3Q24 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

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Sultan Altowaim
Head of Research, Al-Rajhi Capital

Good afternoon, everyone. This is Sultan Altowaim from Al Rajhi Capital. Al Rajhi Capital is pleased to host Al Rajhi Bank Q3 2024 earnings call. Welcome, everyone, to this event. Without further ado, I will hand it to Sulaiman Alquraishi, the Head of Investor Relations, to introduce the management team. Thank you.

Sulaiman Alquraishi
Senior Director Investor Relations, Al-Rajhi Bank

Thank you, Dr Sultan. Good day, everyone, and thank you for joining the call. With us on the call today, our managing director and CEO, Mr Waleed Al-Mogbel, CFO, Mr Abdulrahman Al-Fadda, Retail General Manager, Mr Majed Al Rajhi. As always, our CEO will start with the results highlights and strategy performance. Then the CFO will cover the financial performance in more details. Finally, we will open the floor for your questions. And now, I'll hand over to Mr Waleed.

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

Thank you, Sulaiman. Welcome, everyone, and thank you for attending our earnings call for the third quarter of this year, 2024. As always, I will start by taking you through our performance highlights, then I will follow it by an overview of our performance on our strategy execution, Harmonize the Group. After that, I will give the floor to our CFO to cover the financial performance in more details. Now, let's take a closer look on our first nine months' performance.

For the nine months of 2024, the bank delivered an exceptional performance, supported by our strategic initiatives and improved economic indicators that led to recording the highest net income for a nine-month period since the bank establishment. Starting with the balance sheet, we were able to deliver 12% growth year-to-date and 13% year-on-year. The growth on the asset side was mainly driven by financing portfolio, which grew at 9% year-to-date and 10% year-on-year, which reached now almost 650 billion, as well as investing portfolio grew at 20% year-to-date and 26% year-on-year.

Non-retail book grew by 19% year-on-year, supported by 20% growth on our corporate book and 21% growth in SME, which is one of our strategic initiatives. In addition, mortgage recorded a growth of almost 10% year-on-year and now represents around 38% of our total book and 55% of our retail book. If we look at the liability side, the total liability now stands at 785 billion, an increase of 12% year-to-date. That brings our LDR to around 78%, giving us more room for further growth.

Moving to profitability, net income reached 14.2 billion for the first nine months, higher by 12% compared to the same period of last year. Net yield income grew by 14% and non-yield income grew by 13%. This resulted in a total operating income increase of 14% in the first nine months of this year, which is now standing at 23.3 billion. Talking about credit quality, we continue to maintain best-in-class asset quality with the cost of risk standing at 33 bps compared to 25 bps in the first nine months of last year. Additionally, NPL stands at 79 bps, with a very healthy coverage ratio of 165%.

Moving into key ratios. Our market-leading cost-to-income ratio has improved. Now we are standing at 25.4%, backed by our operating efficiency. Also, the bank maintained a strong financial position with a healthy total capital ratio of

21%, well above the regulatory minimum. Lastly, our NPM expanding to around 3.10%, higher by 10 bps year-on-year, and that due to the continuous effort to improve our gross yield and optimise the cost of fund of the bank and the current rate environment.

If we move to slide number four, next slide, which we will highlight the progress of our 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 KPIs. If we look at the first pillar, which is B2C, where we focus on retail cross-selling, the products per customer portfolio has increased to around 41% since we introduced our strategy. Additionally, our sales growth from targeted customer portfolio has witnessed a growth of 82% since 2023, which is a result of our continuous effort to expand our portfolio across existing and new segments. Having a great customer experience is an initial measurement that we assure to maintain. Our current NPS score reached 84 from 76 since last year, making it one of the highest amongst the sector.

Moving to the second pillar, which is B2B. Our corporate portfolio has continued its growth of 19% year-on-year, reaching to almost 200 billion as a result of our continuous effort to expand our corporate portfolio and focus more on the SME, which has grown by 15% since the end of last year, and now is representing 18% of our non-retail book and 5% of our financing book. Investment banking continues to be a significant revenue stream that the bank is focusing on, which has grown over 100% compared to last year.

