Presentation

Operator

Ladies and gentlemen, welcome to Al Rajhi Bank's First Quarter 2019 Earnings Call. I will now hand over to Amr Sager, Head of IR. Sir, you may begin.

Amr Sager, Head IR

Hello everyone. It gives us great pleasure to welcome you to Al Rajhi Bank's earnings call and webcast with management to present first quarter 2019 results. You can download a copy of the presentation from the webcast link. Financial statements and material will be available on our website early next week.

With us today are

- *CEO, Steve Bertamini*
- *CFO, Abdullah Alkhalifa*

We will start with Steve who will give an update on the business performance and the progress we have made on our 2020 strategy and then Abdullah will provide details on the financial results. We then will open the call for Q&A. Let's start. Steve, over to you.

Steve Bertamini, CEO

A warm welcome to everyone. As you are aware, this is our second analyst call and we are going to present to you and discuss our first quarter 2019 results.

If I can take you to the first page of the presentation, I just want to give you a quick update on some of the highlights for the first quarter. Our "ABCDE" strategy continues to remain on track and as you have seen from our results, also continues to deliver. We have seen continued growth in mortgages. We are actually 34% up year-on-year, good customer loan growth and we have been expanding our net profit margin. Our customer service digitisation and new products also continue to do well and we will discuss a bit more the progress in a moment, and we expect to see continued good performance through the balance of the year.

In terms of the key operating results, first quarter net income was up 21.1% year-on-year at 2.9 billion. We saw 12% operating income growth from improvements in yield. Our cost-to-income ratio continued to improve. We continue to have stable cost of risk and we have seen good net profit growth across all our businesses. Q1 also is a record for us in terms of operating and net income. As you can see, our return on equity continues to do very well. Balance sheet strength remains solid; we continue to have record growth in our non-profit bearing deposits. We remain very well capitalised and we saw early strong growth across our businesses when it came to loans.

If I take you to the next page for some of you that may be new, I just wanted to briefly recap the strategy that we put in place back in late 2015. It consists of five key elements:

1. Accelerating growth
2. Becoming the employer of choice
3. Customer focus
4. Digital leadership
5. Executing excellence

Which we call our "ABCDE" strategy.

In terms of **accelerating growth**, the key focus we have had since 2015 is to diversify our income by focusing on mortgages in particular in the retail sector, and also increasing the contribution from corporate and Treasury. One of our key objectives back then was to improve the yield and to do a better job cross-selling both within and across the businesses.

In terms of **becoming employer of choice**, we have continued to invest in our people, continuing to develop new programmes, increasing training and also a lot of activities surrounding improving the quality of the benefits they have and some of the services that we offer to them, and we have seen increased engagement which we will share with you in a moment.

Customer focus has been all about improving our customer experience, and we use a metric that we call Net Promoter Score. For those of you that may not be familiar with Net Promoter Score, we ask our customers one simple question, which is "How likely are you to recommend our products and services to a friend or colleague?" If you give us a 9 or 10, you are a promoter i.e. you think we're doing a very good job and you recommend us to your friends or colleagues. If you give us a 1-6, you believe that we're not very good and you would not recommend us. And then people in the middle, we consider neutral. We simply subtract promoters from detractors and that is our Net Promoter Score. When we first started measuring this via a third party, we were number seven in the Kingdom, we now moved to the number two position and we are very close to achieving our goal of being number one in the country. We have also done a lot of work to improve our value propositions. We have launched over 12 new products in the last 12 months, and we continue to empower the front line to be able to take better care of our customers and deal with any issue they have the first time they speak to us.

Digital, as all of you know, strategically critical for banks across the globe. We continue to see acceleration of number of customers who are actively using our digital channels. We shared with you in the last call that we grew our active digital customers by over 1 million last year, and we have seen in the first quarter this year already, in excess of 500,000 new active digital customers. We also continue to do a great job of migrating customers to digital channels.

Of course, our focus on **execution excellence**, ensuring that we deliver both financial and non-financial KPIs have allowed us to continue to deliver strong results.

On the next page, I just briefly want to touch on some specific metrics that really show what we have been able to accomplish going back to 2015 to first quarter of 2019. Last year, we showed you 2015 to 2018. Continued the strong growth in operating income, 34% year-on-year growth in mortgages. We also saw continued strong growth in current accounts, over 5%, and very good expansion of margins, which Abdullah will speak more about in a moment.

You can also see that our mortgage book going back to the end of 2015 has grown by over 70% at the end of the first quarter to over 36 billion.

