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## Presentation

### **Mazen Al-Sudairi:**

Hello everyone, thank you for joining our earnings call and broadcast for the third quarter of 2020. This is Mazen Al-Sudairi from Al Rajhi Capital, your host for the call.

With us today on the call are Al Rajhi Bank CFO, Abdulrahman Al-Fadda and the CRO, Abdulaziz Al-Resais. Unfortunately, the CEO Waleed Al-Mogbel will not be able to make it for the call today due to unforeseeable emergency.

I will hand over the phone to the CFO to start with the presentation. After that, we will open the floor for questions and answer, and can also ask any questions you may have throughout the webcast. Abdulrahman, please.

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### **Abdulrahman Al-Fadda:**

Thank you, Mazen. Good morning, good afternoon, good evening, ladies and gentlemen. Welcome everybody, and many thanks for attending our Q3 earnings call. I would like to wish you all the good health during the challenging time. Once again, the CEO passes his apologies for not being able to attend, due to an emergency condition.

I would like to touch base on the current operating environment during Q3 with a quick brief. We have been operating at 100% capacity, and strong measures have been taken by our command centre to ensure the safety of our employees and our customers. We have demonstrated our digital leadership during the crisis with our broad digital offering to our customers.





Our participation in the various government initiatives is a representation of our continuous support of the MSME sector, the health sector employees, in addition to the fee waiver for all the customers that we have introduced in our digital and branch network. Nevertheless, we have performed very well, taking into consideration the operating environment that we have seen over the last few months.

On the first slide, the management summary highlights, on the strategy side, I believe that we are on track. We've seen a good result, and have been accelerating our growth and our financial KPI matrices.

Also, we are moving ahead with improving our customer experience metrics that we usually track on a regular basis. And also digitizing customer journey that we have delivered over the last nine months.

In terms of the balance sheet items, we've seen a strong Retail financing growth of 21% Retail. Current Accounts we delivered almost 12%, year to date growth. Our capital adequacy at a healthy level, at around 19.3%, and Tier 1 at 18.2%, and Liquidity ratios at a very comfortable levels, where we have LDR at 80%, LCR at 150%.

On the asset quality, we have taken additional provision. Our net provision charge has increased to 46% year-on-year, taking into consideration the current environment. Our cost of risk for the period, came at around 78 basis points, and our NPL ratio at a healthy level of around 84 basis points with NPL coverage ratio standing at 293%.

On the operating results, we've delivered for the nine month period, a net income before zakat around SAR 8.3 billion, which is a contraction compared to the same period last year, of around 4.5%. Taking into consideration the current yield environment, as well as the instalment deferrals and the fees waiver initiatives that have been taken this year.

Our yield income growth has shown a 1% growth year-on-year, and non-yield incomes have grown 15% year-on-year, mainly driven by the digital , payments and our brokerage fees.





Moving onto the next slide. In terms of our strategy overview, we are continuing with our final year of our ABCDE 2020 strategy. I will give you few highlights. On the A pillar, we've seen a good growth in our mortgage. Our mortgage books stand at SAR 88.4 billion, 88% year-on-year growth. Our current accounts have grown by close to 12% year-to-date.

On the B pillar, we continue to improve our employee engagement, which stands at around 66%. We have been seeing a continuous improvement. +36,000 of training days have been delivered since the beginning of the year, virtually.

On the C pillar, continuous focus to improve our customer experience. we've introduced 15 new products this year. Our mobile app is considered to be one of the highly rated apps in the kingdom. 4.7 rating with 1.2 million reviews. A net promoter score at around 62% and we continue to improve our customer experience.

On the D pillar, our active digital users stands at around 7.2 million, and continue to improve further, and our digital to manual ratio is at around 80:20. And if you recall, in 2015, when we started our transformation journey for the digital side, it used to be around 40:60.

Finally, on the E pillar, we've been increasing our bots to automate the processes and improving the turnaround time for the transaction. Our total number of transactions have gone up to 325 million, which is close to a 43% higher compared to 2019.

On the macro side, the IMF have revised the global GDP forecast for 2020, and subsequently for Saudi, where they revised the GDP contraction to be 5.4% versus 6.8% earlier in the year. However, our internal forecast is around to be 4.7% contraction this year, with an expansion in 2021 of a close to 3.1%.

