4Q24 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

February 5, 2025

Sultan Altowaim
Head of Research, Al-Rajhi Capital

Good afternoon, everyone. This is Sultan Altowaim, from Al Rajhi Capital. We are pleased to host Al Rajhi Bank's Q4 2024 Earnings Call. Welcome, everyone, to this event. Without further ado, I will hand it to Mr Sulaiman Alquraishi, the Head of Investor Relations, to introduce the management team, please.

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 is our Managing Director and CEO, Mr Waleed Al-Mogbel, CFO, Mr Abdulrahman Al-Fadda, and Corporate Banking General Manager, Mr Hossam Al-Basrawi. As always, our CEO will start with the results highlights and strategy performance. Then, the CFO will cover the financial performance in more detail. Then, 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 fourth quarter of 2024. As always, we will start by taking you through our performance highlights and then followed by an overview of our performance on our strategy, Harmonize the Group 2026. Then, I will give the floor to our CFO to cover the details of financial performance. Now, let's take a closer look at our 2024 financial performance.

If we move to slide number three, please. For 2024 financial year, the bank delivered an exceptional performance, supported by our strategic initiatives and improved economic indicators that led to recording the highest annual net income since the bank's establishment. Starting with the balance sheet, we were able to deliver 21% growth year-on-year. The total assets increased to SAR 974 billion. The growth in the assets was mainly driven by the financing portfolio, which has grown by almost 17% year-on-year as well as the investment portfolio growing by above 31% year-on-year. The non-retail book grew by 31% year-on-year, supported by 32% growth in our corporate book and 30% growth in our SME book. In addition, mortgage recorded a growth of 14% year-on-year, and now the mortgage represents around 38% of our total book and 55% of our retail book.

If we look at the liability side, total liabilities stand at SAR 851 billion, an increase of 21% year-on-year, which brings our LDR to around 85.5%. Moving to the profitability side, the net income reached SAR 19.7 billion for 2024 financial year, higher by 19% compared to the last year 2023. Net yield income grew by 17% and non-yield income grew by 15%. This resulted in the total operating income increase of 16% for the 2024 financial year, and standing at SAR 32 billion. Talking about credit quality, we continue to maintain best-in-class asset quality, with the cost of risk standing at 32 bps compared to 25 bps in 2023. Additionally, NPLs stand at 76 bps, with a healthy coverage ratio of around 160%.

Moving on to key ratios, our market-leading cost to income ratio has improved and now standing at below 25% backed by our operating efficiency. Also, the bank maintained a strong financial position, with a healthy total capital ratio of 20% which is well above the regulatory minimum. Lastly, our net profit margin expanded to 3.13%, higher by 14 bps year-on-year, and that is due to continuous efforts to improve the cross-yield and optimise the cost of funding of the bank in the current rate environment.

If we move to slide number four to highlight the progress of our strategy execution. As you all know, 2024 was the first year of our strategy, Harmonize the Group, where the bank has performed across all its KPIs. Now, allow me to give you a highlight on the pillars of our strategy. We will start with the first pillar, which is B2C, business-to-consumer, where we focus on retail cross-selling. The product per customer portfolio has increased to around 42% since we introduced our strategy. Also, our sales growth from the target customers portfolio has witnessed a growth of 184% 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 essential measurement that we assured to maintain, and now our current NPS score has reached 85 from 76 since 2023, making it one of the highest among the sector.

If we move to the second pillar, B2B, our corporate portfolio has continued its growth of 31% year-on-year, reaching more than SAR 218 billion as a result of our continuous effort to expand our corporate portfolio and focus more on the SME, which has grown by 30% since the end of 2023, and now it's representing 18% of our non-retail book and 6% of our financing book. Investment banking continues to be a significant revenue stream that the bank is focusing on, which has grown almost 120% compared to 2023.

