

4Q23 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

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

Good afternoon, everyone. This is Mazen Al-Sudairi from Al-Rajhi Capital. Al-Rajhi Capital is proud to host the Al-Rajhi Bank Q4 2023 earning call. Welcome, all, to the call. Now I'll hand over to Safwan, head of investor relations, to introduce the management team.

Safwan Alsulaimani
Director Investor Relations, Al-Rajhi Bank

Good day, everyone, and thank you for joining our call again. Today we have on the call our MD and CEO, Waleed Al-Mogbel, our CFO, Abdulrahman Al-Fadda, and our GM of treasury, Abdulrahman Al-Ajaji. As always, our CEO will be taking us through the key highlights of the performance followed by our CFO, who will be giving us detail on the financial results. After that, we'll be opening the floor for your question.

Having said that, I'll be handing the floor to Waleed. Back to you, Waleed.

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

Thank you, Safwan. Good day, everyone, and thank you for attending our earning call for the fourth quarter of 2023. As always, I will start by taking you through our performance highlights. Then I will follow it by providing a final closure of our executed strategy, Bank of the Future. After that I will leave the floor to the CFO to cover the detailed financial performance analysis. Now, if you allow me, let's take a closer look on our results, highlighted for the full year of 2023.

If we move to the slide number three, starting with the balance sheet in 2023, the bank has delivered a growth of more than 6% year to date in the total assets and that's driven mainly by financing and investment portfolio. The investment portfolio continued with its strong momentum and it is recording a growth of almost 31.5% year on year, which will help to diversify our yield income and support the bank's liquidity position.

The bank during 2023 also continued its smart growth approach across all business to achieve its strategy goals, which resulted in the financing portfolio recording a growth of more than 4.5% year on year. Now it is reaching to almost 600 billion. The growth in the financing portfolio was mainly coming from non-retail book, which grew by more than 20% year on year, supported by 20% growth on our corporate book and almost 23% growth in SME.

On the retail side, the growth was mainly coming from mortgage, recording almost 6% year on year. Despite that, we have securitised almost 11 billion in 2023. Now the mortgage book represents around 39% of our total book and almost 54% of our retail book. On the liability side, total liabilities stand at 700 billion, an increase of 6% year on year, which will bring the LDR to almost 83%. That is well below the regulatory minimum.

Moving to the profitability side, net income showed a slight drop of almost 3% for the year of 2023. The drop was mainly driven by the net yield income, which was lower by almost 4%. That was driven by a higher cost of funding and net yield income that declined by almost 2% year on year. This resulted in total operating income decreasing by almost 3.7% as of 2023, standing at 27.5 billion.

If we look at the credit quality, the bank continued to maintain best-in-class asset quality with cost of risk standing at 25 bps. NPL is almost 70 bps and a healthy NPL coverage ratio exceeding 200%. Operating efficiency continued to be an area of focus for the management, which helped us to maintain market-leading cost-to-income ratio of just above 27%. Lastly, the bank continues to maintain a strong financial position with a healthy total capital ratio of 21.5%, well above also the regulatory minimum.

Moving to slide four, which demonstrates the accomplishments made on our delivered strategy as of 2023, as we have successfully implemented our Bank of the Future strategy that started in 2021 and finished end of 2023, we have overachieved our strategic KPIs well ahead of time and will continue to the great results to years yet to come. We will continue building on the success made on our Bank of the Future strategy. However, it is worth highlighting that we are underway now with our new developed strategy for the next three years until 2026. We'll be sharing the details of the strategy on a separate call planned next week, inshallah.

With that, now I will hand over to Abdulrahman, our CFO, to give you a detailed update of our financial performance. Thank you so much.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

Thank you, Waleed. Salaam alaikum. Good day, ladies and gentlemen. It is my pleasure to welcome you again in our earning call. I will go over the financial performance slides very quickly so that you can have further time during the Q&A session.

Our total assets stand at 808 billion-riyal, 6% year-on-year increase, and almost 1% increase on a sequential basis. To analyse the 6% year-to-date movement as you can see on the bottom left-hand side of the chart, you can see that our interbank portfolio reduced by almost 16 billion, substituted with an increase in our investment portfolio. This is part of the management initiative to improve the return on our average earning asset. Our financing book has increased by almost 4.6% year to date and I will cover further detail on the following slide.