On the physical side, Ministry of Finance have retreated the budget figures for this year, with both the revenue and the expense are in line with the initial forecast, and the total deficit estimated to be around SAR 300 billion for this year, which is close to 12% of GDP. Inflation has picked up, or expected to be this year around 3.6% due to the VAT increase in July.

Moving on, we've seen a healthy growth in the overall banking system. This data, as of





August, the total loan portfolio has grown by SAR 143 billion, year-to-date, close to 10%. Deposits have grown by SAR 70 billion, year-to-date around 4%. And the headline LDR came at 75.3%.

The mortgage, as of June, the total mortgage outstanding portfolio balance, based on SAMA figures, around SAR 250 billion. However, the mortgage new origination, we have seen a good pickup, the total mortgage new origination until August reached around SAR 80 billion which is almost 97% increase year-on-year.

On the economy side, we've seen a positive sign since the economy opened up after the lockdown. Some of the positive signs that we have seen, the PMI, the cement sales, and also the total consumer spending.

Consumer spending has contracted 6.6% year-on-year, mainly driven by lower ATM withdrawal by 17%, and a higher point of sales spend by 19%. Which shows the positive migration in terms of the cashless society which is one of the key pillars of the government 2030 vision.

On the stimulus package that has been announced since the start of the pandemic, and I think this is a standing slide that we've been showing in our earning calls. However, there are three items that has been introduced recently. One is, the reduction of the VAT on real estate transaction from 15% to be replaced by the sales tax to be around 5%.

Also, increasing the threshold for the first home buyer, VAT waiver, from 850,000 to almost SAR 1 million. Finally, the extension of the SME deferral that has been announced in September, which will expire in mid-December.

In terms of our financial result highlights, our balance sheet has seen a good growth, compared to Q2, close to a total 3% growth. Mainly driven by the growth that we've seen on the financing portfolio, which has seen a growth of 5%.

Total financing portfolio, as of Q3, around SAR 290 billion. The total financing portfolio year-to-date, as you can see it on the bottom right side of the chart, we've seen a growth of close to 40 billion, 16% growth, year to date. Retail portfolio represents 78% of our total financing portfolio.





total customer deposit, SAR 33 billion increase, year-to-date, around 10.5% year-to-date growth.

Zooming in, into the asset driver, out of the SAR 46.2 billion that we have grown, year-to-date, SAR 40 billion is coming from our financing portfolio growth. To zoom in further, out of the 40 billion, 38.5 billion growth are coming from Retail which have grown 21% growth, we have seen so far.

On the current accounts, we've seen healthy growth, 12%, SAR 33 billion. So, the key message on this slide, is that we keep leveraging on our Retail franchise, and we've been growing our Retail book, both under financing as well as on the customer deposit side.

On the net income, our net financing income for period has grown by 1% despite the rate environment and the modification loss as well as the fee waiver. The fees and the other income have grown 15%, which will bring our total operating income growth, year-on-year, of around 3%.

Our operating expenses have grown by 7%. Our net provision charge has grown by 46%, which has seen the decline in our net income, by 4.5%. On a sequential basis, our net income for Q3, which is around SAR 2,963 million has shown a 9.1% growth, compared to Q2.

On a sectorial basis, you can see one of the key highlights over here, that our sister company, Al Rajhi Capital, who's hosting this call today, have doubled their net income in the first nine months, compared to the nine months last year. In Q3, we've seen the average daily volume in Tadawul has increased to SAR 8.8 billion versus SAR 3.5 billion, same period last year.

So, there is a volume growth. In addition, they have managed to increase their market share from 12% to 18.5% year-to-date.

On the operating income, as I mentioned, we have grown 3.1% year-on-year, mainly driven by the growth that we have seen from the fees from banking service, which have increased by close 17.3%. The reason is for the improvement that we have seen in the revenue, both on the digital, the payment and the brokerage fees which I have mentioned





earlier.

