1Q25 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

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Sultan Altowaim
Head of Research, Al-Rajhi Capital

Good afternoon, everyone. This is Sultan Altowaim from Al Rajhi Capital. We are pleased to host Al Rajhi Bank Q1 2025 earnings call. Welcome, everyone, to this event. Without further ado, I will hand it to Mr Sulaiman Alquraishi, the Head of Investor Relations, to introduce the management team.

Sulaiman Alquraishi
Senior Director Investor Relations, Al-Rajhi Bank

Thank you, Dr Sultan. Good day, everyone. And thank you for joining the call. With us on the call today, our Managing Director and CEO, Mr Waleed Al-Mogbel. The CFO, Mr Abdulrahman Al-Fadda, and the Treasury Group General Manager, Mr Abdulrahman Al-Ajaji. As always, our CEO will start with the results highlights and strategy performance. Then the CFO will cover the financial performance in more details. And finally, we will open the floor for your questions. Now I'll hand over to Mr Waleed.

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

Thank you, Sulaiman. Welcome, everyone, and thank you for attending our earnings call for the first quarter of this year, 2025. As always, I will start by taking you through our performance highlights, followed by an overview of our performance on our strategy, Harmonise the Group, which we are in the middle of the strategy execution. Then I will give the floor to our CFO, to cover the financial performance in more detail.

If we move to the slide three, in the last quarter, the bank delivered an excellent performance, supported by the progress in our strategy execution, and the improved economic environment that led the bank to achieve a new milestone in many aspects, such as recording the highest quarterly net income, and exceeding 1 trillion level in total assets.

Starting with the balance sheet, we were able to deliver a 5% growth year-to-year, with total assets stand now at SAR 1.023 billion. This growth on the assets was mainly driven by 4% growth year-to-date in the net financing book. If we look at the liability side, total liability stands at 889 billion, an increase of 4% year-to-date, which will bring the LDR to around 85%.

Moving to the profitability, Net income now reached 5.9 billion for the first quarter 2025, higher by almost 34%, compared to the same quarter of 2024. The net yield income grew by 26% and non-yield income grew by 33%. And this has resulted in a 27% higher total operating income, which reached now 9.2 billion.

Talking about credit quality, we continue to maintain best-in-class asset quality, with cost of risk standing at 29 bps, an improvement from 32 bps in 2024. In addition, NPL stands at 74 bps, with a healthy coverage ratio of around 153%.

If we move to some key ratios, our market-leading cost-to-income ratio has improved significantly, and reached 22.7%, backed by our operating efficiency. Also, the bank maintained a strong financial position, with a total capital ratio of 21%, well above the regulatory minimum. Lastly, our NIM expanded to reach 3.16% higher by 13 bps year-on-year, and that due to the bank's continued efforts in terms of improving yield and optimise the cost of funds in such rate environment.

Moving to slide number four, to highlight the progress of our strategy execution. As you all know, we are in the now second year of our 2026 strategy, Harmonise the Group, where the bank has performed across all KPIs. Allow me to shed some light on the pillars of our strategy, which we will start with the first pillar, business to consumer. Our focus on retail cross-selling is the main goal of this strategy, where the product per customer ratio has increased to around 43% since we introduced our strategy. And to remind you, we introduced with 38%.

Additionally, our sales from target customer portfolio has witnessed a growth of 234% since 2023, backed by our effort to expand our customer base across existing and new segments. The bank's universal offering and customer-driven service are key elements in maintaining our unique customer experience, and that's reflected in our current NPS score, which now reach 85%, making it one of the highest among the sector.

Moving to the second pillar, business to business. Our corporate portfolio has continued its strong growth and reach to around 238 billion, 9% higher year-to-date and 35% year-on-year. This growth is a result of our continuous efforts to expand our corporate portfolio and focus more on the SME, which has grown by 7% year-to-date and 34% compared to the first quarter of 2024. And now our SME portfolio representing 18% of our non-retail book and 9% of our financing book.

Investment banking continues to be a significant revenue stream that the bank is focusing on, which has grown over 156% since 2023. If we look at our third pillar, support business, we continue investing in technology and automation across all the groups in order to enhance our efficiency, and to be a cloud-ready bank. That is reflecting on a process automated, which has grown by 29% in the first quarter of 2025.

