



Saudi Arabia Banking Pulse

Quarter 3, 2021

FOREWORD

Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the Q3'21 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 2.8% and 1.2% QoQ, respectively. Operating income increased by 2.9% QoQ while the overall efficiency for the banking sector remained stable during the quarter, as witnessed by a marginal increase in cost-to-income ratio by ~6bps in Q3'21. Cost of risk decreased by ~50bps, largely due to lower provisioning by banks. Asset quality improved as NPL/Net Loan ratio decreased from 1.8% in Q2'21 to 1.7% in Q3'21, whereas coverage ratio increased to 158%.

The Saudi Arabian economy is expected to recover strongly in 2021-2022 with IMF forecasting GDP growth of 2.8% (2021) and 4.8% (2022), driven by recovery in global demand for oil, easing of pandemic curbs and oil producers' agreement to boost output. Digitalization of the banking sector along with government reforms is expected to provide growth opportunities for the banks.

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



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- 30+ years of experience in banking
- Focuses on performance improvement, turn-around, credit management, and formulating and managing strategic and operational changes in financial institutions
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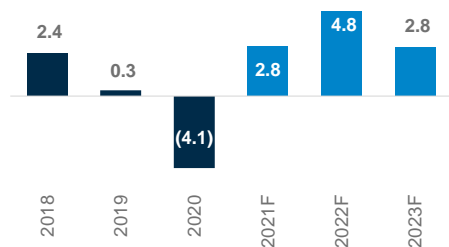
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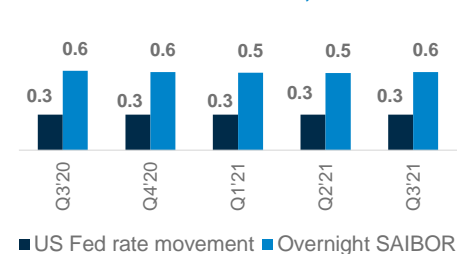
Saudi Arabia macro & sector overview

Macro overview

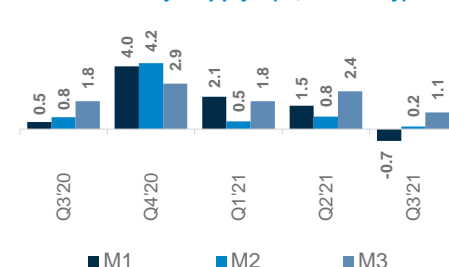
KSA GDP Growth Rate¹, %



US Fed Funds Rate², SAIBOR %



KSA Money Supply³, (% Quarterly)



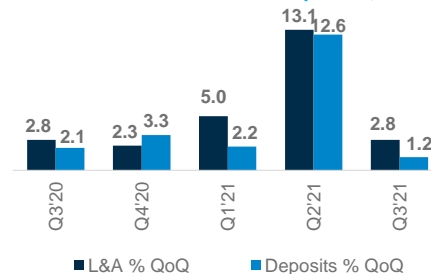
- In October'21, IMF increased its 2021 growth projections for the nation's GDP to 2.8% from the June'21 forecast of 2.4%, due to faster recovery from the COVID-19 crisis
- Saudi Arabia's average PMI for Q3'21 increased to 56.2 compared to 56.0 for Q2'21, due to a sharp rise in business activity and new work
- The Saudi Central Bank has extended their Deferred Payment Program for SMEs for an additional three months, until the end of 2021

- In October'21 the US Fed officials stated plans to start reducing the pace of its monthly asset purchases as soon as mid-November'21. In Sep'21, the US Fed held interest rates steady
- Overnight SAIBOR rose by 0.57 bps QoQ to 0.55% at the end of Q3'21
- Fitch retained the outlook on all Saudi banks' long-term issuer default ratings to "stable" in Q3'21, to reflect reduced pressure on the operating environment and a stable outlook on the sovereign rating

- In Q3'21, M2 money supply growth stood at 0.2% QoQ, and 5.7% YoY to reach SAR 2.0tn
- Growth in M2 money supply was primarily driven by 3.3% QoQ increase in Time & Savings deposits to SAR 0.5tn which was partially offset by 0.5% decrease in Demand deposits to SAR 1.3tn
- M1 decreased by 0.7% QoQ to SAR 1.5tn, while M3 money supply grew 1.1% QoQ to SAR 2.3tn

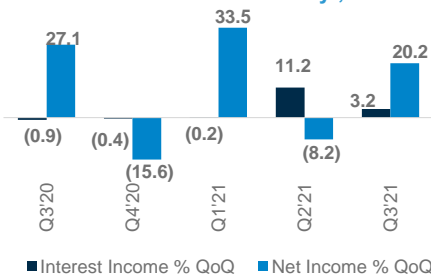
Banking overview Q3'21

KSA Banks L&A and Deposits⁴, %



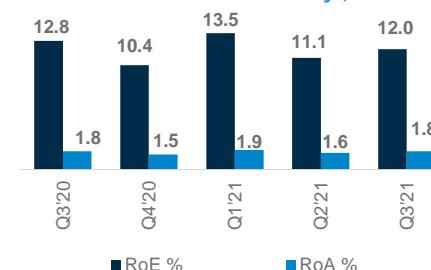
- Total loans & advances (L&A) of top ten KSA banks grew by 2.8% QoQ in Q3'21, and deposits grew by 1.2% QoQ in Q3'21
- L&A (ex-SNB) grew by 3.8% (-1.4 % points QoQ) in Q3'21 while the deposits (ex-SNB) grew by 1.6% (-2.7 % points QoQ)
- The growth in aggregate L&A is supported by momentum in retail mortgages and growth in lending in manufacturing and commerce sectors, as the economy opens up post-pandemic

KSA Banks' Profitability⁴, %



- Total interest income increased by 3.2% QoQ in Q3'21 after increasing by 11.2% in previous quarter
- Aggregate profitability increased by 20.2% QoQ in Q3'21, as compared to a decline of 8.2% QoQ in Q2'21

KSA Banks' Profitability⁴, %



- Return ratios have increased with economic activity returning back to normal after the pandemic
- Return on equity (RoE – Q3'21 annualized) increased by ~86bps QoQ to 12.0%
- Similarly, return on assets (RoA – Q3'21 annualized) increased by 19bps to 1.8% in Q3'21 from 1.6% in Q2'21

¹ IMF forecast, ² US Board of Federal Reserve, ³ Saudi Central Bank, ⁴ Company Financials, * Data for top ten KSA banks by asset size as of September 30th 2021, QoQ stands for quarter over quarter, net income excludes the gains on deemed disposal of asset reported by Bank Aljazira in Q2'21

Pulse: Muted growth in L&A and deposits as the merger effects wear off; Higher profitability due to lower impairments support return ratios

