



# Saudi Arabia Banking Pulse

## Year Ending 31<sup>st</sup> December 2021

# FOREWORD

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Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the 2<sup>nd</sup> annual edition of the Kingdom of Saudi Arabia (KSA) Banking Pulse (“The Pulse”). In this annual 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.

All the data used in this report has been obtained from publicly available sources and the methodology for the calculations is discussed in the glossary. Calculation of several metrics will be subject to change based on available information.

We hope that you will find our 2<sup>nd</sup> annual edition of the KSA Banking Pulse useful and informative.



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# Pulse: Profitability metrics of top KSA banks witnessed improvement as the economy recovers post COVID pandemic

→ Improved ← Stable → Worsened

	Metric	2020	2021	2018	2019	2020	2021
Size	Loans and Advances (L&A) Growth (YoY)	12.8%	↑ 14.2%				
	Deposits Growth (YoY)	9.2%	↓ 7.2%				
Liquidity	Loan-to-Deposit Ratio (LDR)	86.0%	↑ 91.5%				
Income & Operating Efficiency	Operating Income Growth (YoY)	3.2%	↑ 3.5%				
	Operating Income / Assets	3.9%	↓ 3.6%				
	Non-Interest Income(NII) / Operating Income	23.4%	↓ 23.0%				
	Yield on Credit (YoC)	5.6%	↓ 4.9%				
	Cost of Funds (CoF)	0.6%	↓ 0.4%				
	Net Interest Margin (NIM)	3.1%	↓ 2.9%				
	Cost-to-Income Ratio (C/I)	35.4%	↓ 35.2%				
Risk	Coverage Ratio	148.2%	↑ 164.4%				
	Cost of Risk (CoR)	1.1%	↓ 0.7%				
Profitability	Return on Equity (RoE)*	10.9%	↑ 11.4%				
	Return on Assets (RoA)*	1.6%	↑ 1.7%				
	Return on Risk-Weighted Assets (RoRWA)	1.9%	↑ 2.1%				
Capital	Capital Adequacy Ratio (CAR)	20.3%	↓ 19.9%				

## Key Trends of 2021

- 1 During FY'21, aggregate L&A increased by 14.2% YoY (+1.3% points YoY), supported by mortgages; Deposits growth slowed down to 7.2% (-2.0% points YoY)
- 2 LDR increased to 91.5% during FY'21 as L&A grew at a faster rate compared to deposits
- 3 Operating income growth increased by 0.4% points in line with higher NII (+4.0% YoY) and fee and commission income (+9.9% YoY)
- 4 NIM compressed by ~18 bps YoY as the Central Bank holds the interest rates low
- 5 Operating efficiency (C/I ratio) improved by 0.2% points to 35.2%, as operating income grew at a faster pace compared to the operating expenses
- 6 Cost of risk decreased by 39 bps YoY, as banks lowered provisions in light of recovering market environment
- 7 RoE (+0.6% points YoY) and RoA (0.1% point YoY) increased as aggregate net income expanded by ~15.5% YoY
- 8 RoRWA improved by 0.1% points YoY to 2.1%; Capital adequacy ratio decreased from 20.3% to 19.9%

Note 1: YoY stand for year over year

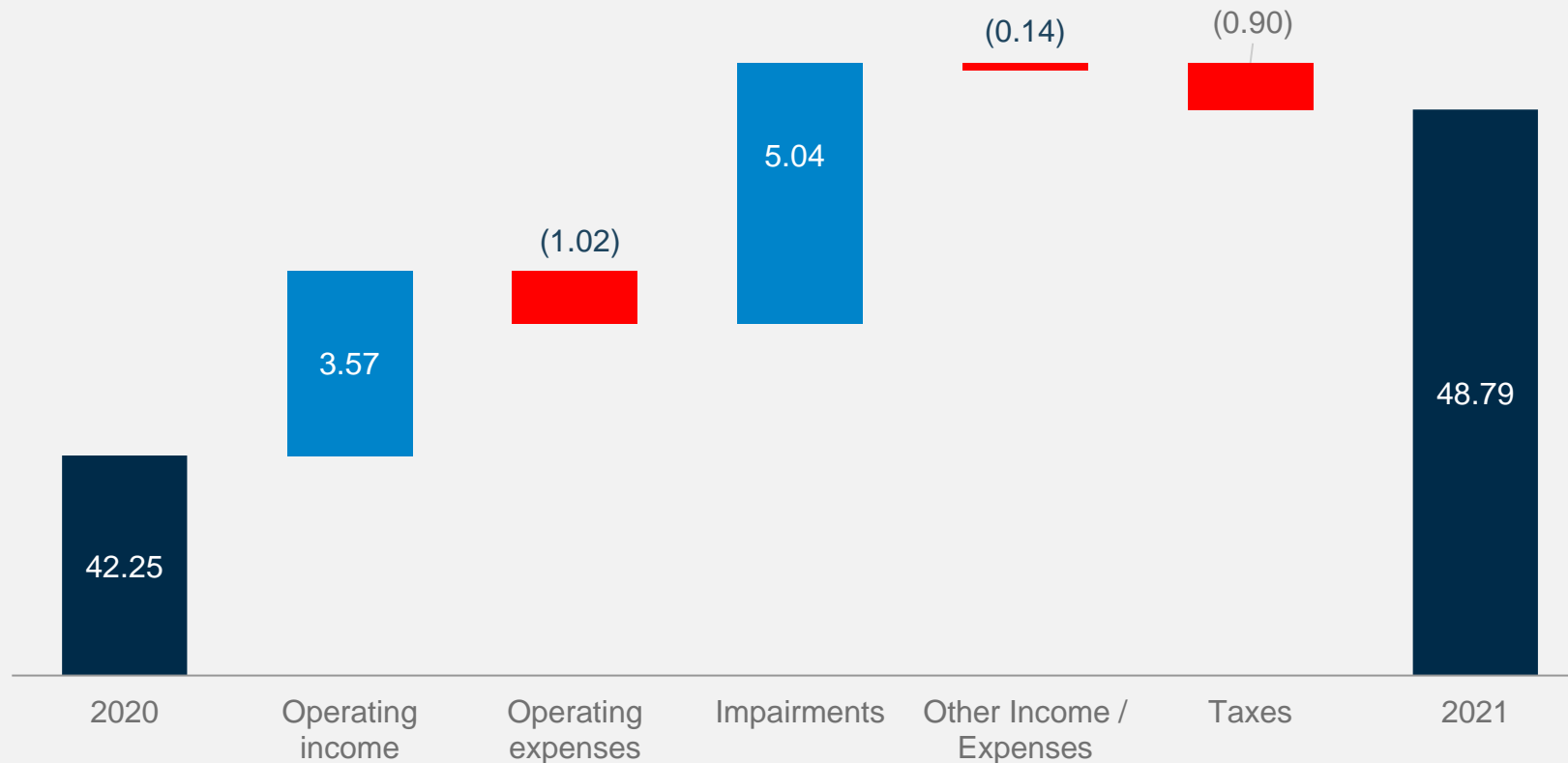
Note 2: Growth in loans & advances and deposits were presented YoY

