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# Saudi Arabia Banking Pulse

## Quarter 3, 2022

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# FOREWORD

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Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the Q3'22 edition of the Kingdom of Saudi Arabia (KSA) Banking Pulse ("The Pulse-KSA"). In this quarterly series, we share results from our research examining the top ten 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.

During Q3'22, L&A and deposits increased by 2.9% and 0.2% QoQ, respectively. Operating income increased by 4.9% QoQ, primarily driven by growth in total interest income (+15.9% QoQ). The sector continued to see improvement in cost efficiency with decline in cost-to-income ratio by 0.9% points QoQ in Q3'22. Cost of risk declined by 9bps QoQ to 0.4% due to reduction in impairment charges (-15.4% QoQ).

The banks witnessed robust growth in profitability as net profit increased 9.3% QoQ resulting in a RoE of 14.8% in Q3'22 (+1.3% points QoQ). Further, RoA improved 12bps QoQ as net profit grew faster than the underlying average asset base (+2.8% QoQ).

In terms of asset quality, NPL / Net Loan ratio improved from 1.6% in Q2'22 to 1.5% in Q3'22 while coverage ratio declined to 152.0% (-2.7% points QoQ).

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



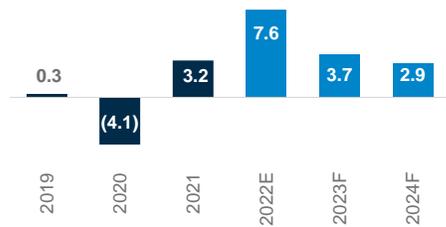
*Disclaimer:*

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# KSA macro & sector overview

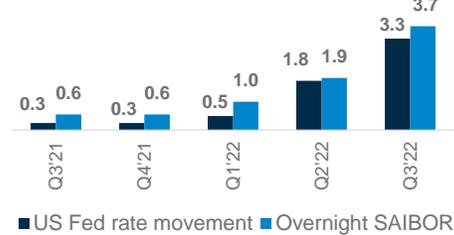
## Macro overview

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



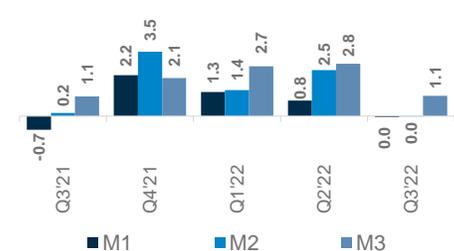
- In the latest projections of Oct'22, IMF maintained its growth estimates for KSA's GDP at 7.6% in FY'22 and 3.7% in FY'23
- KSA's average PMI for Q3'22 increased to 56.9 compared to 56.1 in Q2'22 as the non-oil private-sector economy signaled growth (+5.6% QoQ) with output and new orders in the positive territory

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



- The US Fed policymakers announced a 150bps increase in target fund rates (75bps each in July'22 and Sept'22) to a range of 3.00% and 3.25% in Q3'22
- The Saudi Central Bank (SAMA) raised its repo and reverse repo rates by 150bps QoQ in Q3'22 to 3.75% and 3.25%, inline with the Fed hike
- Overnight SAIBOR rose by ~184 bps QoQ to 3.7% at the end of Q3'22, in line with the US Fed rate hike

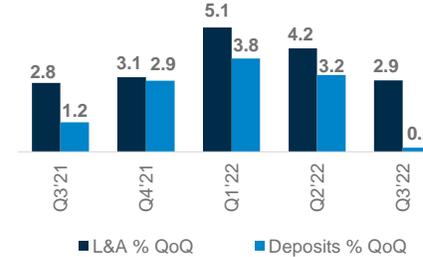
KSA Money Supply<sup>3</sup>, (% Quarterly)



- In Q3'22, M2 money supply was stable at SAR 2.1tn.
- The Time & Savings deposits was stable at SAR 0.5tn and Demand deposits grew by 0.4% QoQ to SAR 1.4tn
- M1 money supply was stable at SAR 1.6tn, while M3 money supply grew marginally by 1.1% QoQ to SAR 2.5tn

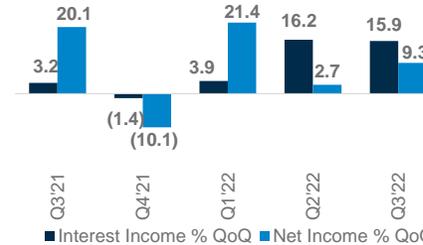
## Banking overview Q3'22

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



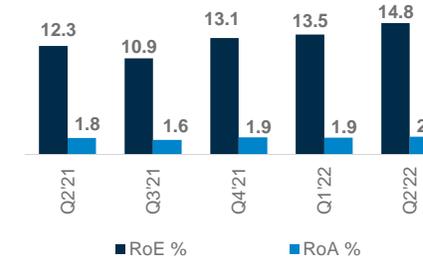
- Aggregate loans & advances (L&A) of top ten KSA banks grew by 2.9% QoQ and continued to outpace the growth in deposits 0.2% QoQ
- LDR continued to increase for the seventh consecutive quarter (+2.6% points QoQ) to settle at 96.2% in Q3'22
- The aggregate credit by KSA commercial banks increased by 3.3% QoQ to SAR 2.3tn at the end of Q3'22

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



- Aggregate total interest income grew 15.9% QoQ in Q3'22 as compared to 16.2% in Q2'22 primarily on back of higher interest rates
- Aggregate net profit grew 9.3% QoQ in Q3'22. This was due to:
  - Higher non-core income (+17.7% QoQ)
  - Lower impairment charges (-15.4% QoQ)

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



- Aggregate RoE improved by 1.3% points QoQ to 14.8% in Q3'22
- Similarly, RoA improved marginally by 12bps QoQ to 2.0% since the net profit grew faster than the average total assets (+2.8% QoQ)
- Profitability growth is expected to continue for KSA banks as the interest rate outlook remains in an upward trajectory

<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 September 30<sup>th</sup> 2022, QoQ stands for quarter over quarter, loss from discontinued operations for SABB is incorporated in this quarter due to reoccurrence of the line item

# Rising interest rates, improved cost efficiency and lower impairment charges led to an increase in profitability for KSA banks

→ Improved   ← Stable   → Worsened

	Metric	Q2'22	Q3'22	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Key Trends of Q3'22
Size	L&A Growth (QoQ)	4.2%	2.9%						1 L&A and deposits grew by 2.9% and 0.2% QoQ, respectively; a slower pace compared to previous quarter
	Deposits Growth (QoQ)	3.2%	0.2%						
Liquidity	Loan-to-Deposit Ratio (LDR)	93.6%	96.2%						2 LDR increased for the seventh consecutive quarter to 96.2% as the L&A growth outpaced deposits growth
Income & Operating Efficiency	Operating Income Growth (QoQ)	3.8%	4.9%						3 Aggregate operating income growth increased by 4.9% QoQ mainly due to an increase in other operating income (+17.7% QoQ)
	Operating Income / Assets	3.6%	3.7%						
	Non-Interest Income (NII) / Operating Income	22.2%	21.8%						
	Yield on Credit (YoC)	5.3%	5.9%						4 NIM expanded to ~3.1%; YoC increased to 5.9% due to rise in benchmark rates while CoF increased 45bps QoQ to 1.2% due to higher funding expense
	Cost of Funds (CoF)	0.7%	1.2%						
Risk	Net Interest Margin (NIM)	2.98%	3.05%						5 C/I improved by 88bps QoQ as operating income grew faster (+4.9% QoQ) than opex (+2.1% QoQ)
	Cost-to-Income Ratio (C/I)	32.8%	31.9%						6 Coverage ratio decreased by 2.7% points QoQ, while the CoR decreased by 9bps QoQ on the back of lower impairment charges (-15.4% QoQ)
	Coverage Ratio	154.7%	152.0%						
Profitability	Cost of Risk (CoR)	0.5%	0.4%						7 RoE and RoA improved by 1.3% points and 0.1% points QoQ respectively to 14.8% and 2.0% respectively
	Return on Equity (RoE)	13.5%	14.8%						
	Return on Assets (RoA)	1.9%	2.0%						
Capital	Return on Risk-Weighted Assets (RoRWA)	2.4%	2.6%						8 RoRWA improved by 17bps to 2.6% in Q3'22 whereas capital adequacy ratio remained flat at 19.4% in Q3'22
	Capital Adequacy Ratio (CAR)	19.4%	19.4%						