→ Improved ← Stable → Worsened

	Metric	Q2'21	Q3'21	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Key Trends of Q3'21
Size	L&A Growth (QoQ)	13.1%	↓ 2.8%						1 With the economic activity in recovery phase, L&A and deposits grew marginally by 2.8% and 1.2% QoQ, respectively
	Deposits Growth (QoQ)	12.6%	↓ 1.2%						
Liquidity	Loan-to-Deposit Ratio (LDR)	90.0%	↑ 91.5%						2 LDR increased to 91.5%, driven by higher growth in loan book relative to deposits
Income & Operating Efficiency	Operating Income Growth (QoQ)	8.4%	↓ 2.9%						3 Growth in operating income increased to 2.9%, supported by 3.5% QoQ rise in net interest income
	Operating Income / Assets	3.9%	↓ 3.7%						
	Non-Interest Income (NII) / Operating Income	23.1%	↓ 22.6%						4 NIM, yield on credit and cost of funds remained stable on QoQ basis
	Yield on Credit (YoC)	5.2%	↓ 5.0%						
	Cost of Funds (CoF)	0.4%	↔ 0.4%						5 C/I ratio deteriorated marginally by ~6 bps QoQ to 35.2% in Q3'21, as operating expenses rose by 3% QoQ, driven by higher salary and rental expenses
	Net Interest Margin (NIM)	3.1%	↓ 3.0%						
	Cost-to-Income Ratio (C/I)	35.1%	↑ 35.2%						6 Coverage ratio increased 214 bps QoQ, while the cost of risk declined by ~50 bps QoQ
	Coverage Ratio	155.6%	↑ 157.7%						
Risk	Cost of Risk (CoR)	1.0%	↓ 0.5%						7 RoE and RoA increased marginally as the aggregate profit for the top 10 banks increased 20.3% QoQ
	Return on Equity (RoE)	11.1%	↑ 12.0%						
Profitability	Return on Assets (RoA)	1.6%	↑ 1.8%						8 RoRWA increased and in line with higher net income, moreover capital adequacy ratio also rose by 19 bps
	Return on Risk-Weighted Assets (RoRWA)	2.1%	↑ 2.4%						
Capital	Capital Adequacy Ratio (CAR)	19.8%	↔ 19.8%						

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

Note 3: The growth numbers might not be comparable due to higher growth in Q2'21; given the SNB merger effect

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

Higher net interest income and lower impairments supported net income growth

Net income bridge – SAR Bn

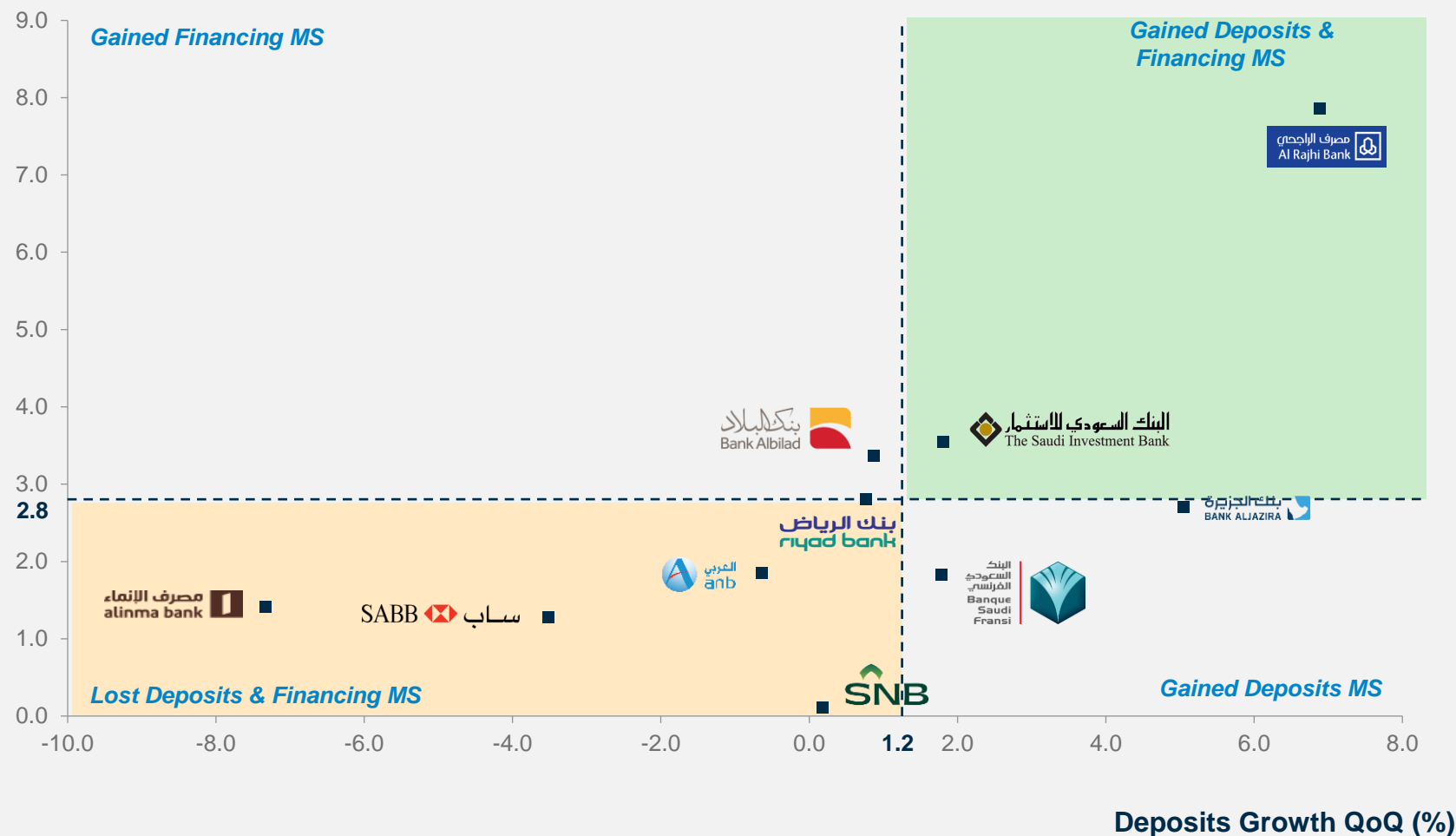


KEY TAKEAWAYS

- Aggregate net income increased 20.3% QoQ to SAR 13.3bn
- Higher net interest income (+3.5% QoQ) and lower impairments (-44.3% QoQ) boosted net profit
- Impairments decreased substantially after it spiked in Q2'21 due to higher reported impairments by SNB (+8.6x QoQ) due to merger
 - SNB reported impairments of SAR 0.7bn in Q3'21 compared to SAR 2.4bn in Q2'21
- The increase in net profit was partially offset by higher operating expense (+3.0% QoQ) and increase in tax expense (+15.6% QoQ)

ALRAJHI outperformed its peers on L&A and deposits growth performance

L&A Growth QoQ (%)

