A&M | FINANCIAL SERVICES INDUSTRY GROUP

Saudi Arabia Banking Pulse

FY | 2024

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Foreword

Alvarez & Marsal Arabia Limited (A&M) is delighted to publish the FY'24 edition of the Kingdom of Saudi Arabia (KSA) Banking Pulse ("The Pulse-KSA"). In this annual 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-KSA aims to help banking executives and board members stay current on industry trends.

KSA banks demonstrated strong lending momentum, with loans and advances expanding by 14.4% YoY in FY24 (vs. +10.6% YoY in FY'23), primarily driven by higher corporate lending (+17.7% YoY). However, deposit mobilization slowed down and grew 7.9% YoY (vs. 8.4% YoY in FY'23), largely impacted by deceleration in term deposits, which grew by only 4.7% YoY amid falling interest rates towards the later half of 2024. Cost of Funds (CoF) rose by 55bps YoY to 3.5%, resulting in a slight contraction in Net Interest Margin (NIM) by 11bps YoY to 3.0%. Operating income growth softened to 9.3% YoY (vs. 9.5% YoY in FY'23), supported by solid performances in net fees & commission income (+16.4% YoY) and other operating income (+14.7% YoY). Overall, net profit improved by 13.5% YoY (vs. 11.8% YoY in FY'23), underpinned lower impairment charges (down 7.5% YoY).

Cost efficiency improved, with the cost-to-income ratio declining to 31.3% (-63bps YoY), as operating income growth outpaced operating expenses growth (+7.1% YoY). Despite margin pressures, Return on Equity (RoE) strengthened to 14.5% (+72bps YoY), while Return on Assets (RoA) remained stable at 2.0%.

In response to global rate adjustments, SAMA reduced its benchmark interest rate by 100bps YoY to 5.0%, in alignment with the US Federal Reserve's rate cut. International Monetary Fund (IMF) has estimated FY'24 growth for KSA at 1.4%. The Kingdom's banking sector remains resilient, backed by strategic diversification under Vision 2030, rising urbanization and series of government led development projects boosting economic growth.

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

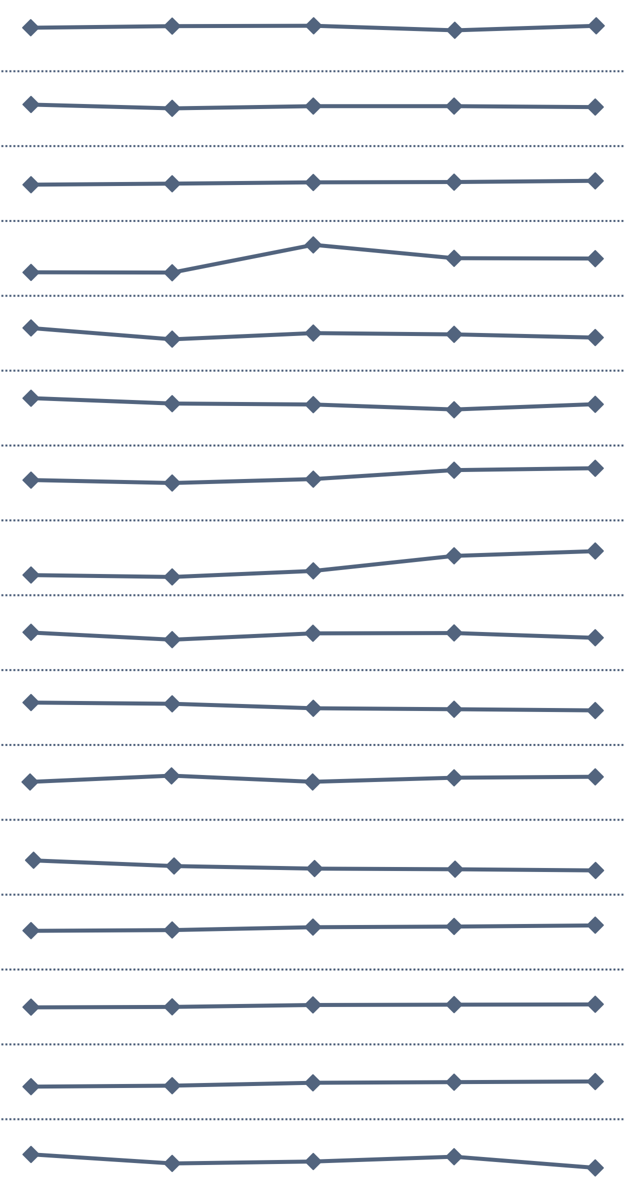
Lending outpaced deposit growth; higher fee income, lower risk costs and cost efficiencies offset margin pressure

Key Trends of FY'24

1. Aggregate L&A grew by 14.4% YoY, while deposits growth moderated to 7.9% YoY
2. LDR increased by 599bps to 104.7% as loan growth outpaced the deposit growth
3. Operating income growth moderated to 9.3% YoY, driven by moderated net interest income growth of 7.6% YoY
4. Share of non-interest income improved to 22.0% of total income (+122bps YoY),
5. NIM declined by 11bps YoY to 3.0% amid falling interest rates and 55bps YoY rise in cost of funding to 3.5%
6. C/I ratio improved by 63bps YoY to 31.3%, indicating improved cost efficiency
7. Asset quality metrics improved with CoR reducing 7bps YoY while coverage ratio rose by 231bps YoY to 161%
8. RoE improved to 14.5% (+72bps YoY, while RoA remained stable at 2.0%
9. Capital Adequacy Ratio (CAR) declined marginally by 48bps YoY to 19.7% and remains well within regulatory limits

	Metric	FY'23		FY'24
Size	L&A Growth (YoY)	10.6%	↑	14.4%
	Deposits Growth (YoY)	8.4%	↓	7.9%
Liquidity	Loan-to-Deposit Ratio (LDR)	98.7%	↑	104.7%
Income & Operating Efficiency	Operating Income Growth (YoY)	9.5%	↓	9.3%
	Operating Income / Assets	3.7%	↓	3.6%
	Non-Interest Income / Operating Income	20.8%	↑	22.0%
	Yield on Credit (YoC)	8.0%	↑	8.4%
	Cost of Funds (CoF)	2.9%	↑	3.5%
	Net Interest Margin (NIM)	3.1%	↓	3.0%
	Cost-to-Income Ratio (C/I)	31.9%	↓	31.3%
Risk	Coverage Ratio	158.7%	↑	161.0%
	Cost of Risk (CoR)	0.4%	↓	0.3%
Profitability	Return on Equity (RoE)	13.8%	↑	14.5%
	Return on Assets (RoA)	2.0%	↔	2.0%
	Return on Risk-Weighted Assets (RoRWA)	2.6%	↑	2.7%
Capital	Capital Adequacy Ratio (CAR)	20.1%	↓	19.7%

FY'20 FY'21 FY'22 FY'23 FY'24



Improved Stable Worsened

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

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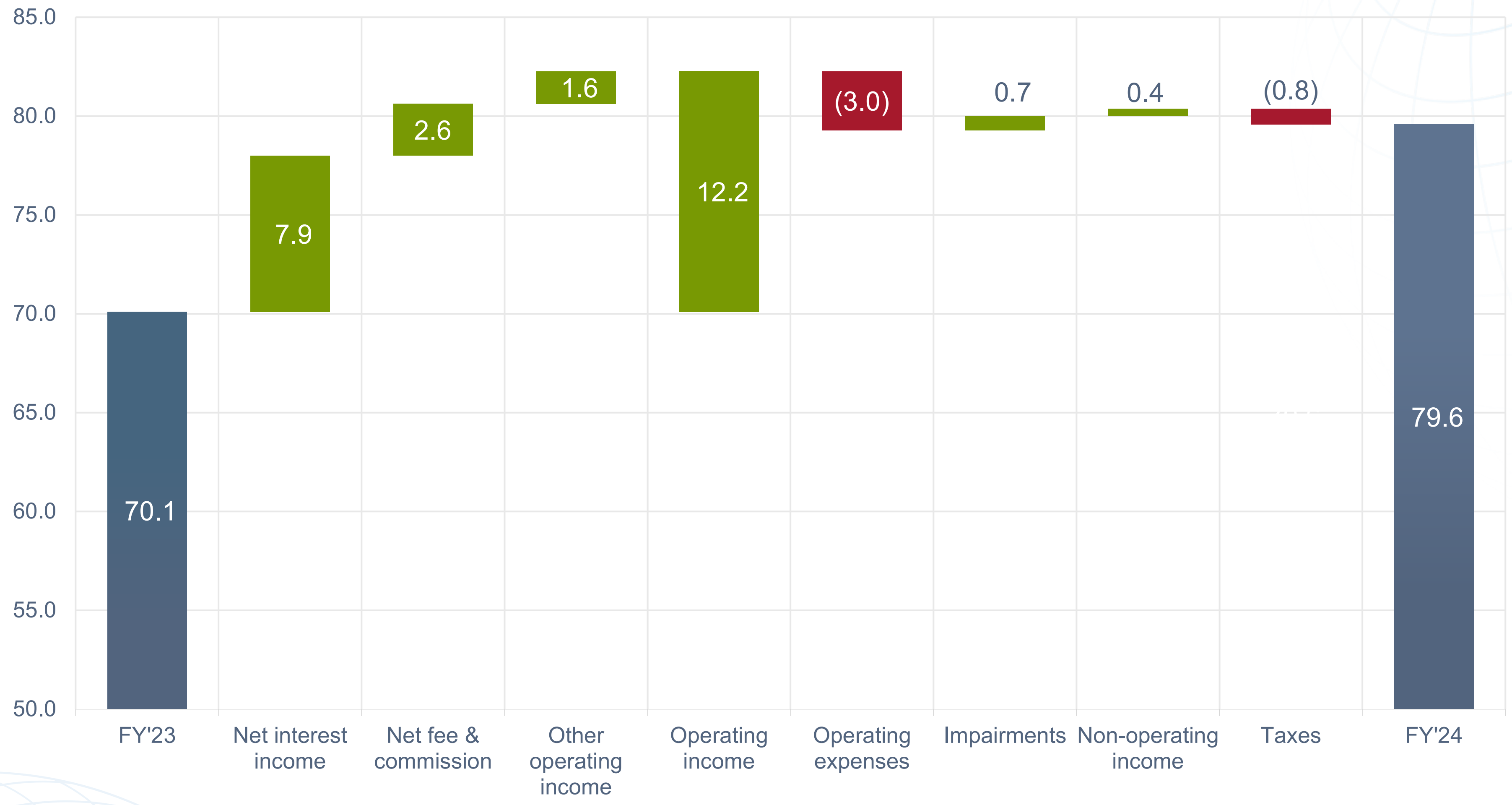
KSA banks sustained strong earning momentum largely due to higher net interest income and fees / other income

