

Banque Saudi Fransi reports net income of SAR 1,452mn in first nine months of 2020

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



- Net income for 9M 2020 SAR 1,452mn, down 44% YoY due to prudent provisioning
- Operating income SAR 5,268mn in 9M 2020, up 2% YoY on volume growth and margin stability
- Total assets SAR 197.4bn, up 11% YTD from increased lending and investments
- Loans and advances up 7% YTD to SAR 134.4bn
- Customers' deposits SAR 135.7 bn, up 2% YTD from higher non-interest-bearing deposits
- Tier 1 ratio of 17.2%, down from 18.3% YTD; Capital Adequacy Ratio (CAR) of 17.9%
- Liquidity Coverage Ratio (LCR) of 177%; Net Stable Funding Ratio (NSFR) of 118%
- The bank's response to Covid-19 has been effective in ensuring business continuity, customer support, and the safety of its employees

Riyadh, 9 November 2020 - Banque Saudi Fransi reported a 44% year-on-year decline in net income to SAR 1,452 million for the first nine months of 2020, as higher provisions were recorded to buttress the bank's coverage ratio against the backdrop of Coronavirus-related economic disruptions. Operating income rose by 2% year-on-year to SAR 5,268 million on good volume growth and stable margins.

Total assets amounted to SAR 197.4 billion as at 30 September 2020, an increase of 11% from the end of the previous year, principally due to higher loans and advances, and investments. Total customers' deposits increased by 2% from a strong 16% growth in non-interest-bearing deposits.

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

"Aided by the substantial support measures of the Government of Saudi Arabia during the last six months, and more recent phased measures taken to normalize economic activities, we witnessed early signs of recovery during the third quarter of the year. While the economic outlook remains impacted and uncertain, we have effectively ensured business continuity, safeguarded the health and safety of our employees, and continued to support our customers and the wider community. At the same time, we remained focused on executing our "leap" strategy, aimed at modernizing and re-imagining the bank, which has been mostly unaffected by the crisis and is expected to generate material benefits in the future.

Proactive balance sheet and funding optimization measures and effective cash flow hedging resulted in a resilient net interest margin of 3.02%. The bank also achieved 7% growth in loans and advances, resulting from 41% growth in mortgages and 5% commercial loan growth. We continued to improve our funding costs, raising 2% net customer deposit inflows, mainly from a 16% rise in non-interest-bearing deposits. The bank generated a 2% increase in operating income to SAR 5.3bn, while our net income declined 44% to SAR 1.45bn due to higher impairments from deliberately conservative provisioning. The capital adequacy ratio stood at a healthy 17.9%, and our liquidity position remains strong.”

Performance Highlights

Income Statement Highlights

SAR (Mn)	3Q 2020	3Q 2019	Δ%	9M 2020	9M 2019	Δ%
Net interest income	1,375	1,344	+2%	3,959	3,914	+1%
Non-interest income	376	394	-5%	1,309	1,252	+4%
Operating income	1,751	1,738	+1%	5,268	5,167	+2%
Operating expenses	(576)	(556)	+4%	(1,692)	(1,601)	+6%
Impairment charge	(751)	(217)	+246%	(1,798)	(519)	+246%
Total operating expenses	1,327	773	+72%	3,491	2,120	+65%
Net income before zakat & tax	424	965	-56%	1,777	3,046	-42%
Zakat & income tax charge	(90)	(85)	+7%	(325)	(446)	-27%
Net income after zakat & tax	333	880	-62%	1,452	2,600	-44%
NIM	3.07%	3.16%	-3%	3.02%	3.01%	+0%
Cost to income ratio	32.9%	32.0%	+3%	32.1%	31.0%	+4%
Cost of risk	2.68%	0.71%	+279%	1.91%	0.60%	+219%
EPS	0.28	0.73	-62%	1.21	2.17	-44%
ROAE	4.0%	10.8%	-63%	5.8%	10.8%	-47%
ROAA	0.67%	1.89%	-65%	1.00%	1.84%	-46%

Net income after zakat and income tax for the first nine months of 2020 declined 44% year-on-year to SAR 1,452 million, as 2% growth in operating income was more than offset by increased credit costs. Net income for 3Q 2020 declined 62% year-on-year on 1% income growth due to the elevated impairment charge in the current quarter.

