

Riyad Bank Reports 45% Net Income Growth to SAR 1.6 Billion in the first quarter of 2019

- ◆ **45% YoY growth in net income** on solid top-line income growth and improved operating efficiency.
- ◆ **Operating income growth of 21% YoY** on higher net special commission margins, balance sheet growth and financing-related fee income growth
- ◆ **Operating efficiency improved** 491 basis points YoY to 32.8%
- ◆ **Improved cost of risk** by 14 basis points YoY to 0.40% driven by lower Corporate impairment charges
- ◆ **Net loans and advances growth of 5%** from 4Q 2018 to SAR 158.2 across both commercial, consumer and mortgage loans, reflecting increased economic activity
- ◆ Customer **deposits grew 2%** from 31 December 2018 to SAR 173.5 billion
- ◆ Total **assets increased by 4%** from 31 December 2018 to SAR 239.5 billion
- ◆ **Capitalisation** remained **strong** with CET1 of 16.2% and total CAR of 18.1%
- ◆ **Comfortable liquidity** position with LCR of 143% and loans to deposit (incl. Sukuk) ratio of 89.1%

Riyad Bank generated strong profit growth in the first quarter of 2019, with net income up 45% over the first quarter 2018, and up 22% relative to the fourth quarter of 2018. The quarter witnessed an increase of economic activity which in combination with improved commission margins, translated into a healthy 21% year-on-year operating income growth, while a more benign corporate credit environment lowered the cost of risk. 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 quarter 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 quarter 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 in 2019 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 shareowners.”

Performance Highlights

Riyad Bank reported net income of SAR 1,645 million in 1Q 2019, topping 1Q 2018 net income by 45% 2018 and 22% compared to the fourth quarter of 2018. This growth was driven by an increase in total operating income and improved operating efficiency.

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Income Statement Highlights

| SAR (million) | 1Q 2019 | 4Q 2018 | QoQ % change | 1Q 2018 | YoY % change |
|---|--------------|--------------|--------------|--------------|--------------|
| Net special commission income | 1,809 | 1,758 | +3% | 1,523 | +19% |
| Fee and other income | 771 | 625 | +23% | 606 | +27% |
| Total operating income | 2,580 | 2,383 | +8% | 2,130 | +21% |
| Operating expenses | (635) | (762) | -16% | (642) | -1% |
| Impairment charge for credit losses and other financial assets, net | (211) | (142) | +49% | (160) | +32% |
| Impairment charge for investments, net | 3 | 2 | +73% | (45) | -106% |
| Net operating income | 1,526 | 1,339 | +14% | 1,123 | +36% |
| Net income for the period | 1,645 | 1,352 | +22% | 1,137 | +45% |
| Earnings per share (SAR) | 0.55 | 0.45 | +22% | 0.38 | +45% |
| Return on average equity | 17.8% | 14.7% | +21% | 12.1% | +47% |
| Return on average assets | 2.8% | 2.4% | +18% | 2.1% | +33% |
| Net special commission margin | 3.44% | 3.42% | +0% | 3.14% | +10% |
| Cost to income ratio | 32.8% | 37.9% | -14% | 37.7% | -13% |
| Cost of risk | 0.40% | 0.44% | -9% | 0.54% | -26% |

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Total operating income was SAR 2,580 million, up 21% compared to the first quarter of 2018 and 8% above the previous quarter. This improvement was predominantly driven by 19% year-on-year growth in net special commission income due to solid 12% loan growth and a 30 basis points net special commission margin improvement to 3.44% from rising SAIBOR rates. Total operating income growth was further boosted by a 27% year-on-year rise in fee and other income, principally from improved financing-related fee income.

Operating expenses totalled SAR 846 million for the first quarter of 2019, an increase of 5% over the corresponding period of 2018 as ongoing investments in the Bank's transformation program and costs to support increased customer activity were partly offset by initial cost efficiencies gained from transformation and digitisation initiatives. The modest increase in expenses relative to strong income growth resulted in improved operating efficiency, with the cost to income ratio improving by 491 basis points year-on-year to 32.8% relative to the previous quarter. Operating expenses declined by 6% due to lower Rent & premises-related expenses, other general & administrative expenses and other operating expenses offset by increase in Depreciation of property & equipment.