Key takeaways

- Aggregate net income of the KSA banks recorded a 13.5% YoY growth reaching SAR 79.6bn driven primarily by:
  - Growth in net interest income by SAR 7.9bn
  - Supported by growth in operating income (+9.3% YoY)
- Net interest income growth slowed down to 7.6% YoY, as compared to 11.0% YoY in FY'23, primarily driven by higher funding costs
- However, fees and commission income (+16.4% YoY) along with cost efficiencies supported overall earnings performance

Net Income Bridge (SAR bn)



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

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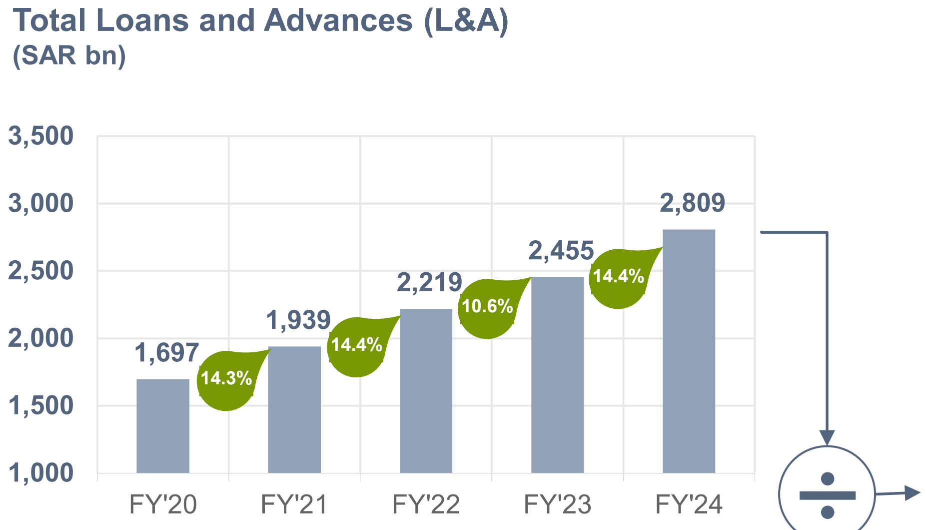
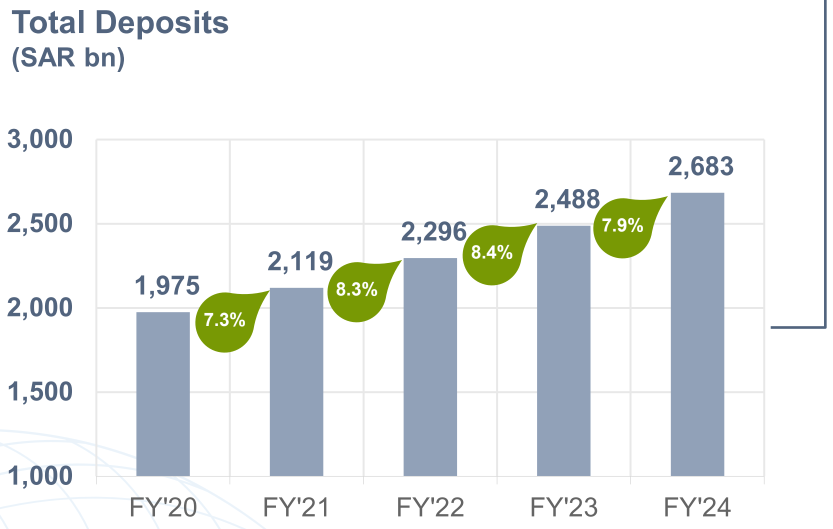
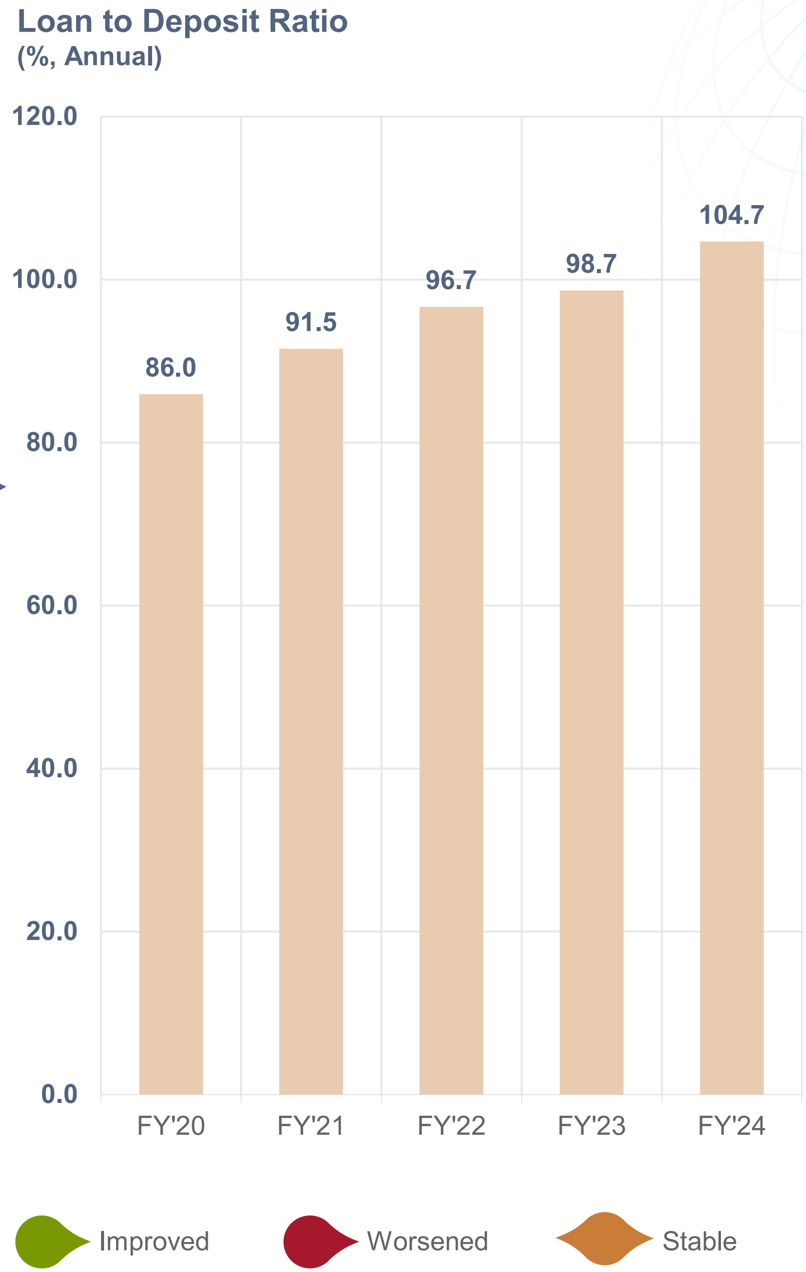
KSA banks' LDR surpassed 100% for the first time in recent years amid strong lending momentum

Key takeaways

- The aggregate LDR of banks in the KSA increased by 599bps YoY to 104.7%, as loan growth of 14.4% YoY outpaced the growth in deposits of 7.9% YoY
- Although the LDR is under regulatory limits (as per SAMA Circular No 44071146 of March 2023,banks have been increasingly accessing capital markets for alternate funding
- The increase in the LDR is primarily driven by SAB and SNB







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

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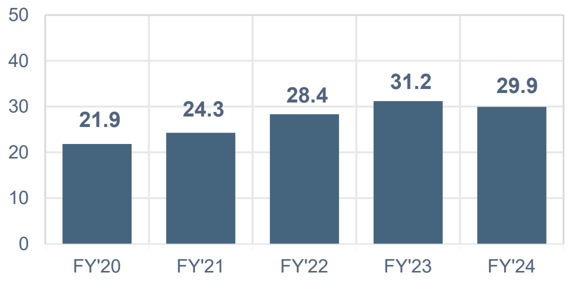
Lending momentum outpaced deposit growth in FY24