Looking at our third pillar, support business. Good progress has been made due to centralised and standardised capability. That increased by 18% since last year, coupled with a focus on becoming a cloud-ready bank. Additionally, we continue to enhance our efficiency through strengthening and improving our technology across the group that's reflecting on a process automated, which has grown by 25% in the third quarter of this year, 2024.

On the last pillar, digital and data, our best-in-class digital capability and our innovative offering supported us to be the bank of choice across the kingdom for almost 18 million customers from all businesses. The bank continues to explore and improve solutions, capturing further opportunities such as open banking APIs, which has reached 211 by the third quarter of this year, compared to 119 in December last year.

Lastly, as AI- and event-driven activities are becoming significant for the bank, revenue increased from data-driven marketing, has raised by almost 130% in the third quarter of this year compared to last year, 2023. By that, I will hand over now to our CFO, Abdulrahman, to give you a detailed update of our financial performance. Thank you so much.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

Thank you, Thank you, Waleed. Good day, ladies and gentlemen. It is my pleasure to welcome you again at our Q3 earnings call. Our total assets stand at 953 billion, 13% increase year-on-year and almost 4% increase on a sequential basis. Our assets have increased by almost 12% year-to-date, as you can see on the bottom left-hand side of the chart, were mainly driven by almost 20% increase in our investment book, coupled with 9% increase around our financing book.

We continue to diversify the funding profile in order to optimise our cost of funds efficiently. Where you can see on the bottom right-hand side of the chart, our interbank borrowing has increased by almost 24 billion since the beginning of the year, which includes almost 4.6 billion of green syndicated loans and almost close to around 2 billion of CDs. We continue also to grow our customer deposits by almost 50 billion, coupled with access to the international debt capital market to raise sukuk recently.

Our financing book stands at 649 billion, almost 10% increase year-on-year, 4% on a sequential basis. Our retail book as a percentage of the overall financing stands at 70%. If we analyse the 9% growth on our financing book year-to-date, we have seen a broad-based growth over the business line. As you can see on the top right-hand side of the chart, our mortgage book has increased by 7%. Ex-mortgage of the retail, we have seen a healthy pickup in demand, where we've grown 3% year-to-date. Corporate and SME have grown by 20% and 15% respectively.

Mortgage book stands at 251 billion, which represents almost 55% of the retail book and 38% of our financing. Overall, our customer deposits have increased by 10% year-on-year, flat on a sequential basis. Cash as a percentage of the overall customer deposits stands at a healthy level of around 72.2% as of Q3.

To analyse the movement on our customer deposits, as you can see on the bottom right-hand side of the chart, our total customer deposits stands at 623 billion, where we have seen a healthy growth in our CASA of around 83 billion. That helped us to manage our cost of funds and shed off close to around 35 billion of a time deposits that helped us to improve further our cost of funds eventually.

Moving on, given that our investment book, there is a bit of decent growth over the last couple of years and currently represents almost 18% of our total assets, we thought that just to give you a few highlights about our investment book. Close to 81% of the book is sukuk and Murabaha with SAMA. Around 76% of our investment book is fixed rate compared to 72% in order to take advantage of the rate environment. And finally, is close to around 83% of the book in the domiciled place.

If we move to the profitability, our net income for Q3 at 5.1 billion, 23% increase year-on-year and almost 9% on a sequential basis. To analyse the sequential trend, as you can see on the bottom left-hand side of the chart, our yield income has increased by 9%, coupled with a very healthy growth on our non-yield income of 15%, offset by almost 6% increase in our opex, which will bring our pre-provision profit to expand by almost 12% on a sequential basis. Our net income for the period at 14.2 billion, 14% year-on-year increase, mainly driven by the yield and non-yield income by both around 14% for each, offset by almost 8% increase in our opex, which will bring our pre-provision profit to increase by 16% year-on-year. With that also, we top up our provision by close to 466 million riyals.

