1Q24 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

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Mazen Al-sudairi
Head of Research, Al-Rajhi Capital

Good afternoon, everyone. This is Mazen Al-sudairi from Al Rajhi Capital. Al Rajhi Capital is proud to host Al Rajhi Bank's Q1 2024 earnings call. Welcome all to the call. And now I will hand over to Safwan, Head of Investor Relations, to introduce the management team.

Safwan Alsulaimani
Director Investor Relations, Al-Rajhi Bank

Thank you, Mazen. Good day, everyone, and thank you for joining our call. Today with us on the call, our MD and CEO, Mr Waleed Al-Mogbel, our CFO, Abdulrahman Al-Fadda, and our GM Retail, Majed Al-Rajhi. As always, our CEO will be taking us through the key highlights' performance, followed by the strategic performance on our strategy. and after that, he'll be handing it to our CFO to take us through the details in regarding of our performance on the financials. After the CFO finishes, we will be opening the floor for Q&A. Having said that, I will be passing the floor to Waleed. Back to you.

Waleed Almogbel
Managing Director and Chief Executive Officer, Al-Rajhi Bank

Thank you Safwan and welcome everyone. Thank you for attending our earnings call for the first quarter of 2024. As always, we will start by taking you through our performance highlights in the first quarter, then we will give you an overview of our strategic performance on our new strategy, Harmonize the Group. After that, I will give the floor to our CFO to cover the financial performance in more details. If we move to slide three for the first quarter of 2024, the bank delivered an exceptional performance, which was supported by our strategic initiatives and improved economic activities.

Starting with the balance sheet, we were able to deliver almost 3.5% growth for the quarter and almost 8% year-on-year. On the asset side, the growth was mainly driven by the financing portfolio, which is growing at 2.5% year-to-date and 6% year-on-year. Now, our financing portfolio reaching to 609 billion. The investment portfolio also has been growing by 7% year-to-date and 25% year-on-year. In terms of non-retail book, has grown also by more than 20% year-on-year, supported by almost 19% growth on our corporate book and more than 24% growth in SME. In addition, mortgage recorded a growth of more than 6% year-on-year and now the mortgage represents around 39% of our total book and almost 55% of our retail book.

On the liability side, the total liability stands at 728 billion, with an increase of almost 8% year-on-year and 4% year-to-date. That has led our loan-to-deposit ratio to be around 79%. The net income was up to reach 4.4 billion for the first quarter of 2024. The net yield income grew by more than 10%. However, the non-yield income dropped by 4.4%. This resulted in a total operating income increase by more than 6.6% in the first quarter of 2024. And now it's standing at 7.3 billion. We continue to maintain best-in-class asset quality, with the cost of risk standing at 28 bps compared to 25 for last year 2023.

Additionally, the NPL stands at 77 bps, with a healthy coverage ratio of 175%. The bank continues to maintain a market-leading cost-to-income ratio of just above 26% and a strong financial position, with a healthy total capital ratio of just above 20%, well ahead of their regulatory minimum. If you move to slide four, which we're going to give you a highlight on the progress of our new strategy execution. As you all know, we are in the first year of our strategy, Harmonize the Group, where the bank has performed across all the KPIs. Now allow me to shed some light on the pillars of our strategy. We will start with the first pillar, business to consumer, where we focus on retail cross sell.

That resulted in an increase of product per customer portfolio to reach now almost 40% since we introduced our new strategy. Additionally, our sales growth from targeted customer's portfolio has witnessed a growth of 36% since 2023. That is a result of our continuous effort to expand our portfolio across different segments and repositioning ourselves. Being the bank of choice across the kingdom, number of active customers at the bank level continues to improve, supported by our best-in-class digital capability. And now reaching more than 16.5 million customers compared to 15.8 million customers by the end of 2023, with an increase of more than 4%.

