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# Saudi Arabia Banking Pulse

## Quarter 1, 2022

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# FOREWORD

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Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the Q1'22 edition of the Kingdom of Saudi Arabia (KSA) Banking Pulse ("The Pulse"). In this quarterly series, we share results from our research examining the top ten largest listed KSA banks by assets, and highlight key performance indicators of the KSA banking industry. The Pulse aims to help banking executives and board members stay current on industry trends.

L&A and deposits of top KSA banks increased by 5.2% and 3.9% QoQ, respectively. Operating income increased by 5.6% QoQ, primarily driven by other operating income like gains on trading securities. Overall efficiency for the banking sector improved during the quarter as witnessed by decline in cost-to-income ratio by 3.9% points QoQ in Q1'22. Cost of risk fell by 10 bps to 0.4%. Asset quality improved as NPL/Net Loan ratio further decreased from 1.6% in Q4'21 to 1.5% in Q1'22 whereas coverage ratio remained stable at 164%.

The Saudi Arabian economy is expected to grow strongly in FY 2022 with IMF forecasted GDP growth of 7.6% (2022) and 3.6% (2023), driven by recovery in global demand for oil along with the increasing oil prices and improvement in non-oil activities. Interest rate hike mirrored the US Fed rate hike which is expected to provide boost to the banking sector profitability.

We hope that you will find our latest edition of the KSA Banking Pulse useful and informative.



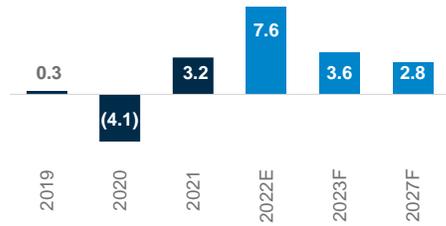
*Disclaimer:*

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# Saudi Arabia Macro & Sector Overview

## Macro overview

KSA GDP Growth Rate<sup>1</sup>, %



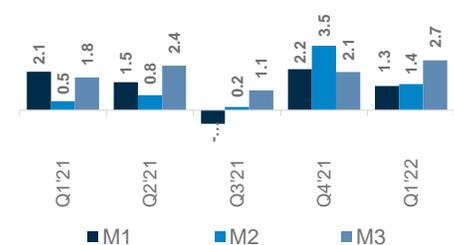
- In April'22, IMF revised upwards its 2022 and 2023 growth projections for Saudi Arabia's GDP at 7.6% and 3.6%
- World Bank revised its 2022 GDP forecast to 7.0% from earlier 4.9% due to expectations of 13% growth in the oil output
- Saudi Arabia's average PMI for Q1'22 decreased to 55.4 compared to 56.2 in Q4'21 despite an increase in export orders. March'22 PMI stands at 56.8 vs 53.9 (December'21)

US Fed Funds Rate<sup>2</sup>, SAIBOR %



- US Fed raised interest rates by 25 bps Q1'22 and further increased another 50 bps in May'22
- Overnight SAIBOR rose by ~45 bps QoQ to 1.0% at the end of Q1'22, in line with the US Fed rate hike
- Rating agency S&P revised Saudi Arabia's outlook from "stable" to "positive" and affirmed LT / ST sovereign credit ratings to "A- / A-2"

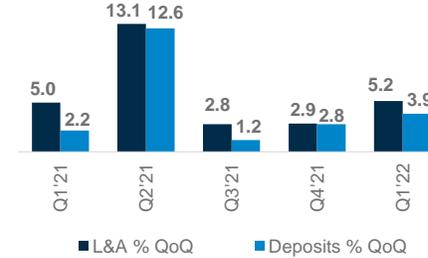
KSA Money Supply<sup>3</sup>, (% Quarterly)



- In Q1'22, M2 money supply increased 1.4% QoQ to reach SAR 2.1tn, the growth was 5.9% YoY
- Growth in M2 money supply was primarily driven by **1.8% QoQ increase in Time & Savings deposits to SAR 0.5tn** and it was also supported by *Demand deposits* with an increase by **1.4% QoQ to SAR 1.4tn**
- M1 increased by 1.3% QoQ to SAR 1.6tn, while M3 money supply grew 2.7% QoQ to SAR 2.4tn

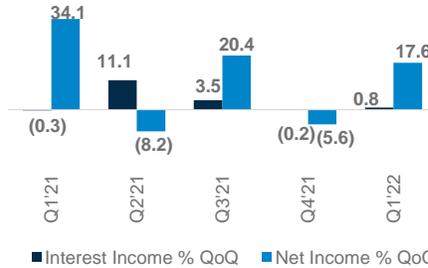
## Banking overview Q1'22

KSA Banks L&A and Deposits<sup>4</sup>, %



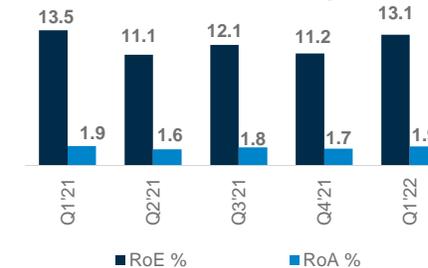
- In Q1'22, aggregate loans & advances (L&A) of top ten KSA banks increased by 5.2% QoQ along with increase in deposits by 3.9% QoQ
- At a sectoral level, the banks took an aggressive stance in loans disbursement, owing to rebound in the economy as consumer expenditure increased along with higher oil prices

KSA Banks' Profitability<sup>4</sup>, %



- Aggregate net interest income grew marginally by 0.8% QoQ in Q1'22 after declining by 0.2% in previous quarter
- Aggregate profitability increased substantially by 17.6% QoQ in Q1'22 driven largely by growth in operational income by 5.6% QoQ. This was further supported by better cost efficiencies and lower impairment charges

KSA Banks' Profitability<sup>4</sup>, %



- Return ratios witnessed an uptick in Q1'22 as compared to Q4'21, as the profitability improved
- The aggregate RoE increased by 1.9% points QoQ to 13.1% in Q1'22 and RoA increased by 20 bps to 1.9% from 1.7% in Q4'21

<sup>1</sup> IMF forecast, <sup>2</sup> US Board of Federal Reserve, <sup>3</sup> KSA Central Bank, <sup>4</sup> Company Financials, \* Data for top ten KSA banks by asset size as of March 31<sup>st</sup> 2022, QoQ stands for quarter over quarter, net income excludes the gains on deemed disposal of asset reported by Arab National Bank and loss from discontinued operations in Q1'22

# Pulse: L&A and deposit growth picks up pace; Profitability steps up due to higher overall operating income and cost efficiencies

