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Presentation

Mazen Alsudairy:

Hello and good morning and afternoon to everyone who has joined the call. This is a call with Al Rajhi Bank management to discuss Q1 2021 earnings and outlook for the Bank. I'm Mazen Alsudairy, your host for the call. Without further ado, I will hand over the call to Rayan to start.

Rayan Alshuaibi:

Thank you, Mazen and good day everyone. Thank you for joining the call. With us, our CEO, Waleed Almogbel, our CFO, Abdulrahman Alfadda, and GM Corporate, Hossam Al-basrawi.

Our CEO will start with the performance highlights and updates on the strategy and then our CFO will give us details on the financial performance. Then we'll open the floor for your questions. I would like to remind you that you may ask your questions using the call through the webcast, however, the priority will be given to those who dial in. Thank you again and Waleed, over to you.

Waleed Almogbel:

Thank you, Rayan. Welcome everyone and thank you for attending our earning call for first quarter of 2021. I would like to take this opportunity to thank you for your trust in us and also for voting for our investor relations department as the best IR program for 2020 in the Saudi Capital Market Award.

We will go, as normal, through our first quarter highlights, then I will give you an overview of our strategic performance for the first quarter of our new Bank of the Future strategy, which we presented in the last earning call.

Let's go ahead now and take a closer look on the first slide. Before I start with the number, just to highlight that there is no major changes in the Saudi banking industry for the first quarter, except that REDF lowered the price of their product and they reduced the tenor from 25 years to 20 years maximum. Our CFO will cover it in more detail. However, with all these changes, we still believe their products are still profitable product for us.

If we look at the number in the balance sheet, we have a very strong growth in the balance sheet, a growth of 9% a quarter on a quarter and almost 31% year-on-year. And that growth came from all lines of business, 13% from retail, 13% from corporate, and 13% from investment book.

When we look further to the net financing, we have a growth of almost 13% year-to-date and this gives us a financing portfolio of almost 356 billion, mainly driven by mortgage with a growth of 20%. Now, the mortgage represents almost 34% of our total book and 43% of our retail book.

If we look at the liability, our total liability stands at 453 billion, a good increase of our liability of almost more than 10% year-to-date. A good growth also in the demand deposits of around 8%. That gives us a stable LDR of around 81%, which gives us still room to grow in our financing.

When we look at the net income, we have a solid net income for this first quarter, 40% year-on-year growth to 3.3 billion for the first quarter. And that's driven mainly from both net-yield income with an increase of 16% year-on-year, and non-yield income growth of 37% which is mainly driven from fees coming from brokerage and from our digital payments. Our total operating income has increased of almost 20%, which now represents a total of 5.9 billion.

If we go to the third element, which is the credit quality, we have a good ratio of our asset quality. Our cost of risk is healthy for the first quarter. It is at 67 bps and that is driven mainly by a good recovery happening in the first quarter, compared to 75 bps for the year 2020.

We have, also, a good and low NPL which stands at 70 bps compared to 76 of last year, with a very strong coverage ratio of almost 318% coverage ratio compared to 305% last year.

Some key ratios, it's worth to mention, the management has done a good exercise last year to improve our efficiency, which led to improve our cost-to-income ratio of this quarter to be lower by almost 500 bps and give us a cost-to-income ratio of 27.8%, compared to last year, 32.6%.

If we move to the second slide, if you allow me to give you an update on our execution of our 2023 Bank of the Future strategy, our execution for the strategy is on track. If you remember, we have four pillars.

The number one is building on the core. As you can see, we're focusing our retail as a core banking business, and we have seen a growth of almost 13%. And we expanded also our corporate. If you remember, this is part of our strategy to expand our business in corporate and reposition ourselves. We have seen a good growth year-to-date in corporate by almost 13% compared to full year last year of 7%.

SME is part of our strategy to position ourselves as a bank of choice for the SME. We have seen a good growth in the first quarter at 7.5% year-to-date. Now, the SME represents 9.8% of our corporate book compared to 7.3% first quarter last year.

Demand deposits have also been one of our focus and as per the initial data from central bank, our market share has increased to reach north of 26%. One of the items that we focus on, in build on the core pillar, is our non-yield income as a percentage of our total operating income. It has reached also for the first quarter 19%, compared to the first quarter last year of almost 17%.

Second pillar, which is outperforming our competition. If you look at the customer experience, we have improved our NPS to reach now 69%, compared to 66% last year. Our employees who are our key assets, the engagement index for our employees has reached 70%, compared to 66% for the beginning of last year.

