

Banque Saudi Fransi reports net income of SAR 1,546mn for 2020

BSF reports lower net income on higher impairments, but significantly improved NPL coverage ratio:



- Net income for 2020 SAR 1,546mn, down 50% YoY due to prudent provisioning
- Improvement in NPL coverage ratio to 125% from 103% in 2019
- Operating income SAR 7,045mn in 2020, up 3% YoY on non-interest income growth
- Net interest margin stable at 3.0% in 2020 despite lower rate environment
- Cost-to-income ratio stable at 33.6% for 2020 compared with 33.3% for 2019
- Total assets SAR 194.1bn, up 9% YoY from increased lending and investments
- Loans and advances up 4% YoY to SAR 130.6bn
- Customers' deposits SAR 127.1bn, down 4% YoY from reducing interest-bearing deposits
- Improved funding mix with non-interest-bearing deposits at 68% of total deposits from 55% in 2019
- Tier 1 ratio of 20.6%, up from 18.3% YoY; Capital Adequacy Ratio (CAR) of 21.6%
- Liquidity Coverage Ratio (LCR) of 199%; Net Stable Funding Ratio (NSFR) of 122%
- The bank's response to Covid-19 has been effective in ensuring business continuity, customer support, and the safety of its employees

Riyadh, [18] February 2021 - Banque Saudi Fransi reported a 50% year-on-year decline in net income to SAR 1,546 million for 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 3% year-on-year to SAR 7,045 million on 8% growth in non-interest income.

Total assets amounted to SAR 194.1 billion as at 31 December 2020, an increase of 9% from the end of the previous year, principally due to higher investments and lending growth. Total customers' deposits decreased by 4% from intentional shedding of interest-bearing deposits, partly offset by strong 16% growth in non-interest-bearing deposits.

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

“2020 was a year like no other. I am proud of the manner in which Banque Saudi Fransi has responded to and navigated the global pandemic by supporting its customers, safeguarding the health and safety of its employees, and contributing to Saudi Arabia’s return to normalcy.

During the year, we increased operating profit by 3% by protecting our margins despite the significantly adverse rate environment and improving our non-interest income. Our focus on funding resulted in material improvement in the share of non-interest-bearing deposits in our funding mix, now at 68% of total deposits against 53% in 2019. We also focused on the quality of our growth, with 9% growth in assets and 4% growth in loans, driven by 55% growth in mortgage financing. We kept costs in check with cost to income ratio of 33.6%, and our balance sheet is stronger than ever on the back of our inaugural Additional Tier 1 Sukuk issue of SAR 5 billion, which was oversubscribed by over 200% - a testament to confidence our investors place in us.

Given the uncertain environment, we opted to strengthen our coverage ratio by increasing provisions to SAR 2,670 million, impacting our profits negatively. Given the strength of our balance sheet and the 125% coverage ratio, we approach 2021 with confidence in our ability to capture the significant market opportunities that a normalizing economy will present. We expect growing demand for consumer financing, improving corporate banking activity, and a phased resumption of Vision 2030 mega projects.”

Performance Highlights

Income Statement Highlights

SAR (Mn)	4Q 2020	4Q 2019	Δ%	2020	2019	Δ%
Net interest income	1,281	1,291	-1%	5,240	5,206	+1%
Non-interest income	496	414	+20%	1,804	1,667	+8%
Operating income	1,777	1,706	+4%	7,045	6,873	+3%
Operating expenses	(672)	(686)	-2%	(2,364)	(2,287)	+3%
Impairment charge	(872)	(447)	+95%	(2,670)	(966)	+176%
Total operating expenses	1,544	1,133	+36%	5,034	3,253	+55%
Net income before zakat & tax	233	573	-59%	2,010	3,619	-44%
Zakat & income tax charge	(139)	(58)	+139%	(464)	(504)	-8%
Net income after zakat & tax	94	515	-82%	1,546	3,115	-50%
NIM	2.91%	3.12%	-7%	3.00%	3.04%	-1%
Cost to income ratio	37.8%	40.2%	-6%	33.6%	33.3%	+1%
Cost of risk	2.50%	1.36%	+83%	2.07%	0.79%	+160%
EPS	0.03	0.43	-93%	1.24	2.60	-52%
ROAE	1.0%	6.3%	-83%	4.5%	9.7%	-54%
ROAA	0.19%	1.13%	-83%	0.80%	1.67%	-52%

Net income after zakat and income tax for 2020 declined 50% year-on-year to SAR 1,546 million, as 3% growth in operating income was more than offset by increased credit costs. Net income for 4Q 2020 declined 82% year-on-year on 4% operating income growth due to the 95% rise in impairment charges taken during the quarter.