As far as our funding, as you can see on the bottom right-hand side of the chart, we continue to diversify the funding profile in order to manage our cost of funding efficiently. You can see that our interbank portfolio has increased by almost 26 billion riyals, our customer deposits by almost 8 billion riyals, and If you recall, we tapped in the international debt capital market by raising \$1 billion of senior unsecured back in April 2023.

Zooming further into the main driver of our balance sheet, our financing book stands at 594 billion, almost 5% increase year on year and almost 1% sequential growth. I want to highlight that our retail book as a percentage of the overall financing stands at 72%. To analyse further the 5% growth in our financing portfolio, the growth was mainly coming from the mortgage and corporate. Mortgage book has increased by almost 6% on a net basis. However, it has increased by 11% on a gross basis, taking into consideration the securitisation transaction that we have done in 2023.

our ex-mortgage of the retail book, have shown a contraction of almost 7%, which is in line with the previous communication that the management focus is on value rather than volume. Corporate and SME have shown around 20% and 23% respectively, which brings the total non-retail book to almost 21% year to date. Mortgage book stands at 234 billion as of the year end, which represents 54% of the retail book and almost 38.8% of the overall financing.

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Our total customer deposits stand at 573 billion, 1% increase year on year. We want to highlight that CASA as a percentage of the overall customer deposit stands at 63.7%, compared to 64.2% as of 2022. The movement in the overall customer deposits, as you can see on the bottom right-hand side of the chart... Demand is almost flat while we have increased on our time deposits by almost 6 billion Saudi riyals.

If we move to the profitability section, our net income for Q4 was almost at 4.2 billion, 5% year-on-year lower, flat on a sequential basis. To analyse the sequential movement in our net income, as you can see on the bottom left-hand side, we've seen a further pickup in our yield income by almost 3%, non-yield income by 2%, which will bring the operating income growth by almost 3% on a sequential basis. However, that got negated by almost 7% increase both for our opex as well as net impairment charge for Q4.

Our total net income for the year at 16.6 billion, almost 3% lower year on year, mainly driven by 4% lower on the yield income, where the NIM contraction had an impact on the overall yield. Non-yield was lower by 2%, opex almost flat, and the net impairment charge were 25% lower year on year.

To further zoom into the net income driver, I will start with the operating income. Our operating income for Q4 at 7 billion, 3% lower year on year, but 3% higher on a sequential basis. Our total operating income for the full year was 27.5 billion, almost 4% lower year on year. Yield income, was the driver as you can see on the top right-hand side of the chart, the yield income had a contraction of almost 4%. However, it's worth to highlight that we've seen a further NIM expansion started from Q3 and followed by Q4, where our NII for the second half is almost 6% higher compared to the first half of 2023.

Our fees were lower by almost 9% year on year. If you recall back in Q3 where we had a drop in our fee, nevertheless, as a part of the management initiative to compensate or further the fee income, we've seen a further pickup in our fees by almost 10% on a sequential basis, exchange income growth of almost 7% year on year, and finally our other operating income growth by almost 28% year on year. We have seen a very positive mark-to-market of our fair value through P&L investment book.

As far as the NIM, our NIM for 2023 was 2.99%, almost 56 basis points lower compared to 2022, where in Q4 our NIM is at 3.01%. We have seen a one-basis-point expansion compared to the Q3. Our exit rate for our gross yield for Q4 was 5.80%. Our exit rate for our cost of funding is at 2.80%, which would bring the overall exit rate for the NIM at around 3.01%. We are quite optimistic about the outlook of the NIM for 2024 and beyond, taking into consideration that the gross yield will outpace and increase in the cost of funding.

The movement of the 56 basis points, as you can see in the bottom right-hand side of the chart... Retail book have increased by 24 basis points, corporate and treasury by almost 40 and 24 basis points respectively. However, that negated by higher cost of funding, given that the average SAIBOR in 2023 was 5.93% versus 3.14% back in 2022.

