

Riyad Bank Reports Net Income after zakat of SAR 2.98 Billion in the first half of 2019, a growth of 70%

- ◆ **70% YoY growth in net income** (after zakat) on solid top-line income growth and improved operating efficiency.
- ◆ **The YoY growth in net income (before zakat) was 51%**
- ◆ **Operating income growth of 22%** YoY on higher net special commission margins, balance sheet growth and fee income growth
- ◆ **Operating efficiency improved** 630 basis points YoY to 31.7%
- ◆ **Net loans and advances growth of 7%** from 4Q 2018 to SAR 161.3 billion across both commercial, consumer and mortgage loans, reflecting increased economic activity
- ◆ **Customer deposits grew 4%** from 4Q 2018 to SAR 176.5 billion
- ◆ **Total assets increased by 7%** from 4Q 2018 to SAR 246.1 billion
- ◆ **Capitalisation** remained **strong** with CET1 of 16.5% and total CAR of 18.4%
- ◆ **Comfortable liquidity** position with LCR of 150% and loans to deposit (incl. Sukuk) ratio of 89%

The first half 2019 witnessed an increase of economic activity which in combination with improved commission margins, translated into a healthy 22% year-on-year operating income growth. During the period, the Bank continued with the implementation of an end-to-end Transformation program, commenced in early 2018. The program has started contributing to both top- and bottom-line growth and is expected to deliver meaningful benefits to clients, employees and result in a stronger and more profitable bank in the future.

Tareq Al-Sadhan, CEO of Riyad Bank, said:

“Riyad Bank generated record growth in the first half of 2019. Our strong performance reflects the energy and enthusiasm resulting from increased economic activity, a healthy outlook for the banking sector in Saudi Arabia, as well as the bank’s own Transformation drive. The first half results demonstrate the impact that the Transformation program is having on our business and financial performance. We grew our retail and commercial loan portfolios, gained market share and delivered strong net income growth. We will continue to implement our Transformation program during the remainder of 2019 and beyond to sustain and accelerate our growth momentum, further enhance our customer-focus, efficiency and profitability with trusted and innovative solutions.

As one of the leading banks in the Kingdom, Riyad Bank is also set to drive and echo the economic growth agenda as Vision 2030 converts to reality. We are very excited about the future of Saudi Arabia and believe that we are in a strong challenger position to deliver an outstanding value proposition for our customers and shareholders.”

Performance Highlights

Riyad Bank reported net income after zakat of SAR 2,985 million for the first half of 2019, an increase of 70% over the corresponding period in 2018. This growth was driven by an increase in total operating income, increased share in earnings of associate and an improved cost of risk.

Similarly, for the second quarter of 2019, net income after zakat grew 78% from the corresponding period in 2018 to SAR 1,500 million. Relative to the previous quarter, net income showed marginal increase despite lower share in earnings of associate as the previous quarter benefitted from it.

Income Statement Highlights

SAR (million)	1H 2019	1H 2018	YoY % change	2Q 2019	1Q 2019	QoQ % change	2Q 2018	YoY % change
Net special commission income	3,772	3,153	+20%	1,963	1,809	+9%	1,630	+20%
Fee and other income	1,478	1,150	+28%	707	771	-8%	544	+30%
Total operating income, net	5,250	4,303	+22%	2,670	2,580	+3%	2,174	+23%
Operating expenses	(1,665)	(1,635)	+2%	(820)	(845)	-3%	(833)	-2%
Impairment charge for credit losses and other financial assets	(440)	(478)	-8%	(228)	(211)	+8%	(318)	-28%
Impairment reversal / (charge) for investments	38	(18)	-307%	35	3	+1085%	27	+29%
Net operating income	3,182	2,172	+47%	1,656	1,526	+8%	1,049	+58%
Share of earnings of associates	132	27	+380%	14	118	-88%	13	+3%
Net income for the period before Zakat	3,315	2,199	+51%	1,670	1,645	+2%	1,062	+57%
Zakat for the period	330	440	-25%	170	160	+6%	220	-23%
Net income for the period	2,985	1,759	+70%	1,500	1,485	+1%	842	+78%
Earnings per share (SAR)	0.99	0.59	+70%	0.50	0.49	+1%	0.28	+78%
Return on average equity	15.7%	9.3%	+68%	15.6%	16.0%	-2%	9.2%	+69%
Return on average assets	2.5%	1.6%	+54%	2.5%	2.5%	-2%	1.6%	+57%
Net special commission margin	3.49%	3.23%	+8%	3.56%	3.44%	+4%	3.33%	+7%
Cost to income ratio	31.7%	38.0%	-17%	30.7%	32.8%	-6%	38.3%	-20%
Cost of risk	0.56%	0.73%	-23%	0.7%	0.4%	+69%	0.9%	-23%

