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## Presentation

**Mazen Al-Sudairi:**

Thank you. Good afternoon to everyone who has joined in the call. This is Mazen Al-Sudairi from Al Rajhi Capital. We are happy to host Q2 Earnings call for Al Rajhi Bank. Without further delay, I will pass on the microphone to Al Rajhi Bank.

**Rayan Alshuaibi:**

Thank you, Mazen. Good day, everyone, and thank you for dialed in. Joining us today, our CEO, Waleed Al-Mogbel, CFO, Abdulrahman Al-Fadda and GM Treasury Abdulrahman Alajajji. CEO will start with the presentation with the key highlights and strategy update, followed by CFO to cover the financial performance details. Then we will open the floor for your questions. As always, you may ask your question during the call through the webcast. However, priority will be given to those who are dialed in.

A quick reminder that today's presentation and all IR materials are currently available on our website and IR mobile app. Thank you again, and Waleed, over to you.

**Waleed Al-Mogbel:**

Thank you, Rayan. Welcome, everyone, and thank you for attending our Earnings Call for the second quarter of 2021. I would like to take this opportunity to thank you for your trust in us. We are now ranked among the top 20 largest banks globally by market cap. As usual, we will go through our second quarter highlights, then I will give you an overview of our strategic performance for the second quarter, of our new strategy, Bank of the Future, which has been already presented in the beginning of the year.

Let's go ahead now and take a closer look on the first slide, if you allow me to move the first slide. If we look at the number in the balance sheet, we have a very strong growth in the balance sheet, a growth of 7% quarter on quarter, and 31% year on year. And that growth came from all lines of business, retail 24%, corporate 21%, and investment book 24% year to date. If we look forward to financing, we have a growth of almost 24% year to date, and this gives us a financing portfolio of almost SAR 390 billion.

This growth, mainly driven by mortgage of almost 34%. Currently, the mortgage represents 35% of our total book and 44% of our retail book. On the liability side, as you can see, our total liability stands at 486 billion, a good increase of our liability of more than 18% year to date. Also, we have a good growth in our demand with it of almost 7.5%. This will give us a stable LDR of around 83%, which will give us more room to grow our financing.

If we move to our net income, we have a solid net income for the first half, a growth of 44% year on year, reaching to 6.9 billion for the first six months. And that's driven mainly from both net yield income and also non-yield income. For the net yield income, the increase is almost 22% year on year, while the non-yield income of 45% growth. That will give us a total operating income growth of almost 26% year on year.

When we move to the other ratio for the credit quality, as you can see, we have maintained a good ratio of our asset quality, our cost of risk is healthy for the first half standing at 64 basis points, and that is driven mainly by a good recovery, compared to 75 basis points in 2020. We have, also, a good low NPL ratio, which stands at 67 BPS, compared to more than 100 last year. Still, we have a very strong coverage ratio for our NPL, which stands now at more than 300% coverage ratio, compared to 250% last year. Other key ratio, as you can see in the bottom of the slide, The Management last year has done an exercise to improve the efficiency. A result of this exercise gave us more than almost 600BPS reduction of our cost/income ratio, which stands at 27.5% compared to last year's 33.3%. If you allow me to move to the next slide, which will give you strategic performance update for our strategy Bank of the Future.

If you remember, we have four elements of our strategy. Number one, Built on Our Core. Number two, Outperform Our Competition. Number three, transform the Technology. Number four, Focus on New Client Need. So, if we look at number one, as you can see, we are focusing on our retail as a core banking business, and we have seen a financing growth of almost 24% year to date in our retail book.

Also, one of our strategies is to position ourselves in corporate. The corporate, for the first six months, had increased by 21%, compared to 7% of the whole year last year. SME also is part of our strategy to position ourselves as a bank of choice for SME. We have seen a good growth in the first half of almost 22% year to date.

Now SME represents almost 16% of our corporate book, compared to 11% in the second quarter of last year. Demand deposits also has been one of our focuses. As per the initial data from the Central Bank, our market share in demand deposits has increased and reached, now, almost 27% market share.

If you allow me to move to the second pillar, which is Outperform Our Competition, if we look at the customer experience, we have improved our NPS ratio, and now we are number one in NPS in Saudi market. We reached 71%, compared to last year, 66%. For the bank assets market share, with the growth we delivered in the previous quarter, the initial data shows that we reached market share of 19%, compared to 16% last year.

If you allow us to move to the third pillar of our strategy, Transform the Technology, as you may note, our strength in Al Rajhi Bank is the technology, and we are continuously improving our digital channels. Digital to manual ratio currently stands at 87% to 13%, compared to last year of 83% to 17%. Online account opening reached 88% of the total accounts opened in the bank.

Penetration ratio of the digital customer has reached, now, 93% of our customers using our digital channels. If we look at, for just this last quarter, quarter 2 of this year, 30% of our personal finance has been conducted digitally, end to end through our application.

For the operation excellence, currently, we have more than 330 bots, and these bots are doing almost 34,000 average daily transactions. Our average transaction per month has increased to reach, now, more than 450 million transactions, conducted in our IT infrastructure. This is an increase of almost 24% year to date.

If we move to the last pillar of our strategy, which is focused on the new client needs, one of our items in this pillar is to become a leading finance company. If you remember, we have announced in the beginning of the year that we have officially launched our financing company to focus on the segment that is not covered by the bank, mainly microfinancing.

