

# Al Rajhi Bank Results Presentation

3Q 2020 Earnings Conference Call and Webcast

# Management Summary

## 3Q 2020 Highlights

### Strategy

#### **Strategy implementation is on track delivering strong results despite the current environment**

- Improved customer service, digitization and new products all contributed to the bottom line.
- Growth in mortgages, customers loans, and operating income.
- Continued strong growth across all digital channels & payments.

### Balance Sheet

#### **Balance sheet healthy growth was driven by financing activities**

- Strong growth in Retail financing at (+21% YTD) and current account (+12% YTD).
- Healthy CAR at (19.3%) and Tier I at (18.2%).
- Strong liquidity ratios, LDR at (80%) and LCR at (150%).

### Asset Quality

#### **Al Rajhi Bank remains well capitalized and maintains high coverage ratio**

- Higher net provisions by (+46% YoY) was taken considering the current environment.
- Adequate cost of risk at (0.78%).
- Healthy NPL ratio of (0.84%) and NPL coverage at (293%).

### Operating Result

#### **9M 2020 net income before Zakat of SAR 8.3 Billion (-4.5%YoY), mainly driven by**

- Slower yield expansion caused by lower SAIBOR, instalments deferrals and fee waiver impact.
- Yield income growth of (+1% YoY) driven by mortgage financing.
- Non-yield income growth of (+15% YoY) driven by digital & payments and brokerage fees.

# Strategy Update

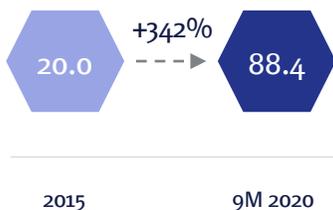
ABCDE 'Back to Basics' strategy delivered strong results in 3Q 2020



## Accelerated Growth

+3% YoY operating income growth
+88% YoY growth in mortgages
+12% YoY growth in current accounts
-49bps YoY net profit margin drop to 4.72%

### Mortgage Financing (SARbn)



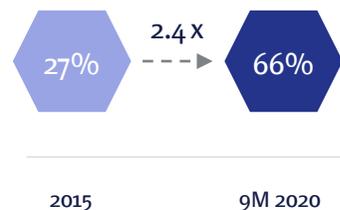
*Exceed Industry*



## Become Employer of Choice

Al Rajhi Bank Academy
School of Banking
Graduate Program
36,164 training days delivered

### Employee Engagement Index



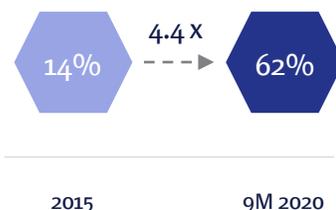
*Higher Engagement*



## Customer Focus

15 new products launched to cater to customers' needs
Enhanced Distribution Network
Highest Rated Banking Mobile app
Maintain high Net Promoter Score in KSA

### Net Promoter Score



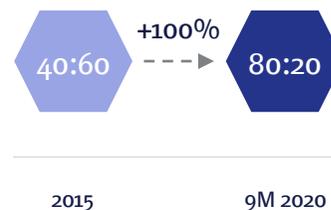
*Most Recommended*



## Digital Leadership

169K POS
5K ATMs   32 ITMs
350 Self Service Kiosks
7.2mn active digital users

### Digital : Manual Ratio



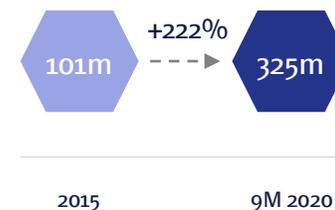
*Best-In-Class*



## Execution Excellence

270 Bots
20K transactions per day
Migrated to Tier 4 Data Center
Further enhanced turnaround time

### Transactions per month (Avg.)



*Deliver*

# KSA's Macro-Economic Environment

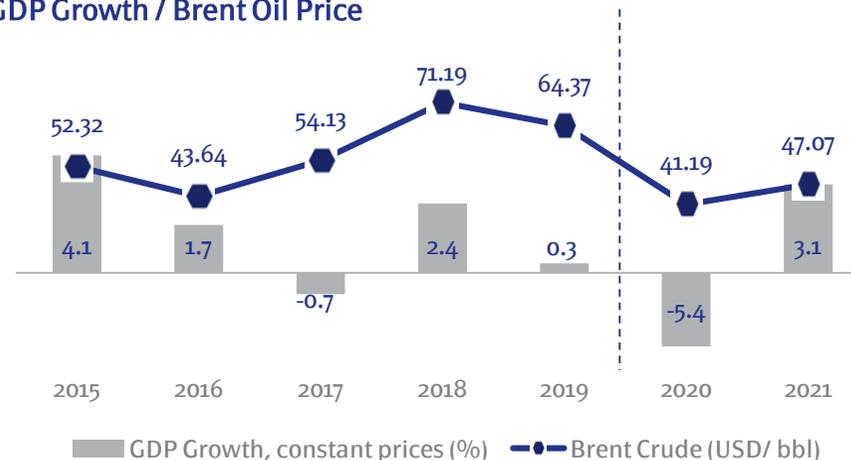
# KSA Economic Outlook

## Recovering from the trough of Covid-19 pandemic

### Highlights

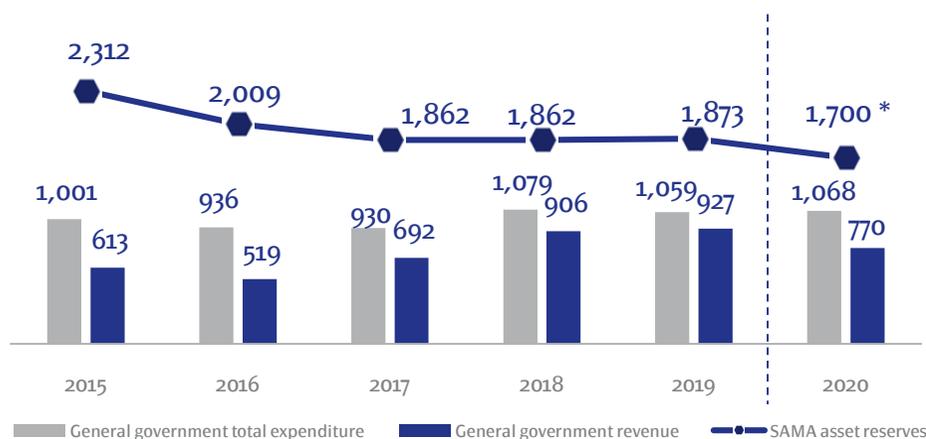
- IMF has revised up GDP forecast for 2020 to (-5.4%) driven by the non-oil private sector.
- Saudi is keeping its fiscal expenditure at the budgeted level; however, it is reallocating expenses to deal with the pandemic.
- IMF has revised up the average inflation forecast to (3.6%) in 2020 driven by the VAT and custom duty hikes.

