2Q24 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

August 19, 2024

Fahad Alrashed
Head of Institutional Brokerage, Al-Rajhi Capital

Thank you, Lauren. Good afternoon, everyone. This is Fahad Alrashed from Al Rajhi Capital. Al Rajhi Capital is proud to host Al Rajhi Bank's Q2 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, Fahad. And thank you, everyone, for joining our call today. Today from the management team we have Mr. Waleed Al-Mogbel, our MD and CEO. Mr Abdulrahman Al-Fadda, our Group CFO. And Mr Hossam Al-Basrawi, our GM of Corporate Banking. With that, and no further delay, I'll be handing it over to Mr Waleed, to start the call. Thank you. Back to you, Waleed.

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

Thank you, Safwan, and welcome, everyone, and thank you for attending our earnings call for the second quarter of 2024. I will start by taking you through our performance highlights, followed by an overview of our strategic performance on our strategy "Harmonize the Group" Then I will give the floor to our CFO, to cover the financial performance of last quarter in more detail.

Now, let's take a closer look at the first half's performance. If we go to slide number three, for the first half of 2024, the bank delivered an exceptional performance, supported driven by our strategic initiatives and improved economic activities that led to recording the highest semi-annual net income since the bank's establishment.

Starting with the balance sheet, we were able to deliver more than 7% growth year-to-date and almost 11% year-on-year. On the asset side, the growth was mainly driven by financing portfolio growing at almost 5% year-to-date and 7.4% year-on-year. On the asset side, we reached 622 billion, as well as our investment portfolio growing at almost 15% year-to-date and almost 27% year-on-year.

The non-retail book grew by almost 22% year-on-year, supported by 22% growth on our corporate book and 23% growth in SME. In addition, mortgage recorded a growth of almost 6.4% year-on-year and now the mortgage represented almost 39% of our total book and 55% of our retail book. If we look at the liability side, the total liability stands at 751 billion, with an increase of almost 10% year-on-year and 7% year-to-date, which will bring our loan-to-deposit ratio to around 80%.

If we move to profitability, net income edged up to 9.1 billion for the first half, higher by almost 10% compared to the same period last year. Net yield income grew by 11.5% while non-yield income grew by 2.2%. This resulted in a total operating income increase of 9.2% in the first half of this year, standing at almost 15 billion.

Talking about credit quality, we continue to maintain best-in-class asset quality, with the cost of risk now standing at 28 bps compared to 25 bps in the first half of last year. Our NPL stands at 78 bps, with a very healthy coverage ratio of 170%.

Moving onto the key ratios, our market-leading cost-to-income ratio has improved, now standing below 26% at 25.9%, 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. Our NIM expanded to 3.03%, higher by 5 bps year-on-year, due to the continuous efforts to improve the gross yield and optimise the cost of fund of the bank in the current rate environment.

Moving to the next slide to highlight the progress of our strategy execution. As you all know, we are in the first year of executing our strategy, where the bank has performed well across all KPIs so far. Now allow me to shed some light on the pillars of our strategy. Starting with the first pillar, B2C, which is business to consumer, where we focus more on retail cross-selling. The products per customer portfolio have now increased to 40% since we introduced our strategy. Additionally, our sales growth from targeted customer portfolio has witnessed a growth of almost 77% since 2023, which is a result of our continuous efforts to expand our portfolio across different segments within the B2C pillar.

Having a great customer experience is an essential measurement that we assure to maintain. Our current NPS score has risen to 80 from 76 last year, making it one of the highest in the sector.

If we move now to the second pillar, B2B, business-to-business, our corporate portfolio has continued its growth of 22% since 2023, reaching now to 183 billion, as a result also of our continuous efforts to expand our corporate portfolio and focus more on the SME. The SME has grown by 7.5% since the end of last year and now represents 18% of our non-retail book and 5% of our financing book.

Investment banking continuous to be a significant revenue growth stream that the bank is focusing on, now reaching now a growth of 77% compared to last year, 2023. Looking at our third pillar, support business, good progress has been made due to centralised and standardized capabilities, that increased by 7.3 since 2023. Additionally, we continue to enhance our efficiency through strengthening and improving our technology across the group that's reflecting on processes automation, which has grown by 5% in second quarter 2024, coupled with a focus on becoming a cloud-ready bank.