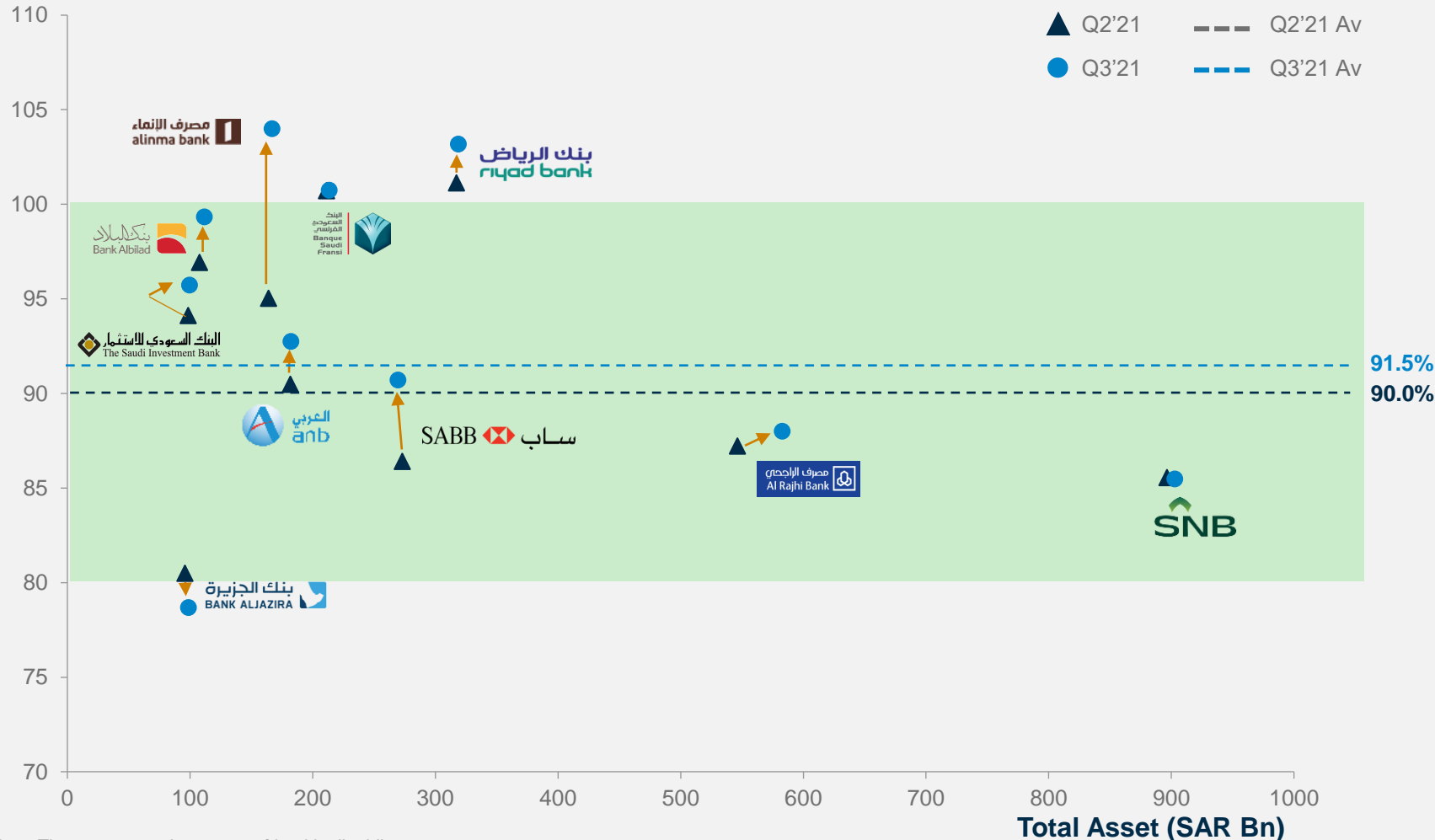


KEY TAKEAWAYS

- L&A of the top ten banks increased by 2.8% QoQ in Q3'21, while deposits grew by 1.2% in Q2'21
 - L&A (ex-SNB*) grew by 3.8% (-1.4% points) in Q3'21, while deposits (ex-SNB*) grew by 1.6% (-2.7% points)
- ALRAJHI reported L&A growth of 7.9%, while deposits grew by 6.9%
 - L&A growth was driven by 9.3% QoQ increase in retail loans, while deposits grew due to 29.4% QoQ increase in time deposits
- ALINMA reported 7.3% QoQ decrease in deposits, mainly due to 12.3% QoQ fall in time deposits

2 All major banks, except SNB and BJAZ, reported an increase in LDR

Loans-to-Deposits ratio (%)



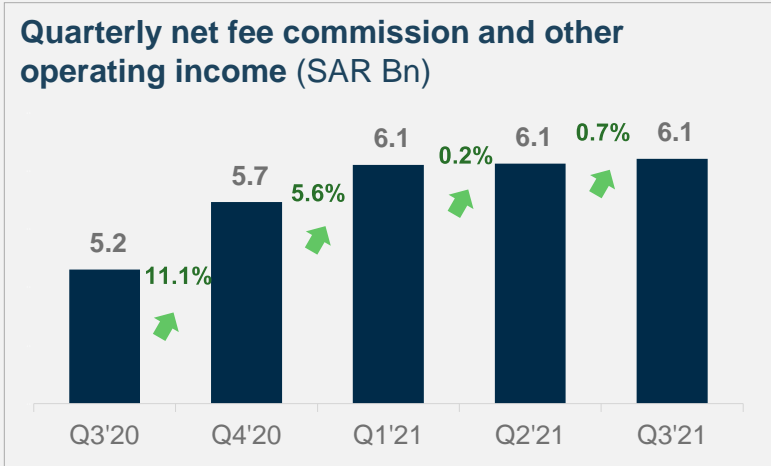
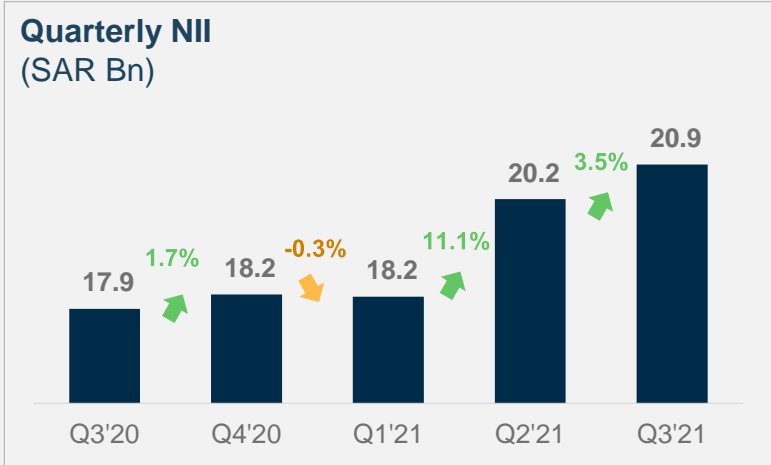
Note: The green zone is an area of healthy liquidity
Source: Financial statements, A&M analysis

KEY TAKEAWAYS

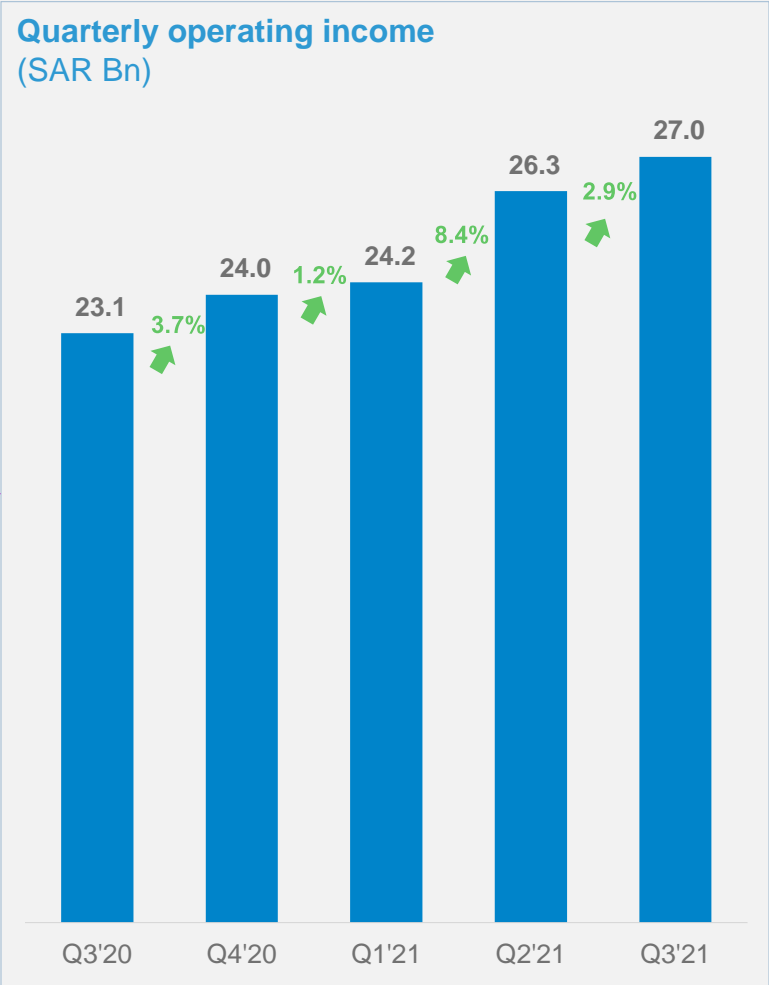
- Aggregate LDR increased from 90.0% in Q2'21 to 91.5% in Q3'21
- ALINMA reported the highest increase in LDR (+9.0% points QoQ)
- BJAZ (-1.8% QoQ) and SNB were the only banks that reported fall in LDR during Q3'21 (-0.1% points QoQ)

