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THE COVID-19 PANDEMIC EFFECT ON THE PERFORMANCE OF THE ISLAMIC BANKING SECTOR IN KSA: AN EMPIRICAL STUDY OF AL RAJHI BANK

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ABSTRACT

The aim of this study is to assess the impact of COVID-19 pandemic on the performance of the Islamic banking sector in the Kingdom of Saudi Arabia. Several issues arose in the financial sector around the world after the COVID-19 crisis. The study looks at Al Rajhi Bank's progress before and during the COVID-19 pandemic. Al Rajhi Bank is one of the largest banks in the Kingdom of Saudi Arabia and the world, with $ 80 billion in deposits, $ 6.77 billion in paid-up stock, and a large employee base. The findings show that the COVID-19 crisis had only a minor impact on Saudi Arabia's Islamic banking system, especially the bank under investigation, and that Islamic banks are capable of escaping the financial and economic risks associated with the crisis. Islamic banks are distinguished from other commercial banks by their ability to respond quickly to crises such as economic and financial shocks.

Key words: COVID-19 crisis, Islamic Banking, Financing Risks, Assets, KSA Banking Sector, Al Rajhi Bank

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1. INTRODUCTION

Following World War II, several Islamic countries acquired independence, which aided in the development of Islamic economic thinking, which is founded on the prohibition of riba' interest. After the 1973 conflict, Islamic banks expanded greatly as a result of rising oil prices and the need to invest cash surpluses in Islamic banks. The initiation of Islamic banking started in Malaysia in1940 where saving funds were developed to work without riba' interest, and in Pakistan in 1950, systemic thinking began to follow Islamic banking strategies that were consistent with Islamic Shariah. The major development of Islamic banking began in Egypt in 1963, with the establishment of local savings banks. Nasser Social Bank and Dubai Islamic Bank were founded in 1975, Islamic Development Bank in 1976, and Kuwaiti Finance Bank in 1977 and since then, Islamic banks and financial institutions compliant with Islamic Shariah have spread throughout the world. Number of Islamic banks has increased from 34 banks in 1983 to about 500 banks and windows in 2019.

1.1 Recent Developments in Islamic Banking World wide

According to Islamic Finance Development estimates, Islamic banking accounts for a large portion of the industry's assets, growing 14 percent in 2019 to US$1.99 trillion in global assets, compared to 1 percent increase in 2018. The annual average growth rate from 2015 to 2018 was 5 percent. The expansion of development was seen in countries other than Southeast Asia and the Gulf Cooperation Council, where assets were more than doubled. Sector growth is projected to be limited in 2020, as Islamic banks around the world seek to retain resources and reduce investment activities as a result of the Covid-19 crisis and economic fallout.

The outbreak has also had an effect on the final financial performance of Islamic banks in the basic markets. Governments fund liquidity schemes to assist banks in dealing with the aftermath of the financial crisis. Covid-19crises are a collection of 19 crises. Global economies are projected to rebound within the next five years, with Islamic banking reserves potentially reaching $ 2.44 trillion by 2024 (IFDI, 2020). The main recent trends in Islamic banking around the world and landscape as benchmarks for 2019 are: US$ 2.88 trillion total Islamic finance assets in 2019, 14% annual growth of Islamic finance assets in 2019, 1,526 total Islamic financial institutions in 2020. Islamic finance assets by region 2019 (US$ billion) GCC = 1,253, Sub - Saharan Africa = 8, Southeast Asia = 685, South Asia = 73, other MENA =755, America = 3, Europe = 96, another Asia = 2.

1.2 COVID-19 Crisis and Islamic Banking

The most recent COVID-19 crisis, which occurred at the end of 2019, caused worldwide depression and impacted all financial and economic sectors, especially bank production and share prices in financial markets, which have trended sharply and steadily lower. The GCC countries have had to deal with the COVID-19 pandemic as well as a dramatic drop in oil prices. Furthermore, the oil market has been under pressure due to an increase in supply as well as a decrease in demand. The Kingdom of Saudi Arabia has been struck by two shocks: the outbreak of COVID-19 and a sharp decline in oil prices; the government's policy is in response to both of these incidents.

The Kingdom of Saudi Arabia's administration declared several economic packages, including the financial authority's funding for $18.7 billion for the private sector in March 2020, equivalent to 2.7 percent of GDP, and the suspension of government tax payments, fees, and other dues to include benefits to the private sector, as well as an increase in available financing by the National Development Fund, also, The Saudi Arabian Monetary Authority lowered its policy rates twice, lowering the reverse repo and repo rates by 1.25 % points to 0.5 and 1%, respectively. Saudi Arabia's government has proposed a series of private-sector aid packages worth $61 billion. Among the measures are exemptions and postponements of government dues ($18.6 billion), a $13.3 billion plan to support the banking and SME industries, a $13.3 billion budget to ensure that government dues to the private sector are charged on time, and a 60% wage refund of Saudi employees' wages in the private sector (up to SAR 9,000 every employee per month). There are also tax-related measures to take, such as modifying the dates for filing tax returns and paying certain taxes. Furthermore, SAMA announced a $13.3 billion injection into the financial system to boost banking liquidity and enable banks to continue lending to the private sector.

The COVID-19 crisis caused a drop in bank output and stock prices in Gulf Cooperation Council/GCC countries, especially in conventional banks; however, there was no difference in the performance of Islamic banks before and during the COVID-19 crisis. The IMF declares the Covid-19 recession to be a slump unlike any other; both the IMF and the EIU anticipate the global economy to contract by about 5% in 2020, higher than the global financial crisis of 2008 and the steepest slowdown since 1946; the IMF expects GDP in 2021 to be about 6.5 percent points lower than in January 2020 pre-Covid-19 forecasts; the IMF predicts GDP in 2022 to be about 6.5 percent points lower than in January 2020 pre-Covid-19 forecast (Islamic Development Bank, 2020).