On our digital and data side, our best-in-class digital capabilities supported us to be the bank of choice across the kingdom by offering an innovative experience to over 17.1 million customers across all business. The bank continues to explore and improve solutions, capturing further opportunities such as Open Banking APIs, which have now reached nearly 170 by the second quarter of this year, compared to 120 in December last year.

Lastly, as AI and event driven activities are becoming significant for any leading organisation, the bank has focused on revenue increase from data-driven marketing that has increased by nearly 86% in the second quarter of this year compared to last year. With that, I will hand over to Abdulrahman, to give you a more detailed update on our financial performance of the first half of this year. Thank you so much.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

Thank you, Waleed. Asalaam Alaikum wa rahmt Allah wa barakath, good day, ladies and gentlemen. It's my pleasure to welcome you again to our Q2 earnings call. Our total balance sheet stands at 867 billion as of Q2, 11% increase year-on-year and almost 4% increase on a sequential basis. To analyse the 7% year-to-date movement, as you can see on the bottom left-hand side of the chart, our investment book has grown by almost 15%. Taking into consideration

taking advantage of the current interest rate levels, where our long-term forecast indicating that the rate will grow lower from the current level.

Financing book has increased by almost 5% and I will cover it in further detail on the following slide. On the funding side, we continue to diversify our funding resources. As you can see, on the bottom left-hand side of the chart, our customer deposits have increased by almost 50 billion and we'll cover it in further details. This growth in our customer deposits has given us an advantage to optimise the funding sources, as well as manage our cost of funds more efficiently.

Zooming further into the main driver of the balance sheet movement, as you can see, our total net financing book stands at 622 billion as of Q2, a 7% increase year-on-year and almost 2% on a sequential basis. It's worth to highlight that our retail book as a percentage of the overall financing stands stable at 71%. Nevertheless, if you look at the fixed rate component of our financing book, given that the SME book is also at fixed rate, the total fixed rate financing book represents almost 76% of the overall net financing.

To analyse the 5% year-to-date movement, as you can see on the top right-hand side of the chart, our mortgage book has grown by 4%. Ex-mortgage by 1%, which will bring the retail book to almost 3%. Corporate and SME have grown at a healthy level of 10% and 8%, respectively. As Waleed mentioned, the mortgage book stands at 244 billion, and represents almost 39% of our financing book.

Total customer deposits, as you can see on the bottom left-hand side of the chart, are around 623 billion, where we have seen 9% growth year-on-year and almost 3% on a sequential basis. The movement, as you can see on the bottom right-hand side of the chart, we've seen a healthy growth in our CASA, where we have delivered almost 70 billion year-to-date, and Q2 standalone is around 29 billion. It’s worth to highlight that the majority of that growth in Q2 from our expectations are transitory, whereby the early trends of July and August are proving to be transitory, either the money will go out or it will be moved to more of a time deposit

The growth in the demand deposit that we have delivered since the beginning of the year gave us an advantage to be able to optimise and reduce our time deposit by almost 22 billion. CASA as a percentage of the overall customer deposits stands at 70% as of Q2.

If we move to the profitability section, our net income for Q2 stand at 4.7 billion, 13% higher year-on-year and 7% on a sequential basis. To analyse the sequential movement, as you can see on the bottom left-hand side of the chart, we've seen that the NII has grown by almost 4%, non-yield income has grown at a healthy level of almost 12.5%. Opex have increased by 3.3%, which will bring the core revenue, which is our pre-provision profit, to increase by almost 6.5% year-on-year.

Our net income for the period stands at 9.1 billion, almost 10% higher year-on-year. The driver, again as you can see on the right-hand side of the chart, our NII has increased by 11.5%, non-yield income by 2%. Expenses have increased by almost 6%, which will bring the pre-provision profit at a healthy level growth of 10.5%. We top up our provision in the first half compared to last year, where the net delta is almost 157 million. To further zoom into the net income driver, I'll start with an operating income.

Operating income for Q2 stands at 7.6 billion, a 12% year-on-year growth, and almost 6% on a sequential basis. Net operating income for the period stands at 14.9 billion as you can see on the top right-hand side of the chart. NII, although our average earning assets have increased by 8.8% year-on-year, nevertheless, NII has increased by 11.5% due to the NIM expansion. Fees went lower by 8%.

It’s important to note that, if you recall, there has been a change as part of the consumer protection circular that has been effective 1st July 2023, where the fee income in Q3 was 900 million. And if you recall what we have been saying, the management has put lots of initiatives to further improve the fee income. We are glad to highlight that from that Q3 2023 base, our fee income has increased by 25%. The growth that we have seen are mainly coming from payments, capital market activities, trade, and cash management, and I think that all contributed to that positive growth into the fee income.