The impairment charge for credit losses and other provisions rose 32% year-on-year to SAR 211 million due to increase in other provisions by SAR 86 million partly offset by reduction in impairment charge for credit losses by SAR 34 million. The impairment charge for credit losses improved by 17% year-on-year due to lower impairments in Corporate banking. The cost of risk consequently improved by 14 basis points year-on-year to 0.40%. The non-performing loans ratio increased by a moderate 19 basis points year-on-year to 1.11%, while the non-performing loans coverage ratio declined to 143.6% from 230.4% as at 31 March 2018.

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Balance Sheet Highlights

| SAR (million) | 1Q 2019 | 4Q 2018 | QoQ % change | 1Q 2018 | YoY % change |
|--|---------|---------|--------------|---------|--------------|
| Cash and balances with SAMA and financial institutions | 27,708 | 27,352 | +1% | 21,277 | +30% |
| Investments, net | 49,294 | 47,993 | +3% | 46,714 | +6% |
| Loans and advances, net | 158,242 | 151,025 | +5% | 141,222 | +12% |
| Total assets | 239,517 | 229,900 | +4% | 213,670 | +12% |
| Customer deposits | 173,491 | 169,822 | +2% | 151,921 | +14% |
| Debt securities in issue | 4,046 | 4,004 | +1% | 8,049 | -50% |
| Total liabilities | 201,872 | 193,125 | +5% | 177,501 | +14% |
| Total shareholders' equity | 37,645 | 36,774 | +2% | 36,169 | +4% |
| Risk weighted assets | 232,405 | 227,915 | +2% | 216,201 | +7% |
| T1 ratio | 16.2% | 16.1% | +0% | 16.7% | -3% |
| TC ratio | 18.1% | 18.1% | +0% | 18.8% | -4% |
| Liquidity coverage ratio (LCR) | 143% | 121% | +18% | 145% | -1% |
| Basel III leverage ratio | 12.2% | 12.4% | -1% | 12.9% | -5% |
| Loans to deposits (incl. Sukuk) ratio | 89.1% | 86.9% | +3% | 88.3% | +1% |
| NPL ratio | 1.11% | 1.02% | +9% | 0.92% | +21% |
| NPL coverage ratio | 143.6% | 151.0% | -5% | 230.4% | -38% |

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Total assets reached SAR 239,517 million as at 31 March 2019, up 4% from the end of 2018 from growth in loans and investments.

Net loans and advances grew by 5% during the first quarter of 2019 from both commercial (+5%) and consumer and mortgage loans (+5).

Customer deposits rose 2% during the first quarter of 2019 to SAR 173,491 million, comprising 9% growth in time deposits, partly offset by a 2% decline in non-commission bearing deposits. Non-commission bearing deposits represented 58% of total deposits as at 31 March 2019.

Riyad Bank continued to maintain a strong capitalisation profile and comfortable liquidity position. The Bank's core equity tier 1 and total capital adequacy ratios stood at 16.2% and 18.1% respectively as at 31 March 2019, the liquidity coverage ratio was 143%, and the loans to deposit ratio (including Sukuk) was 89.1%.

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, 2,550 ATMs and 44,740 points of sale, as well as all the digital channels that customers expect, including online, mobile, and smart watches. Retail Banking accounts for 30% of Group operating income.

| SAR (million) | 1Q 2019 | 4Q 2018 | QoQ % change | 1Q 2018 | YoY % change |
|-------------------------------|------------|------------|-----------------|------------|-----------------|
| Total assets | 58,572 | 56,877 | +3% | 54,583 | +7% |
| Total liabilities | 81,021 | 80,265 | +1% | 75,916 | +7% |
| Net special commission income | 690 | 629 | +10% | 632 | +9% |
| Fee and other income, net | 95 | 94 | +0% | 83 | +14% |
| Operating income | 785 | 724 | +8% | 715 | +10% |
| Operating expenses | (573) | (519) | +10% | (418) | +37% |
| Net income | 212 | 210 | +1% | 296 | -28% |

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Retail Banking delivered 10% year-on-year and 8% quarter-on-quarter operating income growth to reach SAR 785 million. Net special commission income grew 9% year-on-year to SAR 690 million in the first quarter of 2019, driven by 7% balance sheet growth and margin improvements, while fee and other income increased 14% year-on-year to SAR 95 million.

Operating expenses reached SAR 573 million in the first three months of 2019, a 37% year-on-year and an 10% quarter-on-quarter increase due to transformation program investments.

The impairment charge for Retail Banking amounted to SAR 36 million for the first three months of 2019 compared with a net reversal of SAR 86 million for the same quarter last year and SAR 6 million in the previous quarter due to IFRS 9 related provision movement and growth in the retail portfolio, while retail credit quality remained benign.