For the banking asset market share, with the growth that's happening with us in the last quarter and the fourth quarter of last year, we have the initial data of our central bank that we reached a market share, almost 19%, compared to last year, 17%.

One of the items in the second pillar is the loyalty programme for our customer. We have launched our loyalty programme for our customer and we have seen a growth of almost 15% increase of customer registered in our loyalty programme, they have reached now 3 million customers.

For the ESG policy, it is of great importance to us. We have started with a B rating and now has been improved to a BB by MSCI rating. Our next round will be higher, inshallah, as well.

If you go to the third pillar which is transform our technology. Our strength in Al Rajhi Bank is that technology and we are continuously improving our digital channels. Digital to manual ratio currently stands at 85:15, compared to last year, 83:17. Online account opening reached 83% of the total account opening. Penetration ratio of the digital customer, it reached 87%. If you look at, for just last quarter, 28% of our personal finance has been conducted digitally end-to-end through our application.

For the operation excellence, we have currently more than 320 bots. They are doing almost 34,000 average daily transactions in our back office operation. Our average transaction per month has increased to reach now almost 400 million transactions, conducted in our IT infrastructure. This is an increase of almost 8% year-to-date. Worth mentioning, last year first quarter, it was 250 million transactions.

Last pillar of our new strategy is to focus on client needs and requirements. If you remember, we announced last earning call that we have officially launched our finance company, to focus on the segment that is not covered by the bank and the micro-financing. Today, we are number one in terms of personal finance through finance company with a portfolio of 3.4 billion.

We continue also to improve our payments solution. Our points-of-sale terminal market share is almost 30%. We continue, also, focussing on the need of our private banking as one of the business segments that we put it in our radar for our new strategy and we launched 11 products designed for our private customer only.

Now, our client reach with this increase in our portfolio and assets, now we have almost 10 million active customers. We provide our salespeople with a 360-degree system to ensure we have a proper cross-selling assisting them in all products and services we have.

For this, I would ask you to allow me to invite Abdulrahman, our CFO, to give an update and more details of our financial performance. Thank you so much.

Abdulrahman Alfadda:

Thank you, Waleed. Ramadan Kareem to everybody and wish you all the best. Many thanks for joining our Q1 earning call. I would like to start with appreciating all the feedback, the comments, the suggestions that all of you have given to ourselves last year, where we have improved our communication and disclosure accordingly. I am also proud that we have uploaded our 2020 annual report, where you can see further details on 2020 performance, the strategy, and ESG highlights. Having said that, I'll go over very quickly into the financial slides, so we'll have further time on the Q&A.

At the macro level, I think you've seen probably the 2020 GDP have contracted by 4.1%, mainly driven by the oil GDP which has contracted by 6.7%, non-oil by 2.3%. For 2021, IMF has revised their forecast higher from 2.6% to 2.9% growth in 2021. Nevertheless, our internal forecast factor in around 3.1% growth in 2021. We believe that the IMF forecast was done based on the EIA average forecast of $62 per barrel, compared to current price, as we speak, at around 65.

In terms of the budget, no material announcement has come out from the Ministry of Finance budget forecast for 2021 and 2022 are still intact. The Foreign Reserve are showing a slight contraction to almost 1.655 trillion SAR. Again, this is without the PIF assets. And also the government expenses budgeted for 2021 are, again without the PIF, capital investment and the National Development Fund, and other the government entities.

No material changes in the SAIBOR forecast and, also, we believe that inflation will moderate, given the one-time adjustment that happened after the VAT increase in 2020.

Moving on, at the banking sector, we've seen the loans have increased by 54 billion in the first two months of 2021, 3% growth year-to-date. The total deposits have grown by close to 14 billion Riyal, around 1% growth year-to-date. The actual LDR came at around 76%.

Mortgage origination for the banking system has shown a 47% increase compared to the same period last year. Also, we'd like to highlight there have been a couple of regulatory changes relative to the mortgage that happened in the second quarter. A) SRC has reduced further the mortgage reference rate effective 1st of April. That's number one.

B) and I think some, if not all of you know that REDF have reduced the maximum tenor. It used to be 25 years, now it has been changed to 20 years.

The third item that I think I'm sure that you guys are aware of it, is that there has been a payment deferral for three months for the SME sector. And nevertheless, in coordination with the central bank, we also have extended the payment deferral for the MSME clients for an average of around 15 months for the customer.

On the consumer spending, we've seen the total consumer spending has contracted by 2% compared to the same period last year. However, the positive migration into more of a cashless payment method has accelerated further in 2021, whereby ATM transactions have gone down by 19%, point of sale transactions went up by 26%, and finally, the e-commerce by almost 156%.