Exchange income showed a healthy growth of 4%. Other income has also a very healthy growth of around 62% year-on-year, and the growth on the other income are attributed to the following factors; number one is on the derivatives, the mark-to-market of the trading investment book, and finally, we have seen a very good growth in our associate, Al Rajhi Capital, where the net income has increased by 85% as part of their transformation programme.

The growth that we have seen into the non-yield income, as Waleed mentioned, is one of the key elements of “harmonize the Group”, in order to improve the non-yield income as a percentage of the overall operating income to the bottom line.

NIM for the first half stands at 3.03%. It's worth to highlight that the NIM for Q2 on a standalone at 3.04%, where we have seen five basis point increase in the gross yield, offset by four basis point increase in the cost of fund, which will bring the NIM expansion in Q2 by almost one basis point. On a year-to-year basis, the NIM expanded by five basis points, and we've seen all business lines have contributed to the positive increase into the gross yield. Nevertheless, that has been offset by 54 basis point higher on our cost of funds.

On the expense side, Q2 reached almost 2 billion, a 6% year-on-year increase, and a 3% on a sequential basis. For the period, it stands at almost 3.8 billion, a 6% increase year-on-year, mainly driven by the depreciation line. The increase on the depreciation line is to support the growth in the balance sheet, where we have seen an 11% growth year-on-year. Also, higher transaction amount; We've seen the total number of transactions increasing by almost 21% year-on-year. Finally, is the strategic investment made to execute our new strategy.

The management has delivered almost 350 basis point positive jaws between the growth of the operating income of 9.2%, offset by a growth of 5.8% in our Opex, leading to almost 85 basis point drop in our cost-to-income ratio, to stand at 25.9%. Impairment charge for Q2 is at 455 million, a 26% increase compared to Q2 last year. Cost of risk is stable at 28 basis points. The net impairment charge for the period stands at 876 million, where we have seen a higher gross charge of 76 million, and also lower recovery by 81 million.

To break down the impairment charge movement, we have topped up the non-retail book. Take into consideration that there has been a healthy growth of 22% year-on-year. Our NPL balance as of Q2 stands at 4.9 billion versus 4.3 billion at year-end. Nevertheless, on Q1, if you recall, our NPL was 4.7 billion, so the net growth is only 4% on a sequential basis. On the NPL formation we've written off almost 2 billion in the second quarter. On a standalone, it's around 796 million. The net flow is 2.6 billion for the year, and 992 million in Q2. Overall, I believe the message is that the credit quality is still stable, whereby our NPL ratio stands healthy at 78 basis points, where we've seen corporate NPL improving to 1.5%, while we've seen a small uptick into our retail NPL. NPL coverage ratio, as Waleed mentioned, still remains healthy at 168%.

Our provision balance as of Q2 stands at 8.3 billion, and the movement, as you can see on the top right-hand side, which is in line with my previous comments. Gross financing stands at 630 billion, whereby stage one exposure stands at 96.6%, compared to 96.5% at year-end. Stage coverage still at a healthy level, with no material movement compared to Q1. Stage one stands at 42 basis points, stage two at 13%, and finally, stage three at 55%. On the

liquidity side, although our headline LDR stands at 100%, nevertheless, our regulatory LDR stands at a healthy level of 79.7%. LCR and NSFR are at a comfortable level and above the minimum regulatory requirements.

On the capital side, our total RWA stands at 565 billion, almost 12% higher year-on-year, mainly driven by the growth in our financing book. On the credit, RWA have increased by almost 11.5% year-on-year. It's worth mentioning that our RWA density stands at 65.2% versus 65.7% as of Q1. Total capital stands at 119 billion, out of which 95% is a core Tier 1 capital. Our capital levels remain at a healthy level, CET1 at 16.4%, Tier 1 at 20%, and total capital at around 21%. We've seen 38 basis points movement year-to-date on our Tier 1 capital ratio. Breakdown, as you can see on the bottom right-hand side of the chart.

It's worth to highlight that, although that asset growth coupled with declaring the dividends of the second half of 2023, contributed to 268 basis points drop on the capital ratio. Nevertheless, that has been offset by 158 basis points of an internal capital generation due to our healthy RWA density. Return metrices at a very healthy level. RoRWA for the first half at 3.35%, for the second quarter standalone is around 3.37%. ROE at 19.9%, while the Q2 standalone ROE is 20.5%, return on asset stands at 2.18%, while in Q2 is around 222 basis points.