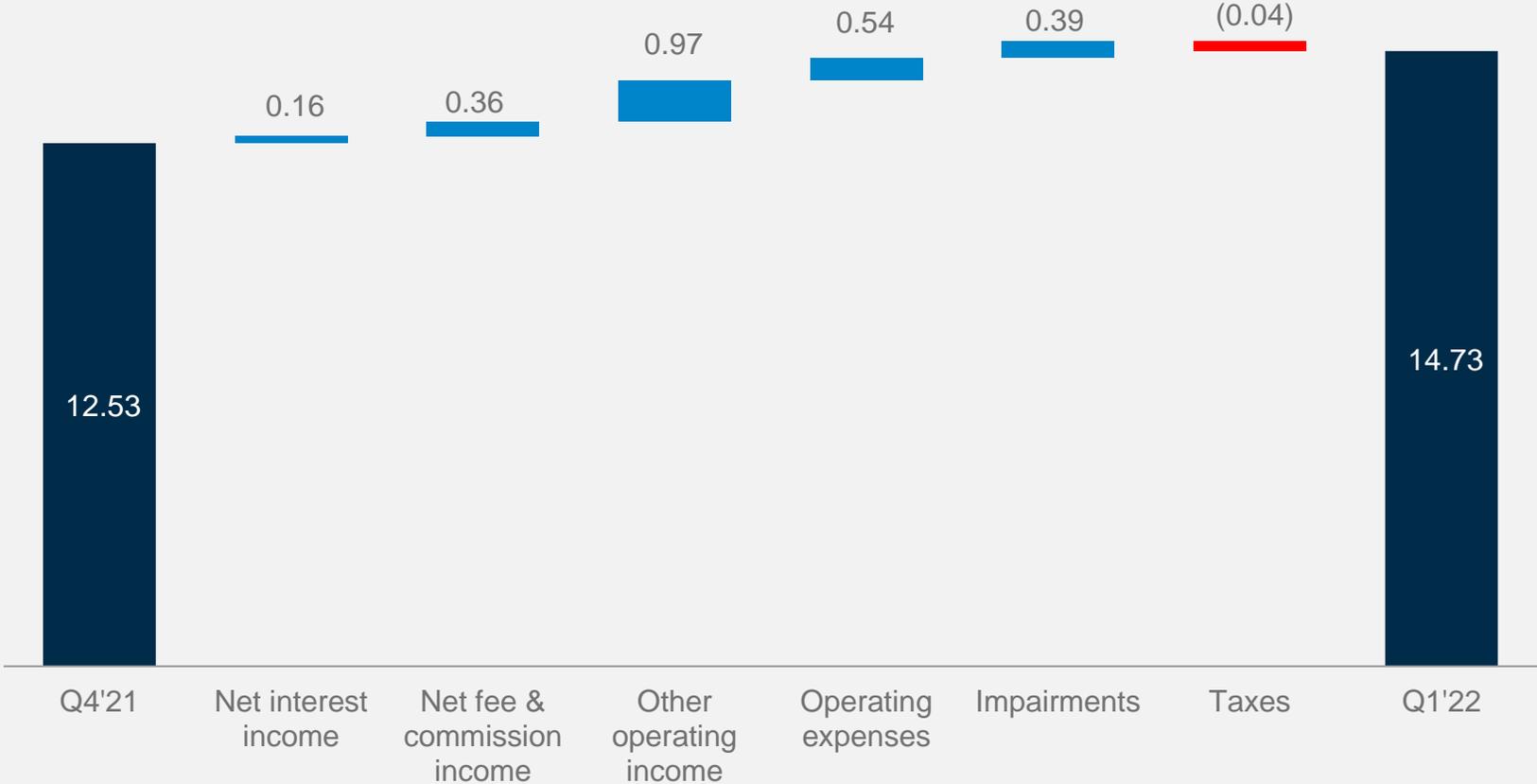
➔ Improved  
 ↔ Stable  
 ➔ Worsened

Metric		Q4'21	Q1'22	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Key Trends of Q1'22	
Size	L&A Growth (QoQ)	2.9% <span style="color: green;">➔</span>	5.2%							1
	Deposits Growth (QoQ)	2.8% <span style="color: green;">➔</span>	3.9%							
Liquidity	Loan-to-Deposit Ratio (LDR)	91.5% <span style="color: green;">➔</span>	92.7%						2	LDR has increased to 92.7% as the L&A growth outpaced deposits growth
Income & Operating Efficiency	Operating Income Growth (QoQ)	-0.7% <span style="color: green;">➔</span>	5.6%						3	Aggregate operating income increased by 6.3% points to 5.6% QoQ, from previous negative quarter (-0.7% QoQ) due to increase in interest income by 2.9% QoQ
	Operating Income / Assets	3.6% <span style="color: green;">➔</span>	3.7%							
	Non-Interest Income (NII) / Operating Income	22.1% <span style="color: green;">➔</span>	25.7%						4	NIM and yield on credit was stable at 2.9% and 4.8% respectively QoQ. Cost of Funds increased to 0.5%
	Yield on Credit (YoC)	4.8% <span style="color: gray;">↔</span>	4.8%							
	Cost of Funds (CoF)	0.4% <span style="color: orange;">➔</span>	0.5%							
Net Interest Margin (NIM)	2.9% <span style="color: gray;">↔</span>	2.9%						5	C/I ratio improved by ~3.9% points QoQ to 33.1% in Q1'22, as operating expenses decline by 5.5% QoQ	
Cost-to-Income Ratio (C/I)	37.0% <span style="color: green;">➔</span>	33.1%						6	Coverage ratio increased by 26 bps QoQ, while the cost of risk improved by 10 bps QoQ	
Risk	Coverage Ratio	164.4% <span style="color: green;">➔</span>	164.7%						7	RoE and RoA improved by 1.9% points and 0.2% points QoQ respectively to 13.1% and 1.9%, as the aggregate profit for the top 10 banks increased 17.6%
	Cost of Risk (CoR)	0.5% <span style="color: green;">➔</span>	0.4%							
Profitability	Return on Equity (RoE)	11.2% <span style="color: green;">➔</span>	13.1%						8	RoRWA increased to 2.4% with increase in net income QoQ. Moreover, capital adequacy ratio improved by 10 bps QoQ to 20.0%
	Return on Assets (RoA)	1.7% <span style="color: green;">➔</span>	1.9%							
	Return on Risk-Weighted Assets (RoRWA)	2.1% <span style="color: green;">➔</span>	2.4%							
Capital	Capital Adequacy Ratio (CAR)	19.9% <span style="color: green;">➔</span>	20.0%							

Note 1: Growth in loans & advances and deposits were presented QoQ instead of YoY  
 Note 2: Quarterly income was used in the calculation of operating income growth  
 Source: Financial statements, Investor presentations, A&M analysis

# Increase in operating income, better cost efficiencies and lower impairments boosted profitability of the sector

Net income bridge – SAR Bn



## KEY TAKEAWAYS

- Aggregate net income increased 17.6% QoQ to SAR 14.7bn
- Profitability enhanced due to increase in operating income (5.6% QoQ) and decrease in impairment allowances (15.0% QoQ)
- The net fee income increased 9.5% QoQ and other operating income increased by 46.1% QoQ
  - Other operating income increased substantially due to income from Fx gains and trading income

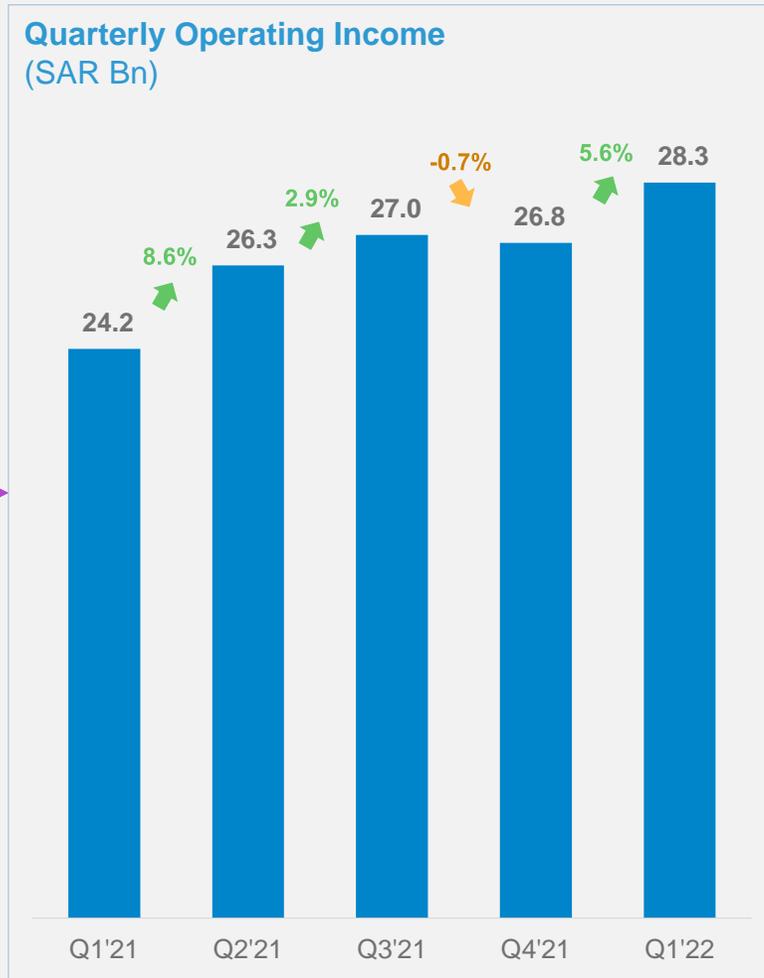
Source: Financial statements, Investor presentations, A&M analysis