Looking at our third pillar, support businesses, good progress has been made. Due to centralised and standardised capability, that increased by 22% since 2023, and that is 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, reflecting on process automation, which has grown by 27% in 2024. On the digital and data side, our best-in-class digital capability and our innovative offering supported us to be the bank of choice across the Kingdom for over 18.5 million customers from all businesses.

The bank continues to explore and improve solutions capturing further opportunities, such as open banking APIs, which have reached 218 by 2024, compared to 119 in 2023. Lastly, AI-driven activities are becoming significant for the bank. Revenue increase from data-driven marketing has risen by 180% in 2024, compared to 2023. By that, if you allow me, I will hand over to our CFO, Mr Abdulrahman, to give you a detailed update of our financial performance, and thank you so much.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

Thank you, Waleed. Good day, ladies and gentlemen. It is my pleasure to welcome you again to our Q4 earnings call. I'll go over the financial performance very quickly so that we can have further time during the Q&A session. Our total balance sheet reached almost SAR 970 billion in Saudi Arabia, a 21% increase year-on-year and 8% on a sequential basis. To analyse the 21% increase in our total assets year-on-year, as you can see on the bottom left-hand side of the chart, our investment book has increased by 31%, our financing book has increased by 17%. I will cover the details in the following slides. As far as the funding side, part of the management initiative, to continue to diversify funding sources in order to support growth coupled with optimising our cost of funds efficiently, we've increased our interbank borrowing by close to SAR 76 billion, we’ve increased our customer deposits by almost 10% year-on-year, and we will continue to further diversify our funding sources in order to support the growth plan for Al Rajhi Bank.

Zooming further into the main driver of our balance sheet movement, our total financing book stands at SAR 693 billion, a 17% increase year-on-year and almost 7% on a sequential basis. It is worth to highlight that our retail book represents almost 69% of our financing book. To analyse the 17% growth around the financing book, year to date, we have seen broad-based growth across all line items. Our mortgages have increased by 14%. Ex-mortgage, the retail book has grown by 8%, which will bring the overall retail book growth to 11%. Corporate and SME have grown by 32% and 30% respectively.

The mortgage book stands at SAR 266 billion, which represents almost 55% of the retail book and almost 38% of our financing book. Our total customer deposits stand at SAR 628 billion, an almost 10% increase year-on-year, whereas CASA represents almost 73.4% as of December 2024. To analyse the movement of the 10% year-on-year on the customers' deposits, as you can see on the bottom right-hand side of the chart, we managed to grow our CASA by a healthy level of SAR 94 billion and, if you recall, we mentioned that some of those deposits are transitory, where we're expecting those to shift over the coming period. Having grown our CASA, coupled with an interbank increase, we managed to shed off close to SAR 41 billion of the time deposits in order to improve our cost of funds efficiently. Our investment book stands at SAR 175 billion, which represents almost 18% of the total assets. 80% of the book is Sukuk and Murabaha held with SAMA, close to 76% are fixed rate and, finally, 83% of the book is domestic.

If we move to the profitability section, our net income for Q4 stands at SAR 5.5 billion, a 32% increase year-on-year and 8% on a sequential basis. To analyse the sequential movement, as you can see on the bottom left-hand side of the chart, our yield income has grown by 8.5%, non-yield income, a drop of 11%, opex was almost flat, which brings the pre-provision profit to be 5% higher. NCLs were lower by almost 20% on a sequential basis. Our net income for the full year was at SAR 19.7 billion, a 19% increase year-on-year. And the drivers, as you can see on the bottom right-hand side of the chart, 17% growth in our yield income, almost 15% in our non-yield income., Opex was higher by 6%, which will bring the pre-provision profit to be 20% higher year-on-year, and Net impairment charges were almost 40% higher year-on-year.