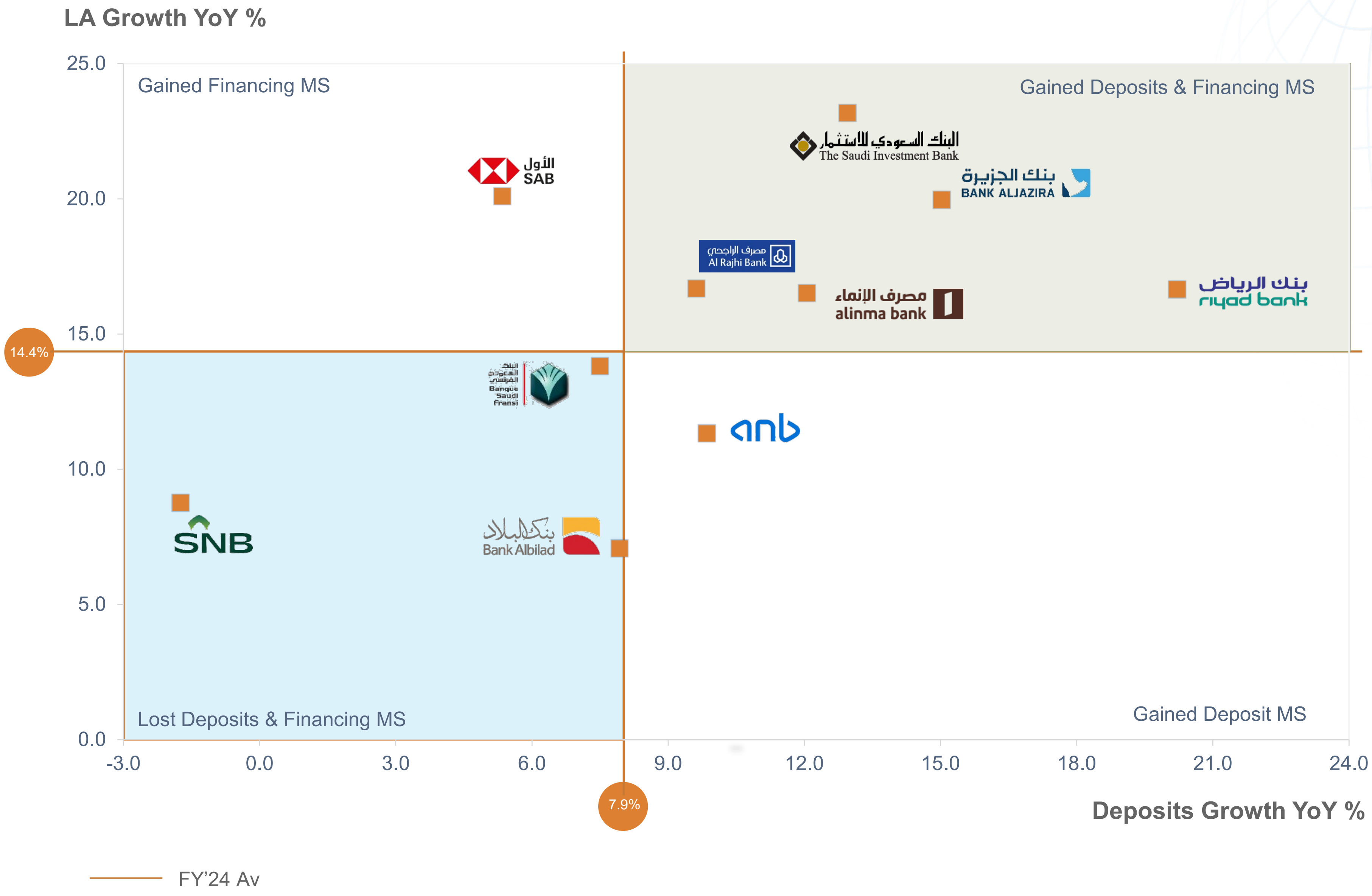
Key takeaways

- Aggregate loans and advances (L&A) of banks expanded by 14.4% YoY, outperforming the 10.6% YoY growth reported in FY'23
  - ALRAJHI posted notable improvement in L&A growth at 16.7% YoY (vs. 4.6% YoY in the prior year) in both corporate (+30.4% YoY) as well as retail lending (+10.9% YoY)
- Deposit growth moderated to 7.9% YoY vs. 8.4% YoY in FY'23
  - SNB was the only bank to witness a fall in deposit base, as its deposits declined by 1.7% YoY, primarily due to CASA outflow (down 6.5% YoY)
- Increase in deposits from government entities moderated to 4.3% YoY (vs. 18.6% YoY in FY'23) and accounted for ~29.9% of the total bank deposits in FY'24 (down 131bps YoY)

Share of Government Deposits (%)



L&A and Deposit Growth (%, Annual)



Note: MS stands for market share

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

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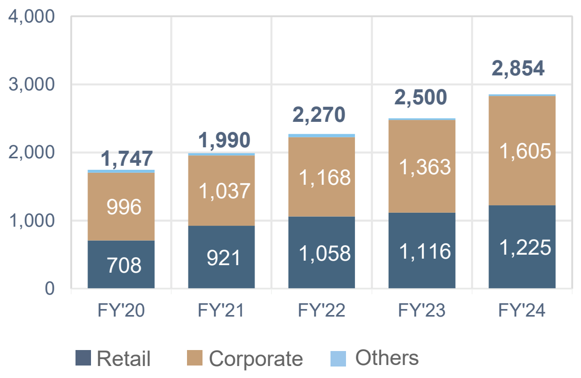
Lending environment largely favorable with corporate outpacing retail in growth

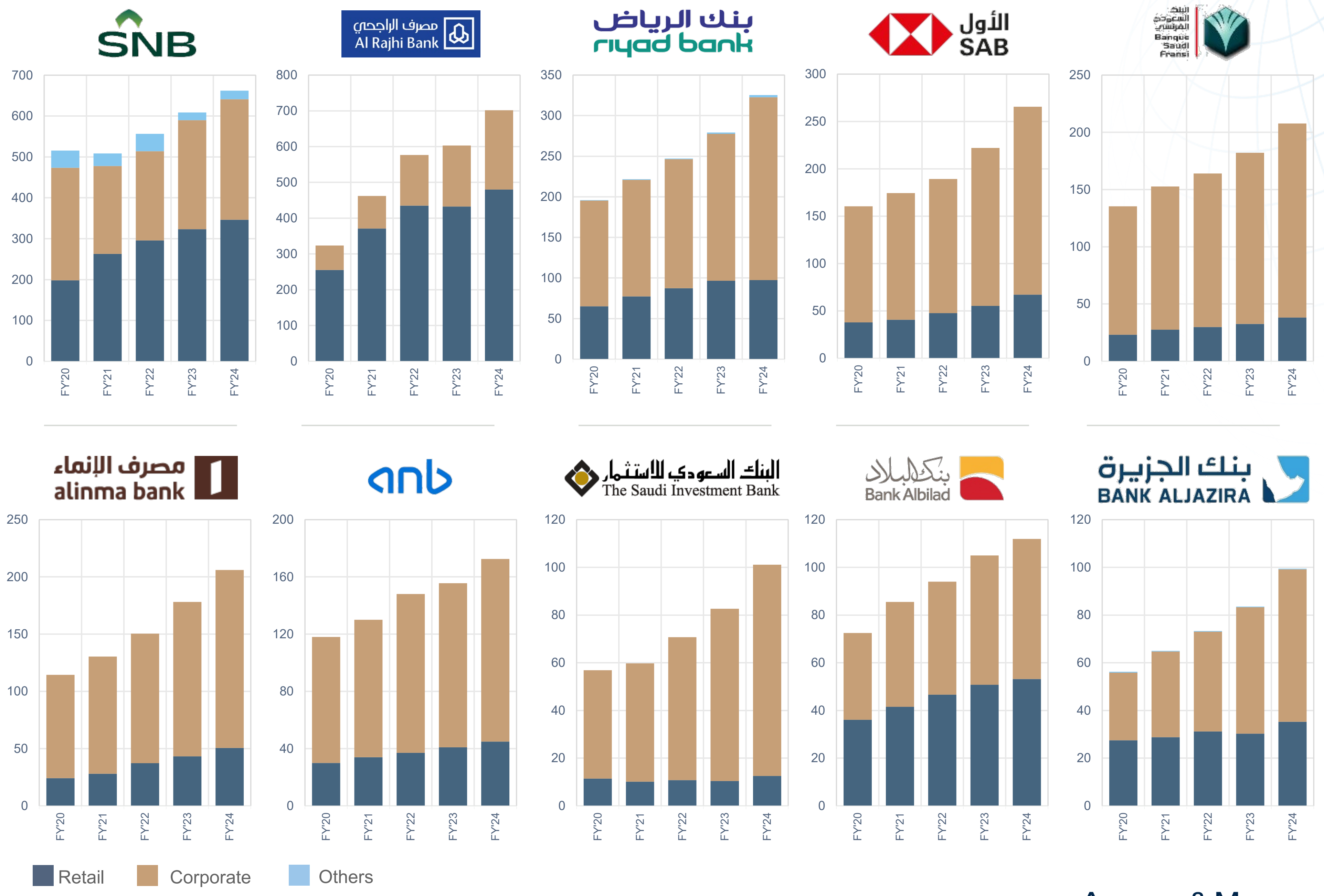
Key takeaways

- The aggregate L&A was significantly volume driven by the corporate loan book which recorded a robust growth of 17.7% YoY, primarily driven by ALRAJHI and RIBL
  - ALRAJHI reported notable 30.4% YoY increase in its corporate loans, compared to 19.9% YoY growth in FY23
  - RIBL's corporate lending increased 24.5% YoY (vs. 13.9% YoY in FY'23)
- Lending to Retail segment expanding 9.8% YoY, faster than 5.4% YoY growth in FY'23
  - SAB and BSF, reported increases of 21.6% and 16.6% YoY, respectively.

Aggregate L&A
(SAR bn)



Loans and Advances (SAR bn)



Note: Scaling and some numbers might not add up due to rounding
Note: KSA banks have no disclosure on Loans & Advances by Industry. The reporting only has details of corporate and retail loans
Source: Financial statements, investor presentations, A&M analysis

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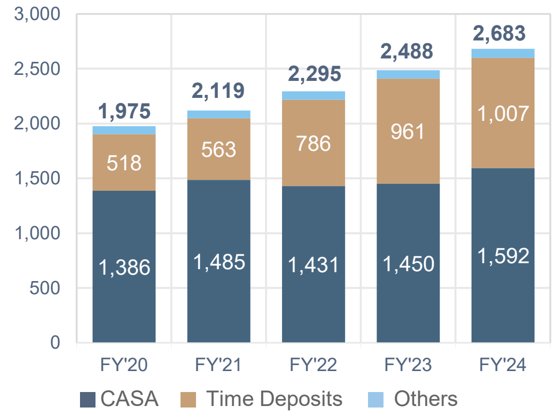
Customer deposits growth moderated driven by slowdown in term deposits