Today, we are number one, in terms of personal finance, through the financing company with a portfolio of almost 5 billion. We continue also to improve our payment solutions. Our point of sale terminal market share is more than, now, 30%. For this, I would ask you to allow me to invite Abdulrahman, our CFO, to give you an update and more details of our financial performance, and thank you so much.

**Abdulrahman Al-Fadda:**

Thank you, Waleed. Good morning, good afternoon, good evening, Ladies and Gentlemen. Many thanks for joining our Q2 Earnings Call. I'm proud to present our outstanding performance during the first half of 2021, which has resulted on executing our Bank of the Future Strategy, which Waleed has highlighted earlier. Having said that, as usual, I will go over the financial performance very quickly, given most of the information has been

already shared in our earning release, post the result announcement, so that we can have a further time during the Q&A session.

So, I'll start with the balance sheet. Our total balance sheet has seen an increase of close to around 31%, year on year, 16.5% year to date, and almost 7% sequentially. To further dig in the year-to-date movement in our assets, we have an increase in our investment portfolio by around 24%, financing portfolio around 24%. To support the growth into the asset side, the main driver of the funding growth was in the total increase of around 17% of the customer deposits where we have grown around 65 billion, which represents almost 84% of the total funding increase.

Our total capital has increased by only 1.6 billion, and I would like to remind everyone that we have paid a cumulative dividends for a full-year 2020, as well as the first half of 2021 by around 6 billion Saudi riyal. Zooming in further into the main driver of our balance sheet movement, as I mentioned earlier, our financing portfolio has increased by around 42% year on year, and the main driver was around the retail growth of around 49%. Retail portfolio represents 80% of our financing book versus 76% last year. In addition, I would like, also, to highlight to the audience of the call, that we have done a reclassification of some of the corporate customers into the SME and applied the same reclassification into the previous quarter to have a better comparison. SME portfolio stands at around 12.3 billion riyal. To further analyze the year-to-date movement in our total financing book, mortgage has increased by 34%.Other retail products have increased by 18%, which will bring the total cumulative retail growth of around 24%, year to date. Also, we have seen a decent growth in our corporate by 21%, and also SME by 22%. Mortgage portfolio stands at 139.6 billion Saudi riyal, which represents 44% of the retail book, around 35% of the entire financing book. In terms of the overall customer deposit, close to 34% increase year on year, 17% year to date, and almost 6% sequentially. The year-to-date movement in our total customer deposit, as you can see, 25 billion growth, 7.5% year to date, versus a market growth of around 4.5%, which resulted in further pick up in our market share in the demand deposit.

The key highlights on the balance sheet slides, we keep leveraging from our network, as well as the digital franchise to grow further our financing book, as well as the liability side where we are making good progress in executing our Bank of the Future Strategy.

If we move on, into the profitability section of the slides, our Q2 net income has increased by 48% year on year. And if you can see, on the bottom left-hand side chart where, to show the main drivers of the first half on our net income where our NII has seen a 22%

increase year on year, our total non-yield income, 45% growth, year on year, which will bring our operating income growth of around 26%.

Operating expense has seen an increase of almost 4%, which will bring the pre-provision profits to be around 37% growth year on year. Impairment, and I think, less than 1%, which will leave the first-half growth in our net income of around 44%. To analyze on a sequential basis between Q2 and Q1, our NII have grown by 6%, total fees around 9%, which will bring our operating income by 6.5% growth, expense around 4.7% growth. Pre-provision profit has increased by 7.2%, impairments, almost 1%, which will bring the sequential growth for Q2 to be around 8%. To end up on the net income and, I think focusing on the key pillars of our strategy and leveraging from our execution capability, it positions us very well to deliver a strong result for the first half.

To further zoom into our net income driver, I will start with the operating income. Q2 operating income, versus last year, around 32%, and if you can see, on the driver for the first half, operating income growth, although our average earning assets have increased by close to 29%, however, our NII has increased by only 21.6%. That was due to the NIM contraction.

Fees have recorded around 61%, close to 700 million Saudi riyal, and the drivers of that growth are for two main reasons. One, we have seen the average daily volume in Tadawul, the Saudi Exchange, has increased by 48% where our sister company, the host of the call, have good growth in volume, as well as pick-up in market share.

The second reason is, on the payment revenue streams where we have seen further improvement, giving the positive migration to a cashless payment method. We had, also, small, I'll say, degrowth in our exchange income, as compared to same period last year. Our NIM has contracted 36 basis points year on year, 27 basis points year to date. And the drivers of the year-to-date NIM, you can see it on the bottom right-hand side of the slides, 17 basis points due to the retail portfolio. And also, I would like to remind everybody on the call, if you recall, there has been a total cumulative drop in the mortgage pricing of close to around 165 basis points.

In June as well, there has been a small reduction of 10 basis points by SRC. So, that's number one. The second reason is, we've seen an aggressive competition in the personal finance portfolio. Corporate and treasury have recorded a contraction of around 22 and 12 basis points respectively, due to a 71-basis point drop in SAIBOR.

Despite the growth in our timed deposits, still, the cost of fund has been managed to be in the range of 16 to 17 basis points, and it hasn't factored in that much in our NIM drivers . Subsequently, the Management managed to improve further NIM by 15 basis points, due

to the change in mix. If you recall, retail last year represented 76% of the portfolio, whereas currently, it's almost 80%. That's one reason. The second reason is further improvement in our average earning assets.

On the expense side, our operating expense for Q2 has increased by almost 6% compared to the same period last year.