### 3 Operating income witnessed an uptick primarily due to higher net fees & commission and other income

➔ Improved   ➔ Stable   ➔ Worsened

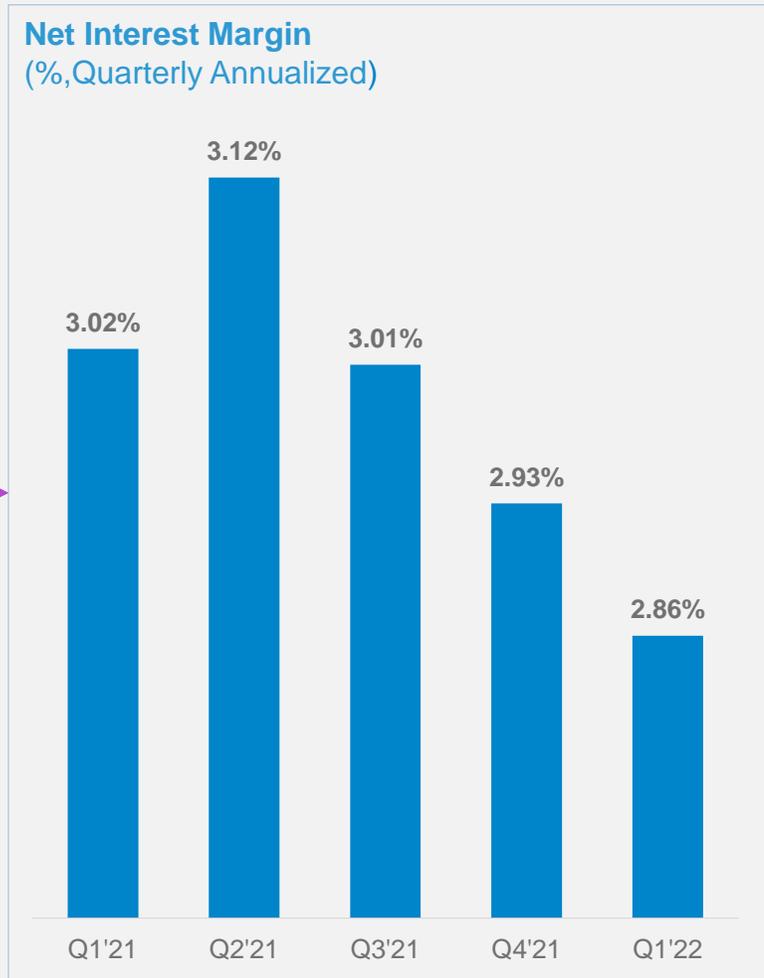
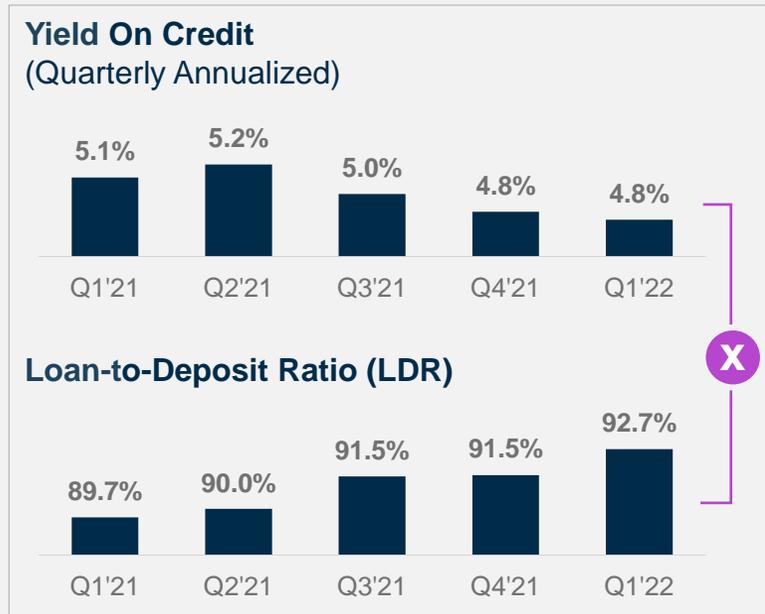


#### KEY TAKEAWAYS

- Total operating income increased by 5.6% QoQ due to a rise in net fees & commission and other operating income (+22.5% QoQ)
- BALB (+10.4% QoQ) reported the highest increase in operating income followed by SNB (+8.4% QoQ) and SABB (+7.0% QoQ)
- The other operating income was mainly driven by increase in SNB's trading income by 426.8% followed by ALRAJHI's other operating income by 38.2%
- All small banks reported improved operating income except SIBC (-0.9% QoQ)

Note: Some numbers might not add up due to rounding, (\*) Q2 / past growth were not comparable  
 Source: Financial statements, investor presentations, A&M analysis

# 4 NIM dropped to its lowest level since 2019, expected to increase in the coming quarter due to rate hikes



## KEY TAKEAWAYS

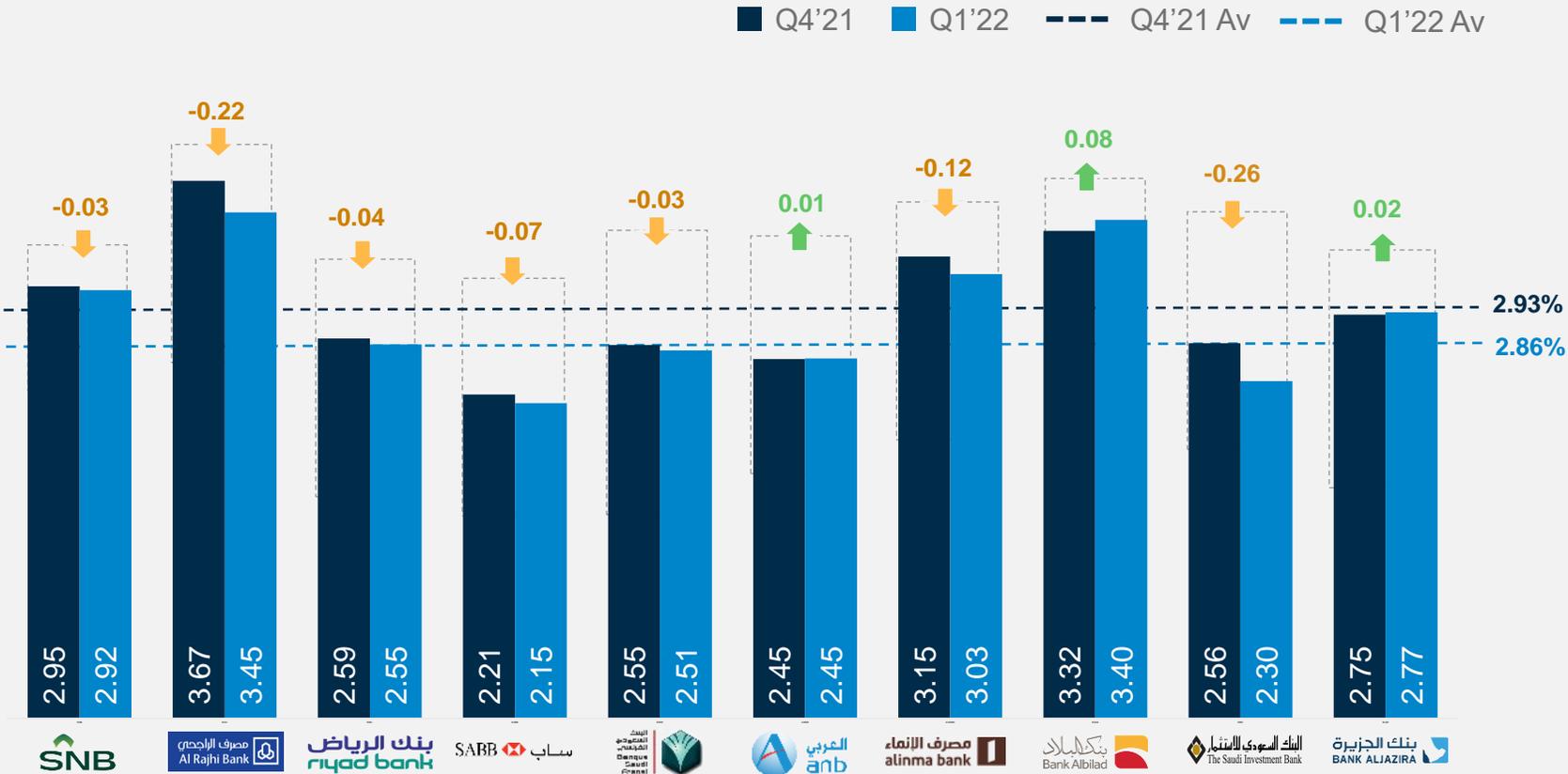
- NIM further deteriorated by 7 bps QoQ to 2.86% as aggregate net interest income (+0.8% QoQ) grew at a slower pace as compared to net interest bearing assets (+3.9% QoQ)
- Yield on credit remained stable QoQ at 4.8% while cost of funds increased by 6 bps to 0.5% in Q1'22
- Cost of funds witnessed an increase on the note of higher interest expenses across all banks, primarily due to increased SAIBOR
  - SNB reported an increase in CASA by 4.8%, ALRAJHI time deposits increased by 4.9% and RIBL CASA and time deposits increased by 10.3% and 7.9% respectively