On the employer of choice, I touched on some of the initiatives we have; the graduate programme, the leadership academy, and we already conducted over 8,000 days of training during the first quarter. You can also see we continue to increase the percentage of females that we have in our workforce.

In terms of customer focus, I touched on the 12 new products, some examples over the last 12 months include securitisation, supply chain finance, point of sale financing for SME, and quite a few products in conjunction with Ministry of Housing on REDF in order to provide more choices and support for Saudi citizens who are eligible for a home.

Also, from a branding perspective, there is a recent study that went out which talked about the most innovative brands in the Kingdom, we are number seven in the country and we are the first Saudi brand to achieve that; any brand in the country was behind us, so we are very proud of the fact our brand strength is also increasingly seen as very innovative, which is very important in the digital world that we all live and will continuously expand

You can also see the Net Promoter Score that I mentioned before. This is the improvement in the score, and what I shared with you before is what that score is relative to competition, which ultimately is the most important metric.

When it comes to digital leadership, I shared with you the growth we have had in active digital customers. We continue to rollout self-service kiosks. We have already rolled out 15 in the first quarter and we're going to accelerate that as the year goes on, and we continue to see very strong growth in active digital users.

Execution excellence, we remain committed to implementing technology to help us increase our productivity and you can see some of the benefits of the strong top line growth while managing costs in the 800 basis point positive Jaws we had during Q1 and the continued improvement in cost-to-income ratio. You can also see the number of transactions continues to grow.

For those of you that may recall what we shared with you at the end of the year, as of December last year, it was 172 million and we reached 200 million by the end of the first quarter.

Without any further details until we get questions, I will now hand over to Abdullah to give you an update on the financial results.

Abdullah Alkhalifa,CFO

Welcome everyone. Thank you for taking the time to dial in. As mentioned earlier during the call, our net income has increased by 21.1% year-on-year driven mainly by the growth in the top line. Our total operating income increased by 12%. The main driver for the growth in the top line has been the growth in the yield income. We have very strong growth on yield income, 14.6% year-on-year, and the main reasons for the improvement in yield income has been the expansion on Net Profit Margins (NPM). We picked up 46 basis points compared to the full year last year, and compared to Q1 last year, we picked up 62 basis points in NPM.

This is possibly a question that some of the analysts have been raising in terms of reclassification that we did in this quarter, so I want to touch on this since we are talking about the yield. On the bottom right side of the slide – page number five – you see the difference between yield with fees and yield without fees. It has been a market practice in the country to amortise the financing-related fees against fee income and based on advice by our auditors and also appearing to be a new trend in the market, we have decided to amortise these fees now against yield, so we have reinstated 2018 Q1 numbers.

In this earnings call, we have shown both for you. If you look at the numbers at the bottom, these are the pure NPMs expansion based on the old methodology, and on the top line you see that the NPMs which includes, now, the amortisation portion of the finance-related fees.

Now, yield income – the expansion that we have seen in Q1 has been more than we expected and I will come to the guidance on the NPMs expansion, but note that the average SAIBOR in Q1 compared to Q4 higher by four basis points, yet, the SAIBOR at the end of Q1 this year compared to the beginning of the year actually declined by 11 basis points. We had very strong growth, as Steve mentioned, on current accounts and very solid growth on the mortgage side, and the mortgage, obviously, is a higher yield product for us compared to other products in retail. As a result, our yield income increased by SAR 503 million compared to the same period last year.

Fee income, had reasonable growth, 3.9% year on year. We had very good performance on electronic-related services, whether it is SADAD fees, point-of-sale or credit cards, all these related fees have improved by 38 million. Cash on trade also improved by 20 million, but when we look at the brokerage side, as you recall, if you look at the market volume in the first quarter there was a 25% decline year on year. As a result, brokerage income was lower. Brokerage, slowed the growth in fee income.

If you look at the top right side, you see that our cost-to-income improved by 220 basis points from 31.7% for the full year last year to 29.4% for Q1, and our cost of risk has been similar to our guidance which has been stable at 64 basis points.

On page six, you see that both the total operating income and the net income have been records for us in the history of the bank.

On page seven, you see that return on equity has improved by 327 basis points from 19.82% for the full year last year to 23.09% for Q1. Now, obviously, a major part of that increase has been the impact of Zakat, which is about 225 basis points. Nonetheless, even if you neutralise Zakat, it is over 100 basis point improvement on ROE.

On return on assets, we picked up 27 basis points to reach 3.21% compared to 2.94% last year.