The first half delivery of the return metrices plus the exit rates that are at a healthy level give an indication that the management team is focussed to execute the “Harmonize the Group” strategy in order to further improve the shareholder value return.

At the macro level, it's still at a positive level based on the Q2 flash estimate. Non-oil GDP has improved by 4.4%, coupled with the increase in the consumer spending by almost 6.6%. On the interest rate outlook, I think the market is expecting anywhere between two to four cuts from now till the year end. That will help us further in improving our cost of fund and also will improve the credit demand, especially on the retail book. It's worth to highlight that SRC has reduced the rate in the middle of August by close to 24 basis points, where the origination level that we've seen is at 7.6%.

With that, we are upgrading our financial book guidance to high single-digit growth for 2024, although our NIM has expanded by only 4 basis points since the beginning of the year. Nevertheless, the trajectory is still positive. Hence, we kept our NIM guidance unchanged, with an expansion of 5 to 15 basis points. We also upgraded our cost-to-income ratio to be below 26%. Taking into consideration all of the above with a stable credit outlook, we are upgrading our ROE guidance to be above 19.5%. With that, Waleed, I will hand it over 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.

Now, if you allow me, I will open the floor for Q&A. 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 JP Morgan. Naresh, please go ahead. Naresh, your line is now unmuted, you can proceed with your question.

Naresh Balandani
Head of MENA Equity Research, JP Morgan

Q

It's Naresh Bilandani from JP Morgan. Just a few questions, please. First, on the deposits, could you please share some insight into the source of this strength that you have seen in the non-interest-bearing deposits year-to-date? You mentioned in the presentation that these are transitory. Just to clarify, are these shifting into time, or are they actually going away from the balance sheet? If you can please offer some clarity there, that would be super helpful. That's the first question.

The second question, would you please be able to offer some reasons for the pickup that we've seen in the retail NPLs year-to-date? I think the number was about 1.45 billion in Q4. That's increased to 2.1 billion in Q2. Given the high rates are still going to be around for a few months or maybe a fair quarter or two, could this risk of elevated NPLs still continue for the next few quarters? If you can just please throw some light there?

And my final question is on Ejada. Keen to understand your intention to sell Ejada, as you have reported in the financials. The size is small, and you already have very healthy capital at the group level, so I'm just keen to understand what's the thought process in undertaking the transaction on this entity at this stage? Any colour there would be super useful. Thanks a lot.

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

A

Thank you for your questions. If you allow me, I will answer the last one, and then will leave the first one and second one for Abdulrahman to answer you. If you go back to 2022, when we acquired Ejada, the main reason was, at that time, to accelerate our IT and digital transformation, which we are in a leader position now in digital with a very strong IT infrastructure and system, and that's also from the bank side. Also, Ejada has rapidly grown into being a market leader with a good level of maturity. Where we believe this offering would benefit Ejada, its customer and the stakeholder as well.

Also, it's part of our effective participation into 2023 vision, to enhance and deepen the Saudi capital market with such IPO. We believe this step looks also to further accelerate the development from Ejada side, scale the business, and contribute to the technology ecosystem and the market they are operating in. Back to you, Abdulrahman.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Naresh, on the first question on the CASA growth that we have seen in Q2, as I mentioned earlier, it's around 29 billion. As I mentioned, these are coming from a combination of a government and semi-government accounts. Given that they came at the tail end of the quarter, we believe those are going to be transitory. The July and August trend confirming that it is transitory, but I think it's too early for us to quantify whether those deposits will be going out or will be moving to time deposits. Nevertheless, we have positioned ourselves very well, planning accordingly with our Treasury's effective management of liquidity tools.

As far as the NPL on the retail, the net pickup on the retail NPL on a net basis is only 222 million in the second quarter. If you recall my earlier comment, in the previous quarters we've seen mortgage book start to season, given that the mortgage book originated back in 2019 and 2020, plus some flows from unsecured lending. Nevertheless, our retail NPL, as I mentioned, is 47 basis point. Market average for the retail NPL is at 87 basis point as of Q2, so we still continue to maintain our leading retail asset quality.