2. LITERATURE REVIEW

According to recent report by Kheera & Tayb's, (2020) on the effects of the COVID-19 crisis on the global economy and its impact on business processes, the COVID-19 crisis causes shifts in global economic scales and rapids, as well as contributing to the redefining of global supply and demand activities. The study reveals that the most affected countries depend on tourism and import raw materials. While Hassan, et al., (2018) in their research looks at the comparative performance of the Saudi Islamic banking industry, the key findings indicate that Al-Rajhi is the most competitive bank in terms of technical and pure technical consistency, followed by Al-Jazira, and Al-Inma and Al-Bilad are third and fourth, respectively. Further investigation into this area shows that after the year 2012, the technological and scale performance of bank Al-Rajhi begins to decline. Muhammad & Triharyono, (2019) observed at the deviations in Islamic banking's financial output before, after, and after the global financial crisis. The findings suggest that there are differences in funding, asset quality, management, and earnings as calculated by return on assets, and that many ratios show a positive change during the crisis than before it. Between 1993 and 1998, the factors influencing Islamic bank performance in eight Middle Eastern countries. The results imply that high leverage and strong loan-to-asset ratios lead to higher profitability, and that foreign-owned banks are more profitable than domestic counterparts (Bashir, 2001).

Further Kunt, Pedraza, & Ortega, (2020) looked at bank stock prices around the world to see how the COVID-19 pandemic affected the banking industry, as well as the effects of financial sector policy announcements on bank stock demand. The findings suggest that the slowdown, as well as banks' countercyclical lending stance, would put significant pressure on banks. Based on the three threats faced by Islamic banking in Indonesia, such as financing difficulties, asset impairment, and tightening the profit-sharing mechanism, the study concluded that Covid-19 in Indonesia has generated multiple impacts that could prosecute the national economic framework. Moreover Maroua & Slim, (2020) used an autoregressive distributed lag co-integration approach to investigate the influence of the COVID-19 pandemic on the stock market in Saudi Arabia. The results show that COVID-19 has a negative impact on the stock market only in the long run, and causality between variables is unidirectional from Log Covid-19 to Log-TASI. Investigation of Bashir, (2003) on how bank characteristics and the general financial condition affect Islamic bank productivity between 1993 and 1998, looking at performance indicators of Islamic banks in eight Middle Eastern countries and using a mix of internal and external banking characteristics to forecast profitability and efficiency; High capital-to-asset and loan-to-asset ratios, according to the findings, contribute to greater profitability, and foreign-owned banks are more likely to be profitable; additionally, higher equity-to-total-asset ratios and larger loan-to-asset ratios while dealing with GDP lead to higher profit margins .

Further Shaharuddin, (2020) examines Islamic banks' behavior during the Covid-19 pandemic and analyzes the moratorium problem in the context of Shariah objectives (maqasid). The research will not only shed light on the ongoing moratorium debate, but will also provide a holistic view of the wider question of the Islamic banking industry's dichotomy between theory and reality, as a result, Bank Negara Malaysia is developing new policies to mitigate the effects of the moratorium on the Islamic banking market; benefit Islamic banks are expected to be affected as a result of this situation. As a result, Bank Negara Malaysia has implemented procedures and measures to reduce the effect of the moratorium on the banking industry. Similarly Masruki, et al., (2011) analyses and measure the performance of two Islamic Banks in Malaysia (Bank Islam and Bank Muamalat), then to do a comparative analysis between these two banks with the conventional banks, When comparing the profitability and liquidity of Islamic banks to that of conventional banks, the study discovered that Islamic banks are less profitable but have greater liquidity, and conventional banks face higher credit risk because their LDR is much higher than Islamic banks'. During the period 2009-2013, the financial performance of Erbil Bank for investment and finance was examined using financial performance metrics such as financial ratios, which were used to assess the bank's financial status, it also used statistical methods for the study of many factors that influence the banking system, and it was discovered that Erbil Bank's overall financial performance is improving in terms of liquidity ratios, assets quality ratios or credit performance, profitability ratios, and profitability ratios (Adam, 2014).

The impact of global market failure in UAE banking sector performance was evaluated by (Krishnan & Koster, 2016; Mehta, 2012) their studies conclude that in the United Arab Emirates, the financial crisis had a severe effect. The UAE has put in a lot of work to improve their financial structure and prudential practices in their banks. The majority of UAE banks were able to rebound from the effects of the financial crisis, but others are now suffering due to their capital structure. Further Parashar & Venkatesh, (2010) conducted an analysis to determine how Islamic banks fared during the global financial crisis. They compared six ratios, CAR, CTI, ROAA, ROAE, LA/TA, and E/TA of Islamic and traditional banks, the researchers contrasted all banking structures for the entire four years, as well as before and after the crisis. This analysis found that, while Islamic banks lost more than conventional banks in terms of capital ratio, leverage, and return on average equity during the recent global financial crisis, Though conventional banks suffered more than Islamic banks in terms of return on average assets and liquidity, they discovered that from 2006 to 2009, Islamic banks outperformed conventional banks. Islamic banks outperformed traditional banks during the study time, with statistically meaningful findings in CAR, ROAA, ROAE, and E/TA. After comparing before and during the crisis, the study discovered that average CAR, ROAE, and E/TA of Islamic banks had dramatically decreased during the crisis. while for conventional banks, ROAE, ROAA and LA/TA significantly reduced during the crisis.