Total operating income grew 3% year-on-year to reach SAR 7,045 million for 2020. This growth resulted from a 1% increase in net interest income to SAR 5,240 million on a stable net interest margin of 3.00%, and 8% growth in non-interest income to SAR 1,804 million, from higher exchange and trading income, further aided by a one-off gain on the sale of an investment during the year of SAR 72 million. Total operating income for 4Q 2020 improved 4% compared with 4Q 2019 from increased non-interest income.

2020 Operating expenses rose 3% year-on-year to SAR 2,364 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 2019. Excluding the one-off benefit in the previous period, operating expenses increased 2%. On a quarterly basis, operating expenses declined 2% year-on-year. The cost to income ratio increased by 28 basis points year-on-year to 33.6% for 2020.

The impairment charge amounted to SAR 2,670 million for 2020 compared with SAR 966 million in the previous year. This increase was driven by a reassessment of the macroeconomic scenarios (based on more cautious forecasts owing to Covid-19), a conservative review of borrower risk ratings resulting in IFRS 9 Stage transitions, additional sector-based overlays of SAR [325] million, and improvements provision coverage of non-performing loans. The impairment charge for 4Q 2020 similarly increased to SAR 872 million compared with SAR 447 million in 4Q 2019.

Balance Sheet Highlights

SAR (Mn)	4Q 2020	3Q 2020	Δ%	4Q 2019	Δ%
Cash & SAMA balances	10,548	9,478	+11%	9,117	+16%
Due from banks	4,027	3,719	+8%	3,742	+8%
Investments	37,679	37,901	-1%	31,454	+20%
Loans & advances	130,565	134,356	-3%	125,725	+4%
Other assets	11,255	11,992	-6%	8,110	+39%
Total assets	194,074	197,445	-2%	178,149	+9%
Due to banks	16,792	16,452	+2%	2,372	+608%
Customers' deposits	127,112	135,655	-6%	132,838	-4%
Other liabilities	11,534	11,656	-1%	9,992	+15%
Total liabilities	155,438	163,762	-5%	145,202	+7%
Share capital	12,054	12,054	+0%	12,054	+0%
Retained earnings	7,433	7,398	+0%	5,946	+25%
Other	14,149	14,231	-1%	14,947	-5%
Equity attributable to shareholders	33,636	33,683	-0%	32,947	+2%
Tier 1 Sukuk	5,000	0		0	
Total equity	38,636	33,683	+15%	32,947	+17%
NPL Ratio	2.8%	2.7%	+2%	2.6%	+5%
NPL Coverage Ratio	124.6%	102.7%	+21%	108.5%	+15%
T1 Ratio	20.6%	17.2%	+20%	18.3%	+12%
CAR	21.6%	17.9%	+20%	19.2%	+12%
LCR	199.0%	177.0%	+12%	324.0%	-39%
Leverage ratio	16.5%	14.3%	+16%	15.3%	+8%
NSFR	122%	118%	+3%	122%	+0%
LTD SAMA regulatory ratio	82.3%	83.4%	-1%	85.8%	-4%

Total assets as at 31 December 2020 amounted to SAR 194,074 million, an increase of 9% from 31 December 2019. Loans and receivables rose 4% to SAR 130,565 million from 55% growth in mortgages,

while commercial lending remained stable year-on-year. Strong growth of 20% in investments further contributed to balance sheet expansion.

Customers' deposits declined by 4% during 2020 to SAR 127,112 million. Solid growth was registered in non-interest-bearing deposits (+18%), while interest-bearing deposits were intentionally reduced (-31%).