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

# Higher interest income and lower impairment charges boosted the net profit

## Net income bridge – SAR Bn



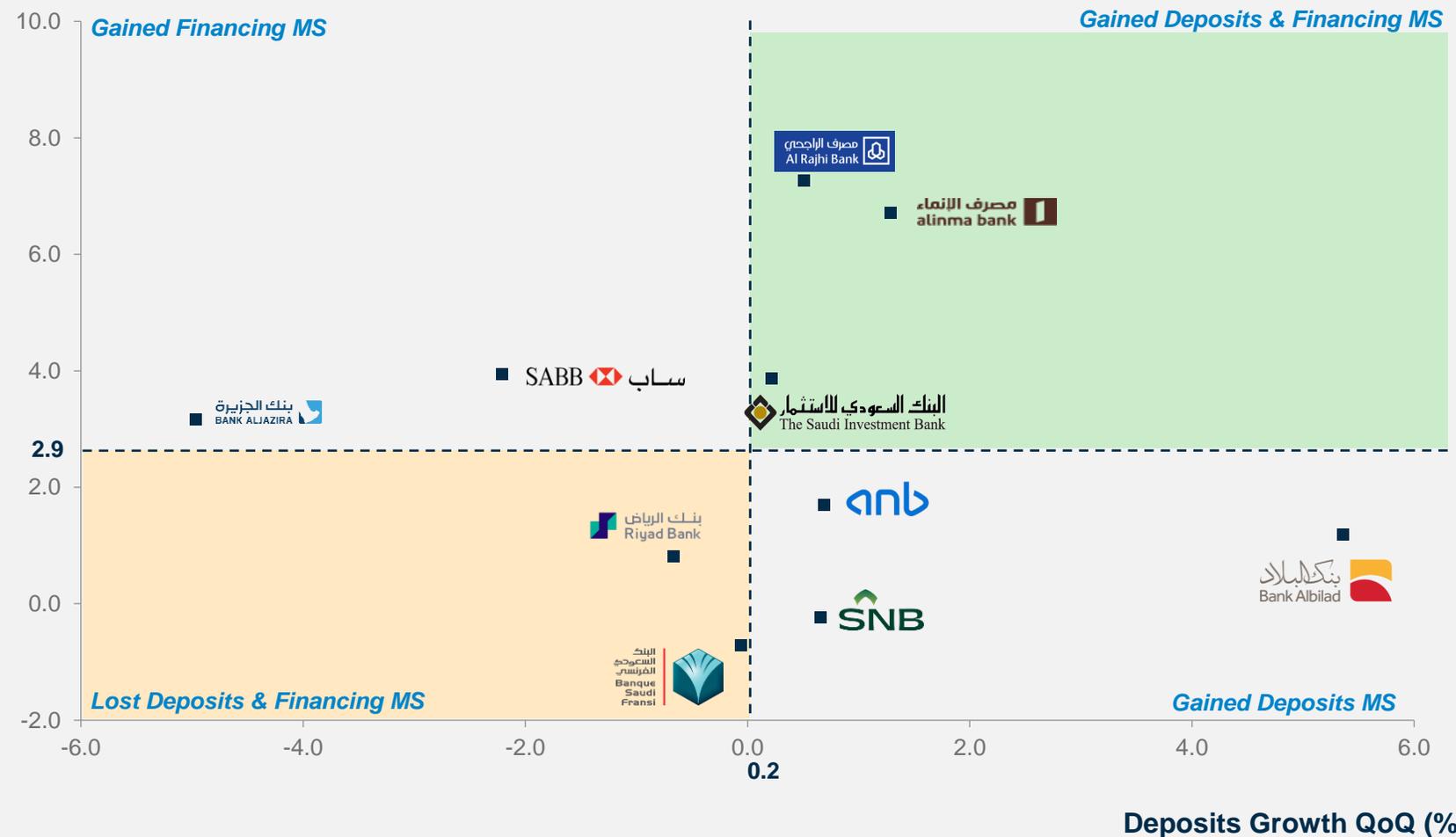
## KEY TAKEAWAYS

- Aggregate net income increased 9.3% QoQ to SAR 16.5bn
- Profitability improved due to increase in net interest income (+5.3% QoQ) which was supported by increase in the other operating income (+17.7% QoQ)
- The net fee and commission income decreased 4.6% QoQ in Q3'22
- Operating profit increased at a faster pace of 4.9% QoQ in Q3'22 than the previous quarter (+3.8% QoQ)
- Net income was further supported by lower allowance for impairments of SAR 2.3bn (-15.4% QoQ)

Note: SABB reported loss from discontinued operations for the third consecutive quarter hence, it is incorporated in the report for this quarter  
 Source: Financial statements, Investor presentations, A&M analysis

# L&A growth continued to outpace deposits' growth

L&A Growth QoQ (%)



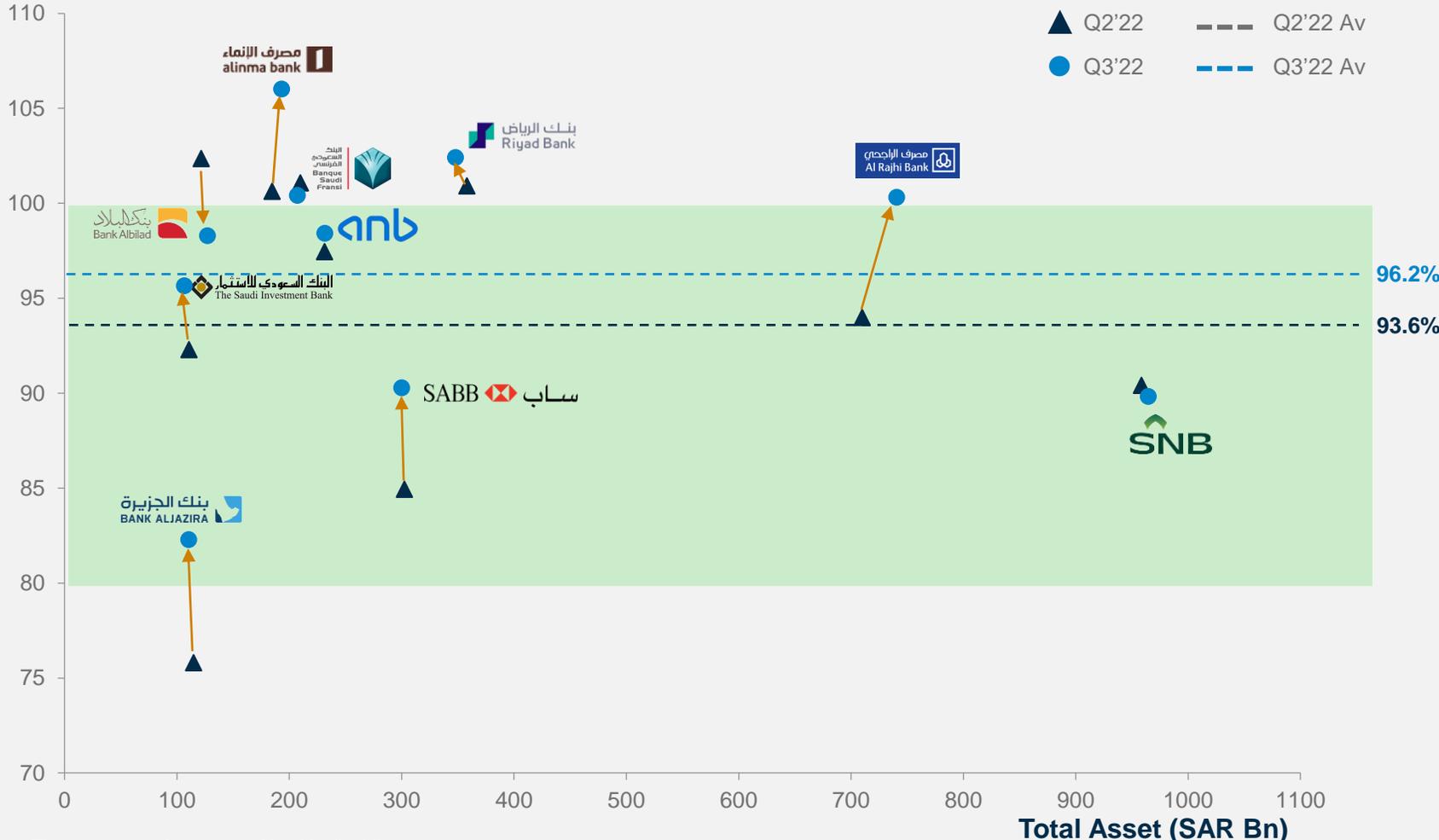
## KEY TAKEAWAYS

- L&A of the top ten banks increased by 2.9% QoQ while deposit grew by 0.2% QoQ in Q3'22
- ALRAJHI reported the highest increase in L&A growth (+7.3% QoQ)
  - This was driven by increase in corporate loans (+24.6% QoQ)
- Aggregate deposits grew at a slower rate of 0.2% QoQ
  - Deposits growth in SNB (+SAR 3.9bn), ALRAJHI (+SAR 2.8bn) and BALB (+SAR 4.8bn) was largely offset by decline in SABB (-SAR 4.6bn) and BJAZ (-SAR 4.3bn)
- While BALB reported the highest increase in deposits (+5.4% QoQ), BJAZ reported the highest decline (-5.0% QoQ)