Moreover Lone & Alshehri, (2015) studied growth and potential of Islamic banking in GCC, Saudi Arabia Experience, and the current state of Islamic banking in Saudi Arabia is discussed, as well as several key concerns that mean that it has a possible demand in Saudi Arabia. The research also highlights how Saudi Arabian banks will be fully Islamic in the future, but there is still a scarcity of experts and Islamic educational institutions. The effect of Covid-19 on Islamic banking in Indonesia, this analysis aimed to examine the three threats posed by Islamic banking in Indonesia, which are allocation of funding, asset quality loss, and tightening profit sharing. The study determined that Covid-19 in Indonesia has provided different impacts that could prosecute the national economic system, Islamic banking gets affected by the spread of COVID-19 (Hasan, 2020). Islamic finance, according to the Islamic Development Bank (2020), offers two lines of defense against the COVID-19 crisis in general, the first is the convergence of finance with real business operations and risk sharing; the second is a strong social safety net; and the first line of protection against endogenous threats is a strong social safety net. When the two lines of insurance are merged, the image of overall economic development during the COVID-19 crisis becomes clearer, according to the bank.

3. OBJECTIVES OF THE STUDY

The broad objective of this study is to determine effect of Covid-19 Crisis on the performance of Al Rajhi Bank, while as the the specific objectives are:

- To investigate the impact of the Covid-19 crisis on the success of the Islamic banking sector in general and the bank under consideration in particular.
- To examine Al Rajhi Bank's success prior to and after the Covid-19 Crisis by reviewing financial statements and evaluating financial ratios.

4. METHODOLOGY

The report would only use secondary data sources to examine Al Rajhi Bank's financial results before and during the COVID-19 pandemic. Bank data was obtained via the bank's website and the Saudi Arabian Monetary Authority (SAMA). Al Rajhi Bank was selected because it is one of the world's leading Islamic banks.

5. DISCUSSIONS

5.1 Background of Islamic Banking Sector in KSA

The phenomenal growth of the Islamic finance industry in the last decade is a remarkable advancement from a low starting point, but the industry only accounts for a small percentage of global finance. Islamic finance's risk-sharing nature has piqued interest in all financial industries, including banking, capital markets, and insurance. Financial association reports indicate that the Islamic financial services industry has grown in output from 2015 to 2018, and that this development is visible in each segment of the market. The growth of Islamic finance in different fields, as well as their activities to participate in risk sharing and long-term financing, According to the Islamic financial services industry study 2020, while Islamic banking's market share is increasing in most jurisdictions (27 out of 36), but at a slower rate, there are markets where the Islamic banking sector is losing market share. In 2018, gross shariah-compliant financing reached $1052 billion, total funding liabilities reached $1748 billion, the number of Islamic banks reached 189, and the number of Islamic banking windows reached 81. (Islamic Development Bank, 2020).

There are 12 listed banks and other non-listed banks in Saudi Arabia's banking market. Al Rajhi Bank, National Commercial Bank, Samba Bank, and Riyadh Bank are the four main banks, accounting for 55.3 percent of total deposits. Deposits increased by just 0.1 percent, which was undoubtedly due to the overall recession in the economy, total deposits, demand deposits accounted for 61.8% while times and savings deposits accounted for 27.7% (Al Rajhi Bank,2017). Islamic or Shariah-based banking is governed by Islamic economics and avoids charging and paying interest as well as selling non-Shariah compliant or haram properties. It is a more egalitarian and prosperous mode of finance that has gained traction outside of the Muslim world. With a 33 percent share of the economy, the Saudi market will continue to be a key force for Islamic banking. In Saudi Arabia, the Islamic financial industry grew in 2019, owing to a shift in people's and businesses' attitudes toward funding goods that adhere to Shariah specifications. By the first quarter of 2019, Saudi Arabia ranked first in the world as the most market for Islamic financial assets, with a total valuation of $ 299 billion, well ahead of Malaysia, which came in second with a total value of $ 134 billion, with Islamic banks and sukuk accounting for around 89 percent of total Islamic finance assets at the end of 2018. An analysis conducted by the credit rating firm "Moody's" was focused on banking structures in which Islamic banks coexist with conventional banks in order to make a reasonable distinction with banking systems that work solely through Islamic banking. According to study and reports, Saudi Arabia has the highest rate of Islamic finance infiltration, with loans arranged in accordance with Sharia accounting for 77 percent of overall loans in the financial sector.

Owing to the religious and conservative essence of Saudi society, which is keen on the acceptance of Islamic law in financial transactions, Islamic banks and financial institutes are important parts of the existing economic structure in Saudi Arabia. The following are the most notable developments in Saudi Arabia in terms of financial and banking transactions in accordance with Islamic Sharia: in 1987, the Al-Rajhi Banking and Investment Corporation was founded as the first bank whose basic law provides for dealing in accordance with Islamic Sharia provisions, in 1988, Bank Al-Jazira took a decision to convert the bank from a traditional bank to an Islamic bank., in 2004 the Albilad Islamic Bank was established, in 2004 the Saudi Arabian Monetary Agency created an Islamic banking committee, in 2008 establishment of the Alinma Bank. The trend in the banking sector in Saudi Arabia for providing Shariah compliant services is growing, and the total assets and resources of the Al-Rajhi bank are SAR 201,878, SAR 250,179 in 2018 and SAR 37,349 million respectively. Bank Al-Bilad, on the other hand, is the smallest Islamic bank in terms of financial volume, with gross deposits, reserves, and capital averaging SAR 26,413 million, SAR 33,195 million, and SAR 4,874 million, respectively.