Note 3: Annual income was used in the calculation of operating income growth

Source: Financial statements, Investor presentations, A&M analysis, \* excludes goodwill impairment charges reported by SABB in Q2'20

# Net income growth was driven by higher operating income and lower impairments

## Net income bridge – SAR bn

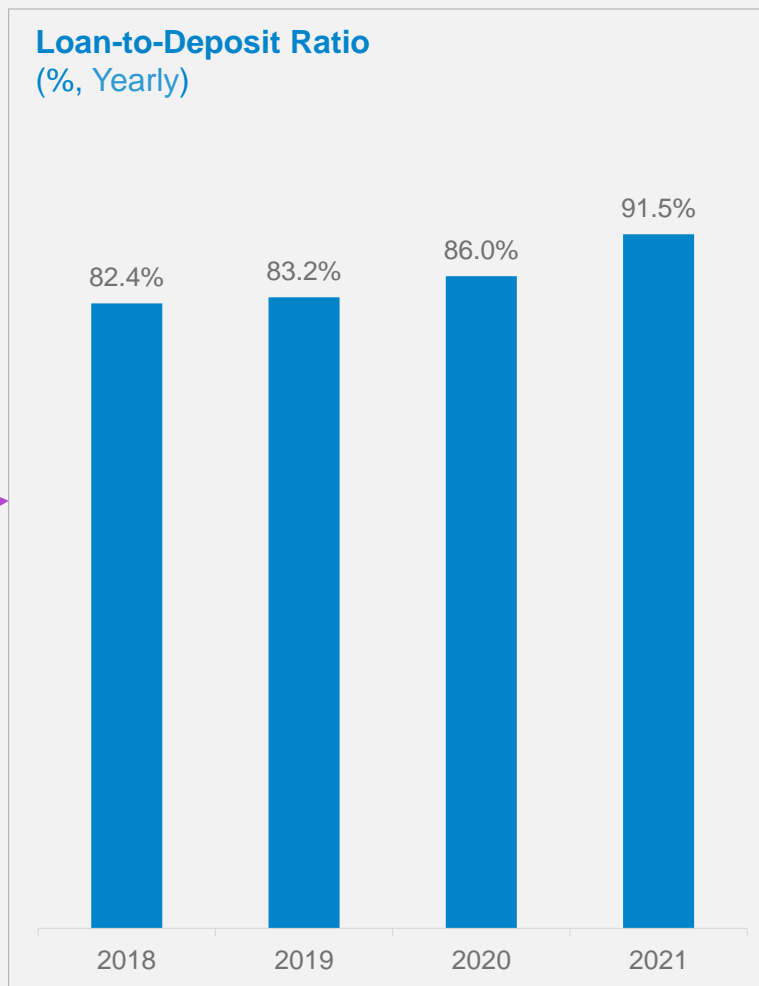
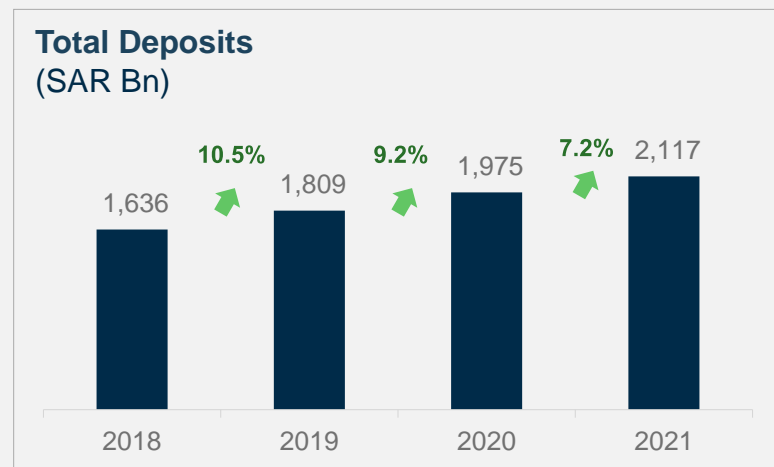
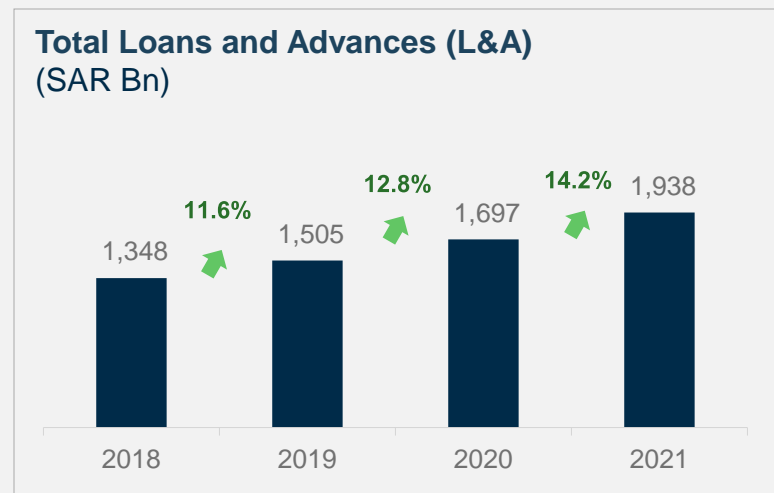


## KEY TAKEAWAYS

- Aggregate net income increased by 15.5% YoY to SAR 48.8bn
- Higher operating income (+3.5% YoY) along with lower impairments (-28.9% YoY) drove the growth in net income
- The growth in operating income was driven by:
  - Higher net interest income (+4.0% YoY) and net fee & commission income (+9.9% YoY)
  - However, it was partially offset by 8.3% fall in income from losses due to foreign exchange translation and other expenses