### GDP Growth / Brent Oil Price



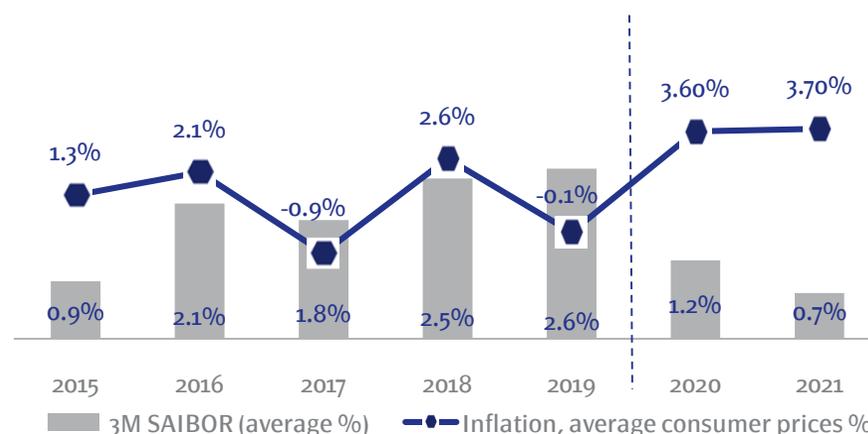
Source: IMF, U.S. Energy Information

### Expenditures/ Revenue and asset reserves (SARbn)



Source: MoF, Rajhi Capital \* Aug 2020 figures

### 3M SAIBOR / Inflation



Source: SAMA, IMF

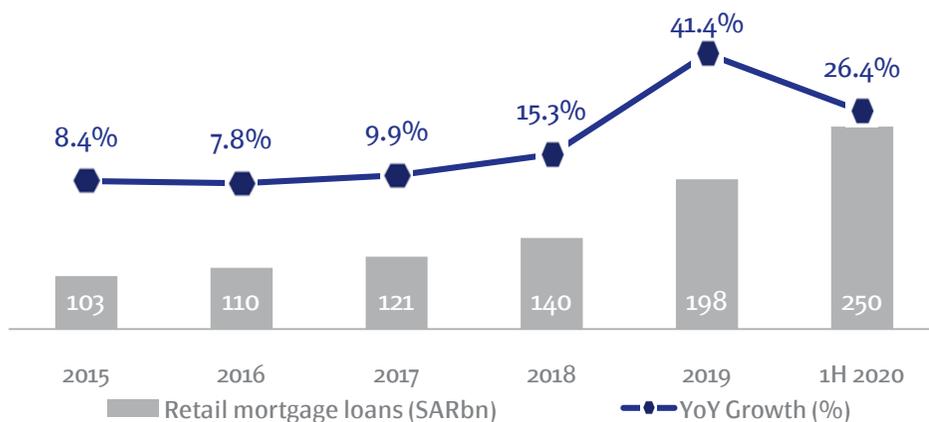
# Banking Sector Highlights

Growth in mortgage lending continues to drive up credit growth

## Highlights

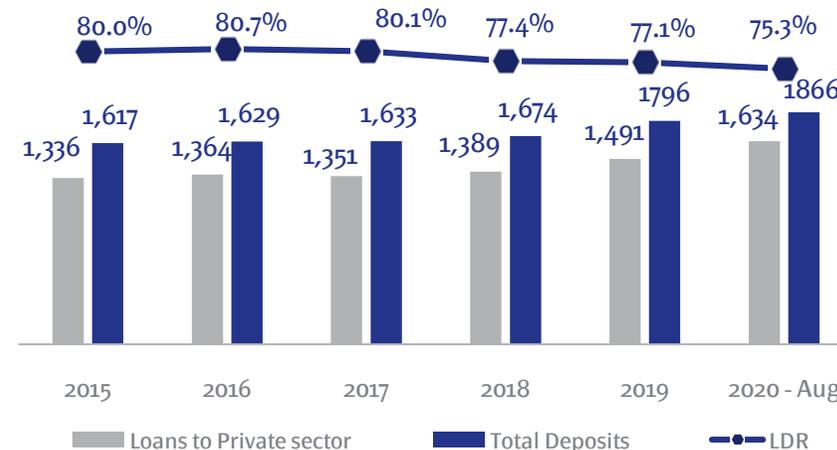
- Saudi banks have shown high resilience driven by government's support and solid macroeconomic fundamentals.
- Revoking the 15% VAT tax on real estate transactions and replacing it with a 5% sales tax .
- Spending have decreased by (-6.6%) YTD driven by lower ATM withdrawals; however, POS sales have increased by (+18.7%) YTD.

## Retail Mortgage (SARbn)



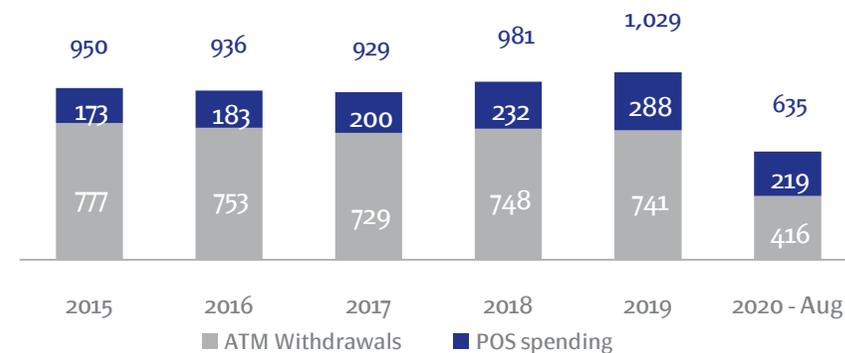
Source: SAMA

## Loans to Deposits Ratio (%)



Source: SAMA

## POS Transaction / ATM Withdrawals (SARbn)



Source: SAMA

# Government Stimulus Highlights

SAR +350bn to combat the negative impact of Covid-19 and low oil prices on the economy

In Billions

Government	Economy Focused	MOF	Economy Focused	SAMA	MSMEs Focused
SAR 5.3	Employment and training support to the Private Sector	SAR 70	To Support the Private Sector	SAR 30	Deferred Payment Program
SAR 9	To cover 60% of salaries in the Private Sector	SAR 47	To Support the Health Care	SAR 13.2	Funding for Lending Program
SAR 12	SME and Household Support	SAR 1.9	To Fund International efforts to combat Covid-19	SAR 6	Loan Guarantee Program
1,400	Economic entities to delay services fees payments for 3 months	50%	Debt to GDP Ceiling ratio	SAR 0.8	POS & E-Commerce Fees
116K	Commercial license renewal fee waiver for 3 months	30%	Subsidization of the electricity bill for companies	SAR 50	Liquidity injection for local Banks
Defer	Collection of custom duties for one month	SAR 50	Private sector payments	Defer	Extension of the Deferred Program to include stage 2
Defer	Payment and submission of declarations of VATs	Defer	MSME installments financed by Development funds	Extend	Extension of the Deferred Program for 3 months
Free	Iqama and Visa extension for expats for 3 Months	Increase	Threshold for the 1 <sup>st</sup> home buyer VAT waiver to SAR 1 Million		
Reduce	Replacing 15% VAT on real estate transactions with 5% sales tax				

Introduced in 3Q 2020

# Financial Results

# Balance Sheet Trends (1)

Strong financing growth, mortgage is the main driver

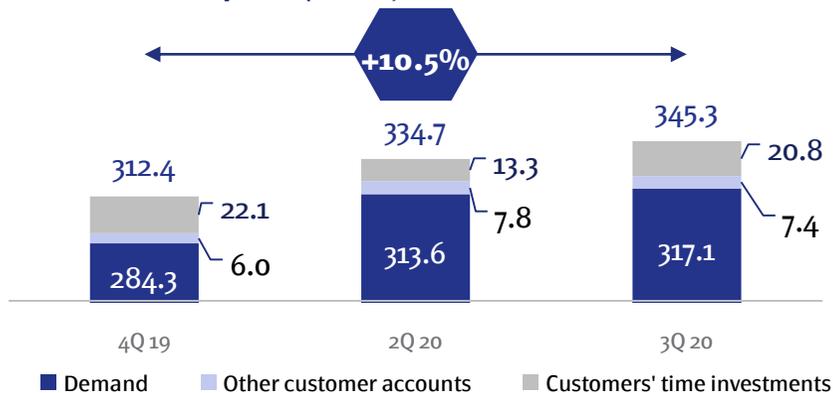
## Highlights

- Total Assets grew by (+12% YTD) driven by strong growth in financing & investment.
- Net financing grew by (+16% YTD) contributed by strong retail performance.
- Customers deposits growth of (+11% YTD) contributed by growth in demand deposits.