To further zoom in, into the net income drivers, I will start with our operating income. Our operating income for Q4 was almost SAR 8.7 billion, 24% higher year-on-year and 4% on a sequential basis. Our operating income for the full year stands at SAR 32 billion, 16% higher year-on-year. And the drivers, as you can see on the top right-hand side of the chart, yield income was higher by 17%. This is due to the fact that our average earning assets were higher by 11%, coupled with a 14 basis point NIM expansion. Fees have shown a healthy growth of almost 11% year-on-year, exchange income, 4%, and other income by 55% due to the improvement that we've seen in all line items, mark-to-market of the Treasury book, also the contribution from our investment in associates. The NIM for 2024 was 3.13%, an almost 14 basis point expansion. The NIM expansion is driven by a 48 basis point expansion in our gross yield, offset by a 34 basis point increase in our cost of funds. And you can see the details on the bottom right-hand side of the chart that 14 basis point NIM expansion.

Our opex for Q4 was SAR 2 billion, almost 3% higher year-on-year and flat on a sequential basis. Our opex for the full period at SAR 8 billion is 6% higher year-on-year, and the driver of that mainly is on the depreciation line items. This is to support the balance sheet growth and the higher transaction amount where we've seen a 20%-plus increase year-on-year and, finally, the investment that we're making to execute and deliver the "2026 Harmonize the Group" strategy. The healthy delivery of 16% growth in our operating income, coupled with a 6% increase in our opex, that positive jaws helped us to further improve our cost to income ratio from 27.2% to 24.9%, i.e. a 240 basis point improvement in our cost to income ratio. Our impairment charge for Q4 is almost SAR 550 million, a 36% increase year-on-year and 20% lower on a sequential basis. Cost of risk stands at 32 basis point compared to 25 basis points in 2023. Our net impairment charge for the full year period is at SAR 2.1 billion, compared to SAR 1.5 billion. It's worth to highlight that our gross charges have increased by almost SAR 1.2 billion. However, that has been offset by a healthy improvement in our recovery, which we managed to increase by SAR 543 million in 2024.

Our NPL balance stands at SAR 5.3 billion, almost 24% higher year-on-year. And, as you can see on the top left-hand side of the chart, it's mainly coming from the non-retail book. Our NPL ratio stands at 76 basis point as of the year-end, a three basis point improvement compared to Q3, where we have seen an improvement in our corporate NPL that dropped by six basis point and also the retail book by four basis points. NPL coverage stands at a healthy level of 159%. Our ECL stocks stand at SAR 8.5 billion as of 2024. Our gross financing stands at SAR 700 billion-plus, where close to 97% of the book is Stage 1, compared to 96.5% in the same period in 2023, which shows you the healthy origination that we have delivered in 2024. Our stage coverage for Stage 1 is 37 basis points, for Stage 2 at 12%, and finally at Stage 3 at 54.8%, not a material movement compared to Q3 2024.

Our liquidity positions remain healthy and at a comfortable level where, although our headline LDR is at 106%, nevertheless our regulatory LDR is at 85.5%. LCR and NSFR are at a healthy level and above the minimum regulatory requirements. Our total RWA at 611-plus, an almost 18% increase year-on-year, mainly driven by the total asset growth that we have delivered in 2024. It is worth to highlight that our RWA density stands at a very healthy level of 62.8% as of the year-end. Our CET1 ratio, 16%, Tier 1 at 19.3% and, finally, our total capital at 20%-plus. We've seen a 111 basis point movement in our Tier 1 capital, as you can see on the bottom right-hand side of the chart, where the growth and our total balance sheet, coupled with the dividend declared in 2024, contributed to an almost 550 basis point drop in our capital ratio. Nevertheless, that has been offset by close to 360 basis points of internal capital generation, giving a very healthy delivery for 2024. We further improved the return metrics in 2024, where you can see our RWA at 3.50% compared to 3.26% in 2023, our ROE at 21%-plus, compared to 19.35 and, finally, our ROA at to 2.26% versus 2.12%.