5.2 Impact of the COVID-19 Crisis in GCC Countries

The COVID-19 crisis resulted in a major drop in oil prices and stock prices in GCC countries, causing financial markets in the GCC and some Arab countries to crash. Arab countries and the GCC also saw a decrease in share demand, as well as difficult financial conditions, a high risk premium, and a decrease in banking sector flexibility.

The Covid-19 pandemic, along with a drop in oil prices, caused GCC capital markets to lose an average of 23% in the first quarter of 2020, and financial markets to do worse than they did during the 2008 financial crisis. The Gulf Cooperation Council countries experienced their worst stock market losses in decades, with the United Arab Emirates bearing the brunt of the losses. The financial markets were hit hard by the disruption of global economic operations, such as decreased spending, tourism, and remittances flows, as well as the narrowing of potential growth prospects. In the first quarter of 2020, the volume of the major banks' share prices in GCC countries fell by 25% as a result of the double crisis. The effect was felt more strongly by banks whose profits are based on government deposits. Between January and December 2020, the share prices of government-owned banks fell significantly, with the majority of banks reporting losses in the UAE.

Since the real interest rate in GCC countries was negative prior to the global Covid-19 crisis as a result of low interest rates and high inflation, there was little risk of investing. Because of the critical business situation at the time, several big projects in GCC countries were delayed. In order to survive, several projects were canceled, and some GCC governments released bonds to bring capital to the banks. GCC countries were required to borrow $39 billion in 2009, and central banks provided $50 billion in short-term funding to the Department of Homeland Security (DHS) to help banks refinance their loans and add liquidity.

5.3 Profile of Al Rajhi Bank

Al-Rajhi Bank, based in Saudi Arabia, was established in the second half of the 1950s and is the country's oldest and largest bank in terms of assets. In the assessment of the top 100 largest Islamic banks for the financial year 2018, Al Rajhi Bank is the largest and also the best Islamic bank. The bank's net assets increased by 6.4 percent to $97.3 billion, and total assets of SAR 468,825 billion ($125.020 billion) in 2020. Al-Rajhi Bank is one of the world's biggest banks, and therefore in the Middle East. This pioneering bank occupies a strong financial position, as it manages assets of SAR 384 billion (102 billion US dollars), it has a capital of SAR 25 billion (6.67 billion dollars), and employs more than 9,600 employees. it has a wide spread network that includes more than 546 branches, 142 women's branches, more than 5,190 ATMs, 106,080 points of sale, 232 remittance centers, in addition to having the largest customer base among Saudi banks. The bank owns many of subsidiaries like Al-Rajhi Development Company-Saudi, Al Rajhi Company Limited-Malaysia, Al Rajhi Finance Company-Saudi, Al Rajhi Bank-Kuwait, Al Rajhi Bank- Jordan, Al-Rajhi Takaful Agency Company-Saudi, Imkan Finance Company-Saudi, Tawtheeq Company-Saudi and Al Rajhi Capital Market Limited.

The bank offers wealth management services to its clients through its affiliate, which includes funds management, with total assets of SAR 50,220 in 2020, up from SAR 42,084 million in 2019, and a balance of sums invested in investment funds of SAR 1.166 million in 2020, while private equity totaled SAR 323,183,5 million as of 31 December 2020. During the Covid-19 crisis, the Saudi Central Bank supported deposit in Al Rajhi bank by offering deposit without commission totaling SAR 8.85 billion in March 2020 to reimburse the bank for private sector finance programs. The bank offered numerous support programs to clients, which primarily included payment postponement, loans funding, and facility guarantees support programs. The bank's credibility has benefited from receiving good credit scores from foreign rating agencies for many years. Despite the uncertain economic and geopolitical climate, the scores have remained unchanged in 2019 (see table1).

Table 1 Credit Rating of Al Rajhi Bank 2019

Rating agency	Long term	Short term
S&P	BBB+	A-2
Fitch	A-	F1
Moody’s	A1	P-1
Capital Intelligence	A+	A1

Source: Al Rajhi Bank Report 2019

The constituent business groups and branches of Al Rajhi Bank continued to grow at a rapid rate. Despite a variety of developments in the banking sector and economies, the bank's net income for 2019 increased to SAR 10,159 million, up from SAR 3,768 million in 2018. The bank was also able to boost its consumer services and increase its market share from 27.9

percent in 2018 to 32.9 percent in 2019. In 2019, it lent SAR 4.9 billion to Small and Medium-Sized Enterprises (SMEs). Since the bank operates in a highly competitive and complex environment, it must manage a wide range of risks with caution and pragmatism in order to remain viable, such as Islamic banks, Credit risk, liquidity risk, operating risk, concentration risk, and market risk are just some of the threats that banks face. The Islamic banking sector faces three threats (as depicted in fig.1) during the COVID-19 crisis: funding delivery, asset quality loss, and benefit sharing tightening (Hasan, 2020).

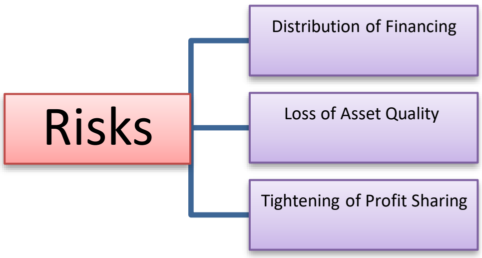


Figure 1 The risks over during COVID-19

The Bank's mortgage loans to retail clients more than tripled year on year in 2019, and portfolio growth from SAR one billion in December 2018 to SAR 55 billion in 2019. The Bank's market share hit 33 percent in 2019, while overall portfolio market shares rose to 26 percent during the same time. Al Rajhi Bank posted net income of SAR 10,196 million in 2020, up from SAR 10,159 million in 2019 and SAR 3,768 million in 2018. This reflects good traction in policy execution, resulting in enhanced financial metrics.