If we analyse the income trends, our operating income for Q3 at 8.4 billion, 23% year-on-year increase and almost 11% on a sequential basis. Our operating income for the period at 23.3 billion, 14% increase year-on-year, mainly driven, as you can see on the top right-hand side of the chart, yield income have increased by 14%, given that our average earning assets have increased by almost 9%, coupled with a NIM expansion of almost 10 basis point year-on-year.

Our fees have improved by 5% on a year-to-year basis. If you recall, there has been a drop in our Q3 fee income last year. Nevertheless, due to the management initiative, which we've been communicating to the market, we've seen a good improvement on our fee income on a year to-year-basis.

FX growth of 3%. Other income has seen a good growth of almost 70% growth year-on-year, mainly driven by the management focus to improve the derivative. Also, we've seen the mark to market of the trading book have shown a very positive momentum, Al Rajhi Takaful contribution, given that they have doubled their net income on a year-to-year basis. And finally, there was a one-off, nonrecurring in Q3.

Our NIM stands at 3.08%, around 10 basis points increase year-on-year and almost 9 basis points on a year-to-date basis. It's worth to highlight that the NIM, our exit rates for the NIM for Q3 stand at 3.17% versus 3.04% in the second quarter. Hence, we managed to expand our NIM by 13 basis points. This is due to the fact that our asset yield has improved by 18 basis points, offset by only 5 basis point increase in our cost of funds. As you can see, the driver on the

NIM expansion on bottom right-hand side of the chart, mainly the retail have improved quite a lot in our gross yield over the last 12 months.

Our opex for Q3 at almost 2 billion, 11% increase year-on-year and 6% on a sequential basis. Our total capex for the period at 5.9 bn, almost 8% increase year-on-year, mainly driven by the increase on the staff costs, as well as the depreciation, which is to execute our Harmonize the Group strategic objective. Over the last 12 months, we managed to deliver almost 13.8% increase in our operating income, offset by 7.6% increase in our opex. Hence, the management have delivered almost 615 basis points of a positive jaws that have helped to reduce our cost-to-income ratio by 145 basis points to almost reach 25.4% as of Q3.

Our net credit losses, for Q3 we topped up to almost 690 million in the third quarter. Our cost of risk year-to-date stands at 33 basis points. As you can see, that the top up in our net credit losses are mainly coming from the non-retail book, given that we have almost 19% growth on a year-to-year basis. Our NPL stands at 5.2 billion, almost a 1.6 increase year-on-year and only 280 million increase on a sequential basis. Our NPL ratio stands at 79 basis points, only 1 basis point increase compared to the Q2, mainly coming from improvement on our retail NPL to 40 basis points, while we've seen the non-retail book have increased the NPL to almost 1.7%. Our NPL coverage is still healthy at 165%.

Our total provision balance stands at 8.6 billion, as you can see on the top left-hand side of the chart. Stage 1 exposure still remains healthy at 96.7% compared to the same level of the same period last year to show the healthy credit origination. Our stage coverages for Q3 for Stage 3 at 54.7% compared to 55.1% as of Q2, Stage 2 at 12.9% compared to 13% as of Q2, and finally, Stage 1 at 0.41% compared to 42 basis points as of Q2. So, not a material movement that we have seen in our stage coverage.

Liquidity ratio remains comfortable, at a healthy ratio, although that our headline LDR at 100%. Nevertheless, our regulatory LDR stands at 78.3% as of Q3. LCR and NSFR at a very comfortable level above the minimum regulatory requirement.