Aggregate operating income increased for the fifth consecutive quarter

➔ Improved
 ↔ Stable
 ➔ Worsened



+



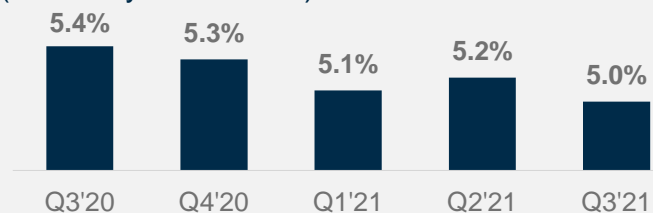
KEY TAKEAWAYS

- Total operating income increased by 2.9% QoQ
 - Total operating income (ex-SNB)* increased by 2.4% QoQ in Q3'21 compared to 1.6% in Q2'21
- BSF's operating income increased the highest (9.1% QoQ), supported by higher net interest income and higher gains from sale of investments
- RIBL reported a 5.4% QoQ fall in operating income due to 7.7% decrease in net interest income
- Aggregate interest income recorded 3.2% QoQ rise, while fee income remained stable with 0.4% QoQ increment

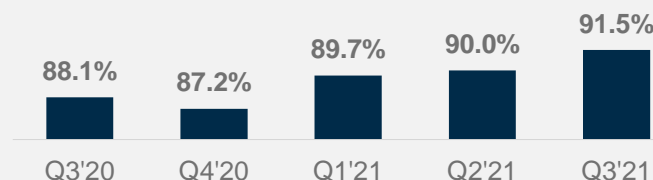
Note: Some numbers might not add up due to rounding, (*) Q2 / past growth were not comparable
 Source: Financial statements, investor presentations, A&M analysis

NIM declined to multi-period lows in Q3'21

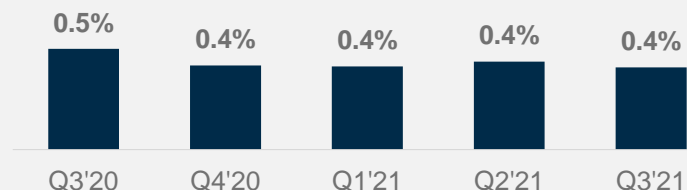
Yield on credit
(Quarterly annualized)



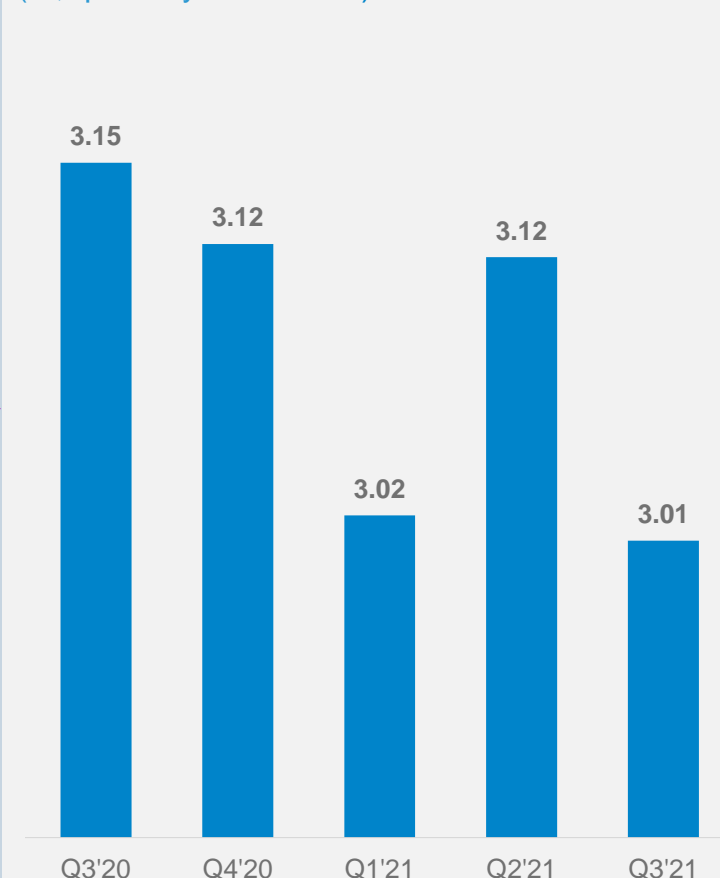
Loan-to-Deposit Ratio (LDR)



Cost of Funds
(Quarterly annualized)



Net Interest Margin
(%, quarterly annualized)