As represented in table 2 the total operating income for 2020 reached SAR 20,721 million compared to SAR 19,484 million for 2019, and SAR 17,320 million for 2018, SAR 15,905 million for 2017, SAR 15,341 million in 2016, this reflect strength across the board in main businesses.

Table 2 Financial results comparison

Description	**2016 SAR Mn.**	**2017 SAR Mn.**	**2018 SAR Mn.**	**2019 SAR Mn.**	**2020 SAR Mn.**
Total operating income	15,341	15,905	17,320	19,484	20,721
Operating expenses	5,007	5,237	7,183	8,158	8,908
Net income	8,126	9,121	3,768	10,159	10,596

Source: estimates are computed by author

The total assets of Al Rajhi Bank from 2016 upto December 2020 revealed an amount of SAR 468,825 million, it grew by 22.06 % in 2020 compared to 5.5% in 2019 (see fig. 2).

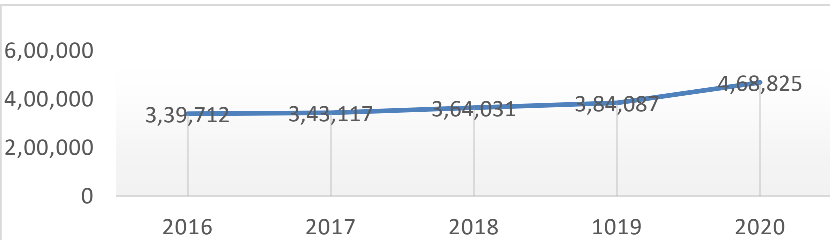


Figure 2 Al Rajhi Bank Assets;

Source: Compiled by Author

Al-Rajhi stock has achieved continuous growth during the past five years, the share price reached 73.60 in 2020 compared to 66.00 in 2019, 56.89 in 2018, 41.69 in 2017 and 41.13 in 2016. Al-Rajhi has achieved earnings per share SAR 4.24 in 2020, SAR 4.06 in 2019, SAR 1.51 in 2018, SAR 3.65 in 2017 and SAR 3.25 in 2016.

5.4 Bank Financial Performance and Ratios

Banks' effectiveness is largely determined by their ability to assess and appreciate their results. To replace the existing focus on short-term financial success metrics, managers should create managerial performance indicators focused on meeting these strategic targets. Performance measures help the banks management in implementing technological and organizational change through incentives for improving performance and measurements to evaluate progress toward this goal (Adam, 2014). However, in terms of main ratios, profitability, liquidity, efficiency ratios, and capitalization ratios, the following category of ratios is used to measure financial results for banks.

5.4.1 Key Ratios

The key ratios typically used in banking are EPS, P/E, DPS, and Dividend Yield (DY), all are discussed below and the same is illustrated in figure 3.

5.4.1.1 Earnings per share (EPS)

Earnings per share, or EPS, is a key financial metric that shows a company's viability by measuring net profits by the total number of outstanding shares. The higher a bank's earnings per share, the more profitable it is. Earnings per share for Al Rajhi Bank also fluctuated over the course of the bank's five-year operation from 2016 to 2020. The lowest earnings per share (1.51) were recorded in 2018, while the highest were recorded in 2020. (4.24). The substantial rise in the ratio in 2020 is attributed to Islamic banks' willingness to respond to the COVID-19 crisis.

5.4.1.2 Price/Earnings(P/E)

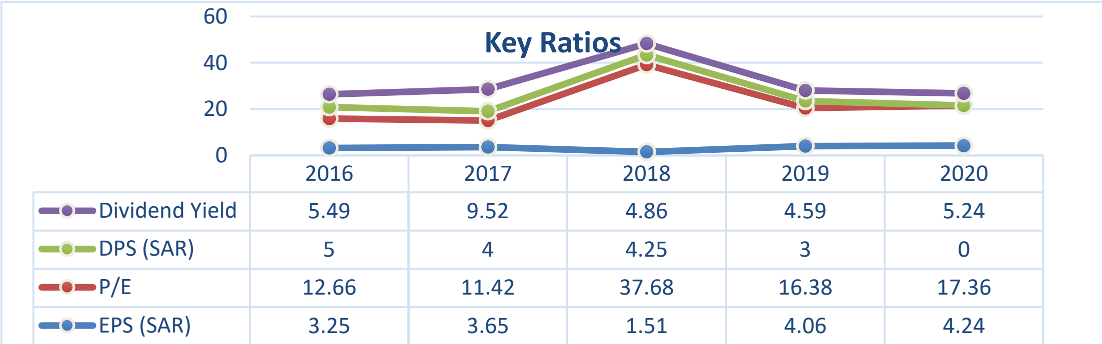
The price-to-earnings ratio (P/E) is a stock value ratio that measures the overall share price of a business to its per-share earnings (EPS). Simply divide the current stock price by the earnings per share (EPS) to determine the P/E value. A high P/E ratio may mean that a company's stock is overpriced, or that investors anticipate rapid growth in the future. The price-to-earnings ratio of Al Rajhi Bank has fluctuated over the course of the bank's five-year operation from 2016 to 2020. The lowest price-to-earnings ratio (11.42) was recorded in 2017, while the highest was recorded in 2018. (37.68). The decline in the ratio in 2020 is attributed to the poor trading volume in capital markets as a result of the COVID-19 crisis.