The driver of the first on the operating expense, you can see that we had a 6.7% increase in the staff cost. That's mainly to support the growth in the total balance sheet growth of around 31% year on year. The second factor, despite that we have seen an increase in the average transaction from 240 million for the first half last year to almost 450 million, which is an 87% increase, that's number one.

And the second reason, also, we've seen the VAT impact that has been revisited from 1st July onwards. Despite those two reasons, nevertheless, our G&A has increased by 3.9% due to the initiatives that Waleed has mentioned earlier that we have taken from last year. From an efficiency perspective, we've delivered 580 basis points of cost/income improvement. Our cost/income ratio stands at 27.5%. The improvement in our cost/income ratio, mainly driven by the positive jaws between the growth and the operating income of 25.7% versus the growth and the operating expense of around 3.9%. So, despite that we continue to grow our balance sheet, transform our technology and improve further our additional offering, we are focusing as well on optimizing our cost base and a further-improved efficiency.

On asset quality, we have, our cost of risk stands at 64 basis points, compared to the 85 basis points for the same period last year. Our NPL has reduced by almost 8%, compared to Q2 last year. That, coupled with a 42% increase in the financing portfolio, we managed to deliver an improvement in our NPL ratio by 35 basis points.

Our total NPL ratio stands at 67 basis points. Having said that, we still continue our position maintaining the best NPL coverage ratio, which stands at around 318%. Our total impairment for Q2 on a year-on-year has increased by almost 28%. The drivers for the first-half increase in our impairment, you can see it in the top right-hand side of the slide. Although our gross charge has increased by 248 million, i.e., 14%, our recovery activities or improvement have reduced, or negate the increase, to be less than 1% in our total net charge.

Our stage one stands still healthy at 97% of the overall financing portfolio, hasn't materially changed, compared to the same period last year. In terms of a stage coverage, despite that we have a small dip into our stage one, which stands at 89 basis points, nevertheless, if you compare it against our competition, as far as the year-end, we still

ahead of the competition where stage one is around 64 basis points. Stage two is around 30%. Stage three is close to 83%.

So, the key highlight, is, although we have a strong financing portfolio growth over the last year, we didn't compromise on our position to have a prudent risk management, nor the credit quality where we still keep and maintain an adequate provision and coverage accordingly.

Liquidity position, remains comfortable from our perspective, and within the regulatory requirements.

If we move on, on the capital side, we have seen a total RWA increase compared to the same period last year of around 28%. Our, RWA density has come down to 67.9% versus 69.2% last year.

On the total capital, although our shareholder equity has increased, compared to the same period last year by 15%, our Tier 1 capital has increased by 21%. And the reason behind that, in Q2, we add back 2.9 billion of IFRS 9 transition where, as per the SAMA guidelines, we could add back or recognize 100% of that transition, which will be amortized on a straight line over three years, starting from 2022 onwards.

In terms of our capital ratios, we had a contraction of around 112 basis points, compared to year-end, and the drivers of the 112 basis points, you can see it on the bottom right-hand side of the slide where I would like to highlight that we've managed to deliver 48 basis points of an internal capital generation, and the impact of the FTA or the first-time adjustment is close to 90 basis points.

Finally, the bank delivery of a record quarter and a first-half result has further improved most of our key return matrices where you can see, RORWA stands at 4%, earnings per share at 1.44 for Q2, cumulative for the first half is around 2.78, ROE 23.11%, and finally, our ROA to be around 2.74%.

Take into consideration our first-half results and our internal forecast. We are revising the guidance for most of the matrices that we provide the guidance to, to be as follows.

We are upgrading the financing portfolio guidance to be in the range of 32% to 35%. We are downgrading the NIM to be minus 50 to minus 40 basis points.

We're upgrading the cost/income ratio to be below 28.5%. We are also upgrading the ROE to be in the range between 23% and 24%. We maintain the cost of risk to be in the range between 60 and 70 basis points, and finally, we are upgrading our common equity Tier 1 ratio to be in the range between and 17% and 18%. I thank you all for listening. Waleed, back to you.

**Waleed Al-Mogbel:**

Thank you, Abdulrahman for the financial performance overview. We had a record quarter and record first half. I would like to highlight the following four points. Number one is, Al Rajhi maintained a track record of earnings per share, ROE growth , combined with a healthy delivery on a few line items, such as net interest margin, fees as a percentage of operating income, cost efficiency and cost of risk. Number two, Al Rajhi Bank maintains best-in-class balance sheet metrics, such as liquidity, capital and stage coverage.

Number three, Al Rajhi Bank maintained agile and performance-driven culture that supported us to execute the key pillars of our strategy, Bank of the Future and outperform the competition. Number four, we have been a key player to support the Kingdom 2030 Vision initiatives, such as home ownership, private sector contribution to the GDP, digital economy and digital payments. Now, we will open the floor for a Q&A session. Operator, back to you.

**Operator:**

If you would like to ask a question, you may do so now by pressing the flag icon if you have joined via the browser today, or by pressing star followed by one on your telephone keypad. When preparing to ask your questions, please ensure your headset is unmuted locally.

Please note that there will be a brief pause before we take our first question. Our first question comes Naresh Bilandani from J.P. Morgan. Naresh, please go ahead.

**Naresh Bilandani:**

Hi, thank you very much. It's Naresh Bilandani from J.P. Morgan. So, four questions, please. And sorry for going into a bit of detail, but first of all, can you please explain why the intersegment operating income of the retail segment is increasingly negative, as presented in the financials? Is it because the corporate bank liabilities are helping fund the fast growth of the retail bank? Also, on similar lines, the rising intersegment operating income of the treasury line, is that led by the growing business of your treasury and selling products and solutions to the corporate and the private bank customers? That's the first question.

