



Banque Saudi Fransi

1Q 2020 Earnings Presentation

21 May 2020



EARNINGS PRESENTATION 1Q 2020

# Highlights

# Saudi Arabia and BSF have responded strongly to Covid-19

**Covid-19 has severely disrupted financial markets and economic activity**

Brent Oil Price / Barrel  
USD

33.3

▼ -50.9% year-to-date to 18-May-2020

SAIBOR: SAR 3M (spot)  
%

1.23%

▼ -100 bps year-to-date to 30-Apr-2020

KSA PMI (manufacturing)

44.4

▼ -22.0% year-to-date to 30-Apr-2020

**Saudi Arabia has responded strongly to contain the pandemic and support the economy**

### Containment

- Suspension of various activities
- Enforced partial or full curfews and lockdowns

### SAMA

- SAR 50 billion Private Sector Financing Support measures
- Repo rate cut to 1.0%

### Ministry of Finance

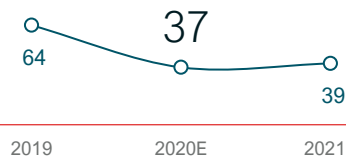
- SAR 150 billion+ economic support measures
- Increase Debt/GDP limit to 50% and VAT from 5% to 15%

**Nevertheless, the economic outlook for 2020 is uncertain**

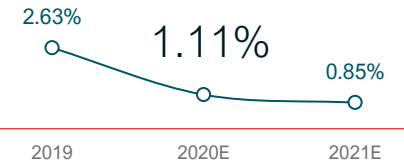
Real GDP growth (%)



Brent Oil Price Average / Barrel (USD)



SAIBOR: SAR 3M (avg) (%)



**BSF's response to Covid-19 has been effective and executed against a robust plan**

### Business Continuity

- Daily liquidity, risk & continuity management meetings
- Liquidity & stress testing
- Evaluation of risks & liabilities

### Safety of Employees

- Flexible & remote working
- Infection protection & social distancing
- Regular communications

### Customer Support

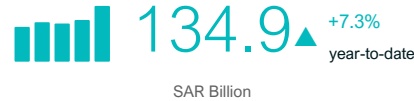
- Waiver of fees, deferred payments and SME support
- Digital enablement initiatives

# Net income declined on Covid-19 impairments

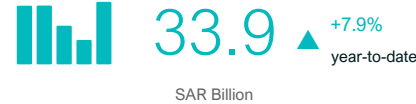
## BALANCE SHEET

- Strong loan growth
- Strong deposit growth from flight to quality and as customers sought to enhance liquidity, aided by lower rates.

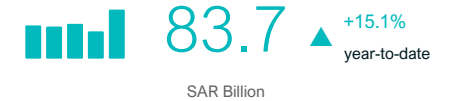
### Loans & Advances



### Investments



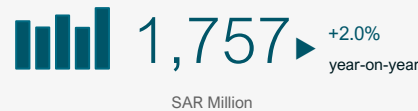
### Non Interest Bearing Deposits



## INCOME STATEMENT

- Modest top-line growth on volume growth and improved margins.
- Net income declined due to higher impairments.

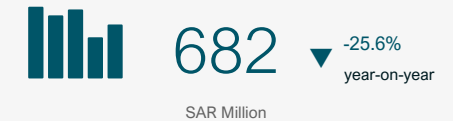
### Operating Income



### NIM



### Net Income After Zakat & Tax



## ASSET QUALITY

- Modest rise in NPL ratio and slight reduction in NPL coverage.
- Cost of risk increased due to Commercial portfolio, mainly from additional Covid-19 provisions.

### NPL Ratio



### NPL Coverage Ratio



### Cost of risk



## CAPITAL & LIQUIDITY

- Capital & liquidity remain strong and comfortably within regulatory limits.
- LCR is managed for optimum efficiency in COF.

### T1 Ratio



### LCR



### NIBD % of Total Deposits



# Our strategic direction is unaffected by Covid-19

2018  
Baseline

## POSITIONED TO 'LEAP'

2023  
Aspiration

### STRATEGIC PILLARS

MARKET SHARE\*

**8.3%**

ROAA\*\*

**1.7%**

NPS\*\*\*

**#NA**

MARKET SHARE

**10%**

ROAA

**2.3%**

NPS

**#1**



**Solidify** our leadership position in Corporate Banking



**Scale** up in Retail Banking



**Optimize** our leading position in Private Banking



**Reinforce** our strength in Global Markets

### STRATEGIC ENABLERS

**A** Technology & IT platforms

**C** Customer experience

**E** Brand

**G** Risk






**B** Digitalization

**D** Organizational effectiveness

**F** People

**H** Strategy

... but strategic initiatives are continuously re-assessed, and we are taking a balanced approach to defensive and offensive action

		Initiatives Completed	2020 Direction
STRATEGIC PILLARS	 Corporate Banking	6/14 	<ul style="list-style-type: none"> <li>Corporate Digital Platform implementation</li> <li>Finalize CRM, NPS implementation</li> <li>Leverage account planning, pipeline management &amp; cross-selling</li> </ul>
	 Retail Banking	13/37 	<ul style="list-style-type: none"> <li>Continue to fix the basics</li> <li>Finalize NPS implementation</li> <li>Accelerate digital initiatives; pause initiatives relating to physical channels</li> </ul>
	 Private Banking	5/17 	<ul style="list-style-type: none"> <li>Accelerate digital customer acquisition and engagement initiatives.</li> <li>Finalize NPS implementation</li> </ul>
	 Global Markets Group	5/5 	<ul style="list-style-type: none"> <li>Full implementation of CRM, account planning, pipeline management &amp; cross-selling initiatives</li> </ul>
STRATEGIC ENABLERS	 Technology, IT platforms & Digitalization	3/25 	<ul style="list-style-type: none"> <li>Core banking system release 1</li> <li>Digital productivity tools for employees</li> <li>Predictive analytics initiatives</li> </ul>
	 Customer experience & Organizational effectiveness	17/25 	<ul style="list-style-type: none"> <li>Cross-sell initiatives</li> <li>Customer experience initiatives</li> <li>Finalize NPS implementation</li> </ul>
	 Brand, People, Risk & Strategy	12/40 	<ul style="list-style-type: none"> <li>Implement brand architecture and complete brand design</li> <li>Oracle HR tools &amp; HR initiatives in recruitment, talent and performance management</li> </ul>
	<b>Total</b>	<b>61/163</b> 	