Moving to the second pillar, business to business, our corporate portfolio has continued to see a growth of more than 19% since the end of 2023, reaching to around 143 billion. That is a result of our continuous effort to expand our corporate portfolio. As of year-end 2023, the bank is ranked now number three in terms of corporate building market share. Investment banking continues to be a revenue growth stream that the bank is focussing on within our new strategy, reaching a growth of more than 50% compared to 2023. Being a bank of choice for SME, is an important part of our strategy.

The SME book has grown since 2023, with a growth of almost 24% and now it's representing 18% of our non-retail book and more than 5% of our financing book. Touching on our third pillar, centralisation and Stabilization, as we continue to evolve our level of efficiency through strengthening and improving our technology across the group, the bank has improved its operation excellence as a percentage of process automated has grown by 2% to reach now 27% in quarter one of this year, coupled with a focus on becoming a cloud-ready bank. For our digital capabilities, the bank continues to explore and improve solutions and further capture opportunities such as open banking API's, which has reached now almost 140 for the first quarter of this year compared to 119 by the end of last year.

Lastly, as the AI-driven activities are becoming significant for any leading organisation, the bank has focussed on revenue increase from data-driven marketing, growing by 38% in the first quarter compared to last year. By that, I will hand over to Abdulrahman to give you a detailed update of our financial performance. And thank you so much.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

Good day, ladies and gentlemen. It is my pleasure to welcome you in our Q1 earnings call. I'll start with the balance sheet. Our balance sheet stands at SAR 836 billion as of Q1, 8% increase year-on-year and almost 3.5% increase on a sequential basis. To analyse the 28 billion movement as of the year-to-date, as you can see on the bottom left-hand side of the chart, investments book has increased by 6.5%, financing by 2.5%. And I will cover the financing movement in further details on the following slides. As far as the funding, we've increased by almost 28 billion, as you can see on the bottom right-hand side of the chart.

We had a decent growth on our customer deposit by 5%. It gave us an opportunity to optimise our cost of fund. We shed off almost 14 billion of Interbank. We issued almost $1 billion of a senior unsecured sukuk in the first quarter. That also helped us to further and in line of the strategy of the organisation to diversify the funding sources. Moving on, to zoom in further onto the main drivers of the balance sheet movement, as you can see on the top left-hand side of the chart, our financing books stand at 609 billion, where the increase is almost 5.5% year-on-year and 2.5% on a sequential basis.

Retail book represents almost 71% of the overall financing. To analyse the 2.5% year-to-date movement, as you can see on the top right-hand side of the chart, mortgage book has increased by 2%. Ex-mortgage of the retail book has shown almost flat, reversing the trend that we've seen over the last few quarters, given that we have done a tactical campaign to test the customer demand on the lower interest rate environment. Corporate has increased by 6% and SME by almost 3%. Mortgage book, as Waleed mentioned, stands at 239 billion, presenting 55% of the retail book and 39% of the overall financing.

Total customer deposit, which represents almost 83% of the overall funding side, has reached at 604 billion, almost 9% increase year-on-year and 5.4% on a sequential basis. CASA, as a percentage of the overall customer deposit, represents 67.5% compared to 67% at the same period last year. To analyse the movement of our customer deposit, as you can see on the bottom right-hand side of the chart, we've seen that demand deposit has increased by almost 12%. This is in line, if you recall, and you've seen in the SAMA bulletin, that overall demand deposit in the market has increased by 7%, driven by almost 19% on the government entity.

As I mentioned earlier, the growth on the demand that we have delivered in CASA in the first quarter has given us an opportunity to shed off almost 12 billion of time deposit. If we move to the profitability section, our net income for Q1 is 4.4 billion. it’s worth to highlight, it’s a record high for the bank in a quarterly basis. The net income has increased by 6% both on a year-to-year and on a sequential basis. To analyse the 6% sequential movement, as you can see on the bottom left-hand side of the chart, NII has increased by 2%. Non-yield income has increased by almost 5%. Opex were lower by 5%, which brings the pre-provision profit higher by almost 6%, while the impairment was higher by almost 4%.