Moving on into the highlights of our financial performance for Q1, I will start with the balance sheet. Our total assets have shown close to a 31% increase year-on-year. In terms of growth year-to-date, we have almost 9% growth in year-to-date. And if you can see the bottom left-hand side of the chart, we can give you the waterfall of the movement in the assets, where we have seen a 13% increase on the investment book, around 7.7 billion Riyal. 13%, as well, in our financing portfolio, 40.4 billion Riyal.

In terms of the overall funding, the movement in funding, we still continue to fund our asset growth, mainly on the customer deposits, where our customer deposits have grown, close to 39 billion SAR year-to-date, around 10%.

Zooming in further into the drivers of the financing portfolio, you can see that the total growth in the portfolio is around 40.4 billion, 13% on the financing portfolio. Retail stands at 283 billion, which is close to around 80% of the financing book. The driver of the growth in the financing book are coming from the following factors.

We have a 21 billion growth in the mortgage, around 11.5 billion on the other retail products. 7.5 billion, which is probably one of the record quarters for corporate book which has reached an all-time high in terms of the outstanding volume for Al Rajhi Bank. We have almost an 8% growth in the SME portfolio year-to-date.

Mortgage book stands at 125.5 billion SAR. 20% year-to-date growth, 93% year-on-year growth. Mortgage book represented 34% of the total, around 43% of the retail financing.

On the customer deposits, we've seen a good growth in the demand deposit, where it has shown close to 26 billion Riyal year-to-date growth, around 8% year-to-date. And the majority of the customers deposits are coming from demand deposits.

So, they key highlights on those two slides is in line with the key pillars of our Bank of the Future strategy, we continue to leverage from our franchise and our digital channels, to be able to further grow and capture further market share.

On the profitability side, our net income has shown a 40% increase year-on-year, mainly driven by, as you can see the details on the bottom left-hand side chart. Yield income has shown around 660 million SAR, 16% year-on-year growth. The non-yield income is around 320 million Riyal, 37% increase year-on-year. On the operating expense, almost 2% increase compared to the same period last year. And the impairments were almost 17% compared to the same period last year. On a sequential basis, our net income has shown an increase of close to 7%.

The key message that we'd like to reiterate over here, focusing on the key pillars of the strategy that Waleed has mentioned, on the Bank of the Future, has positioned us very well to be able to deliver such a strong result. And we'll continue to focus further in improving our customer experience, maintain payment and digital leadership, and building up an ecosystem to fulfil further customer requirement.

If you move onto the operating income, 20% growth year-on-year on the operating income, close to 3% growth on the operating income on a sequential basis. If you can see the driver of the year-on-year growth on operating income and I think yield income we've talked about it given the growth in the financing portfolio. The fees from banking service has shown around 290 million SAR, which is almost 47% increase year-on-year, mainly driven by two factors. A, our host of this call, Al Rajhi Capital have done an excellent job taking an opportunity to capture further market share. The volume for the Q1 in this year versus Q1 last year have grown up by 82% for the overall market.

The second stream of the revenue is, as Waleed mentioned earlier, the positive migration of the customer behaviour into cashless payment, which we have seen is generating a very positive income for us.

Our NIM have contracted 44 basis points compared to the same period last year. The driver of the NIM drop 4 basis points due to the modification loss that we have taken in Q1. Around 13 basis points, or the fee waiver from March last year until March this year. Around 19 basis points is the impact of the drop in the SAIBOR, where average SAIBOR has dropped by 106 basis points compared to the same period last year. 12 basis points is due to the lower spread and 4 basis points mainly on the management action.

Moving on into the operating expense. We managed to deliver on the terms of the cost-to-income ratio, around 480 basis points improvement. And mainly we can see the driver into the cost-to-income ratio improvement, you can see it on the top right-hand side chart. Mainly it's coming from the positive jaws of the operating income growth of 20%, versus an operating expense growth of 2%.

Operating expense on a year-on-year basis have increased by 2%. However, on a sequential basis, we managed to reduce it by 6%. This is in line with, if you recall on the discussion that we had on a couple of earning calls in last year, we have put a lot of initiatives in the organisation to be able to manage our operating expense efficiently.

So, the key message we'd like to recap over here, while we continue to grow the bank and transfer our technology, we are focusing on optimising our cost base and further improve the efficiency going forward.

On the asset quality, our cost of risk stands at 67 basis points, versus 105 basis points last year. Net charge went lower by 16.7%, although we'd like to highlight that if you compare it on a year-on-year, the net charge, as I mentioned, went down by 16.7%, but we increased the gross charge by 140 million, which is around 16%, but we managed also to improve our recovery by almost double, where you have a better improvement in our recovery by 255 million. That's why it will bring the net impairment charge to be around 17% compared to the same period last year.