Before I provide the guidance for 2025, it’s worth to highlight a couple of points. The overall macro outlook for Saudi is still positive. IMF, you guys have seen that they have revised the GDP growth forecast for 2025 to be 3%-plus and 4%-plus in 2026. Consumer spending in 2024 has increased by almost 7.5% year-on-year. Credit demand is still healthy, given the transformation we've seen in the Kingdom. On the rate outlook, we've taken a conservative view where we’re expecting one rate cut in the second half of 2025. Having said that, our guidance for 2025 is as follows; financing book to be high single-digit growth, NIM expansion of 5-15 basis points, our cost to income ratio to be below 24.5%, ROE to be above 21%, cost of risk in the range between 30 -40 basis points and, finally, Tier 1 ratio to be above 19.5%. 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 goal and exceptional results for 2024. Now, we will open the floor for the Q&A session. Operator, back to you.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the Q&A session. 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 box. Alternatively, if you've joined us on the telephone, then please press star followed by one on your telephone keypad. Our first question today comes from Nida Iqbal, from Morgan Stanley. Nida, please go ahead.

Nida Iqbal
Equity Analyst, Morgan Stanley

Q

Hi. Thank you very much for the presentation. My first question is on loan growth. Al Rajhi's 7% sequential loan growth was very impressive in the fourth quarter, and what was quite interesting was the pick-up in mortgage loan growth as well. So, it would be helpful if you can talk about what's driving this and if you expect this momentum to continue. And, importantly, do you believe your high single-digit guidance is conservative because we did start off 2024 with a similar guidance as well and ended up in the mid-to-high teens? My second question is around the margin guidance for 2025. If you can please walk us through your expectations around asset yield repricing from here in 2025. Should we expect any repricing benefits in 1H? And if I may ask, please, what is the guidance assumed for the split of CASA to term ratio? Al Rajhi's increase CASA ratio has been impressive but you've also mentioned in the past the transitory nature of some of these deposits. And so if you can comment on the cost of funding headwinds in 2025 as well, please, given that we're seeing loan growth outpaced deposit growth at a sector level. Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

On the first part, Nida, yes, in the fourth quarter we had a very healthy growth of overall 7% on a sequential basis, which I think equates to almost SAR 44 billion. SAR 15 billion of that is coming from the mortgage book, given that we have seen the mortgage origination at the system level for Q4 were at SAR 30 billion compared to SAR 20 billion in the third quarter of 2024. So, there has been an almost 50% increase at the system level. And given that the market share of Al Rajhi Bank is leveraged by the distribution network, the access to the real estate developers, there are lots of initiatives that we are doing and I think we are capturing a very healthy portion of that mortgage origination in the fourth quarter. Mortgage origination is still expected to be healthy over the medium term, given that it is one of the key government objectives to increase home ownership and increase households in Saudi. So, all of that, I think that will provide a very healthy mortgage origination over the medium term.

The second part of your first question, are we conservative in our loan guidance in 2025? Usually, as the management of Al Rajhi Bank, which has been communicated a few times over the last couple of years, when we plan our growth, first of all, we sit down. We assess our funding capacity taking into consideration the change in the macro outlook, the environment, and multiple factors. And, accordingly, we plan our financing book growth outlook over the medium term. That's on the loan growth for 2025.

As far as the NIM, although we have delivered a 14 basis point NIM expansion in 2024, the guidance takes into consideration that we will still continue to focus, as a management, on value rather than volume. It's not about market share, it's about improving the profitability, where we've seen good improvement and as I mentioned in my earlier remark, asset yield has grown in 2024 by close to 48 basis points. Our expectation in the current environment, if the asset yield has not reached the peak, we're almost at the peak. Nevertheless, our expectation is that the drop in the cost of funds will outpace the drop in the asset yield, hence will further improve the NIM over the medium term.

As far as the CASA, I mentioned that I think we have delivered very good growth in CASA in 2024. This is our bread and butter in Al Rajhi Bank to further improve our market share into the CASA. Nevertheless, I've been transparent and we're expecting that some of the CASA growth that we have delivered is coming from transitory accounts. Those CASA will move either to the time deposit and will increase the cost of funds, and this was taken into our consideration in the NIM guidance that we have highlighted of 5-15 basis point NIM expansion in 2025.