If we move and analyse the second driver of our net income, our opex for Q4 was almost 2 billion, flat year on year and almost 7% higher on a sequential basis. Our opex for the full year at 7.5 billion, almost 0.6% higher year on year, mainly driven by the staff increase as well as the depreciation, which... Overall, to support the growth in the overall balance sheet of 6% year on year, coupled with a higher transaction amount where we have seen the transactions have increased by 24% year on year. Finally, is the strategic investment that the bank was making over the last few years to execute and deliver the Bank of the Future strategy.

The negative Jaws between the operating income and the opex have resulted in an increase in our cost-to-income ratio to be at around 27.2%. Nevertheless, it is one of the leading cost-to-income ratios in the market.

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If we move to the asset quality, our net impairment charge for Q4 was almost 400 million, 15% higher year on year and almost 7% on a sequential basis. Our cost of risk was almost flattish on a quarterly basis, standing at 25 basis points for the full period, 14 basis points lower compared to 2022. The net impairment charge for the year was almost 1.5 billion, 25% lower year on year, mainly driven by the following factors.

The gross charges were 6.5% lower year on year, which is a function, if you recall our previous communication, where we update our ECL model, taking into consideration the positive macro outlook for the Saudi economy. That is also coupled with a higher recovery by almost 21% year on year. If you can see it by the movement, as you can see on the bottom right-hand side of the chart, we have increased our retail provision while lowered the charge for the non-retail, which is a function of updating our corporate ECL model.

Our NPL for the year end is at around 4.3 billion, where we have seen an increase of almost 800 million compared to the previous year. Basically, the reason we've seen is, on the fourth quarter, one of our wholesale trade customers on the corporate book went under financial difficulty. We moved them to NPL and the bank is taking the necessary litigation process accordingly.

On the NPL information, as you can see on the top right-hand side of the chart, our write-off for the year was 3.1 billion versus 4.5 billion in 2022. Flows is around 3.8 billion versus almost 4.6 billion in 2022. That pickup in that corporate NPL in the fourth quarter has resulted in an increase on our corporate NPL to almost 1.67%. However, our retail book has shown a very healthy NPL of around 34 basis points, which will bring the overall blended ratio to almost 71 basis points. Having said that, we still maintain a healthy NPL coverage of about 200%.

ECL stock stand at 8.7 billion and, as you can see on the top right-hand side, the movements are in line with updating our ECL model and the previous communication. Our stage-one exposures stand at a still-healthy level at around 96.5% and, as you can see on the bottom right-hand side of the chart, we're still maintaining a very healthy stage coverage, stage one at 43 basis points, stage two at 12.2%, and finally our stage three at 60.4%.

On the liquidity side, although our headline LDR stand at 103.7% as of Q4, nevertheless our regulatory LDR is at 82.9%. LCR and NSFR at a healthy level, above the minimum regulatory requirement.

On the capital side, our total RWA stand at 520 billion, almost a 5% increase year on year, mainly driven by 4% increase on our credit risk RWA. It's worth to highlight that our RWA density stands at 64.4% compared to 65.4% at the same period in 2022. Our total capital at 112 billion as of the year end, 5% growth year on year. Capital ratios are still at a healthy level, CET1 at 17.2% and tier-one at 20.4%.

If you analyse the movement in our tier-one capital, as you can see on the bottom right-hand side of the chart, although our RWA and dividends plus other have contributed to a 311-basis-point drop in our capital ratio, it has been offset by 324 basis points of internal capital generation, giving the healthy RWA density we have.

Overall, our return metrics are still at a healthy level, RORWA at 3.26%, earnings per share at almost flat on a quarterly basis at 0.99, ROE at 19.35%, and finally our ROA at 2.1%.

Before we move on into the guidance, I think it's worth to highlight on some of the key factors. Although the Saudi GDP has shown a contraction of almost 90 basis points in 2023, driven by 9.2% oil activities, however, non-oil GDP has increased by 4.6%. However, the outlook is still positive over the medium term on the growth and the GDP forecast. On interest rates, our Base-case forecasts for the rates are lower, where we assumed around three rate cuts in 2024.

However, it's more backward-loaded and we continue to expect the gross yield to expand and outpace the increase in the cost of funding.