To analyse the year-on-year movement, as you can see on the bottom right-hand side of the chart, our yield income went higher by 10%. Non-yield income was lower by 4%. Expense were higher by 5%, which brings the pre-provision profit higher by almost 7%. To further zoom in on the net income driver, I'll start with the operating income. Operating income for Q1 at 7.2 billion, 7% increase year-on-year and 3% on a sequential basis. To analyse the 7% increase year-on-year, as you can see on the top right-hand side of the chart, the NII 10% higher. Fees were lower by almost 14%. If you recall, there are certain fees that we stopped charging from 1st July onward.

But, as you can see, the fee has been improving on a sequential basis. Exchange income was flat. Other income was higher by almost 69%. This is due to the further improvement on our fair value through P&L investment book. Our NIM for Q1 stands at 3.03% We managed to expand our NIM 3 basis points compared to the same period last year and almost 2 basis points compared to Q4. The NIM expansion has happened because of the improvement in the overall cost of fund that has helped us further to improve the overall NIM. The three-basis point movement, as you can see on the bottom right-hand of the chart, overall, the gross yield has managed to increase by almost 66 basis points, contributed by all major business lines.

However, that has been negated by 63 basis points higher on the cost of fund. If you recall, Q1 last year, the average SIBOR was 5.50% and average for Q1 is 6.23%. Despite the 73-basis point movement in the three-month SIBOR average, NIM expanded by 3 basis points. On the Opex side, our Q1 is 1.9 bn, 5% higher year-on-year, 5% lower on a sequential basis. The main drivers of the increase on a year-to-year basis are mainly the staff and the depreciation where the organisation is further executing the strategic objective of the "Harmonize the group" Strategy. The management has delivered 141 basis points of positive Jaws, where the operating income has increased by 6.6%, while Opex has increased by 5.2% only.

Those positive Jaws had helped us to further optimise our cost-to-income ratio, reaching 26.2%. Our net impairment charge for Q1 was 421 million, 17% higher year-on-year and almost 4% on a sequential basis. Cost of risk is around 28 basis points for first quarter, which is three basis points compared to the average of 2023. The movement, as you can see on the bottom left-hand side of the chart, our gross charge has increased by only 13 million, while recovery was lower by 49 million due to one-off recovery that we've seen in the corporate book in the first quarter of 2023.

As far as between the business lines, we top up our corporate book, giving the portfolio growth, as Waleed mentioned earlier. Our NPL stands at SAR 4.7 bn, which is higher almost 10% on a sequential basis. We've seen the retail NPL increase by almost 421 million. Corporate is almost flat. And in terms of the NPL formation, we written of close to around 1.2 bn, while the inflow was around 1.6 bn Having said that the retail NPL, we've seen the retail NPL picked up to 43 basis points. while the corporate has lower to 159 basis points, which will bring the overall NPL ratio to be 77 basis points.

NPL coverage has gone to almost 175%. Although that dropped, still Al Rajhi Bank maintains a very healthy NPL coverage. If you recall, market average for the NPL coverage as of year-end was 148%. We are still one of the highest NPL coverage bank in the market. ECL stands at 8.3 billion. And the movement is in line of what I have mentioned earlier. Our stage 1 exposure stands at 598 bn as of Q1, which is almost 96.8% of the book versus 96.5% as of Q4, which shows the credit quality of the new origination. We top-up our stage coverage for stage 1 and stage 2 respectively, while the stage 3 went lower to almost 58.4%.

On the liquidity side, liquidity position remains healthy and above the minimum regulatory requirement. Although the headline LDR is at 100%, but the regularity LDR stands at 78.7% The LDR drop compared to the Q4 are a function of two things. One, is because of the customer deposits outpaced the increase in total financing book, coupled with an issuance of a long-term dated sukuk that helped further improve the loan to deposit ratio. LCR, NSFR at a healthy level and above the minimum regulatory requirement. Our total RWA stands at 549 bn, 9% increase year-on-year and a 5.5% increase on a sequential basis.

it's also worth to highlight that our RWA density stands at 65.7% compared to 65.1% at the same period last year. Our CET1 stands at 15.8%, Tier 1 at 19.2% and a total capital at 20%-plus. We've seen 123 basis points drop in our capital adequacy on Tier 1, as you can see on the bottom right-hand side of the chart. And it's worth to highlight that although the dividend that we've declared for the second half of 2023, coupled with an increase on the RWA that is almost 200 basis points, nevertheless, the internal capital generation is strong of around 75 basis points. Again, return matrices are healthy and above the industry standard.