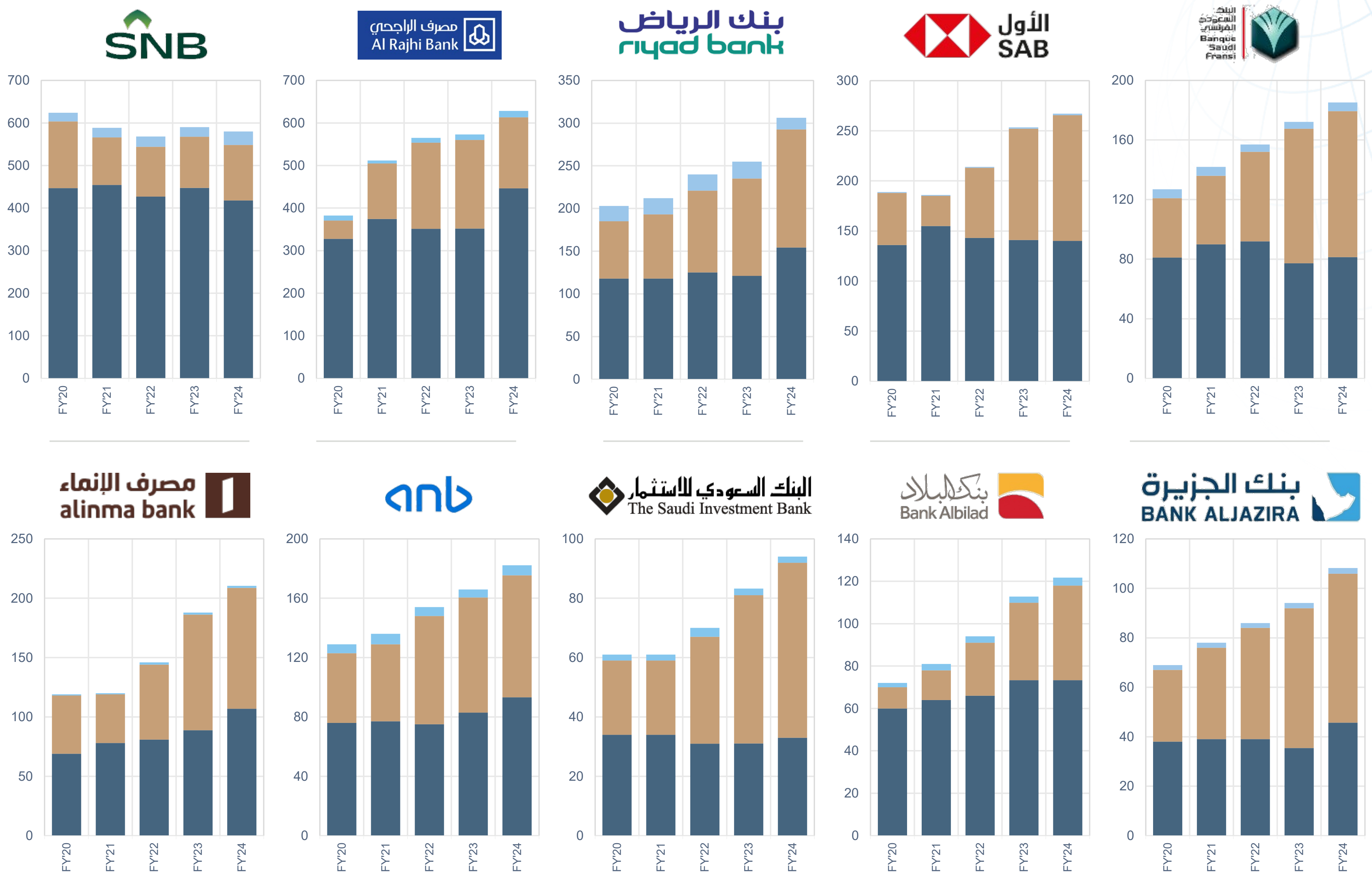
Key takeaways

- Customer deposits exhibited moderated growth of 7.9% YoY, driven by term deposits, which grew by 4.7% YoY (22.2% YoY in FY'23). CASA deposits recorded a 9.8% YoY growth (1.3% YoY in the prior year)
  - Amid strong growth in customer deposits (+9.6% YoY), ALRAJHI's time deposits contracted by 19.7% YoY while CASA deposits surged 26.8% YoY
  - BSF and SAB also saw a slowdown in time deposits, with BSF moderating to 8.7% YoY (vs. 49.6% YoY in FY'23) and SAB to 12.9% YoY (vs. 59.5% YoY in FY'23)

Aggregate Customer Deposits
(SAR bn)



Customer Deposits (SAR bn)



CASA
Time Deposits
Others

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

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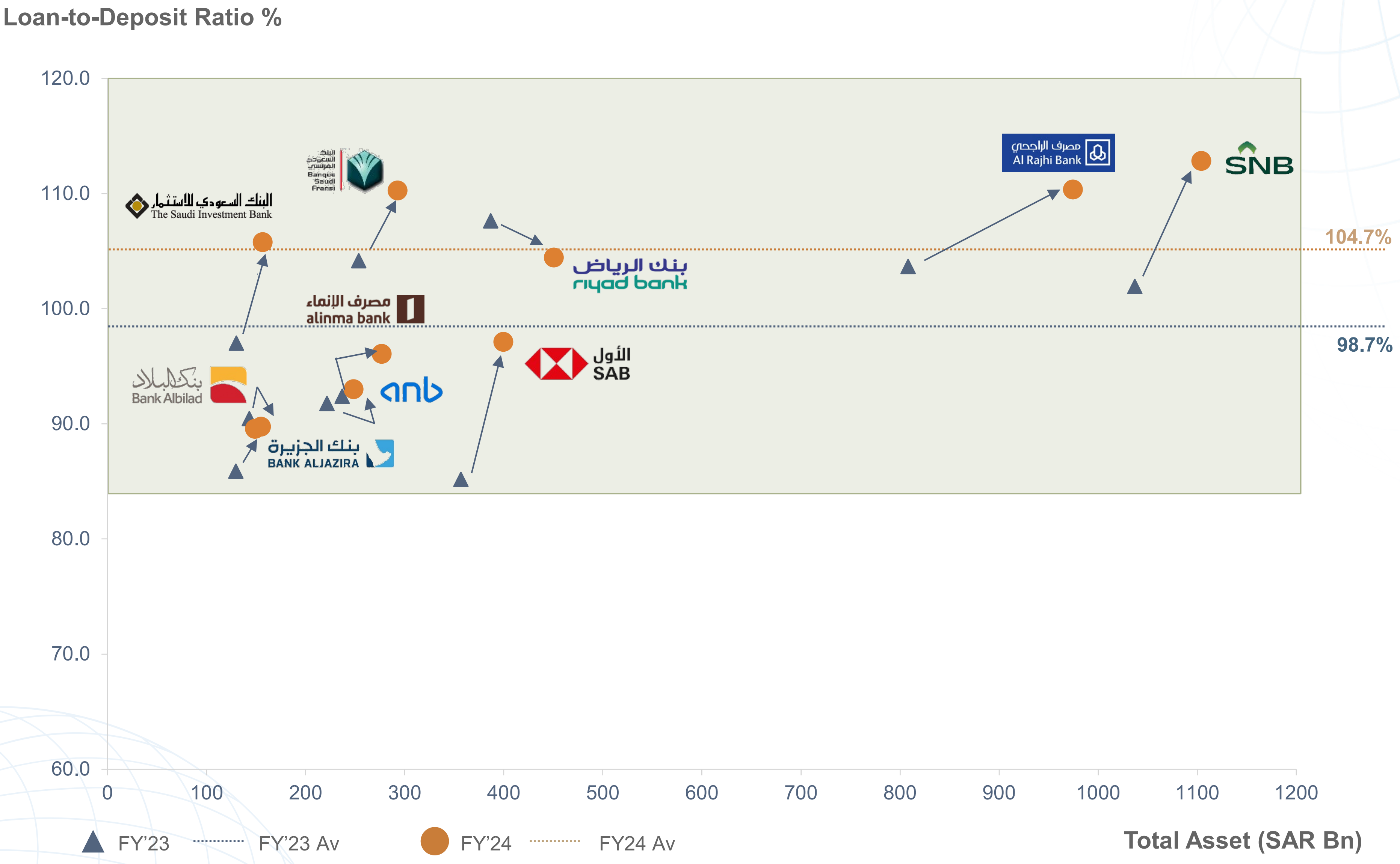
Aggregate LDR ratio for KSA banks continues to increase

Key takeaways

- KSA banks' aggregate Loan-to-Deposit ratio (LDR) increased further to 104.7% (+599bps YoY), driven by loan growth outpacing deposit expansion
- The increase in LDR was led by major banks such as SNB and SAB
  - LDR for SNB increased by 109 bps reaching 112.8%, primarily due to domestic CASA outflow, which reduced deposits base despite a moderate loan growth
  - SAB reported LDR of 97.1% (+119 bps YoY) as loan growth of 20.1% YoY outpaced deposit growth of 5.3% YoY

Loan to Deposits Ratio (%, Annual)

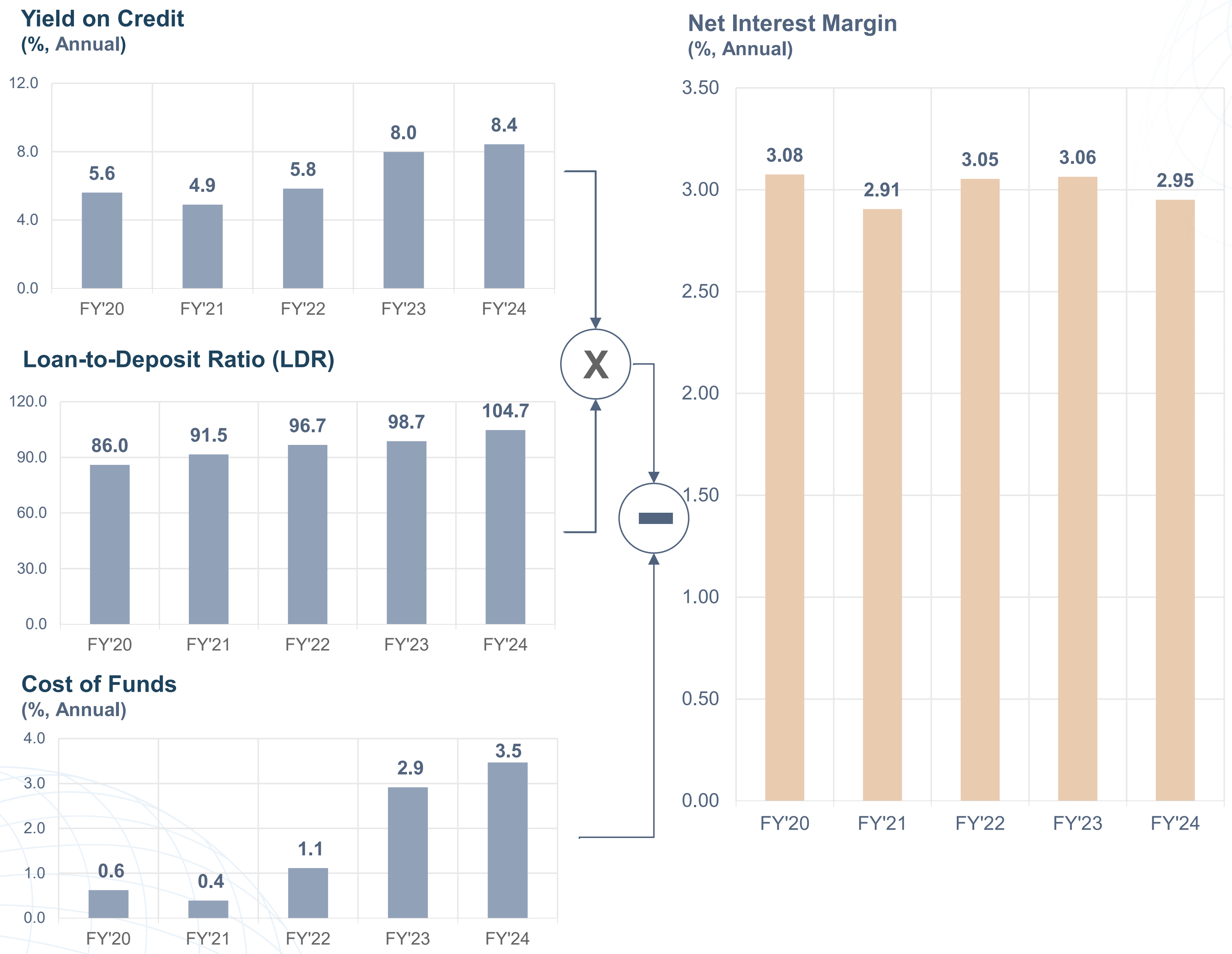


Source: Financial statements, A&M analysis

Banks witnessed pressure on NIM amid higher funding cost and asset yields

Key takeaways

- The aggregate Net Interest Margin (NIM) of KSA banks contracted marginally by 11bps YoY to 3.0%, as interest rate changes put pressure on margins
  - The Cost of Fund (CoF) increased by 55bps YoY outpacing the 45bps YoY increase in Yield on Credit (YoC), thereby compressing margins
  - During the year, SAMA reduced its repo rate by 100bps to 5.0% in FY'24
- Among the banks, SIB reported the steepest NIM contraction of 40bps, bringing its margin down to 2.5%, while BSF followed with a 35bps decline, settling at 3.0%