# L&A growth remain strong led by recovery in consumer spending while deposit mobilization slows down

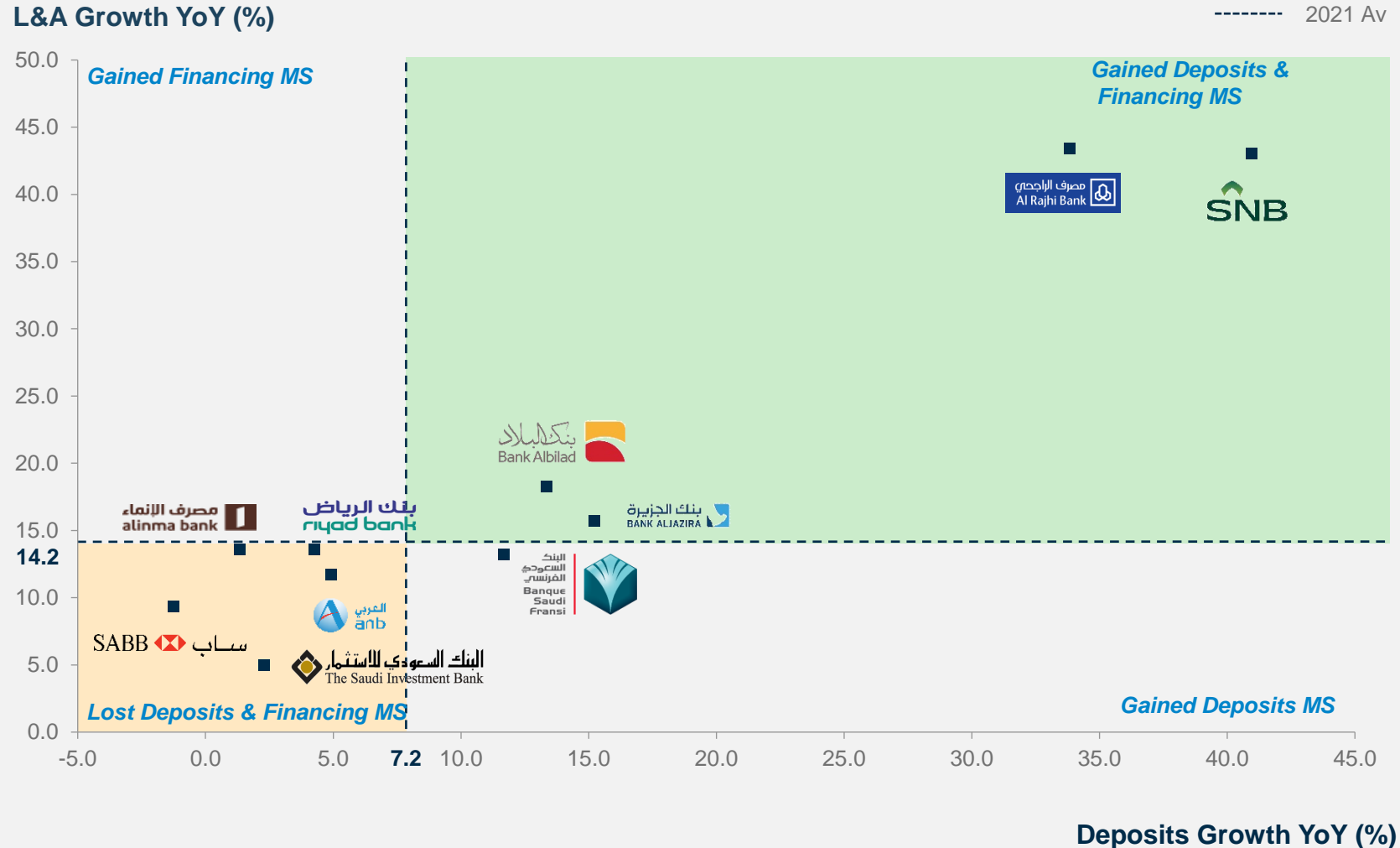
➔ Improved   ↔ Stable   ➡ Worsened



## KEY TAKEAWAYS

- Aggregate L&A grew 14.2% YoY, as all the top ten banks reported a growth in L&A
  - ALRAJHI (+43.4% YoY) reported the highest increase in L&A, supported by strong increase in retail loans (+45.9%), corporate loans (+33.0%) and SME loans (+60.6%)
  - SNB reported 43.0% YoY growth in L&A supported by strong retail financing growth
- Deposits increased by 7.2% YoY, led by strong growth from SNB (41.0%) and ALRAJHI (+33.8%)
- Consequentially, aggregate LDR rose to 91.5% from 86.0%

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



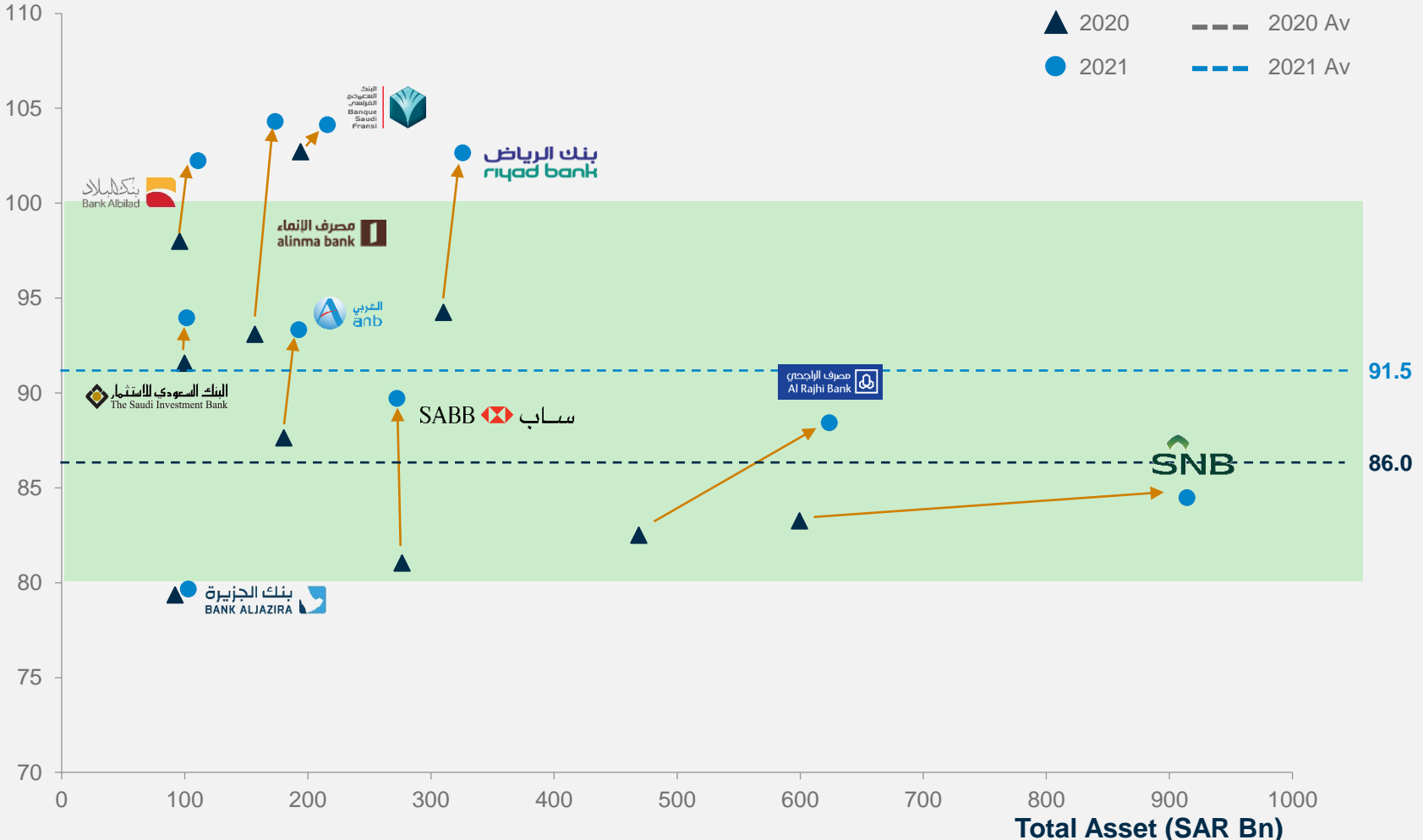
## KEY TAKEAWAYS

- L&A of the top ten banks increased by 14.2% YoY in 2021 while aggregate deposits grew by 7.2%
  - L&A (ex-SNB\*) grew by 6.7% YoY while the deposits (ex-SNB\*) declined by 1.8% YoY
- ALRAJHI reported L&A growth of 43.4%, while the deposits grew by 33.8% YoY
  - L&A growth was driven by 45.9% YoY increase in retail loans
  - Deposits grew due to 33.8% YoY as time deposits increased 3.0x
- SABB was the only bank to report 1.2% YoY fall in deposits in 2021