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Total operating income amounted to SAR 5,250 million for the first half of 2019, an increase of 22% compared with the first half of 2018. This improvement was driven by 20% growth of net special commission income, and 28% rise in fee and other income, principally from increased credit facilities, trade finance and capital markets.

Total operating income for the second quarter of 2019 amounted to SAR 2,670 million, an increase of 23% compared with the second quarter of 2018 and of 3% relative to the previous quarter. The YoY growth was driven by 20% rise in net special commission income, and a 30% improvement in fee and other income.

Operating expenses totalled SAR 1,665 million for the first six months of 2019, marginal increase of 2% increase over the corresponding period in 2018 reflecting, the net effect of ongoing transformation and increased investments in future growth. Operating expenses for the second quarter of 2019 decreased by 2% compared with the corresponding quarter in 2018 and 3% relative to the previous quarter to SAR 820 million.

The impairment charge for credit losses and other financial assets decreased by 8% year-on-year to SAR 440 million. The cost of risk improved by 17 basis points year-on-year to 0.56%. The non-performing loans ratio stood at 1.0%. While the non-performing loans coverage ratio spotted at 145% as at 30 June 2019.

The Board of Directors approved an interim dividend of SAR 1,560 million for the first half of 2019, a 41% increase from the SAR 1,110 million declared in the corresponding period of 2018. This dividend was ratified and announced on 7 July 2019, resulting in dividends of SAR 0.52 per share (1H 2018: SAR 0.37 per share) to shareholders and representing a 52% pay-out of earnings (1H 2018: 63%).

On 17 July 2019, SAMA instructed banks in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income instead of equity which aligns with IFRS and its interpretations as endorsed in the Kingdom of Saudi Arabia. Accordingly, the Bank changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with IAS 8 - "Accounting Policies, Changes in Accounting Estimates and Errors". These retrospective adjustments resulted in a SAR 440 million reduction of reported net income for the first half of 2018 to SAR 1,759 million and a reduction of earnings per share of SAR 0.14 to SAR 0.59.

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Balance Sheet Highlights

SAR (million)	2Q 2019	1Q 2019	QoQ % change	4Q 2018	YTD % change	2Q 2018	YoY % change
Cash and balances with SAMA and financial institutions	28,959	27,708	+5%	27,352	+6%	19,372	+50%
Investments, net	50,153	49,294	+2%	47,993	+5%	47,748	+5%
Loans and advances, net	161,325	158,242	+2%	151,025	+7%	144,312	+12%
Total assets	246,116	239,517	+3%	229,900	+7%	215,476	+14%
Customer deposits	176,510	173,491	+2%	169,822	+4%	153,418	+15%
Debt securities in issue	4,003	4,046	-1%	4,004	-0%	8,020	-50%
Total liabilities	206,688	201,872	+2%	193,125	+7%	178,541	+16%
Total shareholders' equity	39,428	37,645	+5%	36,774	+7%	36,935	+7%
Risk weighted assets	238,446	232,405	+3%	227,915	+5%	213,585	+12%
T1 ratio	16.5%	16.2%	+2%	16.1%	+2%	17.3%	-4%
TC ratio	18.4%	18.1%	+1%	18.1%	+2%	19.4%	-5%
Liquidity coverage ratio (LCR)	150%	143%	+5%	121%	+23%	123%	+22%
Basel III leverage ratio	12.5%	12.2%	+2%	12.4%	+1%	13.3%	-6%
Loans to deposits (incl. Sukuk) ratio	89.4%	89.1%	+0%	86.9%	+3%	89.4%	-0%
NPL ratio	1.00%	1.11%	-10%	1.02%	-2%	1.0%	-1%
NPL coverage ratio	145.2%	143.6%	+1%	151.0%	-4%	222.3%	-35%

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Total assets reached SAR 246,116 million as at 30 June 2019, up 7% from the end of 2018 from growth in loans and investments.