In terms of digital and data, our best-in-class digital service and variety of our financial solutions supported us to be the bank of choice for over 19 million customers across the kingdom. Lastly, AI and event-driven activities continue their momentum in generating revenues using data-driven marketing. That's an increase now 233% since 2023.

If you allow me, I will hand over now to Mr Abdulrahman, our CFO, to give you more details and update of our financial performance. Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

Thank you, Waleed. Good day, ladies and gentlemen. It is my pleasure to welcome you again to our Q1 2025 earnings call. Starting with the balance sheet, our total assets have reached one of our milestones, where it crossed the 1 trillion mark, where it has shown a 22% increase year-on-year and almost 5% on a sequential basis. To analyse the 5% movement year-to-date, as you can see on the bottom left-hand side of the chart, mainly driven by the financing growth of almost 4%, and we will cover that in further detail in the following slide.

Diversifying our funding profile is one of the key management initiatives, where we started, if you recall, back in 2022. Where the objective is to have a stable and diversified funding, in order to make sure that we have a stable and optimised cost of fund. We are making good progress and will continue to do so over the coming time.

Zooming in into the main driver of the balance sheet movement, as you can see on the top left-hand side, our total financing book stands at 723 billion SAR. Improvement of almost 19% year-on-year, and almost 4% on a sequential basis. Retail book represents almost 67% of the financing book. To analyse further the 4% financing portfolio growth year-to-date, as you can see on the top right-hand side of the chart, our mortgage book has increased by 3%. Ex-mortgage of the retail book almost flat, which will bring the total retail book to almost 2%.

Corporate and SME have grown by 9% and 7%, respectively. It's worth to highlight that our mortgage book stands at 275 billion, which represents almost 56% of the retail book, and almost 37.6% of the overall financing book. Our total customer deposits stand at 629 billion, 4% increase year-on-year and almost flat on a sequential basis. Our CASA, as a percentage of the overall customer deposits, had dipped to 69%, compared to 73% at the year end.

If you recall our previous communication, we said that we had a few transitory deposits that came in, in the second half of 2024, and we are expecting them to migrate, which we have seen that. Although that our demand deposits have dipped by 25 billion year-to-date, nevertheless, our time deposits have increased by 28 billion. Eliminating that one factor, the bank is making good progress in the acquisition of our CASA, where we have seen a growth in all line of business that compensated for that transitory deposit.

Moving on, our investment books stands at 178 billion, which represent almost 17.5% of our total balance sheet. A few highlights. Our investment book, close to 80%, is sukuk and Murabaha with SAMA, 76% are fixed rate., take into consideration the current rate environment. And finally, 83% of the book are domestic.

If we move to the profitability section, our net income for Q1 have reached almost 5.9 billion, which have shown a 34% year-on-year increase and almost 7% on a sequential basis. To analyse the sequential movement, as you can see on the bottom left-hand side of the chart, our NII have increased by 2%, non-yield income by almost 16%, while Opex have increased by 2%, which will bring the P/E provision profit to be 6% higher on a sequential basis.

To analyse the year-on-year movement, as you can see on the bottom right-hand side of the chart, our NII increased by 26%, non-yield income by almost 33%, while Opex have increased by 10%, which will bring the overall pre-provision income to be higher by 33% year-on-year.

To further zoom in on the net income driver, I'll start with the operating income. Our operating income for Q1 stands at 9.2 billion, 27% year-on-year and almost 5% movement on a sequential basis. The driver of the 27% year-on-year movement you can see it on the top right-hand side of the chart. Our NII, as I mentioned earlier, 26%, which was a function of increase of our average earning assets by 22%, coupled with the NIM expansion of almost 13 basis points.

Fees have increased by 32% year-on-year, where we have seen a broad-based growth in most of the line items. We've seen a growth in payments, remittance, trade, cash management, and finally, our capital market activities. This is a part of the management focus to execute the harmonised growth strategies. Exchange income have increased by 12% year-on-year. And finally, our other income increased by 152 million year-on-year. The drivers of the other income are coming from two main line items. On the derivative side, which is a part of the management initiative to improve the ROA of the relationship, mainly with the corporate clients, coupled with a further improvement on our mark-to-market of our trading book.

Our NIM for Q1 stands at 316 basis point, 13 basis point movement year-on-year, where, as you can see on the bottom right-hand side of the chart, we have delivered 7 basis point gross yield expansion year-on-year, coupled with 6 basis point improvement in our costs.