Our total RWA stands at almost 580 billion, 11% increase year-on-year, mainly driven by the asset growth of almost 10% year-on-year. Our capital ratio stands at 16.2% for CET1, Tier 1 at 19.7%, and finally, our total capital at 20.7%. The movement of our Tier 1 capital, as you can see on the bottom right-hand side of the chart, although that asset growth coupled with the dividend distribution have contributed to almost 420 basis points drop in our capital ratio, nevertheless, that has been offset by 274 basis points of an internal capital generation due to the healthy RWA density that we have.

Our return metrices are still remaining on the high side and we continue to further improve. Our RoRWA at 3.45%, the exit for Q3 at 3.57%. Our ROE stands at 20.5%, while the exit for Q3 at 21.6%. And finally, our ROA at to 2.22% while the exit at 2.31%.

Before we move on to the guidance, at the macro level, we still see the macro outlook is positive based on the flash estimate that has been published recently. Non-oil GDP have shown an expansion of 4.2%, which is a very healthy growth year-on-year, coupled with an increase on the consumer spending by 7%+ year-on-year. On the interest rate outlook, in addition to the 50-basis point cut that has been delivered by SAMA on September, we still anticipate one additional rate cut for the remaining of the year. Finally, as Waleed mentioned, the management is still focussed to execute Harmonize the Group strategy in order to improve the shareholder value.

Having said that, we are upgrading our guidance on the financing book to be low teens, upgrading also our NIM to be 10 to 20 basis points expansion, upgrading our cost-to-income ratio to be below 25.5%, upgrading our ROE to be above

20%, while downgrading our cost of risk to be in the range of 30 to 40 basis points, not a material change compared to the previous guidance. Having said that, 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 Harmonize the Group strategy, which helped us to achieve our strategic goals so far. Now we will open the floor for any questions. Operator, back to you.

QUESTION AND ANSWER SECTION

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. If you have joined us on the phone, please press star followed by one on your telephone keypad. Our first question comes from Shabbir Malik from EFG Hermes. Shabbir, please unmute locally and proceed with your question.

Shabbir Malik
Banks Analyst, EFG-Hermes

Q

A couple of questions, please, from my side. You should benefit from rate cuts that are coming through and are likely to come through in the rest of the year. What do you think are the main downside risks to NIM expansion outside of rates? That would be my first question.

Secondly, you've seen a good recovery in non-interest income and you've highlighted you've seen good trend in fees, and you've also outlined there was maybe a one-off as well in the third quarter. Just if you can quantify that one-off or extraordinary piece and maybe give some additional details on what initiatives on the fee income side, particularly on Rajhi Capital or any of the other businesses have contributed to this. And on Ejada, if you can please tell us what's the latest update on that. Maybe give us a sense of the earnings profile of this company, then that would be pretty useful as well.

Finally, in terms of the green syndicated loan that was closed in October, would it be possible to share any details in terms of pricing and what will the proceeds be used for? Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

On the NIM, we still have a very positive outlook on the NIM. We are probably one of the most beneficial financial institutions in the region for the rate cut environment. This is by design, taking into consideration the fixed rate component of the book that we've been building. That's number one. On the downside risk, definitely, again, the NIM sensitivity, you know my disclaimer, the downside risk is if there is any material change into the asset mix or if there is any material drop into the liability mix and specifically the CASA. These could be I would say downside risk on our NIM sensitivity.

Second question related to the fee income growth. On a Q3 standalone compared to a Q3 standalone last year, we managed to improve the fee income by close to 38%. The management have been taking quite a lot of initiatives to improve the fee income. If you recall the earlier Waleed's comment, the percentage of the customer base that they have more than one product has quite improved from 38% as of December to 40.7%.

The focus of the management on the cross-selling, we see a good positive momentum into the trade, cash management, also the bancassurance, and across multiple line items that we have seen that are contributing. Payment also is one of the fee income contributors, given that we still continue to see a healthy positive migration to the cashless payment, coupled with a further increase into both acquiring and issuing market share.

Thirdly, on Ejada, if you recall, in our Q2 financial statement, we said that the management are working in a 12-month timeframe to be able to execute our strategic objective. We are making good progress and hopefully the management will be able to execute it before that 12-month period that we discussed in June 2024.