Total operating income grew 2% year-on-year to reach SAR 5,268 million for 9M 2020. This growth resulted from a 1% increase in net interest income to SAR 3,959 million on a stable net interest margin of 3.02%, and 4% growth in non-interest income to SAR 1,309 million, which was aided by a one-off gain during the period of SAR 75 million. Total operating income for 3Q 2020 improved 1% compared with 3Q 2019 from increased interest income.

First nine months' operating expenses rose 6% year-on-year to SAR 1,692 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 nine months of 2019. Excluding the one-off benefit in the previous period, operating expenses increased 3%. On a quarterly basis, operating expenses rose 4% year-on-year. The cost to income ratio increased by 1.1 percentage points year-on-year to 32.1% for 9M 2020.

The impairment charge amounted to SAR 1,798 million for the first nine months of 2020 compared with SAR 519 million in the comparable period of the previous year. This increase was driven by

reassessment of the macroeconomic scenarios (based on more pessimistic forecasts owing to Covid-19), a conservative review of borrower risk ratings resulting in IFRS 9 Stage transitions and additional sector-based overlays of SAR 325 million. The impairment charge for 3Q 2020 similarly increased to SAR 751 million compared with SAR 217 million in 3Q 2019.

Balance Sheet Highlights

SAR (Mn)	3Q 2020	2Q 2020	Δ%	4Q 2019	Δ%
Cash & SAMA balances	9,478	9,519	-0%	9,117	+4%
Due from banks	3,719	7,176	-48%	3,742	-1%
Investments	37,901	36,916	+3%	31,454	+20%
Loans & advances	134,356	135,749	-1%	125,725	+7%
Other assets	11,992	12,592	-5%	8,110	+48%
Total assets	197,445	201,953	-2%	178,149	+11%
Due to banks	16,452	17,422	-6%	2,372	+594%
Customers' deposits	135,655	138,046	-2%	132,838	+2%
Other liabilities	11,656	12,809	-9%	9,992	+17%
Total liabilities	163,762	168,276	-3%	145,202	+13%
Share capital	12,054	12,054	+0%	12,054	+0%
Retained earnings	7,398	7,065	+5%	5,946	+24%
Other	14,231	14,558	-2%	14,947	-5%
Total equity	33,683	33,677	+0%	32,947	+2%
NPL Ratio	2.7%	2.9%	-8%	2.6%	+3%
NPL Coverage Ratio	102.7%	101.6%	+1%	108.5%	-5%
T1 Ratio	17.2%	17.0%	+1%	18.3%	-6%
CAR	17.9%	17.9%	+0%	19.2%	-7%
LCR	177.0%	168.0%	+5%	324.0%	-45%
Leverage ratio	14.3%	13.9%	+3%	15.3%	-7%
NSFR	118%	118%	+0%	122%	-4%
LTD SAMA regulatory ratio	83.4%	84.2%	-1%	85.8%	-3%

Total assets as at 30 September 2020 amounted to SAR 197,445 million, an increase of 11% from 31 December 2019. Loans and receivables rose 7% to SAR 134,356 million from 41% growth in mortgages and 5% commercial loan growth. A strong 20% growth in investments further contributed to balance sheet expansion.

Customers' deposits increased by 2% during the first nine months of 2020 to SAR 135,655 million. Strong growth was registered in non-interest-bearing deposits (+16%), while interest-bearing deposits declined (-15%).

The non-performing loans ratio was 2.7% as at 30 September 2020, a moderate 8 basis points increase during the first nine months as higher non-performing loan formation in the commercial book was partly offset by write-offs and lending growth. The provision coverage of non-performing loans declined by 5.8 percentage points during the first nine months to 102.7%.

The total capital adequacy ratio stood at a healthy 17.9% and the Tier 1 ratio at 17.2% at the end of the first nine months of 2020. These ratios declined by 1.3 and 1.1 percentage points respectively during the period as 2% growth in capitalization levels was partly offset by a 9% increase in risk-weighted assets.