Second is, the pace of growth on your investment portfolio, it seems to be running higher than the run rate in the previous years. Can you please explain if this is strategic change driving this growth, or this is just opportunistic at this stage? My third question is on, in

the past, you've talked about, potentially, raising debt as one of the options to manage the ALM on the balance sheet, but for now, it seems like you're focusing a lot on the time deposits to fund this mismatch. Do you think this is likely to be an ongoing strategy, or is debt raising in any form still a part of your plans?
It would also be very helpful, in this context, if you can just throw some light on state of competition in the deposit market currently. My final question is on the capital. Could you please just guide us on how do you see the minimum CET1 ratio that you'd like to target over the medium term? Also, I think, in the guidance, you raised a CET1 number to around 17% to 18%, which is something that comes as a bit of a surprise while the rest of the guidance is not. If you can, please explain how do you intend to raise the capital levels through to the year-end, that would be much helpful. Thanks a lot.

**Abdulrahman Al-Fadda:**
Thanks, Naresh. So, I will cover the first and the final question, and I will pass couple of those questions to our group treasurer to be able to highlight. The first question related to the intersegment, and I think you're referring to our segment note, footnote number 14, in our financial statement. And I think what you need to focus on, Naresh, is on the gross, let's say, on the yield income.
The intersegment revenue is related to the internal calculation of the FTP, which varies from an organization to another organization, and also varies from a time to time, depending on the interest rate level, especially in the longer end, given that we do have a large, I would say, demand deposit as a percentage of the total customer deposit. But overall, the operating income for retail has increased around 35% year on year, which is in line with the growth that we have seen in the financing portfolio. So, that's number one.
Number four, on the capital side, although SAMA don't have, I would say, specific guidelines on pillar one capital, which is in line for the Basel requirement, the minimum requirement for our CET1 ratio is 4.5%.
Plus, there is a conservation buffer of around 2.5%, which will lead to a minimum CET1 capital ratio to be around 7%. On the total capital, the minimum requirement is 8%, plus 2.5% conservation buffer, as well as a 50-basis point, which is for the bank, DSIB, Domestic Systematically Important Bank, which lead to a total capital minimum requirement of 11%. So, these are the minimum requirements. Nevertheless, I would like to remind all of you that, in addition to the pillar one requirement, SAMA also asking the banks to have a further items in pillar two that is not covered in pillar one.

Unfortunately, those are not disclosed to the market or to the public. Nevertheless, we do have, I would say, a good buffer to be able to further support the growth.

Now, the second part of your question related to the CET1 revised guidance, , we've taken into consideration, despite the growth in the financing portfolio, but I think, also, you have to assume that there is, an internal capital generation from the profits for the next six months. And if there are any dividends, the dividends will be distributed in, 2022. So, whatever the full-year profits or, specifically, for the second half, it will be part of our total shareholder equity, i.e., it will impact our CET1 ratio. Abdulrahman?

**Abdulrahman Alajajji:**

Thank you, Naresh, for your question.

So, for the investment part, our growth in the investment portfolio is fully aligned with the overall bank strategy when it comes to supporting the balance sheet growth. Also, as you can see, there is a reduction in the due from banks where we are shifting our exposures into the investment portfolio, i.e., flight to quality.

The reason behind this is that the investment portfolio is an important liquidity tool that will support the balance sheet growth, which can include stable sources of HQLA, repoable instruments or securities, which can provide an alternative source of liquidity and assisting in improving the overall ratios. So, just to summarize, our key objective, and as part of our strategy, is to focus on liquidity management and diversify the source of income and revenue mix. So, that tackles the first question.

If we move to the second question, the growth in profit-bearing deposits is aligned with the overall bank strategy to diversify the funding base. We do actively manage the funding composition between profit- and non-profit-bearing deposits, and our demand account represents 81% of total deposits. So, therefore, we do have a competitive edge versus our peers, and we have further room to increase our profit-bearing deposits.

Now, from an asset liability mismatch perspective, and to address that, we do have available options that are ready. We could look into raising long-term liability. We can do some securitization on our mortgage portfolio, and last but not least, if needed, we can tap into the capital market to raise long-term funding.

So, all options are on the table, and if needed, we are ready to tap any of these options, in the most efficient way to manage our cost of funding and maximize our shareholders' value. Thank you.

**Naresh Bilandani:**

Thank you. I just have one follow-up question, please. And Mr Abdulrahman, what I was actually checking on, not the minimum capital ratios for the system, but what would be the minimum capital ratio or the minimum that the franchise would like to maintain all through the medium term?

**Abdulrahman Al-Fadda:**

I think that, Naresh, that depends, definitely, on the growth forecasts, as and when we further grow, and I think that capital position is further reviewed on a regular basis through our discussion in our ALCO, Risk Management Committee with the Board. So, I think that is something that we monitored very closely, but what I can assure you, for the time being, that we do have all the tools to further support the revised financing portfolio guidance that we have mentioned earlier.

**Naresh Bilandani:**

Okay, thank you very much.

**Operator:**

Our next question comes from Waleed Mohsin from Goldman Sachs. Waleed, please go ahead.

**Waleed Mohsin:**

Yes, thank you very much for the presentation. Congrats on a very strong set of results. Three questions from my side.