Our NPM contracted 8 basis points compared to Q2, and 49 basis points compared to the same period last year. And if you can see the waterfall in the right bottom side of the chart, 13 basis points is coming from the modification loss that we have taken, year-to-date. 8 basis points, the fee waiver initiatives, which has expired last month. 48 basis points due to SAIBOR movement. SAIBOR have declined 145 basis points this year, compared to the same period last year.

And finally, we managed to deliver 14 basis points improvement due to the management action which is mainly improving our Retail mix.

On the expense side, our cost to income ratio has slightly increased to around 33.4% for the period. Our operating expense for Q3 has increased 8% compared to the same period last year, mainly driven by the staff costs as well as the increase on the G&A, which has been mainly driven by higher IT costs, to improve the IT resilience as well as improving our digital offering.

On the asset quality, our net charge for the period stands at SAR1.6 billion, which is almost 46% year-on-year increase. We'd like also to highlight that the transformation program that we have delivered in our Retail recovery, and a collection team have paid off. We have seen our recovery has increased by 35%, year-on-year. That negates the gross charge increase which we have had. Gross charge increase is around 66%, year-on-year.

Our NPL stands at around 84 basis points versus 102 bps in June, mainly driven by the improvement that we've seen on the Retail portfolio, where the Retail portfolio has seen a better quality, and an improvement on the NPL. Our Retail NPL stands at around 26 basis points. Finally, we top up our NPL coverage. Our NPL coverage stands at around 293%.

96% of our financial portfolio is stage one, which is very healthy and very well positioned, compared to the market. In addition, we've been applying a prudent risk management, where we are topping up our overlays and reviewing it accordingly. In addition, we are reviewing our ECL model on a regular basis, which we have updated in Q2 this year.

Finally, our stage coverage are still healthy. Stage one stands at around 96 basis points,





stage two at 25%, and finally stage three coverage at 85%. Well ahead in terms of the industry coverage in Saudi.

Liquidity trends; I think we're enjoying a very comfortable liquidity position. Our LDR at 80%, stable HQLA movement for the year. LCR and NSFR are well ahead compared to the regulatory requirements.

On the capital side, our total risk weighted assets have increased by almost 11%, mainly driven by the credit risk increase due to the financing portfolio increase that we've seen year-to-date. Total capital have increased by 7.5%. Our tier I capital, we've seen at 18.2%, and if you can see on the left hand side of the chart, our movement on our tier I capital, you can see that we have generated close to 65 basis points of an internal capital generation so far, year-to-date.

On the return side, our earnings per share keep improving sequentially. The total for the period earnings per share stands at close to around SAR 3. Return on equity has improved by 38 basis points compared to Q2, standing at around 19.16%, and also our return on assets at around 2.48%.

This is the slide that we have put in our Q1 earnings call, to highlight what are the challenging environment that we are witnessing, whether be it on the pandemic, on the rate environment and the oil prices. And to show what are the key focus areas for us and what is the management delivery.

16% financing portfolio growth, mainly Retail. Healthy NPL of around 84 basis points. Cost of risk is 78 basis points. Healthy liquidity ratio of around 150% LCR, and loan to deposit ratio of 80%. And finally, our net income has declined by 4.5%. However, our Q3 versus Q2 this year has improved by 9%.

Finally, on the guidance given what we have delivered so far, and what our views on the remaining part of the year, we are upgrading our financing portfolio guidance, to be high-teens digit growth. We have kept our NPM to be within the range of -55 to -35 basis points contraction this year, versus -50 basis points, year-to-date.





We kept the guidance for cost income ratio to be below 33%. Cost of risk, we take into consideration the health of the portfolio and the improvement that we've seen in managing the portfolio. We are revising downward, our guidance on the cost of risk to be between 70 to 90 basis points. And finally, the other ratios are the tier I capital and ROA, we kept the guidance unchanged.

Once again, thank you for joining our call, and apologies for the technical difficulties that we have witnessed at the beginning of the call. Operator, back to you.

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## **Operator:**

Thank you. Ladies and gentlemen, if you would like to ask a question, you can do so now by pressing star, followed by the number one on your telephone keypad, or if you've joined us online, you can press the flag icon now. Our first question comes from Naresh from JP Morgan. Naresh, your line is now open. Please go ahead.