EARNINGS PRESENTATION 1Q 2020

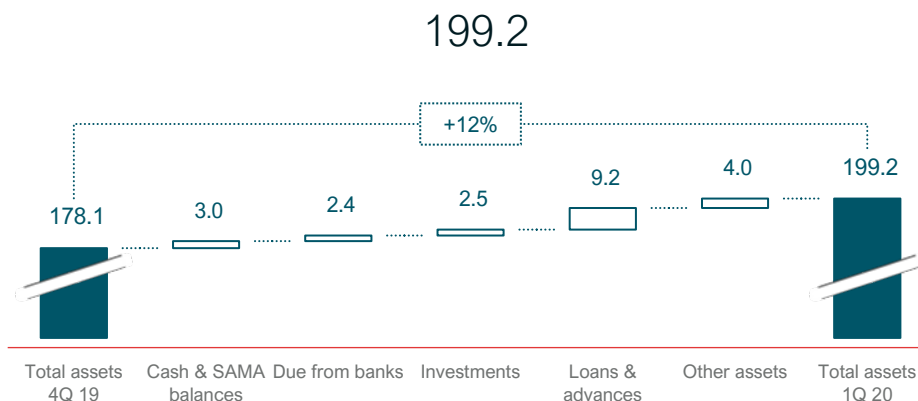
# Financial Performance

# Strong balance sheet growth

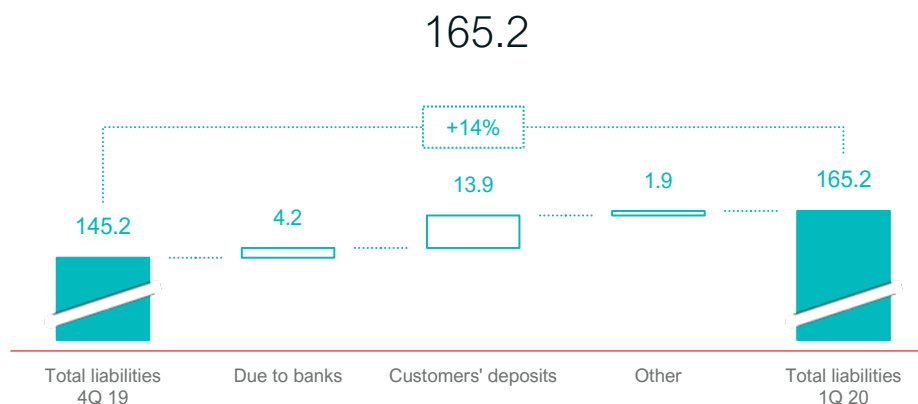
- Growth in total assets of 12% QoQ driven by strong 7% loan growth during 1Q 2020.
- Balance sheet growth funded by strong 10% QoQ growth in deposits, due to liquidity enhancement by customers.

SAR (Mn)	1Q 2020	4Q 2019	Δ%	1Q 2019	Δ%
Cash & SAMA balances	12,105	9,117	+33%	13,717	-12%
Due from banks	6,137	3,742	+64%	15,265	-60%
Investments	33,940	31,454	+8%	33,683	+1%
Loans & advances	134,882	125,725	+7%	121,274	+11%
Other assets*	12,114	8,110	+49%	6,098	+99%
<b>Total assets</b>	<b>199,178</b>	<b>178,149</b>	<b>+12%</b>	<b>190,037</b>	<b>+5%</b>
Due to banks	6,542	2,372	+176%	2,335	+180%
Customers' deposits	146,772	132,838	+10%	144,820	+1%
Other liabilities*	11,919	9,992	+19%	10,637	+12%
<b>Total liabilities</b>	<b>165,232</b>	<b>145,202</b>	<b>+14%</b>	<b>157,792</b>	<b>+5%</b>
Share capital	12,054	12,054	+0%	12,054	+0%
Retained earnings	6,628	5,946	+11%	6,104	+9%
Other	15,264	14,947	+2%	14,088	+8%
<b>Total equity</b>	<b>33,945</b>	<b>32,947</b>	<b>+3%</b>	<b>32,245</b>	<b>+5%</b>

### Total Assets Movement (SAR Bn)



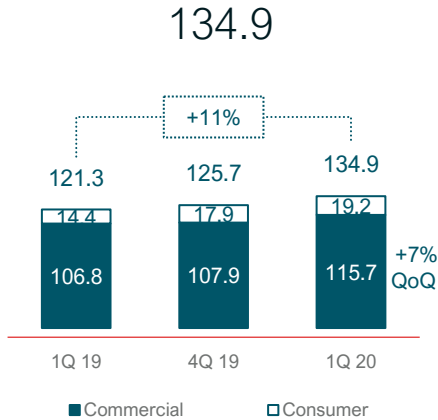
### Total Liabilities Movement (SAR Bn)



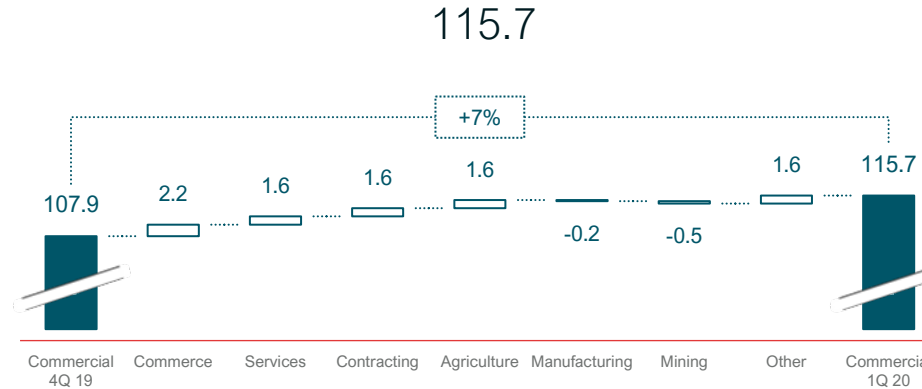


# Strong loan and deposit growth in 1Q 2020 as customers sought liquidity

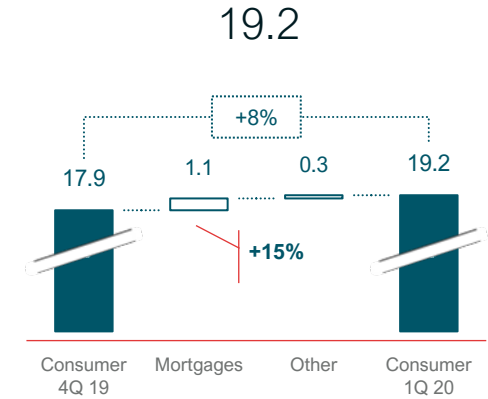
Total Loans & Advances (SAR Bn)



