2Q25 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 Q2 2025 Earnings Call. Welcome, everyone, to this event. Without further ado, I'll hand it to Mr Sulaiman Alquraishi, the Head of Investor Relations, to introduce the management, please.

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. CFO, Mr Abdulrahman Al Fadda. Retail Group General Manager, Mr Majed Al-Rajhi. As always, our CEO will start with results, highlights, and strategy performance. Then CFO will cover the financial performance in more detail. And finally, we will open the floor for your questions. Please note that the results presentation is now available on both Al Rajhi Bank website and Al Rajhi Bank IR app. And now I'll head 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 second quarter of 2025. As always, I will start by highlighting our performance, followed by an overview of our strategy, Harmonize the Group. Then I will give the floor to the CFO to cover the financial performance in more details. Now, let's take a closer look to our quarter two 2025 performance.

If we move to slide three, in the last quarter, the bank delivered an excellent performance, supported by the progress of our strategy execution, and an improved economic environment. This led to many achievements, such as recording an outstanding semi-annual net income of SAR 12.1 billion, coupled with healthy growth across many business lines.

Starting with the balance sheet, we were able to deliver a 7% growth year-to-date, with total assets standing at SAR 1,039 billion. This asset growth was primarily driven by a 7% year-to-date increase in the net financing book. On the liability side, the total liability now stands at SAR 905 billion, an increase of 6% year-to-date, which brings the LDR to approximately 83%.

Moving to the profitability. Net income reached SAR 12.1 billion for the first half of 2025, higher by 32% compared to the same period last year. Net yield income grew by 25%, while non-yield income increased by 31%. This resulted in a total operating income increase of 26%, reaching around SAR 19 billion. Regarding the credit quality, we continue to maintain best-in-class asset quality with the cost of risk standing at 31 bps, improved from 32 bps in 2024. Additionally, the NPL stands at 74 bps, with a healthy coverage ratio above 150%.

Moving to the key ratios, our market-leading cost-to-income ratio has improved significantly to 22.5%, supported by our operating efficiency. Also, the bank maintained a strong financial position with a total capital ratio of 20%, which is well above the regulatory minimum. Lastly, our NIM improved to 3.14%, which is higher by 11 bps year-on-year. And that is driven by the management strategy to enhance the yields and optimise the bank's cost of fund.

If we move to slide number four, which we will highlight the progress of our strategy execution. As you all know, we are in the second year of our 2026 strategy, Harmonize the Group, where the bank has performed well across all KPIs. Allow me to shed some light on the pillars of our strategy, starting with the first pillar B2C.

Our focus on retail cross-selling is a main goal of this strategy, where the product per customer ratio has increased to around 44% since we introduced our strategy. Additionally, our sales from the targeted customer portfolio has witnessed a growth of 278% since 2023, and that's backed by our effort to expand our customer base across existing and new segments. Our universal offering, with a variety of financial solutions have made us the bank of choice for over 19 million customers across the kingdom, while maintaining high customer satisfaction with the NPS of 85%.

If we move to the second pillar of our strategy, which is B2B, our corporate portfolio has continued its strong growth and reached to around SAR 252 billion, 15% higher year-to-date, and almost 40% year-on-year. This growth resulted from our continuous effort to expand the wholesale lending and focus more on the SME, which has grown by 18% year-to-date, and more than 40% compared to the second quarter of last year. And that's representing now 18% of our non-retail book and 6% of our financing book. The bank's focus on developing the investment banking business is an essential part of our strategy to enhance non-yield income. Revenue from investment banking activities has grown by almost more than 200% since 2023.

Looking at our third pillar, which is support business. We continue investing in technology and automation across the group to improve our efficiency and to be a cloud ready bank, reflected by the percentage of process automated, and that reached now 56% in the second quarter of this year. On digital and data, AI event-driven activities continue to gain momentum and generating revenue through data-driven marketing, which has increased by more than 290% since 2023.