Note: MS stands for market share  
Source: Financial statements, Investor presentations, A&M analysis

# LDR for most of the KSA banks increased in Q3'22

Loans to Deposits Ratio (%)



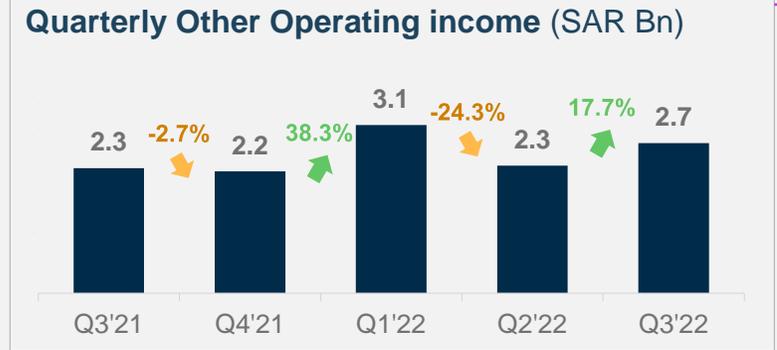
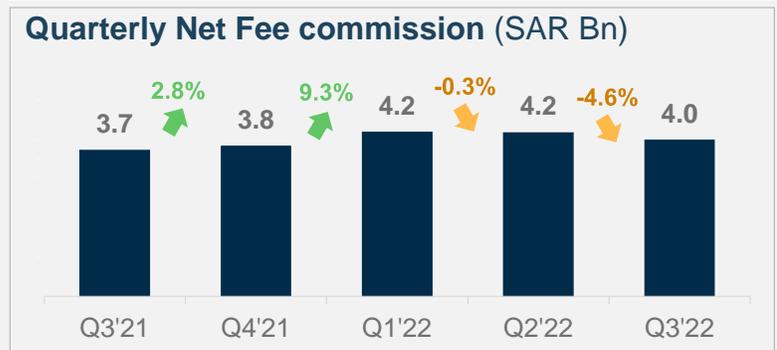
## KEY TAKEAWAYS

- Aggregate LDR in Q3'22 increased by ~2.6% points QoQ to 96.2%
- BJAZ reported the highest increase in LDR (+6.5% points QoQ)
  - This was followed by ALRAJHI (+6.3% points QoQ) as corporate loans increased (+24.6% QoQ) and demand deposits decreased (-2.5% QoQ)
- BALB reported the highest decline in the LDR (-4.1% QoQ) to 98.3% in Q3'22

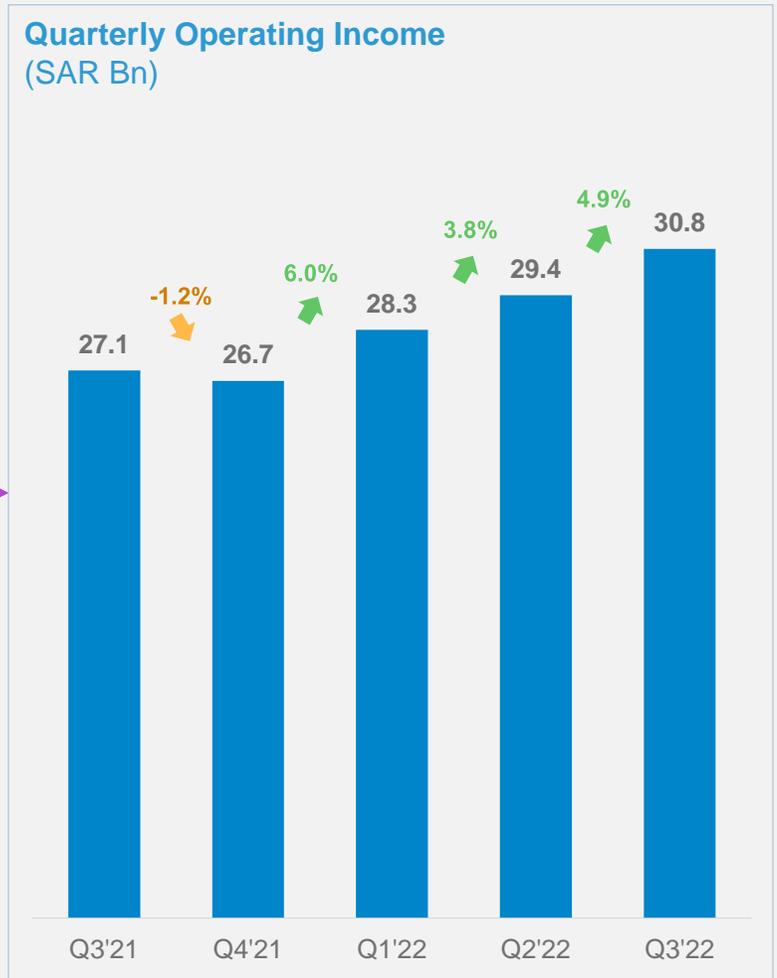
Note: The green zone is an area of healthy liquidity  
Source: Financial statements, A&M analysis