5.4.1.3 Dividend Per Share (DPS)

A increasing DPS over time will also indicate that a bank's management expects that its earnings increase will be maintained. DPS is the amount of reported dividends paid by a bank for every ordinary share outstanding. Since the bank report did not reveal the valuation, the price-to-earnings ratio was not reported in 2020; the highest was recorded in 2016. (5.00). The rise in the ratio in 2016 is due to a significant drop in earnings per share.

5.4.1.4 Dividend Yield

Dividend yield is a financial ratio that compares the amount of cash dividends paid to owners to the stock price per share. Companies with a high dividend yield usually do not maintain a significant amount of their gains as retained earnings. Their holdings are referred to as revenue stocks. The rise in the ratio in 2017 is attributed to the year's high earnings.



	2016	2017	2018	2019	2020
Dividend Yield	5.49	9.52	4.86	4.59	5.24
DPS (SAR)	5	4	4.25	3	0
P/E	12.66	11.42	37.68	16.38	17.36
EPS (SAR)	3.25	3.65	1.51	4.06	4.24

Figure 3 Key Ratios

Sources: Al Rajhi Bank

5.4.2 Profitability Ratios

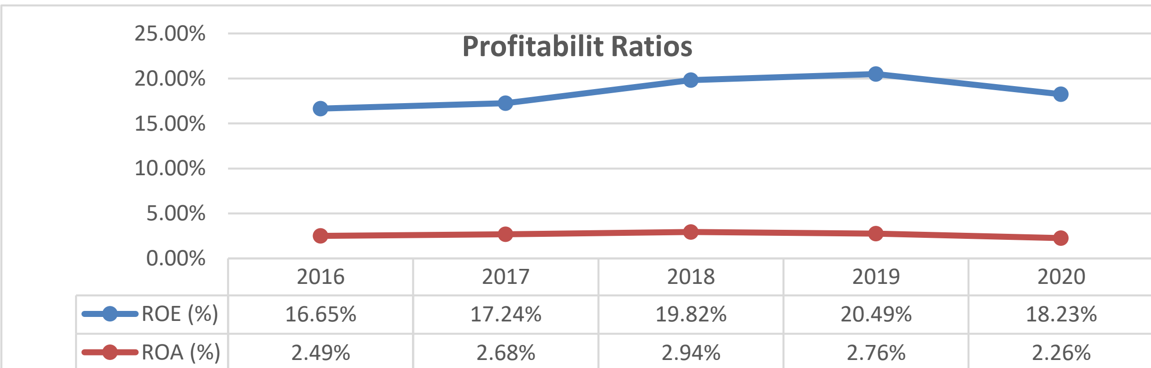
Profitability ratios (see fig. 4) typically used in banking are ROA and ROE, all are discussed below:

5.4.2.1 Return of equity (ROE)

Return on equity is a financial efficiency metric that is determined by dividing net profits by shareholders' equity. This ratio assesses a company's viability by showing how much value it earns from the capital spent by shareholders. A higher ratio indicates that a bank's financial success and profitability are more effective. Profitability ratios are just one aspect of a bank's success (Adam, 2014). In 2020, the bank's return on equity was 18.23 percent, up from 16.65 percent in 2016. This suggests that Al Rajhi Bank stockholders profited more through these years.

5.4.2.2 Return on assets (ROA)

Return on assets is a measure of a company's profitability in relation to its overall assets. It is generally described as net profits (or pre-tax profit)/total assets. It offers details about management's success in generating revenue from the company's investments. The lowest return on assets (2.26 percent) was recorded in 2020, while the highest was recorded in 2018 (2.94 percent). The substantial increase in the ratio in 2018 is the result of a significant increase in net sales.



	2016	2017	2018	2019	2020
ROE (%)	16.65%	17.24%	19.82%	20.49%	18.23%
ROA (%)	2.49%	2.68%	2.94%	2.76%	2.26%

Figure 4 Profitability Ratios

Sources: Al Rajhi Bank

5.4.3 Liquidity Ratio

Liquidity ratios, as represented in the fig. 5 below, in a bank demonstrate the ability to pay its current obligations. Generally, but not always, the higher the size of the ratio, the greater the bank's margin of safety to meet short-term commitments. This ratio was so high in 2018 (196 percent) and then fell to (15.46 percent) in 2016, with the ratio for 2020 (3Q) being 150 percent.

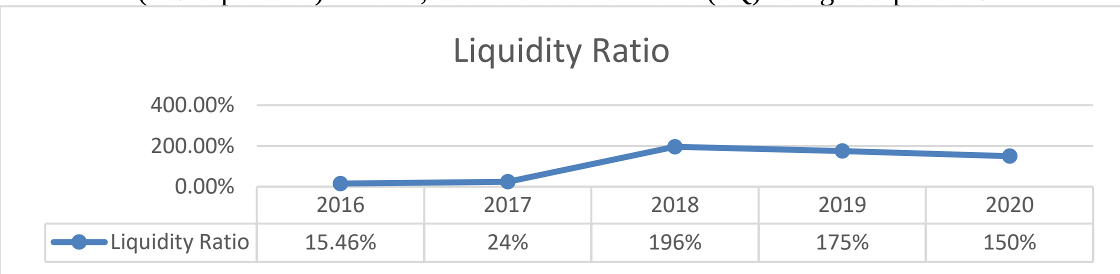


Figure 5 Liquidity Ratio

Sources: compiled by the author

5.4.4 Efficiency Ratio

Efficiency ratio is the ratio commonly used in banks, to calculate yield as a percentage. The lower percentage means lower the expenses and the higher profits, this ratio is also used to describe operating leverage, which measures the ratio between fixed costs and variable costs. This ratio was high in the year 2016 (46.83%) and subsequently declined to reach (42.99%) in the year 2020 (see fig. 6).