Lastly, we are very proud that our ESG rating by MSCI has been upgraded by one notch to (AA) during the second quarter of this year. This marks Al Rajhi Bank as the leading Saudi bank with a AA ESG rating and among the top five companies in the GCC. This achievement is a key milestone toward our goal of being a leading institution in the financial conduct and sustainability. With that, I will hand over to Mr Abdulrahman, our CFO, to give you a detailed update on our financial performance. And thank you so much.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

Thank you, Waleed. Good day, ladies and gentlemen. It is my pleasure to welcome you again in our Q2 earnings call. I will go over the financial performance slides very quickly, so that we can have a further time during the Q&A session.

Our total assets stand at 1.04 trillion, 20% increase year-on-year, and 2% increase on a sequential basis. The growth that we have delivered year-to-date were almost 7%, as you can see on the bottom left-hand side of the chart, whereby investment book has increased by almost 4%, financing book has increased by 7%, and we will cover in further detail in the following slides.

We've have increased our funding profile by almost SAR 65 billion since the beginning of the year, where, as a part of the management initiatives, we diversify our funding sources by tapping into wholesale through different sources, such as syndicated loan, sukuk, CDs, etc., to further improve our liquidity position. Our customer deposits have increased by almost 2% year-to-date.

Zooming in further into the main driver of the balance sheet, our total financing books stand at SAR 742 billion, 19% increase year-on-year, and 3% on a sequential basis. It's worth to highlight that our retail book represents almost 66% of our financing book, as of Q2. To analyse the 7% growth year-to-date, as you can see on the top right-hand side of the chart, our retail book has grown by 3%, mainly coming from 5% growth on our mortgage. Ex-mortgage of the retail book was flat. Non-retail book has increased by 15%, mainly coming from the corporate, which has increased by almost 15%, and SME by 18%. Mortgage book stands at almost SAR 280 billion, which represents almost 56.7% of the retail book, and 37.4% of our financing book. Our customer deposits stand at SAR 642 billion, 3% increase year-on-year, and 2% on a sequential basis.

CASA as a percentage of the overall customer deposits, stand at the healthy level of 68.4%. Our customer deposits have increased by 2.2% year-to-date, as you can see on the bottom right-hand side of the chart, where CASA dipped by 4.2%. If you recall, in the first quarter, we mentioned that there has been a large transitory deposit that have left the bank. Nevertheless, CASA growth was healthy in the second quarter, where we managed to grow by almost SAR 6 billion, 1.4%. Our total customer deposits have increased by 21.5% year-to-date.

Our investment book stands at SAR 181 billion, which represents 17.5% of our total assets. And the breakdowns of our investment book are as follows. Sukuk represents almost 88% of the book. Fixed rate component represents almost 75%. And finally, 82% of the book are in Saudi Arabia.

If we move to the profitability section, our net income for Q2 was SAR 6.1 billion, 31% increase year-on-year, and 4% on a sequential basis. To analyse the 4% sequential movement, as you can see on the bottom left-hand side of the chart, our NII has increased by 3%. A healthy growth in our non-yield income by 9%, while OpEx have increased by 3%, which brings the pre-provision profit to be 5% on a sequential basis. Impairment were 14% higher compared to Q1.

Our net income for the period stands at SAR 12 billion plus, which is almost 32.5% year-on-year. The driver, as you can see on the bottom right-hand side of the chart, 25% growth in our NII, 31% increase in our non-yield income, and 10% increase in our OpEx, which brings our pre-provision income to be 32.3% higher year-on-year. Our impairment was higher by 28.4%.

To further zoom in, into the net income driver, I'll start with operating income. Our operating income for Q2 stands at SAR 9.6 billion, 26% higher year-on-year, and 4% higher on a sequential basis. Our operating income for the period was SAR 18.8 billion, close to 26.5% higher year-on-year. And the breakdown, as you can see on the top right-hand side of the chart, our NII increased by 25%, whereby our average earning assets have increased by 22%, coupled with 11 basis point NIM expansion.