Having said that, our 2024 guidance are as follows. For the financing book, mid-single-digit growth. The bank will continue its strategy to be able to focus on the value rather than volume and grow profitable market share. Our NIM is expected to increase by 5 to 15 basis points, cost-to-income below 27%, ROE above 19%, cost of risk in a range between 25 to 35 basis points, and finally our tier-one to be above 20%.

Waleed, back to you.

Waleed Almogbel

Managing Director and Chief Executive Officer, Al-Rajhi Bank

Thank you, Abdulrahman, for the financial performance and review. As I mentioned, we are now turning the page to a new strategy, which we call internally Harmonise the Group, where the management is focused to further improve the overall profitability matrix.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. If you would like to ask a question and you've joined us via Webex, please use the Raise Hand icon on your screen or use the Q&A chatbox if you would like to ask a written question. If you're dialling in over the phone today, please dial star-one now to enter the queue. We'll just leave a moment here for questions to arrive.

Our first question today is from the line of Waleed Mohsin from Goldman Sachs. Waleed, your line will be open now if you would like to unmute locally and proceed with your question. Hi, Waleed. I believe your line is now open if you'd like to proceed.

Waleed Mohsin

Managing Director, Goldman Sachs

Q

Thank you so much. I have Two, questions please from my side. First, if we look at your guidance for 2024, mid-single-digit loan growth. Abdulrahman, you talked about how the risk weight density has improved. From that perspective, high teens or 19%-plus ROE, mid-single-digit loan growth, with limited RWA growth should mean that the capital ratio will continue to build up, as we saw during this year.

So, I just want to get your thoughts on how management is thinking about dividend policy and the guidance that you put out for ROE. Because mid-single-digit growth, NIM expansion, cost-income below 27% should imply the ROE improving from current levels, but your guidance is above 19%. So, it seems that there is a capital build up which is keeping that ROE low. So, any thoughts on how management is thinking about leverage and dividend would be highly appreciated.

The second question is on asset quality. If I heard you correctly, you talked about one file within the trade segment, if I heard correctly, which led to the increase in NPL. I wanted to see if this was reflective of some stress that you're seeing

more broadly in that particular sector. Is this an exposure which you have as a bilateral facility or is it a syndicated loan? Thank you much.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Thank you, Waleed. First of all, on the dividend policy for the bank, I think we have said multiple times that the management will always weigh in between the dividend distribution versus preserving capital in order to support the growth. I think there is multiple uncertainties that we have seen in terms of the financial market. I think a few weeks ago the markets were expecting probably six to five cuts. Now that has changed after the recent commentary.

So, we're trying to be conservative, taking into consideration that there is a lot of uncertainties that we are heading into in 2024. Nevertheless, the management will always put lots of initiative in order to maximise the shareholder value. But, overall, I think it is something that we always will weigh in between the dividend distribution versus preserving capital to support the growth.

Now, on the second part of your question, first of all, the exposure, as I mentioned, is in the wholesale trade. It is not, I would say, systematic. It's idiosyncratic. It is a bilateral, not a syndicated, transaction.

Nida Iqbal
Equity Analyst, Morgan Stanley

Q

Hi. Thank you for the presentation. I have two questions. Firstly, it would be good to get some colour from you on the liquidity conditions for the sector. Do you think term deposits have peaked or do you expect the shift into term deposits to continue? We've also recently seen that the government launched a government-backed sukuk for retail savings. Do you think that could impact liquidity for the banking sector?

Secondly, this one is to understand better your expectations in terms of loan growth for this year. In 2023 corporate loans grew very strongly. What do you expect the key driver is of loan growth in 24? Thank you.

Abdulrahman Al-Ajaji
General Manager Treasury, Al-Rajhi Bank

A

Thank you, Nida. So, I'll address the liquidity in the system. In the fourth quarter we've seen it somehow stable. If you look at the reverse repo in the banking system, during the fourth quarter we have seen an increase from 23.6 billion reaching to 30 billion. However, this improvement came at a slightly higher cost where we have seen the three-month average SAIBOR increasing by almost 22 basis points. Now, as per the SAMA year-end bulletin or the SAMA statistics, if you look at the total deposits, it has posted almost 2.5 trillion as of December 2023, which is up by almost 8%. Going ahead, we expect liquidity to remain stable in the system given the macro outlook of the Kingdom in 2024.