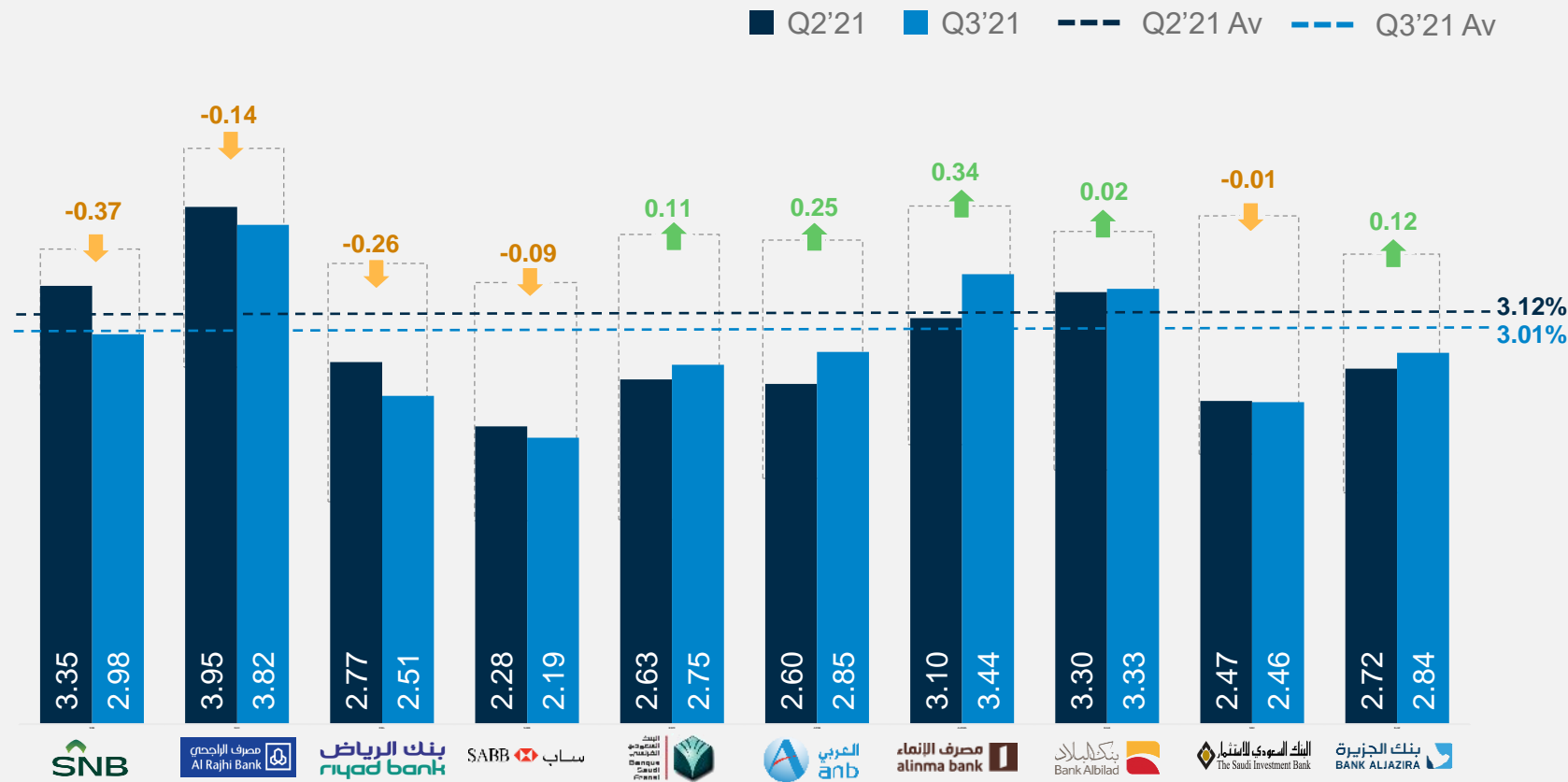
KEY TAKEAWAYS

- NIM deteriorated by 11 bps QoQ to reach 3.01% after the sector-wide margin bounced back from its multi-period lows last quarter
- Yield on credit decreased by 22 bps QoQ, while cost of funds remained flat QoQ at 0.4%

Major banks have reported contraction in NIM; Aggregate NIM contract by 11 bps

➔ Improved
 ↔ Stable
 ➔ Worsened

Net Interest Margin (% Quarterly)



KEY TAKEAWAYS

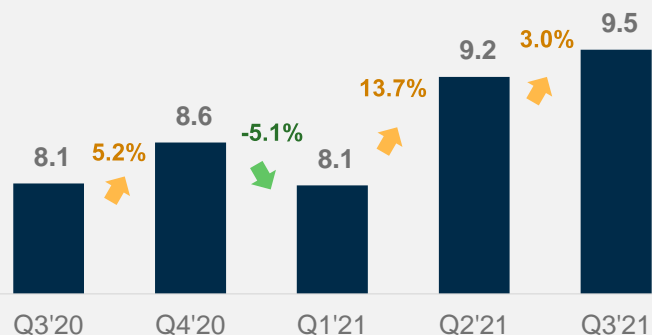
- Major banks have reported contraction in NIM with aggregate NIM decreasing by 11 bps QoQ
- SNB (-37 bps QoQ) and RIBL (-25 bps QoQ) reported the highest fall in NIM during the period
- On the other hand, NIM for ALMINA (+34 bps QoQ) and ANB (+25 bps QoQ) expanded the most in Q3'21

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

Operating efficiency of KSA banks remained stable during the quarter

→ Improved ↔ Stable → Worsened

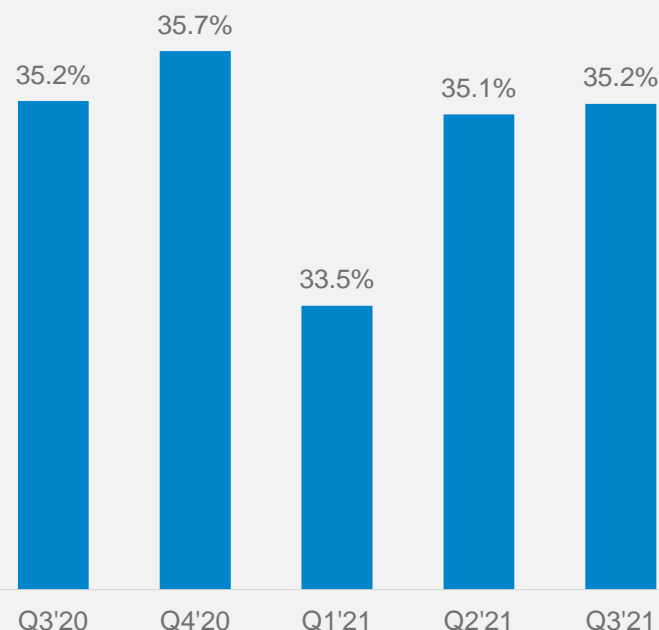
Quarterly operating expenses
(SAR Bn)



Quarterly operating income
(SAR Bn)



Cost-to-Income ratio
(%, quarterly annualized)