Fees, I think we are glad to highlight that Q2 was the record fee income for Al Rajhi Bank. However, on the period, we managed to grow our fee income by 28%, and the driver on the fee income are as follow. On the retail side, we've seen a very healthy growth on the payment, remittance and insurance products. On the corporate acquiring business, is doing very well, trade and cash management. Finally, our sister company, Al Rajhi Capital, has done very well to further improve their contribution to the bottom line, where we have seen a good improvement into the brokerage, investment banking, and finally, assets under management.

Exchange income have shown a very healthy growth of 10% year-on-year. And finally, other income, where have shown almost 64% growth year-on-year. The driver of the other income are derivatives, mark-to-market of our trading book. And finally, there has been an upfront gain in securitising almost SAR 2 billion of our personal finance book. This is part of the management initiative to improve profitability, liquidity, and finally, our capital.

Our NIM stand at 3.14%, NIM for the second quarter dipped by almost three basis points. And the driver are as follow, we've seen the gross yield reduced by almost two basis points, while costs of fund have increased by one basis point. This is a function of the elevated funding premium, whereby SOFR-SAIBOR spread stayed at an average of around 111 basis points in the second quarter. The driver of the 11-basis point NIM expansion, as you can see on the bottom right-hand side of the chart, mainly seven basis point coming from the cost of fund efficiency, while four basis point improvement in our gross yield.

To move on and analyse the second driver of our net income. Our OpEx for Q2 at SAR 2.1 billion, 10% increase year-on-year, and almost 3% increase on a sequential basis. Our OpEx for the period was SAR 4.2 billion, 10% increase year-on-year, and mainly coming from staff expense have increased by 8%, coupled with the depreciation increase of almost 22%. By delivering 26.5% operating income growth, compared to almost 10% growth in our OpEx, that healthy, positive Jaws have helped us to further optimise our cost income ratio, where we manage to drop it from 25.9% in the same period last year to 22.5% in the first half. It's worth to highlight as well, that non-yield income as a percentage of our OpEx have further improved to be 104% in the first half of 2025.

Our NCL for the period at around SAR 600 million, 32% increase year-on-year and 14% increase on a sequential basis. Our cost of risk at 31 basis point, and our NCL for the period at SAR 1.1 billion, almost 28% increase year-on-year. As you can see, on the bottom left-hand side of the chart, although that our gross charge has increased by SAR 850 million, however, we managed to further improve our recoveries to negate that charge. If you recall, in the first quarter, we said that the management has been taken from last year several initiatives to further improve our recoveries, where we've seen better retail recoveries, which are considered to be sustainable, strategic, net tactical. And just to give you a sense, the recoveries in the second quarter equate to the full six months in 2024.

Moving on, our NPL balance stands at SAR 5.5 billion, 4% increase year-to-date. As you can see, the driver of the NPL migration on the top left-hand side of the chart, SAR 585 Million increase in our retail NPL. This is mainly due to the seasonality factor, where we have seen usually, given that the Q2 we have two Eid holidays, which is in line of the previous historical standard. However, there has been a couple of accounts have rolled back to be performing on the corporate side, which have improved our corporate NPL by SAR 370 million. Retail NPL at 46 basis points, our corporate NPL at 127 basis points, and the blended NPL for the book at a 74-basis point, flat compared to Q1 2025. NPL coverage, still healthy at 150% plus.

Our ECL stock at SAR 8.3 billion, almost 97% of our book on Stage 1, which gives you an indication of the healthy origination by the organisation. Stage 1 ECL stands at 36 basis point, not a material movement compared to either Q1 or the Q4. Stage 2 stand at 10.3%, compared to 10.6% as of Q1. And finally, Stage 3 at 55.2%, compared to 53.1% in Q1 2025.

Liquidity position remain healthy and within the regulatory requirement, although that our headline LDR at 115%. However, if you include the sukuks and the other syndicated loan, our LDR stands at 95%. Regulatory LDR stands at 82.5%, compared to the maximum regulatory requirement of 90%. LCR, NSFR at a comfortable level, and above the minimum regulatory requirement. Our total RWA stands at SAR 664 billion, 17% growth year-on-year, mainly driven by almost 16% growth on our credit RWA. Our RWA density as of Q2 stands at 63.9%.