On page eight, you will find that total customer deposits increased by 3.4%. However, what is really important is the growth in current accounts was solid with a growth of 5.1% compared to the same period last year. Even year-to-date, we picked up 3.2% growth on current accounts, so we obviously had to reduce – if you look at time deposits or Murabaha deposits, it declined from 16 billion to 11 billion, so we reduced those by 5 billion, and current accounts increased from 264-277 billion. As a result, our non-interest bearing deposits of total deposits has increased from 94% in Q1 last year to 96% in Q1 this year.

Another encouraging sign that we had this year has been the growth on financing. Net financing increased by 3.6%. Even if you look at year-to-date, we picked up 1.3% growth on net financing, and this is done across the board. Retail had very good growth as well a corporate; we had good growth this quarter. We had obviously some maturity on the FI portfolio, that is what dampened a little bit the growth; otherwise the growth would have been higher.

On capital adequacy, we are still very solid; capital adequacy at 20.8%, down from, obviously, 21.5% last year. Obviously, part of this is, as I mentioned was Zakat and the dividend payment during that time.

On page nine, you see that our NPL coverage ratio slightly improved from 0.95% last year to 0.93%. That improvement came from mainly the corporate, which declined from 2.41% NPL last year to 1.92% this year. Our coverage ratio remains very solid at 346%.

If you move to slide 10, you find that our capital increased by 1.8% year on year. I have to say, though, that the Tier 1 capital or the capital of 54 billion includes the proposed dividends, since our general assembly was held on 3rd April after Q1 had closed. However, almost 3.7 billion of dividends will be partly compensated by the net income for Q2.

Risk-weighted assets grew by 5.3% year on year. As you see on the bottom right that the capital adequacy trend improved Tier1 improved from 19.1%-19.7% from 4Q18 to 1Q19, and Tier 1 plus Tier 2 improved from 20.2%-20.8% from 4Q18 to 1Q19.

Slide 11, shows our guidance. If you look at the financing, our guidance remains at mid-single-digit. In terms of net profit margin, we upgraded our guidance, from 15-20 basis points to 25-30 basis points. As I mentioned before, yes, we had picked up 46 basis points compared to last year, but we have seen SAIBOR lower at end of Q1 versus last year, so we would expect some repricing to take place.

Cost of risk, CET ratio (capital adequacy ratio for Tier 1) as well as ROE remain the same.

With that, we are ready for any questions from your side.

Question and Answer Session

Our first question comes from Neri Tollardo from Morgan Stanley. Please go ahead.

Neri Tollardo

I have got three questions please. The first is on the mortgage market, if you can, again, remind us what growth rates you achieved in the first quarter, how big the mortgage book is currently in your books and what you expect it to grow going forward. I wonder whether, at any point, does the mortgage book get so large that maybe you're not too comfortable with the maturity mismatch that you have in the books and maybe look to diversify your funding base.

The second question is on the increase in current accounts, if you could just maybe expand a little bit what is driving that growth? Are you acquiring more customers? Are customers saving more money, earning more? Maybe if you can touch on any push either from the regulator or from yourself to encourage more savings product and longer term deposits to your customers.

Then just one question on the restatements, if I recall correctly, in the first quarter of last year you also had some restatements where NII was moved to fee income, and now we have the opposite. Are the two related? Should we expect this to be the structure of NII versus fee income going forward? Thank you.

Steve Bertamini

In terms of the mortgage market overall, obviously, we have been consistent in saying that we expect double-digit growth to continue, quite frankly, for the next two to three years. If you look at the absolute size of our book, at the end of 2015, we were at 21.3 billion, we're now at 36.3 billion, so we continue to see very strong growth in our mortgage portfolio, and even when you look at the mortgage market share, we shared during the last call at 2015 our market share was 20.6%, end of 2018 is 27.9%, and when we look at the percentage of new bookings that are published by SIMAH, which is the credit bureau here, the last three or four quarters we have been opening, roughly, a little over a third of all of the new mortgages being written so, therefore, I would expect our market share to continue to grow.

It is still a relatively small part of our retail book, so we still have quite a bit of room to grow. You also have to remember that our overall corporate portfolio is relatively small, certainly compared to the size of most of the other large banks, so as the opportunities in corporate begin to pick up over the next year or two, corporate transactions, especially high quality ones, can be relatively large. Mortgage is now 22% of the retail book, we are a long way from having a concern that mortgage, as an asset class, becomes of a size that we need to really begin to think about the relative mix and should we be doing something different.

Also, as you know, mortgage is a great product, because you are required to open a current account, automatically that means you get a debit card, you need insurance, the risk weight is 50% and is salary assigned, and is relatively a good margin product. So it really ticks all the boxes for us.