RoRWA at 3.30% Earnings per share above the 1-riyal mark. And ROE at 19.3% And finally, ROA at 2.13% Before we go to the guidance, it's worth to highlight if you recall the full year guidance that we provided earlier in February, we were forecasting and everybody was forecasting probably three rate cuts. Hence, we have updated when we are forecasting only one rate cut probably at the tail end of 2024. Having said that, the guidance is kept unchanged on all the matrices. I am sure that you guys will ask me about the NIM and given that the drop or the change in the forecast on the rate cut, but I think we're quite positive about the NIM trajectory over the year. And we are comfortable within 5-15-basis point range expansion. Waleed, back to you.

Waleed Almogbel
Managing Director and Chief Executive Officer, Al-Rajhi Bank

Thank you, Abdulrahman, for the financial performance overview. We are proud of the progress made across all KPIs of our results last quarter and also of the execution of our new strategy, Harmonize the Group, which will help us achieve our strategical goals by the end of this strategy.

Now I will open the floor for Q&A session. Operator, back to you.

QUESTION AND ANSWER SECTION

Operator: Thank you. As a reminder, if you would like to ask a question and you have joined the call via Webex, then please press the raise hand icon on your screen to ask an audio question or submit a written question in the Q&A chat box. Alternatively, if you've joined us on the telephone, then please press star followed by one on your telephone keypad. Our first question comes from Naresh Bilandani, from J.P. Morgan. Naresh, please go ahead. Naresh, your line is now open. You can proceed with your question.

Naresh Balandani
Head of MENA Equity Research, JP Morgan

Q

Hi, it is Naresh Balandani from J.P. Morgan. Thank you so much for your presentation. Just questions mainly on just one topic, please. And that's the yield. While we have seen growth in the interest-earning assets over the quarter, if I take a look at the interest income, that's going to stay flattish from 10.7 billion in Q4 to 10.8 billion in the first quarter of this year, which indicates that the overall yield has not moved in line with expectations. If we do a quick, rough calculation of the annualised yield, you had roughly about 5.6% on our calculations in Q4, which has dropped slightly by a few basis points in the first quarter.

Which is a trend that was certainly not being expected simply because, ideally, your non-mortgage retail book should have continued to reprice upwards. And there hasn't been as much of a movement in the three-month SIBOR compared to the Q4. Just keen to understand, what are the underlying drivers that have resulted in this flattish scale, please?

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Naresh, overall, while I understand your disappointment about the gross yield in Q1 this year, it's worth to highlight the following factors. A, 2023 on a standalone, we managed to expand the gross yield by 83 basis points. And I'm sure that you're aware from the earlier comment, mortgage represents almost 39% of the financing book. And I think 83% with the overall yield and retail book of 71%, that gives you an indication that we have done very well in repricing the old 2020 and 2021 vintage. Significant portion of that book has been repriced already. That's factor number one.

If I would like to direct your attention, if you don't mind, to the cost of funding. I agree with you that the gross yield has been dropped by 2 basis points. Cost of fund has improved by 4 basis points. As a result, the NIM has improved by overall 2 basis points on a sequential basis. As I mentioned earlier, we're still positive about the NIM trajectory. And the final point I would like to highlight, if you look at the NII on an absolute basis, Al Rajhi Bank have delivered a growth in the NII on a sequential basis, 97 million. The overall banking system has grown 161 million. We have delivered 60% of the NII growth in Q1.

Bottom line, yes, I acknowledge that the growth yield has contracted by two basis points. However, the most important factor is what the direction on the NIM. I hope that's clear.