Our capital ratios are as follow, CET1 at 15.5%, Tier 1 at 19.4%. And finally, our total capital at 20.2%. As you can see, on the bottom right-hand side of the chart, we have managed to further improve our Tier 1 capital ratio by almost eight basis points. Although RWA growth, coupled with the dividend distribution, have contributed to 270 basis point drop in our capital ratio. However, that has been negated by almost 190 basis points of an internal capital generation, given the healthy RWA density. Our return metrics are at industry leading levels. Our RORWA have improved to 3.79% Our ROE has improved to 23.5%. Q2 ROE was 23.9%, and finally, our ROA at 2.3%.

Before we move on to the guidance, our macro outlook for Saudi is still positive. Based on the flash estimates, the GDP has grown by 3.4% in Q1, mainly driven by 4.9% in non-oil GDP activities. While the medium-term outlook, based on the IMF forecast, is still healthy for 2025 and also for 2026. On the interest rate environment, we still believe there could be one to two rate cuts, however, it's going to be at the tail end of this year. Nevertheless, the NIM outlook for Al Rajhi Bank over the medium term is still positive, given that we are geared on lower rate environment supported by a large fixed-rate component of the overall financing book.

Finally, as Waleed mentioned, we will still continue to execute our 2026 strategy accordingly. Having said that, we kept our guidance unchanged, with the exception of the NIM, where we have downgraded the NIM to be flat to ten basis point expansion. Given that we have moved the timing of the rate cut to the tail-end of 2025. And also, we have seen the funding spread is still at the elevated level. Waleed, back to you.

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

Thank you, Abdulrahman, for the financial highlights. We are proud of our outstanding performance and record results in this quarter, and also the progress made across all KPIs of our Harmonize the Group strategy. Now, we will open the floor for Q&A session. Operator, back to you.

QUESTION AND ANSWER SECTION

Operator: Thank you. If you would like to ask a question and have joined the call via WebEx, please press the raise hand icon on your screen. And if you have joined us over the phone, please press star, followed by one on your telephone keypad. Our first question today will be from the line of Gabor Kemeny with Autonomous Research. Please go ahead. Your line will be open.

Gabor Kemeny
Senior Analyst, Autonomous **Q**

Hello. Thank you very much for the presentation. My first question will be, let me pick up on your point on the funding yields staying a bit more elevated than you expected. Can you elaborate a little bit on why that is the case and how your expectations have changed from a few months earlier, please?

My other question would be on the loan growth outlook, which seems relatively conservative at high single digits for the full year, as you have delivered 7% already in H1. Maybe you could shed some light on what level of conservatism has been built into this outlook.

And finally, if you could share your thoughts, please, on the wholesale funding outlook for the second half, and to what extent do you expect the wholesale funding to shape your NIM outlook? Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Gabor, on the first question related to the funding spread, the average SAIBOR for Q2 were at almost 541 bps, compared to an average SAIBOR of 542 bps SOFR/SAIBOR spread in the first quarter was at around 112 basis points, which considered to be one of the highest quarters. If you compare in Q1 this year, compared to Q1 last year, there has been almost a 20 basis point increase on that spread. In Q2, as I mentioned, the spread will stand at 111 basis point. And you've seen, giving that the loan growth consistently outpaced the liquidity of the customer deposit growth. That's creating the pressure on the SAIBOR. And that is one of the factors that we’ve taken into consideration in our NIM outlook for 2025.

As far as the second question related to the loan growth outlook. Despite that we have delivered 7% financing book growth in the first half, and we kept the guidance unchanged at the high single digits, I think you need to take into consideration the following factors. Q3 is the summer holiday, and usually there is a little bit of a slow. Also, Q4, historically, there is a lot of corporate repayments happening. And finally, if you recall, our previous communication to the market, that when we plan our growth, we plan based on, first, what is our funding tool available? Then we plan our growth outlook accordingly. Having said that, we believe that the loan growth outlook is still intact for 2025 as a high single digit.