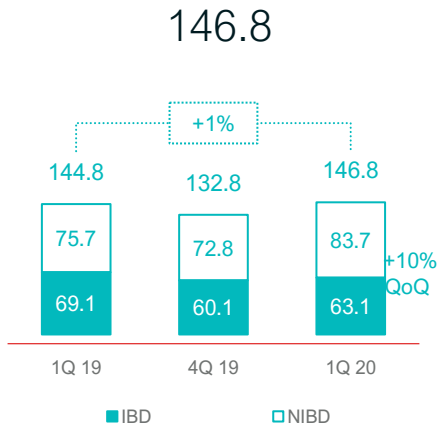
Commercial Loans Movement (SAR Bn)



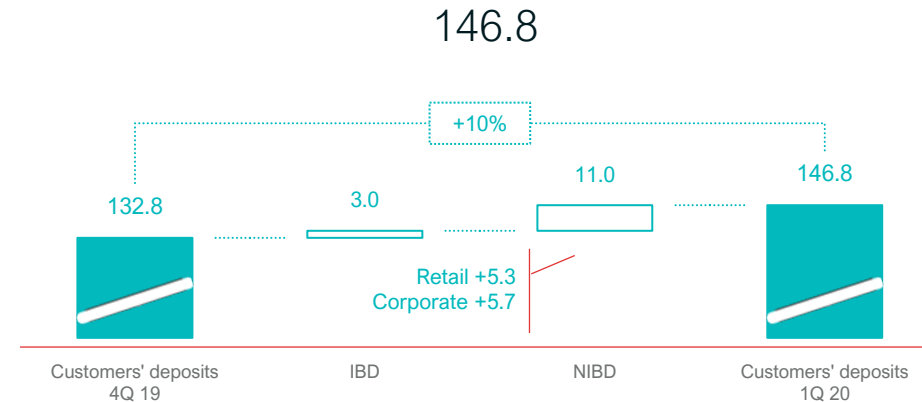
Consumer Loans Movement (SAR Bn)



Customers' Deposits (SAR Bn)



Customers' Deposits Movement (SAR Bn)

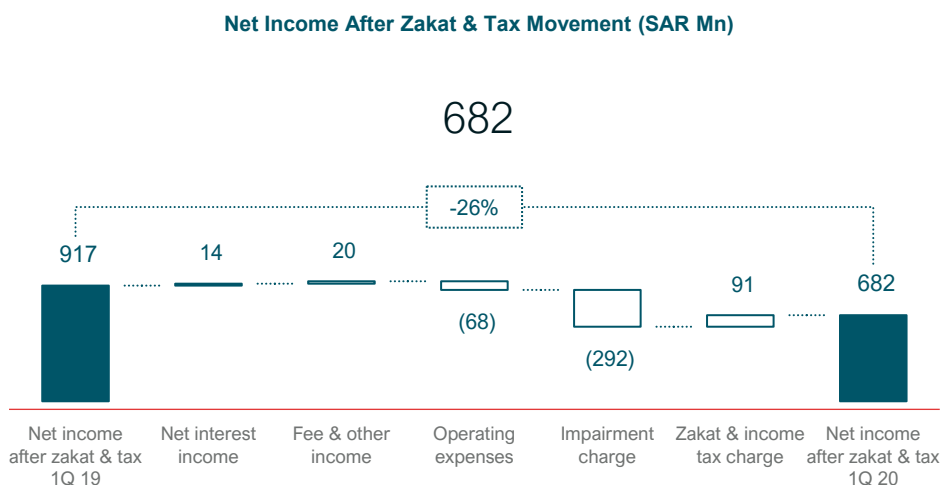
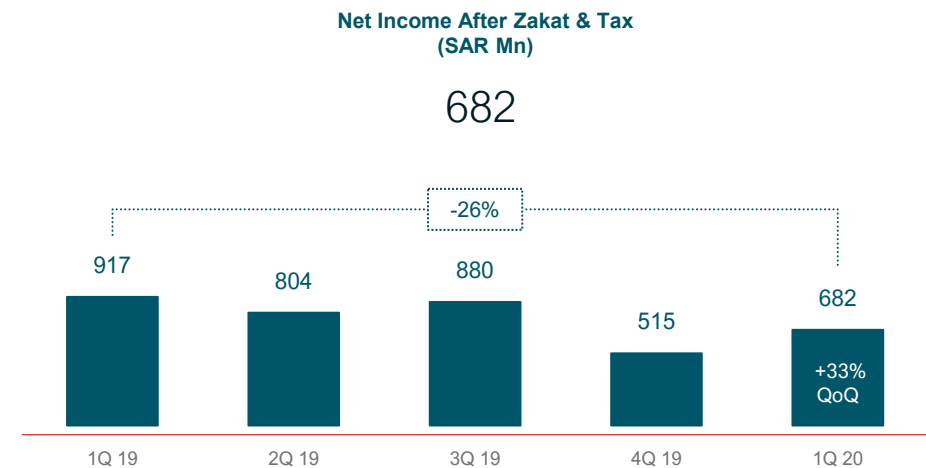


- Total Loans & Advances grew 7% during 1Q 2020 from 7% commercial and 8% consumer loans growth.
- Deposits grew 10% during 1Q 2020 in both NIBDs (+15%) and IBDs (+5%).
- Both loan and deposit growth were aided by liquidity enhancement by customers, with switching from IBDs to NIBDs encouraged by the lower rate environment.