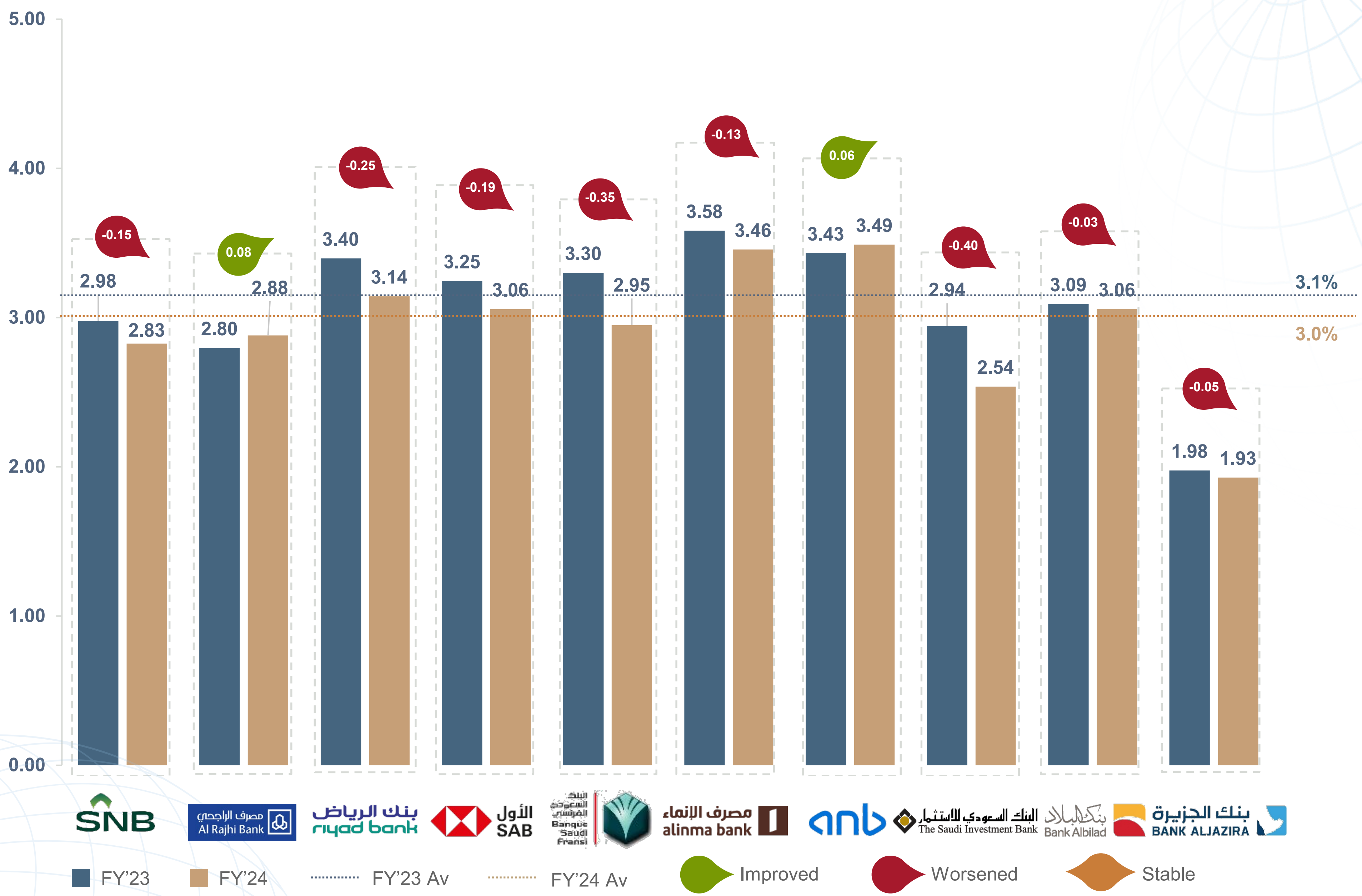
Note: Relation between elements above represents a functionality and not necessarily an exact mathematical formula
Source: Financial statements, Investor presentations, A&M analysis

Eight out of ten banks reported deterioration in NIM margin while ALRAJHI and ANB show resilience

Key takeaways

- The aggregate NIM for KSA banks declined by 11bps YoY to 3.0%
- BSF and SIB led the deterioration in aggregate NIM
  - BSF's NIM declined by 2.9% (-35bps YoY) due to higher funding cost of 3.9% (+104bps YoY), while YoC improved by 72bps YoY to 8.5%
- ALRAJHI and ANB witnessed marginal increase in NIM by 8bps and 6bps YoY to 2.9% and 3.5%, respectively

Net Interest Margin (%, Annual)



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

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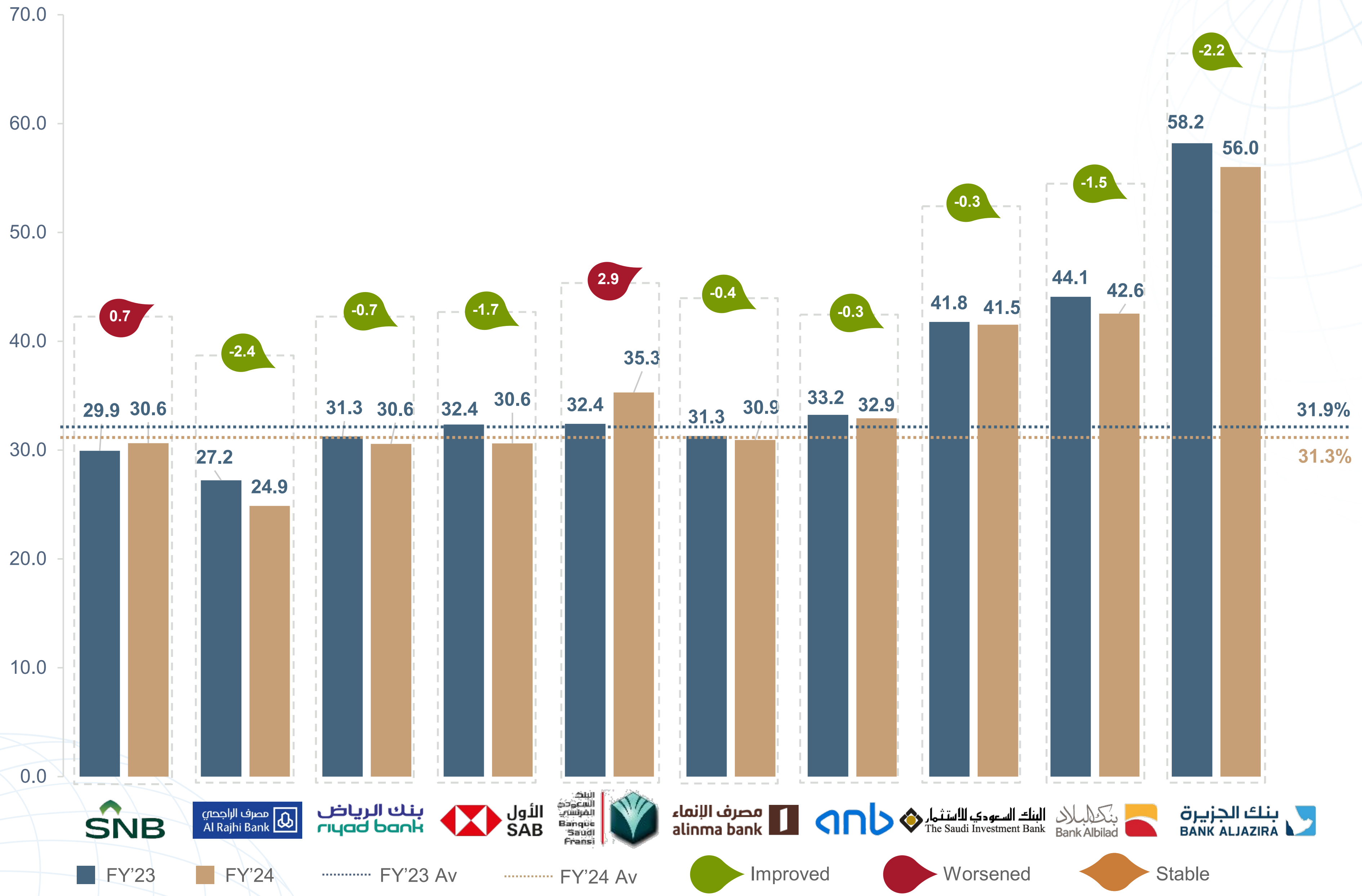
Most KSA banks delivered on the cost efficiency front with ALRAJHI leading the improvement

- The aggregate Cost-to-Income (C/I) ratio of the banks improved by 63bps to 31.3% YoY
  - Operating income growth (+9.3% YoY) outpaced increase in operating expenses, thereby enhancing efficiency
- ALRAJHI improved its FY 2024 C/I ratio by a sizeable reduction of 237bps YoY to reach 24.9%
  - The bank reported a 16.4% YoY growth in its operating income, led by a rise in both net interest income (+16.8% YoY) and fees & commission income (+11.1% YoY) while operating expenses grew only 6.3% YoY
- BSF reported a 289bps YoY deterioration in its C/I ratio, reaching 35.3%, as operating expense growth of 12.8% YoY outpaced operating income growth of 3.6% YoY
  - Rise in operating expenses was due to increased general & administrative cost (+20.0% YoY) and higher staff cost (+8.0% YoY)

Cost to Income Ratio (%, Annual)