Note: Relation between elements above represents a functionality and not necessarily an exact mathematical formula  
Source: Financial statements, Investor presentations, A&M analysis

# Seven out of ten local major banks reported NIM contraction

→ Improved   ← Stable   → Worsened

## Net Interest Margin (% Quarterly)



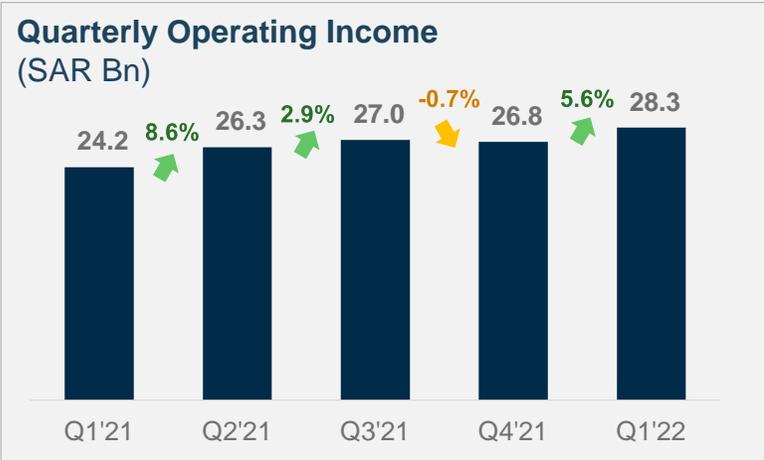
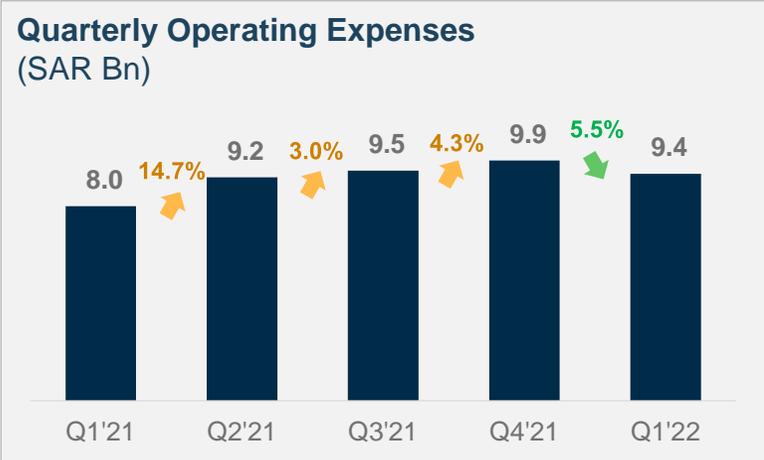
### KEY TAKEAWAYS

- Seven of the top ten banks have reported contraction in NIM with aggregate NIM decreasing by 7 bps QoQ
- SIBC (-26 bps QoQ) and ALRJHI (-22 bps QoQ) reported the highest fall in NIM during the period
- On the other hand, NIM for BALB (+8 bps QoQ), BJAZ (+2 bps QoQ) and ARNB (+1 bps QoQ) expanded the most in Q1'22

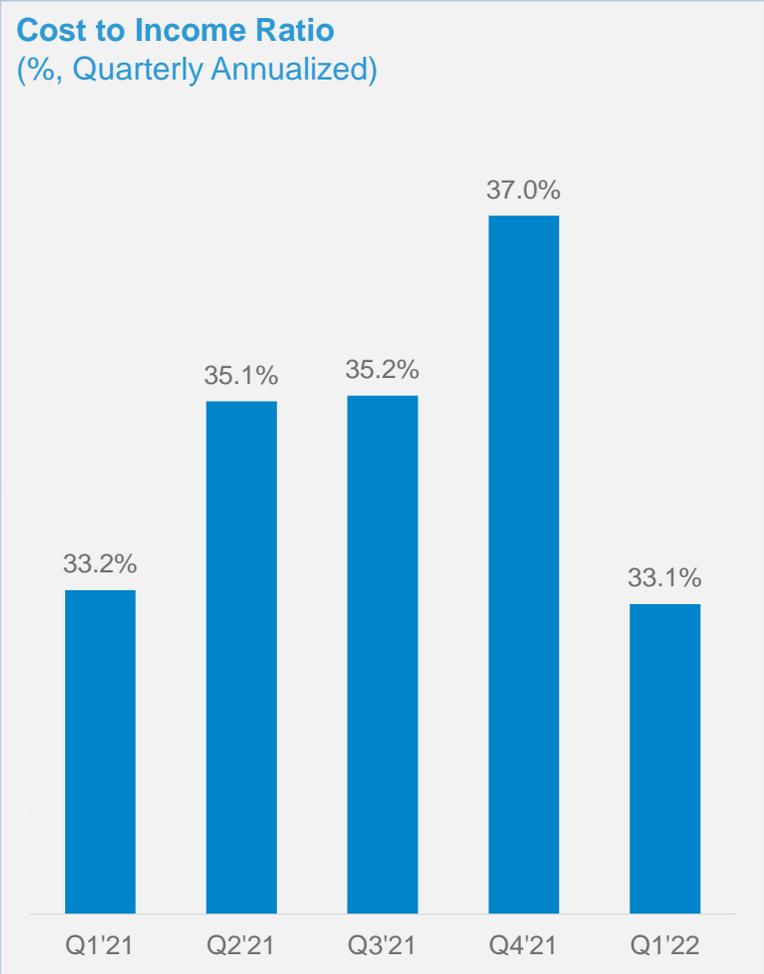
Note: Some numbers might not add up due to rounding  
 Source: Financial statements, investor presentations, A&M analysis

# Operating efficiency improved mainly driven by realization of synergies from the merger between NCB and Samba Financial