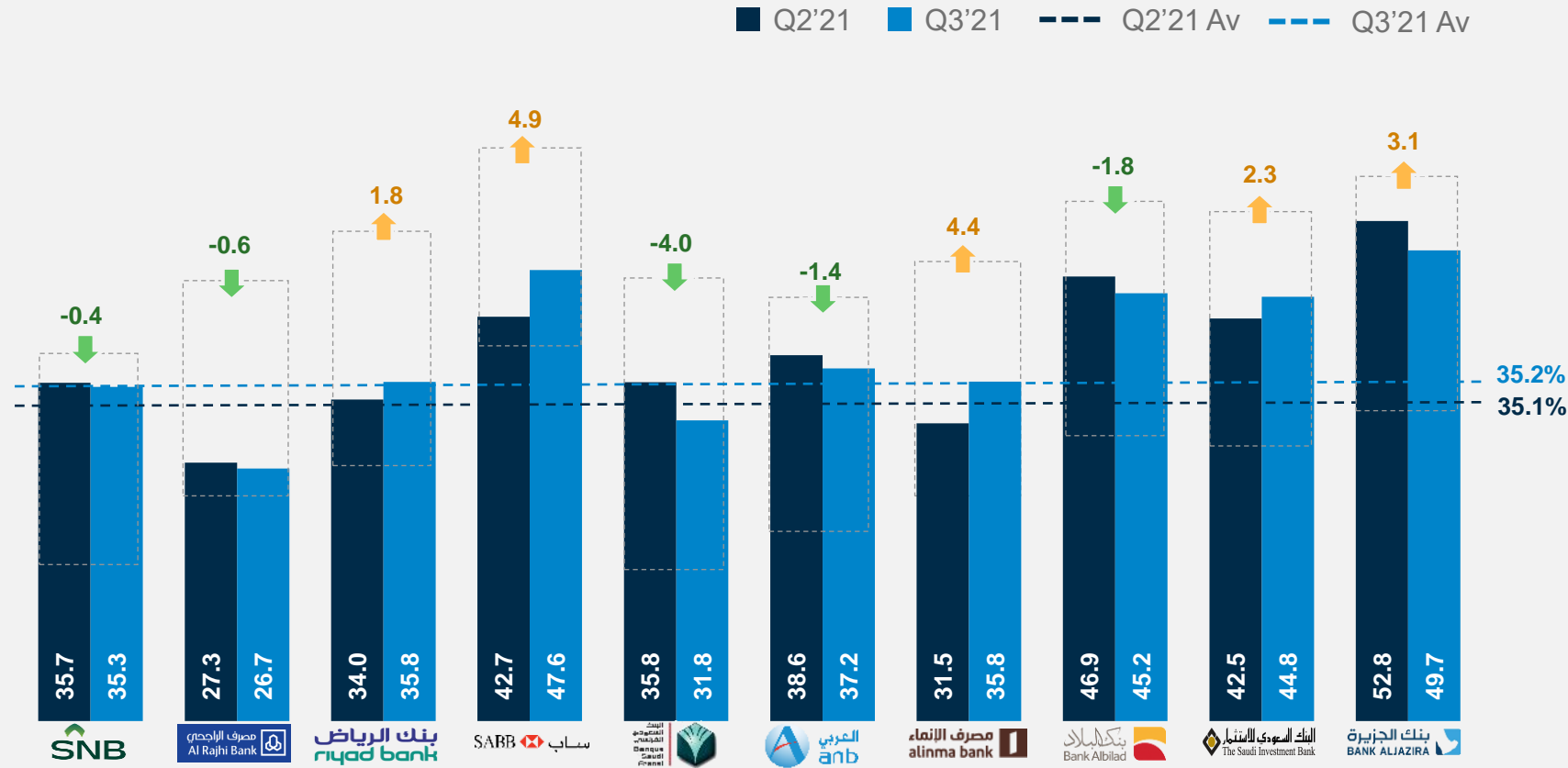
KEY TAKEAWAYS

- C/I ratio remained broadly stable with a marginal increase of 0.2% QoQ to 35.2%, driven by:
 - Higher growth in operating expense (+3.0% QoQ), while the operating income grew by 2.9% QoQ
- The operating efficiency for SABB (+4.9% points QoQ) and ALINMA (+4.4% points QoQ) deteriorated the most, largely driven by:
 - Increase in the operating expense for SABB (+11.1% QoQ) and ALINMA (+18.7% QoQ)

Operating efficiency deteriorated substantially for SABB, ALINMA and BJAZ

→ Improved ← Stable → Worsened

Cost-to-Income ratio (% Quarterly)



KEY TAKEAWAYS

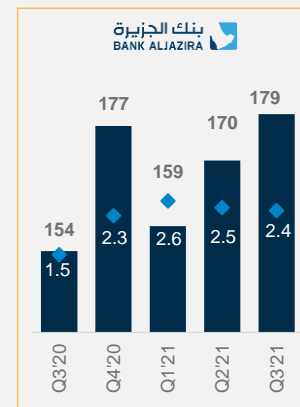
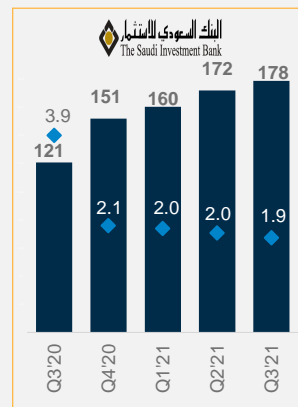
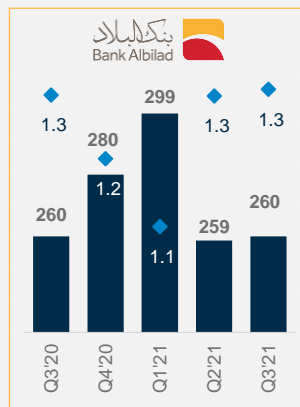
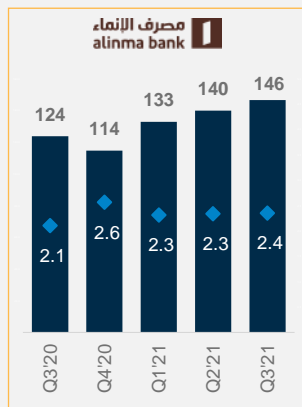
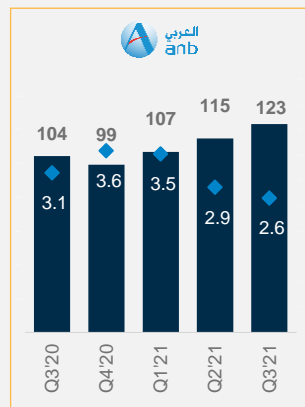
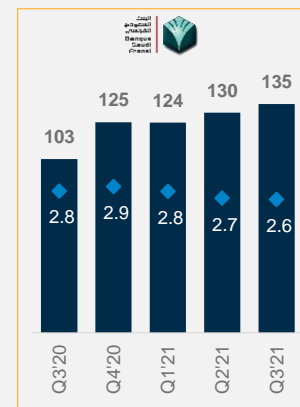
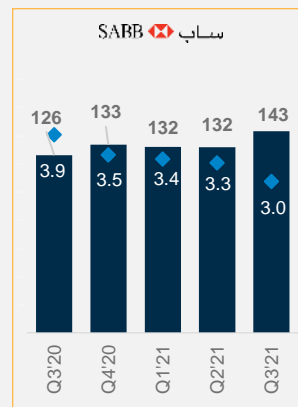
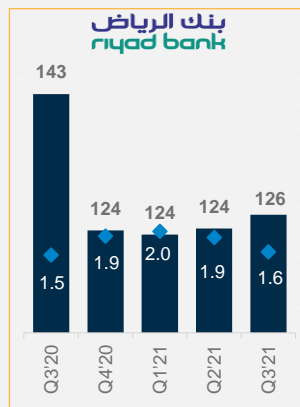
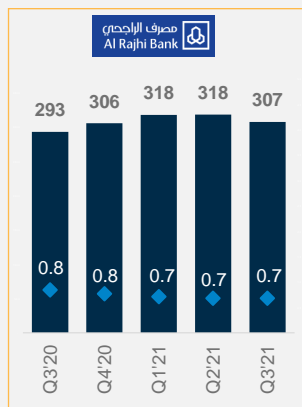
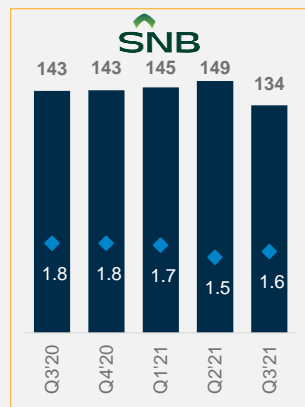
- Five of the top ten banks witnessed deterioration in cost-to-income ratio
- C/I ratio for SABB deteriorated by 4.9% points QoQ due to higher salaries and rental expenses, along with a fall in net interest income (-4.1% QoQ)
- C/I ratio for ALINMA deteriorated as well (+4.4% QoQ), driven by higher general and administrative expense
- BSF's C/I ratio improved the most by 4.0% points, as the operating costs decreased by 3.1% QoQ while operating income rose by 9.1% QoQ

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 ratio¹ and NPL / net loans ratio (% , quarterly)



KEY TAKEAWAYS

- Asset quality improved further as NPLs/ net loan ratio decreased to 1.7% in Q3'21 compared to 1.8% in Q2'21
- Aggregate coverage ratio increased to 157.7% (+2.1% points QoQ)
- All the banks except SNB and ALRAJHI reported increase in coverage ratio
- SNB and ALRAJHI's coverage ratio decreased by 14.5% points and 10.6% points, respectively in Q3'21
 - SNB's coverage ratio declined due to decrease in impairment allowance (- 2.8% QoQ), while the NPL for retail and corporate sector increased
- On the other hand, SABB reported the highest increase in coverage ratio by 11.3% points to 143.1%
- SABB's NPL/net loan ratio improved the most (36.6bps) to 3.0%, while ALRAJHI reported the best asset quality with NPL/net loans at 0.7%