As far as the wholesale funding outlook, and I think as management, given that you've seen our previous slide on the liquidity ratio, our regulatory loan to deposit ratio stand at 82.5%, which is within the regulatory requirement. Also, LCR, NSFR at a healthy level. We have all the tools to be able to manoeuvre and optimise our cost of fund efficiently to further improve the NIM outlook over the medium term.

Mohammed Al-Rasheed
Senior Analyst, Hassana

Q

Thank you, gentlemen, for the presentation. I just have one question from my side. If I look at the average SAIBOR during the second quarter of 2024, it was 6.25%, and this quarter it came at 5.4%, a decline of 85 basis point. However, if I compare the bank NIM over this period, it has expanded by around ten basis points. This gives me a realised NIM sensitivity of around three basis point for each 25 basis point cut, which is slightly weaker than the expected and communicated NIM sensitivity. And we have seen this trend across the sector. Given that NIM sensitivity, my question is, should we expect this trend to continue for the overall sector, where the actual realised NIM would be below or weaker than the expected NIM sensitivity, given the liquidity tightening that we are seeing in the system? Thank you

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Mohammed, first of all, you know my regular disclaimer, the NIM sensitivity is theoretical. It's at one point of time, it's not taken into consideration that change in asset mix, nor the liability mix. With all due respect, the example that you provided is not factored then into the NIM sensitivity. Having said that, again, my NIM theoretical sensitivity, as we speak, is six basis point. the operating environment keep changing. The example that you mentioned when SAIBOR were at 6.2% plus, compared to 5.4% during that time, this SOFR/ SAIBOR were spread over 90 basis points, where currently it's almost 111 basis points. Again, I've been saying quite regularly that the NIM sensitivity is theoretical. It gives you an indication, but it doesn't give you the right trajectory. By all of that, and I think you know for in the lower rate environment, Al Rajhi Bank is probably the most geared bank in the entire region for the lower rate environment, given the fixed rate component. And also giving that my average floating liability is 2.1 X of my average floating asset.

Shabbir Malik
Banks Analyst, EFG-Hermes

Q

Thank you very much. Thanks for this presentation. I have a couple of questions, please. First one, I think you've revised your NIM guidance for 2025. I just wanted to make sure, I think your ROE guidance remains unchanged. That NIM revision, does that not affect your ROE outlook as well? Or if it doesn't, what's the offset which is going to compensate for that NIM revision?

My second question, you pointed out that there was cost of funding pressures in the system. But when I look at your cost of funds relative to the sector, I think you've done a better job in terms of managing that cost of funds. What has enabled you to do that? I think your cost of fund increases roughly three to five basis points, which, in context of some of the other banks, is quite modest. If you can, please shed some light on that?

In terms of cost-to-income ratio, I think you are about 22, 23% right now, which is sector leading. Do you think there is scope for further improvement in this cost-to-income ratio?

And maybe finally, on capital. I think you are north of 14% in terms of CET1. I think your Pillar-I requirements are about 12%, so you're comfortably above that. But I just want to get your sense on how you feel about your capital position, is it sufficient for your growth perspective and dividend perspective? Thank you

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

Shabbir, although that we have lowered our NIM guidance, and I think overall, our ROE guidance is still intact of 22.5% plus. We've seen a very good momentum into the fee income, in the second quarter of 2025 we have a record fee income delivery for Al Rajhi Bank. This is part of the 2026 strategy, which is called Harmonize the Group, how we can improve the overall cross-sell between the bank and the entire subsidiary, to further improve the fee income. That's number one.

As far as the cost of fund, our cost of fund has increased by one basis point compared to the first quarter. We are a retail bank, and we'll continue to be a retail bank. The majority of our CASA are coming from retail customer, which's considered to be sticky. We will continue the customer acquisition by leveraging on the brand distribution and the digital leadership that the bank has been implementing over the last few years.

The third question related to the cost-to-income ratio, let me be specific. Our cost-to-income ratio was 22.5% in the first half. And from our perspective, the way that the management operates is to deliver at least 150 basis point positive Jaws between the growth of the operating income versus the operating expense. We've delivered close to a very decent positive Jaws that have helped to further improve the cost to income.