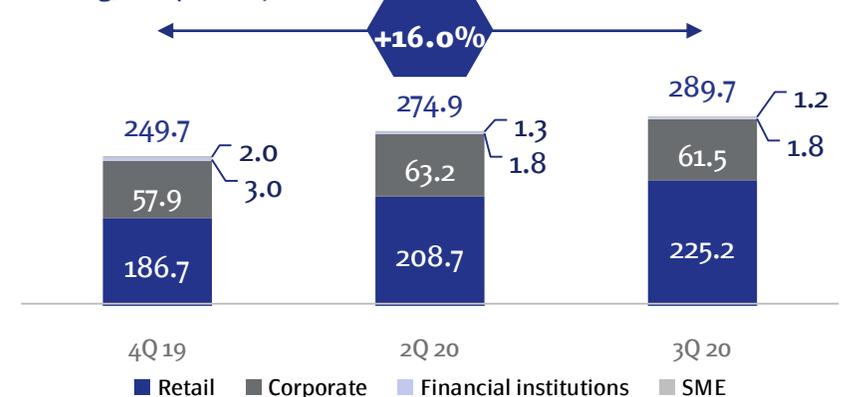
## SAR (mn)

	3Q 2020	2Q 2020	QoQ	4Q 2019	YTD
Cash and balances with SAMA	37,451	45,022	-17%	39,294	-5%
Due from banks and other FI	27,517	28,215	-2%	32,058	-14%
Investments, net	57,111	52,937	+8%	46,843	+22%
Financing, net	289,729	274,928	+5%	249,683	+16%
Other Assets	18,492	16,582	+12%	16,209	+14%
<b>Total assets</b>	<b>430,300</b>	<b>417,684</b>	<b>+3%</b>	<b>384,087</b>	<b>+12%</b>
Due to banks and other FI	11,294	10,325	+9%	2,220	+409%
Customers' deposits	345,322	334,665	+3%	312,406	+11%
Other liabilities	18,765	20,764	-10%	18,269	+3%
<b>Total liabilities</b>	<b>375,381</b>	<b>365,754</b>	<b>+3%</b>	<b>332,895</b>	<b>+13%</b>
<b>Total shareholders' equity</b>	<b>54,919</b>	<b>51,930</b>	<b>+6%</b>	<b>51,192</b>	<b>+7%</b>

## Total Customers' Deposits (SARbn)



## Financing, Net (SARbn)



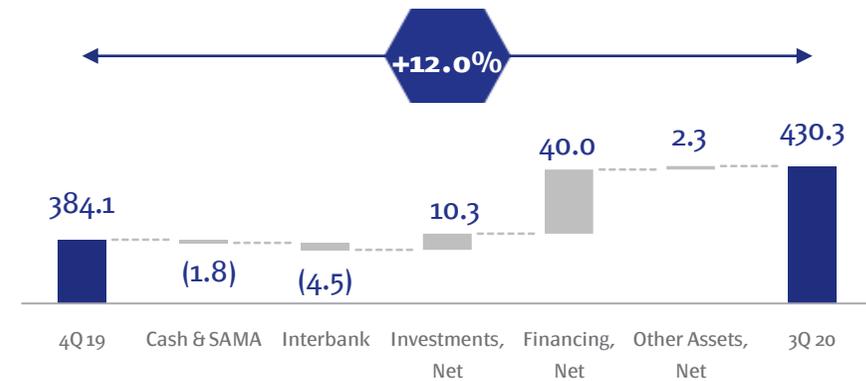
# Balance Sheet Trends (2)

Stable growth in customers deposits

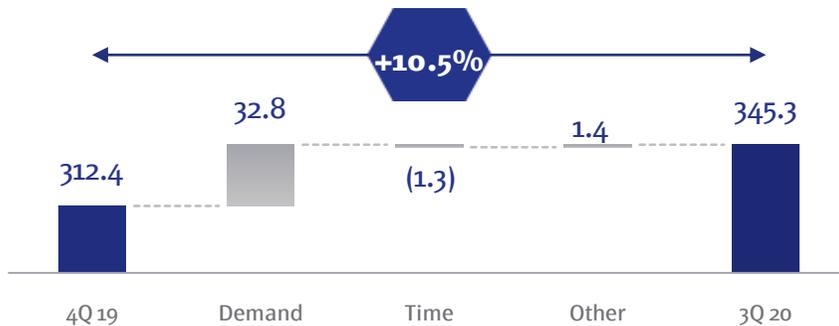
## Highlights

- Retail financing growth of (+21% YTD) mainly driven by growth in mortgage financing (+61% YTD).
- Financing is dominated by retail (78%) followed by corporate (22%).
- Current accounts grew by (+12% YTD) a (94%) non-profit bearing deposits.

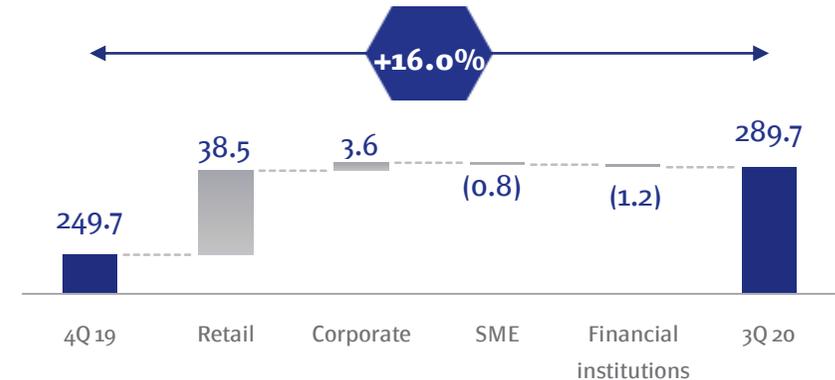
Asset Drivers By Type (SARbn)



Total Customers' Deposits Drivers (SARbn)



Financing, Net Drivers (SARbn)



# Net Income Trends

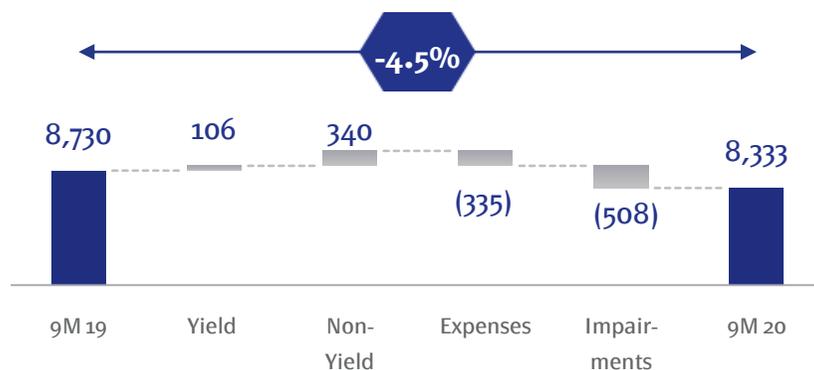
Resilient results despite unprecedented environment

## Highlights

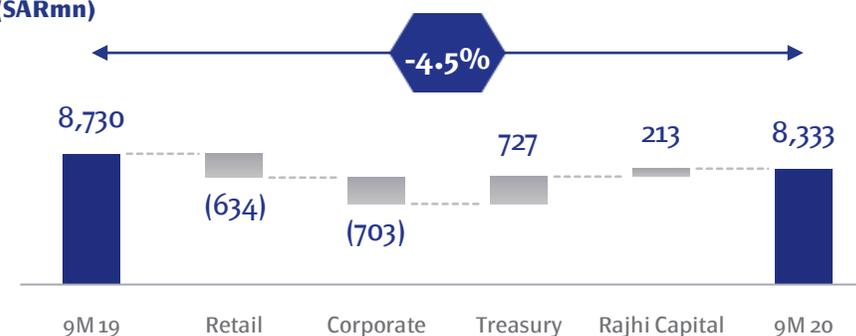
- Net Income before Zakat decreased by (-4.5% YoY) caused by higher operating expenses & provisions.
- Yield income growth of (+1% YoY), and non-yield income growth of (+15% YoY).
- On a segmental basis, Retail Banking declined by (-12% YoY) offset by growth in Treasury by (+37% YoY).

SAR (mn)	9M 2020	9M 2019	YoY	3Q 2020	3Q 2019	YoY
<b>Net financing and investment income</b>	<b>12,275</b>	<b>12,168</b>	<b>+1%</b>	<b>4,196</b>	<b>4,164</b>	<b>+1%</b>
Fee from banking services, net	1,796	1,531	+17%	649	536	+21%
Exchange Income, net	574	580	-1%	197	208	-5%
Other operating income, net	283	202	+40%	110	73	+51%
<b>Fees and other income</b>	<b>2,653</b>	<b>2,313</b>	<b>+15%</b>	<b>956</b>	<b>818</b>	<b>+17%</b>
<b>Total operating income</b>	<b>14,927</b>	<b>14,481</b>	<b>+3%</b>	<b>5,152</b>	<b>4,981</b>	<b>+3%</b>
Operating expenses	(4,978)	(4,644)	+7%	(1,724)	(1,596)	+8%
Impairment charge	(1,616)	(1,107)	+46%	(465)	(332)	+40%
<b>Total operating expenses</b>	<b>(6,594)</b>	<b>(5,751)</b>	<b>+15%</b>	<b>(2,189)</b>	<b>(1,928)</b>	<b>+14%</b>
<b>Net income for the period before Zakat</b>	<b>8,333</b>	<b>8,730</b>	<b>-5%</b>	<b>2,963</b>	<b>3,053</b>	<b>-3%</b>
Zakat	(859)	(890)	-3%	(306)	(314)	-3%
<b>Net income for the period after Zakat</b>	<b>7,474</b>	<b>7,841</b>	<b>-5%</b>	<b>2,658</b>	<b>2,739</b>	<b>-3%</b>