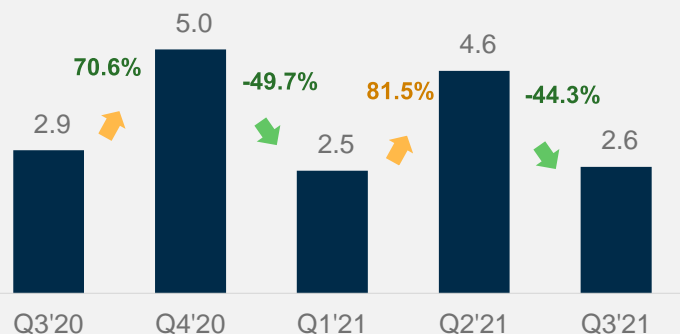
Note: Scaling and some numbers might not add up due to rounding

Source: Financial statements, investor presentations, A&M analysis, ¹ accumulated allowance for impairment / NPL

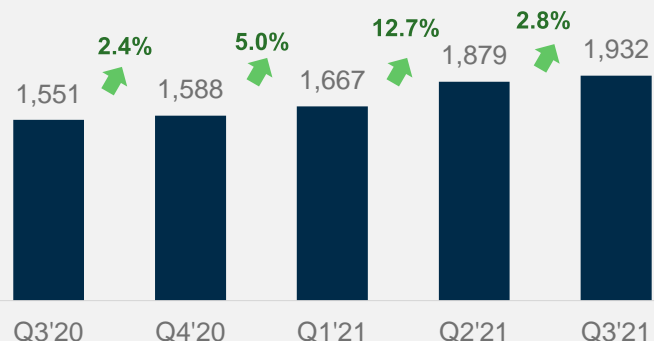
Cost of risk improved substantially with a decrease in total provisioning

→ Improved ← Stable → Worsened

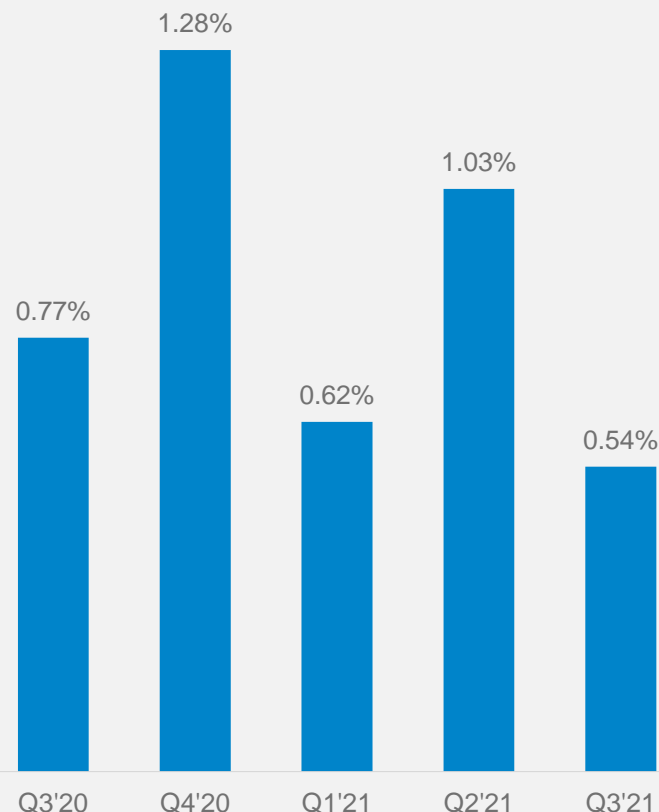
Quarterly net loan loss provisions
(SAR Bn)



Average gross loans
(SAR Bn)



Cost of risk
(%, quarterly annualized)



KEY TAKEAWAYS

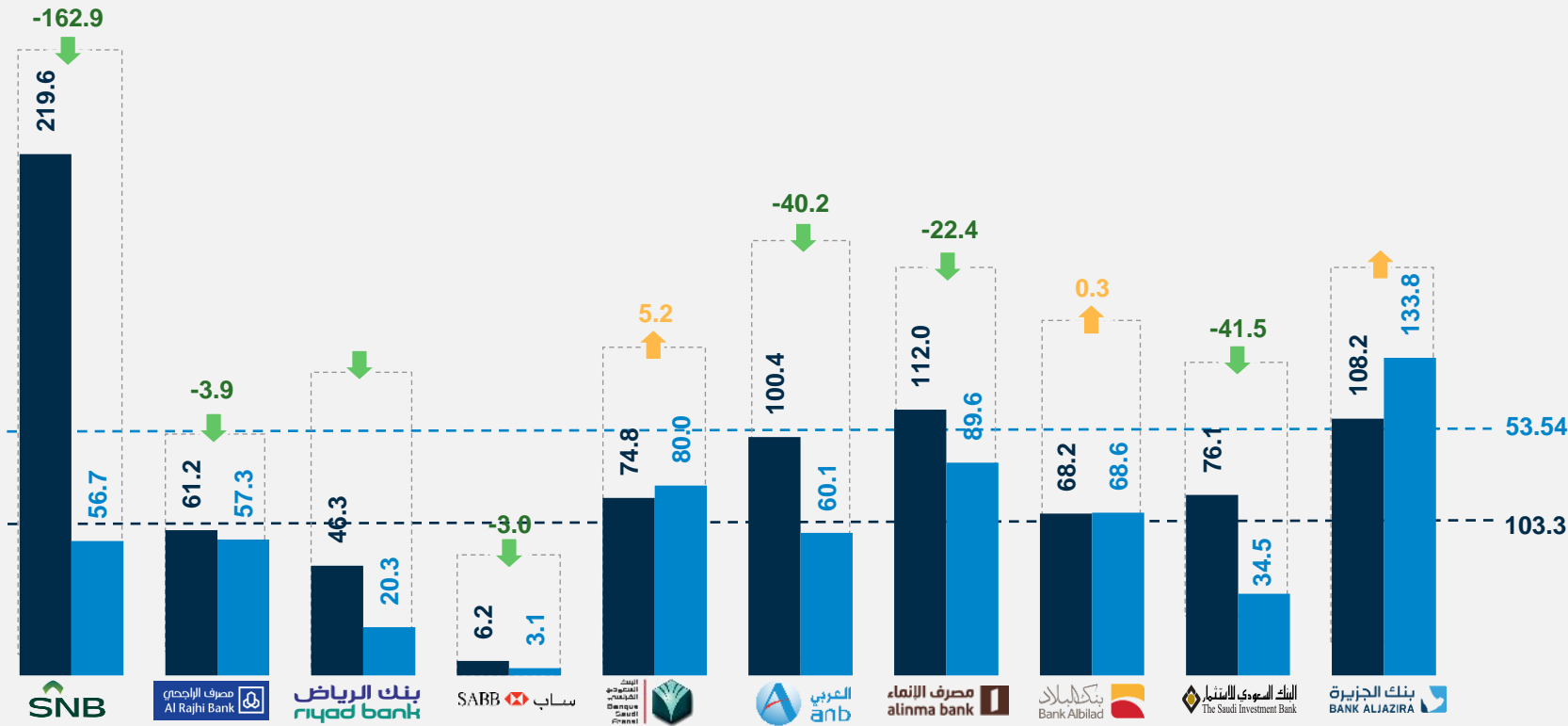
- Total impairments decreased by ~44% in Q3'21 to SAR 2.6bn
 - The decrease (QoQ) is mainly due to a spurt in impairments of SAR 2.4bn booked by SNB in the previous quarter
 - Current aggregate level of impairments is comparable to Q1'21 (+1.1%) and Q3'20 (-13.4% YoY)
 - Aggregate impairments (ex-SNB) decreased by 16% QoQ in Q3'21 compared to -3.1% QoQ in previous quarter
- Cost of risk decreased by 50 bps to 0.54%, after it increased substantially in the previous quarter due to SNB merger
 - Excluding the effect of SNB's higher provisions, the cost of risk improved by 11 bps QoQ