Net income for the first quarter of 2019 declined 28% year-on-year to SAR 212 million despite solid top-line growth due to the rise in operating and credit costs. Relative to the previous quarter, net income improved marginally by 1%.

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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 41% of Group operating income.

| SAR (million) | 1Q 2019 | 4Q 2018 | QoQ % change | 1Q 2018 | YoY % change |
|-------------------------------|--------------|------------|--------------|------------|--------------|
| Total assets | 115,849 | 110,425 | +5% | 102,769 | +13% |
| Total liabilities | 98,470 | 96,610 | +2% | 85,422 | +15% |
| Net special commission income | 663 | 660 | +0% | 536 | +24% |
| Fee and other income, net | 385 | 313 | +23% | 285 | +35% |
| Operating income | 1,048 | 973 | +8% | 821 | +28% |
| Operating expenses | (392) | (237) | +65% | (441) | -11% |
| Net income | 656 | 594 | +11% | 380 | +73% |

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Corporate Banking's total operating income amounted to SAR 1,048 million for the first quarter of 2019, up 28% from the corresponding quarter of last year and up 8% from the previous quarter. Net special commission income rose by 24% year-on-year to SAR 663 million and fee and other income rose by 35% to SAR 385 million, from increased net special commission margins and increased volumes, aided by transformation initiatives aimed at institutionalising corporate account planning and streamlining of the SME proposition.

Operating expenses totalled SAR 392 million for the first three months of 2019, down 11% relative to the first quarter of 2018, and down 65% quarter-on-quarter.

The impairment charge for Corporate Banking improved by 29% compared in the first quarter of 2018 to SAR 175 million, but increased 23% relative to the previous.

The healthy income growth combined with lower operating and credit costs resulted in a strong 73% year-on-year growth in net income for the first quarter of 2019 to SAR 656 million. Strong income growth similarly drove an 11% increase in net income compared with the previous quarter.

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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) | 1Q 2019 | 4Q 2018 | QoQ % change | 1Q 2018 | YoY % change |
|--------------------------------------|------------|------------|--------------|------------|--------------|
| Total assets | 63,905 | 61,456 | +4% | 55,296 | +16% |
| Total liabilities | 22,057 | 15,953 | +38% | 15,931 | +38% |
| Net special commission income | 428 | 519 | -17% | 334 | +28% |
| Fee and other income, net | 213 | 56 | +278% | 171 | +24% |
| Operating income | 641 | 575 | +12% | 506 | +27% |
| Operating expenses | (45) | (105) | -57% | (112) | -60% |
| Share in earnings of associates, net | 118 | 12 | +860% | 14 | +735% |
| Net income | 715 | 479 | +49% | 407 | +75% |

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Treasury and Investments reported a strong performance for the first three months of 2019, with operating income rising by 27% year-on-year and 12% quarter-on-quarter to SAR 641 million, mainly due to higher margins and increased investment balances.

The growth in operating income, combined with increased associate income and lower operating expenses translated to 75% year-on-year and 49% quarter-on-quarter net income growth to SAR 479 million for the first quarter of 2019.

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Riyad Capital

Riyad Capital offers asset management, trading, equity and debt advisory, custody and securities services and accounts for 4% of Group operating income.

| SAR (million) | 1Q 2019 | 4Q 2018 | QoQ % change | 1Q 2018 | YoY % change |
|-------------------------------|------------|------------|--------------|-----------|--------------|
| Total assets | 1,192 | 1,141 | +4% | 1,022 | +17% |
| Total liabilities | 324 | 297 | +9% | 233 | +39% |
| Net special commission income | 27 | 25 | +7% | 21 | +24% |
| Fee and other income, net | 79 | 86 | -9% | 67 | +18% |
| Operating income | 105 | 111 | -5% | 88 | +19% |
| Operating expenses | (44) | (42) | +5% | (35) | +25% |
| Net income | 61 | 69 | -11% | 54 | +15% |

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Riyad Capital's operating income increased 19% year-on-year to SAR 105 million, predominantly driven by fee income from the asset management business, despite a 5% decline from the fourth quarter of 2018 which are a result of the cyclical nature of certain market transactions.

Net income for the first quarter of 2019 totalled SAR 61 million, a 15% year-on-year improvement and 11% cyclical decline compared with the previous quarter.

Additional Information

Riyad Bank's 1Q 2019 financial statements, earnings release, investor presentation and analyst data supplement are available to the public on the IR website: www.riyadbank.com/en/about-us/investor-relations

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