Olga Veselova
Equity Analyst Director, BofA

Q

My question is on loan to deposit ratio. Do you have a ceiling of LDR, not regulatory, which we know is regulated but nominal, beyond which you would not want to go? Maybe credit rating agencies advise you what would be the maximum comfortable limit. So, this is my first question. My second question is on the mortgage portfolio. Would you be comfortable to start disclosing average yield on mortgages, back book and front book? Apologies, I keep asking this. It just would help us to model margin more accurately. And, finally, interbank. There was a spike in interbank funding in the fourth quarter. What was the nature of it? Was this just syndicated debt or more active domestic money market borrowing? Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Thank you, Olga. First of all, on the LDR, the regulatory cap is 90% and I'm sure that you guys know that Al Rajhi Bank has been implementing a conservative risk management policy. We do have our internal risk appetite that is below the regulatory requirement, to be conservative. Our comfort zone in the LDR is anywhere between 85-88%. That's our comfort zone versus the maximum regulatory requirement of 90%. As far as the second question, Olga, again, it will be the same answer that there has been several times, in Q2, Q1. Nice try but unfortunately that is not disclosed information.

As far as the third question, which related to the interbank increase, as I mentioned earlier, this is part of the Treasury initiative to diversify our funding sources where, if you recall, from the year of 2022 Al Rajhi Bank started the alternative funding plan. We tapped into the international debt capital markets, either in the form of Sukuk or a syndicated loan, or in the form of certificate of deposits. Those initiatives are part of multiple initiatives that our Treasury teams are looking at, as a part of the discussion that we are having at our ALCO on a regular basis, to diversify the funding sources in order to make sure that we have stable funding that will support the growth over the medium term.

Mohammed Al Rasheed
Senior Equity Analyst, Ashmore

Q

Hi. Thank you, gentlemen, for the call. I have two questions from my side. My first question is, if you can please provide a guidance or a targeted ROE after Tier 1 Sukuk expense, given that the bank has been very active in issuance of Tier 1. And my second question is regarding your Stage 1 allowance ratio. We noticed a drop during the year to around 37 basis points. I understand that this was mainly driven by the strong loan book growth, but where do you see your Stage 1 allowance going into 2025, given that it is now slightly below the market level? Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Mohammed, on our ROE post the AT1 issuance, the ROE on a standalone, as I mentioned, we deliver for 2024 at 21.1%. The ROE post deducting the Sukuk cost is almost 20%. So, I'm sure that you will be able to do the delta. In 2023, our ROE on a standalone was 19.35%. Post the deduction of the Sukuk cost it was 18.39%. So, I'll leave it up to you and, again, you can do the backward calculation, our ROE guidance for 2025 is above 21%. That's on the first part. The second part, in terms of the stage coverage, we always look at our coverage on a regular basis. We compare it against the benchmark. Nevertheless, the coverage or the ECL stock or the charge, it's model-driven, which takes into consideration the macro outlook, takes into consideration multiple factors, probability of default, etc., etc., and the nature of the portfolio, whether it's a retail or a corporate. So, we do have an internal target and that is dependent on multiple factors. We are comfortable as long as we are charging our ECL stock based on our model.

Jon Peace
Head of MENA Equity Research, UBS

Q

My question was about the NIM guidance. Does it assume one rate cut, and your sensitivity to lower rates?

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Hi Jon, you know my disclaimer about the NIM sensitivity. It's at one point of time, not taking into consideration the change in asset mix, nor the liability mix. With that disclaimer, our NIM sensitivity as of end of 2024 is a six to seven basis point NIM expansion for every 25 bps rate cut.