➔ Improved    ↔ Stable    ➔ Worsened



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## KEY TAKEAWAYS

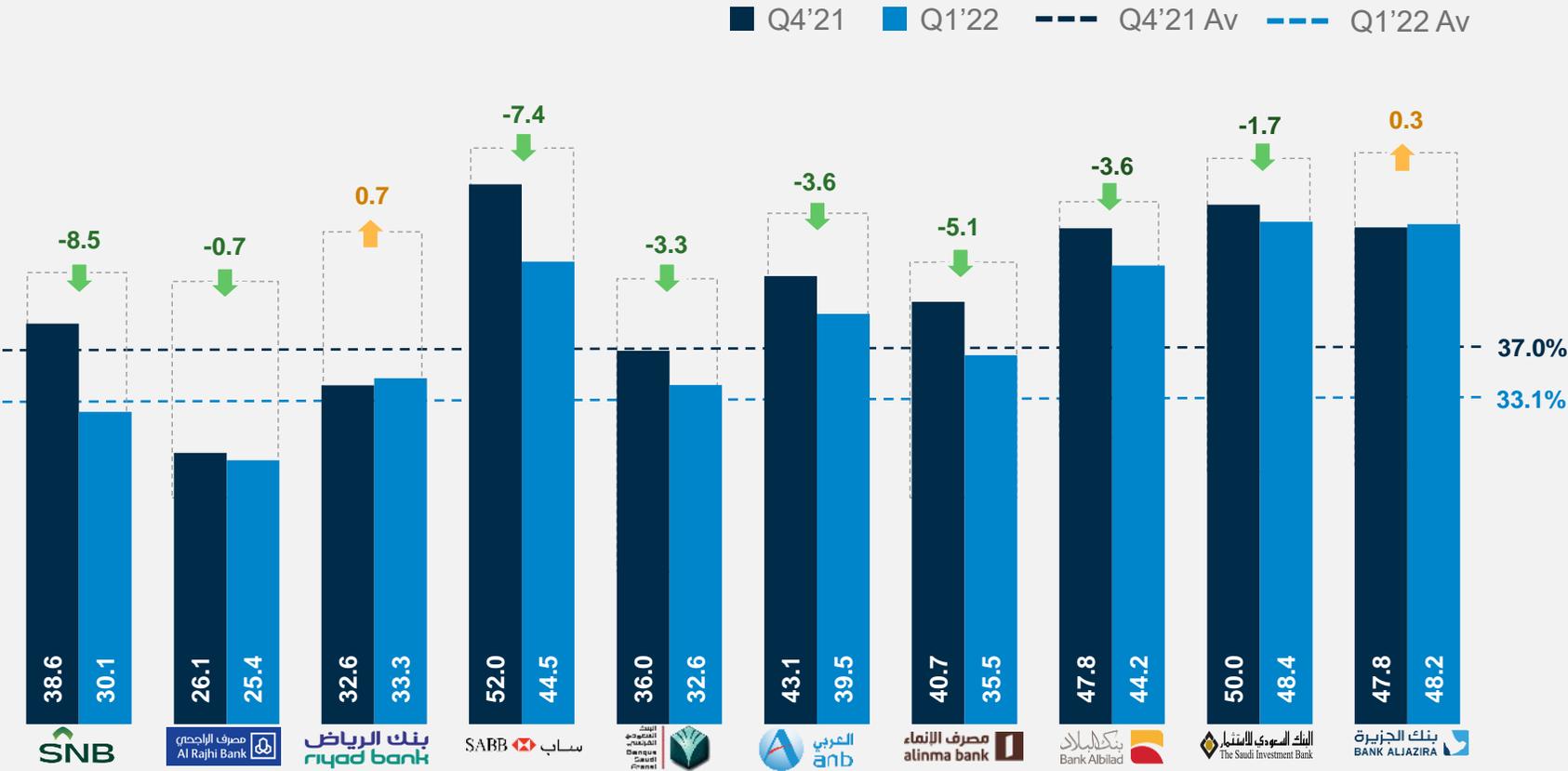
- C/I ratio improved substantially by 3.9% points QoQ in Q1'22, after deteriorating for three consecutive quarters
  - Improvement driven by decrease in operating expense by 5.5% QoQ along with improved operating income (+5.6% QoQ)
- All banks except RIBL and BJAZ reported improvement in cost efficiency
- SNB reported the highest improvement in efficiencies (8.5% points QoQ) while RIBL reported highest deterioration in C/I ratio (+0.7% points QoQ)

Note: Some numbers might not add up due to rounding  
 Source: Financial statements, investor presentations, A&M analysis

# Eight of the top ten banks report enhanced cost efficiencies

➔ Improved    ↔ Stable    ➔ Worsened

## Cost to Income Ratio (% , Quarterly)



### KEY TAKEAWAYS

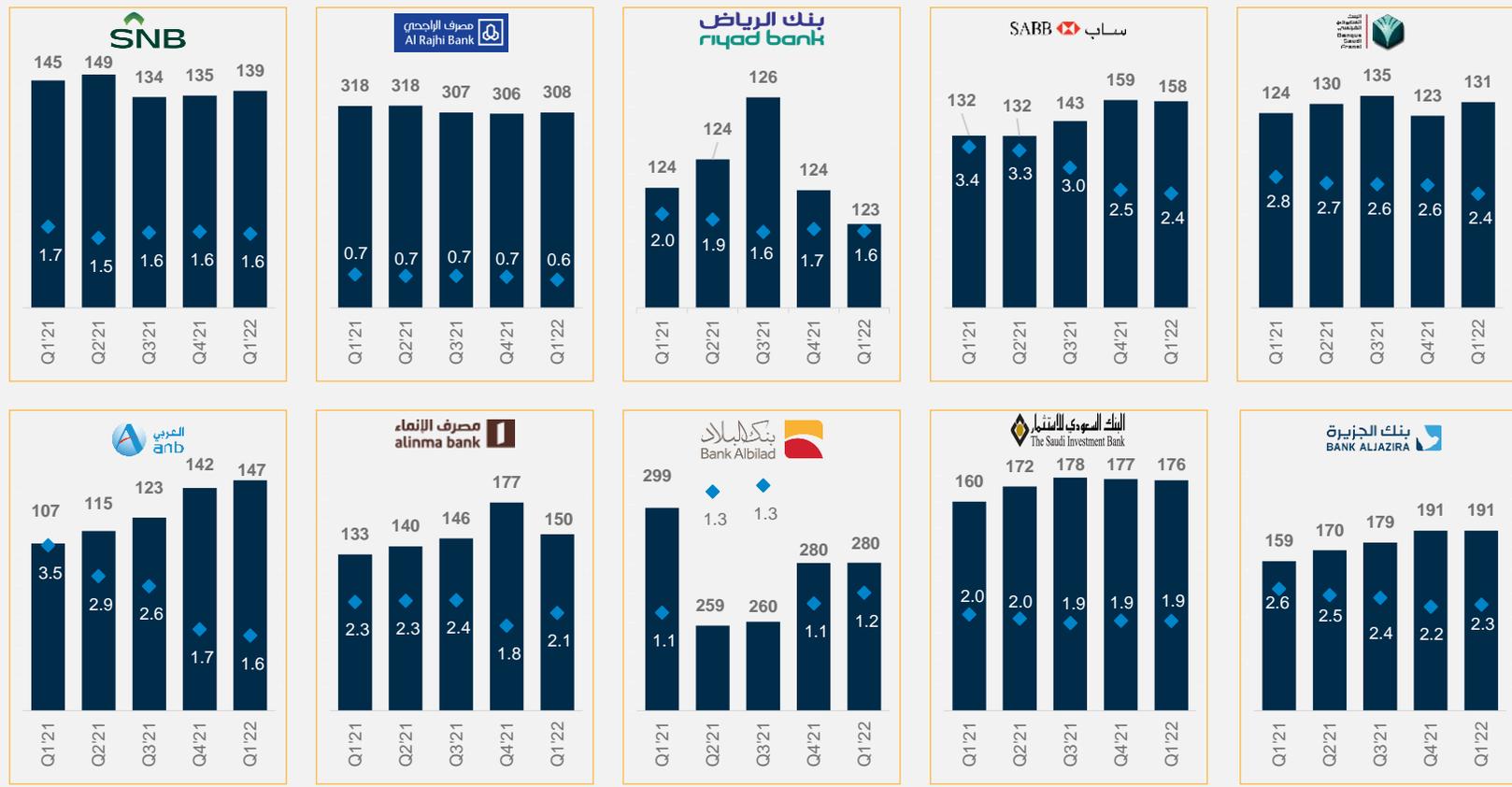
- Eight of the top ten banks witnessed improvement in cost to income ratio
- SNB's C/I ratio improved the most by 8.5% points due to:
  - 15.5% QoQ decline in operating costs realized by cost optimization
  - Increase in operating income by 8.4% QoQ
- C/I ratio for RIBL deteriorated the most by 0.7% points QoQ due to higher employee related expense (+5.9%)

Note: Scaling and some numbers might not add up due to rounding  
 Source: Financial statements, investor presentations, A&M analysis  
 \*Comparison on QoQ basis