To move on and analyse the second driver of our net income, our OpEx stand at 2.1 billion, 10% increase year-on-year and almost 2% increase on a sequential basis. The driver of our 10% increase in our OpEx, as you can see on the top right-hand side of the chart, are mainly coming from salaries and depreciation, which is a function of the management initiative to execute, the Harmonise the Group strategy.

It's worth to highlight that one of the other milestones that the management have delivered for this quarter, I am glad to highlight that the non-yield income is funding the entire OpEx, where the non-yield income as a percentage of the OpEx stand at 100.7%. Given that we have delivered a 27% increase on our operating income versus 10% increase in our OpEx, that positive jaws have helped us to deliver further improvement in our cost-to-income ratio, where it dipped below 23%.

Our net credit chart for the quarter stands at 525 million, close to 25% higher year-on-year, and almost 5% lower on a sequential basis. Cost of risk stands at 29 basis points, compared to 28 basis point at the same period last year. It's worth to highlight, as you can see on the bottom left-hand side of the chart, our recoveries have improved by almost 74%, which have helped us to further negate the increase in the gross charge. This is part of the management initiative to further improve the cost of risk.

Our NPL for Q1 stands at 5.4 billion, almost 1% higher compared to December 2024, where, although that our corporate NPL have increased by 3 basis points, nevertheless, we see a further improvement in our retail NPL, where it dips below 30 basis points, which will bring the overall NPL to stand at 74 basis point, 2 basis point improvement compared to the year end. Our NPL coverage stands at a healthy level of almost 153% as of Q1.

Our provision stock stands at almost 8.3 billion as of Q3, where it's worth to highlight that the stage one exposure of that financing as of Q1 stand at 97%, compared to 96.8% at the same period last year, which will show the healthy origination of the financing. Stage coverage, not a material movement compared to the year end. Stage one stands at 37 basis point, stage two at 10.6%, and finally, a stage three at 53%. Liquidity positions remained healthy and within the regulatory requirement, although that our headline LDR, including the sukuk and the other items, stand at 96.5%, our regulatory LDR stands at 85%, which still has a room against the regulatory requirement of 90%. LCR and NSFR at a healthy level and above the minimum regulatory requirement.

Our total RWA stands at 650 billion, almost 19% increase year-on-year, which is mainly driven by the credit RWA increase of almost 16%, coupled with a further increase in our operational risk RWA. Capital adequacy CET1 for Q1 stands at 15.8%, Tier 1, 19.8%, and finally, our total capital at 20.6%. If you can see on the bottom right-hand side of the chart, we have delivered almost 52 basis point increase into our capital position, where 131 basis point drop due to the financing book growth that has been negated by almost 91 basis point of an internal capital generation, given the healthy RWA density that we have. That further improved by almost a further 90 basis point of the $1.5 billion issuance of an AT1 instrument in the first quarter.

Our return metrics are above the benchmark, where our RORWA stands at 374. ROE in this quarter is one of the best ROE that we have historically, almost 23% ROE. And finally, our ROA stands at 2.36%.

Before we discuss our guidance, the macro outlook is still positive. IMF projected the 2025 GDP forecast expansion of almost 3%, while for 2026 at 3.7%. Consumer spending is still healthy, and that further improves the overall macro outlook.

As far as the interest rate environment, although the market is volatile, however, we are forecasting one to two rate cuts in the second half of 2025. Having said that, although our financing book for the first quarter was at 4%, nevertheless, I would like to remind you that usually in the second quarter, given that we have two Eid holidays coupled with a summer vacation that is till the end of August, that we're probably expecting a slow environment. Having said that, we are keeping our financing book guidance unchanged. Our NIM, also unchanged, 5 to 15 basis point expansion.

We see a very positive trajectory of our operating income, given that the average earning assets are moving better than our forecast coupled with further improvement in our fee income, while costs are under control, we have upgraded our cost-to-income guidance to be below 23.5%. Those factors have also led us to further improve the ROE to be above 22.5% for 2025. Cost of risk is unchanged, in the range of 30 to 40 basis points. And finally, capital position at 19.5%. Waleed, back to you.