Note: MS stands for market share ; Data points for SNB are not comparable  
 Source: Financial statements, Investor presentations, A&M analysis

# LDR has increased for the top ten banks indicating an aggressive lending stance

Loans to Deposits Ratio (%)

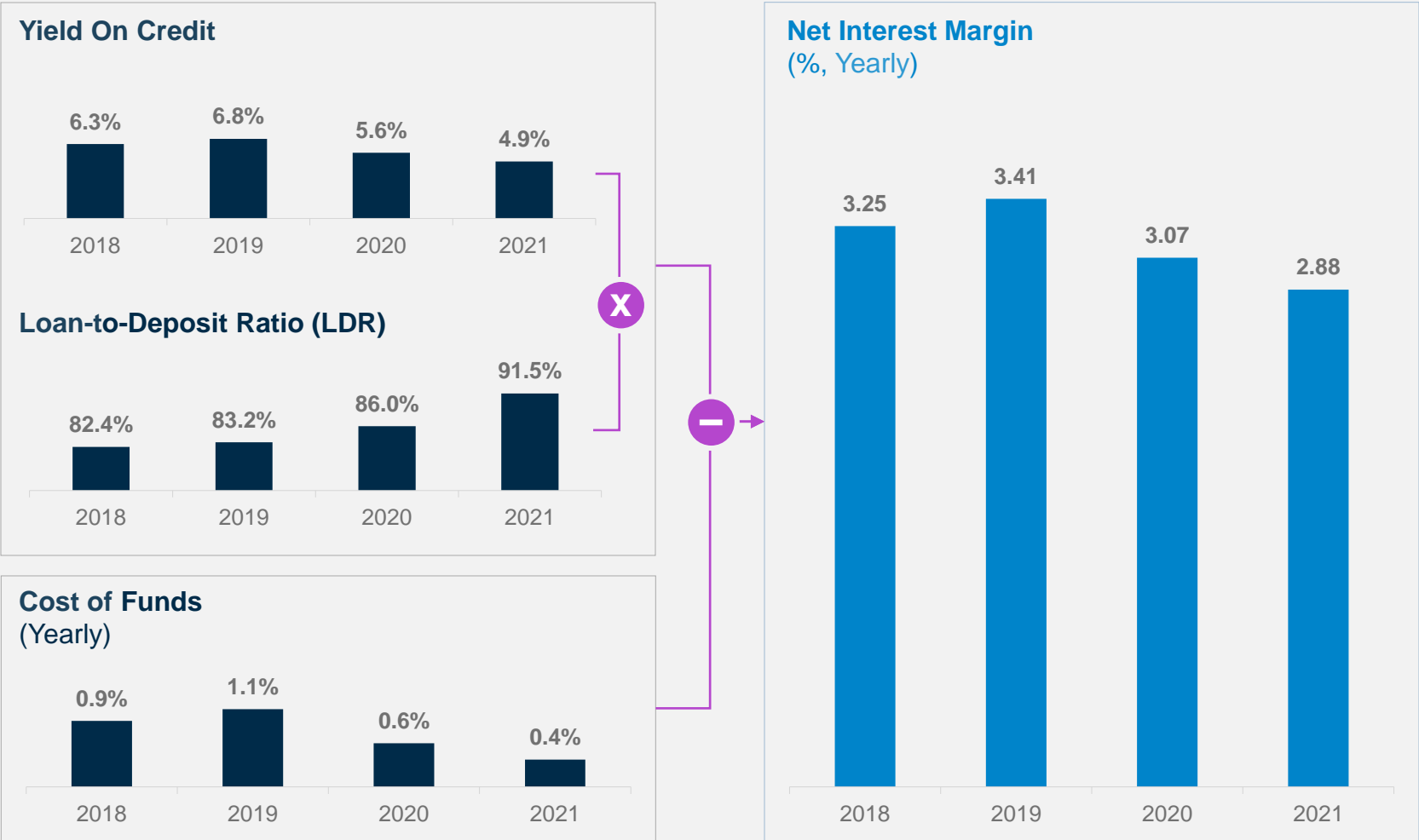


Note: The green zone is an area of healthy liquidity  
 Source: Financial statements, A&M analysis

## KEY TAKEAWAYS

- Aggregate LDR has increased by 5.6% points YoY at 91.5% in 2021
- All the banks reported an expansion in LDR, owing to the increase in loans across all the banks
- ALINMA reported the highest increase in LDR (+11.2% points YoY) followed by SABB (+8.7% points YoY)

# NIMs slip further as interest rates fall to a multi-year low



## KEY TAKEAWAYS

- NIM further dropped by 18 bps to 2.88% during FY'21, due to the broader low interest rate environment
  - Saudi's central bank had cut repo rates by 125 bps in March'20 to c. 1.0% to support the economy during the pandemic
- SABB (-51 bps YoY) reported the highest decrease in NIM, followed by BALB (-29 bps YoY)
- Aggregate yield on credit declined by 74 bps YoY, while cost of funds fell 23 bps YoY