## **Naresh:**

So, on asset quality, as you have it clear, my questions previously, Abdulrahman, were on the mortgages. One was on the growth. Just trying to understand how the growth trend is likely to look like over the medium term, on the mortgage side, say, if we were to peak off this time next year.

And the second one is on the pricing, as you had earlier that the APRs were 5% to 6.5%. I think about 80 to 100 lower as compared to the pre-COVID levels. What would you say is the range currently inside the portfolio? Thank you.

## **Abdulrahman Al-Fadda:**







Sure, so the mortgage growth, and I think we've been saying that it is a phenomenal growth of 88%, and we believe that the growth will slow down eventually.

However, there are a few positive signs, that we've highlighted at the beginning. The reduction on the VAT from 15% to 5%. The increasing the threshold of the first home buyer, of the VAT waiver from SAR 850 to SAR 1 million. These are very supporting encouragements to be able to feel in the growth in the mortgage.

However, We believe on the increase in the next couple of years will slow down. We believe that the mortgage will at least, I think, the range between a minimum, at least 30% on a GAGR basis for the market. That's our forecast. Definitely we're in various discussions with the Ministry of Housing, and we are adjusting our forecast and our operating environment related to the mortgage factory accordingly.

On the pricing side we have not seen any movement on the pricing from our last earning call. The range that we have highlighted, Naresh, is almost exactly what we have seen, around 80 basis points contraction, compared to May level. When REDF is putting the reference rates as the minimum benchmark for the banks to offer the mortgage to their customer. Otherwise the subsidies will not there.

We have not seen any changes so far. Things might change, but as we speak, I don't see any further changes in the short term, and our guidance that we have we provided for the full year, it's taken into consideration that. On the asset quality, we have our CRO, and I think he will pick up that question.

## **Abdulaziz Al-Resais:**

Thank you, Abdulrahman. Thank you, Naresh, for the question. The improvement on the forecasted cost of risk is driven by three elements. One of them is the portfolio growth, as you mentioned, but also the mix of the portfolio. As we continue to have increased exposure to the Retail customers, they tend to be a better-quality customers in terms of the granularity of the portfolio, hence the incremental level of delinquency and NPL becomes more manageable.





And the third element is what I mentioned previously in our Q2 earnings call, and what was mentioned by Abdulrahman in this call, which is the continued improvement in our recovery and collection execution. As well as continued employment or deployment of analytics, to better score and better onboard our customers. Hence, overall, the quality of the portfolio keeps improving.

**Naresh:**

Understood. Thank you very much to both of you. Appreciated.

**Operator:**

Thank you. Our next question comes from Waleed from Goldman Sachs. Waleed, please go ahead, your line is open.

**Waleed:**

Thank you very much. Good evening, thank you for the presentation. Just a couple of questions from my side. First, I just wanted to get your thoughts on, once the deferrals expire, I just want to get a sense of how much of these expire and when?

I just want to get a sense that once these deferrals expire, what impact do you expect on cost of risk, and what impact you expect on, let's say liquidity or growth. And the reason why I ask is, you were referring to it in the previous discussion or the previous discussion, the question. It seems that the credit quality cycle for you, as well as the broader sector, has been limited to one quarter, which was effective the second quarter. And then things have normalised quite quickly.

So, I was just wondering if it is to do with the strong liquidity support that comes from SAMA. And we are going to see perhaps cost, if it's not going up materially, but remaining elevated for some time. So, I just wanted to get your sense on what impact is expected





once the deferrals end? That's one.

And secondly, I just wanted to get your thoughts on any further communication from the central bank on dividends and where you sit in terms of the capital position. What options are on the table during the second half? Could you recoup some of the dividends that you did not pay in the first half?

And is there any gaps on pay-outs for the second half? We've seen certain regulators capping dividend payments for 2020 on the basis of second half earnings. So, just your thoughts on these two questions please.

## **Abdulaziz Al-Resais:**

Thank you Waleed. I'll take the first part and Abdulrahman will take the second part. So, if you recall during Q1, we've taken a provision, basically charge, that was outside, compared to previous years, and compared to previous quarters. That was based on the analysis we've done for the at-risk or high-risk sectors, particularly the SME sectors.