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

Thank you, Abdulrahman, for the financial highlights. We are so proud of our outstanding performance and the progress made across all KPIs of our Harmonise the Group strategy. Now, if you allow me, we will open the floor for Q&A session. Operator, back to you.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the Q&A session. As a reminder, if you would like to ask a question and you have joined the call via Webex, then please press the raise hand icon on your screen to ask an audio question, or submit a written question in the Q&A box. Alternatively, if you've joined us on the telephone, then please press star followed by one on your telephone keypad. Our first question today comes from Nida Iqbal, from Morgan Stanley. Nida, please go ahead.

Nida Iqbal
Equity Analyst, Morgan Stanley

Q

Hi. Thank you very much for the presentation. I have a few questions. My first question is on the funding side of things and the decline in the CASA ratio that we've seen this quarter. Just wanted to understand if this was entirely driven by the transitory deposits, or perhaps is there any shift in terms of the stickier deposits to any competitors, given that we've seen one of the large players come out with a strategy talking about gaining CASA share? And also, if you can shed some light on how these transitory deposits flow between the different banks and whether you see your CASA ratio improving from here in the coming quarters? That's the first question on the funding side of things.

My second question is actually on the mortgage book. If you're able to comment on the outlook for real estate prices, in the context of the recent news flow that we've seen for the sector, where the government is looking to release more land and trying to improve affordability of housing. Do you see potential for real estate prices to move lower materially in that scenario? And in such a scenario, how would that impact both your current mortgage book, in your view. Thank you

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

A

Hello, this is Abdulrahman Al-Ajaji, the Group Treasurer. I'll be answering the first question here. You've mentioned the CASA. And in the beginning of the earnings call, and if you go back to the previous earnings call, it was mentioned that the growth in demand deposits during 2024 was driven by that transitory deposits from government-related entities. These deposits are no longer within our CASA in the first quarter of 2025, as they have either shifted to term deposits or they have left the bank. That migration, whether it went to a different financial institution or it has left the system, we don't have visibility on that. Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Nida, on the second question related to the real estate, although that we have seen over the last few years that specifically with the mortgage underwriting boom, we have seen, I would say, the real estate prices have increased. Nevertheless, it has been, to some extent, stable. Some of the parts of the countries that we have seen the real estate prices were stable. Nevertheless, some of the parts of the cities, and specifically, probably in Riyadh based on the GASTAT data, we have seen an increase. And, again, the devil in the detail. Within Riyadh, some of the parts in Riyadh have increased massively, and some have been stabilised and some has gone down.

Now, the comfort that we are taking, that the majority of our mortgage book are mainly for the first homebuyer, where we take a comfort on the LTV, that's number one. We take a comfort also on the salaries assigned. We take a comfort, further, into the employer and with a healthy DBR. If the mortgage boom that we have seen over the last few years are mainly for a speculative, then probably, I would say that I would agree with you, that might have an impact. But the majority of the mortgage underwriting over the last few years are mainly coming for the first homebuyer, which eliminates the speculation and the impact not only for us, but at least for the consumer mortgage that we see for the banking sector in the kingdom.

Nida Iqbal
Equity Analyst, Morgan Stanley

Q

Thank you. That's very helpful. Can I just follow up on the funding question? One of the questions was also whether you see the CASA ratio improving from here, or do you think the CASA ratio has stabilised here? And just in regard to that, if I may ask another question. Your guidance on margins for the year implies margin expansion in the coming quarters. Can I just check on the asset repricing side of things, has most of the asset repricing come through? And therefore, the improvement in margin is expected to be driven by lower cost of funding as rate cuts come through? Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

One of the I would say key competitive advantage for Al Rajhi Bank is to focus further into increasing our CASA balances. Although that transitory deposit, as I mentioned during my presentation, that had impacted by having lower demand deposits, nevertheless, we've seen a further improvement into the other side of the business, where we have seen on the retail side, private, a further improvement in our current accounts. And we will continue as a management to focus in improving further our cost of funds and our CASA balances accordingly.

As far as the NIM guidance, although that we have delivered 3 basis point only for the first quarter compared to the full year of 2024, you're absolutely right. And we communicated that in the previous earnings call. The improvement into the NIM expansion over the coming period are mainly coming from the cost of fund. Whereby, if you recall, in Q4, we said that the asset yield if it hasn't reached the high, it's probably very close to the high. Nevertheless, what we expect in 2025 and beyond, that the cost of fund improvement will outpace the asset yield drop. Hence, it's very positive for our NIM. Again, disclaimer in our NIM, theoretical sensitivity still stands at 6 basis point expansion for every 25 -basis point cut.