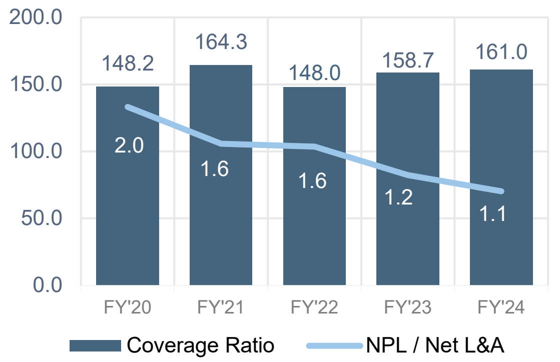
Note: Scaling and some numbers might not add up due to rounding
Source: Financial statements, investor presentations, A&M analysis

Focus on asset quality is well reflected in the improved NPL and Coverage ratios

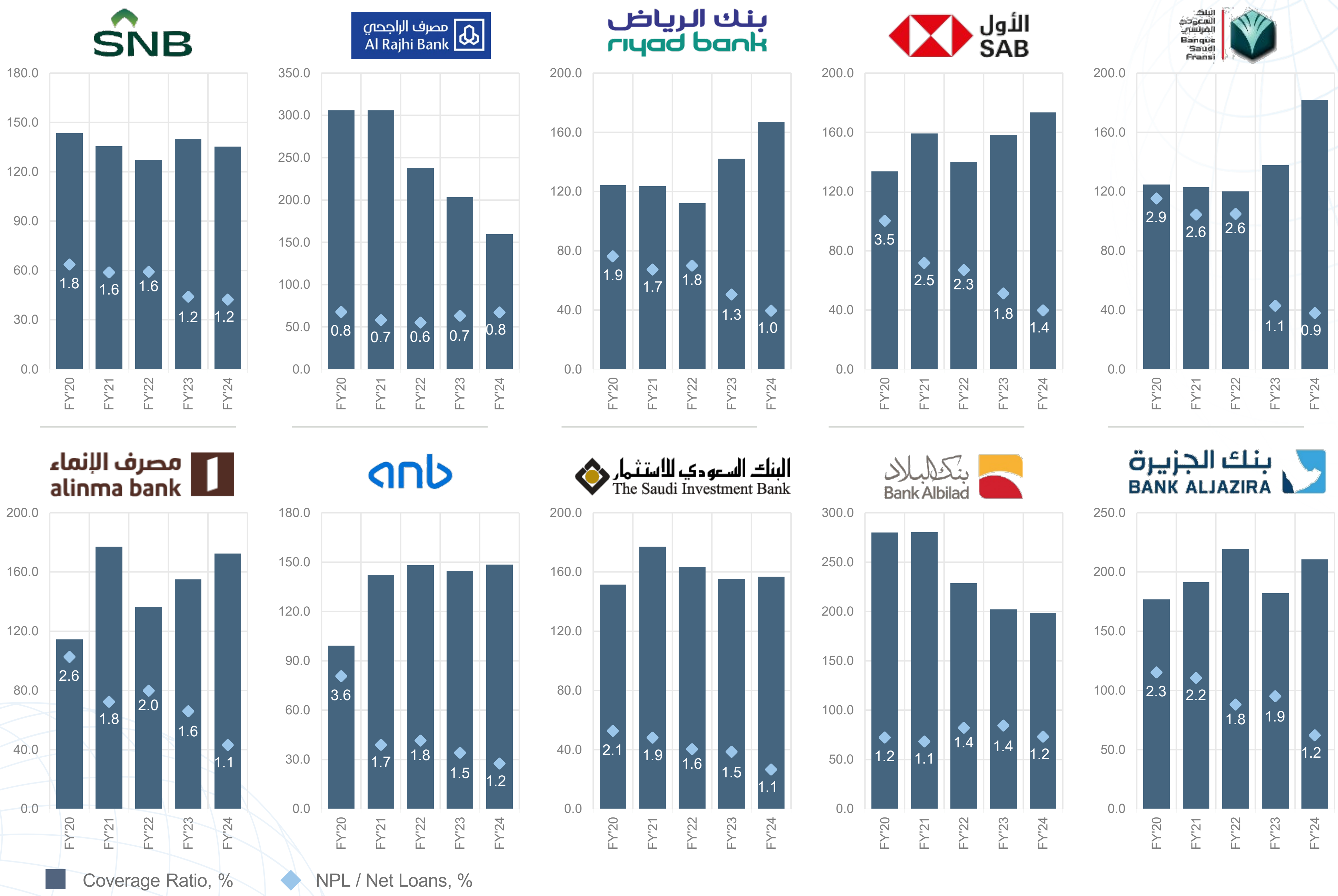
Key takeaways

- The aggregate NPL ratio improved further by 18bps YoY to 1.1%
  - Eight out of ten banks witnessed improvement in NPL ratio while SNB's NPL remained stable at 1.2%
- NPLs are well covered for with coverage ratio of 161.0% (+231bps YoY)
  - Coverage for BSF increased the most rising by ~44 percentage points to 181.7%, driven by a boost in commercial coverage of 190.4% (+53 percentage points)
  - ALRAJHI saw a sharp deterioration this year with coverage down by 43 percentage points

Coverage Ratio and NPL Ratio (%)*



Coverage Ratio and NPL / Net Loans Ratio (%, Annual)



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

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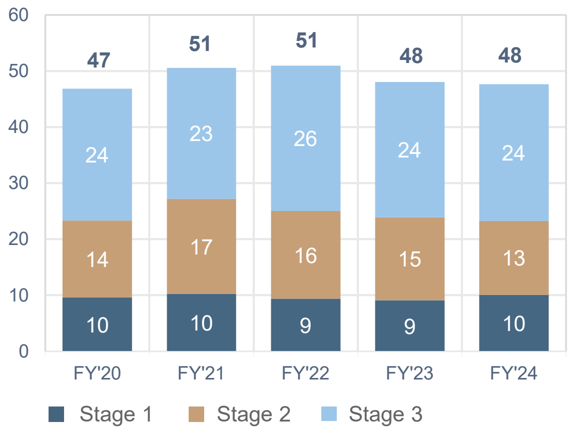
Decline in aggregate ECL allowances and robust stage 3 loan coverage reflects strong asset quality position

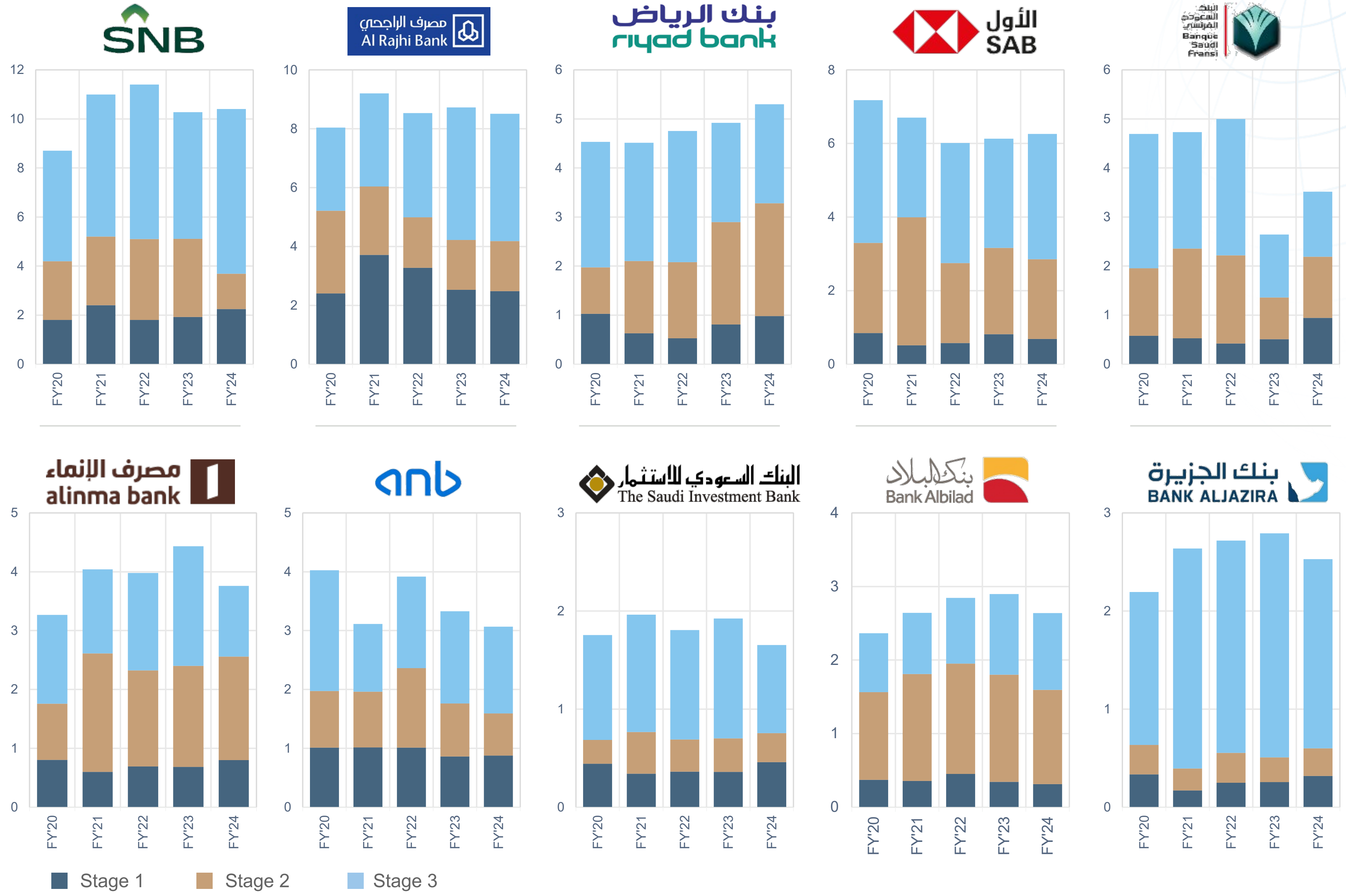
Key takeaways

- The aggregate ECL allowance declined by 0.9% YoY, driven by an 11.1% YoY decline in stage 2 ECL offset by 11.2% YoY rise in in stage 1 ECL
- Stage 3 loans maintained robust coverage, with a 59.7% (+250bps YoY) stage 3 ECL allowance
  - SNB leads among the peers with the highest coverage, as its stage 3 loans are provisioned at 84.1% (+1,619bps YoY) through its stage 3 ECL allowances

Aggregate ECL
(SAR bn)



Stage wise ECL mix (SAR bn)