## Net Income Before Zakat Growth Drivers By Type (SARmn)



## Net Income Before Zakat Growth Drivers By Segment (SARmn)



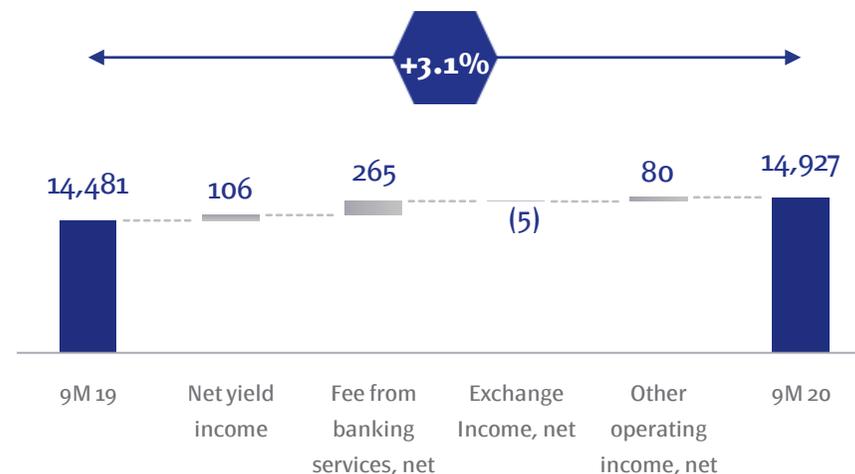
# Operating Income Trends

Solid operating income growth, inline with our strategy

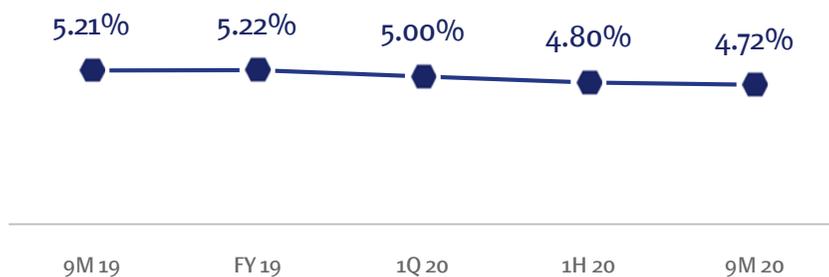
## Highlights

- Solid growth of (+3% YoY) driven mainly by growth in fee income.
- Fee income growth of (+17% YoY) mainly from digital & payment and brokerage fees.
- Net profit margin contracted by (-49 bps YoY) reaching (4.72%).

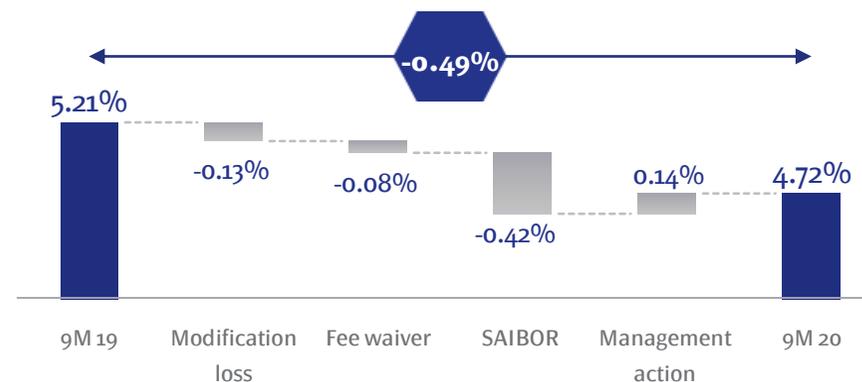
Total Operating Income Growth Drivers By Type (SARmn)



## Net Profit Margin (%)



NIM drivers (%)



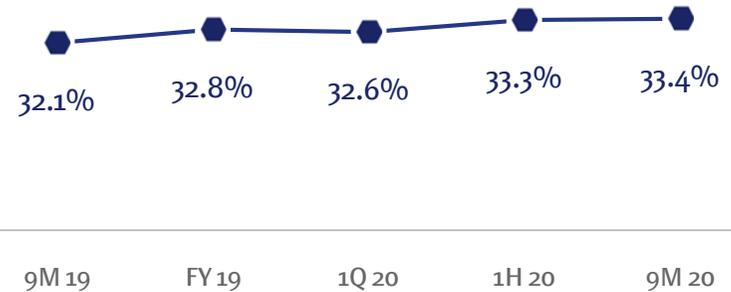
# Expenses Trends

Upgrading IT & Digital platform, a long term investment

## Highlights

- Cost to income ratio at (33.4%) a 130 bps increase YoY.
- Operating expenses grew by (+7.2% YoY).
- Higher IT cost primarily related to acceleration of digital and infrastructure spend to enhance resilience.

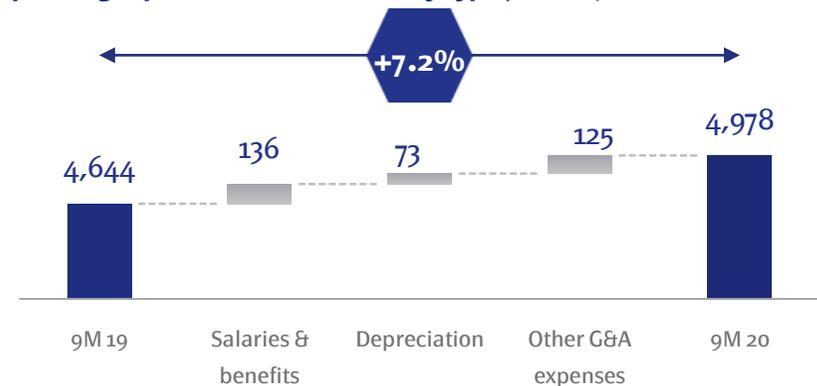
## Cost To Income Ratio Trend (%)



## Operating Expenses (SARmn)



## Operating Expenses Growth Drivers By Type (SARmn)



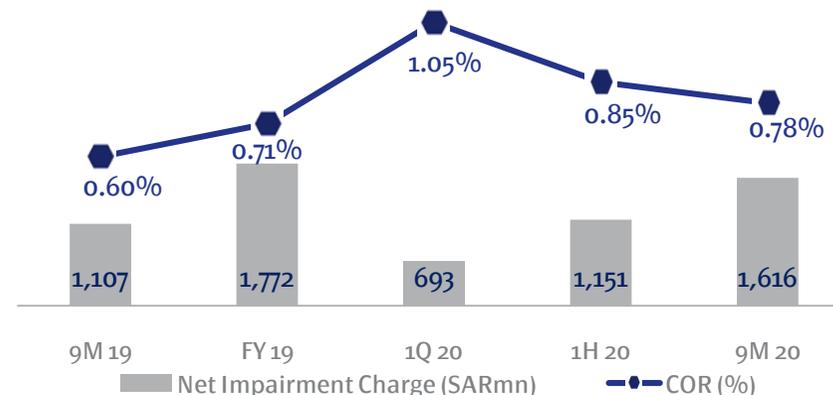
# Asset Quality Trends (1)

Asset quality remains healthy and sound NPL coverage

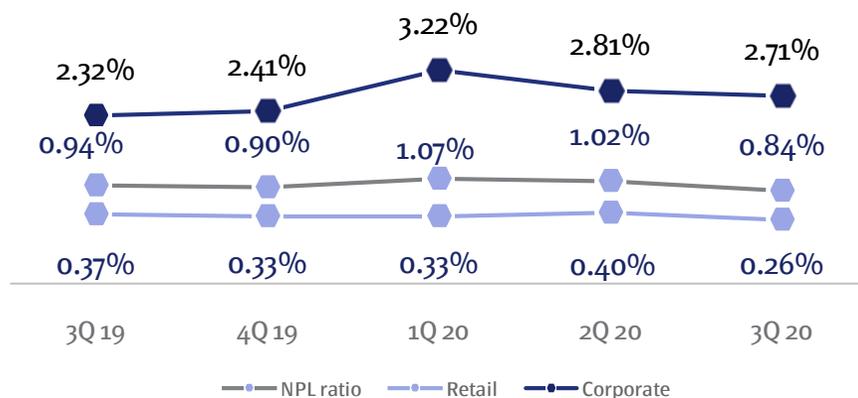
## Highlights

- Net Provision increased by (+46% YoY).
- NPL ratio at (0.84%) caused by a healthier Retail NPL.
- Coverage ratio remains healthy (293%), well above industry average.