Net loans and advances grew by 7% during the first half of 2019 from commercial (+5%) and consumer loans (+11%).

Customer deposits rose 4% during the first half of 2019 to SAR 176,510 million, comprising 5% growth in time deposits and 4% increase in non-commission bearing deposits. Non-commission bearing deposits represented 60% of total deposits as at 30 June 2019.

Riyad Bank continued to maintain a strong capitalisation and liquidity levels. Bank's core equity tier 1 and total capital adequacy ratios stood at 16.5% and 18.4% respectively as at 30 June 2019. The liquidity coverage ratio reached to 150%, and the loans to deposit ratio (including Sukuk) was 89%.

Outlook

Riyad Bank remains confident about the economic outlook for Saudi Arabia. This and future growth will be driven by the many projects announced under the Vision 2030 strategy. In line with the global banking industry and changes to the banking landscape in Saudi Arabia, Riyad Bank launched its 2022 Transformation program during 2018, which focuses on the below four key themes:

1. Retail Sales Transformation
2. Corporate Sales Transformation
3. Performance Culture
4. Innovation

As one of the most prominent and successful banks in the Kingdom, Riyad Bank is very well-placed both to drive and to benefit from the Transformation of the economy under Vision 2030.

Segmental Performance Highlights

Retail Banking

Riyad Bank's retail business serves the customers with all their banking needs, including accounts, mortgages, loans, credit cards and savings. 340 branches, 2,540 ATMs and 46,463 points of sale, as well as all the digital channels that customers expect, including online, mobile, and smart watches. Retail Banking accounts for 31% of Group operating income.

SAR (million)	1H 2019	1H 2018	YoY % change	2Q 2019	1Q 2019	QoQ % change	2Q 2018	YoY % change
Total assets	62,364	54,443	+15%	62,364	58,572	+6%	54,443	+15%
Total liabilities	85,203	76,031	+12%	85,203	81,021	+5%	76,031	+12%
Net special commission income	1,447	1,270	+14%	757	690	+10%	639	+19%
Fee and other income, net	193	164	+17%	98	95	+4%	82	+20%
Operating income	1,640	1,435	+14%	855	785	+9%	720	+19%
Operating expenses	(1,102)	(1,044)	+6%	(565)	(537)	+5%	(540)	+5%
Impairment charge	217	(20)	-1171%	253	(36)	-804%	(106)	-339%
Net income (loss)	755	370	+104%	543	212	+156%	74	+636%

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Retail Banking delivered 14% operating income growth in the first half of 2019 over the corresponding period of 2018 to reach SAR 1,640 million. Net special commission income grew 14% year-on-year to SAR 1,447 million in the first half of 2019, driven by 15% increase in assets as well as, margin improvements, while fee and other income increased by 17% year-on-year to SAR 193 million. For the second quarter, operating income grew by 19% year-on-year and 9% quarter-on-quarter.

Operating expenses reached SAR 1,102 million in the first half of 2019, a 6% increase year-on-year due to transformation program investments. Second Quarter 2019 operating expenses grew by 5% year-on-year, as well as, quarter-on-quarter.

The impairment charge for Retail Banking amounted to a net reversal of SAR 217 million for the first six months of 2019 compared with a charge of SAR 20 million for the comparable period in 2018.

Net income for the first half of 2019 grew 104% year-on-year to SAR 755 million mainly due to increased operating income and net reversal of impairment charge.

Corporate Banking

Riyad Bank's Corporate banking covers all client organisations from the most recent start-up to the largest multinational. With a particular strength in trade finance, the Bank offers tailored services to help its clients to grow and prosper. Corporate Banking accounts for 39% of Group operating income.