We continue to refine that analysis, and we continue to drive our provision forecast and cost of risk forecast on that basis. What we have done in terms the deferral program is that we continue to evaluate the ability of these customers to meet their obligations, irrespective of the deferral.

Irrespective of whether they have the first deferral or the second deferral, and we do that by doing monthly calls with these customers, as well as monitoring account turnover and their cash turnover into our accounts. So far, we have built in all the expected stress that we could see in that portfolio, through the forecast cost of risk that we've highlighted. For the second part, I will leave Abdulrahman to answer.

## **Abdulrahman Al-Fadda:**

Thank you Waleed for the question. Again, we have not received any formal guidance from SAMA on the dividends pay out.





What we have done in the first half, when we have evaluated our capital position, and we've taken a call that it's too early, given the environment. And especially with what we have seen globally now, where there are few countries entering in the second wave. Number of cases are starting to rise again. So, we've taken a prudent position to refrain from paying a dividend for the first half.

As far as the second half, as I mentioned, we have not received any formal guidance from SAMA, as we speak. Our dividends announcement for the second half is usually in January, February next year. We are evaluating the position, and based on the situation, we will recommend to our board, and once the board endorses, we then seek SAMA's approval.

So, I think it's too early, for the time being, to communicate, and hopefully later part of the year or early part of 2021, we'll be in a better position to provide further colour on that outlook.

**Operator:**

Our next question is from Hootan from Bank of America. Hootan, your line is open, please go ahead.

**Hootan:**

Thank you very much. I really wanted to just take a quick look at asset quality. You were mentioning that you have started to see some momentum in recoveries. So, I'm just keen to understand what's driving that, and what your aspirations are for recoveries going into the end of this year and into next year, and if that could further help to keep cost of risk under control for next year.





## **Abdulaziz Al-Resais:**

So what we've done, basically to drive that momentum, is three parts. First, earlier during the year we focused on efficiencies and the recovery and collection process, and we focused actually on the recovery process.

This is post write off, where we try to reduce the write off backloads, so that we recover some of the write offs that we've done during the year. We've achieved that by employing, again, analytics. By employing better automation in terms of processes and by employing better training for our team, including improved technology tools.

The second element focuses around moving up the ladder, so that we start to tackle problem loans early on, through early warning signals. And through, again, employing analytics, to be able to detect, early on, at-risk customers, and we manage to get either in touch with them or we start collection activity before it becomes a write off, and before it becomes a recovery.

So, over time, we hope that we start to reduce the level of write offs that you are seeing in the portfolio, and we start to improve our collection activity, and hopefully that should be sustainable through additional employment of technology tools into 2021.

## **Hootan:**

Understood, thank you. Can I just follow up with one other question? We've obviously seen the announcement of the mega merger. This is going to now create Retail huge asset base, not too far from yourself.

How do you think this is going to change the market for yourself? What market opportunities do you see? What risks do you see? We'd love to hear your thoughts at this juncture.





**Abdulrahman Al-Fadda:**

Sure Hootan. A, we would like to wish our colleagues NCB & Samba all the best in creating the National Champion. Secondly, the way that we see it, honestly, and I think this creates an opportunity for us in the short to medium term. I'm not referring to their business model. I'm referring to the general lessons learned from some of the M&As that happened, whether regionally or globally.

Usually the focus, at least in the 12 to 18 months of any M&A activities is mainly internally focused, consolidating systems, policies, procedures, optimising networks. And looking at people, looking at the customer exposure, etc.

From our position, the short to medium term, and I think it's creating an opportunity for us to grow our market share in all our financial matrices that we track. However, in the longer term, definitely we see it as a risk and a challenging situation.

However, it will keep us on our toes in terms of delivering improvement in our customer experience, improving the value proposition to our clients, improving our analytical tools to be able to address the customer requirement and innovate new products etc. Again, that's our take on what we believe the announcement is, and I hope this answers your question Hootan, thanks.

**Hootan:**

Thank you so much.

**Operator:**

Our next question comes from Shabbir from EFG Hermes. Shabbir, please go ahead, your line is open.





**Shabbir:**

Hi, thank you very much. I just wanted some clarification actually on some of the answers that you've given. On mortgage, I think you suggested that you're expecting a slowdown, but I think you said you're expecting growth CAGR of about 30%. I just wanted to check if I heard that 30% correct, and what period is this referring to.