Final question related to the green financing. In the third quarter, we managed to tap in the green financing by close to USD 1.9 billion at an attractive spread, which is in line of our single A-rated comparable, which is better than what we have seen globally. The proceeds of those green syndicated loans are to be used to further improve our funding profile and to support the growth in our financing book over the medium term.

Chiro Ghosh
Head of Research, SICO

Q

This is Chiro Ghosh from SICO. My first question is, look, I want to get a better sense of the LDR calculation, which you are doing or whether SAMA is guiding you to do. On a quarter-on-quarter basis, I've seen in third quarter your loan book grew quite well, quite a strong growth, while deposit book was flattish. But despite that, LDR appear to have come down a little bit. Can you just help me understand that better? And where would you want to take your LDR to be? What kind of leverage would make you comfortable? That's my first question. Second one, I think I missed this point. How did your asset yield improve in this quarter versus second quarter? These are my two questions

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Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

On the first question related to the regulatory LDR, I think since the regulator have introduced the revised LDR a few years ago, I think they give more weight to the highest tenure. The more you go over the curve, the more you'll have a weight, which will have improved your denominator. If you recall our earlier statement on the green syndicated loan, that given that is a three year, that it quite helped a lot, despite that our deposit is flattish. But, the weight of the tenure improved the LDR in Q3 compared to Q2. As a management, we monitor both the headline LDR as well as regulatory LDR. Nevertheless, we are at a very comfortable level and we will take a call based on our aspiration on the growth of the assets.

On the second question related to the asset yield expansion, there has been 18 basis points increase on a sequential basis of our asset yield, which, for the first time, it crossed the 6% mark. This is a combination of many things. SME have grown nicely in the third quarter. Also, we see a very positive momentum into repricing the ex-mortgage of the retail book, taking into consideration the current interest rate environment, where the old vintage of specifically 2021 and 2022 vintages have been repriced nicely, which have improved quite the retail asset yield over the year.

Naresh Balandani
Head of MENA Equity Research, JP Morgan

Q

Hi, it's Naresh Bilandani from JP Morgan. Thank you so much for the presentation. Congrats on a good set of results. I have three questions, please. One is, clearly the pace of loan growth seems to be coming in somewhat better than the expectations. If we assume lower rates into the next year, and of course, the next couple of days will decide a lot on how the yield curve behaves, but if we assume right now how the rates trend into the next year, clearly, I think the growth momentum, underlying growth momentum seems to be quite strong.

In this context, I'm just keen to understand, what would be your liquidity strategy at this stage? Clearly it shows that in the current quarter you've sourced a lot more liquidity from the interbank market, where bank TDs. Are these local TDs, are these internationally sourced and would you want to use these more into the next year? I'm just keen to understand if we should see the deviation from the 70-30 split between CASA and time deposits. That seems to be the ongoing average. Will this shift materially into the next year or should this ratio be maintained? That's the first question on the liquidity strategy in context of the growth.

My second question is, and this is more of just to get a reconfirmation. As of end of 2023, the payments and electronic services contributed 73% overall to the gross fee income. Has this mix changed in any meaningful manner and will this change in any meaningful manner into the medium term? That's the second question.

My third and final question is, I'd really appreciate if you can offer some broad thoughts at this stage on how we should be thinking of the NIM widening, loan growth and cost of risk going into 2025, which will likely be the bigger driver of the stock at this point. But again, congrats on delivering a great set of net interest margin for this year. These are my three questions. Thanks a lot.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Our liquidity strategy has been communicated I think several times over the last couple of years. If you recall, back in 2022, we tapped in the local debt capital market and raised 16.5 billion of AT1 issuance. In 2023, we started our dollar syndicated loan, coupled with access to the international debt capital market. We also securitised accumulative of almost 13 billion of our mortgage book.