# Coverage ratio and NPL / Net loan ratio improved for most of the banks

■ Coverage Ratio, %    ◆ NPL / Net loans, %

## Coverage Ratio<sup>1</sup> and NPL / Net Loans Ratio (%), Quarterly



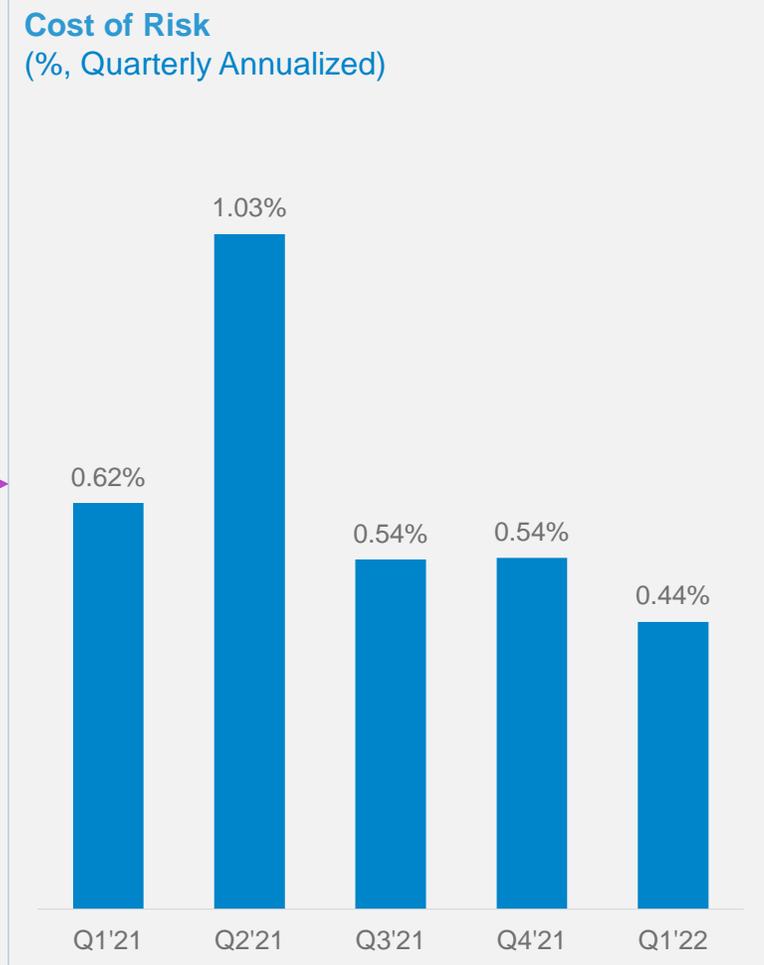
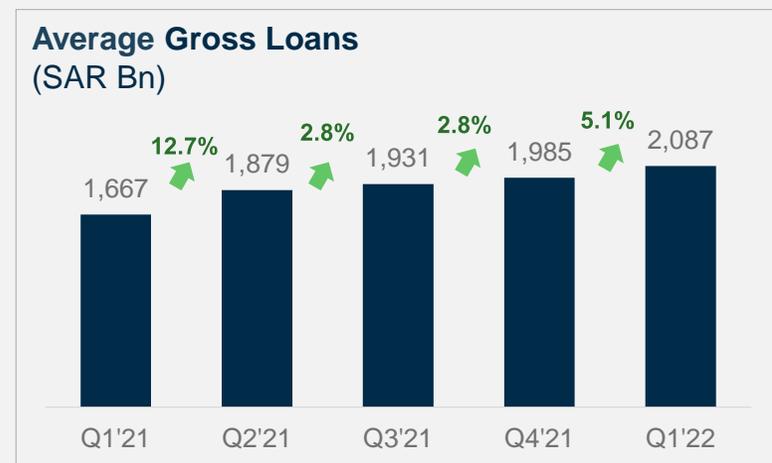
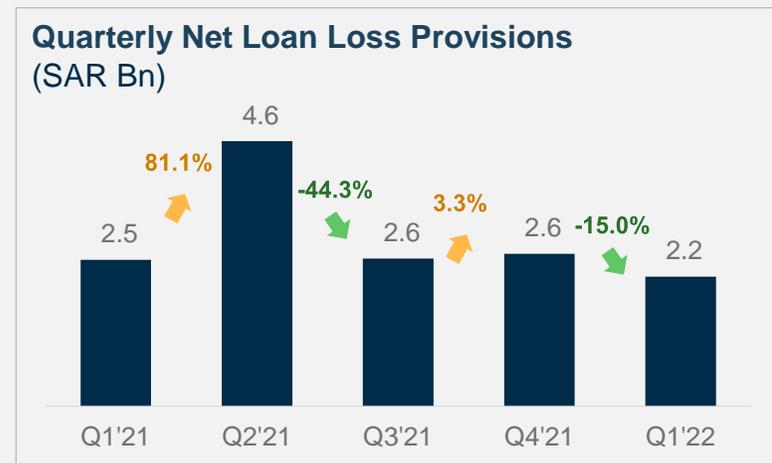
## KEY TAKEAWAYS

- Asset quality improved further as NPLs/Net Loan ratio decreased to 1.5% in Q1'22 compared to 1.6% in Q4'21
- Aggregate coverage ratio increased marginally to 164.7% (+0.3% points QoQ)
- Six of the top ten banks reported an increase in coverage ratio, highlighting the risk averseness of the banks
- BSFR reported a substantial increase in coverage ratio, +8.6% points QoQ, to 131.3%
  - BSFR's coverage ratio increased as the NPL for corporate sector decreased by 2.6% QoQ while the provisions increased by 3.7% QoQ
- On the other hand, ALINMA reported the highest decrease in coverage ratio by 27.1% points to 150.0% due to increase in retail NPLs

Note: Scaling and some numbers might not add up due to rounding  
 Source: Financial statements, investor presentations, A&M analysis, <sup>1</sup> accumulated allowance for impairment / NPL

# Cost of risk continued to decline for the industry

→ Improved   ← Stable   → Worsened



## KEY TAKEAWAYS

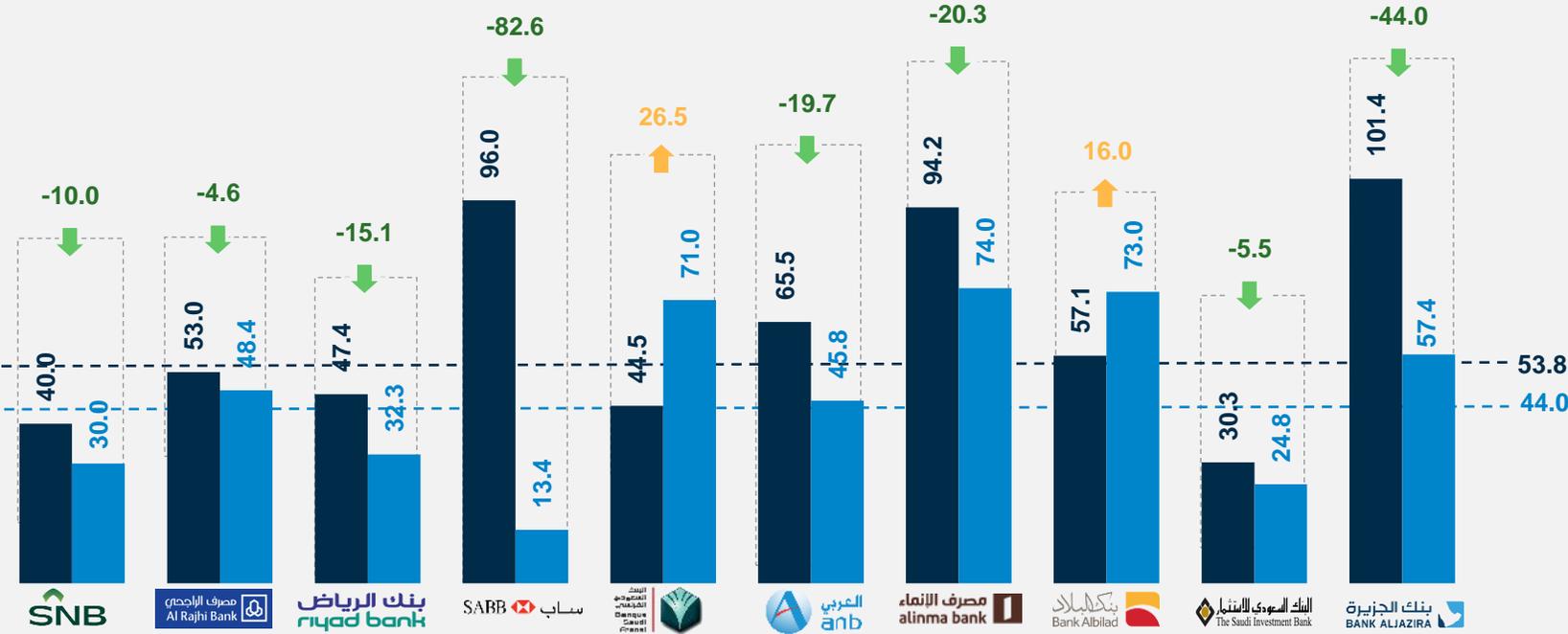
- Total impairments decreased by 15.0% QoQ in Q1'22 to SAR 2.2bn
  - The decline was primarily due to lower impairments from SABB (-85.5% QoQ), BJAZ (-41.1% QOQ) and SNB (-24.2% QOQ)
- Cost of risk has improved by 9.8 bps QoQ on the back lower aggregate loss provisions