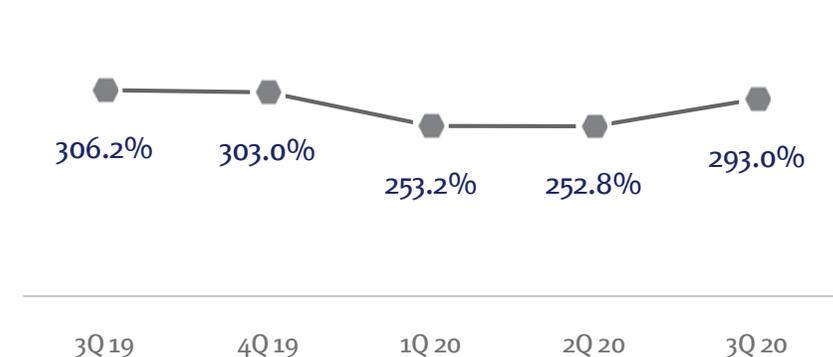
## Impairment Charges (SARmn) & COR (%)



## NPL Ratio Trend (%)



## NPL Coverage Trend (%)



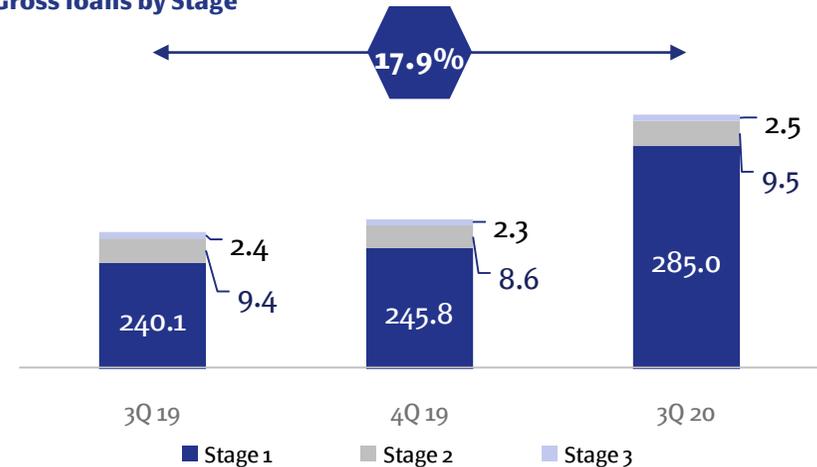
# Asset Quality Trends (2)

Healthy stage coverage and prudent risk management

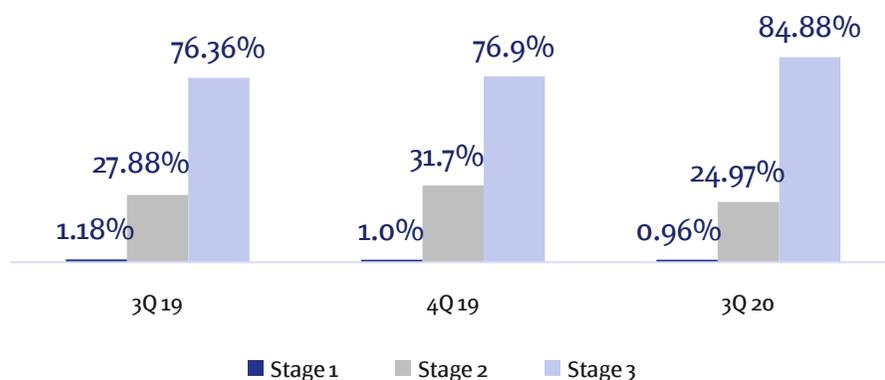
## Highlights

- 96% of the portfolio is stage 1, above industry coverage across all the stages.
- Gross charge of SAR 2,523mn has been taken including SAR 295mn of COVID-19 overlay.
- Further assessments of SICR and ECL are has been performed, will review it regularly inline with the current environment.

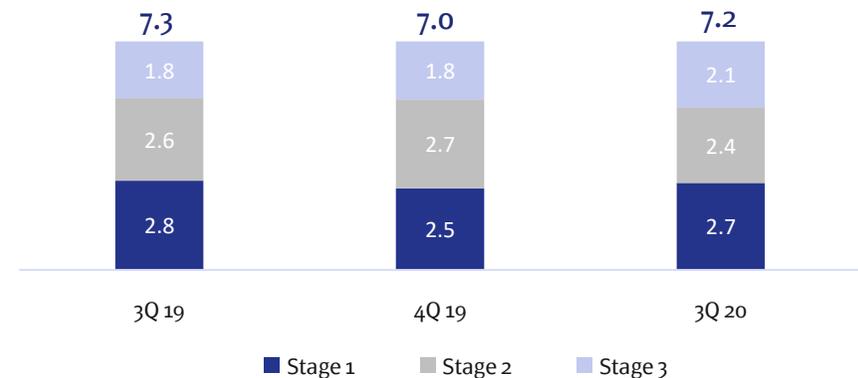
Gross loans by Stage



ECL Coverage (%)



ECL Allowance (SARmn)



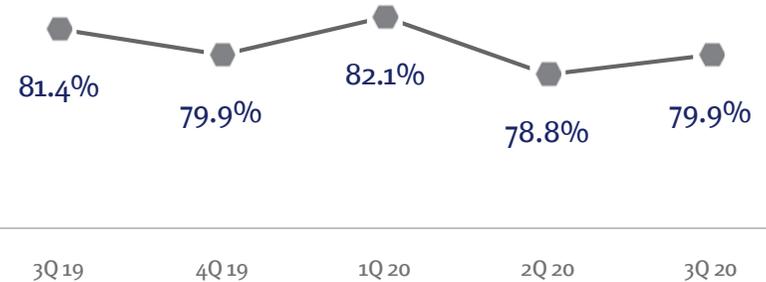
# Liquidity Trends

Liquidity remain comfortably within regulatory requirements

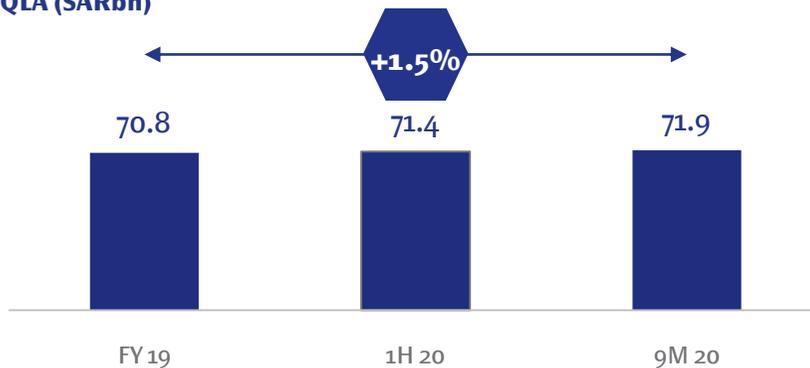
## Highlights

- LDR remains stable at (79.9%).
- Liquidity remains healthy, LCR at (150%) and NSFR at (124%).
- HQLA increased by (+1.5% YTD).