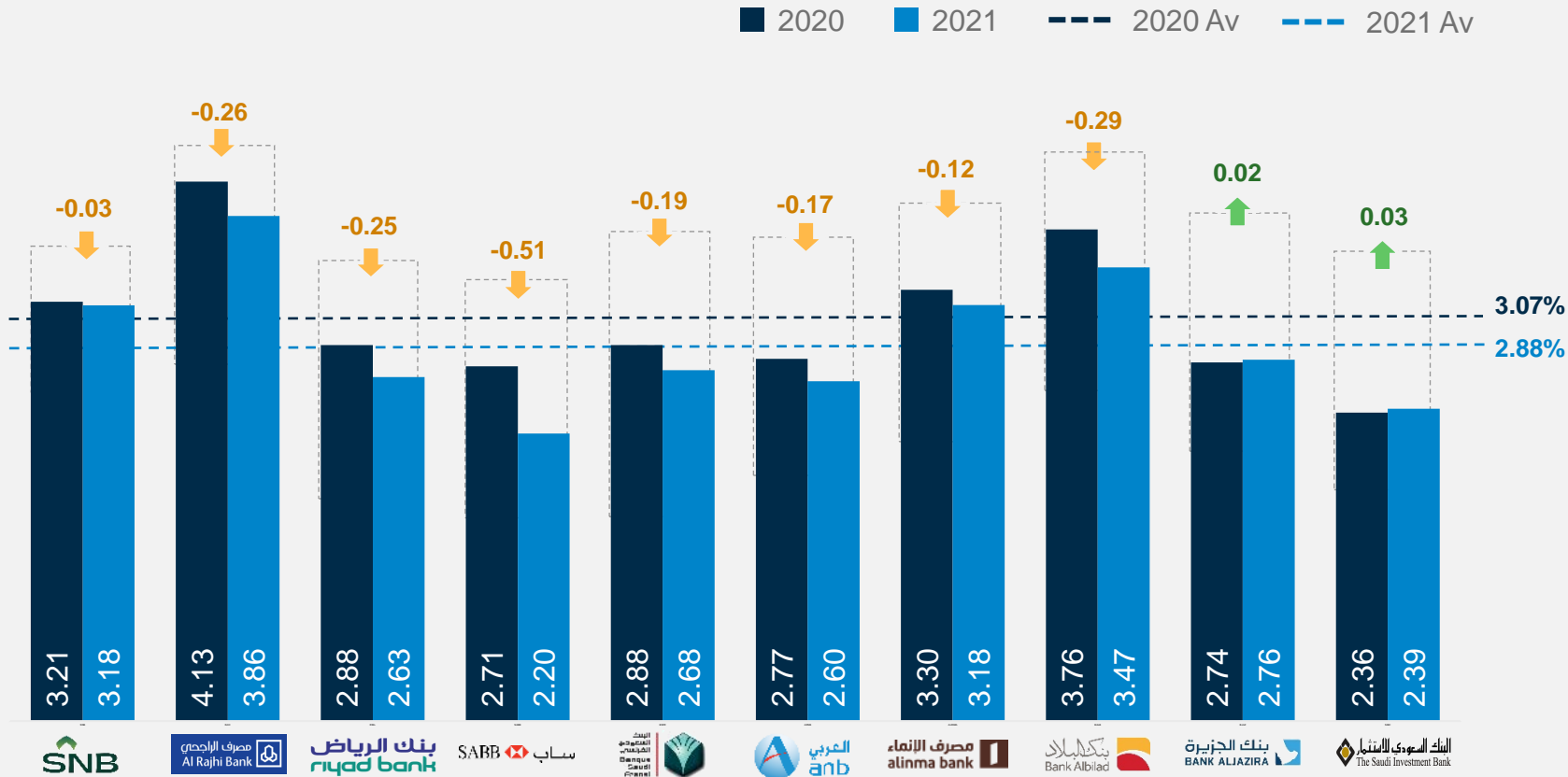
Note: Relation between elements above represents a functionality and not necessarily an exact mathematical formula  
 Source: Financial statements, Investor presentations, A&M analysis



# Major banks have reported contraction in NIM

→ Improved   ← Stable   → Worsened

## Net Interest Margin (% Quarterly)



## KEY TAKEAWAYS

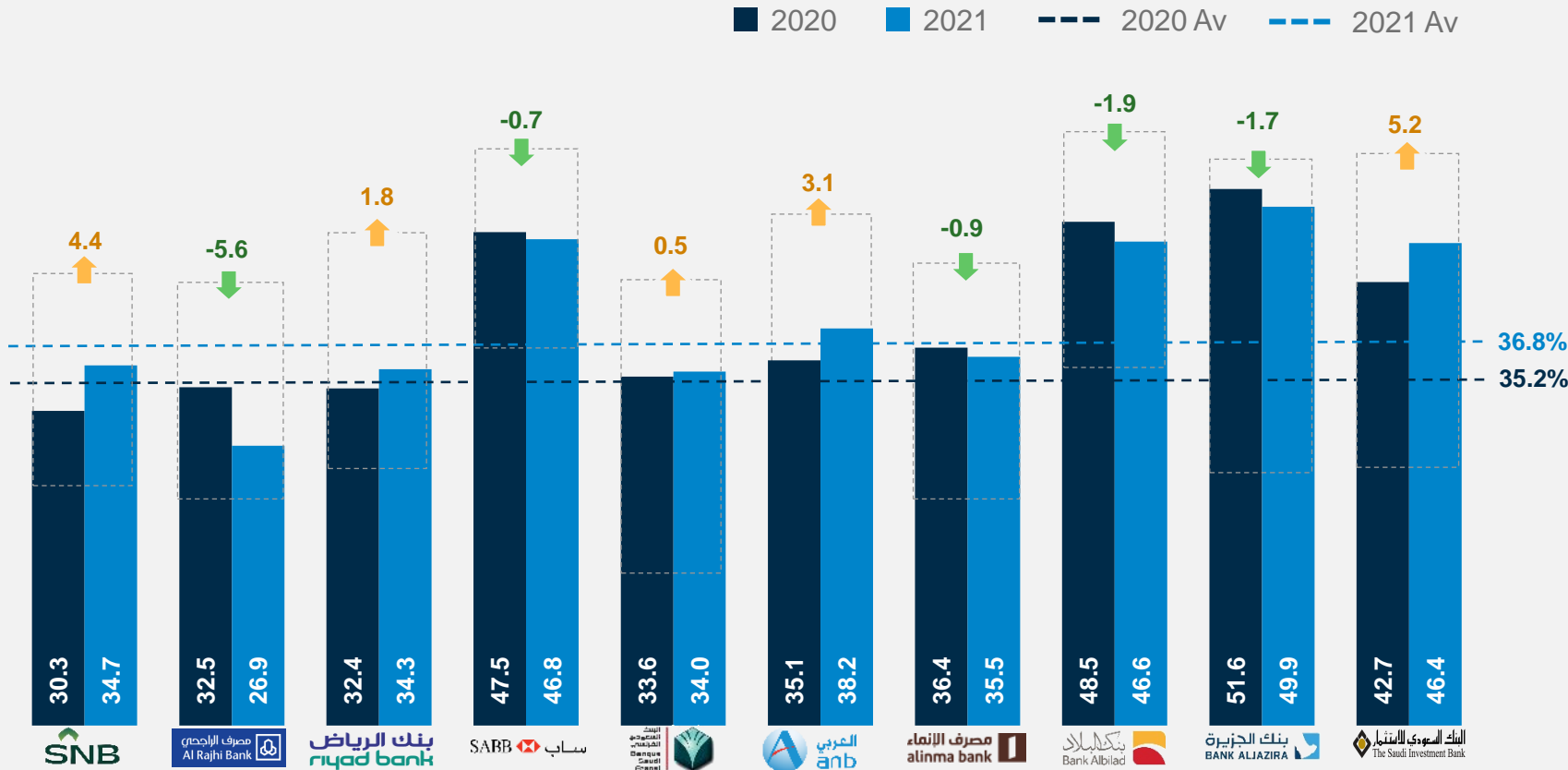
- Seven of the top ten banks have reported contraction in NIM with aggregate NIM decreasing by 18 bps YoY
- SABB (-51 bps YoY) reported the highest fall in NIM during the period mainly due to 16.7% decline in the net interest income
- NIM's for BJAZ and SIBC have remained largely flat, increasing marginally by 2 bps and 3 bps, respectively