Naresh Balandani
Head of MENA Equity Research, JP Morgan

Q

That is very fine. But could you please just help explain, why did the NIM actually drop? This is how I think. The mortgage prices are still going up so that yield should consistently be improving. The retail book, although contracting or flattish, I think the yield on that book, non-mortgage retail book, should consistently be increasing simply because I think you're still repricing the vintages there. The corporate is linked to the three-month SIBOR in broadly my expectations. And that would ideally have stayed flattish to slightly down. But the overall yields ideally should have been up quarter-on-quarter rather than down.

I'm inclined to think that there was some pressure on the yields within the corporate book or there could be some other reason. If you can please just throw some light on that, that would be super helpful.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

First of all, the NIM has expanded. Not contracted. I'm sure that you are probably referring to the gross yield, Because I think, depending on your calculation, we are taking the average earning assets on a daily basis. You're looking at it from a quarterly. Depending on which type of the assets you're taking, we're taking on the average earning assets. That probably explains the calculation on the NIM differential between our calculation and yours. Nevertheless, on the gross yield, as I mentioned, one, we've seen, first of all, SIBOR has contracted by close to eight basis points. Again, that had an impact on the overall corporate book. Not for us, but for the entire banking system.

But then, again, and I think our forecast that on the gross yield, and there is no surprise as and when we see the interest rate cycle start going lower; definitely the asset yield will go lower. But for Al Rajhi Bank, given that retail component and specifically to the mortgage, we will have the lag impact.

Naresh Balandani
Head of MENA Equity Research, JP Morgan

Q

And not to hog too much time, let me just put this in a final manner this way. We've consistently seen growth every quarter in your interest income, the gross interest income. Which, as I mentioned to you earlier, that in Q4 to Q1 is looking flattish. Assuming the rates stay where they are, say, going into Q2 and even in Q3, do you reckon this is the level of gross yields that we should be expecting over the next two quarters? Any indication you can give there, that would be much helpful.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

The only indication that I can give, Naresh, that we are having a positive trajectory on the NIM over the medium-term, rather than focussing on the gross yield. And I think you need to look on the total. You're looking at one side. You need to look at the 360. NIM trajectory is positive for us. If rates start coming lower, that will be a further upside for Al Rajhi Bank. With that into perspective, we have not changed our guidance on our NIM of 5-15 basis points compared to 3 basis point delivery so far.

Rahul Bajaj
MENA Equity Research Director, Citi

Q

Thanks for taking my question, Abdulrahman and Safwan. I have three questions, if I may be please. The first one is on the non-mortgage retail momentum that we saw this specific quarter. You mentioned there was some specific campaign that you launched. Should we expect that part of the book to have turned now or you think for the next couple of quarters, before the rates start coming down, there could be additional quarters where we see a compression in that part of the portfolio? Or you think we are now in an upward or maybe a flattish to upward trajectory over the next couple of quarters?

And linked to it, is your mid-single-digit loan growth guidance, given that you've already done close to 2, 2.5% in 1Q, is there upside as to that loan growth guidance for FY 24? That's my first question. The second one is on NPL coverage. That number has come down below 200%. And as you rightly said, it is still way ahead of sector averages. Is that the direction you are heading on your coverage ratio? Would you want to get to this sector average or you think going back to 200-plus is where Al Rajhi Bank would want to be? Where is this NPL coverage headed over the next several quarters? Towards the sector average or back to the historical level?

That's my second question. Third and final, on CASA growth that we saw for Al Rajhi Bank during 1Q and for the sector as well, to what extent that CASA growth was sticky, in your understanding? Have those deposits, which came in 1Q, been around for 2Q or you think there was a transitory nature to this deposit inflow? Thank you. Those are my three questions.