The last question on your capital ratios, our minimum on the CET1 ratios stands at 15.5% as of Q2, above the Basel minimum requirement of 7.65%. The Pillar-I capital is at 9.15%. And finally, our total capital at 11.15%. We still have plenty of room to continue growing. Those capital ratios will be available as per our regular practice in our Pillar-III disclosure, which will be available early next week.

Naresh Bilandani
Managing Director, Jefferies

Q

Thank you very much. A bunch of questions, please, from my side. One, can you please confirm if the mortgage pricing rates that were moved up by SRC in June, have these had an effect of improvement in the NIM on the new mortgage origination, or has the competitive pressure not permitted a sufficient pass through into pricing? That's the first question.

My second question, Mr Abdulrahman, it would be very helpful if you can please elaborate once again on the securitisation action that helped you book again in the other income line in the second quarter. Did I hear that right, that it was done on personal loans? I'm just keen to understand, has such a personal loan securitisation transaction been conducted before, or was this the first time? Who was it securitised with? I'm just keen to understand some further on this transaction.

And third, there was news recently that some of the credit card fees have been modified by the regulator. It would be very helpful if you can please elaborate on how this could affect your future fee income, given the significant mix that you derive from the payments business. Thank you so much.

Majed Alrajhi
General Manager Retail, Al-Rajhi Bank

A

In regard of the mortgage NIM, yes, there will be an improvement, but it will be slightly, given the size of our portfolio and the increase, it will be slightly enhanced on the NIM side, and that is going to be on the long run. The eligibility for the customer will be reduced. That is, they will be having less eligibility. But we're expecting a good momentum in terms of growth in mortgage, especially in the last quarter, where we do see a lot of promotions and a lot of programmes coming from REDF.

I'll answer as well the third question, in terms of the new regulation of card that has been implemented by the regulator. There was some caps of cash withdrawal and foreign currency fees and other charges.

On the issuance side, there will be a negative impact, but Al Rajhi Bank has been taking actions in order to negate the impact on the payment fees income. And we have changed and made some amendments on our card features and rewards, and we don't see any material impact from the new rules. But on the other side, on the acquiring side, we will see impact positive, given that Visa has lower interchange costs, and that will give us an impact positively, and we expect increase in volume and acceptance on our merchant. And given that we have a 40-plus market share on the acquiring side. An overall impact, we see both side positive for our side.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

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Related to the third question, Naresh, on the securitisation. Yes, we have securitised SAR 2 billion of personal finance, which is originated by our sister company, Emkan. They've securitised it to a third party. And, again, what has been delivered is basically the NPV of the origination book versus the rate of what they have sold it at. This is, as I mentioned, part of the management initiative to improve profitability, liquidity, and capital.

Naresh Bilandani
Managing Director, Jefferies

Q

Understood. Thank you very much. Just a very quick follow up. Could your colleague kindly confirm the change that he mentioned about on the interchange fees? If you can please just elaborate more on that, that would be very helpful.

Majed Alrajhi
General Manager Retail, Al-Rajhi Bank

A

on the change of fees, regulation has been amendment by the regulator. Number one, interchange of certain local merchant has been reduced. The second, wallet and ATM withdrawal fees to be neglected to be zero. And the third, some international and foreign interchange has been reduced. I hope that is clear.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

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In a nutshell, what my colleague Majed has mentioned, on the issuing side, there is a negative impact, but our colleagues have taken some actions to negate that impact. Under acquiring, it’s positive, and this is one of the competitive advantages for Al Rajhi Bank. We have the largest issuing market share and acquiring, and we will continue to maintain our payment leadership over the medium and longer term, we believe the changes are positive for our fee income.

Murad Ansari
Equity Research, GTN

Q

Thank you so much for the presentation, and congratulations on a great set of results. A few questions around the results on the CASA deposit growth has been impressive for you guys. You mentioned I think your CASA ratios moved up to about 68.5%, so that's about a 100 basis points, roughly, a little over 100 basis point improvement. I'm just trying to understand, is that new to bank customer that's helping drive that improvement? Or a much focussed approach on generating CASA from existing customer base?