# Operating income grew at a faster pace in Q3'22 than the previous quarter

➔ Improved    ↔ Stable    ➔ Worsened



+

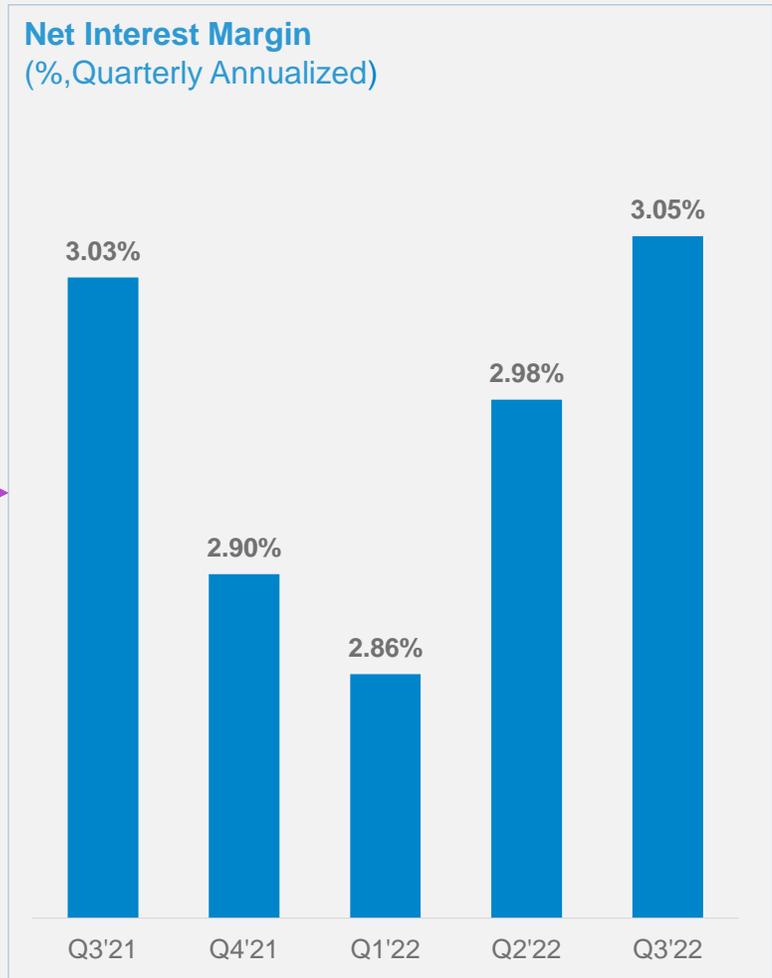
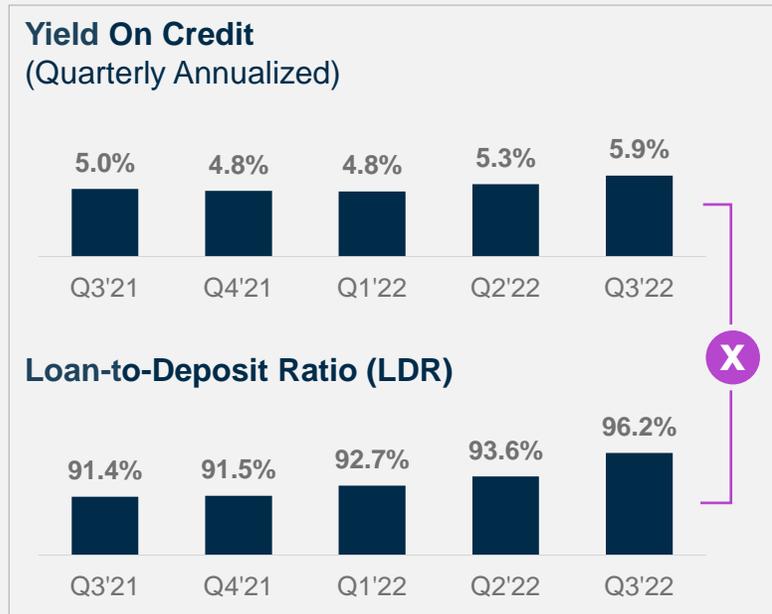


## KEY TAKEAWAYS

- Total operating income increased by 4.9% QoQ due to growth in net interest income (+5.3% QoQ) and was further supported by growth in other operating income (+17.7% QoQ)
- BSF reported the highest increase in the operating income (+12.6 QoQ)
  - This was due to total interest income increasing by 23.8% QoQ and further supported by increase in foreign exchange income (+37.5% QoQ)
- ALRAJHI reported the slowest increase in the operating income (+0.8% QoQ)
  - Total interest income growth (+12.6% QoQ) was offset by total interest expense (+76.3 QoQ)
  - Other operating income decreased 3.9% 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

# NIMs expanded marginally as higher funding costs offset improvement in credit yield



## KEY TAKEAWAYS

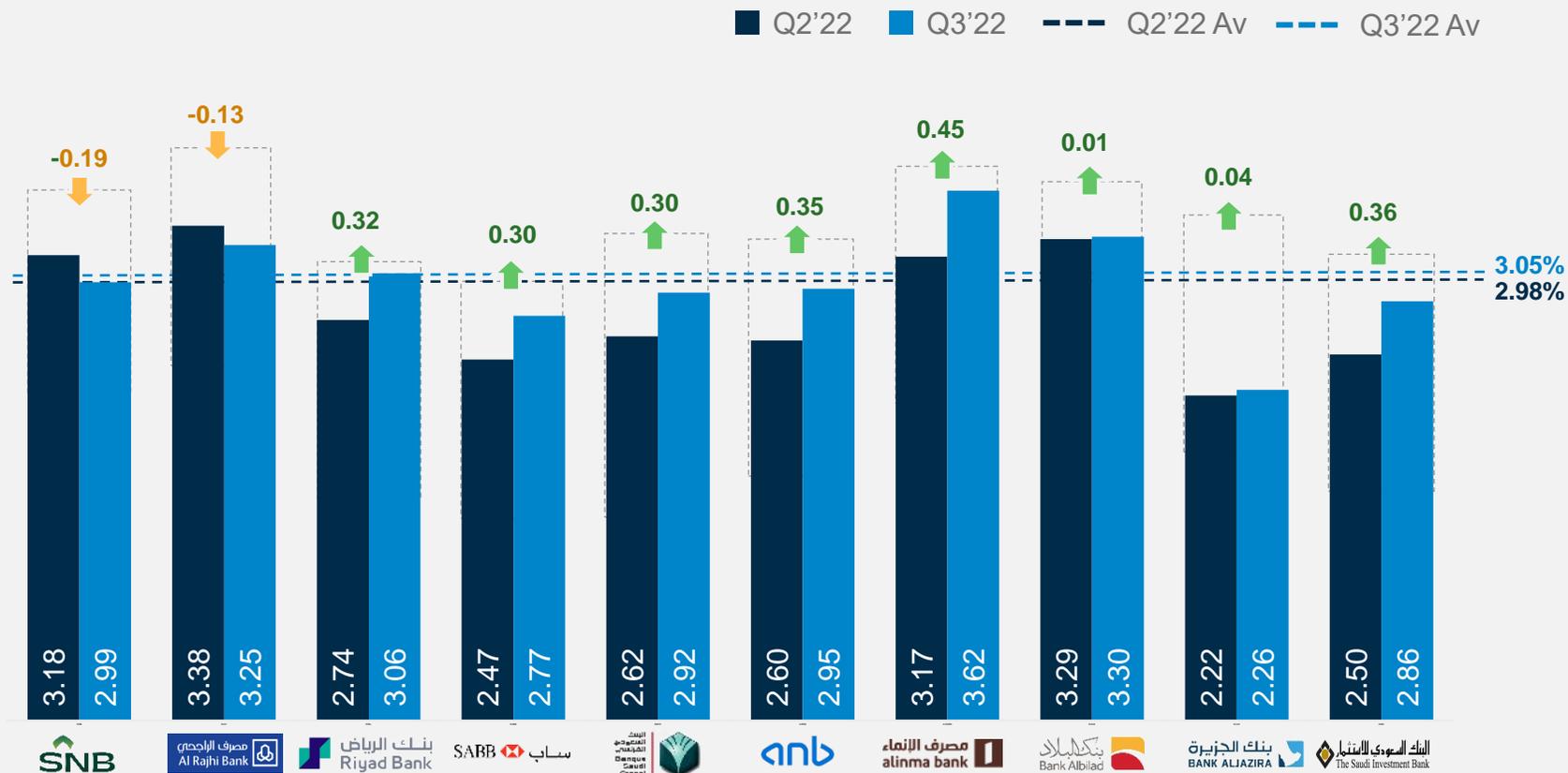
- NIM improved marginally by 7bps QoQ to 3.05% as aggregate net interest income increased (+5.3% QoQ)
- Rising benchmark rates led to an improved yield on credit (+63bps QoQ) to 5.9%
- Aggregate cost of funds deteriorated (+45bps QoQ), primarily due to increased SAIBOR (+184bps QoQ)
- ALINMA reported highest expansion in NIM (+45bps QoQ) whereas, SNB reported the highest contraction (-19bps QoQ)