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

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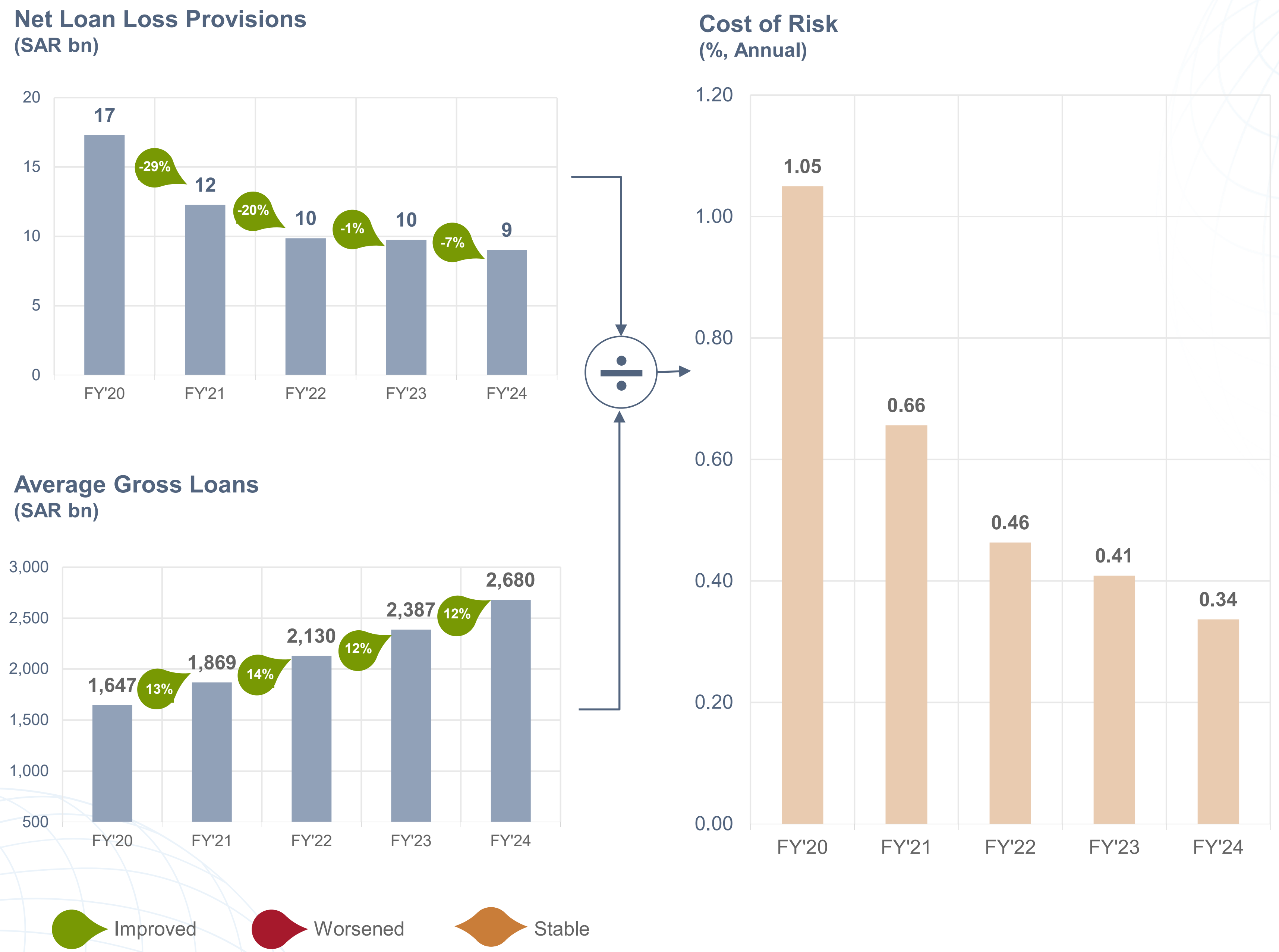
Sustained asset quality enhancements driving improvement in cost of risk

Key takeaways

- The aggregate Cost of Risk (CoR) of the KSA banks improved marginally to 0.3% (down 7bps YoY) mainly due to improvement in CoR witnessed in BSF, ALINMA, ALRAJHI and BALB
  - Strengthening asset quality reflected in declining loan loss provisions ; the 7.5% YoY reduction, was primarily driven through BSFR (-26.0% YoY), ALINMA (-19.2%YoY), and RIBL (-17.2% YoY)
  - Average gross loans increased by 12.3% YoY to SAR 2,680bn in FY'24



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

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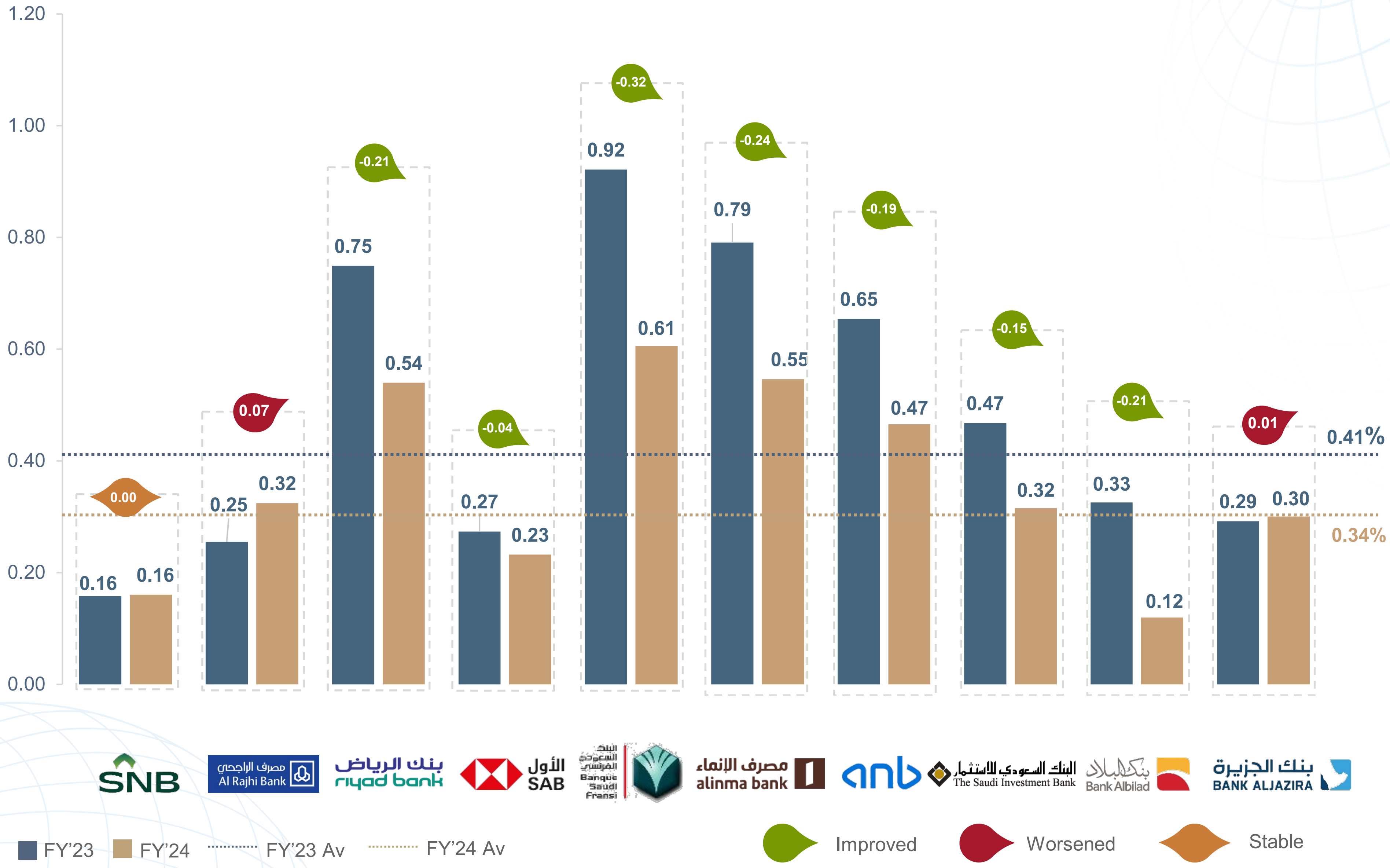
Strong asset quality and expanding loan book drove broad-based CoR improvement

Key takeaways

- Seven out of ten banks in the KSA reported improvement in CoR, on back of lower impairment charges (-7.5% YoY)
- BSF drove overall CoR improvement, as its CoR improved by 32bps YoY to 0.6%
  - The improvement was driven by a 26.0% YoY reduction in total impairment charges mainly from lower commercial impairments
  - The gross loan book of the bank expanded by 14.1% YoY reaching SAR 207.7bn
- SNB sustained its CoR at 0.2%, reflecting robust overall asset quality
  - While higher retail impairments increased CoR by 5bps YoY, reduced international segments' impairment charges balanced the impact, stabilizing overall CoR