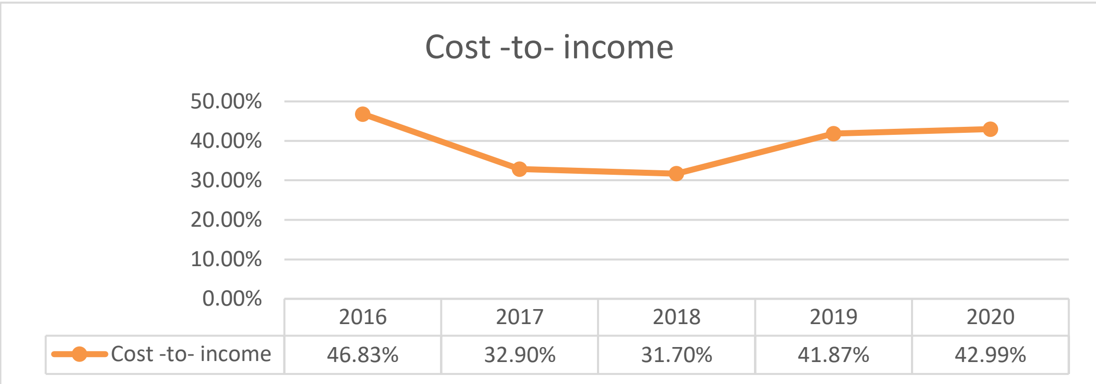


Figure 6 Efficiency Ratio

Sources: Al Rajhi Bank (compiled by author)

5.4.5 Capitalization Ratios

Capitalization ratios are metrics that show how much debt a firm has in its capital structure. They are among the most useful debt ratios for evaluating a company's financial stability. Although a high capitalization ratio will increase return on equity due to the tax benefits of debt, a higher percentage of debt raises a company's chance of bankruptcy. Capitalization Ratios used in banking are CAR and DPR, all are represented below in fig. 7 below:

5.4.6 Capital Adequacy Ratio (CAR)

The capital adequacy ratio (CAR) is an indicator of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. It is used to protect depositors and facilitate the stability and efficiency of financial markets around the world. There are two levels of capital measured: tier-1 capital, which can bear losses without requiring a bank to stop trading, and tier-2 capital, which can absorb losses in the case of a winding-up but offers little security to depositors. When this percentage is high, it means that a bank has enough liquidity to cover unforeseen losses. When the ratio is poor, a bank is more likely to fail, and the regulatory authorities will need it to add more money. This ratio was strong in 2017 (23.30 percent) and then fell to (19.3 percent) in the third quarter of 2020.

5.4.7 Dividend Payout Ratio (DPR)

The dividend payout ratio is the ratio of the cumulative number of dividends paid out to shareholders to the company's net profits. That is the proportion of profits distributed to owners in the form of dividends. From the perspective of a dividend investor, a range of 35 percent to 55 percent is considered stable and acceptable. A organization that is likely to pay nearly half of its profits as dividends is well known and a pioneer in its business. The dividend payout ratio was 71.2 percent in 2017, 67 percent in 2018, and 74 percent in 2019, indicating that Al Rajhi Bank is a market leader.

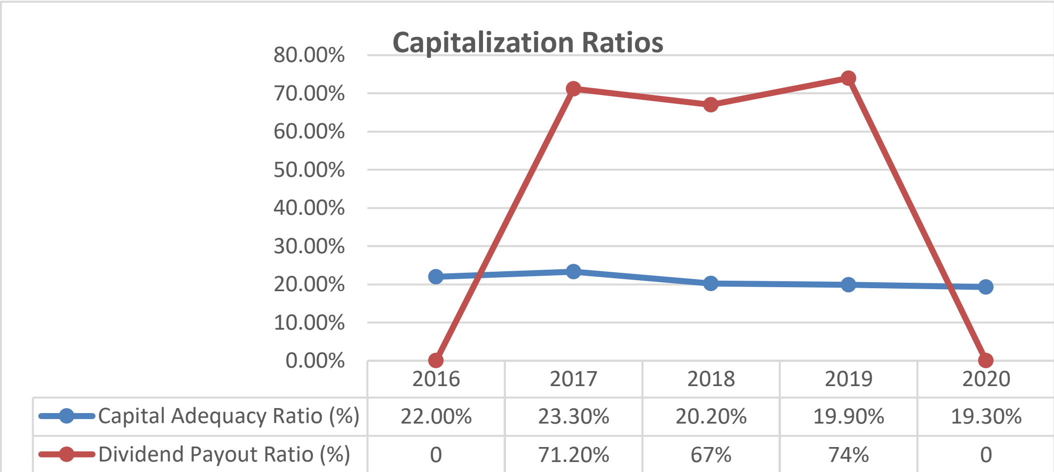


Figure 7 Capitalization Ratio

Sources: Al Rajhi Bank (compiled by author)

Table 3 Performance Ratios

Description/ Year	2016	2017	2018	2019	2020
Key Ratios					
EPS (SAR)	3.25	3.65	1.51	4.06	4.24
P/E	12.66	11.42	37.68	16.38	17.36
DPS (SAR)	5.00	4.00	4.25	3.00	-
Dividend Yield (DY)%	5.49%	9.52%	4.86%	4.59%	5.24%
Profitability Ratios					
ROE (%)	16.65%	17.24%	19.82%	20.49%	18.23%
ROA (%)	2.49%	2.68%	2.94%	2.76%	2.26%
Liquidity Ratio					
Liquidity Ratio (LA/TA) %	15.46%	24%	196%	175%	150% *
Efficiency Ratio					
Cost -to- income (CTI)%	46.83%	32.9%	31.7%	41.87%	42.99%
Capitalization Ratios					
Capital Adequacy Ratio (CAR)%	22.0%	23.30%	20.20%	19.9%	19.3% *
Dividend Payout Ratio (DPR)%	-	71.2%	67%	74%	-