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

# Eight out of top ten KSA banks reported an expansion in NIM

→ Improved   ← Stable   → Worsened

## Net Interest Margin (% Quarterly)



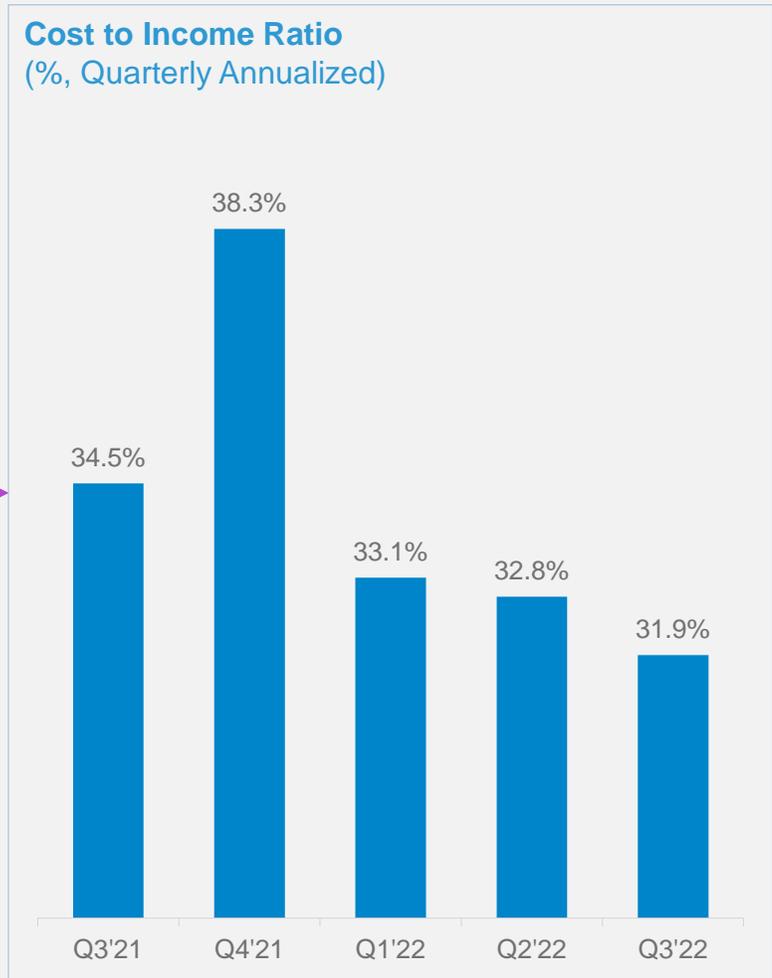
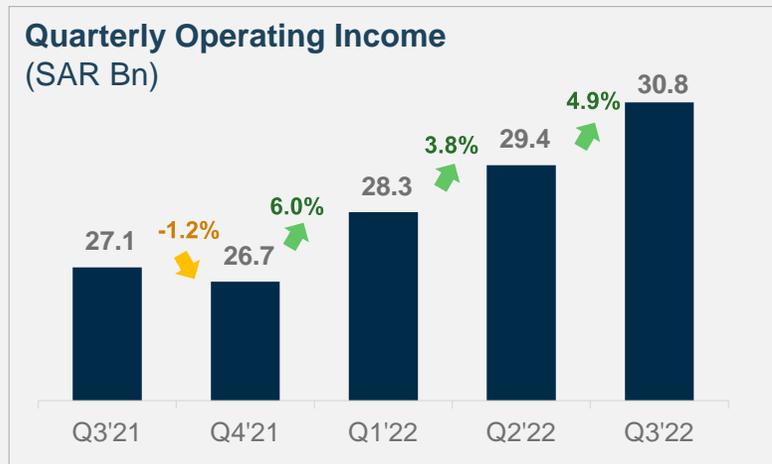
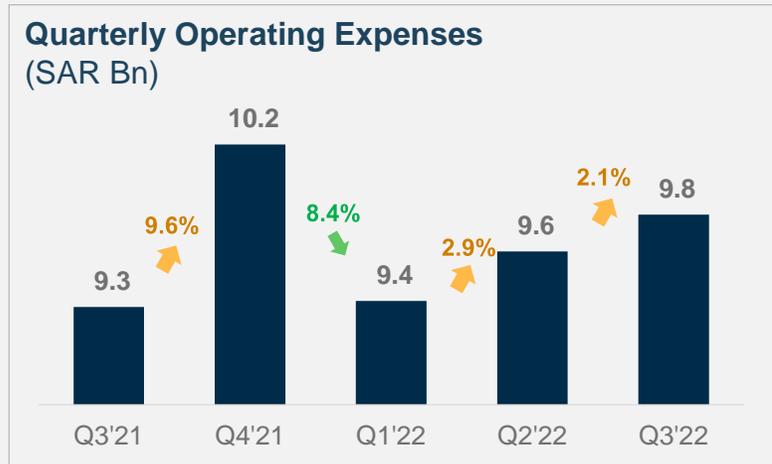
## KEY TAKEAWAYS

- Eight out of the top ten banks have reported expansion in NIM with aggregate NIM increasing by 7bps QoQ in Q3'22
- NIM for ALINMA expanded (+45bps QoQ) due to growth in the interest income and favorable funding mix
  - This was followed by SIBC as NIM expanded by 36bps QoQ
- SNB and ALRAJHI were the only two banks that reported a contraction in NIM by 19bps and 13bps QoQ respectively

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

# KSA banks exhibited improved cost efficiency for the third consecutive quarter

➔ Improved    ↔ Stable    ➔ Worsened



## KEY TAKEAWAYS

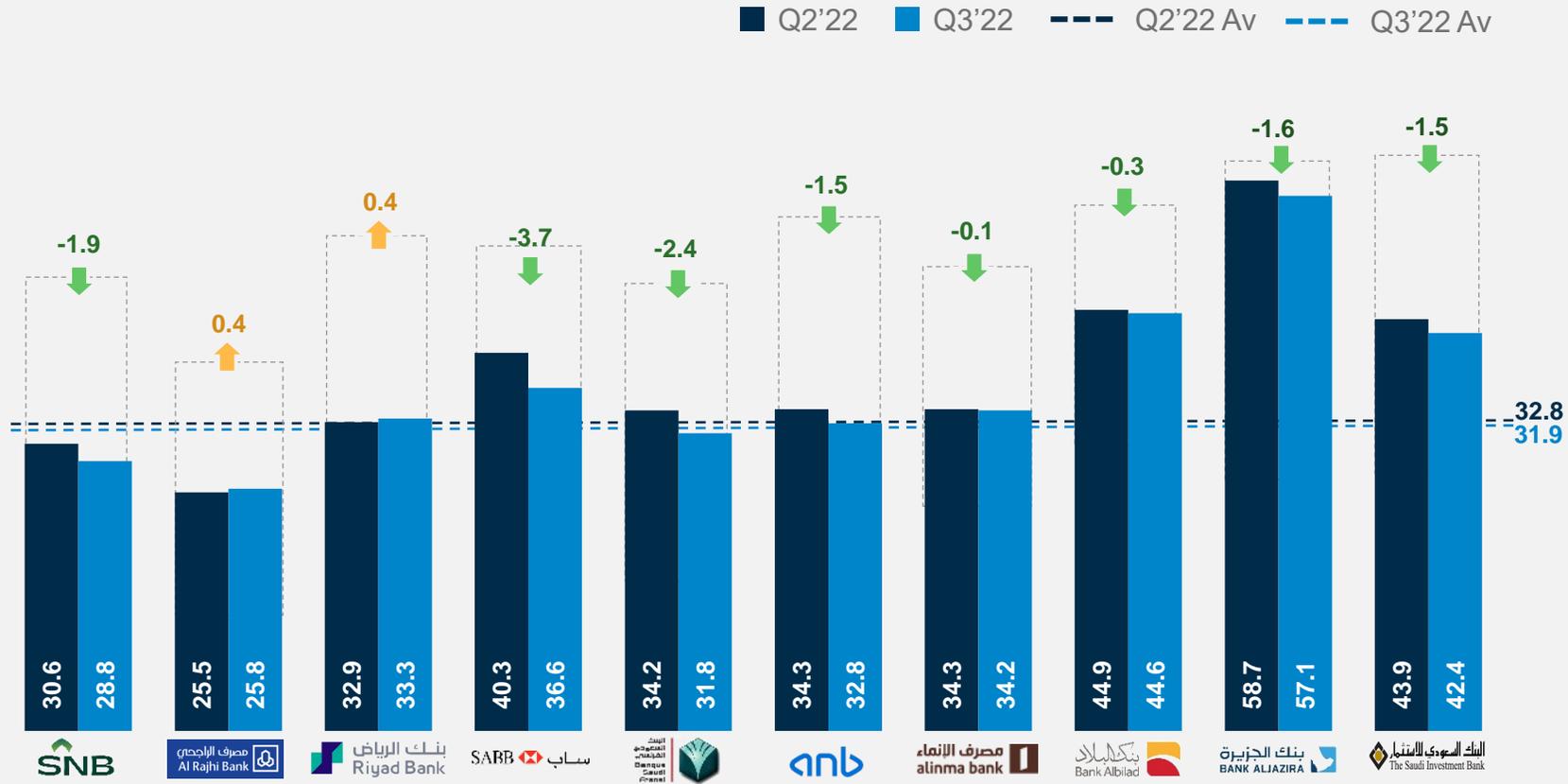
- C/I ratio improved by 0.9% points QoQ in Q3'22
  - Cost efficiency stemmed from growth in operating income (+4.9% QoQ) which outpaced growth in operating expense (+2.1% QoQ)
- C/I ratio deteriorated for ALRAJHI and RIBL by 360bps and 369bps respectively for Q3'22
- For Q3'22, SNB and ALRAJHI closed 1 branch each whereas RIBL and BALB added 1 branch each