This year, we tapped a couple of times into the debt capital market internationally. CDs is sourced from international, not from the local. As a management, our treasury teams along with the rest of the management team are looking to diversify the funding sources to make sure that we do have ample liquidity in order to further support the growth over the medium term. In a nutshell, we will continue to replicate what we have done over the last couple of years in order to support the growth strategy over the medium term.

As far as what you've mentioned on the payments, which are presenting as a percentage of the gross, that was just an annual disclosure. I haven't seen any material change so far. But what we have seen also, that the management initiative to offset some of the fee income drop that has happened from Q3, trade, the wholesale, the other fee income contributors have also contributed positively in 2024.

NIM guidance for 2025. We're quite excited about the NIM that we have delivered in the third quarter. We continue to see a positive trend for the NIM widening over the coming quarters by virtue of our NIM sensitivity. Our theoretical NIM sensitivity is 6 basis points expansion for every 25 basis points cut. We are quite optimistic about the NIM widening in the coming period.

Joe Peace
Head of MENA Equity Research, UBS **Q**

Hi and thank you. Well done on the results. I just wanted to understand whether there was any, for want of a better word, one-time benefits within the NIM this quarter. Just looking at the breakout divisionally, there was quite a strong positive increase in the treasury division and I just wonder whether there was anything that they say you might call one time, or whether other things being equal, the Q4 NIM should be higher than the Q3 NIM. I apologise, I missed on the line whether you had said how much was the one-time item in the non-interest income. Then just the second question please on asset quality. You saw a little bit of an increase in NPLs and non-retail and that top up in the cost of risk. Any trends that you would like to call out? Thanks.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank **A**

I will confirm that there haven't been one-off items in our NII for Q3. That's number one. In terms of the one-off, as I mentioned, it's not material. It's a part of the other income, so it's not that material, but it's non-recurring.

Third question on the NPL, I think what you guys have seen, we've seen a better improvement in our retail NPL to 40 basis points from the peak that we saw at 47 basis points. Nevertheless, we start to see some flow on the SME portfolio. we are very conservative, given that we have a very healthy NPL coverage, as well as the stage coverage. Risk-adjusted return for that business is still attractive from a gross minus the cost of risk, and adjusted for a healthy capital ratio.

Olga Veselova
Equity Analyst Director, BofA **Q**

Thank you and good day. I have several questions. One is, again, on net interest margin. Well, thank you for the explanation of asset yield expansion. I think one of the reasons which you provided is positive momentum in repricing of non-mortgage retail book. Could you please talk a little bit more about this? Why did this happen? Did you change the product pricing or product mix? What was behind this positive momentum? This is question number one.

Question number two is your outlook on CASA ratio. You did really well this year, including in the third quarter. Congratulations with this result. What will be your outlook for the next four quarters on CASA behaviour, CASA ratio behaviour? My last question is on securitisation opportunities. You were speaking positively about potential securitisation in future. However, there were no securitisations this year. How do you think about this? Also, do you think the agreement between SRC and BlackRock is opening up an opportunity for a new securitisation product in Saudi Arabia going forward? Thank you

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

On that asset yield expansion, again, there are a couple of main reasons. A, the change of the SME mix to the overall. We see a good SME mix to the overall financing book. It has improved to 5.6% compared to almost 5.3%. So, there has been also a good increase into the SME origination. That's number one.

Second, we see still a very positive momentum on repricing of our consumer loans. If you recall, this is a five-year legal maturity. Behaviourally it's around two years. We see a good amount of 2021 and 2022 vintages have been repriced nicely, that have contributed to further improvement onto the asset yield expansion into Q3. Nevertheless, I'll be transparent, given the outlook of the interest rate, we believe that if the asset yield has not reached the peak, as we speak, we are probably very close to the peak, nevertheless, in the coming rate cycle, the cost of funds will drop even further compared to the asset yield drop. Hence, it is a NIM positive over the medium term.