Shabbir Malik
EFG-Hermes, Banks Analyst

Q

Thank you very much for the presentation. My first question is non-interest income outlook. I know you don't share a guidance for that, but anything to suggest what can we expect in terms of non-funded income in 2025. I think that would be pretty useful. Also, I wanted to check, what was the exit NIM for 2024? And given that we've seen a few rate cuts already, how much of the impact of those rate cuts have already been felt in terms of cost of funds improvement? And is there scope for more reduction in time deposit costs in the coming quarters? So, those two questions and maybe one more. We've seen one of the key components of funding over the last year has been due to banks and other banks. What are the key metrics that these counterparties are looking at when they give funding to a bank like Al Rajhi? Is there any benefit of being an Islamic bank? Is there a benefit of having a high credit rating? Are those factors taken into consideration when pricing this interbank funding? I just wanted to understand that. Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Shabbir, non-profit income, the only thing that I can assure you is the management team, under the leadership of our CEO, one of the key focuses for us, as a management, is to further improve the non-yield income contribution. And I'm sure that you guys have seen, with the MD presentation earlier, we managed to further improve the cross-sell activities, improve the percentage of the customers that are having more than one product. the logo of our strategy, Harmonize the Group, as a sentiment, and I'm sure that you guys have seen the video that we have done, our subsidiaries have done a great job in 2024, where they have improved their contribution to the operating income for the bank. So, this is something that we will continue as a management in order to further improve the shareholder value.

As far as the NIM exit, NIM exit is at 3.27% for Q4. And, again, as a disclaimer, as I mentioned, the guidance that we have provided, 5-15 basis points, is taking into consideration the impact of the movement of those transitory costs. As far as the last question, related to the new counterparties, what they're looking for in terms of the interbank lending, I cannot speak on their behalf but through the discussion that we have had with those counterparties, where they are mainly outside the Kingdom, they're looking to diversify their geographic distribution. we can take advantage, given the healthy credit rating that Al Rajhi Bank has been enjoying and especially with the all rating agencies that are providing their reports, and giving the healthy and the superior return metrics, coupled with one of the healthiest NPLs in the Kingdom.

Murad Ansari
Equity Research, GTN

Q

Congratulations on a great set of results. I think you smashed all the guidance targets that you had given at the third quarter, so great quarter from that. A few questions from my end and I'm sorry that this has been asked again and again, but when we look at your NIM guidance, your exit NIM is roughly about 14-15 basis points above what your average has been for 2024. So, when you're guiding 5-15 basis points improvement in 2025, what it suggests is that you're expecting NIMs to be broadly flat on the 4Q exit levels. So, I just felt that guidance number looks a bit conservative and I understand you're guiding towards some movement in CASA deposits, some transitional, and also some movement from current to time. But on the lower end of things, where do you see CASA could drop into 2025? So, that’s on NIMs.

The other one is on the risk weightings. You've continued to improve that, so now it’s 63%. You've had strong growth. Initial impression was, is it mortgages? But then you've had very strong growth in corporate and SME. So, if you can just help us understand a little bit on what's driving that RWA improvement. And then on cost of risk, 30 basis points, obviously, great macro backdrop. Where is the risk on that side? And finally, on mortgages, we've had a very good number in December as per SAMA data on mortgages. We're back to 12 billion in origination, which was last seen somewhere in 2022. Do you think that number could accelerate? What's your read on the market? You suggested on your slide that the mortgage rate, actually, or the lending rate has been slightly higher. So, how do you see that environment on mortgages evolving over 2025? Thank you so much.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Murad, I will try to beat how long you asked the question by providing a short and precise answer. NIM, I mentioned to you our guidance, taking into consideration the CASA migration. Again, rest assured that as a management, and I believe that I mentioned the focus for us, as a management, is value rather than volume. We've taken a very conservative view on the rate outlook. We will assess on a regular basis. Nevertheless, this is something that I assure you that our focus is to further improve the NIM accordingly. On the RWA density, although there has been decent growth in the fourth quarter that we have seen, the devil is in the details. Some of the investment book is attracting zero RWA. Some of the corporate exposures are also attracting a very minimal RWA. And also, out of the 44 billion growth in our financing, 15 billion of that is mortgages, which attract 55% RWA.