The non-performing loans ratio was 2.8% as at 31 December 2020, a 14 basis points increase during the year, 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 improved by 16.1 percentage points during the year to 124.6%.

The total capital adequacy ratio stood at 21.6% and the Tier 1 ratio at 20.6% at the end of 2020. These ratios improved by 2.4 and 2.3 percentage points respectively during the year as 18% growth in capitalization levels, supported by SAR 5.0 billion Tier 1 Sukuk Issuance, more than offset a 5% increase in risk-weighted assets.

The bank's liquidity remained strong and comfortably within regulatory limits, with the liquidity coverage ratio at 199%, the net stable funding ratio at 122% and the SAMA regulatory loan to deposit ratio at 82.3%.

Operating Segment Highlights – Income Statement

SAR (Mn)	4Q 2020	4Q 2019	Δ%	2020	2019	Δ%
Operating income						
Retail	457	478	-5%	1,811	1,885	-4%
Corporate	697	734	-5%	2,926	3,060	-4%
Treasury	507	415	+22%	1,946	1,634	+19%
Investment Banking and Brokerage	116	78	+49%	362	294	+23%
Operating income	1,777	1,706	+4%	7,045	6,873	+3%
Net income before zakat & tax						
Retail	97	48	+99%	337	503	-33%
Corporate	(302)	212	-242%	(104)	1,742	-106%
Treasury	411	279	+47%	1,644	1,261	+30%
Investment Banking and Brokerage	28	33	-16%	133	113	+17%
Net income before zakat & tax	424	965	-56%	2,010	3,619	-44%

Operating Segment Highlights – Balance Sheet

SAR (Mn)	4Q 2020	3Q 2019	Δ%	4Q 2019	Δ%
Total assets					
Retail	29,086	28,192	+3%	23,705	+23%
Corporate	102,507	108,304	-5%	103,245	-1%
Treasury	61,050	59,477	+3%	49,633	+23%
Investment Banking and Brokerage	1,431	1,472	-3%	1,565	-9%
Total assets	194,074	197,445	-2%	178,149	+9%
Total liabilities					
Retail	74,967	73,582	+2%	70,547	+6%
Corporate	54,368	64,703	-16%	64,397	-16%

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Treasury	24,681	24,056	+3%	8,748	+182%
Investment Banking and Brokerage	1,422	1,421	+0%	1,509	-6%
Total liabilities	155,438	163,762	-5%	145,202	+7%

Retail net income before zakat and income tax for 2020 declined 33% year-on-year to SAR 337 million, due to a 4% reduction in operating income to SAR 1,811 million and 9% higher operating expenses, offset by a 2% improvement in credit losses. Total retail assets rose by 23% during the year to SAR 29,086 million from 55% growth in mortgages. Total liabilities increased by 6% to SAR 74,967 million, mainly from 6% growth in customers' deposits.

Corporate reported a net loss of SAR 104 million for 2020 compared with net income of 1,742 million in 2019 due to higher impairments for credit losses. Total assets for the corporate segment declined 1% in 2020 to SAR 102,507 million from a 1% decrease in loans and advances. Corporate liabilities decreased by 16% from a reduction in interest-bearing deposits.

Treasury reported 30% year-on-year growth in net income to SAR 1,644 million in 2020, as operating income grew 19% to SAR 1,946 million on improved net interest and fee income. Treasury assets rose 23% during the year, while liabilities grew 182% mainly from mark-to-market impacts resulting from lower interest rates and increased market volatility.

The Investment Banking and Brokerage segment registered a 17% year-on-year increase in net income to SAR 133 million due to improved brokerage and asset management fees driving 23% total operating income growth year-on-year.

Outlook

During the year 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 phased measures taken to normalize activities, signs of recovery and stabilization were witnessed during the second half of the year. While uncertainties remain, macro-economic fundamentals are expected to improve during 2021, leading to expected growing demand for consumer financing, improving corporate banking activity, and phased resumption of Vision 2030 opportunities.

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 ended the year well capitalized, with strong liquidity, and adapted well to the new operating environment. BSF's strategic roadmap was reprioritized during 2020 to ensure its resilience and ability to take advantage of improving economic conditions in 2021, 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 4Q 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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