NPL healthy at 70 bps. Much better compared to the same period where we had 107 bps. NPL coverage 318%, best-in-class in the banking sector here in Saudi.

In terms of the stage exposure, stage one exposure represents almost 97% of our gross exposure and we maintain a very healthy stage coverage. Stage 1 coverage at 91bps, stage 2 is 29% and stage 3 at around 84%.

In addition, we've maintained also around 631 million SAR for COVID overlay. If any one of our customer impacted, those overlays will be moved from general to a more specific, if required.

So, the key highlights over here, that we keep growing our financing book. However, we're not compromising on the credit quality of the financing book and we maintain an adequate provision and a coverage ratio.

On the liquidity side, LCR is very health, 142%. HQLA we managed to improve further to around 18% year-on-year. Loan to deposit ratio around 81% and NSFR 116%. The key highlight is that we are well positioned within our regulatory requirements on the liquidity side.

On the capital side. Total RWA has increased by 25%, mainly driven by the increase on the credit RWA increase, which is basically in line with the investment and the financing book growth year-on-year.

Total capital has increased by close to 20%. Tier 1 capital stands at around 16.8%. And you can see on the bottom right-hand side, a breakdown of the waterfall of the movement on our capital adequacy from the year-end till 1Q2021.

On the return side, you can see that the return on RWA keep improving, giving that mortgage is representing a good portion of the overall financing book. The return on RWA stands at a healthy at 3.94%. Earnings per share at 1.33 Riyal, 40% increase compared to last year. ROE and ROA keeps improving on a sequential basis. ROE stands at around 22.4% and finally, ROA at 2.75%.

Finally, the slide that everybody is waiting for, in terms of the guidance. Giving the strong result that we have delivered in Q1, we are upgrading the guidance for the financing portfolio to be high-teens growth, versus 13% delivery on the first quarter.

On the NIM, we're downgrading the guidance by a further 10 bps to be within a 40 to 30 basis point contraction. The cost-to-income ratio, we revise the guidance to be below 30% and then ROE we are upgrading the guidance to be between 21 to 22%. Asset quality we're maintaining the cost of risk unchanged to be 60 to 70 basis points. And finally, the capital adequacy between 16 to 17%. Thank you again and operator, back to you.

Operator

Ladies and gentlemen, if you would like to ask a question, please press star followed by one on your telephone keypad now. If you do change your mind, please press star followed by two. When preparing to ask your question, please ensure your line is unmuted. Our first question comes from Waleed Mohsin from GS. Your line is now open.

Waleed Mohsin:

Thank you for the presentation and Ramadan Kareem. I have four questions. The first question, if I look at your new loan origination, for the last two quarters, it's been above

40% which is very, very strong. You always had a very strong market share, but in the two last quarters, this is substantially the normalised above market share. So, I just want to get a sense of what's changed in the last two quarters which is driving it. Is it more of the new initiatives that you've taken which is driving this? Or are you seeing any lapses on competition? That's the first question.

The second question, on your comments on the changes in the mortgage programme with the reduction in tenor and pricing. I just wanted to get your thoughts on why you think this has been put forward. Is there a feeling that a lot of the growth in the mortgage side has been put forward and the country has reached the home ownership which was desired and there is this move to slow down from the lending growth on the mortgage side.

Then number three, some of the new initiatives that you've announced, such as faster growth in corporate, SME, and to the financing company, how would this impact your net interest margin and RWA allocation, given that you revised down your capital ratio for this year-end and you've also lowered your NIM guidance? Is this behind the reduction in those elements?

And my fourth and final question, taking advantage of Mr Hossam Al-basrawi being on the call, is it possible to quantify the corporate growth opportunity in Saudi Arabia and the market share that Al Rajhi targets? Thank you.

Waleed Almogbel:

Thank you, Waleed, for your four questions. I would like to answer the first one and then the second one, third one I will ask Abdulrahman to respond. Fourth one regarding the corporate, also I will give the opportunity to Hossam to respond to your question.

Actually, Waleed, nothing to do with the competition. The competition is really, very strong and if you look at the prices now for personal finance, it's very low because of the competition. REDF prices, some banks went below the REDF prices for the sake of getting business and compete with the banks.

And I would refer if you allow me to, two things. If you remember, in our strategy, when we approve it from the board, actually we started implementing the strategy immediately after the board approval and we launch it in the fourth quarter last year and we took off fully first quarter this year.