Also wanted to get your thoughts around mortgage growth. We saw strong industrywide numbers towards the end of last year. This year has been average, has been around that SAR 6.5 to 7 billion. I remember you didn't mention on the full-year call that part of it was linked to these activities around the housing market. But just wanted to get your thoughts on how you see the mortgage growth evolving. Are there any specific indicators you're looking at that could suggest mortgage growth could pick up?

And lastly, on your loan growth guidance, I completely appreciate your view. But just looking at numbers, you've had a very strong first half, I think around SAR 50 billion growth in total loans in absolute terms, your high single-digit growth guidance suggests maybe another SAR 15 to 16 billion net expansion in the second half. It seems like the corporate repayments side, you're expecting quite a bit of it coming through towards the end of year. Just your thoughts on that as well. Thank you.

Majed Alrajhi
General Manager Retail, Al-Rajhi Bank

A

Thank you so much for question. On account of the CASA growth and the customer base, we are continuing growing our customer base, but we have seen the CASA is a mixture of existing customer as well new customer that's joining the bank on the retail side, as well on the institution side. That is for the CASA growth.

As for the mortgage, if we look at the mortgage book, we have grown 15% year-over-year, and 5.5% from the beginning of the year, mainly supported by the off plan. And we introduced a new project coming from local and international developers. As of quarter two, we start to see, based on SAMA data, a slowdown on the sales for mortgage compared to quarter one. And that has been all due to the regulation that is expected on the land tax and the government initiative of affordability residential on Riyadh especially. However, the demand is expected to pick up in the fourth quarter, mainly because of new projects expected to come up as well on the Cityscape event that might be booster on that perspective.

Overall, we believe that the mortgage will continue the healthy growth in the long term, backed by the government initiative toward achieving the vision of 2030, where the goal to increase ownership to 70%, and now it stands at 65.4%.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

On the last question related to the loan growth, and I think I've answered that earlier. However, I would like to reiterate the management communication that we focus in value rather than volume. The management is looking to maintain and improve profitability, rather than chasing market share. If you ask our humble opinion, the growth outlook on the loan book over the medium term is still healthy in corporate and SME, retail, etc. It’s just a matter of that we would like to make sure that we improve the NIM and improve eventually the ROE over the medium term. Having said that, I don't think that our loan portfolio is conservative. We will continue to monitor the operating environment and take actions accordingly.

Jon Peace
Head of MENA Equity Research, UBS

Q

Hi. Thank you. The first question, please, is on cost growth and whether we should expect the underlying growth to continue around the 10% level in the medium term, as you invest in the business and improve your cross-sell?

And the second question is back to securitisations. How quickly do you see this developing for Al Rajhi and the industry more broadly? Do you think it would start to have a noticeable impact on loan growth and on other income from gains, maybe as soon as next year? Or is it more of a longer term development? Thank you.

Abdulrahman Alfadda
Chief Financial Officer, Al-Rajhi Bank

A

on the cost growth, Jon, although that our OpEx have increased by 10%, as a management, we are not shying away from investing a single riyal, as long as we see that we'll have a better opportunity to further improve our operating income. I will reiterate our earlier comment, that the management focus is to deliver at least 150 basis point positive Jaws between the growth of the operating income versus operating expense.

As far as the securitisation, if you recall, a couple of years ago, we securitised almost SAR 13 billion of our mortgage book. This is probably the first time that we have done it for personal finance through our sister company. We have the know-how, documentation, processes, system, all are in place. This is something that we are evaluating on a regular basis. As long as we believe that there is an opportunity for us if we securitise, that will help us to underwrite more, to further improve the NIM over the medium term and improve the profitability, we will definitely take that call.

Operator: Thank you. And I would now like to hand the call back to MD and CEO, Mr Waleed, for closing 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, as I mentioned, of our results for the first half, and we will continue to achieve our strategic goal of this year and beyond to achieve our 2026 strategy. We look forward to meeting you on the next earnings call. Thank you