# Net income declined year-on-year as growth in income was offset by higher credit and operating costs

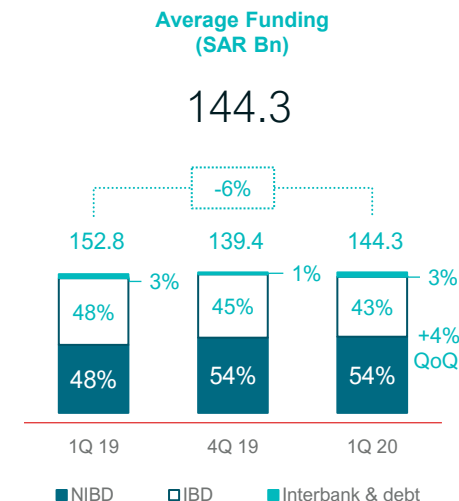
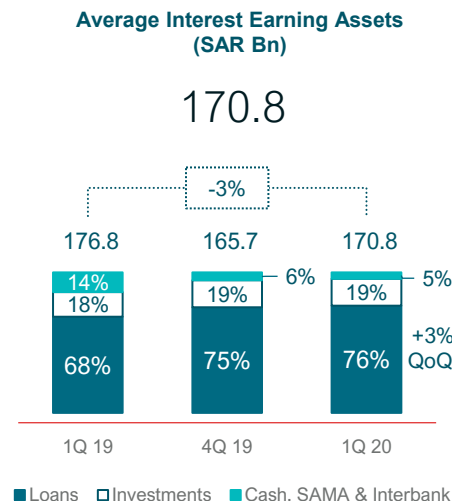
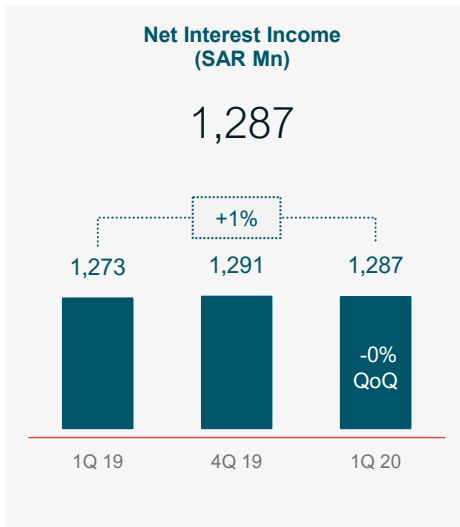
- Net income declined 26% YoY to SAR 682mn as 2% income growth was more than offset by 14% increase in costs and +276% rise in impairments.
- Compared to the previous quarter, however, net income rose 33% as operating expenses and impairments declined QoQ due to seasonally higher charges in 4Q 2019.

SAR (Mn)	1Q 2020	4Q 2019	Δ%	1Q 2019	Δ%
Net interest income	1,287	1,291	-0%	1,273	+1%
Fee & other income	470	414	+13%	450	+4%
<b>Operating income</b>	<b>1,757</b>	<b>1,706</b>	<b>+3%</b>	<b>1,723</b>	<b>+2%</b>
Operating expenses	(559)	(686)	-19%	(491)	+14%
Impairment charge	(397)	(447)	-11%	(106)	+276%
<b>Total operating expenses</b>	<b>956</b>	<b>1,133</b>	<b>-16%</b>	<b>596</b>	<b>+60%</b>
<b>Net income before zakat &amp; tax</b>	<b>801</b>	<b>573</b>	<b>+40%</b>	<b>1,126</b>	<b>-29%</b>
Zakat & income tax charge	(119)	(58)	+103%	(210)	-43%
<b>Net income after zakat &amp; tax</b>	<b>682</b>	<b>515</b>	<b>+33%</b>	<b>917</b>	<b>-26%</b>
NIM	3.01%	3.12%	-3%	2.88%	+5%
Cost to income ratio	31.8%	40.2%	-21%	28.5%	+12%
Cost of risk	1.19%	1.36%	-13%	0.46%	+157%
EPS	0.57	0.43	+33%	0.76	-26%
ROAE	8.2%	6.3%	+30%	11.6%	-30%
ROAA	1.45%	1.13%	+28%	1.9%	-25%

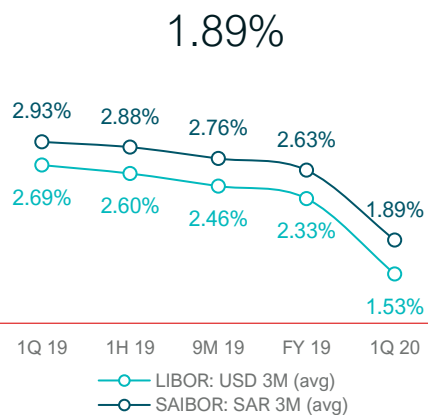


# Moderate growth in NII from improved funding costs

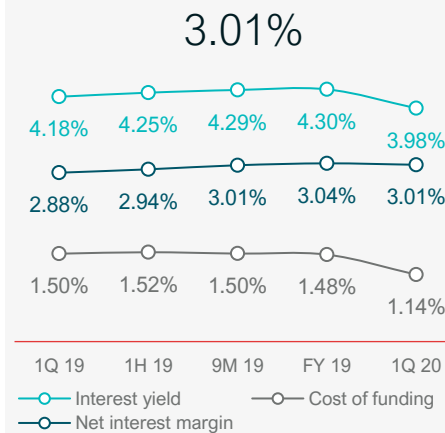
- The NIM improved 13bps YoY and declined 3bps from FY 2019 to 3.01% for 1Q 2020.
- The YoY improvement was driven by an improved asset and funding mix.
- Funding costs improved by 34bps to 1.14% in 1Q 2020.