As far as the CASA ratio, we believe that the majority of the growth that we have delivered in Q2 and Q3 are transitory and I think those are going to be volatile. We anticipate that some drop will happen. Nevertheless, it's the DNA of Alrajhi Bank to focus on growing the current account with a bit on the retail or the corporate, and we'll continue to optimise our cost of funds efficiently over the medium term in order to further improve the NIM accordingly.

Majed Alrajhi
General Manager Retail, Al-Rajhi Bank

A

As for the securitisation, having a secondary market for the mortgage definitely will enhance the liquidity in the banking sector, which will ease the pressure of the cost of funds. However, whenever there is a need to tap into securitisation or a need from a banking perspective, we will be doing that. There isn't any need we have seen form the beginning of the year, but always we are in discussion to see if there is any need on that perspective.

Aybek Islamov
EEMEA Banks Equity Research, HSBC Middle East

Q

Thank you for the conference call and congratulations with a very good set of numbers in the third quarter. I would like to ask a couple of things. The first one is on your fee income. It is recovering quite nicely and I'm looking at fee income relative to asset ratio coming to around 60 basis points. There were times in the past before regulations changed when your fee income used to be as high as 90 bps or 1% of your assets. What needs to be done to get to that level and is it possible to get back to that 1%, 90 basis points of your assets in terms of fees? That's my first question.

Secondly, on your positive revisions to loan growth expectations, what is driving that positive revision? Is that increasing exposure towards the SMEs private sector? Can you explain more on the drivers? When I look at your SME exposure today, if I'm correct, it's about 18%. Just under 20% of the corporate loan book is to the SMEs. What's your maximum risk limit for the SME loans over the next five years?

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Aybek, on the fee contribution, first of all, there are multiple ways how to look at the fee contribution. Is it fees to assets? Is it fees as a percentage of the operating income? Is it fees to opex? In my opinion, the best way to look at the fee contribution is to look at how much it's funding our Opex. As of the third quarter year-to-date, we managed to improve the fee income contribution to fund our opex to almost 91.3%, which is one of the leading in the industry given that the management focus to improve the cross-selling. I think our CEO has mentioned earlier about the management focus to further improve the fee income contribution both on the B2C pillar, as well as the B2B pillar.

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

A

If you'll allow me to also cover the second question for the loan growth, if we look at from corporate side in the SME, as part of the Vision 2030 and the Giga and Mega projects, we have seen a good number of projects has been executed, and that's been reflected on some of the companies. Either from corporates, large corporates, mid corporates or SMEs have taken some of these projects, which is reflected to some loans from credit side. From retail side also, as we are seeing interest rate is going down in the third quarter, we have seen a good appetite from individuals to take personal finance and mortgage loans, along with that we have seen two new initiatives and programmes from Ministry of Housing to support their KPIs for home ownership.

Mohammed Al Rasheed
Senior Equity Analyst, Ashmore

Q

Hi, as-salamu alaykum. Thank you, gentlemen, for the call. I have two questions from my side. The first one is regarding your credit risk intensity. Basically, credit risk intensity at the third quarter has dropped by around 180 basis points quarter over quarter to reach 62.5%, which is the lowest level in the last three years, despite the continuous growth in the corporate and SMEs portfolio. If you can shed some light behind the reason behind of the drop in the credit risk intensity.

My second question is a follow-up regarding your medium-term NIM outlook, given that you have mentioned you expect 6 basis points expansion for every 25-basis points rate cut. Can you provide a sensitivity over two years instead of one year, given that the lagged impacts of the repricing for retail book will not show until the second or even the third year? So, just a hypothetical scenario. Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Thank you, Mohammed. The first question, the reason for the drop in our RWA density, you have seen that our investment book, more than 80% of our investment book are mainly on the government-related sukuk, which attract a zero-risk rate. That didn't have any material impact on our RWA. Also, we've seen some drop into the other assets. The increase in the cash, which also improved the RWA density. Finally, on the financing book, specifically on the corporate side, the growth mainly is coming from our secured and fully collateralised corporate growth, which attract a very low RWA density, which will bring to one of the leading RWA density in the market.