If you remember in the strategy we mentioned that there are certain segments that Al Rajhi is not really targeting and is not really covering, in all lines of business. We mentioned certain segments of retail, we want to focused on it. We mentioned certain segments in the micro-business and small and medium business, we will focus on it. And also, for the digital payment and what's happening in the market for the fintech.

Our digital infrastructure, digital application, helped us also growing fee income. Plus the targeted market that we mentioned in our strategy helped us also for the assets. We believe Al Rajhi has a very strong customer base, a very big footprint, a very respectful brand name, so we just need focus on the segment.

And again, if you remember, I repeat again, the right segment, we are not going for any names in corporate or SME or segmented retail. We go to the right segment that keep us good return with good quality of assets. Abdulrahman?

Abdulrahman Alfadda:

Thank you, Waleed. Now Waleed, regarding your second question related to what drives the recent regulatory changes into the mortgage, whether that be the rate drop or capping the tenor. Unfortunately, I'm not in a position to answer your question, but if you ask my humble opinion, and I think probably given that the home ownership, if you see the latest figures, in 2019, the latest home ownership was close to 62%. And given that tremendous growth in the overall market in 2020, we believe that the mortgage or the home ownership have increased even further in 2020.

2021 had a good start so, and I think this is probably the discussion that we have several times in our earning call, we believe that probably the 70% home ownership will be reached much earlier than 2030. I think more of the growth that is being frontloaded is coming into the next year. So, from our perspective, we still haven't changed our internal forecast whereby we believe that the entire mortgage growth for the market is 30% till 2024 on a CAGR basis, frontloaded in 2021, versus the next couple of years.

The third question is what's driving probably the NIM or the revised guidance on the capital adequacy. First of all, and I think the NIM guidance that we have showed, maybe another 10 bps, is mainly taking into consideration the further mortgage pricing that has been announced by SRC beginning, 1st April. Currently, the mortgage rates are anywhere in the range between 4% to 5%, so we have almost an 80 to 90 bps contraction into the mortgage rates from 1st April going forward. So, it's mainly on the mortgage, Waleed. 95% is due to the mortgage.

As for the corporate outlook, Hossam?

Hossam Al-basrawi:

Hello, Waleed. For the corporate outlook, I think the main drivers for the corporate growth going forward is the vision 2030 and everything that goes around it, from the privatisation and the push for the SME support that's coming from the government. I think there are many areas that we can look at, especially on the utility and project financing that are coming up will drive a lot of corporate growth.

Another point that is worth highlighting, is many of the giga projects as well will require a lot of supply and a lot of contract and a lot of work for a lot of the private sector companies. And that will also demonstrate a good opportunity for growth going forward. That also goes with the housing activity. I think also the housing activity is going to drive a lot of industries to have a lot work and this is an area we can really play in.

And the SME drive that's happening with the government, I think that's giving us a very good momentum as we see going forward and is giving a very good drive for the growth of our corporate book. So, going forward, I think the economy is going to create opportunities for banks to open the corporate side, and I think we are one of the most well-positioned banks to take advantage of that, for many aspects.

Waleed Mohsin:

Thank you very much, that's very helpful. Thank you, all my questions have been answered, thank you.

Operator:

Our next question comes from Rahul Bajaj from Citi. Your line is now open.

Rahul Bajaj:

Thank you for the call and very good set of results, congratulations. This is Rahul Bajaj from Citi. I have two quick ones remaining, actually. First one is on is on cost-to-income ratio. You've seen an excellent quarter from cost-to-income ratio perspective, as you highlighted on that slide, mainly driven by revenue recovery.

I just wanted to understand, you did 28% in first quarter, what should be the medium term run rate for CIR which you think Al Rajhi should be targeting over the next two to three years? Is mid-20s something that you think is achievable, because there are banks in the region who get to those kind of ratios, but they're not retail-focused banks. So, I would be interested to know really, what your goalpost is in terms of cost-to-income ratio.

And second one, quickly a follow-up on the previous question around the changes in mortgage regulations. I just wanted to understand, do you sense there could be further changes in mortgage regulation as we go ahead? Or you think the REDF has made the changes they want to do for now? Obviously it's difficult to predict, but then just based on your discussions with the regulators, how do you think government is looking at mortgage growth going forward? Thank you.

Abdulrahman Alfadda:

Okay, thank you, Rahul. In terms of the first part of the question related to the cost-to-income ratio, medium-term guidance, definitely if you look at one of our key pillars of the Bank of the Future, the strategy is to outperform the market. One of the many of the initiatives that we are focusing on is to transform our technology and to digitise the customer experience. So, we're expecting that in medium and longer term, there will be a further improvement into the cost, or optimising the cost.