Nida Iqbal
Equity Analyst, Morgan Stanley

Q

Thank you. Super helpful. Last follow up, please, on my mortgage and real estate price question. Do you expect mortgage demand to pick up materially, in case we see a decline in real estate prices?

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Mortgage is expected to continue at a very positive trajectory. We have seen the average mortgage origination in the previous quarter, close to SAR 6 to 7 billion per month. That is a function of the new demand, given that the very healthy Saudi demography, coupled with the young Saudis are entering the workforce, plus the mortgage has become a very popular product in the kingdom. based on the latest government statistic, home ownership in Saudi as of end of 2024, stand at 65.4%. The government target to reach 70%. We still believe that the mortgage is still a growing opportunity for the entire banking system in Saudi.

Rahul Bajaj
MENA Equity Research Director, Citi

Q

Two questions, mainly. The first one is on loan growth. Very strong corporate growth continues. And if I understood correctly, you mentioned that retail is now 67% of the total loans, much below the 75, 80% levels it was a few years ago. Is 60%, directionally, it will continue to decline, the share of retail on your loan book. And is it fair to assume that probably by the end of this year, corporate could be almost 40% of the loan book? That is the first part of the question. The second part of the question is on the retail growth. And I would focus on the non-mortgage part of retail, that continues to struggle. That bit continues to struggle. And the expectation was that rate cuts will boost that part of the loan book. But the cuts that have happened in 2024 seem to have not really impacted non-mortgage retail growth. What do you think could be the catalysts to grow the non-mortgage retail part of the book, or you are intentionally trying to not grow that business? Is that an intentional focus? The second question is on cost-to-income ratio, 22.7%, very strong cost-to-income ratio, indeed. I don't think any other large bank has a ratio like that. Is this level sustainable? I understand you upgraded your cost-to-income ratio guidance for the full year, but a less than 23% or 22.7, 22.5% cost-to-income ratio, do you think that these levels are sustainable for the next two to three years, or you think ultimately, you'll have to invest into the business and this ratio would eventually go up? How should we think about this? Thank you.

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

A

Hi, this is Waleed. If you allow me to answer the first question regarding the corporate growth, and I will leave the second and third question to our CFO. For the corporate growth, yes, if you look at the Vision 2030 and the Giga projects, the international commitment for the Asian cup, the Expo 2030, the World Cup 2034. All these international commitments, they have their own projects and the indirect projects, either from the government, the PIF, or from the private sector. For example, for the World Cup, the government committed for more than 11 stadiums. Also, the private sector needs to develop many hotels, and the government also for the infrastructure, like the metro or the transportation. So, yes, we do believe there is still room for growing the corporate. Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Rahul, on the second part of the question, which is mainly of the ex-mortgage of the retail book, when you say struggle, it's not a struggle. It is basically, if you recall, in the second half of 2022, we have said in the current operating environment of high interest rate coupled with the liquidity, has its own premium. The management have taken a call to make sure that whatever the asset origination should reflect the liquidity premium accordingly. The management focus is on profitability, not chasing market share, and that should impact the NIM over the medium term. And over the last few years, you guys have seen that this is our management focus.

As far as the cost-to-income ratio, again, we are pleased of reaching 22.7% cost-to-income ratio for the first quarter. We upgraded our guidance for 2025. And if you recall, we've been consistently saying that the way that the management operates are to deliver at least 150 basis points of positive jaws year after year. If you see in our financials and our details, our OpEx have increased by 10%, so we are not shying away from investing, as long as we believe that will have a positive impact into our earnings momentum. And we will continue to do so over the medium term.

Rahul Bajaj
MENA Equity Research Director, Citi

Q

Thank you, that's very clear. Just one quick follow up on the retail growth. Based on your experience in previous cycles, when oil prices did come under pressure, how do you think investor behaviour changed? Do they do they seek more loan, less loan? And how should we think about retail in that perspective, with oil prices now coming down? Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Based on the recent history, Rahul, I can go back to 2020. First incident where the kingdom was hit by the twin shock of the pandemic, coupled with lower oil prices. Retail books continue to, I would say, be resilient into the oil prices. Second incident, if you recall, between the period of 2015 and 2016, when oil prices are low, the bank still delivered a positive retail growth, given the management focus is to further improve the retail position, leveraging from our brand, infrastructure, and our digital mobile app. And this is something that we will continue over the medium term.