Naresh Balandani
Head of MENA Equity Research, JP Morgan

Q

Understood, thank you very much. Just a very quick follow up to Waleed's kind response on Ejada. Is the understanding right that there will be first a sale to a private and then followed on with an IPO, or that is still a strategic decision that you have to take? Any colour you can provide there?

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

I think the disclosure in our footnote 13, in our financial statements is clear; that we are looking to do a combination of a private sale coupled with an IPO. The plan, as mentioned, is to execute this within one year following the management's recommendation to the board, which has already been approved. However, we will make every effort to complete the process much sooner than the timeframe indicated in our financial statements.

Nida Iqbal
Equity Analyst, Morgan Stanley

Q

My first question is on loan growth. Just wanted to get a better sense of what's your view on how consumer loan growth will evolve as rate cuts start to come through? Do you think there's potential for upside surprise there into 2025? That's the first question.

And the second question, again linked to rate cuts, is on the cost of funding. We've seen your term deposits decline in the last two quarters. Do you think we've already seen the peak in term deposits? And do you expect a shift into current accounts? Or given the relatively tight liquidity situation in the market, it could remain sticky. Thank you very much.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

On the first question, Nida, definitely, given that we as a regulated entity bounded by the global debt burden ratio imposed by the regulator, for 100 basis point cut into the personal finance, the financing amount is going to be around to 2.4% higher. For the mortgage for 100 basis point reduction on the rate, the increase on the financing amount is 8%. Long story short, yes, we're expecting that the credit demand will accelerate, especially on the retail side, as and when we see the long-term rates coming lower.

On the second question, the way that we see it, the average three months' SAIBOR for the first half was 6.23%, today's SAIBOR stands at 6.01%. if you recall my earlier comment, the market is expecting, based on the Eurodollar futures, around two to four cuts for this year, and probably around three cuts to four cuts in 2025. However, do I expect that there will be a shift from time deposits to CASA? I think it's too early, even that if you price a cumulative of eight cuts, which is around 200 basis points from the current level, it will still be around 4% on a three-month SAIBOR. I believe that migration probably has bottomed. Now do I expect a material movement into CASA as a percentage of the overall deposits? That's too early to see, and we will assess on a regular basis.

Nida Iqbal
Equity Analyst, Morgan Stanley

Q

Thank you very much. Just a follow-up on the point about loan growth. You guided to mid-single digits this year and have upgraded to high single digits. In an environment where we start to see a pickup in consumer demand into 25/26, what do you see as a sustainable loan growth trend for the medium term? I guess the question is, do you see yourself going back into the double-digit zone?

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Double digits is probably misleading. It could be anywhere between 10% and 99%, so that's number one. And I think the good old days of our financing book growing at a 32% CAGR between 2020 till 2022, in our opinion that's gone. we've seen mortgage origination, our expectation for average per month is around 6 billion compared to the higher numbers we saw back then. That's number one.

Secondly, since probably the second half of 2022, we've been transparent and highlighting that the management focus is on value rather than volume. We still would like to reflect the existing liquidity premium in the asset origination. Nevertheless, we believe, somewhere between mid-to-high single digits is probably the normalised growth over the medium term.

Gabor Kemeny
Autonomous, Senior Analyst

Q

My first one is on your rate sensitivity, please. Can you please confirm what is your current NII sensitivity to falling SAIBOR rates?

My second question would be a clarification on this very useful loan growth sensitivity you provided. Just to confirm, were you guiding for 8% additional loan growth from 100 basis points' lower interest rates? And would this relationship be linear, so would you expect this from the first 100 basis points already, or would we have to see more rate cuts to get there? Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

On the NIM sensitivity, first of all, you know my disclaimer, it is theoretical. At one point of time, it does not take into consideration the change in the asset mix, nor the liability mix. With that disclaimer, for every 25 basis points cut, our NIM will expand by 6 basis points on a full-year basis, and I think we are geared for a lower rate environment. Take into consideration that my average floating liability is almost 2.1X of my average floating assets. We will take an advantage in a lower rate environment that will have further improvement of our NII over the medium term.

In terms of the loan growth on the retail side, Gabor, what I've mentioned on the consumer finance, it's a linear sensitivity. Giving that EMI is fixed and the duration is fixed, for every 100 basis points, the increase in the consumer finance is 2.4%. For mortgage, the linear increase in the financing amount is 8%, just to clarify.

Gabor Kemeny
Autonomous, Senior Analyst

Q

Very clear, thank you. Maybe another small clarification. How do you expect your consumer and mortgage lending spreads to develop if rates fall?