And I think if you ask anybody, what is the reason anybody investing in digital is improving their customer experience, you'll have a better quality of return and also loyalty and cost base. So eventually, all the investment that the bank has been making over the last few years, some have already paid up and we are expecting with everybody's focus on the management team, to be able to improve even further going forward.

Now the second part, do I expect any further mortgage regulation? I think your guess is like my guess. I think it's a tough call. But nevertheless, we are positioned, irrespective if there has been a change or no change, Al Rajhi Bank is positioned very well, given the capital, given the liquidity, given the focus on the strategy. Whenever there is an opportunity, we have always been the early adopter of catching any new opportunities, we'll definitely jump in, and move into the other opportunity.

Rahul Bajaj:

Thank you so much.

Operator:

Our next question comes from Hootan Yazhari from Bank of America. Your line is now open.

Hootan Yazhari:

Thank you, gentlemen. When I look at your strategy going forward, it seems to be that your margins are facing a lot of headwind. You're having to go into the SME sector, just flirting with the corporate sector. You just alluded to the fact that mortgages are now earning 400 to 500 basis points, which is quite a bit below what you've seen in the past. And as we go forward, it just seems that there is an inevitable pull back in your asset yields going forwards from here.

Can you maybe give us some guidance in terms of what your current outlook is for margins beyond 2021? And maybe we could also discuss what strategy you're taking to ensure your cost of funding advantage remains in place. We know that the National Champion has now come into being and there's a lot of lucrative payroll contracts, which I think they would really dearly love to take off your hands.

So, I would love to hear what your strategy is in order to retain that and how you think that you can continue to maintain your cost of funding advantage in the face of asset yield contraction as well. Thank you.

Waleed Almogbel:

Thank you for your question. I will answer part of it and Abdulrahman will add more clarification. For the margin, I think it's very difficult to predict, to be honest, with the current low interest rate and also, the high competition that we are seeing in all the segments, either in retail, different products, personal finance, mortgage as I mentioned, other competitors in retail now is very high. Personal finance we haven't seen this low rate ever. Some banks, for mortgage now they are selling below the REDF price.

And also for corporate, the same thing is happening so it's going to be very difficult to predict. However, as management, CFO with the Treasury and also with the credit committee, they always look at the better yield product for the bank in order to minimise the negative impact of these factors that I mentioned. Abdulrahman, do you want to add something?

Abdulrahman Alfadda:

Sure. Yes, Hootan, in terms of the NIM, yes, although we've taken into consideration the drop this year where we have guided to be between 40 to 30 basis points, but also you need to take into consideration some of the other initiatives that the bank has done to be able to compensate. So, in terms of the management's actions, improving our average earning asset, etc. that I think will help us in the short to medium term.

Now in the medium term, the SAIBOR is expected to be flat. On average, the personal finance is repriced usually every two-and-a-half years, so we're expecting the curve to steepen going forward in the next 12 to 18 months. That will give us a better opportunity to be able to reprice the book higher.

The last question is related to the cost of funds management. Definitely this is one of the things, and probably you can see that our cost of fund is around 14 bps. One of the lowest cost of funds, if not in Saudi, probably globally, we'll continue to focus in growing our current account. We'll continue to focus to be able to optimise our cost of funds structure. And given the relationship that we have built with the strategy, whether in retail or in the corporate, that will also position us to be able to have a better cost of fund management going forward. Thank you.

Hootan Yazhari:

Thank you so much.

Operator:

Our next question comes from Aybek Islamov from HSBC. Your line is now open.

Aybek Islamov:

Yes, thank you for the conference call. Just a couple of questions from me. I wanted to understand your mortgage volumes better, so could you please comment what share of your mortgage volume is driven by customers actually coming to you asking for a mortgage versus you identifying the customers and suggesting them to take a mortgage? If you can provide this comment.

And I think the other useful colour would be what's the share of off-plan mortgages in your current volume? We know that new housing construction is very important on the agenda and there's a whole list of approved developers with the Ministry of Housing. How active are you in the off-plan mortgage financing? That'll be my second question. Thank you.

Abdulrahman Alfadda:

Aybek, I think that's very difficult to answer the first part and I think it's a combination of both. Some of the customers usually, they came to us and asking for our feedback, pricing.

We have a very outstanding and a capable sales team on the retail that would be able to call the customer, follow up and basically that's why we have been able to grow our market share continuously on the mortgage over the last quarter, and many other initiatives. So, it's very difficult, and I say it's a combination between both.