Gabor Kemeny
Autonomous, Senior Analyst

Q

On your funding mix. I noticed that your pretty solid loan expansion in the first quarter was mostly funded with interbank borrowing. Can you perhaps elaborate a bit on your funding strategy and how do we expect the mix of your funding to evolve in the coming quarters? And just finally, if you could also confirm If this interbank funding comes around the SAIBOR rate? Thank you.

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

A

We intend to continue diversifying our funding mix to accommodate and further support the expansion of the balance sheet. We have successfully issued Tier 1 sukuk equivalent to SAR 26 billion, and that includes the recent issuance that took place in January, where we have raised $1.5 billion. We have also issued senior unsecured, which is equivalent to almost SAR 10 billion, including some private placements.

The funding mix was further diversified, we introduced ESG compliance syndication transactions, where we have raised SAR 18 billion. As well as recently, in the first quarter 2025, we have been very active in the certificate of deposits, with an outstanding amount of 24 billion. Again, as part of our funding plan, we will continue diversifying the funding mix, sukuk issuance, CDs, repos, FI borrowings, and private placements. And, yes, they are below SAIBOR. Thank you

Naresh Balandani
Managing Director, Jefferies

Q

Hi. Thank you. It's Naresh Balandani from Jefferies. Congrats on a good set of results. I have three questions, please. One, could I please check on the underlying drivers in the improvement on your cost-to-income ratio guidance? I'm just keen to understand, please, if you could elaborate, what areas are outperforming your expectations since you set your guidance just a few months back? That would be very helpful to understand what's driving the change.

My second is, if I understood from message on one of the previous responses right, you indicated that the current liquidity premium probably makes a spread on the non-mortgage retail book less attractive. Would you please be able to offer any numeric insights into what is the current spread on the book in the market right now? Is the pricing of the personal loans…? I'm trying to get an indication on the spread of the personal loan pricing as compared to the three-month SAIBOR currently. Any indications there would be super helpful.

And my third and final question is, does the increased or improved ROE guidance include any potential gains that you could make from the public sale of Ejada, which was planned for later this year, or any such returns, if and when they come, that would be in addition to this guidance? Thank you very much.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Naresh, on the driver of the upgrade on to the cost-to-income guidance are as follows. As I mentioned earlier, cost is under control. We are taking a few initiatives as a management to optimise our costs. Some has already been taken, which will be reflecting positively into the overall OpEx for the year. Some that will be coming over the course of year. That is the one driver. But the main driver of the improvement in the guidance, as I mentioned earlier, given that our growth in the first quarter on financing book, 4%, which was ahead of our expectation, that have improved the average earning assets for the full year. Given that has been front loaded.

given that we are still expecting the NIM expansion, coupled with the management focus as a part of the strategy to improve the fee income contribution. The operating income, the trajectory is better than our forecast. Hence, that had led to a further improvement into our cost-to-income ratio, which are exactly the same, to answer your third question, which is the ROE guidance. As far as the second question, which is related to the ex-mortgage book, which is based mainly the consumer financing, which represents almost 44% of the book, we have seen the pricing is slightly below the mortgage origination. Mortgage origination, as per the SRC rate, stands at 7.3%, as we speak. The consumer finance is slightly below that level on the average origination. Nevertheless, it's still profitable. But again, from our perspective, if you recall, the management focus is profitability, and we will continue to strike the balance to further improve the shareholder value for the organisation.

Naresh Balandani
Managing Director, Jefferies

Q

Thank you very much. Just a very quick follow-up on this point. In your franchise, in the previous years, currently, it was refinancing of products typically used to be a cumbersome exercise, and especially for subsidised mortgages. That was a phenomenon that you were largely shielded from in the previous cycle. Is the scenario still the same, especially on the personal loan side? Or as the market has matured in the recent years and competition has increased, it's relatively easy for customers to refinance from one bank to the other? If you can please offer some quick qualitative comments there, that would be extremely helpful.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

the competition or the ease of the customer to switch his account or his salaries movement, or his personal loan, i.e. consumer, it's been a phenomenon that's been there for ages. In light of the SAMA regulation, the customer can move his salary, can move his personal loan from bank to another bank. What's really different this time versus the previous cycle, are the rates. If you recall, pre-2020, three-month SAIBOR used to be at 70 basis point. Liquidity is very humble into the system. But nowadays, the operating environment is totally different. Three months' SAIBOR, as of today, stands at 5.37%, although that it came lower from the peak at almost 6.3%. Liquidity still there, but it has a premium. And again, in terms of the digital investment that the competition or the Saudi banking system have done is quite impressive. I'm also proud of the management initiative to improve the digital platform. 95% of our transaction done digitally. We believe that we do have the best mobile offering with the largest customer base, as Waleed mentioned, 19 million, with an ecosystem to be able to help us to cross-sell.