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

# Aggregate C/I ratio improved for five of the top ten KSA banks led by ALRAJHI

→ Improved   ← Stable   → Worsened

## Cost to Income Ratio (% , Quarterly)



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

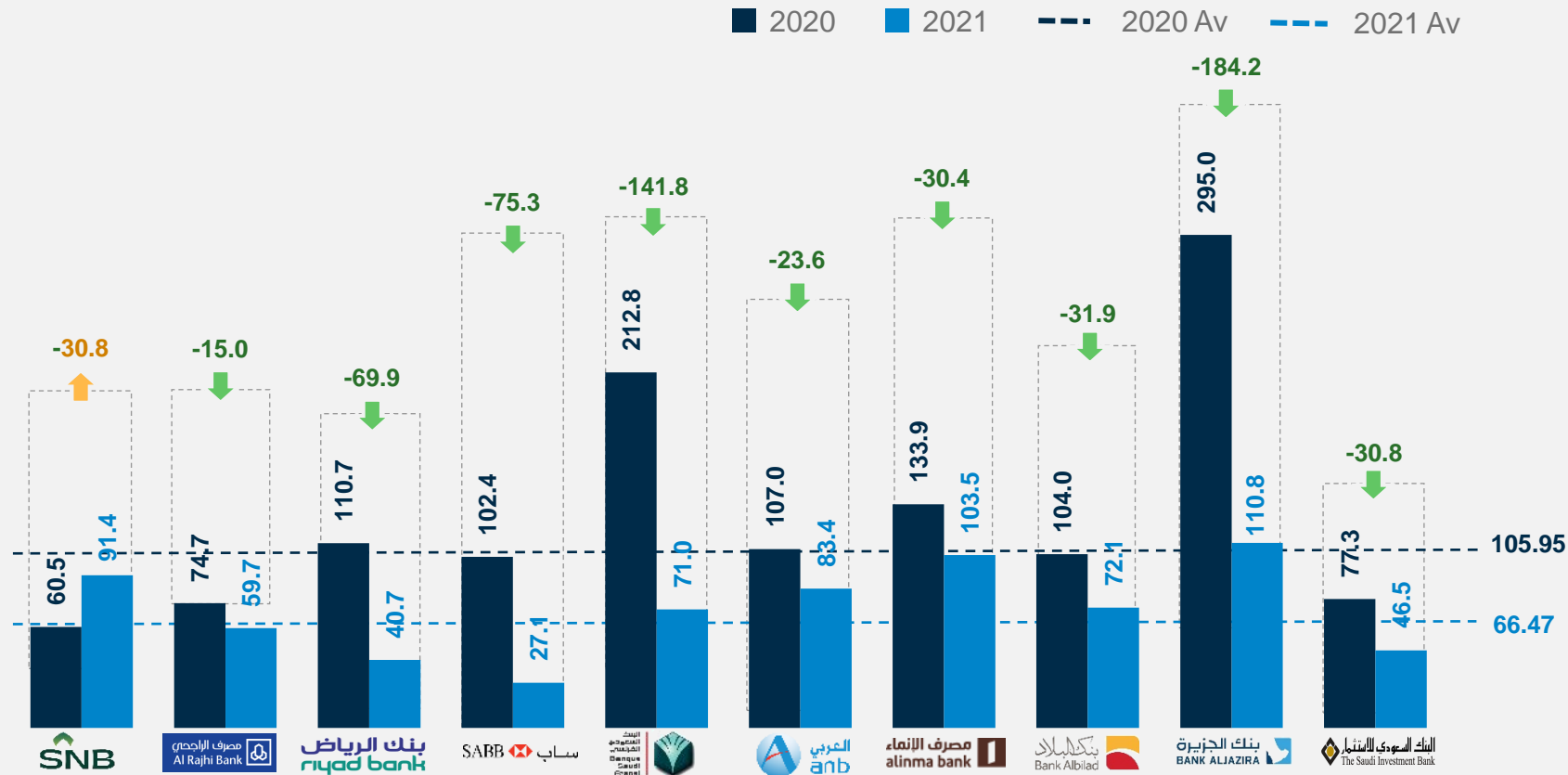
## KEY TAKEAWAYS

- Five of the top ten banks witnessed improvement in cost to income ratio
- C/I ratio for ALRAJHI improved the most by 5.6% points YoY due to higher yield income (+20.6% YoY) and fee and commission income (+47.9% YoY)
- BALB has shown the highest cost efficiencies in the previous five years with C/I ratio falling from 59.5% in 2016 to 46.6% in 2021
  - The bank reported 1.9% points YoY contraction in C/I ratio as yield income and fee and commission income increased 6.0% and 16.6% respectively
- SNB reported deterioration in C/I ratio by 4.4% points, as the operating costs decreased by 52% YoY due to higher communications and IT related costs