Cost of Risk % - Net of Reversals



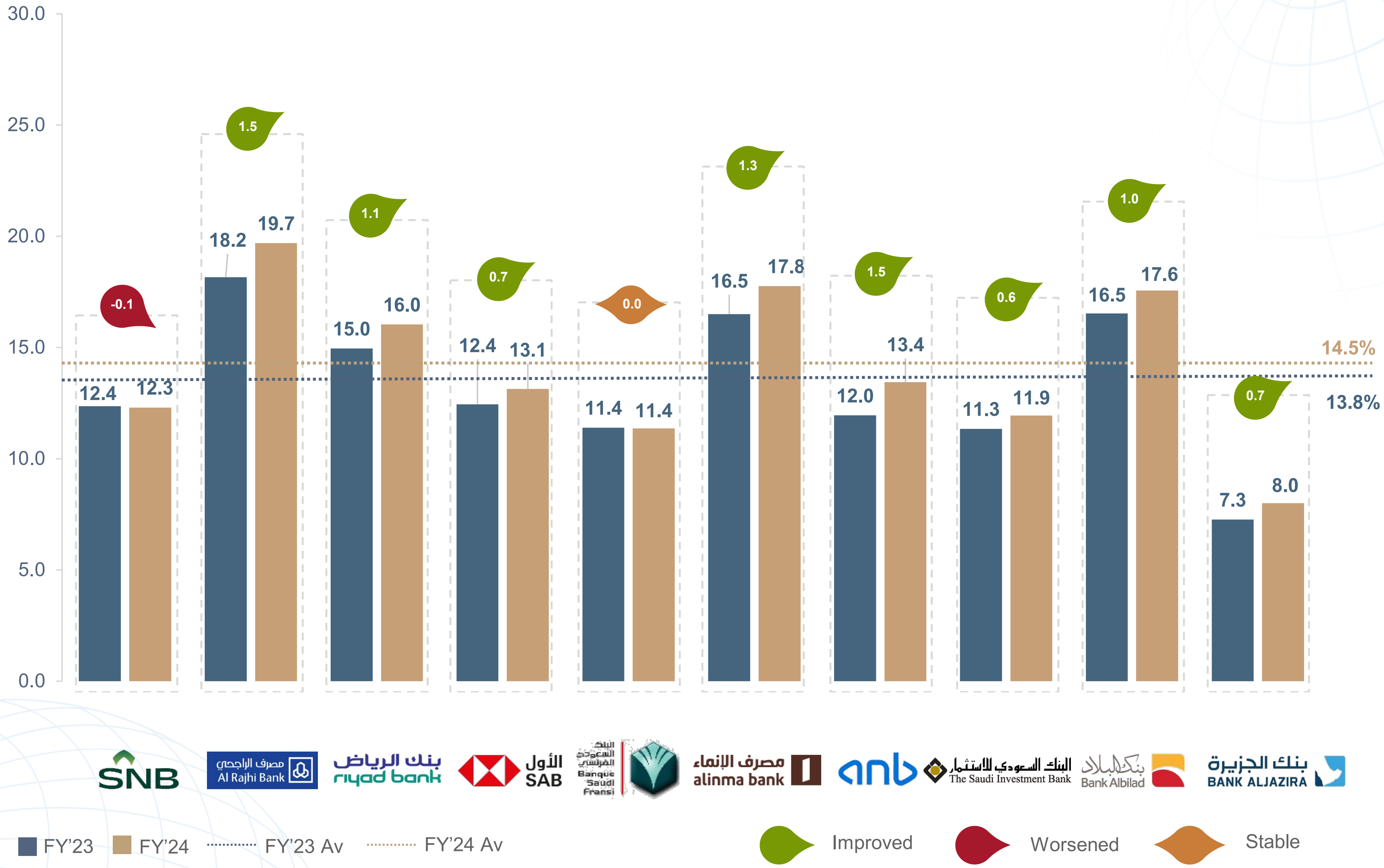
Note: Scaling and some numbers might not add up due to rounding
Source: Financial statements, investor presentations, A&M analysis

KSA banks reported improved RoE given strong growth in net profits

Key takeaways

- Eight out of ten banks reported improvement in the RoE, led to 72bps increase in aggregate RoE to 14.5%
  - ALRAJHI being the primary driver of the improvement in the RoE as it improved by 153bps YoY to 19.7%, led by 18.7% YoY growth in net income
- RoE of SNB declined marginally by 6bps YoY to 12.3%, as net income grew moderately by 4.9% YoY, due to higher impairment charges (+11.0% YoY)

Return on Equity (%, Annual)



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

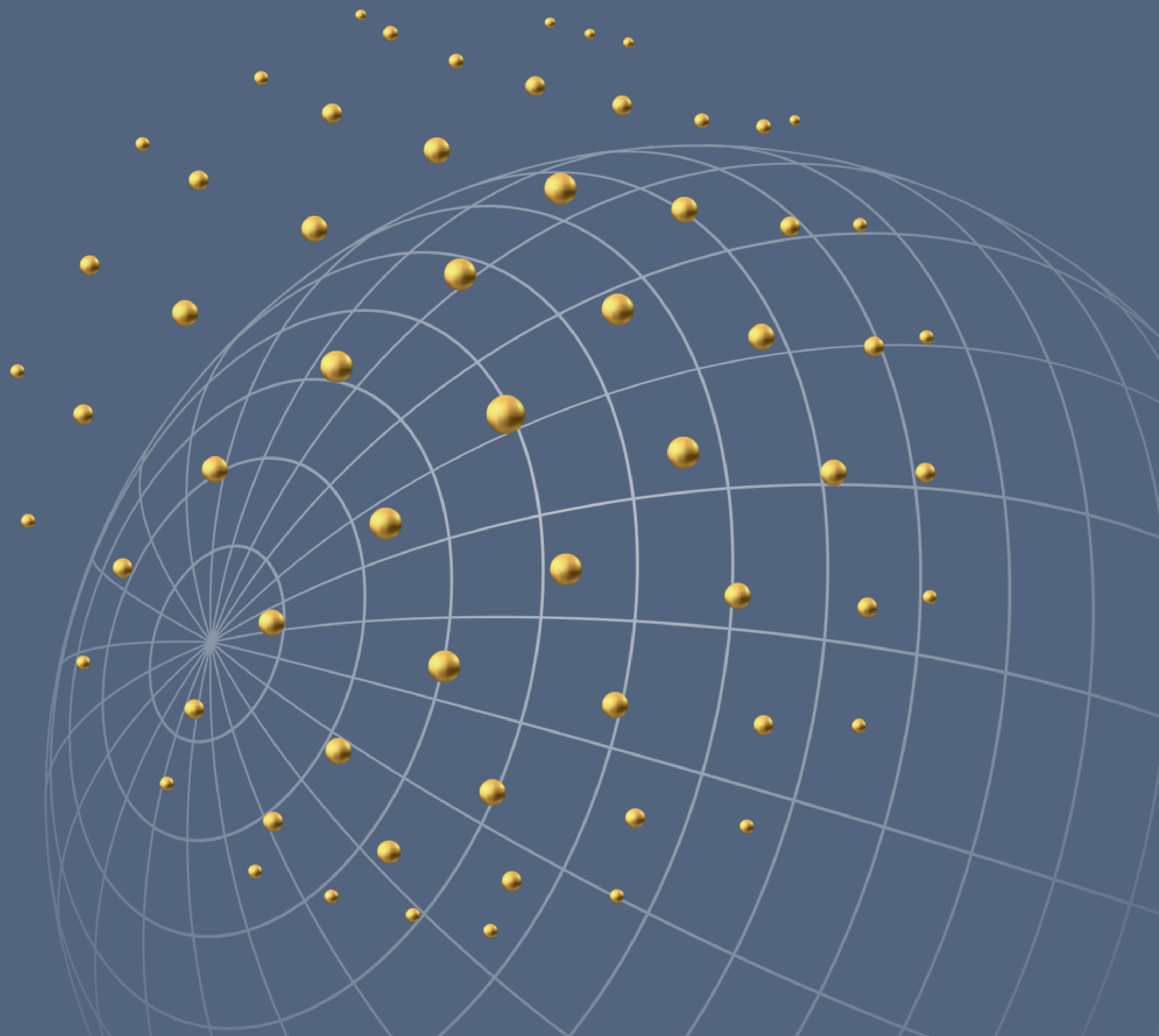
KSA banks delivered well on the profitability metrics with strong lending momentum and managing costs / asset quality

Key takeaways

- KSA banks reported healthy profitability as RoE improved further to 14.5% (+72bps YoY), while RoA remained stable at 2.0%
- According to flash estimates by the General Authority for Statistics (GASTAT), KSA GDP grew by 1.3% YoY in FY'24. Oil activities declined by 4.5% YoY while non-oil activities increased by 4.3% YoY
  - Growth momentum was also seen in government activities which grew by 2.6% YoY in FY'24
- In Jan 2025, the International Monetary Fund (IMF) projected that the overall economy of the KSA would expand by 3.3% in 2025, with further growth expected at 4.1% in 2026
- Economic diversification efforts and the robust expansion of the non-oil sector, in line with its Vision 2030, are set to present significant growth opportunities for the KSA banking sector

Note: All the charts above are based on annual 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

Glossary



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 + average annual capital notes & tier I sukuk interest) / (annual average interest-bearing liabilities + annual average tier 1 notes) 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

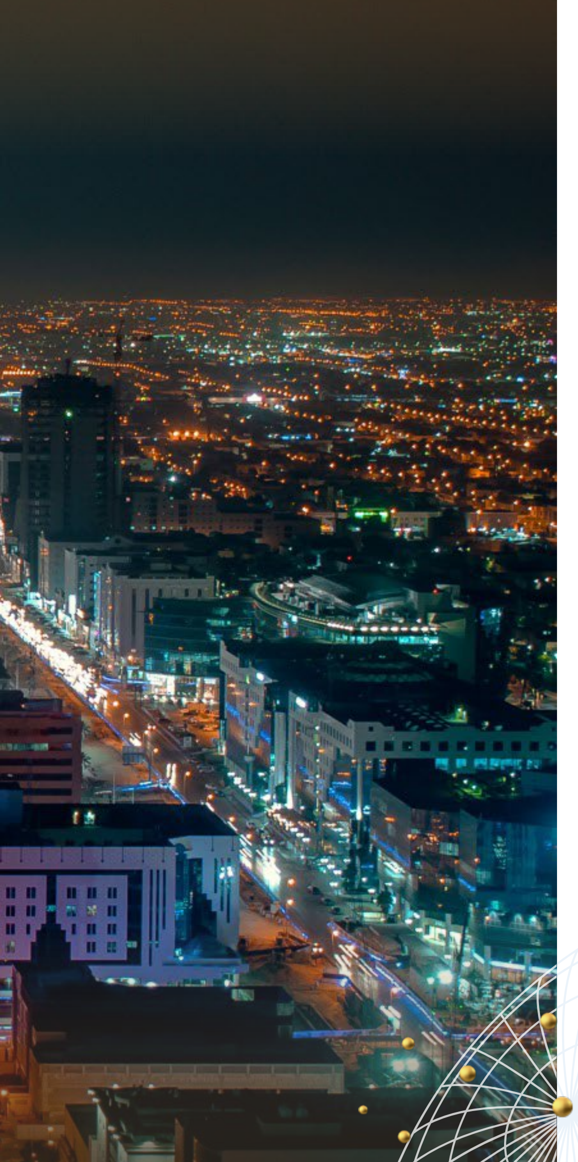
Note: LTM and EOP stand for last twelve months and end of period respectively

Glossary (continued)

Bank	Assets (SAR Bn)*	Abbreviation
SNB	1,104.2	SNB
مصرف الراجحي Al Rajhi Bank	974.4	ALRAJHI
بنك الرياض riyad bank	450.4	RIBL
الأول SAB	399.4	SAB
البنك السعودي الفرنسي Banque Saudi Fransi	292.8	BSF
مصرف الإنماء alinma bank	276.8	ALINMA
anb	248.3	ANB
البنك السعودي للاستثمار The Saudi Investment Bank	156.7	SIB
بنك البلاد Bank Albilad	155.0	BALB
بنك الجزيرة BANK ALJAZIRA	149.0	BJAZ

Note: Banks are sorted by assets size
**As on 31st December 2024*

Our Middle East Financial Services Team



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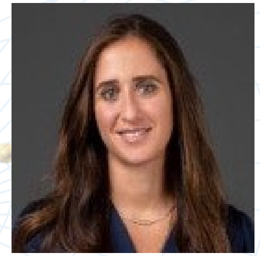

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