Firstly, on mortgages, we've seen a slowdown in the mortgage market, and you've been able to offset this to increasing your new origination market share, we calculate this to be around 60%. Now, I want to understand, how should we think about your new origination market share mortgages? And, number two, if you think that the slowdown that we've seen in mortgages, some of this could be seasonal, but how much of this is permanent, in your view, and you're outlook on the mortgage market growth going forward?

So, that's the first question. Secondly, on your focus on corporate. So, if I look at your historical data, the return on risk-weighted assets on the corporate book is almost half of what it was on your retail book, so I think, roughly 2.5% versus 5%. And it's more capital-consumptive, RWA assets higher, and obviously, margins are lower. So, as you increase

your focus and we see that your new origination market share in corporate was around 20% versus a historical market share of less than 10%, how shall we expect the profitability mix to change as you grow corporate?
And, third and final question, how do you see the impact from competition, especially telcos on the payment side or on the fee income side where fee growth has been very strong, driven by core business? So, just want to get your thoughts on how evolving competition, especially with telecom providers entering the market, changes your view or impacts the business going forward. Thank you.

**Abdulrahman Al-Fadda:**
Thank you, Waleed. Let me address the first question, related to the mortgage growth. Definitely, and I think, and if you recall our Q1 Earnings Call, we have mentioned that we are expecting, in Q2, the growth to be slowed down, and I think the total cumulative mortgage origination for Q2 is close to around 30.3 billion, and an average per month is around 10.1. And I think the impact was due to the seasonality. That's number one. Nevertheless, and I think, if you recall, much earlier, we have mentioned that our mortgage forecast for the entire market is around 30% on a CAGR basis for the next three years, frontloaded in 2021.
From our perspective, some of the customers came in, in the first half, or specifically in the first quarter where we have seen a record mortgage origination, but until now, and I think, yes, it has slowed down, July is expected to be slow, and also August, given that it's summer vacation. So, probably, Q3 is not a right benchmark to be able to judge what's going to be the overall growth forecast. But nevertheless, we still maintain the outlook of 30% for the entire market growth on a CAGR basis, frontloaded in 2021.
Now, the second question is related to the RORWA for corporate versus retail, and I think, from our perspective, we believe, and I think, if you look overall, on a RORWA perspective, as of the first half, we stand at around 4%, and compared to the same period last year, is around 3.43%, so close to 57-basis point improvement.
The improvement were around 84% growth in the mortgage YoY where it has lower RWA. Now, overall, and I think, from our perspective, we are monitoring both the RORWA as, for each segment line weather the retail or corporate. Unfortunately, we don't provide that guidance in the RORWA, but nevertheless, from our perspective, the financing portfolio growth, as well as the ROE, as well as the other, I would say, matrices, will be able to help you to guide, in terms of what will be the RORWA from the overall perspective.

Nevertheless, if you recall the part of what Waleed mentioned at the beginning, and much earlier in the year, to position ourselves to be the key player to support the 2030 vision, we need to tab in and to be able to grow selectively in the corporate side, and I think we have seen around 21% to 22% growth year to date. The third part of the question?

**Waleed Al-Mogbel:**

Yes, Waleed, if you allow me to answer your question regarding that fintech and the digital. As we all know, last quarter, our Central Bank also gave a license to two digital banks. We, in Al Rajhi, already, if you remember, in 2019, built our strategy to be the digital bank for the customers, and we have invested a lot in this initiative. If we look at our digital application right now, we are number one, in terms of the rating on Apple Store and Google, 4.7, has been rated by more than 2 million customers.

Also, as I mentioned, more than 30% of our personal finance last quarter has been conducted through our digital application. More than 88% of current accounts opening is through the application. We are executing our strategy, in terms of digital for all product and service to be ready for this competition.

Also, we are not far from other advanced markets, for example, in UK, and we see what's happened with the digital bank and with the other banks when they launched a fully digital bank license. In terms of the fintech, which most of their focus is on the payment side, one of our pillars in our strategy is to maintain our leadership in the payment, and we have several initiatives. It is now in the execution phase, and we will see, inshallah, the result of it by the end of this year.

**Abdulrahman Al-Fadda:**

Sorry, as well, Waleed, as a follow-up to question number two, related to the RORWA, as and when SAIBOR is moved higher, your average RORWA for corporate will be moved higher accordingly, giving that most of our corporate are floating rate. Thank you.

**Waleed Mohsin:**

Thank you very much. Thank you for that. Just one follow-up. Completely agree that as rates move up, it will go up on that side, but again, on your retail book as well, it will go up because a lot of the costs are sitting in the retail business. So, what I wanted to ask is, going forward, would it be fair to say that the RWA consumption will go up because, obviously, mortgages were 50% risk weight? And for the first time, if you look at this

quarter, you added loans in places other than mortgages, which were higher than mortgages.
So, 33 billion growth. 15 billion was mortgages. 18 billion came elsewhere, and it would be fair to say that it could be a trend, going forward, that corporate plus other retail starts going faster.
So, that would mean that your capital consumption, going forward, would increase, and that takes me to the last follow-up question, which is, isn't this a good time to think about hybrid capital, etc., given where market rates are? And you did mention that you're looking at all options, including securitization of the portfolio or raising capital, but is there anything, which you're looking at in this environment because the outlook seems to be pretty good, in terms of where rates are for a perpetual instrument issuance?