You had a question on current accounts. Current accounts for us remains one of our key competitive advantages, so we focus on it every day. Whenever I am on roadshows talking to our staff, I tell them the first thing you do when you come into work, make sure you hit your current account targets, then you can worry about everything else. We have seen further growth this year from the fact that for the first time we received permission to begin to open current accounts purely digitally, so a customer does not need to come into a branch. We have only been doing this for a little bit over two months and now 50% of our accounts that we opened were done online, and when we look at the year-on-year comparison of the number of current accounts we have opened, it is also up, so it isn't just substitution, we are also acquiring new customers as a result.

You had a question on savings. Yes, there is continued desire, which is we believe the right thing to do, to encourage people in the country to save. We are working on some savings products, that when we are ready to obviously launch them we don't expect them to have any material impact in the short-term and, quite frankly, when growth picks up, if we ever do need to increase our funding, that is going to be the second least expensive source of funding, so having that in our portfolio will also be CASA.

You had a question on restatement of the fee income and what happened prior, and I will let Abdullah address that question.

Abdullah Ali Alkhalifa
You are right, on the processing of finance-related fees last year, we were taking for retail because retail sales are happening on a daily basis and we were used to taking the fees upfront, the fee income and the difference between really taking it upfront and then taking it through amortisation wasn't really material, but our audit committee, basically, recommended last year to amortise, so we followed that last year.

As I mentioned earlier, it is a market practice to amortise this or take it upfront against fee income, but our auditors recommended that this is now a more emerging trend in the local market and that is the right way to show it, is to take amortisation of financing related fees against yields rather than fee income.

Operator
Our next question comes from Naresh Bilandani from J.P. Morgan. Please go ahead.

Naresh Bilandani
Just a few quick questions please. First, could you please reconfirm the pricing that you have on your mortgage portfolio? Steve, the last time we met, you had also shared that

you were able to enhance your overall credit card offering over the last summer. Can you please just clarify the progress that you have had and the growth on the credit card portfolio, and if you have been able to raise the financing rates on that product by any chance, because if the growth picks up, that should also be the kicker overall to the NPMs. That is the first question.

Second, could you kindly please clarify also what is the effective Zakat rate now under the new calculation? I assume it would not be too far from 10%, but even if based on 2018 numbers, even if you could please clarify what should be the effective Zakat rate we should use going forward.

A third one is, just some of the banks have started showing some adjustments on the funding costs from IFRS 16. Would you be able to share some thoughts on whether that has been also implemented in your current financials and from that perspective, it will also be important to know whether the ownership on the branch network, whether the extent of how much of this portion is owned and how much of this portion is leased. Thank you.

Steve Bertamini
I will take the first two and I will give the last two to Abdullah. In terms of pricing on our mortgage book, that remains consistent. Again, depending on tenure, it tends to be between 6 and 8% gross yield. Card pricing has not changed, we remain at the same levels we have had before, which is really the lowest in the market, but quite frankly, still the highest margin product for us even above mortgage and the bulk of it is also payroll assigned. The book has continued to grow. Again, I am not sure we necessarily tend to share the number, but it is in excess of 200,000 cards and we continue to see a very good growth in that area.

I will have Abdullah address the Zakat and IFRS question.

Abdullah Ali Alkhalifa

Naresh, as far as the Zakat effective rate, when we recalculated 2018 based on the new methodology, without yet considering the minimum, our effective rate at that time would have been 4%, but as you know there is now a base, a minimum of 10% of net income, so for your models, for your expectations in years to come, I think you should build in your model 10% of expected net income, because I can't see any risk, at least in the medium-term that our effective rate will go beyond that rate.

Your second question is about the IFRS 16, it is fully implemented, and that would result in 1.3 billion increase in assets. The rental cost is no longer the case, it is now split between depreciation and cost of funding and in Q1, it is reflective of the change in cost of funding, because of IFRS 16.

Naresh Bilandani
So your cost of funding run rate doesn't seem to have moved significantly, so I assume the cost of funding portion coming from the leases doesn't seem to have had too much impact. Would it be conversely true then, most of your branch properties are owned and not leased at this stage?

Abdullah Ali Alkhalifa
You are right, Naresh. It's actually 50 million of resource by IFRS 16 that went to cost of funding, and you are right in saying that most of our branches, we tend to own than run rent, but obviously most of the rent would be on the ATM side, which is a small rental on a yearly basis.