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

First of all, for mortgage, it's capped by SRC, and we are in line and hovering within the SRC gap. As far as consumer financing, we take into consideration multiple factors to decide about the origination rate. One is what is the current short-term interest rate levels? What is our funding cost? Also, we take into consideration the competition, loan-to-deposit ratio, and the liquidity. There are multiple factors that need to be taken into consideration.

Long story short, if long-term rates start coming lower, the overall origination rates will definitely go lower. However, more importantly, my average floating liability rates will go lower as well, given that my average floating liability, as I mentioned is almost 2.1X of my average floating assets. For mortgage, it will be capped, there is no repricing. It's impacting probably the new origination.

Shabbir Malik
EFG-Hermes, Banks Analyst

Q

The first question is on expenses. We've seen 6%, roughly, expense growth this year. Is it fair to assume that, given that revenue outlook is potentially improving, given the rate cut outlook, that expenses will probably continue to grow at a slower pace relative to revenue, and we could see increase in jaws going forward into 2025?

My second question is on provisioning. Given that the macroeconomic environment continues to be quite supportive, would it be fair to assume that provisioning levels would be more or less at the same level as what we've seen far this year? Do you see any reasons why it could shift materially in the coming period? And finally, what should we assume as the annualise AT1 expense charge for the bank? I believe that there was an AT1 issued subsequent to the end of the second quarter. Just want to understand how much should we model as our AT1 expense charge going forward? Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Shabbir, as we've communicated before on the expense, the management is not hesitant to invest more—whether it's in people, systems, technology, etc—as long as these investments in line with our strategic objectives to deliver positive jaws. The management team operates with the goal of delivering at least 150 basis points positive jaws, which will help further improve our cost-to-income ratio over the medium term. As you've seen, despite Opex increasing by almost 5.8% year-on-year, the cost-to-income ratio has actually decreased by 85 basis points.

As far as the provision, first of all, on the retail side, it is at a fixed rate. Even with the high interest rate environment, that shouldn't have any impact on the retail NPL, plus the majority of the book is secured lending with a very stable employer. As far as the corporate side, we don't see any systematic risk in any particular sector. From an idiosyncratic perspective, we've analysed our corporate exposure on a name by name, take into consideration the current high interest rate, and specifically for the highly leveraged customers. The majority of them, have enough collateral to be able to pay the obligation.

Overall, the macro outlook is positive, supported by the GDP forecasts from the IMF, particularly for non-oil GDP. We don't expect any material impact on provisions or asset quality over the medium term. Regarding the last question on the AT1 issuance, let me clarify. We launched a $1 billion AT1 issuance in April. in our detailed financial statements under the movement of shareholder equity, the movement on the AT1 is close to SAR 450 million year to date."

Adnan Farooq
Jadwa Investment, MD & head of Research

Q

Congratulations on the strong set of numbers. I have two questions. The first one is on the non-interest income. It has been quite strong lately, so you had mentioned you're working on certain initiatives and they are paying off. Just wanted to understand the main sources of this growth. And the second, will offering of IPO will help you in this regard during the second quarter? Also, on the other income, you mentioned it was supported by derivative income. Can you elaborate? This is you taking on derivatives or the fee that you are generating from derivatives? That would be helpful.

And my second question is regarding your coverage ratio. You mentioned that you're pretty pleased with your coverage ratio and stage-wide coverage as well. But it has come down significantly from the historical standard. Do you see any concern, do you see it further going lower? Or do you suggest that it should go around where the sector is? Some light on that would be really helpful.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

If I understood your first question correctly, Adnan, yes, we've seen a significant increase in non-yield income, and I can elaborate on that by breaking it down into several components. Regarding fees, as Waleed mentioned, one of the key elements of the "Harmonize the Group" strategy is to improve the product-per-customer ratio, both in the B2B and B2C pillars. As shown in the opening slide of Waleed's presentation, the percentage of customers with more than one product has increased from 38% at year-end to nearly 40%, despite an increase in the total number of customers. This demonstrates our success in improving fee income, with growth coming from payments, capital market activities, and the efforts of our colleagues at Al Rajhi Capital, who have done well in increasing their market share of assets under management and investment banking. This is one of our key focus areas.