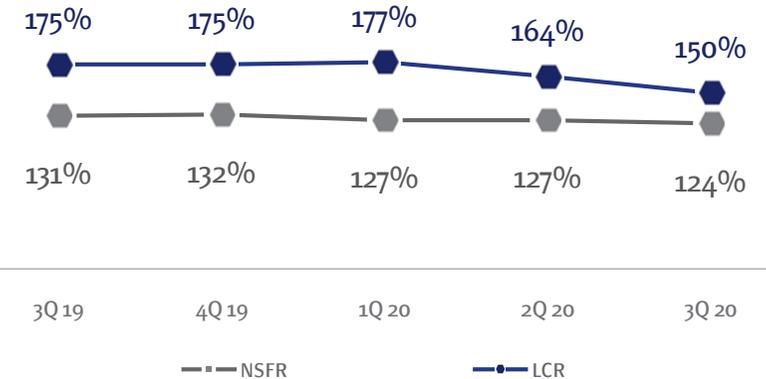
## Loan to deposit Ratios (%)



## HQLA (SARbn)



## Liquidity Ratios (%)

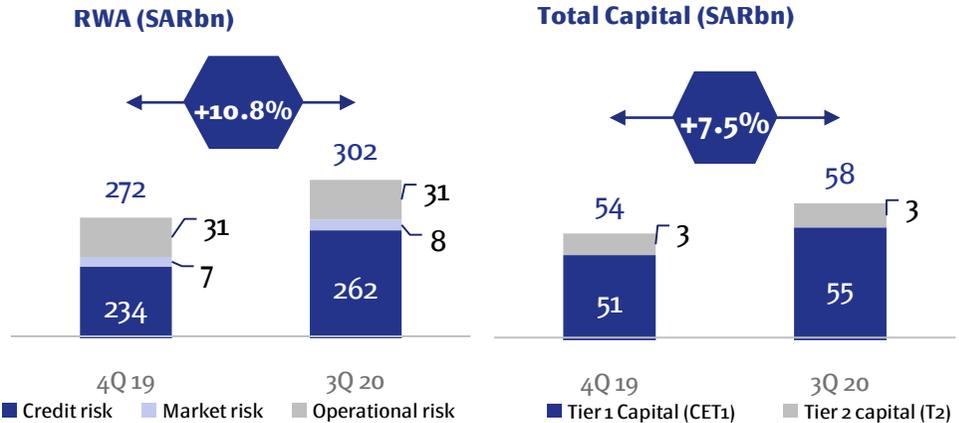


# Capitalisation Trends

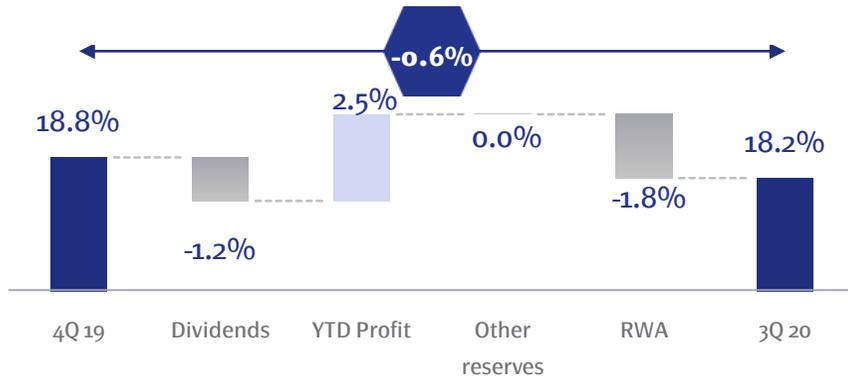
Capital position well above regulatory minima

## Highlights

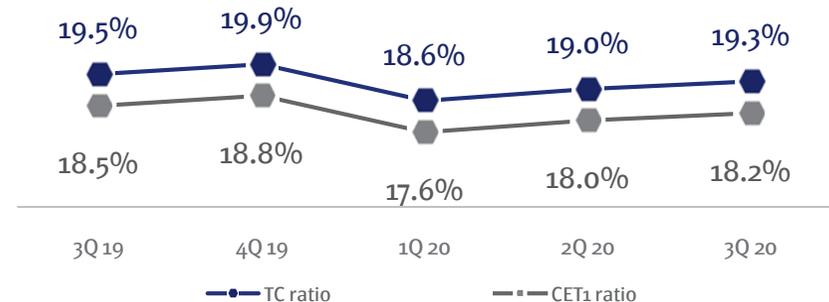
- Total Capital increased by (+7.5% YTD).
- Risk weighted assets increased by (+10.8% YTD) mainly driven by growth in credit risk.
- Improved CAR at (19.3%), and CET1 at (18.2%) driven by growth in total capital.



## CET1 Movment (%)



## Capital Ratios (%)



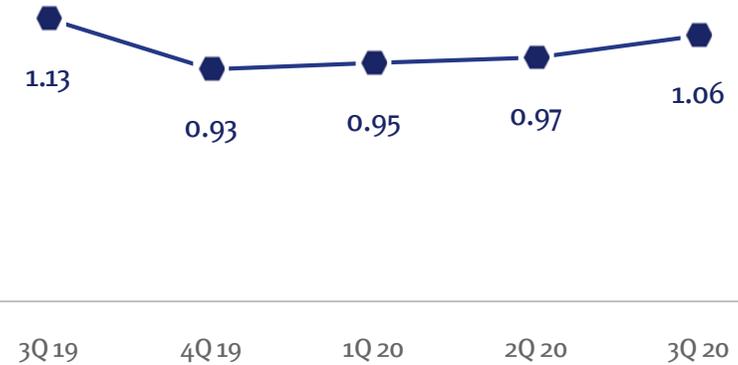
# Return Metrics

Returns remain well above industry average

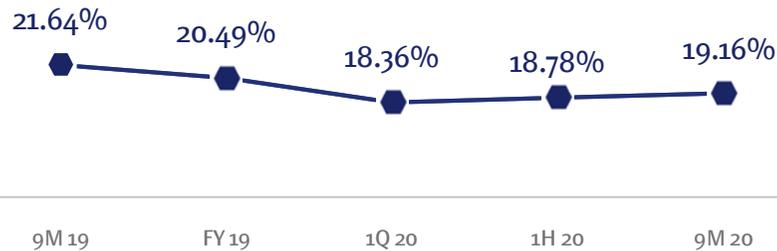
## Highlights

- Stable growth in EPS of (SAR 1.06).
- Market-leading ROE at (19.16%), well above peers.
- Solid ROA at (2.48%) given the growth in total assets.

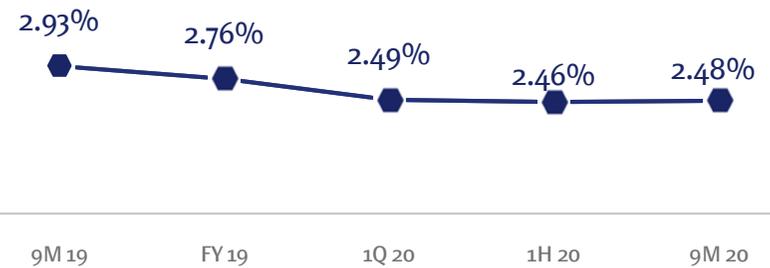
## Earnings Per Share (SAR)