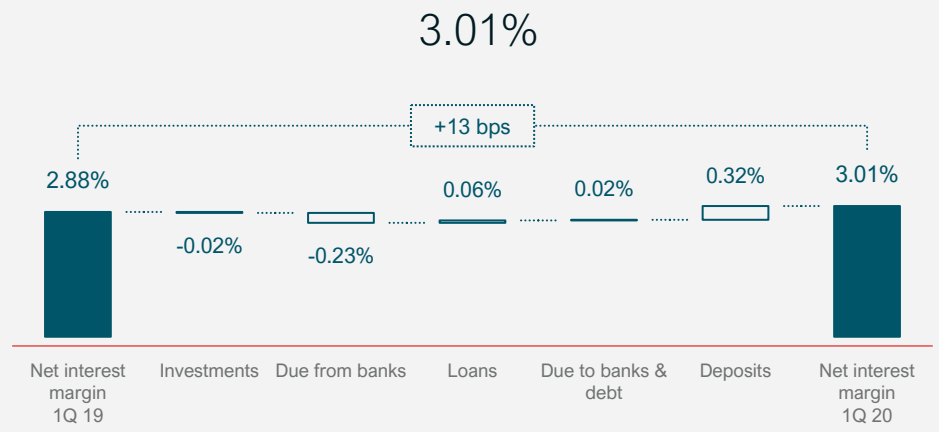
SAIBOR Trend (%)



Net Interest Margin Trend (%)

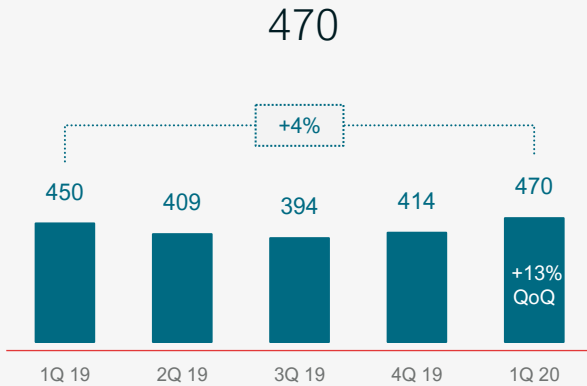


Net Interest Margin Movement (SAR Bn)

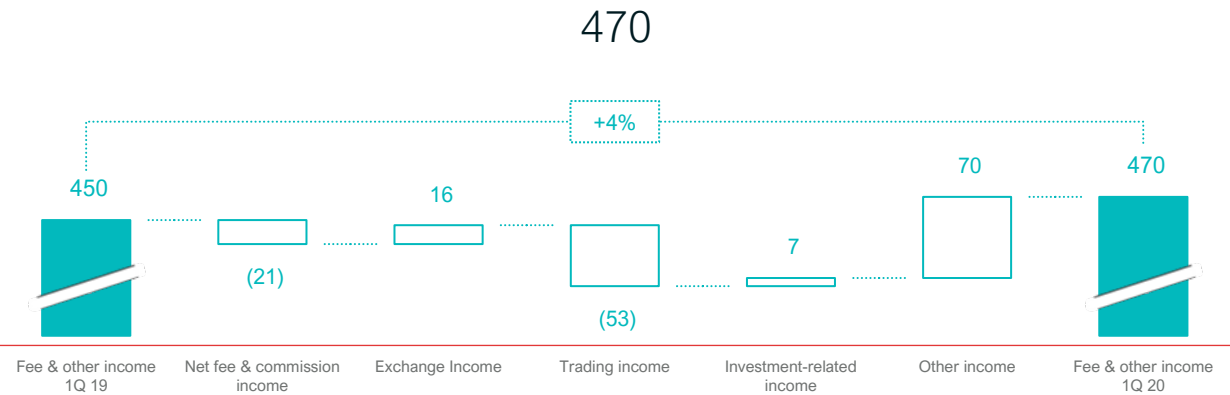


# Fee and other income rose 4% due to higher other income, partly offset by lower trading and net fee & commission income

Fee & Other Income (SAR Mn)

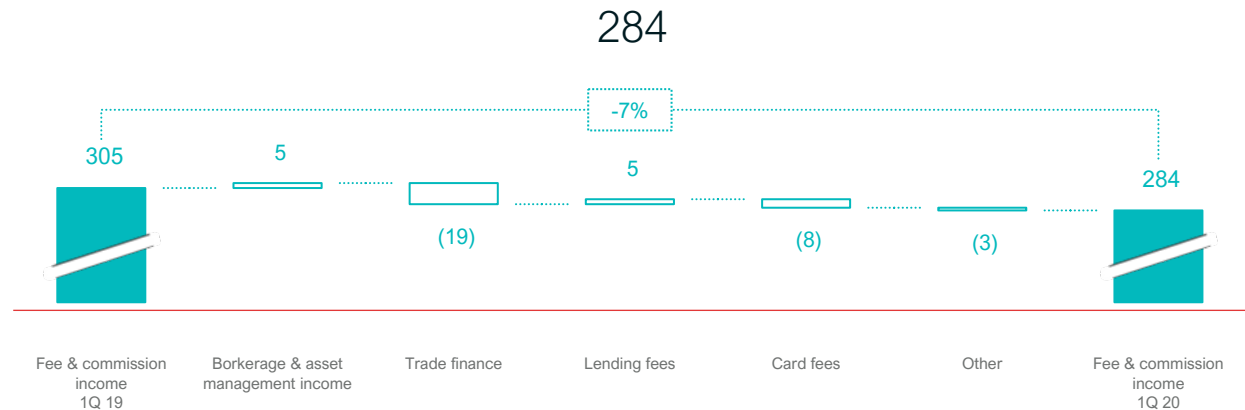


Fee & Other Income Movement (SAR Mn)



- Fee & other income improved 4% YoY to SAR 470mn as lower net fee & commission and trading income was more than offset by higher exchange and other income.
- Other income rose by SAR 70mn YoY due to a one-off gain of SAR 72mn.