Secondly, you made a point about a reduction of threshold, I think about on VAT. I just wanted a clarification on that point. I think you were explaining the growth drivers for the mortgage segment.

Another question that I had was on SAMA deposits, the free deposits that SAMA has placed with banks. Was there any new deposits that replaced, with the banks, in the third quarter, on top of the ones that have been announced under the two programs earlier?

And finally, on margins, if you look at the third quarter margin, can we see this as a good level in terms of forecast, in terms of our model? Can we expect this to be a level where you should be trending at in the short to medium term, or there is still going to be more downwards pressure because of lower rates? Thank you.

**Abdulrahman Al-Fadda:**

So, Shabbir, I think what I have said in terms of the mortgage growth, I mentioned that we are expecting the mortgage growth in the market to slow down, from +90% growth to normalize at +30% growth. That's our internal forecast. So, that's not a contraction. It's basically a slowdown from the phenomenal growth.

The market still will continue, and we believe that this is our internal again. We'll keep refining those forecasts, accordingly, to various discussions with the government, and also take into consideration the market condition.

As far as the second part of your question, related to the threshold, what I have mentioned is, previously the government has been waiving the VAT amount for the customer, provided that if he is a first home buyer, the amount is up to SAR 850,000.





What has been announced recently, and I think it was the beginning of October, that the threshold has increased from 850,000 to SAR 1 million. So, that, I think, will hopefully continue the growth into the mortgage market.

In terms of the deposits, yes, we have taken in Q3 close to SAR 674 million of free deposit from SAMA which is related to the extension that has been announced. The extension of the SME exposure for three months, and we have taken SAR 674 million for a period of 1.5 years at zero rate. That's on the liquidity.

Finally, on the NPM side, from our perspective, A, we don't expect any further modification loss in Q4. The fee waiver have already expired, so it will not have an impact on Q4. Actually, it will have a positive impact. Pricing on the mortgage and other personal Retail financing were not expecting that much of a major impact,

However, SAIBOR currently stands today at around 85 basis points, and our exit track for this year is I think in the range of 75 basis points. So, that could be a small, but I think it is in line of the guidance that we have provided, which is -55 to -35 contraction on NPM, thanks.

**Shabbir:**

So, just to be clear, so SAMA provided some of additional deposits for the three-month extension on the SAMA deferrals?

**Abdulrahman Al-Fadda:**

Yes, indeed.

**Operator:**

Our next question comes from Saul, from Morgan Stanley. Please go ahead, your line is open.







**Saul:**

Yes, good afternoon, two questions. First of all, on the non-subsidised portion of your mortgage loan book, are you seeing any pickup in refinancing activity or requests for refinancing for customers to get to, to benefit from low rates, please. And then secondly, with respect to the 5% property sales tax, am I correct in thinking that previously the VAT did not apply to sales of existing homes and only sale of new properties.

And so therefore the property sales tax of 5% is actually a new tax on sales of existing... Sorry, on sales of existing properties? And if that's the case, actually, are those sales of existing properties still very, very small as a share of your new mortgage assurances, that's something that could have an effect on your business. For example, by making existing properties less affordable for buyers.

**Abdulrahman Al-Fadda:**

On the first part of the question, no, we have not seen any refinancing on our mortgage book.

In terms of the second part of the question related to the VAT, let me explain. I think the VAT has been applicable in Saudi since January 2018, where there has been a 5% VAT on the usual products and services. Since the circular has come from the Ministry of Finance, the government back in 2018 has taken away the VAT on the real estate, provided with the condition that it's a first home buyer, and amount up to SAR 850,000. That has been applicable since the beginning of 2018.

However, if you recall back in May, when the government announced the increase of the VAT from 5% to 15%, effective from 1st July, it was applicable to the real estate transaction from the beginning of July. However, the revised circular that came, I think last month, or earlier this month, is basically removing the VAT on the real estate and replace it with a new stamp duty 5%

However, Ministry of Finance have increased the threshold for the first homebuyer, up to





1 million, which we believe that's a positive sign and a positive momentum to be able to help the continued growth in the mortgage. And in line with the government 2030 vision to increase homeownership for the Saudi households.