# Eight of the ten banks reported an improved cost of risk

➔ Improved    ↔ Stable    ➔ Worsened

## Cost of Risk (bps) – Net of Reversals

■ Q4'21    ■ Q1'22    - - - Q4'21 Av    - - - Q1'22 Av



### KEY TAKEAWAYS

- Cost of risk improved for eight of the ten banks in Q1'22
- SABB reported a significant fall in cost of risk (~83 bps QoQ) to 0.13% in Q1'22 driven by:
  - Impairments declined sharply from SAR 0.41 bn in Q4'21 to SAR 0.05 bn in Q1'22
- Cost of risk worsened for BSFR and BALB by 26.5 bps and 16.0 bps respectively

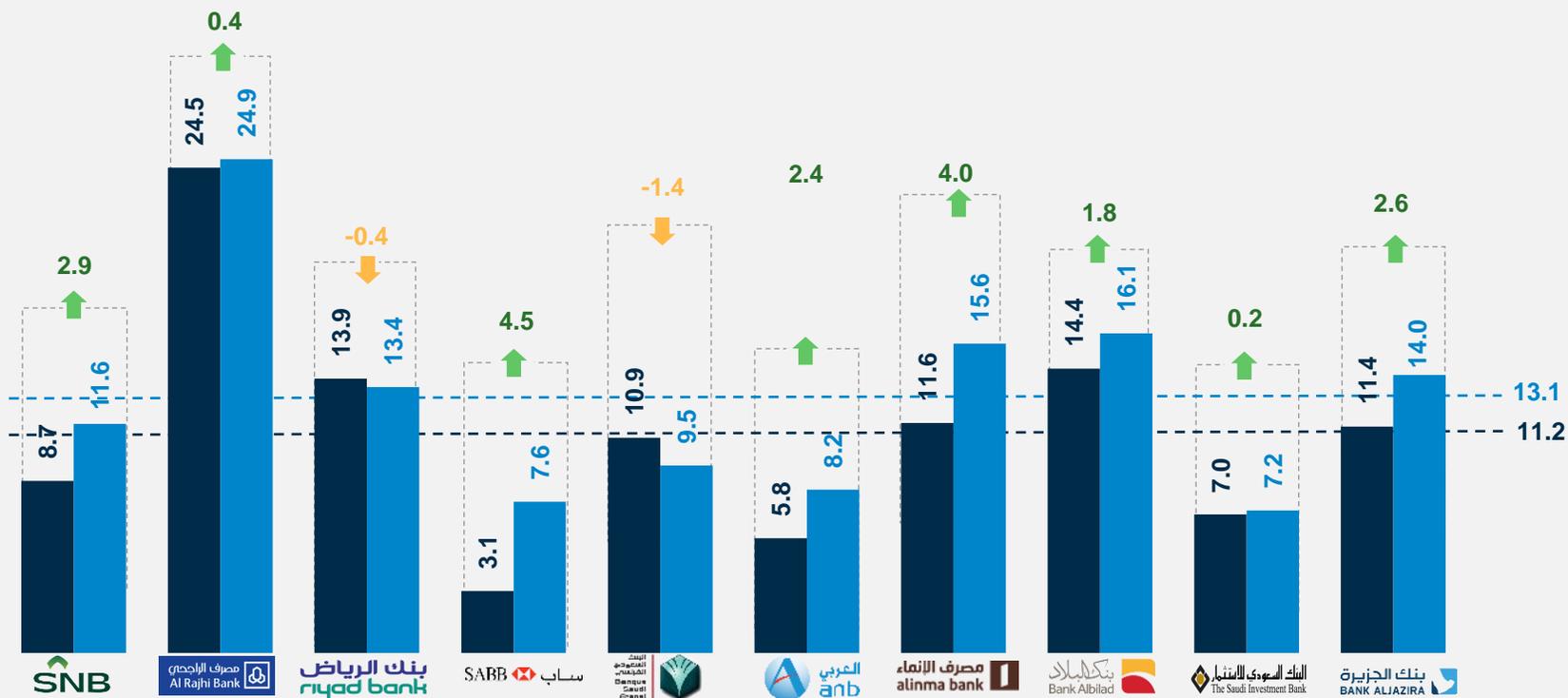
Note: Scaling and some numbers might not add up due to rounding  
 Source: Financial statements, investor presentations, A&M analysis