Cost of risk, 32 basis points. And, again, these are depending on the macro outlook. We are updating our ECL model on a regular basis and will continue, as a part of the IFRS requirement, to update our ECL model, taking into consideration the multiple factors. Mortgage. Yes, we've seen an average mortgage origination in the fourth quarter of 10 billion per month. In the third quarter it used to be around 6.7 billion. Our expectation for the mortgage origination for 2025 is in the range between 7 billion plus/minus mortgage origination going forward. Did I beat your time?

Murad Ansari
Equity Research, GTN

Q

Yes, you did. Thank you so much. Just one follow-up, if I could, on the funding mix. Rough calculation, deposits are roughly now about 75-76% of your total funding and you've continued to diversify your funding sources. What level should we see? Is that mix going to continue going higher in favour of borrowings or is this something on the overall funding mix between deposits and others to be stabilising now?

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

It's a challenge to beat the time. Again, as long as we do have a very healthy LDR, liquidity ratio and capital adequacy ratio, it gives the management the flexibility to optimise our cost of funds efficiently.

Naresh Balandani
Managing Director, Jefferies

Q

Hi. It's Naresh Bilandani, from Jefferies. Thanks for the call and congrats on a good set of results. Just two quick questions, please, and one probably following up on the previous question. The NIM guidance that you have provided, the range that you have provided, as you mentioned, you were quite conservative in your rate outlook. Does this consider a scenario of no rate cut at all? If not, could you please offer some insight into how should we think of the margin trajectory panning out this year should the Fed stay put on the back of inflationary pressures? That's the first question.

Second, we've seen the mix of interbank funding currently at roughly about 18% of total assets, which is significantly higher as compared to the previous year. And thanks for offering the colour on this. I'm just trying to gauge some insight into what is the maturity of this new funding that has come through. Should we see volatility on this mix going into Q1, like this number should drop significantly as you diversify your funding source back into CASA over time? Or do you anticipate that over the course of the next couple of quarters, the mix should stay within the mid to high teens range? I'm just trying to get some comfort from a modelling perspective here. Thank you very much.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Thank you for the question, Naresh, and welcome back. As far as the rate outlook, we've modelled only one rate cut mainly in the second half of 2025. Again, NIM sensitivity, as I mentioned, is a theoretical 6-7 basis point for every 25 basis point cut in the rate. this is taking into consideration also the three-month SAIBOR outlook. Despite the current reverse repo at 4.5%, we've seen the three-month SAIBOR at 5.35%. We will assess, on a regular basis, that NIM guidance but, again, I just want to be very transparent and clear. We have modelled that the transitory deposits that we have received in 2024 will move, which will have an impact on our NIM guidance.

As far as the second part of your question, Naresh, related to interbank borrowing, if you recall my earlier statement, we have taken lots of initiatives to improve the funding profile for Al Rajhi Bank. We have seen lots of opportunity, given the credit rating and especially with the rating upgrade for Al Rajhi Bank, along with the sovereign that we've seen last year from the major rating agencies, that will give us an advantage to attract and diversify our funding sources at a very competitive rate. From a duration perspective, it varies. For example, the certificate of deposit is usually three-six months. Nevertheless, you guys have seen that we are also becoming active in the debt capital market, we are active in the syndicated loans to be able to diversify, and where we've raised close to USD 2.6 billion over the last couple of years on a syndicated loan at a very attractive spread.

All of those initiatives will help us to further diversify, improve our cost of funds and, most importantly as well, to make sure that we have stable, diversified funding that will be able to help us to further grow our financing book without impacting the NIM outlook. lastly, if you recall my earlier comments, when we sit down and put our forecast for the financing book guidance, we take into consideration how much funding, at a very comfortable level, we can source in order to support the growth without compromising the overall profitability.

Operator: Thank you. In the interest of time, that is now the end of the Q&A session. I will now hand back over to Mr Waleed 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 first nine months' results 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