Majed Alrajhi
General Manager Retail, Al-Rajhi Bank

A

Good afternoon, everyone. This is Majed, Head of Retail. For ex-mortgage, we have witnessed this quarter growth on our ex-mortgage book due to a tactical campaign we did in the first quarter. We are hoping that momentum will continue over the course of the year, high interest rate will defiantly impact the demand. Nevertheless, if the rates go lower, we are expecting a further expansion on our ex-mortgage book.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

On the second part of the first question, is there any risk on the loan guidance? Historically, not only for Al Rajhi Bank, but for the entire banking system, Q1 is considered to be the highest in terms of the pickup on the financing book. Q2, then you'll enter into, basically, the summer vacation. Q3 as well is also slow and Q4 is basically, we see the pickup. From our perspective, we haven't seen any reason to change our guidelines for the financing book for the 2024. In terms of the NPL coverage, as I mentioned, if you recall, as of Q4, our NPL coverage was 200%-plus. The market average is 148%.

We dropped to almost 175%. I'd be surprised, to be honest, if we see it dip below 150%. And I think we would like to keep it within the current level. Nevertheless, that will be assessed over and on a regular basis. And I think one of the reasons why the NPL coverage went lower is because we are regularly updating our ECL model, taking into consideration the positive macro-outlook for the Saudi economy. Hence, with the current macro environment, the outlook is positive. However, I will be surprised to see it going below the 150%.

As far as the last question related to the CASA growth, if you see the SAMA bulletin data, close to 19% growth on the demand deposit is coming from the government entity. That is the public information. We believe that these deposits, to some extent, are transitory. There could be a shift into a time deposit or there could be another shift. That's my guesstimate, as we speak. But nevertheless, the overall liquidity situation for the banking system has quite improved. If you see Q1, overall financing book for the Saudi banking system has increased by 3.1%, while the customer deposit by 5.5%. That has led to the overall improvement on the LDR.

Shabbir Malik
EFG-Hermes, Banks Analyst

Q

Thank you very much. I had a question. There is some news regarding the government revisiting mega projects and also some news around the population targets for Riyadh. How do these changes affect your medium-term or long-term plans? Or how does it affect your strategy? Do you think you would need to make any modification to your plans as a result of these changes? That's my first question. And secondly, I think there was a comment made about some changes in the strategy regarding retail or non-mortgage retail, which helped reverse the trend of contraction in retail.

Maybe if you can elaborate a bit more on that, it will be pretty useful. And thirdly, would it be possible to get some colour or if you could break down the fee income in terms of the contribution from the capital markets business, payments, remittances? Can you shed some light on that? Those are my three questions. Thank you.

Waleed Almogbel
Managing Director and Chief Executive Officer, Al-Rajhi Bank

A

Thank you so much for your question. I will answer the first one and Majed will cover the rest of your questions. Regarding the recent government announcement of the mega project, I believe it was very clear from the government that the government is now prioritising some of the projects. And some of the projects will be phased for different phases. And we believe, even with the project reprioritization, still the opportunity for financing is very big and huge for all the Saudi and non-Saudi banks compared to even the region that we are in right now.

Majed Alrajhi
General Manager Retail, Al-Rajhi Bank

A

And as for retail, as for our strategy, Harmonize the Group, we want to increase our product per customer through different lending and saving products. That will give us growth on our financing book, as well on the fee income. Therefore, we are going to introduce new segments that will continue growing our portfolio.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Shabbir, as far as the last question related to the fee breakdown, unfortunately, that is not a quarterly disclosure. But if you go to the segment note footnote 17, you can see that the breakdown of the fee contribution by different business lines, that's the only thing that I will guide you to and hopefully, that will help you in terms of the growth and the fee income that we have delivered. But on a nutshell, as Waleed mentioned and also reiterated by my colleague, Majed, who's looking after the B2C, the focus for the management is to further improve the product per customer.

If you recall on the strategy slide, we mentioned the base, close to 38% of our customer base have got more than one product as of the year-end. We moved almost to 39.7%. There's a good improvement and to show that the management focus is to further improve the product penetration, which will help both improve the fee as well as on the asset side.