## Return on Equity (%)



## Return on Assets (%)



# Macro environment impact

Focused in managing the current challenges & beyond

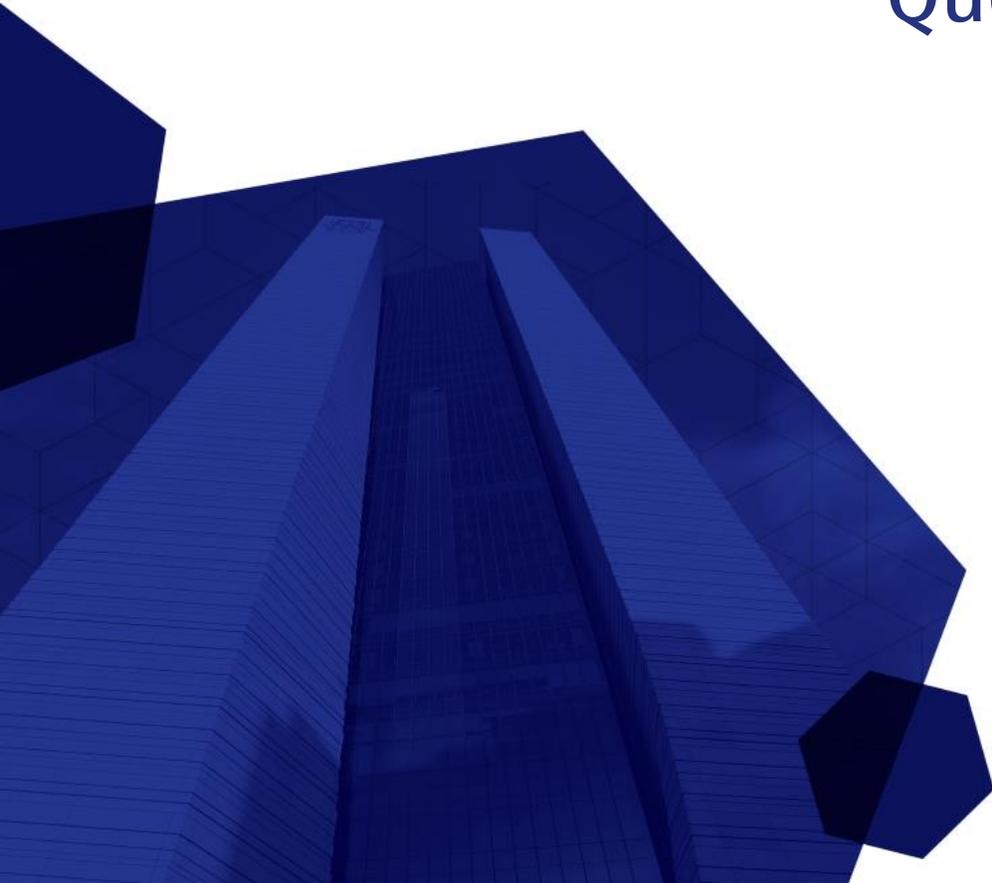
Key Challenges	COVID-19	RATE ENVIRONMENT	OIL PRICES	
Impact	Growth Forecast	Asset Quality	Liquidity	Profitability
Focus Areas to Mitigate Downside	<ol style="list-style-type: none"> <li>Consumer lending, mainly <b>Mortgage</b> financing</li> <li><b>SMEs &amp; Corporate</b> structured products &amp; stimulating Kafalah program</li> <li>Grow <b>Credit Cards &amp; Trade Finance</b> market Share</li> </ol>	<ol style="list-style-type: none"> <li>Core Portfolio is <b>low risk</b>, salary assigned Retail portfolio</li> <li>Small portfolio in MSME supported by <b>Government Stimulus Packages</b></li> <li>Close <b>monitoring</b> and <b>prudent</b> provisioning measures</li> </ol>	<ol style="list-style-type: none"> <li>Strict and prudent liquidity <b>management</b>, and <b>monitoring</b></li> <li>Expand funding <b>client base</b> and <b>product mix</b></li> <li>SAMA Continues to support Liquidity in <b>USD &amp; SAR</b></li> </ol>	<ol style="list-style-type: none"> <li><b>Yield income</b> focus through mix change</li> <li><b>Digital &amp; Payments</b> leadership</li> <li><b>Rationalizing</b> our Opex &amp; Capex spend</li> </ol>
Management Delivery	16% Financing Growth	0.78% COR	79.9% LDR	-4.5% YoY Net Income
Long Term	Preparing for the " Next Normal "			

# Progress against guidance and outlook

Revised guidance to reflect current macro environment

		FY 2019 Actual	FY 2020 Latest Guidance	3Q 2020 Actual	FY 2020 Revised Guidance	
	Financing, Net (SAR bn)	249.7	Low teens digit growth	289.7 (16%)	High teens digit growth	↑
	Net Profit Margin	5.22%	-55 bps to -35 bps	4.72% (-50 bps)	-55 bps to -35 bps	▬
	Cost to Income Ratio	32.8%	Below 33%	33.4%	Below 33%	▬
	Cost of Risk	0.71%	0.80% - 1.00%	0.78%	0.70% - 0.90%	↓
	CET1 Ratio	18.8%	17% - 19%	18.2%	17% - 19%	▬
	ROE after Zakat	20.49%	18% - 20%	19.16%	18% - 20%	▬
						▬

# Questions & Answers



# Appendix

# Our Response to Covid-19

## Actions taken to support stakeholders

### Business Continuity

- Activate **Work from Home** for c.60% of our staff.
- Open c.50% of **branches network**.
- Accelerate **IT & Digital** Infrastructure upgrade.
- Enhance **Information security & fraud** systems.

### Employee

- Expand employee **awareness programs**.
- Continue **sanitizations** to our premises.
- Limit **physical meetings**.
- Protect employees **working in our offices**.

### Customers

- Participate in the **government relief measures**
- Offer **payment deferral** for impacted customers.
- Waive all **digital & financing procession** fees.
- Provide **advice, support** to all customers.

### Community

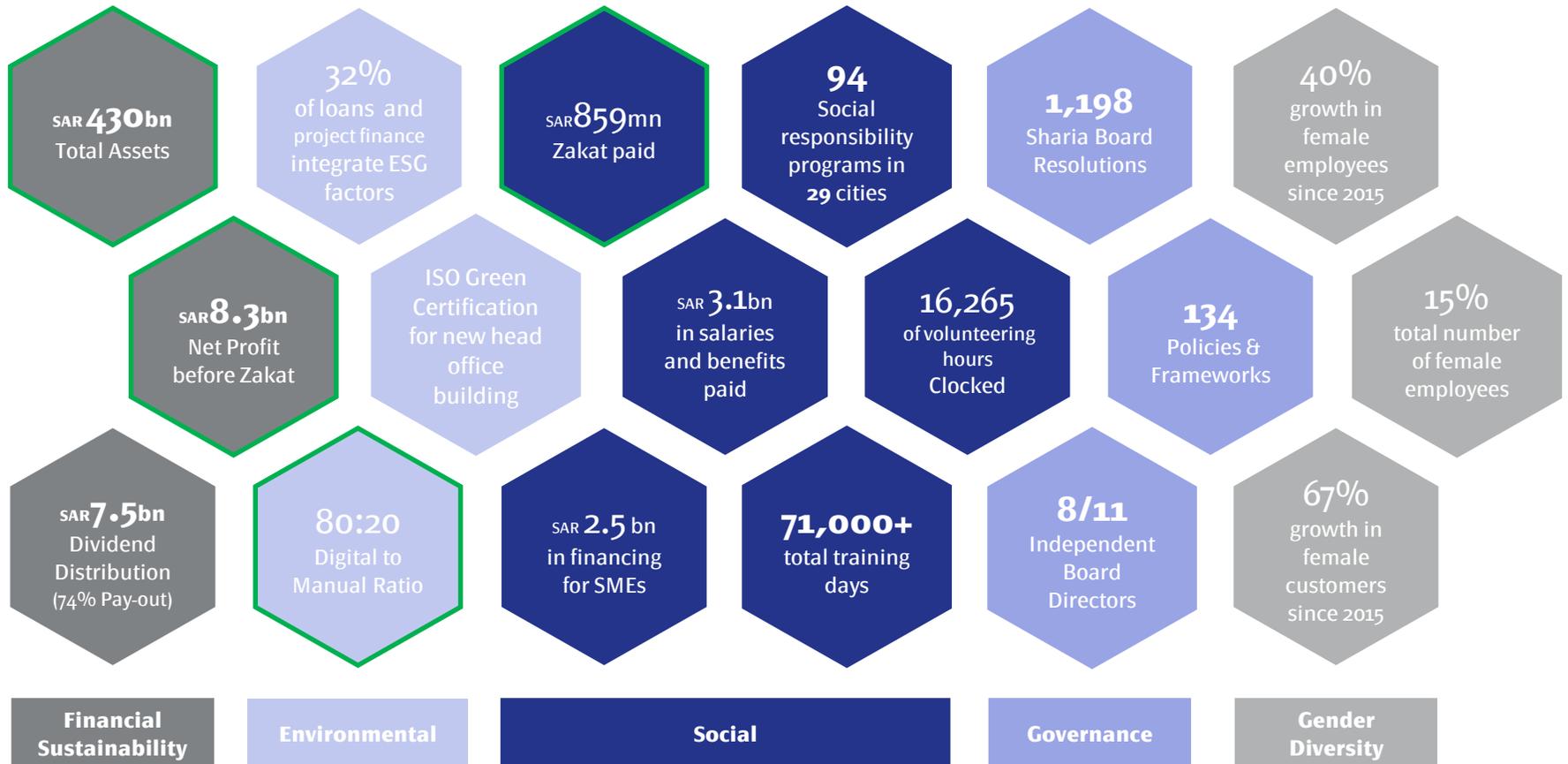
- Donate SAR 25Mn– **Health Endowment Fund**
- Donate SAR 15Mn– **Community Fund**
- Donate SAR 9Mn– **Food & Drug Charity**
- Conduct **virtual AGM**

We are reflecting our core values in supporting our customers, employees and community during the current challenging environment.

