

Banque Saudi Fransi net income declined to SAR 1,119mn in first half 2020

BSF reported strong balance sheet growth, but net income declined on higher impairments:



- Net income for 1H 2020 SAR 1,119mn, down 35% YoY due to prudent provisioning
- Total income SAR 3,517mn in 1H 2020, up 3% YoY from stable net interest margin
- Total assets SAR 202.0bn, up 13% YTD from substantial increase in lending and investments
- Loans and advances, up 8% YTD to SAR 135.7bn
- Customers' deposits SAR 138.0 bn, up 4% YTD from higher non-interest-bearing deposits
- Tier 1 ratio of 17.0%, down from 18.3% YTD; Capital Adequacy Ratio (CAR) of 17.9%
- Liquidity Coverage Ratio (LCR) of 168%; Net Stable Funding Ratio (NSFR) of 117%
- The bank's response to Covid-19 has been effective in ensuring business continuity, customer support, and the safety of its employees

Riyadh, 27 July 2020 - During March 2020, the Covid-19 pandemic severely disrupted financial markets and economic activities in Saudi Arabia. Against this background, the bank made additional provisions as commercial accounts were re-assessed against staging criteria. As a result, Banque Saudi Fransi reported a 35% decline in net income to SAR 1,119 million for the first half of 2020, compared to the same period in 2019. The impact of Covid-19 on operating income was limited during the first half, which rose by 3% year-on-year to SAR 3,517 million.

Total assets amounted to SAR 202.0 billion as at 30 June 2020, an increase of 13% from the end of the previous year, principally due to higher loan and advances and investments. Total customers' deposits increased by 4% from a strong 15% growth in non-interest-bearing deposits whilst customers shored up liquidity in response to Covid-19 disruption.

Rayan Fayez, Managing Director & Chief Executive Officer of Banque Saudi Fransi, said:

"While the Covid-19 situation moderated towards the end of the first half of the year, the economic outlook remains materially impacted and uncertain. During this time, we have been focused on safeguarding the well-being of our employees, engaging actively with our customers, preserving our operational resilience, and taking prudent measures to position the bank for the eventual recovery.

Proactive balance sheet optimization measures and cash flow hedging resulted in a stable and resilient net interest margin of 2.97%. The strength of the bank has also been confirmed by solid 8% growth in

loans and advances, resulting from 27% growth in mortgages and 7% commercial loan growth. We have seen 4% customer deposit inflows, mainly due to a 15% rise in non-interest-bearing deposits. The bank generated a 3% increase in operating income to SAR 3.5bn, while our net income declined 35% to SAR 1.1bn due to higher impairments from more prudent provisioning. The capital adequacy ratio stood at a healthy 17.9% and our liquidity, LCR 168%, position remain strong.

BSF continues to be well-placed to navigate the new operating environment. We remain focused on executing our “leap” strategy, aimed at modernizing and re-imagining the bank, which has been largely unaffected by the crisis and is expected to generate material benefits in the future.”

Performance Highlights

Income Statement Highlights

SAR (Mn)	2Q 2020	2Q 2019	Δ%	1H 2020	1H 2019	Δ%
Net interest income	1,297	1,298	-0%	2,584	2,570	+1%
Fee & other income	463	409	+13%	933	859	+9%
Operating income	1,760	1,706	+3%	3,517	3,429	+3%
Operating expenses	(557)	(554)	+0%	(1,116)	(1,045)	+7%
Impairment charge	(650)	(197)	+230%	(1,048)	(303)	+246%
Total operating expenses	1,207	751	+61%	2,164	1,348	+61%
Net income before zakat & tax	553	955	-42%	1,353	2,082	-35%
Zakat & income tax charge	(116)	(152)	-24%	(234)	(361)	-35%
Net income after zakat & tax	437	804	-46%	1,119	1,720	-35%
NIM	2.88%	2.99%	-4%	2.97%	2.94%	+1%
Cost to income ratio	31.7%	32.5%	-3%	31.7%	30.5%	+4%
Cost of risk	1.82%	0.63%	+188%	1.52%	0.55%	+178%
EPS	0.36	0.67	-46%	0.93	1.43	-35%
ROAE	5.2%	9.9%	-48%	6.7%	10.8%	-38%
ROAA	0.87%	1.7%	-49%	1.16%	1.82%	-36%

Net income after zakat and income tax for the first half of 2020 declined 35% year-on-year to SAR 1,119 million, as 3% growth in operating income was more than offset by increased credit costs. Net income for 2Q 2020 declined 46% year-on-year on 3% income growth due to the elevated impairment charge in the current quarter.