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

# Eight out of ten banks saw improvement in cost efficiency

→ Improved   ← Stable   → Worsened

## Cost to Income Ratio (% Quarterly)



### KEY TAKEAWAYS

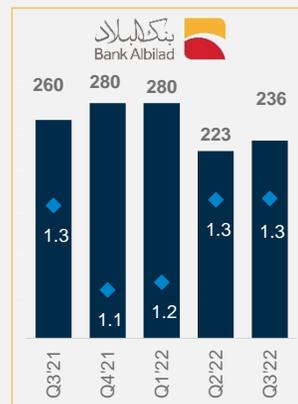
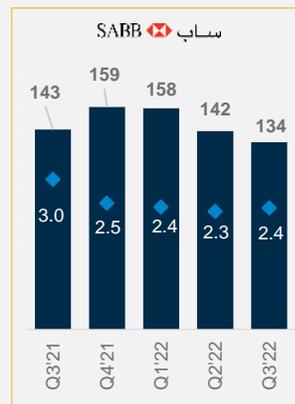
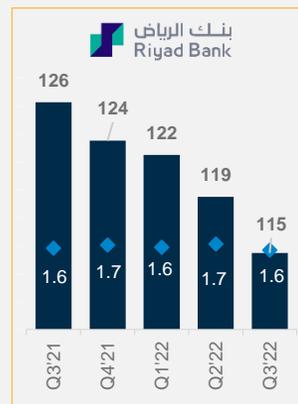
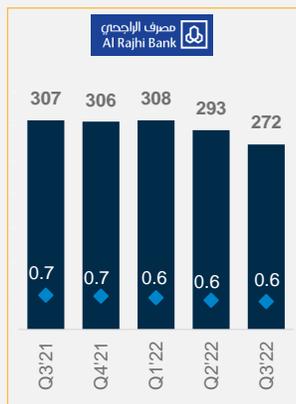
- Overall cost to income ratio improved by 88bps as operating income (+4.9% QoQ) increased more than operating expense (+2.1% QoQ)
- SABB's C/I ratio (36.6 in Q3'22) dropped below 40% for the first time since the merger with Alawwal Bank
  - The increase in operating income (+10.9 QoQ) was a result of higher NII (+15.5% QoQ) and foreign exchange income (+14.7% QoQ)
- Only RIBL and ALRAJHI reported deterioration in C/I ratio 37bps and 36bps QoQ respectively

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

# Asset quality improved for most banks while coverage ratio declined

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

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



## KEY TAKEAWAYS

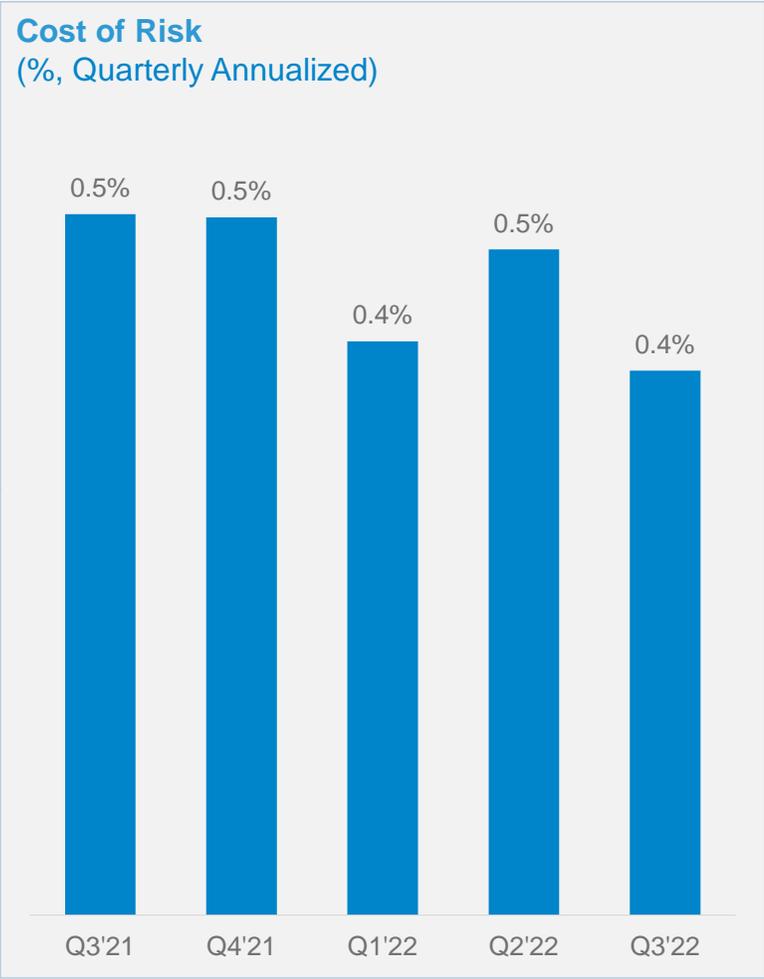
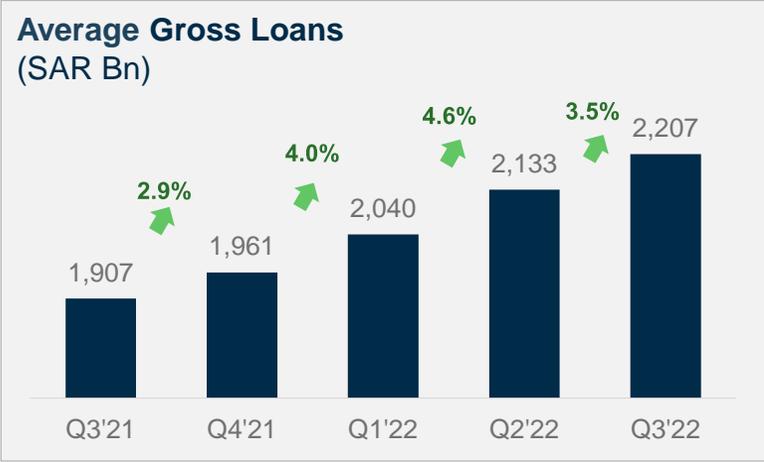
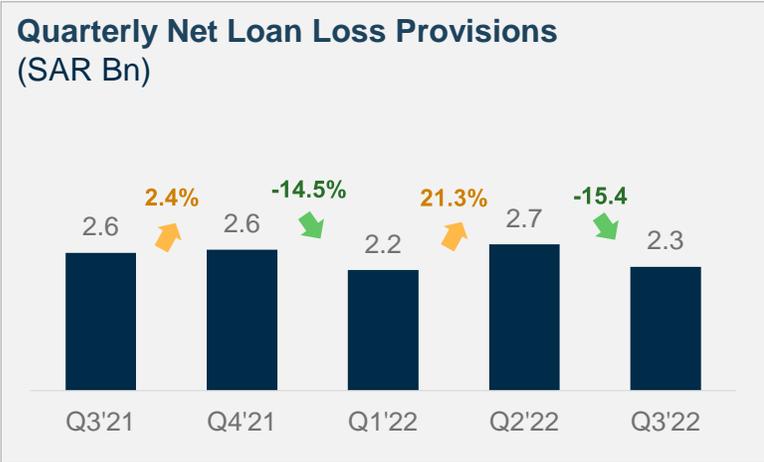
- Asset quality improved slightly as NPL ratio decreased (-4bps QoQ) to 1.5% in Q3'22 from 1.6% in Q2'22
- The aggregate coverage ratio decreased 2.7% QoQ as the allowance for impairment decreased by 1.4% and the base of NPL increased slightly by 0.4% QoQ
- Only SABB and BSF reported deteriorated asset quality as NPL increased by 0.1% and 0.3% QoQ respectively
- Coverage ratio increased the most for BALB (+12.6% QoQ) and declined the most for ALRAJHI (-20.7% QoQ)

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 declined due to reduction in impairment charges