# Aggregate cost of risk across the sector has decreased with all the banks except SNB reporting higher cost of risk

→ Improved   ← Stable   → Worsened

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



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

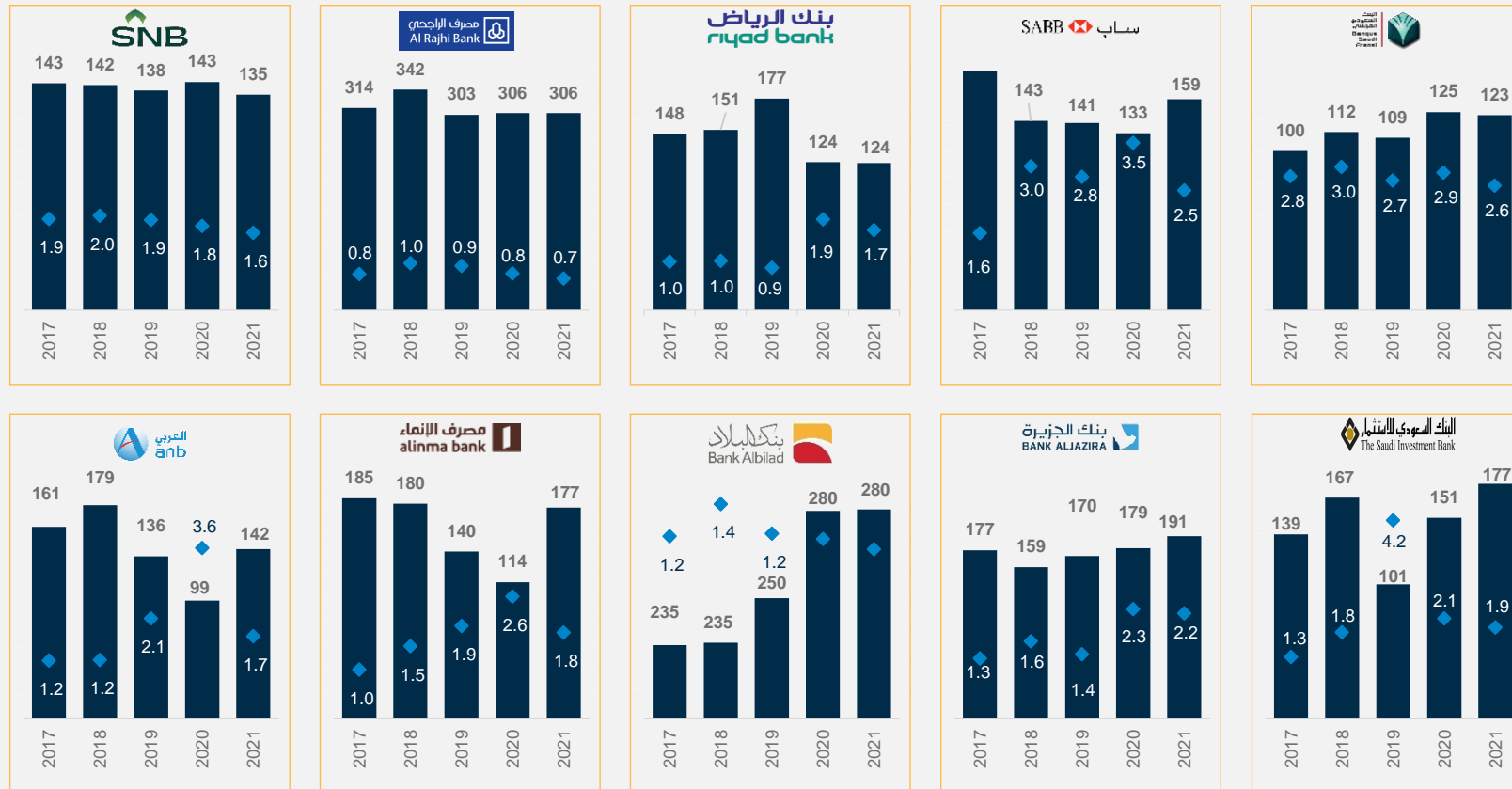
## KEY TAKEAWAYS

- Cost of risk decreased for all the banks except for SNB in 2021
- BSFR reported a significant fall in cost of risk (141.8 bps YoY) to 0.71% in 2021 driven by:
  - Moderation in impairment charge from SAR 2,670mn in 2020 to SAR 904mn in 2021 due to improved macro-economic scenario
- Cost of risk for SNB increased by 30.8 bps to 0.9% as the provisions increased by 104% YoY
  - However, on a normalized basis the SNB's cost of risk is 0.61%

# Coverage ratio and the asset quality improved for most of the banks

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

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



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

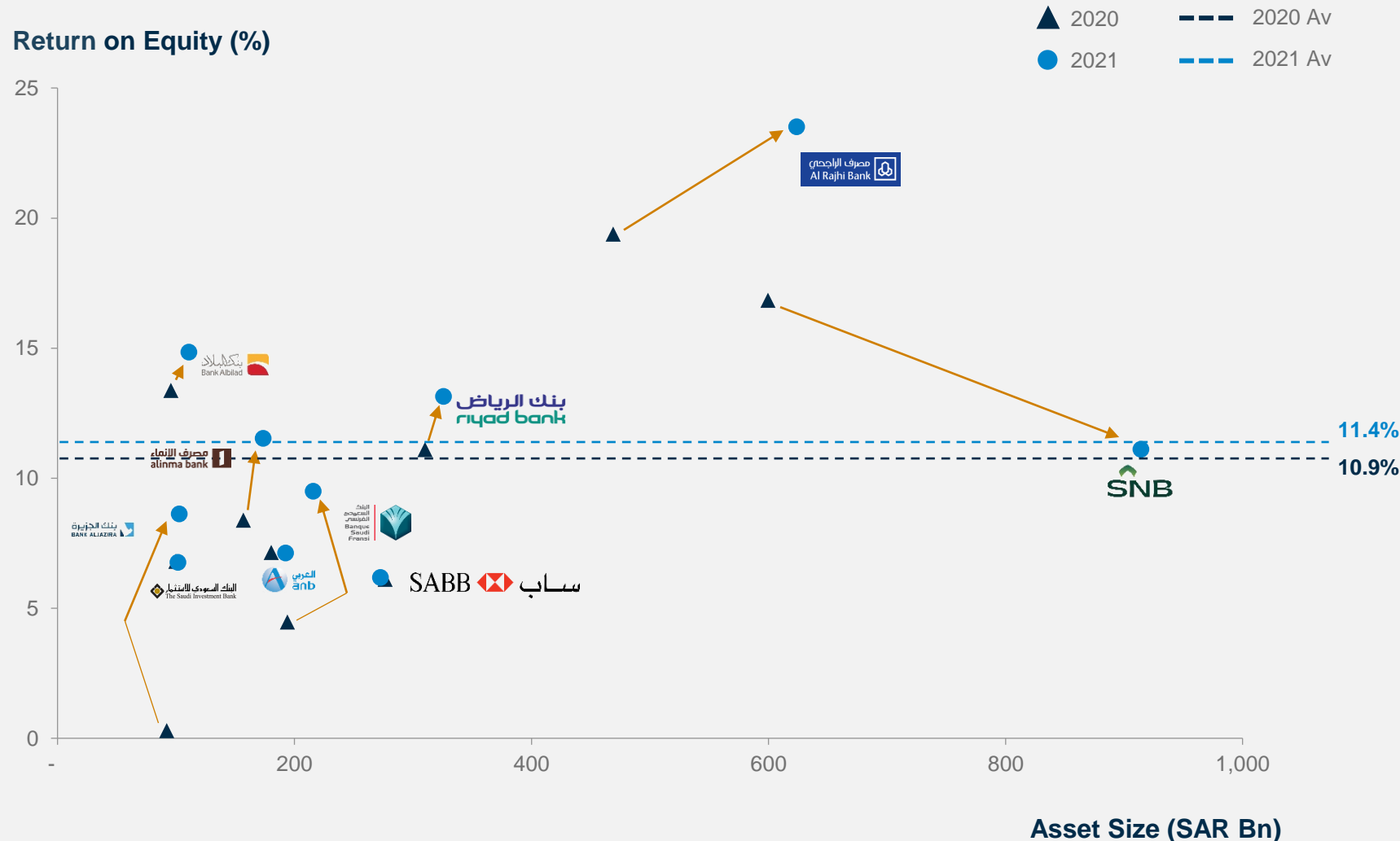
Source: Financial statements, investor presentations, A&M analysis, <sup>1</sup> accumulated allowance for impairment / NPL

## KEY TAKEAWAYS

- Asset quality improved further as NPLs/Net Loan ratio decreased to 1.6% in 2021 compared to 2.0% in 2020
- Aggregate coverage ratio increased to 164.4% (+16.2% points YoY)
- Six of the top ten banks reported an increase in coverage ratio, highlighting the risk averseness of the banks
- ALINMA reported a substantial increase in coverage ratio, +62.6% points YoY to 177.1%
  - ALINMA's coverage ratio increased as the NPL fell 20% YoY mainly as NPL's for corporate sector decreased by 16% YoY
- On the other hand, SNB reported the highest decrease in coverage ratio by 8.0% points to 135.5%