As far as the NIM sensitivity over three years, Mohammed, for God's sake, we're struggling to quantify what the Fed is going to do tomorrow. You ask me about two years, I wish I have my crystal ball. But I think overall the NIM trajectory is quite positive for Al Rajhi Bank, given that close to 76% of the overall financing book, coupled with the fixed rate component of our investment book, I think we are geared for a lower rate environment, which will have a positive impact on the NII and the NIM over the medium term.

Mohammed Al Rasheed **Q**
Senior Equity Analyst, Ashmore

Okay. Just a follow-up. It's fair to assume that the positive impact in the first year would be higher than the impact in the second year. In the second year, we might start to witness the lagged negative impact of the rate cuts, assuming a stable rate environment.

Abdulrahman Alfadda **A**
Chief Financial Officer, Al-Rajhi Bank

I think I'm going to make you on the suspense wait for Q4 2025, inshallah, to see that feedback.

Adnan Farooq **Q**
MD & head of Research, Jadwa Investment

Thank you for the presentation and congrats on the strong set of numbers. I have two questions. You have maintained from the beginning of this year that you will focus on value rather than volume and you have upgraded your guidance twice now this year. I just wanted to understand, is that because you see less price competition in the market or more segments have opened up that you were previously not anticipating? Just your view on that would be really helpful.

The second question is around your opex growth. Although, mashallah, your operating income growth has been amazing, opex growth has also been high, and despite that, you have been able to improve your cost-to-income ratio. But just if you could give us some sense on how do you see operating expenses growing going forward and were there any one-offs during the quarter in the opex line this quarter?

Abdulrahman Alfadda **A**
Chief Financial Officer, Al-Rajhi Bank

Adnan, on the first question, I think still the management focus is value rather than volume. Although that we've grown our assets or grown our financing book by 9%, and specifically the retail book has grown by 6%. But if you look into the presentation, close to 32 basis points of the asset yield expansion are coming from the retail book. That's fact number one. Fact number two, also the asset yield for the overall in Q3, we managed to expand it by 18 basis points. So, we didn't compromise with our pricing. If you recall also the CEO earlier remark as part of the B2C pillars that we introduced about the new segments that is a part of the Harmonize the Group strategy that also helped us to further increase our market share and improve the asset yield. We'll continue to focus in further improving the shareholder value, which will have a positive impact on the ROE expansion over the medium term.

Adnan Farooq
MD & head of Research, Jadwa Investment

Q

Absolutely, I understand. I was just asking, is the competition lowered because the market is growing so much? I understand you have not compromised on pricing. It's very clear from what you mentioned also. Has the competition eased off a little?

Majed Alrajhi
General Manager Retail, Al-Rajhi Bank

A

As for competition, no, we still see a great competition being on the mortgage, being on the other retail, like PF and auto business. Banks are competing aggressively as well. Also, we start to see certain fintech players entering the market. So, no, we're still seeing competition on that perspective.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

But we didn't compromise, as Majed has mentioned. We still maintain as a prudent focus into improving our market share, as well as the asset yield.

On the second question related to the opex, although that our opex has increased for the period, as I mentioned earlier, by close to around by 8% for the first nine months, nevertheless, the management are not shying away from investment. As long as we see a better improvement into the customer experience, customer loyalty, it will have a positive impact on our operating income. The way that the management we operate, is to deliver at least 150 basis point positive jaws between the growth of the operating income versus our growth in the opex. There hasn't been any one-off in Q3, opex in Q3.

Adnan Farooq
MD & head of Research, Jadwa Investment

Q

Thank you so much and congratulations once again.

Operator: There are no further questions, so I'd like to hand back to the ARB team for any 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 first nine months' result and we will continue to focus on our execution and achieving our strategic goals for this year and beyond. We look forward to meeting you in the next quarter's earnings call. Thank you