# ESG Highlights

# ESG Highlights

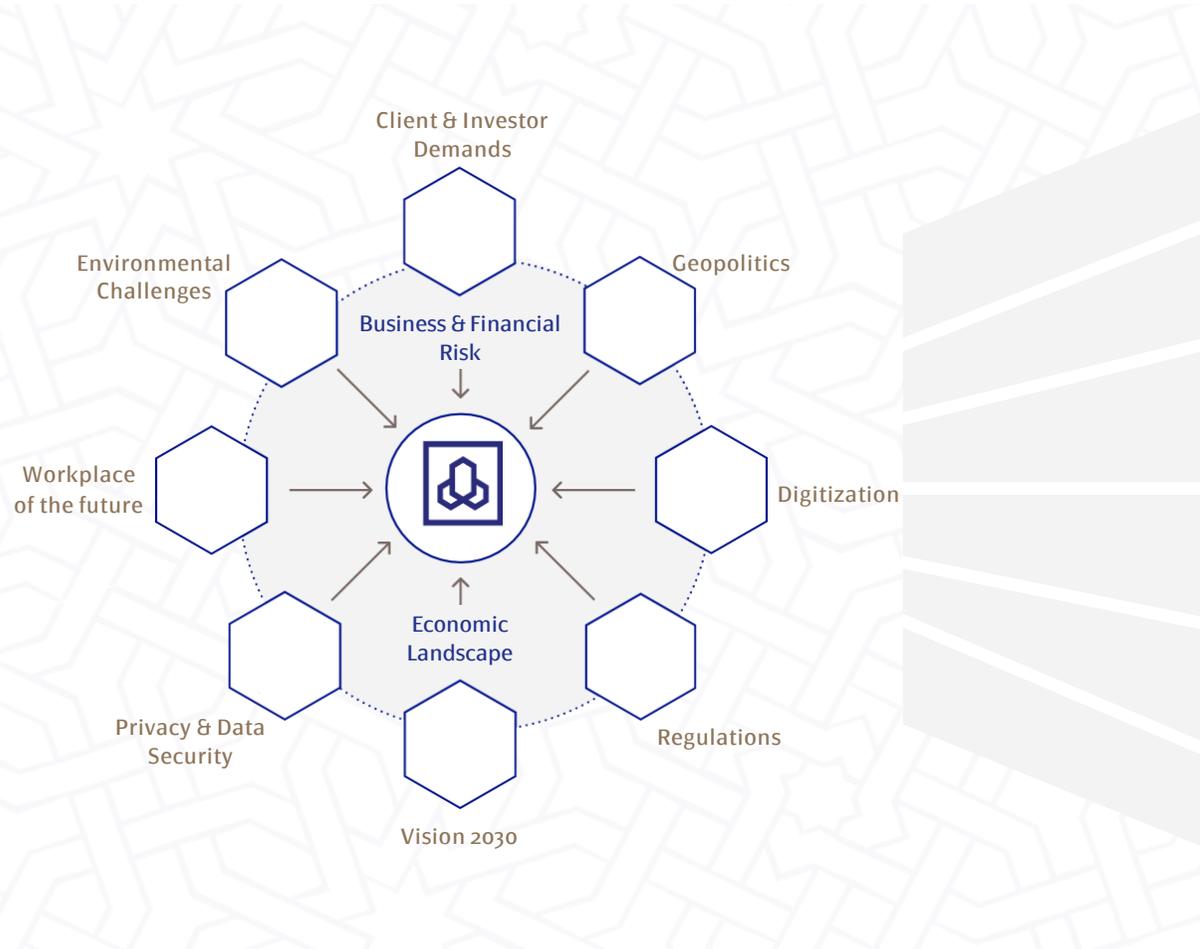
As of FY 2019 unless stated otherwise



# Developments impacting Al Rajhi Bank's operating environment

## Major factors integrated into our approach to ESG and our value creation model

### Major Factors



### 'ABCDE' Strategy



**Accelerate growth**  
Improve portfolios in key customer segments



**Become Employer of choice**  
Create a performance-driven culture where the customer comes first



**Customer focus**  
Provide greater convenience and security in customer offering



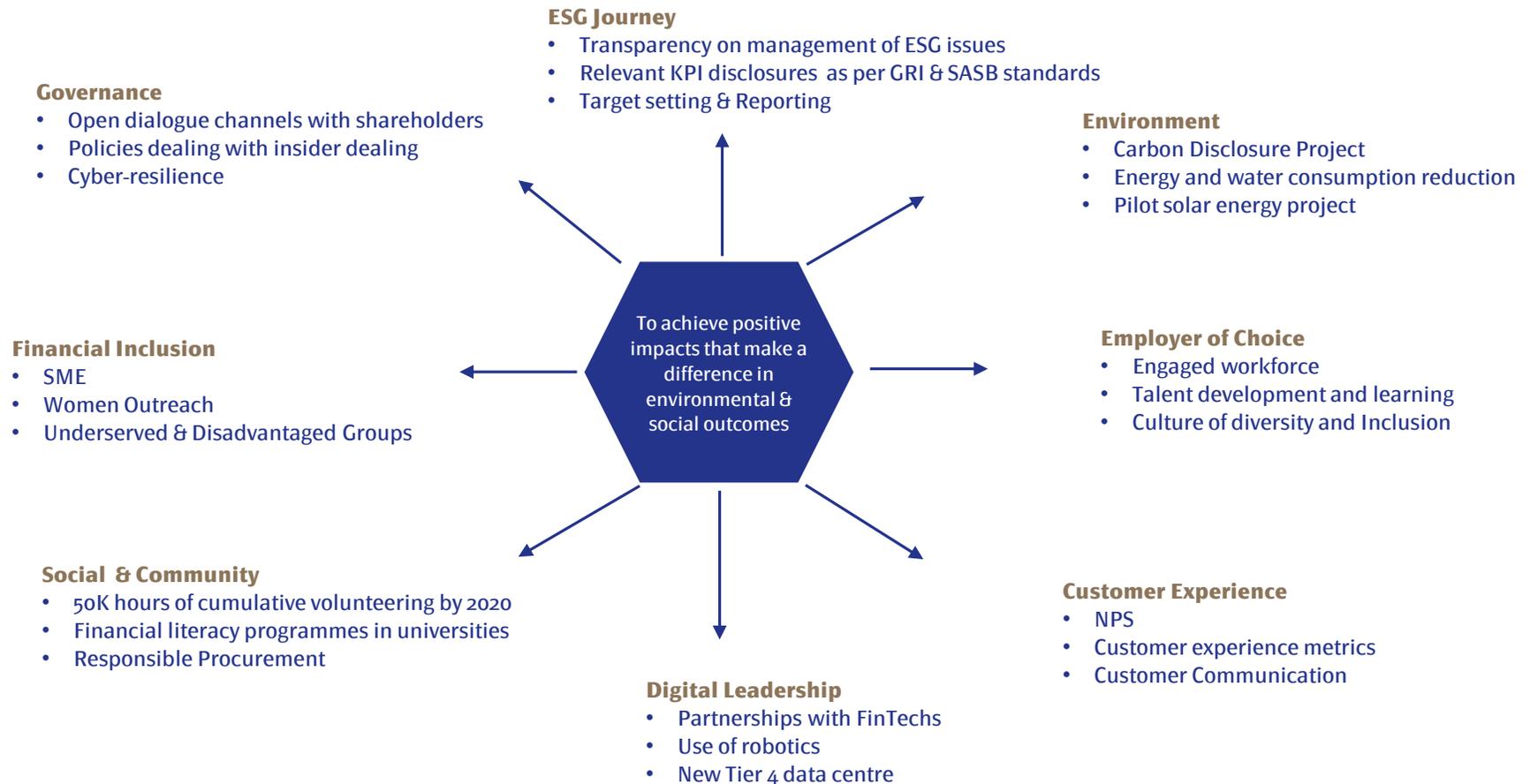
**Digital leadership**  
Expand digital channels and migrate customers to self-service banking



**Execution excellence**  
Explore and execute measures to improve operations

# Conclusion and the way forward

We believe our future success is interlinked with the well-being of our stakeholders



# Additional Information

Contact investor relations for more information

Mr. Faisal F. Altimyat

Investor Relations Specialist

Tel: +966 (11) 828 1457

Email: [altimyatff@alrajhibank.com.sa](mailto:altimyatff@alrajhibank.com.sa)

Visit our website ([here](#)) for more Investor disclosures:

- Financial Statements
- Investor Presentation
- Factsheet
- Data Supplement

## Address:

Al Rajhi Bank

PO Box: 28 Riyadh 11411

8467 King Fahd Branch Rd, Al Muruj, Riyadh 11564

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