**Abdulrahman Al-Fadda:**
I think my colleague, Abdulrahman, our treasurer, has answered that. And I think, to retreat his final comment, all options are available and are on the table. We will do whatever the most efficient way to improve further the shareholder value. Now, in terms of, again, your follow-up question related to the RORWA, historically, if you recall, our RWA density used to be around 75%, so the RWA densities came down to almost 68%. So, I think there has been a lot of internal capital generation that has been done over the last few years.
Now, and I think, which we have mentioned also earlier, the current mix, 80 retail, 20 non-retail, I think when we had done our projection on a fast-forward going forward, we don't expect ratio to be materially different than the current ratio. I would like, also to remind you, Q2 last year, retail lending used to be 76% of our total financing book. Thank you.

**Waleed Mohsin:**
Thank you very much. Thank you.

**Operator:**
Our next question comes from Rahul Bajaj from Citi. Rahul, please go ahead.

**Rahul Bajaj:**

Hi, thank you, Gentlemen, for the call. This is Rahul Bajaj from Citi. I have a couple of quick questions actually, both follow-up from earlier questions. So, firstly, on the digital bank license, which was issued earlier this year. So, just to understand what your thinking is around the competitive landscape developing over the next couple of years, or three to five years, due to these digital banking licenses. Do you think that the new digital banks, which have come in could become a force to reckon with and banks need to really buckle up their seats?

Or you think, maybe from a cultural point of view or some other point of view, customers prefer to bank with traditional banks providing digital offerings rather than individual entities or telcos, which have banking solutions? So, just want to understand, how are you thinking about the competition from these digital banks coming into the fore?

The second question is around CASA deposit growth, and I see 2Q versus end of first Q, CASA has not really grown in the second quarter. It's predominantly driven by time deposits. You mentioned earlier that it's maybe a strategy, deliberately, to diversify this funding source, but just so we can understand, is it getting increasingly difficult to grow CASA, or that is not the case? Just want to understand how cost of funding could behave, going forward, if we think about deposit growth going forward.

And my final question is just around the corporate loan pick-up, which we saw, both in the first quarter, but also in the second quarter. So, just wanted to understand, what are the levers that Rajhi has, because of which, the phenomenon growth in the first half so far where some of the major corporate-focused banks are struggling here and maybe registering a low single-digit growth number? So, maybe a branch network or I don't know what, but what is that advantage of the USP that Rajhi has that is helping it grow on the corporate side? Thank you.

**Waleed Al-Mogbel:**

Thank you, Rahul, for your questions. I will answer the first one, and I will leave the second and third for our CFO to answer it. Rahul, competition is there already. If you look at the current rate now, for the personal finance, for example, and the competition for that, we haven't seen it before. And as I mentioned, we are ready for the digital bank, and we are ready for any competitions coming either from the digital bank or for the normal banks through our strength and the value proposition that we can add to the customer. Abdulrahman?

**Abdulrahman Al-Fadda:**

Sure. Rahul, yes, you're absolutely right, and I think we've seen, in Q2, in terms of the growth in the CASA, was not as strong as what we have seen in the previous quarter, and I think there are a couple of reasons. One is the seasonality. That's number one, and also, you need to take into consideration that in Q2, you've seen, Saudis were allowed to travel from 17th May onwards, so that has also impacted. But nevertheless, and I think you have also to acknowledge that CASA, on a year-to-date basis, we have grown 7.5% versus a total market growth of around 4.5%, so we pick up market share.

Now, also raising CASA, I think it is difficult for everyone, but then I think Al Rajhi Bank, historically, has been very successful to grow the CASA through our focus, network franchise, and over the last few years, also leveraging from the digital infrastructure. So, I think, yes, it is difficult for everyone, but then I think, through our focus for network basis, as well as digital, and I think we will be able to further grow.

The last question related to the corporate, and I think you've seen our commitment, and when we said, last year, we've revamped our strategy related to the corporate, and it's paying off this year. And I think there is a lot of improvement that has been done. Turnaround time, approving the application from also having a 360 degree CRM to look at the customer from a 360 perspective, leveraging also from that experience that we have in the retail mobile app.

We've launched, in Q4, our Rajhi Business mobile app where we have seen a good track record from our non-retail customer where they can transact. And also, the relationship with the client and being close to the client. So, all that has been paid off in the first half, and we are quite optimistic that the growth in the corporate, it is in line with our strategical focus to still grow further on the short-, as well as the medium-term.

**Rahul Bajaj:**

Got it, thank you.

**Operator:**

Our next question comes from Shabbir Malik from EFG Hermes. Shabbir, your line is now open.

**Shabbir Malik:**

Thank you. In terms of payout, I think, in the first half, your payout was about 50% dividend payout. Should we see this as a sustainable level for the bank? My other question is on deposit, and we look at your time deposit ratio, or it's your cash ratio that's come down to 80%, which is low, compared to Al Rajhi's historical levels. Is there a target that you're aiming to, or range, which you want to maintain, in terms of your NIB to total deposit ratio?

And if you can, maybe, give us some color on what kind of rates are you paying on the time deposits? Are these deposits sourced locally or from other markets in the region? And maybe one final question on loan growth. If you look at your loan growth, year to date, almost two times the sector level. Anything to highlight, like what has been the recipe of success in retail? Obviously, it's a very strong franchise, but more on the corporate side, what has been the key drivers?

Is it just new-to-bank customers? Some color on how you've achieved solid growth in corporate, and maybe also some color on the retail side. That would be very useful, thank you.

**Abdulrahman Al-Fadda:**

Shabbir, there are four questions, not two questions. That's number one. On the payout ratio, yes, for the first half, our payout ratio was 50%, and I think, you've seen from last year, we've reduced the payout ratio last year to be almost 24%.