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

Waleed Mohsin
Three questions from my side. First of all, just if you could provide an update on loan growth origination. Which areas are you seeing growth other than mortgages and just an

update on your strategy to benefit the private sector retail and the corporate market? If you can perhaps link it to your capital strategy, because you have a substantial headroom and even after the Zakat adjustment and the IFRS 9 adjustment, there appears to be substantial headroom in the capital base and you are adding 50-60 basis points of capital per quarter in terms of organic capital ratio, so just wanted to get your thoughts on outlook for lending growth and how that ties up with the amount of excess capital that you have at this moment? That's the first question.

The second question, I want to get a sense of your long-term true cycle normalised cost of risk. You're running at around 64 basis points in the first quarter and you guided for 55-65 basis points over 2019, but if we go back, it's historically been higher, more towards the 80-100 basis points cost of risk. I'm curious to hear your thoughts on how this should trend up, especially as you move into some of the newer sectors that you've talked about, both in terms of retail and on the corporate push.

Finally, a question around your net interest margin guidance. I want to understand what SAIBOR rate outlook are you effectively embedding in your net interest margin guidance for this year, and you have revised up your net interest margin guidance, but kept the ROE as well as the cost-to-income ratio broadly unchanged, so I'm curious to hear your thoughts on that as well.

Steve Bertamini
In terms of loan growth, as we mentioned, mortgage remains strong, personal lending is steady, low single digits. We have seen less demand for loan growth in auto, which is not unexpected, given the changes that were made to the debt burden based on the regulation that occurred last year. Private sector continues to be an area for us to focus on, but as we mentioned before, it's one that we're moving into quite gradually. We're working on developing models, doing a lot of testing, and again, since we're seeing very strong growth overall and very good levels of risk/return, we're not in a hurry to necessarily accelerate that, but we do believe that it's an opportunity for us longer-term.

In terms of the capital strategy, I will let Abdullah make a few comments on that.

Abdullah Ali Alkhalifa
We already gave guidance on the Tier 1 expected rate by end of the year, which, as we said, is 19-20%. We do expect obviously, as I said, year-to-date we had 1.3% growth in net financing, but we'd expect this to accelerate, as we said. Our guidance remains at mid-single digits. In terms of the cost of risk and yes, there has been some clean-up back in 2015, so we believe this is the normalised level now. When you consider that the bulk of our portfolio is retail with default rates then a certain range in-between 34-36 basis points throughout the cycle, that doesn't change really the cost of risk as far as retail. There has been a change, because the IFRS methodology changed back in 2018. Now, we will obviously give guidance for the cost of risk every year and as far as this year, the guidance still remains 55-65 basis points.

For net guidance, yes, net guidance basically we have faster growth on current accounts, faster growth on mortgage, SAIBOR movement, as mentioned, the average SAIBOR in Q1 was higher by 12 basis points than Q4, some of that we didn't estimate to be that high. However, SAIBOR at the end of Q1, as I mentioned before, was 11 basis points lower than the beginning of the year, so we would expect some re-pricing impact, especially on the wholesale, whether it's corporates or Treasury. That's why our guidance for NPM expansion has been upgraded to 25-30 basis points.

Steve Bertamini
And our base scenario assumes no rate rises from the Fed.

Operator
Our next question comes from Edmond Christou, Bloomberg Intelligence. Please go ahead.

Edmond Christou

I have a few questions, if I may. The first one is lengthening of the asset side we see more mortgages probably on the commercial and you would be also engaged in infrastructure, all of this comes at longer duration. I think the duration gap is widening. I just want to understand how you can include this or you are managing it in terms of interest rate risk. I do understand that the deposit is sticky, but on the other hand are you considering any debt issuance? The other thing, do you see mortgage finance companies become more competitive in the future and that will change the dynamic on the margins? I understand the asset yield on the mortgages is very high for you and other competitors. I just want to understand how this will develop in the future.

The other question, at some point do you see this mortgage portfolio become a burden in terms of capital strength and you're starting to transfer it maybe to real estate refinance company? What is the yield on investment on the current portfolio, investment portfolio, so the running yield, and what yield you are looking into for new investments, if possible? Also, is the Zakat rate, which is 4% you disclosed now, is this including the deposit in the source of funding and if it does, is the demand deposit all of it included or not? It just gives me some confusion when I did the calculation.

The last one, which is a long-term one, but if you can help me understand it, please. Let's say competition is increasing, we know competition is increasing, there is a merger happening also in the market, digitalisation becomes on every bank's agenda and everyone will be investing on their digital platforms, so really what is the value proposition for the bank over the next five years that could support a high valuation and defend, really, the excellent level of current accounts you have on the balance sheet?

Steve Bertamini

Okay, another shortlist of questions, but we'll start getting through them. I think I will let Abdullah talk about the duration and then I will address the competition question, so we'll go back and forth. Do you want to talk about the duration?