Shabbir Malik
EFG-Hermes, Banks Analyst

Q

Thanks. Maybe one final question. Potentially, rate outlook has changed from three rate cuts to, as you mentioned, one potentially towards the end of the year. What was the reason to keep the NIM guidance unchanged?

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

We see a very good positive momentum in improving the cost of fund. If you see that the management has been taking quite a lot of initiatives since 2022 to diversify the funding sources and to be able to optimise our cost of fund efficiently. Also, looking at the asset mix, despite that if you look at historically, Al Rajhi Bank retail book used to be around 78%-plus and currently, at 71%. That didn't materially impact the asset yield. And I think on a nutshell is the asset mix, looking at the asset mix as well as optimising the cost of funds.

Jon Peace
Head of MENA Equity Research, UBS

Q

Thank you. Just to follow on your NIM comment, would you say, given the change in rate outlook, you're a little more likely to be towards the lower end than the higher end of the range now? And as we look out to 2025, I appreciate you'll probably give us some guidance near a year-end. But as rate cuts start to accelerate, should we imagine that the increase in NIM could be bigger than the 5 to 15 that you expect for this year? And then my second question is just around some of the targets for Harmonize the Group. It looks like you've made some great progress in some of these in the first quarter.

But are there anywhere you could give us some medium-term indications of where you might get to? I appreciate you probably want to keep this quite a high level. But I guess what I'm trying to get towards is, what's a reasonable range of expectations for fee growth and the long-term cost income? Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Sure. On the first question related to the NIM, Jon, the only comment that I can say that we are comfortable to be within the range, whether it's lower end of the range or the higher end. And I think that is a call that you guys need to take. But then I think we are comfortable to be within the 5 to 15-basis point expansion. As far as 2025. The only thing I can help you to make your call is that on a theoretical NIM sensitivity, you know my disclaimer, Jon? For every 25 basis points cut, the NIM will expand by 6 basis points.

As far as on the strategy KPIs, if you recall back in the strategy call meeting on 13th February, we highlighted these are the management focussed areas under the leadership of the CEO. We are monitoring close to around 200+ initiatives to be those all fitted into that one slide. Leveraging from the bank of the future, rest assured that the management execution capability is there to be able to further improve the ROE for the shareholder. That's the only thing I can comment.

Olga Veselova
Equity Analyst Director, BofA

Q

Thanks. I have several. The first question is about your wholesale funding. Just today, we saw the announcement about issuing additional $AT1 sukuk. Why are you doing this? And I hear your comments that you were diversifying liabilities mix in the first quarter, but I assume you don't do this just for the sake of diversification. What's the logic there, given that the bank is actually comfortably capitalised, not growing assets very fast and has enough liquidity? That's my first question, why raising dollar sukuk now? The second question is, am I correct that the difference between NPL ratio and stage 3 ratio has been expanding slightly in the past several quarters?

If so, why is this happening? And my third question is on securitization. Do you consider securitizations through SRC or maybe through other channels this year? And if yes, maybe you can give us some sense about potential volumes. Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

The purpose of the additional AT1 issuance that we announced earlier this morning is to diversify our funding sources, improve liquidity position and also improve the capital position to support us on the growth. I'm sure that you will be able to challenge me to say that your CET1 is still high, your Tier 1 is high. But what you guys are seeing is only the pillar one. And I think we do have a positive macro outlook in the economy. We do have a positive outlook on the growth over the medium term. The intended issuance is to help us to be able to support the bank's medium-term growth strategy.

On the second question, what is the difference between NPL balances and stage 3? The difference is as follows. Not every customer who is in the NPL is necessarily on the stage 3. In line of the IFRS 9 requirement, if the customer moved to NPL and although that he starts to become performing, he would still stay in stage 3 as a part of what they call cure period. The cure period varies somewhere between 6 and 12 months. There will always be a difference between stage 3 exposure versus NPL exposure.

Last question, securitization. Yes, we've done, if you recall, last year, close to 11 billion with SRC. That was part of the management initiative to be able to improve the overall liquidity situation to release some of the capital liquidity in order to support the growth over a medium term. The management is always considering any alternative method, whether securitization, AT1, senior unsecured, and all the tools that are available. We will do the most efficient way that will have a further shareholder value in order to maximize the ROE over the medium term.