And I think, going forward, we will try to balance between dividend distribution and preserving capital to have the capital to support the growth. This is more of, I would say, an ongoing exercise that we conduct. From our perspective, still, the year has further, I would say, five months until we end the year. From a management perspective, we will recommend to our Board, and based on the Board direction, we will advise accordingly. So, I think it's too early to say at the time being, but then I think the bottom line, if you recall, last year, we reduced our payout ratio to preserve capital to support us in growth, which we have delivered so far this year. And also, we have seen, we had an improvement in ROE compared to last year.

The second and third question related into CASA. We don't have a specific target on the minimum, although that it historically came down from the high level to almost 81% in Q2, so we don't have a specific target. But then I think what we need to watch is, what is our cost of fund? Our cost of fund is still maintained at around 16 to 17 basis points, so we

haven't compromised on that. In terms of a sourcing those time deposit, Abdulrahman, local or international?

**Abdulrahman Alajajji:**
So, the source of the time deposits will be from local markets, and apparently, if you look at the liquidity in the system, there hasn't been that much of a change, and I benchmark against the three-month SAIBOR where we haven't seen any changes in the first half. Three-month SAIBOR have been maintained at around 79 basis points, and I think that's basically it.

**Waleed Al-Mogbel:**
Yes. For your questions regarding the outperforming market, if you remember, one of our pillars in our strategy Bank of the future is to outperform the competition. What we have done, actually, is, we are executing our strategy with the focus that we have from the strong team that we have. In terms of retail, we look at our process, and we fix it, our turnaround time. We focus on our customer experience. We invest a lot in our customer experience. As you can see, our NPS is 71, compared to 66 last year.
And also, which is very important, the investment that has been done in digital it paid off, I just mentioned that more than 30% of our personal finance is coming from our application. Also for retail, Al Rajhi is the retail bank in the local market, so it's basically, we are back to our core business, and we are getting market share in all retail products. For corporate, if you go back to 2020, we have hired a new management, a new leadership in the corporate in order to focus more on the corporate and position ourselves for the corporate. Plus, we have focused on the infrastructure for the corporate. We have implemented CRM that helps us to look at a 360 degree for our corporate customers, and we improve our product offering, including treasury products, trade finance and cash management.

**Shabbir Malik:**
If I may, on the retail side, historically, you've targeted Al Rajhi's own customers or salary assigned customers. Have you looked beyond those salary assigned customers in some of the recent growth that we've seen on the retail side?

**Waleed Al-Mogbel:**
Yes, if you look at one of our items in our strategy pillar, we have our finance company, which is looking at the segment that is not covered by the bank for microfinancing and other products for the retail.

**Shabbir Malik:**
All right, thank you very much.

**Operator:**
Our next question comes from Edmond Christou from Bloomberg. Please go ahead.

**Edmond Christou:**
Hello. Hi, good afternoon. Thanks for the call. Most of my questions have been answered. Just to get some more clarity on the back book on the mortgage portfolio, is there a way to measure what is a percentage of that, is from the subsidized program? Let's say, 50/60% of that is related to the subsidized program, and the other related one is… It's very exciting, you talk about the retail penetration into the private sectors. How to measure this? Probably, this is good for me to measure this, but is there growth in the personal loan?
Is there sign of business coming from the cross-selling into the private sector or the corporate? This is the first question, and the second one is, I missed the pricing on mortgages, if you are able to highlight what was the pricing reduction in June, and if this is the reason why your guidance on margin has been downgraded, or this is a factor of gradual increase in the cost of something? Thank you.

**Abdulrahman Al-Fadda:**
Multiple questions, Edmond, not two. But nevertheless, I will try to address them one by one. The current mortgage pricing is 3.90% to 4.9%.
We have seen 10 basis point reduction from SRC in the month of June. In terms of the first question, unfortunately, that is undisclosed information. In terms of the private sector, I think, from our perspective, we still have not compromised on our credit quality. Although we penetrated some of the private sector customers, some of them, or majority of them, are salary assigned.
And also, I would like to highlight, in terms of the personal finance as a percentage of GDP, as of end of last year, was close to around 15%. It's low, compared to some of the

regional, or a developed market. I hope I didn't miss any of your questions. Thanks, Edmond.

**Edmond Christou:**
That's great, thank you.

**Operator:**
Our next question comes from Hootan Yazhari from Bank of America. Hootan, your line is now open.

**Hootan Yazhari:**
Thank you, Gentlemen. I wanted to just get your thoughts around the future of the Emkan business. What are your aspirations for this business? Where can we see it go? And ultimately, what percentage of the asset, or the loan book, can you see consumer financing, or microfinancing, as you call it, represent in the future? And my second question is really regarding, again... It's more of a conceptual question, and you highlighted at the beginning that you are going to see very high rates of growth in mortgages front-end loaded in 2021 over the next three years.
But there are signs of everything slowing down. If we start to look at Rajhi, post the mortgage boom, what steps are you taking now to address the growth beyond mortgages? And on top of that, is this going to lead to a significant change in your cost structure? Are you going to need new loan officers? Are you going to need to start to employ new marketing campaigns to get your name out in those sectors, or do you feel that you can compete using your existing cost base? Thank you.