Source: estimates are computed by author, * 3Q 2020

5.5 Evaluation of the financial performance

Financial statements are inputs of the financial analysis process, as well as outputs of the accounting system, process of evaluation and decision-making based on the results of the analysis, the change in financial statements and the bank's activity. The study presents and analyzes the most important components of financial statements such as assets, liabilities, capital, reserves, as well as profits, investments and deposits, the study depends analyze the change in financial statements as shown in Table No.4 below.

Table 4 Al Rajhi Bank Performance analysis (SAR Thousands)

Description/ Year	2016	2017	2018	2019	2020
Total assets	339,711,817	343,116,528	365,003,830	384,086,576	468,824,723
Amount of change	-	3,404,711	21,887,302	19,082,746	84,738,147
Change %	-	1.0022%	6.38%	5.23%	22.06%
Total liabilities	339,711,817	343,116,528	365,003,830	384,086,576	468,824,723
Amount of change	-	3,404,711	21,887,302	19,082,746	84,738,147
Change %	-	1.0022%	6.38%	5.23%	22.06%
Share capital	16,250,000	16,250,000	16,250,000	25,000,000	25,000,000
Amount of change	-	-	-	7,500,000	-
Change %	-	-	-	53.85%	-
Total reserve	20,123,362	21,531,682	16,284,955	22,005,673	25,134,728
Amount of change	-	1,408,320	-5,246,727	5,720,718	3,129,055
Change %	-	7%	-24.37%	35.13%	14.22%
Retained earnings	12,236,010	13,906,736	12,747,323	868,066	8,253,246
Amount of change	-	1,670,726	-1,159,413	-11,879,257	7,385,180
Change %	-	13.65%	-8.34%	-93.19%	850.76%
Total shareholders' equity	51,946,827	55,750,918	48,305,866	51,191,657	58,118,518
Amount of change	-	3,804,091	-7445052	2,885,791	6,926,861
Change %	-	7.32%	-13.35%	5.97%	13.53%
Customers' deposits	272,593,136	273,056,445	293,909,125	312,405,823	382,631,003
Amount of change	-	463309	20,852,680	18,496,698	70,225,180
Change %	-	1.7%	7.64%	6.29%	22.48%
Total Investments, net	35,363,747	37,715,098	44,360,155	48,226,479	61,826,483
Amount of change	-	2,351,351	6,645,057	3,866,324	13,600,004
Change %	-	6.65%	17.62%	8.72%	28.20%
Proposed gross dividends	3,337,500	4,062,500	3,656,250	3,750,000	-
Amount of change	-	725,000	-406250	93,750	-
Change %	-	21.72%	-10%	2.56%	-

Source: estimates are computed by author

It has been discovered that bank success is favorably linked to percentage changes in financial statements, with favorable percentage changes in stock, net reserve, deposits, and shareholders' equity, as well as a rise in retained earnings to meet the anticipated risk from the ongoing COVID-19 crisis.

6. CONCLUSIONS

We have compared ten different ratios, EPS, P/E, DPS, DY, ROE, ROA, LA/TA, CTI, CAR and DPR of Al Rajhi Bank for full five years before and during COVID-19 crisis, for full five year analysis, it is found that Al Rajhi Bank have performed better during 2020 with significant results in respect of EPS, P/E, DY, CTI compared to 2019, this indicates that Al Rajhi Bank delivered better in efficiency and key ratios, also the changes in financial statements indicate to positive percentage during 2020 in respect of total assets, share capital, total reserve (except 2019), retained earnings, total shareholders’ equity, customers deposits and total investments net. When analyzed, before and during COVID-19 crisis, it was found that ratios of ROE, ROA, LA/TA and CAR had significantly reduced during the crisis, our analysis suggests that Al Rajhi Bank suffered low in ratios of profitability and Liquidity, but there more increase in retained earnings 850.76% in 2020 this means decrease in dividend profits for face affects of crises in future, also the increase in customers deposits due to that customers trust in Islamic banks during crises. The bank achieved positive growth in the net income amounted SAR 10,596 million in 2020 compared to SAR 10,159 million in 2019, and this reflects the best performance of bank during the crisis. In culmination, it may be stated that the impact of risks of COVID-19 crisis on Islamic banks is very low and Al Rajhi Bank is able to respond to all economic and financial shocks.

7. SUGGESTIONS

During the COVID-19 crisis, Islamic banking demonstrated its ability to adapt to global economic and financial crises, and the Islamic finance industry is predicted to develop in the coming years. Given that Al-Rajhi Bank is one of the world's largest Islamic banks, the following points will help the bank perform well in the future. Here are a few suggestions:

- Expand savings and mortgage investments, sell bonds, and boost portfolios of main consumer segments.
- Improve the bank investments in the capital market and stock exchange.
- Increase consumer comfort and protection by expanding digital platforms and migrating consumers to self-service banking.
- Diversification through more branches round the globe.
- Investigate and implement operational improvement programs.
- Providing facilities of short-term working capital (based on wakalah contracts, operational musharakah, diminishing musharakah, or transfer balances, Ijara by sale and Ijara back).

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