# Return ratios improved in line with overall increase in profitability

## Return on Equity (%)

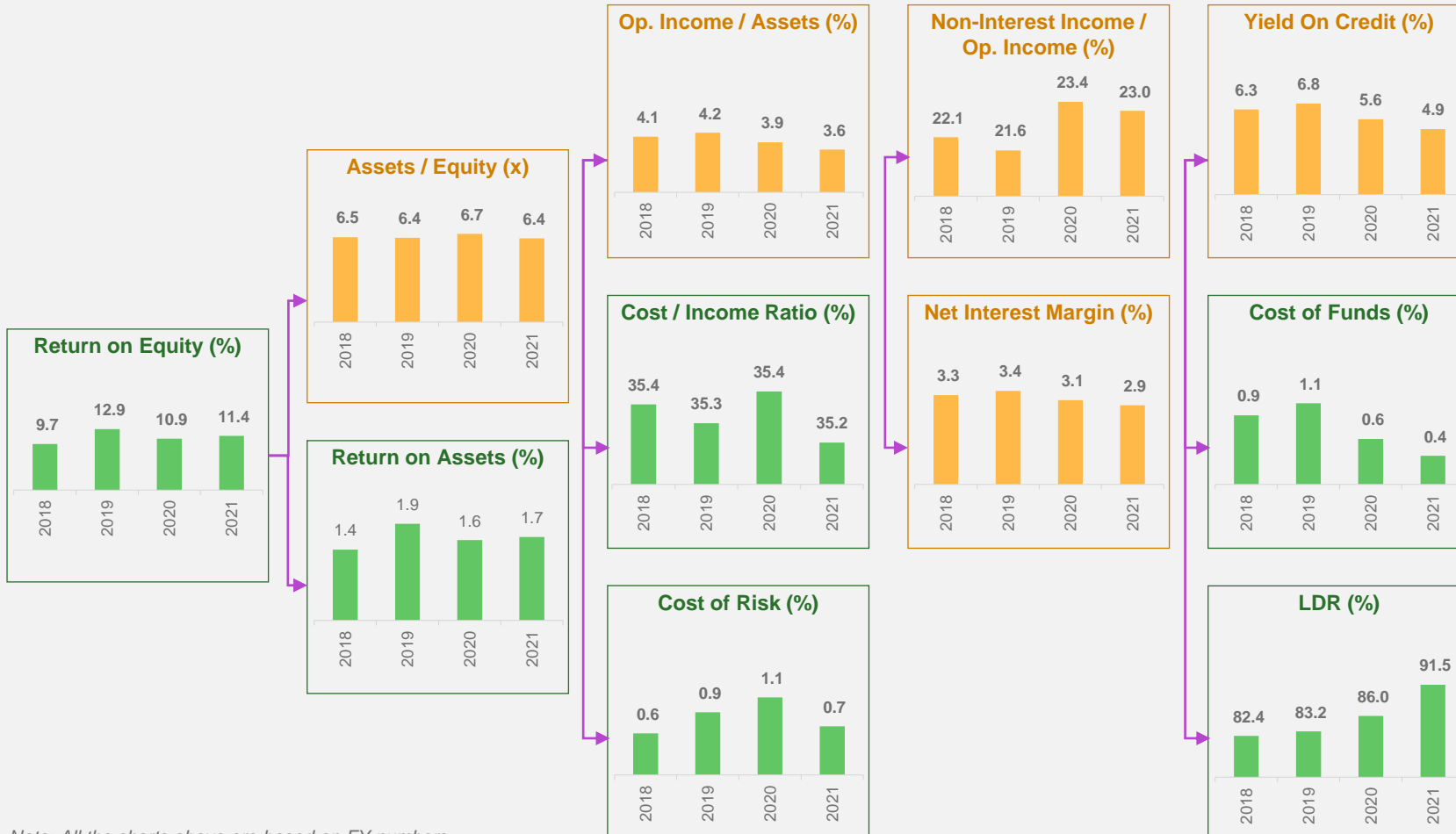


## KEY TAKEAWAYS

- Combined RoE of KSA banks increased marginally by 0.5% points YoY to 11.4%, largely due to 15.5% YoY increase in aggregate profitability of the top ten banks
- ALRAJHI reported a YoY expansion of 413 bps in RoE to 23.5% in 2021
- BSFR's RoE grew from 4.5% in 2020 to 9.5% in 2021 due to:
  - 123% YoY improvement in net profit due to lower provisions

# Higher profitability despite lower NIM showcase the higher efficiency of the broader KSA banking sector

■ Improved 
 ■ Stable 
 ■ Worsened



Note: All the charts above are based on FY 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 during FY'21, supported by higher net profit (+15.5% YoY), as operating income increased (+3.5%) along with lower impairment allowance (-28.9%)
- Aggregate L&A increased at a faster pace compared to deposits, as economy rebounds alongside improvement in consumer spending
- We expect SAMA to match policy rate hike by the US Federal Reserve, which will help boost the overall banking sectors NIM's and in turn its profitability
- The outlook for asset quality and cost of risk remains negative as the loan deferral program ends by Q1'22

# Glossary

	Metric	Abbreviation	Definition
Size	Loans and Advances Growth	L&A	YoY growth in EOP net loans and advances for the top 10
	Deposits Growth		YoY 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		YoY growth in aggregate annual operating income generated by the top 10
	Operating Income / Assets		(Annual operating income / annual average assets) for the top 10
	Non-Interest Income / Operating Income		(Annual non-interest income / annual operating income) for the top 10
	Net Interest Margin	NIM	(Aggregate annual net interest income) / (annual 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	(Annual gross interest income / annual average loans & advances) for the top 10
	Cost of Funds	CoF	(Annual interest expense + annual capital notes & tier I sukuk interest) / (annual average interest bearing liabilities + annual average capital notes & tier I sukuk interest) for the top 10
	Cost-to-Income Ratio	C/I	(Annual operating expenses / annual operating income) for the top 10
Risk	Coverage Ratio		(Loan loss reserves / non-performing loans) for the top 10
	Cost of Risk	CoR	(Annual provision expenses net of recoveries / annual average gross loans) for the top 10
Profitability	Return on Equity	RoE	(Annual net profit attributable to the equity holders of the banks – annual capital notes & tier I sukuk interest) / (annual average equity excluding capital notes) for the top 10
	Return on Assets	RoA	(Annual net profit / annual average assets) for the top 10
	Return on Risk-Weighted Assets	RoRWA	(Annual net profit generated / annual 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	914.1	SNB	
Al Rajhi Bank	623.7	ALRAJHI	
Riyad Bank	325.7	RIBL	
Saudi British Bank	272.4	SABB	
Banque Saudi Fransi	215.8	BSF	
Arab National Bank	192.5	ANB	
Alinma Bank	173.5	ALINMA	
Bank Albilad	110.9	BALB	
Bank Aljazeera	102.8	BJAZ	
Saudi Investment Bank	101.6	SIB	

Note: Banks are sorted by assets size  
\* As on 31<sup>st</sup> December 2021



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