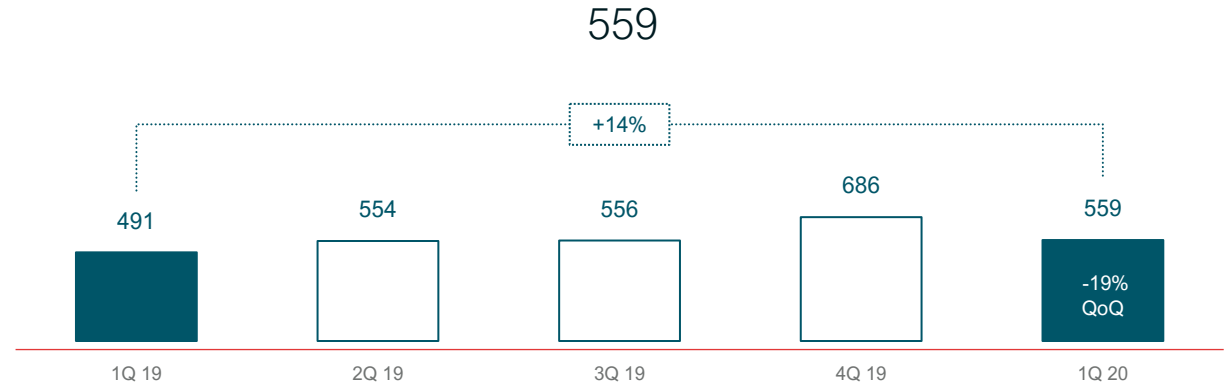
Fee & Commission Income Movement (SAR Mn)



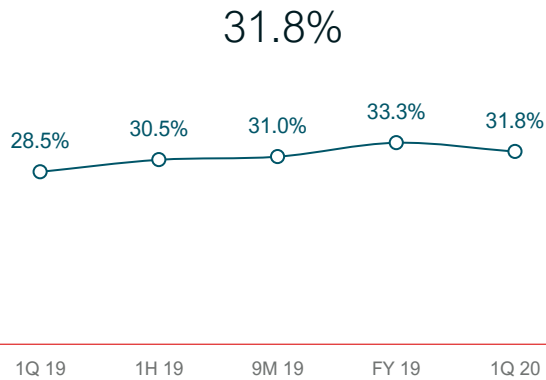
# Higher operating expenses from salary increments and improvements of talent pool

- Operating expenses increased 14% YoY to SAR 559mn in 1Q 2020, due to one-off accrual reversal in 1Q 2019 of SAR 37mn.
- Excluding one-off, expenses rose 6% mainly from higher employee-related costs due to salary increments improvements of the talent pool.
- The cost to income ratio increased to 31.8% in 1Q 2020 from 28.5% in 1Q 2019.
- Relative to the previous quarter, operating expenses declined by 19% due to seasonally higher costs in 4Q 2019.

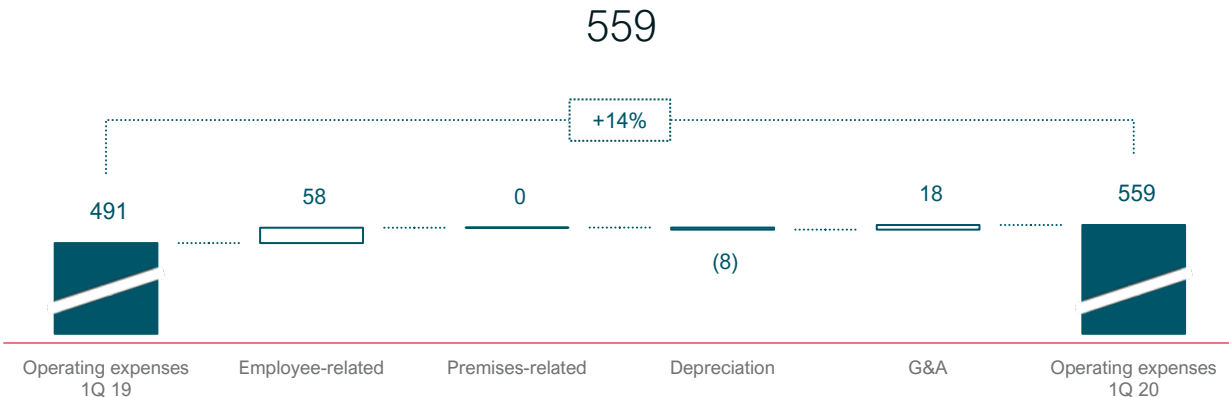
Operating Expenses (SAR Mn)



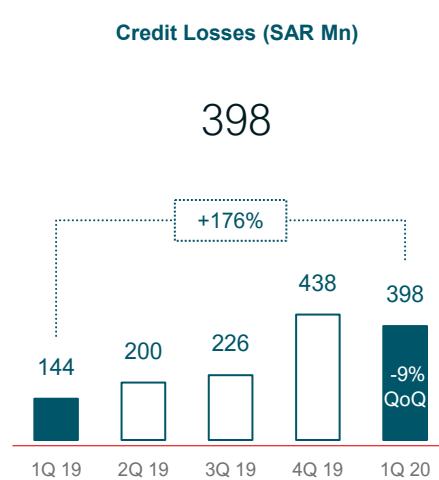
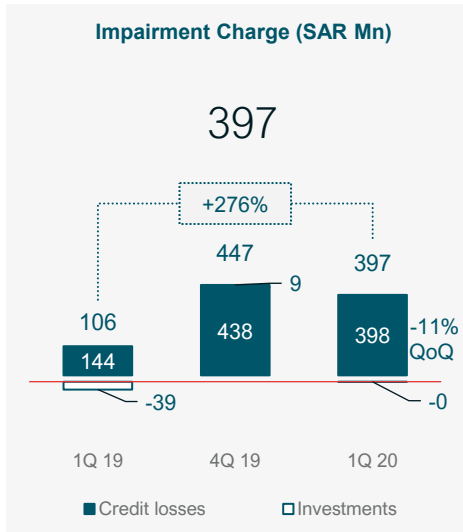
Cost To Income Ratio (%)