Aybek, would you mind to remind me about the second question? I didn't get that, please.

Aybek Islamov:

Yes, the second question was about off-plan mortgages so the mortgages for the under-construction properties. How big are they in your lending volume?

Abdulrahman Alfadda:

Historically it is very small. It's probably single-digit on the off-plan. Nevertheless, I think we believe and we've taken a few actions from the second half last year, to be able to focus into the off-plan, where we believe that going forward, the future of most of the mortgage origination are coming via the off-plan.

So, I think we have positioned ourselves, replicating what we have done to be able to position into the ready-units, the self-construction, to replicate what we've done into the off-plan. And we were quite optimistic that we'll be able to further position ourselves for grabbing further market share in the mortgage going forward.

Aybek Islamov:

Thank you. And the last follow up question, you mentioned about SME lending. You mentioned that this year the SME loans I think increased to 11% from 7%. Do you have any particular targets in mind for the how much SMEs will contribute to your overall loan book over the next five years?

Hossam Al-bassrawi:

The market today is between 20% to 25% of total corporate book, and we believe we are well-positioned to be aligned with the market as you move forward through different products and programmes.

Aybek Islamov:

Okay, thank you.

Operator:

Our next question comes from Saul Rans from Morgan Stanley. Your line is now open.

Saul Rans:

Yes, good afternoon. Just three short questions if I may. First of all, can I just clarify, I think Abdulrahman, you mentioned during one of your answers earlier that you expect that mortgage pricing across the market will come down by 80 to 90 basis points in a pull with the new pricing. Can I just check if I heard that correctly, please?

And secondly, regarding the limit, regarding the reduction of maximum tenor for subsidised loans coming down to 20 years, are you able to indicate what share of your new loans in 2020 were of more than 20 years? And whether you think that change will have a material impact on affordability for borrowers or not.

And then finally, just regarding your non-interest revenues. Obviously a number of distortions in 2020 with fee waivers and so on, but in the last couple of quarters, your non-interest revenues have been just a little bit under 1.2 billion. So, under current market conditions, which are quite favourable obviously in some areas, like brokerage and so on, but under current conditions do you think that's now a more normal level to your non-interest revenues? Please, thank you.

Abdulrahman Alfadda:

First of all, I didn't say that I expect, it's a fact. Mortgage, from beginning of 1st of April onwards, there have been again two changes. One is reduction form SRC. The last changes were, if you recall, in the month of June, where they had reduced the pricing. And currently we see the mortgage pricing from April onwards is anywhere between 4% to 5%.

Waleed Almogbel:

And for your second question regarding the mortgage tenure, since the new price, we haven't seen that much of a drop, although the tenor has been dropped from 25 to 20. So, I think the customers adjust themselves by either providing more down payment and reducing the tenor or looking for lower-value property.

Abdulrahman Alfadda:

Saul, can you repeat the third part of the question related to the non-yield income?

Saul Rans:

Yes, your non-yield revenue seems to stabilise around 1.1- 1.2 billion per quarter level and I just wondered if that now seems like a reasonable level, now that we're through distortions that we had in 2020. Thanks.

Abdulrahman Alfadda:

There are no one-offs. It's basically business as usual and this is in line of the strategy to be able to improve the revenue mix where, and I think Waleed had mentioned, the fee income as a percentage of the operating income has improved this year. And we continue to focus on that. And on the payment side, on the digital, a lot of initiative has been taken by the bank to be able to improve. Unfortunately, we don't provide that guidance, but nevertheless, and I think from the strategy, we'll keep focusing in improving our market share and improving our profitability in the revenue mix going forward.

Saul Rans:

Thanks very much.

Operator:

Our next question comes from Naresh Bilandani from JP Morgan. Your line is now open.

Naresh Bilandani:

Thank you very much. It's Naresh Bilandani from JP Morgan. Congrats on the results. Two quick questions, please. One is would you please be able to comment on what is the average level of the DBR on which you assess new client currently? I'm just keen to understand with regards to what could be the impact of the recent regulatory changes on the future origination. And so, any guidance that you can provide on the DBR for a new customer, that would be super helpful.

Second, once again on the mortgages, I'm trying to think of how much cross-sell can you do on this portfolio. My understanding is that in a typical mortgage, you would normally have insurance products and credit cards. But in Saudi Arabia, I think insurance normally on the property is borne by the bank, and I don't think the credit card demand at this stage is significantly high. So, if you can please throw some colour on going forward in the future, what could be the cross-sell opportunity in your current mortgage portfolio? That would be super helpful, thank you.