Abdullah Ali Alkhalifa

Yes. Obviously, the assets-liabilities mismatch has always been one of the features of the Saudi banks because of the dependency on the current account financing arm. You have to realise these current accounts are very sticky for us and they actually continue to grow, as you see last year at 6.6% growth, this year we're already at year-to-date 3.2% growth, so this is something that is a sticky and we're not having any major concern about it. However, I have to say that because of the new changes in Zakat regulations, earlier every time you issue debt or Sukuks, you have to add to the Zakat base then end up paying 250 basis points, which is 2.5%, on that, which didn't makes sense for us in addition to even consider issuing Sukuks and paying SAIBOR or LIBOR to whichever currency we issue, plus the spread, plus 250 basis points Zakat. It doesn't make sense.

Now, with the new regulations at least, there's no longer a backlash because of the Zakat, yes, it's at the Zakat rate, but the other side of the calculation will be non-Zakatable assets. All lending over one year is considered non-Zakatable assets, so now the potential for issuing senior debt or Sukuks or even Tier 1, if we want, or Tier 2 is there on the table, so if we do it, it's not because the need for liquidity, but to put our name as the first issuer and we know that there's good appetite on Al Rajhi and we get some investors requesting us to consider Sukuks, so at least it's on the table now. Previously, we couldn't consider it, because of the Zakat impact.

Regarding your question about the Zakat and current account. Now, what you see in our financial statements in 2018, for example, you see that we have built into the behaviour adjustments on current accounts, but for the calculation of Zakat, this will not be considered as long-term. It will be all within a year, so it will not be considered a long-term borrower.

We don't disclose on the specific yield on investment, but it's not surprising that we should expect to be close to the market rate, whether it's, for example, placing money with banks, the interbank, we get closer to the SAIBOR, and for investment, as you know, the only type of investments that we're doing now are basically two types. Either we buy Sukuks, five-year Sukuks, which is public information about the rate of issuing, and we haven't been buying these for quite a while now; or T-Bills, again the T-Bill rate is below SAIBOR, so that's what typically the investment teams have, and this is one of the reasons we said the NPMs expansion this year, because we expect to shift some of that into the loan portfolio with a better yield.

Steve Bertamini

I will now address some of your questions which are primarily competition-related, so let me start with mortgage. You had a question regarding pricing competition and ability to sustain margins etc. Obviously, we look at our market share very closely. As I mentioned before, we tend to be at the upper end on the pricing and unless we see a sustained decline in our share, there's really no reason for us to adjust, because as you know, pricing is one element. You provide great service, if you have a really strong digital offering, if you're very fast to give a customer the response they want, obviously that’s a lot more important than the pricing. As I mentioned, given that at least the last three or four quarters we’re seeing the new growth in accounts relative to the competition being higher than our current market share and it implies we’re still in a very strong position. I think more entrant competition will continue, but as I said, we look at it from a macro perspective and to date we continue to improve our position in mortgage, so I don’t see that as a threat certainly in the short to mid-term.

In terms of digital, as you're well aware in our “ABCDE“ strategy, it’s one of the key pillars. We’re actually accelerating our efforts in digital. You're seeing, as I mentioned, a few key points that I made earlier in terms of the acceleration even beyond last year of more active digital customers, more transactions moving to pure digital. We’re actually going to achieve our 2020 goal I think before the end of the year, so that's already moving quite well. I think the value proposition in our bank remains very strong. As you know, we have the best distribution in the country, we have the best brand, we have the lowest cost of fund; increasingly, we have, as I say, outstanding or as good as the customer service of anyone else in the country, and increasingly, particularly on the digital channels, we’re very focused on customer experience. We’re doing more focus groups. We develop new products with customers. We have an innovation lab and we’ve been doing now literally weekly releases of our app. If you go back to 2015/2016, it was annual, semi-annual, so we’re moving I think much faster. We have seen the highest, for example, penetration in our customers of Apple Pay, well over half the market has been done with an Al Rajhi card.

So as of today we feel confident we can sustain and, quite frankly, enhance our position in several of the key areas that are strategically important for us.

Operator
Our next question comes from Rahul Bajaj, Citi Group. Please go ahead.

Rahul Bajaj
Just one quick question from my side. I just wanted to get your sense on a broader term view on consolidation in the sector. Where do you see the consolidation undergoing now with the known mergers are in public now, so do you think there is more scope for consolidation and how is Al Rajhi kind of adjusting or strategizing in terms of competition with stronger and bigger peers in the sector?