Total operating income grew 3% year-on-year to reach SAR 3,517 million for 1H 2020. This growth resulted from stable net interest income at SAR 2,584 million on a stable net interest margin of 2.97%, and 9% growth in fee and other income to SAR 933 million, which was aided by a one-off gain during the period of SAR 75 million. Total operating income for 2Q 2020 improved 3% compared with 2Q 2019 from increased fee and other income.

First half operating expenses increased 7% year-on-year to SAR 1,116 million, partly a reflection of salary increments and improvements made to the talent pool, as well as the inclusion of a one-off accrual reversal of SAR 37 million in the first half of 2019. Excluding the one-off benefit in the comparable quarter, operating expenses increased 3%. On a quarterly basis, operating expenses were stable year-on-year. The cost to income ratio increased by 1.2 percentage points year-on-year to 31.7% for 1H 2020.

The impairment charge amounted to SAR 1,048 million for the first half of 2020 compared with SAR 303 million in the comparable period of the previous year. The increase was primarily attributable to additional provisions as commercial accounts were re-assessed against staging criteria. The impairment charge for 2Q 2020 similarly decreased to SAR 650 million compared with SAR 197 million in 2Q 2019.

Balance Sheet Highlights

SAR (Mn)	2Q 2020	1Q 2020	Δ%	4Q 2019	Δ%
Cash & SAMA balances	9,519	12,105	-21%	9,117	+4%
Due from banks	7,176	6,137	+17%	3,742	+92%
Investments	36,916	33,940	+9%	31,454	+17%
Loans & advances	135,749	134,882	+1%	125,725	+8%
Other assets	12,592	12,114	+4%	8,110	+55%
Total assets	201,953	199,178	+1%	178,149	+13%
Due to banks	17,422	6,542	+166%	2,372	+634%
Customers' deposits	138,046	146,772	-6%	132,838	+4%
Other liabilities	12,809	11,919	+7%	9,992	+28%
Total liabilities	168,276	165,232	+2%	145,202	+16%
Share capital	12,054	12,054	+0%	12,054	+0%
Retained earnings	7,065	6,628	+7%	5,946	+19%
Other	14,558	15,264	-5%	14,947	-3%
Total equity	33,677	33,945	-1%	32,947	+2%
NPL Ratio	2.9%	2.7%	+9%	2.6%	+12%
NPL Coverage Ratio	101.6%	108.1%	-6%	108.5%	-6%
T1 Ratio	17.0%	17.4%	-2%	18.3%	-7%
CAR	17.9%	18.4%	-2%	19.2%	-7%
LCR	168.0%	217.0%	-23%	324.0%	-48%
Leverage ratio	13.9%	14.3%	-3%	15.3%	-9%
NSFR	117.0%	118.2%	-1%	122.0%	-4%
LTD SAMA regulatory ratio	84.2%	84.2%	+0%	85.8%	-2%

Total assets as at 30 June 2020 amounted to SAR 201,953 million, an increase of 13% from 31 December 2019. This increase was broad-based across most asset classes, notably in loans and receivables, which rose 8% to SAR 135,749 million from 27% growth in mortgages and 7% commercial loan growth. Strong 17% growth in investments further contributed to balance sheet expansion.

Customers' deposits increased by 4% during the first half of 2020 to SAR 138,046 million. Strong growth was registered non-interest-bearing deposits (+15%), encouraged by switching from interest bearing deposits (-9%) due to lower interest rates, further aided by customers enhancing liquidity and reducing spending in response to Covid-19 disruptions.

The non-performing loans ratio was 2.9% as at 30 June 2020 and registered a 30 basis points increase during the first half from higher non-performing loan formation in the commercial book. The provision coverage of non-performing loans declined by 7 percentage points during the first half to 101.6%.

The total capital adequacy ratio stood at healthy 17.9% and the Tier 1 ratio at 17.0% at the end of the first half of 2020. These ratios declined by 1.3 percentage points during the period as 2% growth in capitalization levels was partly offset by a 9% increase in risk weighted assets.

2Q 2020 EARNINGS RELEASE

The bank's liquidity remained strong and comfortably within regulatory limits, with the liquidity coverage ratio at 168.0%, the net stable funding ratio at 117.0% and the SAMA regulatory loan to deposit ratio at 84.2%.