**Abdulrahman Al-Fadda:**
Thank you, Hootan. The first question related to Emkan, which is our finance company, and I think, I would assume that you will appreciate that it is still a new business. It's a new company that we have launched, and I think it's very difficult for us, at the time being, to judge what is the total opportunity for Emkan, but nevertheless, I think the portfolios as Waleed mentioned earlier is around 5.2 billion out of the total retail book. So, I think it will still have a small component of the overall retail financing.
And I think it's more of a learning exercise for us. As we go, I think we will see what are the opportunities. We'll position ourselves accordingly. And I think we will assess the opportunity, going forward, but we are quite happy about the result that has been

delivered so far. In terms of what are we doing in total growth on the mortgage slowdown, if you recall, Hootan, we presented our revised strategy back in, I would say, Q1. One of the items, and I think Waleed has mentioned, is, while we have continued to protect our core, we will be fixing the pipes into the other areas of business.
And I think the track record of the management delivery for the first half speaks about themselves. 21% growth in the corporate, 22% growth in the SME. And we will continue to focus wherever there is an opportunity for us to further improve the shareholder value and increase the ROE accordingly. We will be focusing on it accordingly. Thank you.

**Operator:**
Our next question comes from Aybek Islamov from HSBC. Aybek, your line is now open.

**Aybek Islamov:**
Yes, thank you for the conference call. Very useful, as always. I wanted to raise three questions. The first one is, when you think about your mortgage originations, this year in particular, to what extent are they driven by the existing customer base, or is it new customer editions within retail bank, which are taking these mortgages? So, that's my first question, and, secondly, one of your slides mentions the liquidity coverage ratio and a stable funding ratio.
Both are steadily coming down. Where do you think will be the level of LCR and NSFR? When are you going to consider raising hybrid funding instruments or securitizing some of your mortgage books? And I think, thirdly, speaking of the cost of risks, given what you described earlier on the call, if you were to think about your cost of risk, let's say, two/three years out, keeping in mind that the mix is shifting towards SMEs and other corporates, where would you see cost of risk two/three years from now? Thank you.

**Abdulrahman Al-Fadda:**
Hi, Aybek. If my memory helps me, you asked me the first question during our Q1 call, and the answer is the same.
It's a mix between both, an existing customer as well as a new customer. On the second question, Abdulrahman, LCR and NSFR?

**Abdulrahman Alajajji:**
With the regard to the NSFR and LCR, the decrease is mainly driven by our growth in our financing book. However, these ratios are still well maintained within regulatory

requirements. I've mentioned earlier that there are a couple of options on the table to increase or enhance these liquidity ratios, and we're ready for any of these options. Just one point to highlight here is that we do have internal committees, multiple of them, to monitor these internal threshold limits, which are well defined above the regulatory limits. Thank you.

**Abdulrahman Al-Fadda:**

So, Aybek, before I address the third question, also, maybe as a follow-up comment related to the first question, if you recall, Waleed has mentioned earlier, and I think the bank has been growing our customer base. A large portion of the new current account has been done digitally, so we're making it much easier for the customer to open an account through us. So, I think that is contributing as well to the mix between existing versus a new customer.

So, I think we'll make it much easier for acquiring a new customer, and I think, which we have delivered a part of the strategy, a slide that, Waleed talked about it in slide number 4, if I recall, I think you can see that we've been acquiring a new customer.

The third question related to the cost of risk. And I think, despite that we still have, I would say, a growth in the SME portfolio around low 20%, but still, and I think, we maintain the cost of risk guidance to be around 60 to 70 basis points for this year.

Nevertheless, I think you've seen our improvement in managing the cost of risk last year, as well as this year. One of the initiatives that we have taken, or the Management have taken, is to further improve our collection and recovery activities, which, I think that has been paid up to manage or bring the cost if risk from the gross of around 99 basis points last year to almost 64 basis points.

So, I think, while we still continue to grow, we're improving a lot of activities across the organization. Thank you.

**Aybek Islamov:**

Thank you.

**Operator:**

Our next question come from Shouq Alshahrani from Alpha Capital. Shouq, please proceed.

**Shouq Alshahrani:**

Hi, this is Shouq. Thank you for the call, and congrats for the amazing result. I just have one question. So, I noticed that Rajhi closed around 16 branches year to date, and I believe this is supporting the cost/income ratio, and also as a result of focusing more on the digital. My question now, what is the target, or the minimum number of branches that you need to maintain a strong relation with the customer and all of that? Do you plan to close more branches, going forward? Thank you.

**Abdulrahman Al-Fadda:**

Thank you, Shouq. Let me clarify, and I think, yes, as per SAMA data that was published last week, we've optimized our branches distribution by around 16 branches since the beginning of the year.

But this is not the main reason why we have managed or reduced our cost/income ratio accordingly. There are a lot of initiatives that the Management have taken. We have close to 70 initiatives, that we have taken from last year to be able to optimize our cost efficiency.

Now, in terms of if there is any specific target or a target to be able to close, we don't have any, I would say, specific target. And I think there is still our Network team, has been supporting us, and you've seen the growth of the retail financing, around 49% YoY, also our Network team and the Sales team have helped us. Nevertheless, what we are doing is, also, we are optimizing the space of some of them.

So, to make the branches much smarter, without compromising, I would say, the franchise that we do have. Thank you.

**Operator:**

Thank you, everyone, for all of your questions. I would now like to hand the call back to CEO, Waleed, for any closing comments.

**Waleed Al-Mogbel:**

Thank you, everyone dialed in, and thank you again for your trust in us. We are very proud of our result, and we will continue to focus on executing and achieving our strategic goals for this year and beyond. We look forward to meeting you in the third quarter earnings call. Thank you.