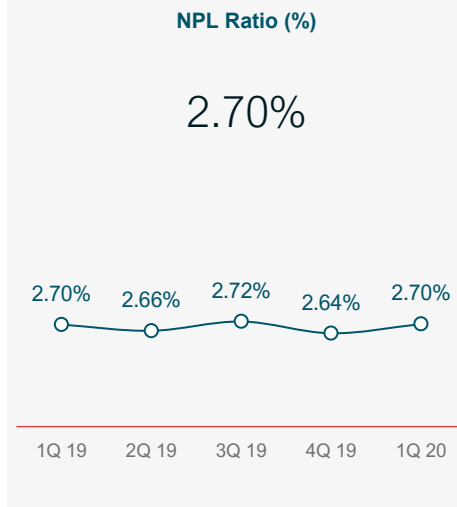
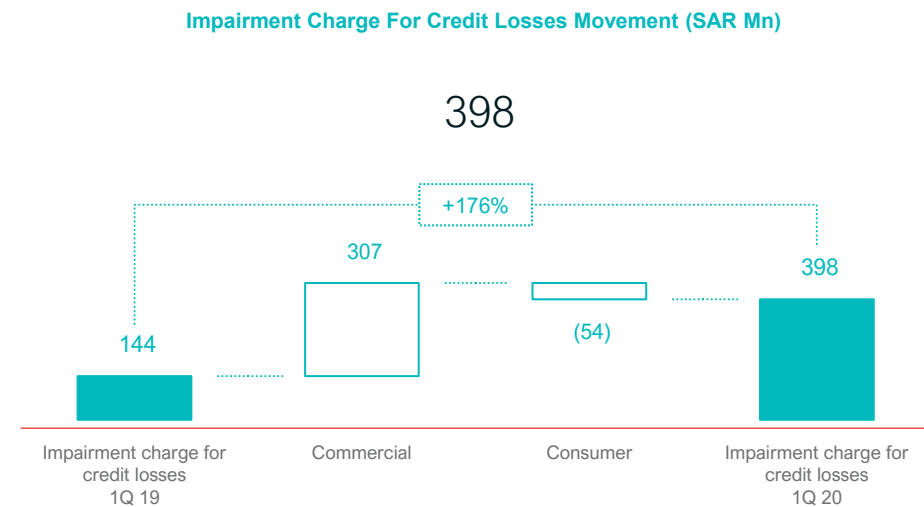
Operating Expenses Movement (SAR Mn)



# Higher impairment charge and cost of risk from higher commercial provisions, partly due to Covid-19

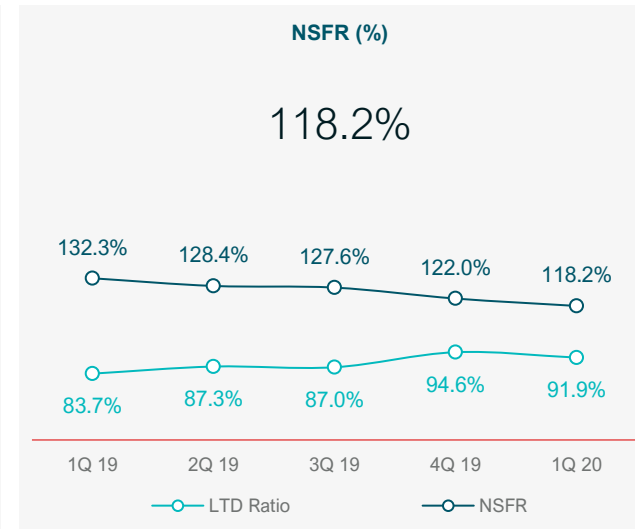
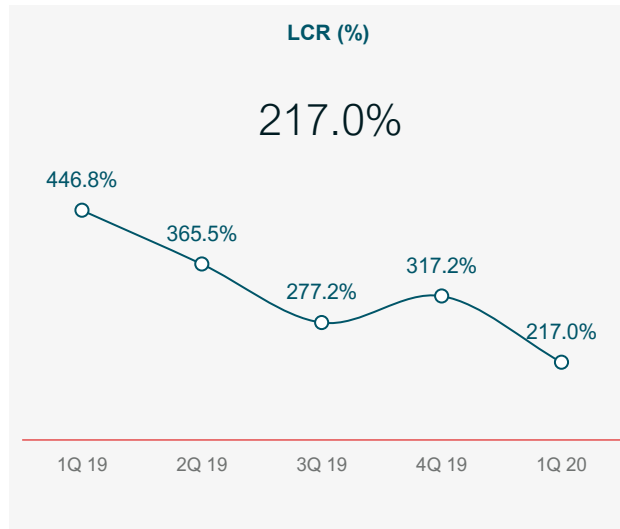


- The total impairment charge for 1Q 2020 amounted to SAR 397mn, an increase of SAR 292mn from 1Q 2019, mainly from a rise in credit losses of SAR 254mn.
- The risk in credit losses was driven by higher commercial NPL formation as well as SAR 175mn additional provisions relating to Covid-19 as IFRS 9 ECL model economic assumptions were revised, together with judgmental overlays for specific sectors.

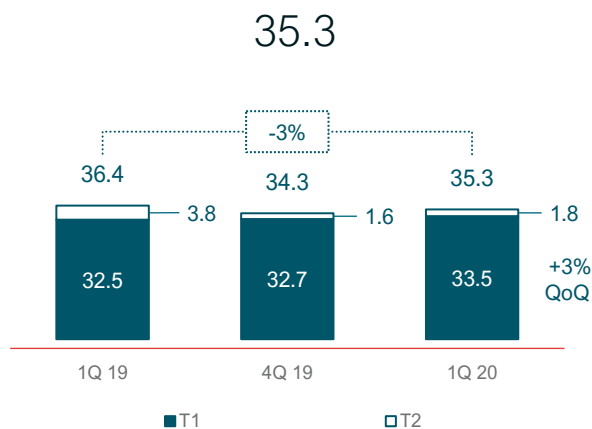


# Liquidity and capitalization remain comfortable

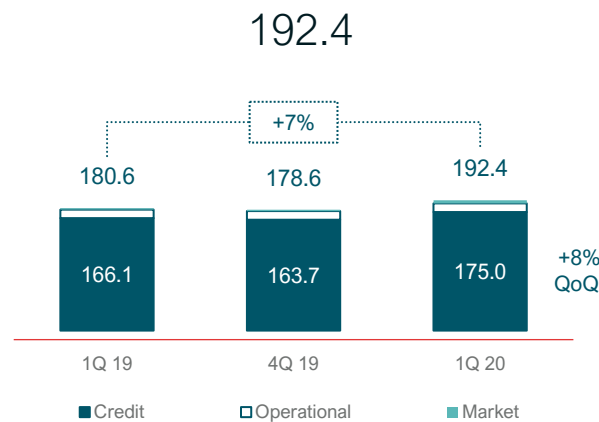
- LCR declined 100ppts during 1Q 2020 due to a decline in HQLA of 14% from balance sheet optimization conducted in 4Q 2019 but remains comfortable at 217%.
- NSFR declined modestly by 3.8ppts during 1Q 2020 to 118.2%.
- Total capital increased by SAR 1.0bn (+3% QoQ) during 1Q 2020 from net income generation of SAR 0.7bn and increased reserves of SAR 0.4bn, while RWAs rose 8% QoQ to SAR 192.4bn on growth in loans and investments.
- CAR was 18.4% and the Tier 1 ratio was 17.4% as at 31 March 2020.