Olga Veselova
Equity Analyst Director, BofA

Q

Thank you. On the first answer, shall we assume that you prepared some acceleration of balance sheet growth in midterm, even if not permanently? Would this be a fair conclusion from your comments?

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Again, we saw an opportunity. And I think Al Rajhi Bank tapped in the debt capital market twice. Once this year and last year, we see that orders to book are decent, and the spread is tightened. This issuance is probably one of the few rated Tier 1 issuance. We started announcing the transaction this morning. We see lots of demand as we speak. And again, from our perspective, it's mainly to help us support liquidity, diversify our funding, and improve the capital position.

Aybek Islamov
EEMEA Banks Equity Research, HSBC Middle East

Q

Thank you. I think a couple of questions from me. The first one was just to follow up on the government investment plan potentially to be revised lower going forward. Do you think it may impact the quality of the loans you've underwritten in the last two years? I'm not talking about the pipeline. I understand there is plenty of it for all of you in Saudi Arabia. But do you think the quality of some of your loans you have underwritten could suffer because of some of these revisions? That's my first question. The second is just to summarise the margin discussion, a lot of questions on NIM, obviously.

Is it correct to understand that the margin gains you're going to see this year are likely driven by the funding costs rather than asset yields? That's one. Just yes or no. And secondly, the additional Tier 1 debt, the dollar one that you're going to issue, what is it going to do to your Saudi riyal funding cost? Is it actually positive for your Saudi riyal funding cost? I know you're issuing in dollars, but then obviously, swapping to Saudi riyal, I presume. Or it would be negative for your Saudi riyal funding cost?

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

For the first question, Aybek, as Waleed mentioned there have been several public announcements that there are projects the government will accelerate. And several projects that they will increase capex. And there are several projects that they'll probably slow down. Overall, the macro-outlook is still positive. And I think what we see also, the government announced Q1 budget announcement, if you recall, non-oil GDP representing almost 40% of the overall government revenue. And I think the government is going in that direction.

I don't see any risk on some of the loan that we are already committed. I don't see that. And I don't think there is an annotation of downsizing the investment. It's just to recycle or prioritize some of those investments. I just want to be clear from a different communication that we, as a market participant like you guys, are hearing. That's number one. On the NIM, we give you all the trend and the factors impacting the NIM to help you in taking the call. Third question was about Dollar sukuk. Again, the AT1 issuance, we do also underwrite some of the dollar loans. Our treasury team will evaluate between what is the best use of that AT1 issuance. Is it to fund the dollar book demand or to swap it into riyal? But most likely, it's going to fund the dollar book demand.

Aybek Islamov
EEMEA Banks Equity Research, HSBC Middle East

Q

Understood. One follow-up question, if you can answer. What's the maximum open currency position you can tolerate as a percent of your equity, at which point it becomes uncomfortable so that we have to raise additional dollar?

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Aybek, we do have an annual disclosure in terms of the dollar position, top five currency positions. In Basel III reforms which have been implemented in the kingdom, January 1st 2023, in line of the market risk, there is a certain limit that you can, based on your USD funding. I don't think any of the banks are disclosing that. But what I can assure you, that we do have plenty of room. We are a commercial bank. we are not an investment bank. Plenty of room for us to still continue to grow. Thank you.

Aybek Islamov
EEMEA Banks Equity Research, HSBC Middle East

Q

Thank you, Abdulrahman.

Operator: Thank you. In the interest of time, that is now the end of the Q&A session. I'll now hand back over to the management team for closing remarks.

Waleed Almogbel
Managing Director and Chief Executive Officer, Al-Rajhi Bank

Thank you, everyone, for dialling in and for your trust in us. We are very proud of our results and we will continue to focus on execution and achieving our new strategy goals for this year and beyond. Looking forward to meeting you again in the next quarter's earnings call. Thank you.