The second question that you've asked with regards to the new issued government sukuk, which... I believe this is part of the Vision 2030 when it comes to saving initiatives. The issue was open for about three days, which I believe closed yesterday. We're still waiting for more details. However, our understanding is, those types of issuance will occur on a monthly basis. The only information that we have is that it is capped at 200,000 riyals. Thank you.

Abdulrahman Alfadda

Chief Financial Officer, Al-Rajhi Bank

A

Nida, on the growth outlook on the financing book for 2024, we believe it's going to be replicated to the same trend that we've seen both at the system level as well as on Al-Rajhi Bank, whereby our expectation is that the corporate growth will outpace the growth on the retail book at the system level.

Nevertheless, I think the retail is still providing a good opportunity for growth, driven by the government initiative to reduce the unemployment rate in addition to more ex-pats are coming to the country. So, all that is providing a further opportunity to grow on the retail. Now, as and when we have seen the long-term rates start coming off lower, we believe that also there will be a further pickup in demand on the personal finance, given that it will improve further the customer eligibility.

Naresh Balandani

Head of MENA Equity Research, JP Morgan

Q

Thank you for the presentation. I just had a few questions, please. So, my first one was on the loan growth outlook. You talk about three rate cuts and still a mid-single-digit 2024 guidance, which is comparable. The trend is comparable to what we saw in 2023. Now, my understanding is that a lower rate would definitely have an upward push to the non-mortgage retail book. So really, I would have expected you to trend slightly towards higher-single-digit rather than mid-single-digit.

So, if you can, please, just throw some thought on whether this is you just being conservative and realistically we should be expecting a slightly better run rate, especially if you get the rate cuts in line with your expectations. What could potentially be the upside risk to this guidance overall, given that the corporate growth environment is still quite healthy and clearly you are pushing quite a lot in that segment? So that's the first question.

My second question is on the NIM guidance of five to 15 bps. I think that's fair given the interest rate outlook, but would you please be able to throw some light on the NIM sensitivity, given the fact that you're basing this guidance, as you mentioned, on three cuts, likely in the second half of this year? If we take a look at the forward curve, I know, it keeps moving every day, but at this point in time it's showing roughly about five cuts to the year end. If we assume the forward curve is right and you do end up getting five cuts this year, how should we think about the amendment to your NIM guidance? So, any rough sensitivity you can guide there would be very helpful at this stage. Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

To be honest, Naresh, and I think we've done our estimate, for 100 basis points lower in the personal finance. That will improve the loan amount to the customer by almost 3%. Also, if you apply the same for the mortgage rate, that would also improve the eligibility for the customer or the financing amount by 8%. Now, honestly, I think if you look at the SAIBOR, I think the average for Q4 was at 6.31% and we are hovering as we speak since the beginning of the year at the same level. So, the long-term rates have probably gone lower in line with the US Treasury's move from 5% to below 4%, but the market is volatile.

Now, are we expecting that the demand will pick up? Probably yes, as and when we see the actual move by the Fed, but, again, the market is volatile. Now, that's it, I think, on the retail side. From our perspective, what I would like to reiterate, Naresh, is that the management since probably Q3-Q4 2022 has been implementing what Waleed mentioned, the smart growth, by focusing into the value rather than volume, taking into consideration the current operating environment. We will always focus into growing profitable market share. I think that is something we will assess during the course of the year. If there is any change to our guidance, we will communicate to the market accordingly.

The second question related to the NIM sensitivity. First of all, The NIM sensitivity is always a theoretical. It does not take into consideration any change of the asset mix nor liability mix. However, with that disclaimer, for every 25 basis points lower on the SAIBOR, our NIM will expand by 6 basis points.

Naresh Balandani
Head of MENA Equity Research, JP Morgan

Q

All right. Just one follow-up, please. So, realistically, and let me just be a bit blunt about this, should we expect an increase in your non-mortgage retail book this year or do you reckon we should still continue to see a contraction?