Operating Segment Highlights

SAR (Mn)	2Q 2020	2Q 2019	Δ%	1H 2020	1H 2019	Δ%
Operating income						
Retail	422	480	-12%	881	940	-6%
Corporate	773	738	+5%	1,514	1,519	-0%
Treasury	490	411	+19%	965	816	+18%
Investment Banking and Brokerage	75	77	-3%	157	155	+2%
Operating income	1,760	1,706	+3%	3,517	3,429	+3%
Net income before zakat & tax						
Retail	81	176	-54%	237	333	-29%
Corporate	40	426	-91%	216	1,005	-78%
Treasury	407	321	+27%	838	679	+23%
Investment Banking and Brokerage	26	32	-19%	62	65	-4%
Net income before zakat & tax	553	955	-42%	1,353	2,082	-35%

SAR (Mn)	2Q 2020	2Q 2019	Δ%	4Q 2019	Δ%
Total assets					
Retail	26,310	21,835	+20%	23,705	+11%
Corporate	111,581	104,339	+7%	103,245	+8%
Treasury	63,030	59,164	+7%	49,633	+27%
Investment Banking and Brokerage	1,033	1,241	-17%	1,565	-34%
Total assets	201,953	186,579	+8%	178,149	+13%
Total liabilities					
Retail	74,042	71,547	+3%	70,547	+5%
Corporate	66,024	72,191	-9%	64,397	+3%
Treasury	27,192	9,058	+200%	8,748	+211%
Investment Banking and Brokerage	1,018	1,181	-14%	1,509	-33%
Total liabilities	168,276	153,977	+9%	145,202	+16%

Retail net income before zakat and income tax for the first half of 2020 declined 29% year-on-year to SAR 237 million, due to a 6% reduction in operating income to SAR 881 million and 7% higher operating expenses, partly offset by a 4% improvement in credit costs. Total retail assets rose by 11% during the first half of the year to SAR 26,310 million from strong 27% growth in mortgages. Total liabilities increased by 5% to SAR 74,042 million, mainly from 5% growth in customers' deposits.

Corporate net income amounted to SAR 216 million for the first half of 2020, which declined 78% from the comparable period of 2019 due to higher impairments for credit losses. Total assets for the corporate segment increased 8% in the first half of 2020 to SAR 111,581 million from 7% loans and advances growth. Corporate liabilities increased by 3% from deposit growth.

Treasury reported strong 23% year-on-year growth in net income to SAR 838 million in the first half of 2020, as operating income grew 18% to SAR 965 million on improved fee income. Treasury assets and

liabilities grew 27% and 211% respectively during the first six months of the year, mainly from mark-to-market impacts resulting from lower interest rates and increased market volatility.

The Investment Banking and Brokerage segment registered a 4% year-on-year decline in net income to SAR 62 million. This resulted from higher impairments more than offsetting 2% growth in operating income.

Outlook

During the first half of 2020, the operating environment was materially impacted by the Covid-19 pandemic, associated lockdowns and curfews, lower oil prices and interest rates.

While substantial economic support measures by the Government of Saudi Arabia provides some mitigation, significant uncertainties remain about the shape and timing of the eventual recovery.

The bank is however well positioned to navigate this environment, having responded early and decisively to ensure business continuity, the health and safety of its employees, and to support its customers and the wider community. The bank is well capitalized, enjoys strong liquidity, and has re-prioritized its strategic roadmap to ensure its resilience and ability to take advantage of improving economic conditions. The bank's longer-term strategic direction, aimed at modernizing and re-imagining the bank over a five-year period, remains unaffected by the crisis and is expected to bring material benefits in future years.

Additional Information

The 2Q 2020 financial statements, earnings release, earnings presentation, investor presentation and financial data supplement are available on the website of Banque Saudi Fransi at:

<https://www.alfransi.com.sa/english/top-menu/investorrelation/financial-information/financial-statements-and-disclosures>

<https://www.alfransi.com.sa/english/top-menu/investorrelation/share-information/investor-presentations>

For more information please contact the bank at:

Banque Saudi Fransi

P.O. Box 56006, Riyadh 11554

Kingdom of Saudi Arabia

Institutional investor contact

BSF Investor Relations

Abeer Alblali | Investor Relations Manager

IR@alfransi.com.sa

Media contact

Sarah Altuwajiri

Smaltuwajiri@alfransi.com.sa