Steve Bertamini
I'm happy to talk about that. It's something we get asked quite a bit. In my experience in various markets, what I've seen is, particularly when you have large bank mergers, the first 12, 18, even 24 months tend to be very internally focused. People are trying to figure out who is going to be in which job. You've got to, in many cases, rationalise your physical distribution. You have to align policies and procedures. You have to get your systems aligned, so most of the time tends to be internally focused, which for us obviously is an opportunity, because we can continue to execute our strategy and continue to improve our position.

If you then take a slightly longer-term view, I could look at it quite simply and say, well, I used to have four banks competing with and now there's two less, so we're still in a market, we're competing like we have every day, we have a very strong distribution network. I mentioned we've got the strongest brand, lowest cost of funds, no real impediment in our ability to invest in Capex, and do what we need to do to run the business successfully, so I think you'll not only see a bit of time for the market to digest the consolidation, but also there will continue to be new entrants, because when you look at the ambitions of the country, the banking system on its own cannot support that, which is one of the reasons you're going to see a continued focus on expanding capital markets etc., which again for a bank like us is a very good opportunity, certainly in the short to mid-term.

Operator
Our next question comes from Mohamed Al Dahech, Hassana Investment Company. Please go ahead.

Mohamed Al Dahech
I just have one question from my side. I've noticed for the past previous quarters and for the current quarter Al Rajhi keeps the NPL coverage ratio at a relatively high level now, just close to 400%, so I was wondering why the bank would keep it relatively higher than others. Is there any reason for that and if there's an anticipation of any concerns in asset quality going forward? Is that an extra caution or what's the basis on that? I just would like to hear your view on that.

Abdullah Ali Alkhalifa
Yes, obviously when you have a lower level of NPL and you take all three types of provision, stage one, stage two, and stage three, and divide only by the NPL you end up with a high coverage ratio. For us, as you know, because of the change in the methodology, IFRS 9 do mandate a higher day one provision of stage one on retail compared to the IAS 39 in the past, where convergence periods, effectively, like three-month expected losses before now became 12-month expected losses provisioning. For us, we look at really what's the provision as a percentage of gross loans. In our case, it’s 3.24% compared to a market average of 2.93%. We've always mentioned that Al Rajhi tends to be more conservative when it comes to the provision, whether it’s management overlays or economic overlays, or the individual rating of individual customers. So the lower the rating, obviously the higher the PD, so we believe there's protection built into our portfolio. We don’t really have a minimum or a maximum mandate as far as coverage.

Operator

Our next question comes from Talha Nazar, Aljazira Capital. Please go ahead.

Talha Nazar

I have only two questions. The first one is about the corporate sector loans. We see that the bank has been pushing for the corporate sector loans. What I need to know is what are the sectors that the bank is favouring in terms of depending on the profile of the sector? My second question is about the mortgage growth. How exactly is the bank pursuing it? Is it associating itself with the Ministry or is it going more on an ad hoc basis and going through where a walk-in customer could come in and apply for a loan?

Steve Bertamini

In terms of the mortgage and housing, we are seeing a relatively large percentage of first-time homebuyers coming from the Government programmes, which is obviously exactly what the country would like to see and very much on strategy for us. Many of those customers are actually already customers of the bank, because we have their payroll with us and obviously makes it quite straightforward for us to provide the loan that they're after. I think when it comes to corporate, and we've discussed before, especially in the investor meetings, we have quite a focused approach. For example, any sector that has a lot of synergies with retail, and one simple way to think about it is businesses with a lot of employees and a lot of customers makes a lot of sense for us. For example, education, medical, retail, tourism, entertainment, these are all areas that for us make a lot of sense. For example, our contracting mix of the portfolio I believe is less than 3% and that's been the case for several years, so we take quite a prudent, measured approach. We have exposure limits by type of sector etc., which is also one of the reasons I think you've seen improved NPL performance and more confidence in terms of the guidance that we've been providing on the overall level of the quality of the book.

Operator

Our next question comes from Mohammed Mousa, Hassana Investment Company. Please go ahead.

Mohammed Mousa
Most of the sector has progressed well in terms of digitalisation and investment outlays have been quite significant, yet we don't see any significant guidance on potential cost savings, for example branch closures. The question is what's the core thesis behind investing in digitalisation?

Steve Bertamini
Okay, well you're aware of the improvements we continue to make on our cost-to-income ratio. Obviously, part of that is not only due to growth in the top line, but also increase efficiencies, because as our volumes go up, we also have increased costs but at a lower rate. For us, digital is all about the customer experience, really making our customers' lives easier, giving them more options as to how they do business. I think everyone recognises today that customers tend to jump back and forth. For example, we're the largest... in terms of social media we have over 1 million Twitter followers, we're the largest on Instagram etc., and increasingly I think the last figure I saw was I think even 20% of all customer queries etc. we're handling via social media channels, we respond within 30 minutes, so we very much have a strategy that's not only about the customer experience, but also automation in the back office.