Abdulrahman Alfadda:

Hi, Naresh. Related to the first question, first of all, assuming the 500,000 REDF loan, because that is being subsidised by up to 500,000. For 25 years, the DBR. Your EMI will come to close to 3,000 Riyal per month range.

Now if you adjust it with the revised pricing, as well as the reduction on the tenor, the net impact into the maximum loan amount, it comes to be around only 6% lower. So, that 500,000, it will be in the range between around 460K to 470K. So, the impact is only, in our opinion, 6% to 8%, it's not that material.

From the customer, in terms of the loan, given that most of the average ticket that we have is above 500,000, I think the impact is not going to be that material. The most of the impact is going to happen in the reduction on the rate, which we have provided a guidance into the NIM.

Now on the second part of the question related, what are the opportunities to do the cross-sell, definitely one of the focus area is on the credit card. And you know that from our perspective, given that we have a large customer base, we are serving a large customer base, 10 million plus, we are the largest issuing in terms of both debit and credit card in the Kingdom. The ENR on the credit card also has an attractive rate as well, it will provide also the fees into the exchange.

There is a lot of cross-sell opportunity and also, we could sell some of the insurance products. A customer can buy off the marketplace. A lot of opportunity for us to be able to cross-sell with the customer. And given that you are banking with a customer for 20 years, you have his liability with you, your credit card. And also, we are giving him a better service, he will be able to, the voice of customer, I think that will be also marketing tool for us going forward. Thank you, Naresh.

Naresh Bilandani:

Understood, thank you very much. Just one very quick follow-up. Are you seeing a shift from the debit card culture in Saudi Arabia to a bigger credit card culture? Are you seeing more issuing on the credit card side? Because clearly, I don't think we have seen that growth being reflected in the credit card loan volume at this stage. So, from an issuing side, if you can throw some guidance, that will be super helpful.

Waleed Almogbel:

Yes, I think you're right. There is no big shift yet from debit card to credit card yet. And that's mainly because of the mortgage, it's consumed the whole DBR, which is 65% currently. Maybe for those customers who are not really taking a mortgage, there is opportunity for them to take a credit card.

Naresh Bilandani:

Understood, thank you.

Operator:

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

Shabbir Malik:

All right, thank you very much. Just two quick questions from my side. Can you give us a recap of what kind of rate sensitivity you have on your balance sheet? How long does it take for your balance sheet to reflect higher interest rates?

And second one is more of a macro question. Any sense on when Saudi government is going to ease travel restrictions? Have there been any suggestions as such of easing travel restrictions for Saudis to travel overseas? Thank you.

Abdulrahman Alfadda:

Shabbir, I think we usually don't provide detailed disclosure on a quarterly basis on our interest rate or our profit rate sensitivity. Nevertheless, I would remind you about our year-end disclosure, where in footnote 27 we have highlighted that for every 25 basis points, a movement, impact into the yield income is around 255 million SAR. And I think you can project, given the growth into both the financing as well as the investment book, you can project how much the sensitivity. And hopefully by the year end, we'll be able to provide further disclosure into our interest rate sensitivity. Waleed, anything?

Waleed Almogbel:

Shabbir, for the second question, are you missing Riyadh, Shabbir?

Shabbir Malik:

Yes. I want to come back.

Waleed Almogbel:

Shabbir, the last announcement from the government is that it's going to be on the 17th of May, with some restriction to some countries for those who have high COVID-19 cases. But

I think with the current increase in the COVID-19, we might see something different, but we don't know yet.

Shabbir Malik:

Okay, thank you. And just on the sensitivity of rates, in terms of the repricing lag, it's still around 18 to 20 months? Would that still be fair?

Abdulrahman Alfadda:

Sorry?

Shabbir Malik:

The repricing lag of the loan book. Is it still around 18 to 24 months?

Abdulrahman Alfadda:

I'm not sure about that 18 to 24, Shabbir. I think you need to break down the entire portfolio into several pockets. The mortgage is 20, 25 years. Personal finance and Auto five years. Credit card is, I would say, perpetual. Investments and I think there is also legal maturity. Some of the investment book is also floating. Corporate is also floating. So, I think it's very difficult for me, Shabbir, to be able to give you an indication how long is the book going to be repriced, overall as a book.

Shabbir Malik:

Okay, understood, thank you very much.

Operator:

We have no further questions so I'll hand it back to Waleed.

Waleed Almogbel:

We thank you for your trust in us and we are very proud of our results. We will continue to focus on execution and achieving our strategic goals for this year and beyond, inshallah. We'll see you, inshallah, for the second earning call this year. Thanks.