Regarding other income, when I mentioned derivatives, this is also in line with our goal of improving the product-per-customer ratio. Our combined efforts between Corporate and Treasury, where we assess customers from a 360-degree perspective, aim to enhance the ROA of every customer relationship we have. Finally, on the coverage ratio, factually correct, although our coverage is coming lower from historical standards. For example, our NPL coverage stands at 168%. Nevertheless, I'll be surprised to see it dip below 150%. We're still maintaining a very healthy stage, as well as an NPL coverage, coupled with a very positive macro outlook over the medium term. This is true in line with Alrajhi Bank's conservative approach when it comes to the credit origination, both at retail as well as on the corporate side.

Murad Ansari
Equity Research, GTN

Q

Just wanted some quick thoughts from you on how do you see the liquidity environment shaping up? If we've seen rates come off, other banks have also seen decent growth in CASA. You've pointed out for you some of this deposit growth has been transitory. But just your thoughts on how you see liquidity environment and CASA growth going into the end of the year.

Second question I have is on loan growth. We've seen decent pickup continuing on corporate, but retail, finally, some signs of growth coming through. Just wanted to understand, because in the previous calls you've mentioned you've run a few campaigns earlier. Is this just a run of the mill kind of growth that we're coming in, or is there a specific push being made on any products on the retail side?

And finally, just a quick comment on your commitments and guarantees. For the second quarter there's a big pickup on commitments. I'm assuming that should lead to continuation of very strong growth into the second half on the corporate side, so just your thoughts around those. Thank you

---

Hossam Al-Basrawi
General Manager Corporate Banking, Al-Rajhi Bank

A

It's Hossam Al-Basrawi GM of Corporate. I think you've seen some announcements today in the news about SAMA saying the average surplus liquidity in the market is around SAR 43 billion. This gives a strong indication that there is sufficient liquidity to support the upcoming loan growth required in the market, particularly in wholesale banking. We've observed that many project finance and several Giga projects approved in the past two to three years have had

ample room of lines approved, but these lines have not yet been fully utilized. With this available liquidity, I believe the market is running at a healthy pace to support the growth plans for these projects.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

As my colleague Hossam mentioned, liquidity is at a very comfortable level across the system. We've seen that the SAIBOR/SOFR spread is coming lower, which indicates ample liquidity in the system. The bank plans to continue enhancing corporate relationship ROA by attracting more liquidity and positioning itself as the bank of choice for corporate clients, as well as for new retail customer acquisitions. This strategy will also help us further improve our CASA.

As far as the retail growth that we have seen, there could be a couple of reasons. First, I think the level of the current interest rate has been high for some time. And people are probably waiting for the right level to come in, in order to originate. But then I think that's become BAU, and become the new norm, as the long-term rate is expected to go lower over the medium term. That is number one.
Secondly, do not also underestimate the focus on the new customer acquisition. In the first slide of the presentation, Waleed has highlighted that we managed to grow our active customer base to 17.1 million versus 15.8 million since the year end. It's a new customer acquisition, coupled with that, people are getting used to the current rate environment. And again, when rates start coming lower, we expect further demand, given the sensitivity I mentioned earlier. Can you remind me of your last question, please?

Murad Ansari
Equity Research, GTN

Q

Just an observation that was on commitments and contingencies section

---

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Commitment is around 20 billion as of Q2, as per our detailed financial statement. And I think that gives you an indication from our corporate team that the pipeline is healthy. Take into consideration the positive outlook on the credit demand growth on the corporate side over the medium term.

Murad Ansari
Equity Research, GTN

Q

Thank you very much. Just a very quick one on deposits. Typical repricing on maturity profile of your time deposits would be between three to six months, is that fair to assume?

Also, once we see rate cycle, as we've seen SAIBOR come off, this should now start reflecting into third and fourth quarters on your funding costs.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Usually it's shorter than that. And I think three to six months is mainly on the corporate floating assets, that's an industry standard. For the time deposit it's short, max at three months.

On the rate cycle, agreed, but it's important to consider when the rate cuts will actually materialize. As I mentioned, there are three Fed meetings between now and the end of the year—one in September, one in November, and one in December. These meetings are at the tail end. Yes, there will be a positive impact, but the most significant effect, given our NIM sensitivity, will likely be seen from 2025 onwards.

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 the management team for closing remarks.

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

Before ending the call, I would like to thank Safwan Alsulaimani for managing the investor relations, and wish him the best of luck on his new role. And thank you, everyone, for joining in, and for your trust in us. Looking forward to meeting you in the next quarter's earnings call. Thank you.