➔ Improved    ↔ Stable    ➔ Worsened



## KEY TAKEAWAYS

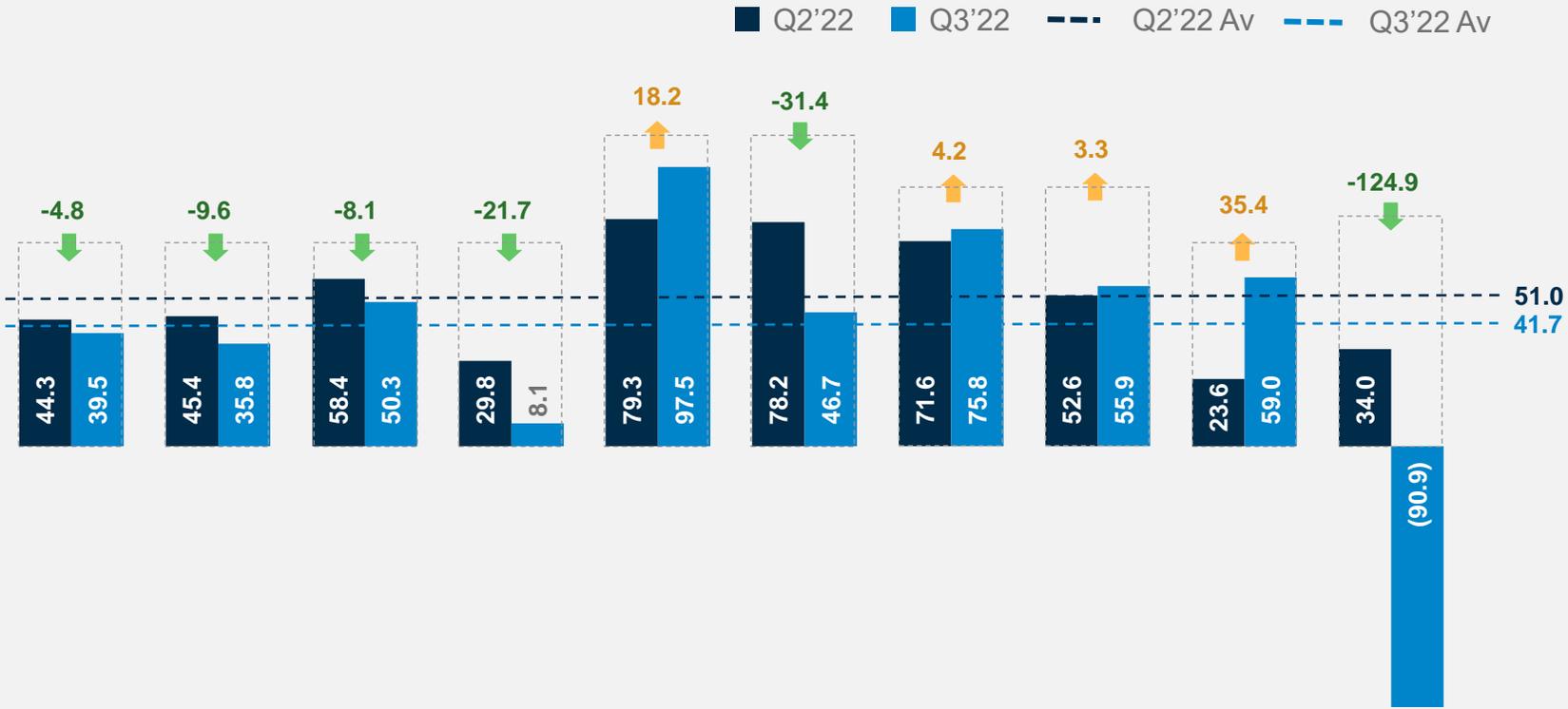
- Cost of risk has decreased by 9bps QoQ due to a substantial drop in the aggregate impairment charges (-15.4% QoQ)
  - The decline in impairment charges was the highest in SABB (-72.4% QoQ)
  - SIB reported net reversals of SAR 149.0mn in Q3'22 as compared to impairment charges of SAR 53.6mn in Q2'22

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

# SIB and ANB majorly drove the aggregate cost of risk

➔ Improved    ↔ Stable    ➔ Worsened

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



### KEY TAKEAWAYS

- Aggregate cost of risk improved (-9bps QoQ) to 0.4% in Q3'22 compared to 0.5% in Q2'22
- SIB reported a significant decline in the CoR (-125bps QoQ) followed by ANB (-31bps QoQ) and SABB (-22bps QoQ)
  - For SIB, the bank reported net impairment reversals due to the recoveries of SAR 294.5mn in Q3'22
- CoR increased the most for BIAZ (+35bps QoQ) and BSF (+18bps QoQ) in Q3'22

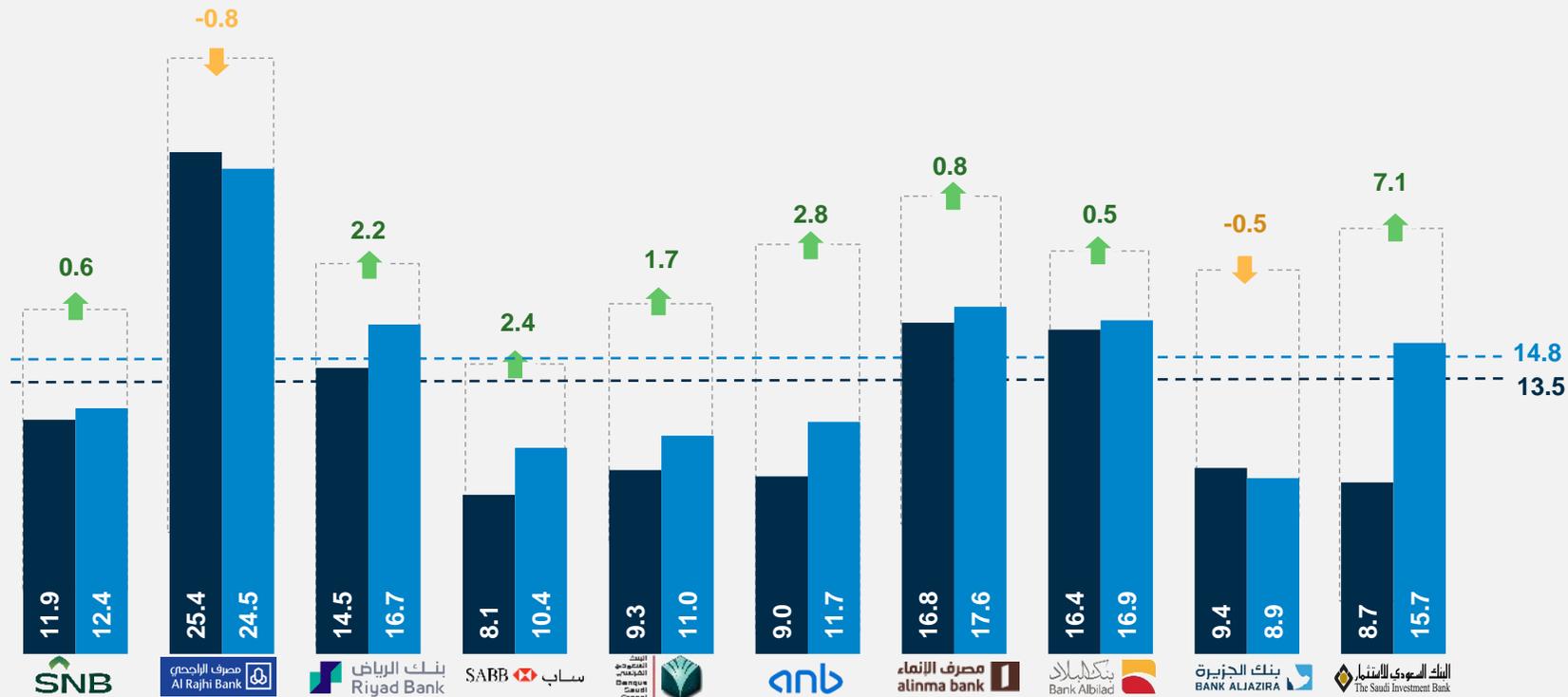
Note: Scaling and some numbers might not add up due to rounding  
 Source: Financial statements, investor presentations, A&M analysis