Cost of risk improved for seven banks; SNB reported substantial decrease in cost of risk

→ Improved ← Stable → Worsened

Cost of risk (bps) – net of reversals

■ Q2'21 ■ Q3'21 --- Q2'21 Av --- Q3'21 Av

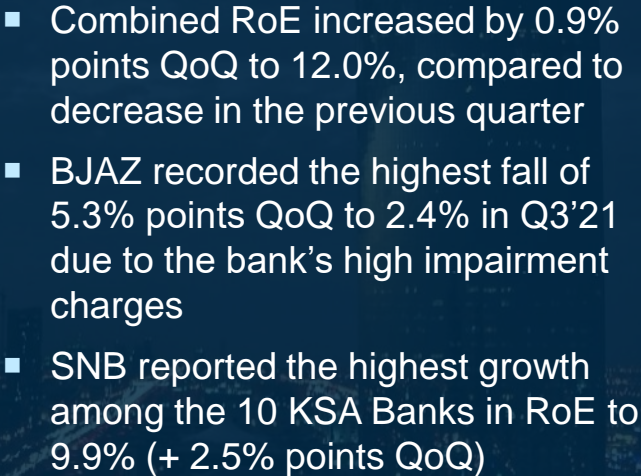


KEY TAKEAWAYS

- Cost of risk decreased for seven of the ten banks in Q3'21
- SNB reported the highest fall in cost of risk (162.9 bps QoQ) to 0.57% in Q3'21, driven by:
 - SNB reported impairments of SAR 0.7bn in Q3'21 compared to SAR 2.4bn in Q2'21
 - Impairments decreased substantially by 70% QoQ after it spiked in Q2'21, due to higher reported impairments by SNB following the merger
- BJAZ reported the highest increase in the cost of risk by ~26 bps to 1.3%, driven by
 - Significant increase in provisioning by 27.3% QoQ compared to last few quarters

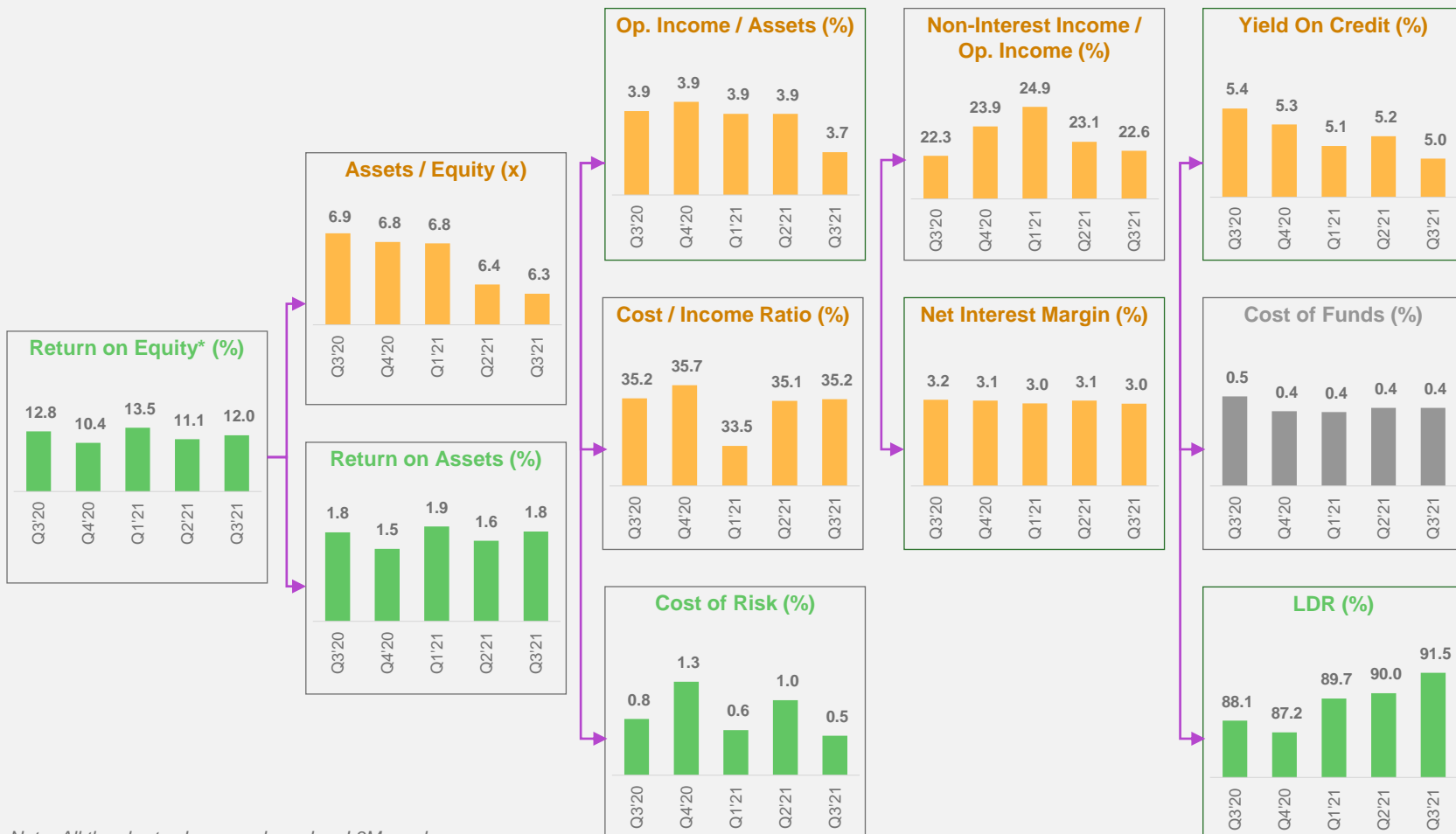
Note: Scaling and some numbers might not add up due to rounding
Source: Financial statements, investor presentations, A&M analysis

KEY TAKEAWAYS



KSA banking sector: Extension of loan deferral program to continue providing cushion to 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 in Q3'21 to 12.0% from 11.1% in the previous quarter
- SAMA has extended the loan deferral program till the end of 2021
 - The outlook for cost of risk remains negative despite an extension of the loan deferral program, due to the possibility of increase in bad loans
- Saudi Central Bank has already pushed for a move towards digital banking
- Saudi Central Bank has announced the launch of the country's open banking framework, a step taken to diversify its financial service sectors, expected to go live in 2022

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*
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
15-Mar-19	Banque Saudi Fransi	Saudi Arabia	Olayan Investments, Ripplewood Advisors LLC	5%	1,641	Completed
29-Jan-19	Union National Bank PJSC	UAE	Abu Dhabi Commercial Bank PJSC	100%	11,762	Completed
29-Jan-19	Al-Hilal Bank PJSC	UAE	Abu Dhabi Commercial Bank PJSC	100%	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	902.7	SNB	
Al Rajhi Bank	582.6	ALRAJHI	
Riyad Bank	318.6	RIBL	
Saudi British Bank	269.5	SABB	
Banque Saudi Fransi	213.3	BSF	
Arab National Bank	182.2	ANB	
Alinma Bank	166.8	ALINMA	
Bank Albilad	111.6	BALB	
Saudi Investment Bank	99.6	SIB	
Bank Aljazira	98.6	BJAZ	

Note: Banks are sorted by assets size
* As on 30th September 2021