**Saul:**

Thanks very much.

**Operator:**

Our next question comes from Nauman from NCB Capital. Your line is open, please go ahead.

**Nauman:**

Thank you, I just wanted to know how much is your mortgage book currently, of the total book size? And what is threshold for the total? For example, it'd be comfortable with, total book size? The benchmark for you? The maximum that you think that there will be of your loan book, the mortgage?

**Abdulrahman Al-Fadda:**

Current mortgage portfolio represents 39% of our Retail portfolio. Also, it represents 30% of the entire financing portfolio. Now, we've been saying that the current mortgage exposure, as a percentage of the overall portfolio, for a commercial bank, and I think it's still comfortable. And if you compare it with the international standard, it's still at a healthy level.

Nevertheless, there is an internal risk appetite, the matrices that we monitor through our asset and liability committee, through our risk management committees and also various





committees within the organisation.

Those internal risk appetite matrices are much more conservative compared to the regulatory requirement, whether it be on the liquidity, whether it be on the capital, whether it be on the risk on the backend book etc. And as we speak, and I think we still have plenty of room to grow on mortgage, and we'll continue to leverage from our Retail franchise.

And we'll continue to focus on the mortgage, because that is the bright spot for the Retail financing in Saudi. Secured, salary assigned and government employees.

**Nauman:**

Done in study, what is the total size of the mortgage market, or potential size of the mortgage market.

**Abdulrahman Al-Fadda:**

Sure, our mortgage market share as of Q2 was standard around 35%. Q3 is not out yet, but we believe that giving the growth that we've seen in Q3, we believe as well, we'll pick up market share in mortgage.

Now, in terms of size or quantifying, and again that's an ongoing exercise that we are doing on a regular basis. We monitor it monthly, through our risk team, and ALM team in Treasury. So, we still have plenty of room to grow. We cannot quantify how much we grow at the time being, but then I think we can pick up a good market share eventually.

Nauman: So, what do you think the total market of mortgage would be at this moment of time? You say 35%, so what would be the total mortgage market potential be? Not your level of mortgage, but the total market of mortgage?





**Abdulrahman Al-Fadda:**

I think you can see it from some of the figures that SAMA produced on terms of what are the total mortgage. If I recall, I think that one of the slides that we have mentioned, and I think is close to SAR 250 billion outstanding, as of only June. Also, we've seen also the mortgage new sales pick up handsomely, especially after the lockdown has been removed. So, hopefully that answers your question, Noman.

**Nauman:**

Thank you, thank you very much.

**Operator:**

Our next question comes Waruna from SICO Bank. Please go ahead, your line is open.

**Waruna:**

Hi, thank you very much. I have a couple of questions. The first one is about the assets growth in the third quarter. What I can see is that this growth similar to your loan growth, which is primarily mortgage. Could you reiterate, was there any change in the risk weighting between the two quarters?

**Abdulrahman Al-Fadda:**

No, there has not been any changes to our calculation of RWA. Still the mortgage addresses 50% RWA for the mortgage. For Retail financing it's 100%, and the rest is based on the risk base approach. However, the credit risk RWA increase is not only financing. It's covered investment, it covered the other assets etc. So, you cannot correlate that growth in the credit RWA versus the growth in their financing.





**Waruna:**

So, the primary could have come from the investment side, right?

**Abdulrahman Al-Fadda:**

Could be one, but then the credit risk RWA is the total credit exposure for the balance sheet, including financing and investment and any other credit risk related items.

**Waruna:**

Okay, and my second question is on the mortgage. From the government, now they are moving into the second phase of the housing plan. Now there was recently the Ministry of Housing want to evaluate the way they incentivised this program. So, do you think there will be any more changes going forward to the way they in terms of medium terms of subsidies or any other form of incentives? Do you expect to see some changes going forward?

**Abdulrahman Al-Fadda:**

Unfortunately, I cannot comment on behalf of REDF or Ministry of Housing on that aspect.

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**Operator:**

We currently have no further questions, so Mazen, I will hand back to you.

**Mazen Al-Sudairi:**

Thank you all. Thank you very much Abdulrahman. Thank you Abdulaziz and have a nice day.

