the organisation.

Also, we could securitise, and I think I've mentioned it several times, we can securitise our mortgage book, which some of our competitors have already done it and I think SRC has been ramping up their mortgage securitised portfolio. As far as the second question on the LDR, and I think I've mentioned that earlier, we do have all the right tools in our hand to be able to improve either the funding, the asset and liability liquidity mismatch and capital structure through various forms. Whether it be on time deposit, debt capital market, securitised, we will do it in the most efficient way for ourselves, maximising the shareholder value. Thank you very much.

Operator:

In the interest of time, this is now the end of the Q&A session. If you have any additional questions, please send them to the IR team. I will now hand you back over to Mr Waleed Almogbel, CEO, for closing remarks.

Waleed Almogbel:

Thank you everyone for dialling in and for your trust in us. We are very proud of our result and we will continue to focus on the execution and achieving our strategic goals for this year and beyond. Looking forward to meeting you in the second quarter earning call. Thank you.