The bank's liquidity remained strong and comfortably within regulatory limits, with the liquidity coverage ratio at 177%, the net stable funding ratio at 118% and the SAMA regulatory loan to deposit ratio at 83.4%.

Operating Segment Highlights – Income Statement

SAR (Mn)	3Q 2020	3Q 2019	Δ%	9M 2020	9M 2019	Δ%
Operating income						
Retail	473	467	+1%	1,354	1,406	-4%
Corporate	716	807	-11%	2,230	2,326	-4%
Treasury	474	404	+17%	1,439	1,219	+18%
Investment Banking and Brokerage	88	61	+45%	246	215	+14%
Operating income	1,751	1,738	+1%	5,268	5,167	+2%
Net income before zakat & tax						
Retail	3	121	-97%	241	454	-47%
Corporate	(18)	525	-103%	198	1,530	-87%
Treasury	395	303	+30%	1,233	982	+25%
Investment Banking and Brokerage	43	15	+180%	105	80	+31%
Net income before zakat & tax	424	965	-56%	1,777	3,046	-42%

Operating Segment Highlights – Balance Sheet

SAR (Mn)	3Q 2020	2Q 2019	Δ%	4Q 2019	Δ%
Total assets					
Retail	28,192	26,310	+7%	23,705	+19%
Corporate	108,304	111,581	-3%	103,245	+5%
Treasury	59,477	63,030	-6%	49,633	+20%
Investment Banking and Brokerage	1,472	1,033	+43%	1,565	-6%
Total assets	197,445	201,953	-2%	178,149	+11%
Total liabilities					
Retail	73,582	74,042	-1%	70,547	+4%
Corporate	64,703	66,024	-2%	64,397	+0%
Treasury	24,056	27,192	-12%	8,748	+175%
Investment Banking and Brokerage	1,421	1,018	+40%	1,509	-6%
Total liabilities	163,762	168,276	-3%	145,202	+13%

Retail net income before zakat and income tax for the first nine months of 2020 declined 47% year-on-year to SAR 241 million, due to a 4% reduction in operating income to SAR 1,354 million, 13% higher operating expenses, and a 31% increase in credit losses. Total retail assets rose by 24% during the first nine months of the year to SAR 28,192 million from a strong 41% growth in mortgages. Total liabilities increased by 4% to SAR 73,582 million, mainly from 3% growth in customers' deposits.

Corporate net income amounted to SAR 198 million for the first nine months of 2020, which declined 87% from the comparable period of 2019 due to higher impairments for credit losses. Total assets for the corporate segment increased 6% in the first nine months of 2020 to SAR 108,304 million from 5%

loans and advances growth. Corporate liabilities decreased by 11% from a reduction in interest-bearing deposits.

Treasury reported strong 25% year-on-year growth in net income to SAR 1,233 million in the first nine months of 2020, as operating income grew 18% to SAR 1,439 million on improved net interest and fee income. Treasury assets declined 1% during the first nine months of the year, while liabilities grew 173% mainly from mark-to-market impacts resulting from lower interest rates and increased market volatility.

The Investment Banking and Brokerage segment registered a 31% year-on-year increase in net income to SAR 105 million due to improved brokerage and asset management fees driving 14% total operating income growth year-on-year.

Outlook

During the last six months of 2020, the operating environment was materially impacted by the Covid-19 pandemic, associated lockdowns and curfews, lower oil prices and interest rates. However, aided by substantial economic support measures by the Government of Saudi Arabia, and more recent phased measures taken to normalize activities and travel, early signs of recovery and stabilization were witnessed during the third quarter of the year. Nevertheless, uncertainties remain about the shape and sustainability of the recovery.

Against this backdrop, the bank 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 adapted well to the new normal. BSF's strategic roadmap was reprioritized to ensure its resilience and ability to take advantage of improving economic conditions, and its longer-term strategic direction, aimed at modernizing and re-imagining the bank over a five-year period, is expected to bring material benefits in future years.

Additional Information

The 3Q 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>

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