# Broad-based improvement in profitability across the industry

➔ Improved    ↔ Stable    ➡ Worsened

## Return of Equity (%)

■ Q4'21    ■ Q1'22    - - - Q4'21 Av    - - - Q1'22 Av



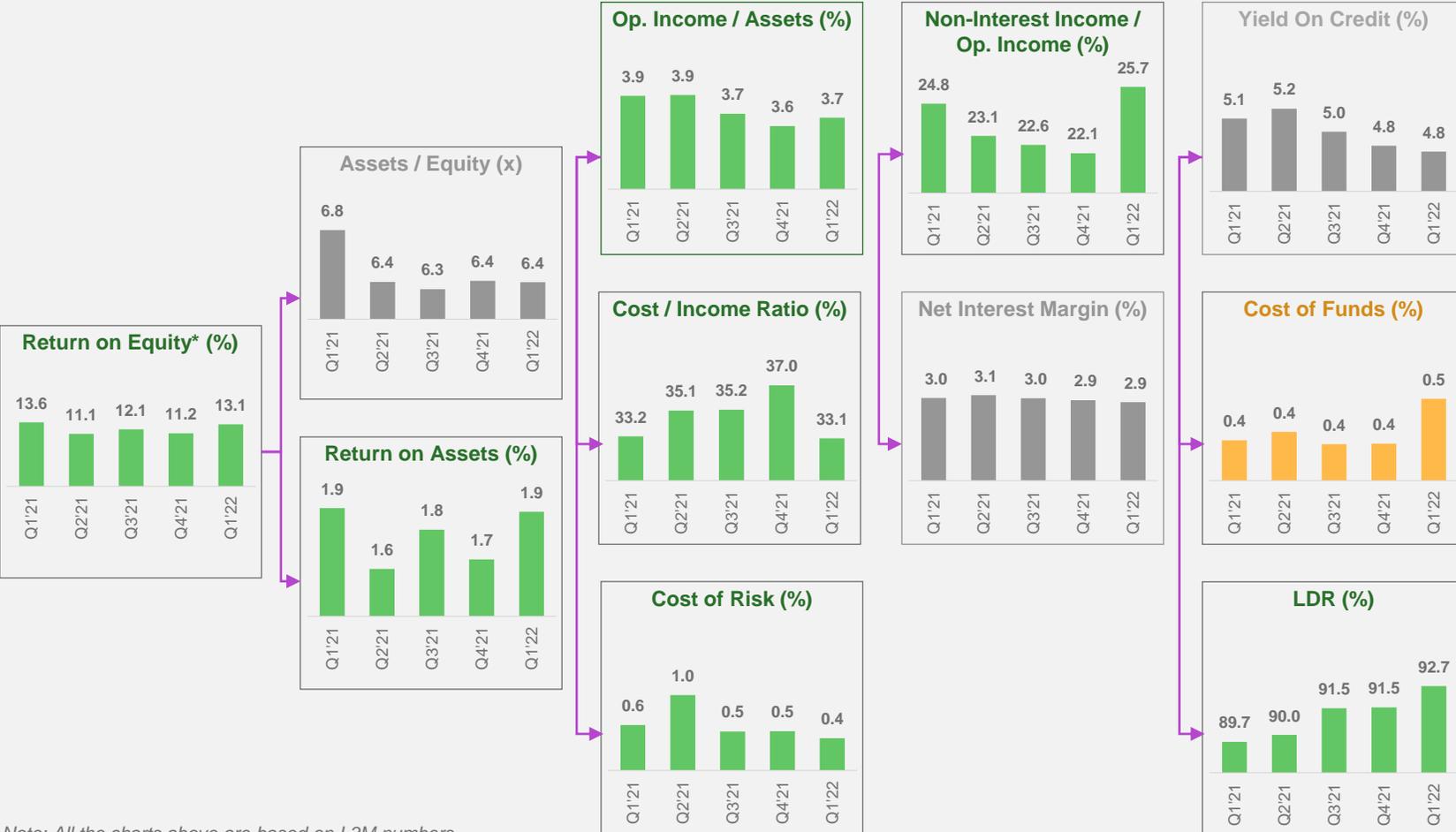
## KEY TAKEAWAYS

- Aggregate RoE improved by 1.9% points QoQ to 13.1%, boosted by eight out of ten banks showing higher profitability net of taxes
- Smaller banks improved profitability mainly due to significant drop in the impairment charges
- SABB reported the highest improvement in RoE to 7.6% (+4.5% points QoQ)
- RIBL reported a decline in ROE of 40 bps QoQ to 13.4% in Q1'22
  - Net earnings declined as a result of losses reported in share of earnings from associates

Note: Scaling and some numbers might not add up due to rounding  
Source: Financial statements, investor presentations, A&M analysis

# KSA Banking Sector: Buoyant energy market, interest rate hike, and increased consumer spending sketch a positive outlook

■ Improved 
 ■ Stable 
 ■ Worsened



Note: All the charts above are based on L3M numbers  
 Op Income stands for Operating Income  
 Scaling and some numbers might not add up due to rounding  
 Source: Financial statements, Investor presentations, A&M analysis

## KEY TAKEAWAYS

- Aggregate RoE improved in Q1'22 to 13.1% from 11.2% in the previous quarter
- In May, SAMA increased the policy rates by 50 bps in line with the US federal reserve
  - Central bank also extended the COVID-19 support program for MSMEs through 2023
- Saudi Arabia's economy is expected to benefit from higher oil output and prices, recovering non-oil sectors and increased consumption
- We expect SAMA to continue matching policy rate hikes by the US Federal Reserve, which will help boost the overall banking sector NIM's and in turn its profitability
- Banks are expected to finance Vision 2030 projects such as NEOM and increase the mortgage and corporate sector lending

# GCC Banking Consolidation

## GCC list of M&A transactions in banking sector since January 2019

Announcement Date	Target Company	Target Country	Acquirer Company	% Sought	Consideration (SAR Mn)	Deal Status*
04-Apr-22	Citi Group BSC - Consumer Banking	Bahrain	Ahli United Bank BSC	100%	NA	Pending
15-Mar-22	Venture Capital Bank BSC	Bahrain	Esterad Investment Co. BSC	NA	NA	Proposed
09-Feb-22	Egyptian Financial Group	Egypt	First Abu Dhabi Bank PJSC	51%	2,205	Proposed
20-Jan-21	Bank Audi SAE (Egypt)	Egypt	First Abu Dhabi Bank PJSC	100%	NA	Completed
16-Sep-20	Ahli United Bank Egypt SAE	Egypt	Ahli United Bank BSC	14.4%	304	Pending
30-Jun-20	Al Khalij Commercial Bank PQSC	Qatar	Masraf Al Rayan QSC	100%	4,492	Pending
25-Jun-20	Samba Financial Group SJSC	Saudi Arabia	National Commercial Bank SJSC	100%	58,397	Completed
31-Dec-19	Alizz Islamic Bank SAOG	Oman	Oman Arab Bank SAOC	81%	NA	Completed
12-Sep-19	Ahli United Bank BSC	Bahrain	Kuwait Finance House KSCP	100%	21,860	Pending
15-Aug-19	Cqur Bank LLC	Qatar	VTB Bank PJSC	19%	NA	Completed
08-Aug-19	DenizBank AS	Turkey	Emirates NBD PJSC	0.20%	NA	Completed
20-Jun-19	Warba Bank KSCP	Kuwait	Kuwait & Middle East Financial Investment Co KSCP	75.70%	NA	Proposed
12-May-19	Gulf Bank KSCP	Kuwait	Alghanim Industries Ltd	16%	NA	Completed
21-Apr-19	HSBC Saudi Arabia Ltd	Saudi Arabia	HSBC Holdings PLC	2%	31	Completed
10-Apr-19	Invest bank PSC	UAE	Emirate of Sharjah United Arab Emirates	50%	1,009	Completed
07-Apr-19	Noor Bank PJSC	UAE	Dubai Islamic Bank PJSC	100%	NA	Completed
03-Apr-19	Oman United Exchange Co	Oman	Private Investor	25%	NA	Completed

Source: Bloomberg

\*Proposed Status: Board suggests shareholders to consider the acquisition

\*Pending Status: Acquisition has announced

\*Completed Status: Acquisition has completed

# GLOSSARY



# Glossary

	Metric	Abbreviation	Definition
Size	Loans and Advances Growth		QoQ growth in EOP net loans and advances for the top 10
	Deposits Growth		QoQ growth in EOP customer deposits for the top 10
Liquidity	Loan-to-Deposit Ratio	LDR	(Net EOP loans and advances / EOP customer deposits) for the top 10
Income & Operating Efficiency	Operating Income Growth		QoQ growth in aggregate quarterly operating income generated by the top 10
	Operating Income / Assets		(Annualized quarterly operating income / quarterly average assets) for the top 10
	Non-Interest Income / Operating Income		(Quarterly non-interest income / quarterly operating income) for the top 10
	Net Interest Margin	NIM	(Aggregate annualized quarterly net interest income) / (quarterly average earning assets) for the top 10 Earnings assets are defined as total assets excluding goodwill, intangible assets, and property and equipment
	Yield on Credit	YoC	(Annualized quarterly gross interest income / quarterly average loans & advances) for the top 10
	Cost of Funds	CoF	(Annualized quarterly interest expense + annualized quarterly capital notes & tier I sukuk interest) / (quarterly average interest bearing liabilities + quarterly average capital notes & tier I sukuk interest) for the top 10
	Cost-to-Income Ratio	C/I	(Quarterly operating expenses / quarterly operating income) for the top 10
Risk	Coverage Ratio		(Loan loss reserves / non-performing loans) for the top 10
	Cost of Risk	CoR	(Annualized quarterly provision expenses net of recoveries / quarterly average gross loans) for the top 10
Profitability	Return on Equity	RoE	(Annualized quarterly net profit attributable to the equity holders of the banks – annualized quarterly capital notes & tier I sukuk interest) / (quarterly average equity excluding capital notes) for the top 10
	Return on Assets	RoA	(Annualized quarterly net profit / quarterly average assets) for the top 10
	Return on Risk-Weighted Assets	RoRWA	(Annualized quarterly net profit generated / quarterly average risk-weighted assets) for the top 10
Capital	Capital Adequacy Ratio	CAR	(EOP tier I capital + tier II capital) / (EOP risk-weighted assets) for the top 10

## Glossary (cont'd.)

Bank	Assets (SAR Bn)*	Abbreviation	Logo
Saudi National Bank	921.6	SNB	
Al Rajhi Bank	657.6	ALRAJHI	
Riyad Bank	348.5	RIBL	
Saudi British Bank	282.7	SABB	
Banque Saudi Fransi	222.2	BSF	
Arab National Bank	204.6	ANB	
Alinma Bank	179.5	ALINMA	
Bank Albilad	116.4	BALB	
Saudi Investment Bank	109.3	SIB	
Bank Aljazira	104.3	BJAZ	

Note: Banks are sorted by assets size  
\* As on 31<sup>st</sup> March 2022

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