# 11 Return on equity has improved since past three quarters to reach above the pre-pandemic level

➔ Improved 
 ↔ Stable 
 ➔ Worsened

## Return of Equity (%)

■ Q2'22 
 ■ Q3'22 
 --- Q2'22 Av 
 --- Q3'22 Av



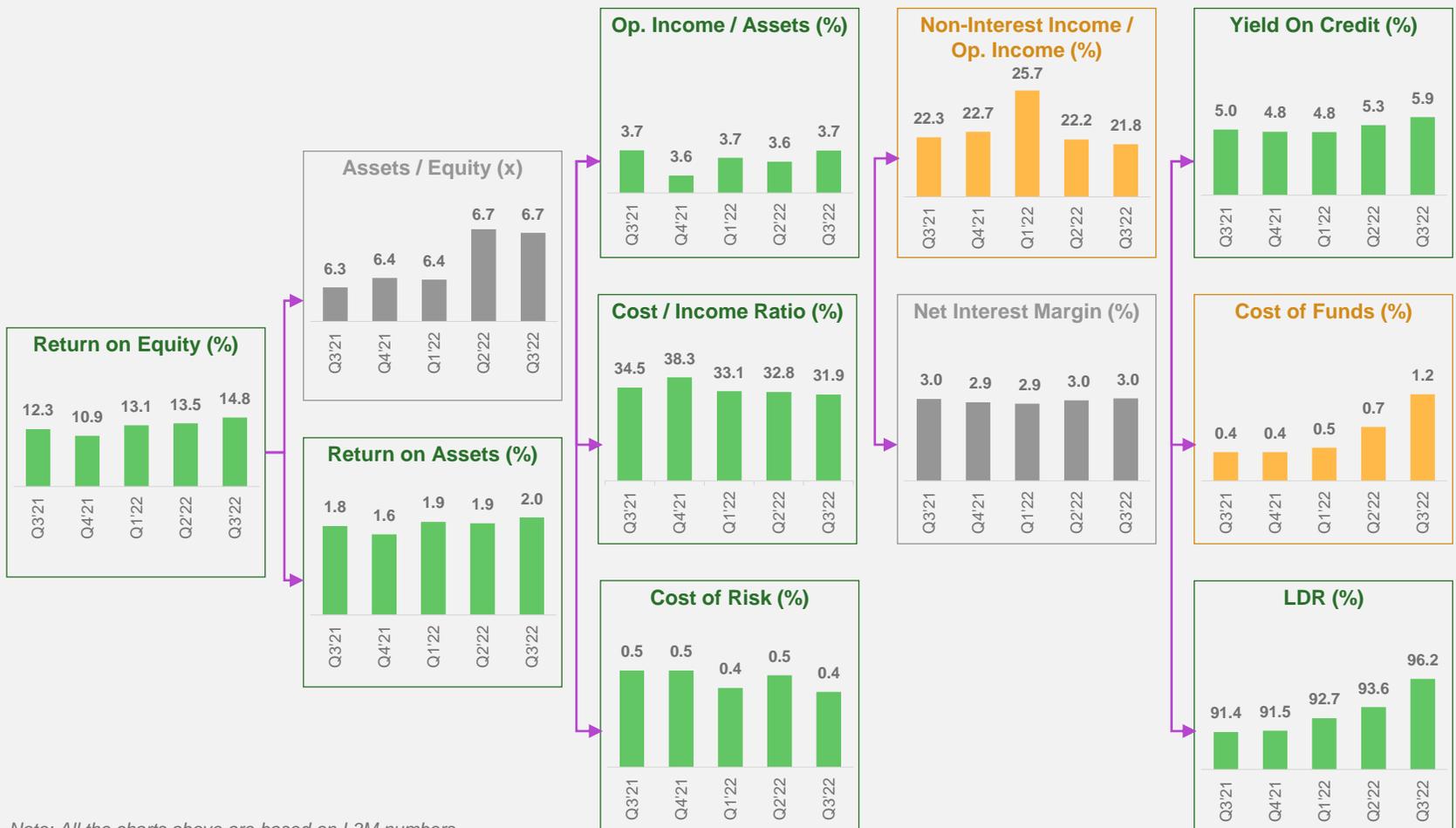
## KEY TAKEAWAYS

- Aggregate RoE improved by 1.3% points QoQ to 14.8%, as the aggregate net income grew by 9.3% QoQ in Q3'22
- Banks reported profitability primarily due to:
  - Higher total interest income (+15.9% QoQ) on the back of rising interest rates
  - Lower impairments for the quarter (-15.4% QoQ)
- SIB continued to report the highest improvement in RoE (+7.1% points QoQ), followed by ANB (+2.8% points QoQ)
- ALRAJHI and BJAZ reported deterioration in RoE by 0.8% points and 0.5% points QoQ respectively

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

# 12 Rising interest rates and improvement in asset quality are positives for KSA banks

■ 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 (+1.3% QoQ) in Q3'22 to 14.8% from 13.5% in the previous quarter
- According to GASTAT, Q3'22 witnessed a strong economic rebound on the back of higher oil prices and controlled inflation
  - Oil sector activities improved by 14.5% QoQ in Q3'22 but lower than 22.9% QoQ in Q2'22
  - Non-oil activities grew by 5.6% QoQ in Q3'22, lower than 8.2% QoQ in Q2'22
- Continued implementation of Vision 2030 program is expected to attract foreign investments, create private-sector employment and improve business environment in KSA
- Economic growth outlook in KSA is well supported by initiatives from the government and PIF

# GCC Banking Consolidation

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

Announcement Date	Target Company	Target Country	Acquirer Company	% Sought	Consideration (SAR mn)	Deal Status*
17-June-22	HSBC Bank Oman	Oman	Sohar International Bank	100%	NA	Proposed
17-Feb-22	National Bank of Kuwait (Banking)	Jordan	Arab Jordan Investment Bank	100%	NA	Completed
23-Nov-21	Bank Nizwa SAOG	Oman	Sohar International Bank	100%	NA	Proposed
05-May-21	Bank Audi SAE (Egypt)	Egypt	First Abu Dhabi Bank PJSC	100%	2,247	Completed
07-Apr-21	Dubai Bank PJSC (Stake of ENBD)	UAE	Eradah Capital LLC	NA	NA	Completed
04-April-22	CBB of Citigroup	Bahrain	Ahli United Bank B.S.C.	100%	NA	Pending
27-Jan-21	CBB of Ithmaar Bank	Bahrain	Al Salam Bank	100%	NA	Completed
18-Jan-21	BLOM Bank Egypt	Egypt	Bank ABC (Arab Banking Corp BSC)	0.6%	1,591	Completed
07-Jan-21	Al Khalij Commercial Bank PQSC	Qatar	Masraf Al Rayan QSC	100%	14,063	Completed
11-Oct-20	Samba Financial Group SJSC	Saudi Arabia	Saudi National Bank	100%	57,252	Completed
29-Sep-20	Banque Saudi Fransi (Credit Agricole stake)	Saudi Arabia	Saudi government-related institutional investors	4%	5,430	Completed
16-Sep-20	Ahli United Bank Egypt SAE	Egypt	Ahli United Bank BSC	14.4%	298	Pending
31-Dec-19	Alizz Islamic Bank SAOG	Oman	Oman Arab Bank SAOC	100%	NA	Completed
25-Nov-19	Noor Bank PJSC	UAE	Dubai Islamic Bank PJSC	100%	NA	Completed
05-Nov-19	Bahrain Islamic Bank BSC	Bahrain	National Bank of Bahrain BSC	35.3%	3,401	Completed
12-Sep-19	Ahli United Bank BSC	Bahrain	Kuwait Finance House KSCP	100%	21,431	Pending
15-Aug-19	Cqur Bank LLC	Qatar	VTB Bank PJSC	19%	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	964.4	SNB	
Al Rajhi Bank	740.6	ALRAJHI	
Riyad Bank	347.9	RIBL	
Saudi British Bank	300.0	SABB	
Banque Saudi Fransi	231.7	BSF	
Arab National Bank	207.3	ANB	
Alinma Bank	193.2	ALINMA	
Bank Albilad	127.0	BALB	
Bank Aljazira	110.3	BJAZ	
Saudi Investment Bank	106.5	SIB	

Note: Banks are sorted by assets size  
\* As on 30<sup>th</sup> June 2022

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