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Again, we would like to reiterate, we are focusing into the value rather than the volume. Whatever we originated in 2023 and since the beginning of the year, if you look from a spread and an absolute rate, those originations are a much better spread compared to 20 and 21 vintages. Again, from our perspective, the focus of the management is to grow profitable market share. I expect that this trend of the ex-mortgage of the retail book will continue in that contraction at least probably until June this year. However, in the second half, I expect that trend to stabilise. It could improve, depending on the outlook of the rate and the cost of fund

Rahul Bajaj
MENA Equity Research Director, Citi

Q

Three quick questions actually. The first one, investment portfolio. There's been a very strong increase, 31% Y-on-Y, in the investment portfolio. How should we think about the impact of this particular portfolio when rates start going down? On the P&L specifically, how should we think about it? That's the first one.

The second one, the mid-single-digit loan growth guidance. To what extent did it include securitisations? So, is this guidance after securitisation? You have done 11 billion, any securitisation will come over in addition to this?

Finally, the second-half 2023 dividend. We haven't heard actually anything on last year's second-half dividend, unless I missed anything. So, what's the thinking there? When should we expect a comment on that? Thank you.

Abdulrahman Al-Ajaji
General Manager Treasury, Al-Rajhi Bank

A

So, Rahul, on the investment portfolio, the growth in the investment portfolio is aligned with the overall bank strategy, being an important liquidity tool to support the balance sheet growth. That is in terms of sourcing the right HQLAs and securities. Now, from an execution point of view, we have managed to take an advantage of the high-rate environment and the market volatility to exclude transactions that are either at the peak of the benchmark or at the peak of a credit spread, which has resulted in overall yield enhancement of the portfolio.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

On the securitisation, Rahul, we will evaluate on a case-by-case basis. Again, if we see that the delta between the new origination rates minus the securitised book rate plus any servicing fees is a net positive, I think we will take that call and evaluate it on a case-by-case basis. Whatever makes sense. Last year, we have seen that mortgage rates have increased from the beginning of the year from 6.4% to almost 7%-plus at the end of 2023. I think we are looking at it from a case-by-case basis. If we see that there is an opportunity to further improve the NIM over the long term, we will take that call.

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

A

In terms of the dividend, we are now evaluating our current position and potential growth for this year. Then we will, inshallah, after this we will announce, after taking the board approval.

Olga Veselova
Equity Analyst Director, BofA

Q

I have several questions. The first one is on net interest margin. Without asking you to give any numbers, do you see potential for acceleration of margin expansion in 2025 versus 2024?

The second question is actually something that could help us to make our guess about margin dynamics in the long term. Could you disclose, please, the average yield on your mortgage book, the existing mortgages, and, if possible, average yield and maturity of investment portfolio as well?

The third question is again on the non-mortgage consumer lending. You have been vocal about focusing on profitability and margin protection or ROE protection over growth. At the same time, non-mortgage consumer lending is a very high-yielding segment. So, with interest rates going down, with capital being more than sufficient, I'm wondering, why is there no better loan growth in unsecured consumer segment for Al-Rajhi but also for the market overall? What are we missing? Why is there no improvement of penetration ratio in this segment? Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

I will start with the easiest one, your second part of the question, mortgage and investment book rates are undisclosed. In terms of the NIM expansion, I think the way that we anticipate, if you look, Olga, we still believe that the NIM expansion for Al-Rajhi is positive, given that the retail book usually will take longer or take some time for the expansion. I will give you an example, Q1 2023. Average SAIBOR was at almost 5.49%. where the Average SAIBOR for Q4 was 6.31%. So, we see an 80-basis-point movement into the SAIBOR between Q1 and Q4. The cost of funding has increased by 67 basis points between those two quarters, and NIM is almost flat.

I think we see that the repricing of our personal finance is helping us to further expand. We expect that trend to continue of an expansion of NIM even that we assume that the rate will continue at the current level, that the NIM expansion would continue, on top of that, as and when rates start coming lower, SAIBOR will come lower. That will have a further positive NIM gearing for 2024 and beyond. Depending on your outlook of the rates on 2025, that's what I think you can take a wild guess on the theoretical NIM sensitivity I provided. Sorry. I forget on the third question. If you can repeat that, please.

Olga Veselova
Equity Analyst Director, BofA

Q

Consumer lending. Why no better growth in Saudi and in Al-Rajhi in the unsecured consumer segment?