We've shared before we believe we're one of the largest users of robotics, certainly in banking in the Middle East, and this has been going on for a couple of years. We have 253-odd bots. We're now doing up to 24,000 transactions per day, but from an investment perspective, we've been investing all along, so we don't have these big, lumpy investments where we say, okay, in the next three years we'll need to spend some huge sum of money. We've been investing steadily. We're very efficient as to how we do that. We outsource, we partner, and that allowed us to really maintain the improvements you've seen in the cost-to-income ratio, and effectively we aim – it doesn't always precisely work this way – to have the rate of Capex basically match the rate of depreciation that is coming off. Obviously, this year we have a new building etc., so that has a slight increase, but we usually don't manage to spend our full Capex budget, because we're trying to do so much.

The branch network has also been undergoing transformation for the last three years. For example, the branches that we've either leased or purchased, or put in place, they're roughly a third to half the size of what they used to be. They're much more digital, fewer manual, and increasingly they're becoming much more advisory, so we feel good about the size of the network we have. It's a lot more about optimising. Also, if you look at the branches per capita in Saudi Arabia relative to the West, it's roughly a third, so the country is not in the position of many other developed countries where they are massively over-branched. The country still has room in a lot of places to continue to expand and we think we have quite a good footprint. We're increasingly optimising that and adding to it via digital channels, so we don't have any plans to do any type of big exercise on branch expansion. For us, it's a lot more about optimisation.

Operator
Our next question comes from Siha Gosh, SICO. Please go ahead.

Siha Gosh
I've got a couple of questions. The first one is I want to get a sense of the mortgage rates, are they fixed rated or can they be repriced every three years or five years, if you can throw some light on that? That's my first one. The second one is there's a lot of initiatives to get the Saudi nationals into the workforce. Are you seeing a pick-up in number of Saudi nationals who are coming over to borrow money from your bank, considering that a big chunk of your customer base are Saudi nationals and not expats? If you can throw some light.

Steve Bertamini
For sure, in terms of mortgage yield, it obviously depends on the tenure, but it tends to range between 6-8%. The majority of all the business that has been booked for some time is fixed, as opposed to variable, and in terms of Saudi nationals, obviously as you're aware,

roughly two-thirds work in the public sector, the other third is in the private. The expectation is that the private sector will grow over time. One of the areas that we've been focusing on for the last two to three years is increasing female customers and we've seen very nice growth year-on-year, given some of the work, enhancements, refurbishments we've done in our branch network have been geared towards that segment. So we continue to see a net expected positive benefit from some of the reductions, for example, in expats that may have slightly impacted our remittance business, because now instead we end up having a new bankable customer, which usually many times a first-time customer, they'll open a current account, they'll get a debit card, at some stage they may need an auto loan etc., so from our perspective we're comfortable where we see the trend. Obviously, we haven't seen unemployment yet downtick as much as we'd like, but I think as some of these programmes and initiatives continue to roll out, we expect to see further improvement in that area, which again is a net positive for us.

Siha Gosh
Intuitively, I would have thought that new personnel joining the workforce would first come for a consumer loan and then perhaps would go for a mortgage loan, and if you're giving a guidance of a low-single-digit consumer loan, so do you think the new customers are actually coming only for a mortgage loan and not for a consumer loan?

Steve Bertamini
No, off course. Obviously, it depends on the age demographic. The first thing they need to do is open a current account, because it tends to be salary assigned, and then obviously based on income eligibility and the new DBR regulations. 33% level of DBR continues to be the same, so I believe the consumer loans will remain relatively steady. The big focus, as you know, is to encourage Saudis to buy a home, but obviously if you're still relatively young and don't have enough income, you're not going to be eligible for that, so you will take other forms of credit or maybe increasingly begin to save a bit more.

Siha Gosh

And a quick follow-up on the first part about the mortgage even, so, let's say, I want to take, I don't know, a 10-year or 15-year loan, I can get a fixed rated 10-year or 15-year loan?

Steve Bertamini
Correct. Yes, you get all the way up to 30, most of them to be 20-25.

Closing

Steve Bertamini
First of all, thank you everyone for your interest and continued support. We are very proud of the results that the bank has delivered, both in financial and non-financial terms, and we remain confident in our ability to continue to deliver in 2019. Thanks everyone.