Jon Peace
Head of MENA Equity Research, UBS

Q

Just a clarification around the OpEx growth. If your revenue growth stays very strong, clearly in the double digits, should we expect topics growth in absolute terms to stay around that 10% level, assuming you can still deliver your jaws target? And then secondly, your cost of risk is trending towards the better end of your guidance. Do you see anything on the horizon that could push that up towards the higher end? Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

John on the first part, usually, we provide a guidance on the cost-to-income ratio. We don't provide any kind of guidance on the operating income, nor the OpEx side. The only thing that we can highlight, or to answer your question, as a management, we'll still continue to focus and operate to deliver that positive jaws. We are not shying away from investing, as long as we believe that that will lead to further improvement into our cost-to-income ratio, and also the management focus to improve the fee income, to be able to fund the OpEx. I think that's what I can answer to your question related to the OpEx.

As far as the cost of risk, indeed, our Q1 stands at 29 basis point. Our costs of risk guidance are still in the range between 30 to 40 basis point. Based on information that we have, as we speak, we don't see any changes into our cost of risk guidance for 2025.

Waruna Kumarage
Head of Buy-side research, SICO

Q

Thank you very much for the opportunity. I have a couple of questions. The first question is a follow-up to a previous question related to funding strategy. As you have mentioned, you're diversifying your funding base. As I see right now, customer deposits are about 62% of the total funding base. I want to know whether you have any target in mind, as you mentioned, that you will continue to diversify into other sources? That's my first question.

Secondly, in terms of other income under the non-funded income, which you alluded to, derivatives-related income, as well as mark-to-market or trading book, do you expect these amounts that you generated in the first quarter to continue at this level for the rest of the year? Or is it just a one-off income item that you would have realised in the first quarter? Those are my two questions. Thank you.

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

A

As we've mentioned earlier, we will continue to diversify our funding profile. In previous earnings calls, we have signalled to the market that we will be a frequent visitor to the debt capital market with a minimum of two issuances every year. Now, on the other side, we will continue to focus on our existing sources, whereby we're implementing internal initiatives to incentivise the acquirement of demand and time deposits locally. Whereby to increase the efficiency of our funding activity, optimise the cost of fund, and maximise our shareholders' value.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

In addition to Abdulrahman's points, I'd like to highlight, Waruna, if you look at our ratios, whether it's the capital ratios or it's our liquidity ratios, such as LCR, NSFR, LDR, and the bank has enjoyed a very healthy capital and liquidity ratios. It will give us the flexibility to be able to manoeuvre, taken advantage of the rate environment. And finally, also, I'd like to highlight that Alrajhi bank enjoys one of the best credit rating. You've seen that the rating agencies have improved the overall credit rating for the bank, as well as the sovereign last year. That also helped us to attract funding outside the kingdom with an attractive spread. that is something that we will continue to evaluate on a regular basis.

Finally, on your question related to the other income, although that I mentioned the main contributor are mainly coming from the fair value through P&L, i.e. the trading book or our investment book. This is a function of the interest rate environment, which is something that we are positioned well to take an advantage of, if rates come lower from the current level or there is a further bond market rally. But, again, that is a volatility, something that we need to be aware of.

On the other part related to the derivative, this is part of the management initiative to improve the cross-sell. If you recall, Waleed earlier in the part of the strategy on the B2B side, how to be able to leverage from our corporate relationship, to be able to further improve the cross-sell. This is something that we, as a management, will continue to focus on and improve the non-yield income contribution.

Operator: Thank you. At this time, we'll take no further questions. I'll hand back to Mr Waleed, MD and CEO, for any further remarks.

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

Thank you, everyone, for dialling in and for your trust in us. We are very proud of our first quarter 2025 results, and we will continue achieving our strategic goals for this year and beyond. We look forward to meeting you in the next quarter earnings call. Thank you