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

I cannot speak on my other colleagues, but at least I can speak on our behalf. If you recall my earlier comment, the management focus into the value rather than the volume. Whatever we originate at the current level, either from the

absolute or from the spread above the SAIBOR, are of much better quality, both from a spread perspective compared to the 2020 and 2021 vintages.

Shabbir Malik

EFG-Hermes, Banks Analyst



Thank you very much. I just have a follow-up question regarding the NPL increase in the corporate. Would it be possible to quantify that NPL? Do you have any collateral against it? That's my first question. Also, how much NPL coverage have you provided for that account?

Secondly, I think, Abdulrahman, you talked about fee income recovering in the fourth quarter versus the third quarter. What initiatives have been taken? Maybe if you can highlight those.

In terms of the NIM outlook, assuming there are no changes to interest rates, what would have been the NIM guidance? If you can provide some colour on that, that would be very useful.

Maybe finally in terms of the strategy, what can we expect in next week's call? Do you expect to share any medium-term KPIs as well as part of the strategy presentation? Thank you.

Abdulrahman Alfadda

Chief Financial Officer, Al-Rajhi Bank



Thank you, Shabbir. On the first question related to that particular corporate customer that moved the NPL, what I can share with you is that Al-Rajhi Bank historically and still will continue to implement a prudent risk management. So, rest assured that, from our perspective, we wanted to continue to have one of the best asset quality books in the banking system, without putting any further detail to the follow-up question onto that particular customer.

On the second question, I'm very glad you asked me. I think we've seen almost a 10% increase in our fee income on a sequential basis in Q4, that mainly driven by lots of focus into the payments, trade, cash management, the auxiliary business that is coming with corporate exposure. So, we've seen, I think, a good momentum. All of us as a management will continue to focus on further negating the impact that happened in Q3 and focusing on improving the fee income contribution to the overall operating income or as a percentage of our operating income and opex.

I think I've mentioned to you our NIM sensitivity to the 25-basis-point cut on the SAIBOR. I've mentioned also that it is more on the backward or probably the second half. Our expectation of the average SAIBOR for the year is, I think, in the range between 5.85% to 5.90% compared to the current level.

Finally, on the strategy, I think I would like to keep the suspense, Shabbir. I would like to make sure that you attend the call as well, so at least we'll give you some highlights.

Gabor Kemeny

Research Analyst, Autonomous



Thank you for taking my questions. I have a couple. When you spoke about the NIM sensitivity, I think you alluded to the static balance sheet assumption. Now, is this a reasonable assumption still that your funding

growth, your deposit growth going forward will be driven by term deposits, timed deposits, or shall we expect any changes in the deposit mix in a gently falling rate environment?

My other question was on mortgage loan growth. Are you expecting some kind of slowdown from this 11% gross loan growth you reported in 2023? Did I get that correctly? If yes, why shall we assume a slowdown when rates are expected to come down gradually? Thank you.

Abdulrahman Alfadda

Chief Financial Officer, Al-Rajhi Bank

A

First of all, I mentioned that the NIM is theoretical. The guidance that I provided of an expansion of 5 to 15 basis point. There is a lot of modelling that we've done on the change in the asset mix within the retail, change within the overall financing between corporate and SME, and also some assumptions that we have into the time or a CASA as a percentage of the overall customer deposit as well as assumptions that we have taken as a part of diversifying the funding profile.

I'm sure that you have seen in our presentation loan-to-deposit ratio at a healthy level. Liquidity ratios are at a healthy level. It will give our colleagues on the treasury group to be able to diversify and manage our funding profile in the most efficient way that will help the overall NIM improvement.

The second part... I haven't given any kind of indication of the slowdown on the mortgage. I just only indicated what is our actual growth in the mortgage book, net and a gross basis. I'm sure that you guys have seen that we've already seen the slowdown in 2023. Overall mortgage origination by the banks have went lower by almost 35% compared to 2022. So, I haven't given any indication into the mortgage, just to clear your understanding.

Operator: Thank you. We don't have any further time for any questions, I'm afraid, so at this time I'd like to hand back to the Al-Rajhi management for any final 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 look forward to meeting you in the next quarter's earning call and also for next week for the new strategy update. Thank you.