SAR (million)	1H 2019	1H 2018	YoY % change	2Q 2019	1Q 2019	QoQ % change	2Q 2018	YoY % change
Total assets	116,172	105,684	+10%	116,172	115,849	+0%	105,684	+10%
Total liabilities	95,667	85,654	+12%	95,667	98,470	-3%	85,654	+12%
Net special commission income	1,363	1,128	+21%	700	663	+6%	592	+18%
Fee and other income, net	668	553	+21%	283	385	-26%	268	+6%
Operating income	2,032	1,682	+21%	983	1,048	-6%	861	+14%
Operating expenses	(432)	(386)	+12%	(215)	(217)	-1%	(191)	+13%
Impairment charge	(661)	(463)	+43%	(486)	(175)	+177%	(217)	+123%
Net income (loss)	939	832	+13%	283	656	-57%	453	-38%

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Corporate Banking's total operating income amounted to SAR 2,032 million for the first half of 2019, up 21% from the corresponding first half of last year and down by 6% from the previous quarter. Net special commission income rose by 21% year-on-year to SAR 1,363 million and fee and other income rose by 21% to SAR 668 million, from increased net special commission margins and increased volumes, aided by transformation initiatives aimed at institutionalizing corporate account planning and streamlining of the SME proposition.

Operating expenses totalled SAR 432 million for the first six months of 2019, up 12% relative to the first half of 2018, and down 1% quarter-on-quarter.

The impairment charge for Corporate Banking increased to SAR 661 million, 43% increase compared to the comparable period in 2018.

Net income for the first half of 2019 grew 13% year-on-year to SAR 939 million mainly driven by 21% operating income growth.

Treasury and Investments

Treasury and Investments offers a wide range of products and hedging solutions to corporate clients and accounts for 25% of Group operating income.

SAR (million)	1H 2019	1H 2018	YoY % change	2Q 2019	1Q 2019	QoQ % change	2Q 2018	YoY % change
Total assets	66,293	54,318	+22%	66,293	63,905	+4%	54,318	+22%
Total liabilities	25,467	16,653	+53%	25,467	22,057	+15%	16,653	+53%
Net special commission income	901	708	+27%	473	428	+10%	374	+26%
Fee and other income, net	435	305	+43%	222	213	+4%	134	+66%
Operating income	1,336	1,013	+32%	695	641	+8%	507	+37%
Operating expenses	(37)	(132)	-72%	11	(48)	-122%	(64)	-116%
Impairment charge	42	(13)	-428%	39	3	+1219%	32	+19%
Share in earnings of associates, net	132	27	+380%	14	118	-88%	13	+3%
Net income (loss)	1,472	896	+64%	757	715	+6%	489	+55%

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Treasury and Investments total operating income amounted to SAR 1,336 million for the first half of 2019, up 32% from the corresponding first half of last year and up by 8% from the previous quarter, mainly due to higher margins and increased investment balances.

Net income for the first half of 2019 grew 64% year-on-year to SAR 1,472 million mainly driven by increased associate income combined with in operating income growth.

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Riyad Capital

Riyad Capital offers asset management, trading, equity and debt advisory, custody and securities services and accounts for 5% of Group operating income.

SAR (million)	1H 2019	1H 2018	YoY % change	2Q 2019	1Q 2019	QoQ % change	2Q 2018	YoY % change
Total assets	1,287	1,031	+25%	1,287	1,192	+8%	1,031	+25%
Total liabilities	352	204	+72%	352	324	+8%	204	+72%
Net special commission income	60	46	+31%	34	27	+27%	25	+37%
Fee and other income, net	182	128	+42%	103	79	+31%	61	+70%
Operating income	242	174	+39%	137	105	+30%	85	+61%
Operating expenses	(94)	(73)	+28%	(50)	(44)	+14%	(38)	+31%
Net income (loss)	148	101	+47%	87	61	+41%	47	+84%

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Riyad Capital total operating income amounted to SAR 242 million for the first half of 2019, up 39% from the corresponding first half of last year and up by 30% from the previous quarter driven by asset management business.

Net income for the first half of 2019 grew 47% year-on-year to SAR 148 million mainly driven by growth in operating income.

Additional Information

Riyad Bank's 2Q 2019 financial materials are available to the public on the IR website: www.riyadbank.com/en/about-us/investor-relations

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