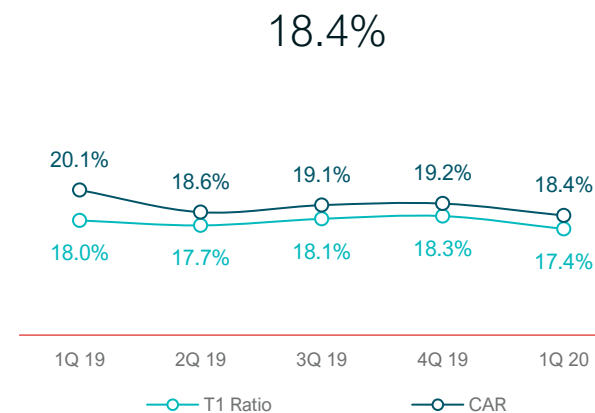
Total Capital (SAR Bn)



RWA (SAR Bn)



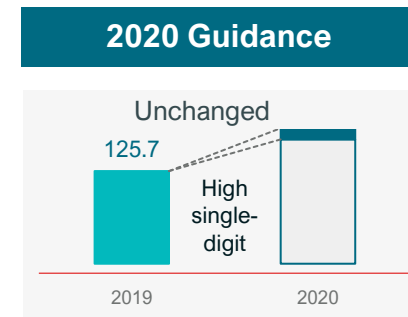
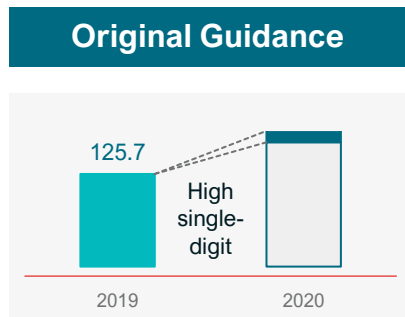
CAR (%)



# Covid-19 disruption, lower oil prices and interest rates have impacted our outlook and guidance for NIM and COR

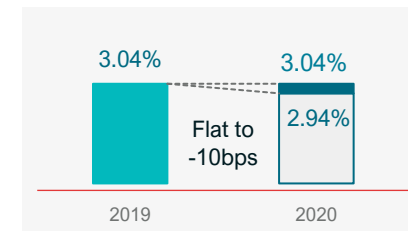
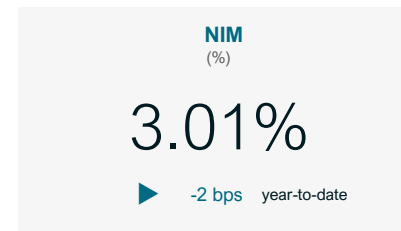
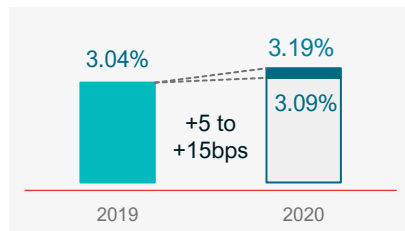
## LOANS & ADVANCES, NET

- 1Q 2020 growth of 7% YTD already close to original guidance.
- Loan growth for remainder of 2020 expected to be muted, leaving guidance unchanged.



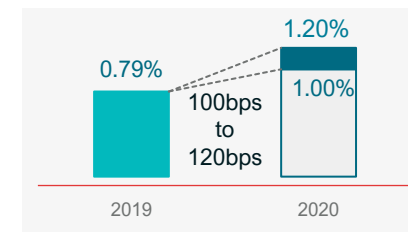
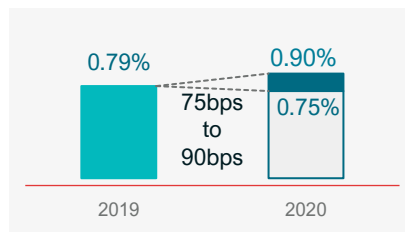
## NET INTEREST MARGIN

- NIM declined in 1Q 2020 by 2bps YTD.
- Lower rates will impact margins during remainder of year, resulting in lower NIM guidance to flat to -10bps.



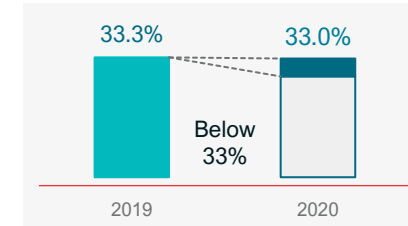
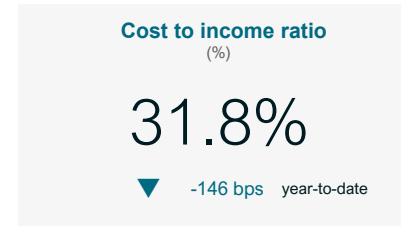
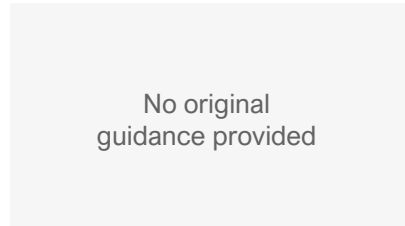
## COST OF RISK

- Cost of risk rose 39bps YTD due to additional Covid-19 provisions.
- Outcome for FY 2020 remains uncertain, but COR is expected to rise to 100bps to 120bps.



## COST TO INCOME RATIO

- The bank is carefully managing the cost base for optimum efficiency, while continuing to invest in critical IT and digital capabilities.
- CI ratio expected to be below 33% for FY 2020.





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