



Saudi Arabia Banking Pulse

Quarter 1, 2021

FOREWORD

Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the Q1'21 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.

Following the completion of NCB's and SAMBA's merger we have changed our universe to include The Saudi National Bank (the merged entity, SNB) and Bank Aljazira (BJAZ) instead of NCB and SAMBA, as the Pulse tracks the performance of the top ten banks by asset size. Hence, for consistency of comparison, all historical data has been adjusted to include SNB and BJAZ instead of NCB and SAMBA. The Q1'21 results of the new entity apparently includes financials of NCB, as a standalone entity, as the merger came into effect in April'21. SAMBA's and merged entity's pro-forma financials are not available for Q1'21.

Despite economic challenges, aggregate net income of top ten KSA banks increased substantially by 34.1% QoQ in Q1'21. The increase in profitability was largely on account of decrease in impairments (-49.7% QoQ). Lending growth more than doubled to 5.0% QoQ. NPL/net loan ratio remained stable at 2.0%. With a coverage ratio of ~150%, the Saudi banks are well covered for any potential asset quality risks.

According to the IMF, Saudi Arabian economy is expected to recover strongly in 2021 (GDP growth of +2.9%) and 2022 (+4.0%) driven by recovery in global demand in oil and increase in private consumption. The growth in banking sector is expected to be retail driven, supported by mortgage demand due to gradual trend of smaller families.

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

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Author



Asad Ahmed

Co-Author, Managing Director
Head of ME Financial Services

- 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
- Former CEO of banks in the UAE & Kenya

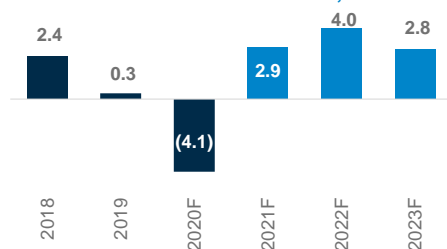
CONTACT DETAILS

financialservices-me@alvarezandmarsal.com
Phone: +97145671065

Saudi Arabia Macro & Sector Overview

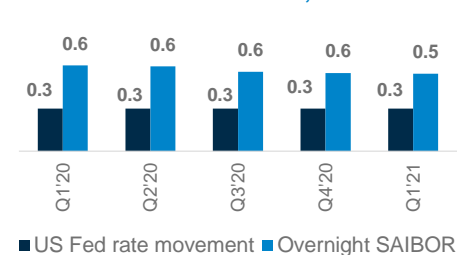
Macro overview

KSA GDP Growth Rate¹, %



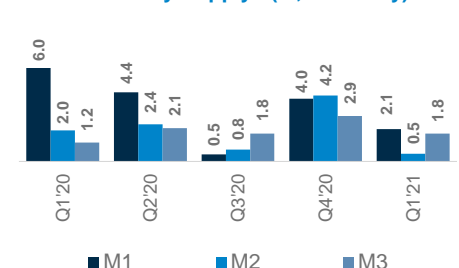
- In Q1'21 KSA's GDP contracted for the seventh consecutive quarter (-3.3% YoY) as oil economy contracted by 12% YoY. However, the non-oil economy expanded by 3.3%
- As per IMF's April'21 estimates, the nation's GDP is expected to grow by 2.9% in 2021, faster compared to its January'21 estimate of 2.6%**
- The state backed Public Investment Fund 's plan to invest USD 40bn into the economy annually until 2025, would drive the economic growth in the coming period

US Fed Funds Rate², SAIBOR %



- In April'21, the US Federal Reserve decided to keep the short-term interest rate near zero as it continues to buy at least USD 120bn of bonds each month. However, this could further lead to increase in inflation in short term
- Overnight SAIBOR has also remained at its record low levels, and settled at 0.55% at the end of Q1'21
- The Saudi Central Bank's loan deferral program is expected to end by June'21. Until March'21, the program benefited around 99,000 contracts valued at SAR 124bn

KSA Money Supply³, (% Quarterly)

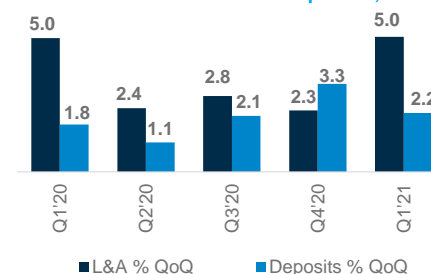


- In Q1'21, M2 money supply growth stood at 0.5% QoQ, and 8.1% YoY to reach SAR 2.0tn
- Growth in M2 money supply was primarily driven by **2.3% QoQ increase in demand deposits to SAR 1.3tn which was partially offset by 4.5% decrease in time and savings deposits to SAR 452.7bn**
- M1 increased by 2.1% QoQ to SAR 1.5tn, while M3 money supply grew 1.8% QoQ to SAR 2.2tn

¹ IMF forecast, ² US Board of Federal Reserve, ³ KSA Central Bank, ⁴ Company Financials, * Data for top ten KSA banks by asset size as of March 31st 2021, QoQ stands for quarter over quarter, net income excludes gain on disposal of investment in an associate reported by Arab National Bank in Q1'20 and excludes the one-off impairment charge reported by Saudi British Bank in Q2'20

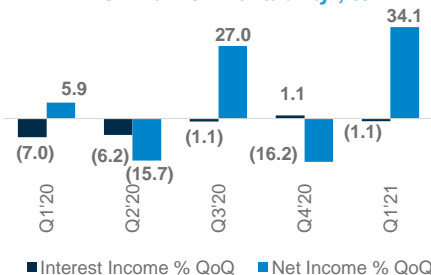
Banking overview Q1'21

KSA Banks L&A and Deposits⁴, %*



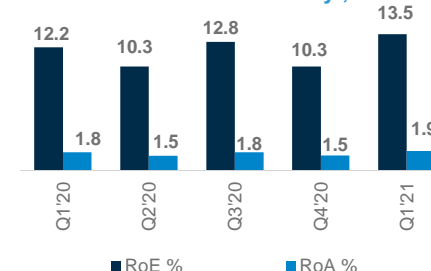
- Total loans & advances (L&A) of top ten KSA grew by 5.0% QoQ in Q1'21 compared to 2.3% QoQ Q4'20
- However, deposit growth has slowed down to 2.2% QoQ in Q1'21, compared to 3.3% QoQ in the preceding quarter

KSA Banks' Profitability⁴, %*



- Total interest income decreased by 1.1% QoQ in Q1'21 after growing 1.1% in previous quarter
- Trends in bottom-line growth continued to remain volatile, as net income increased substantially by 34% QoQ, as lower provisioning supported profitability
- The aggregate profitability increased as profits for BSF (+8.3x), ANB (2.1x), RIBL (1.5x) and SABB (43%) grew substantially

KSA Banks' Profitability⁴, %*



- Return ratios have improved during the quarter primarily driven by higher net income
- Return on Equity (RoE – Q1'21 annualized) increased by 3.2% points QoQ to 13.5% in Q1'21, to reach pre-pandemic levels
- Similarly, return on asset (RoA – Q1'21 annualized) increased from 1.5% in Q4'20 to 1.9% in Q1'21

Pulse: Performance of Top Ten KSA Banks Improved in Q1'21, After Deteriorating in the Preceding Quarter

➔ Improved
 ↔ Stable
 ➔ Worsened

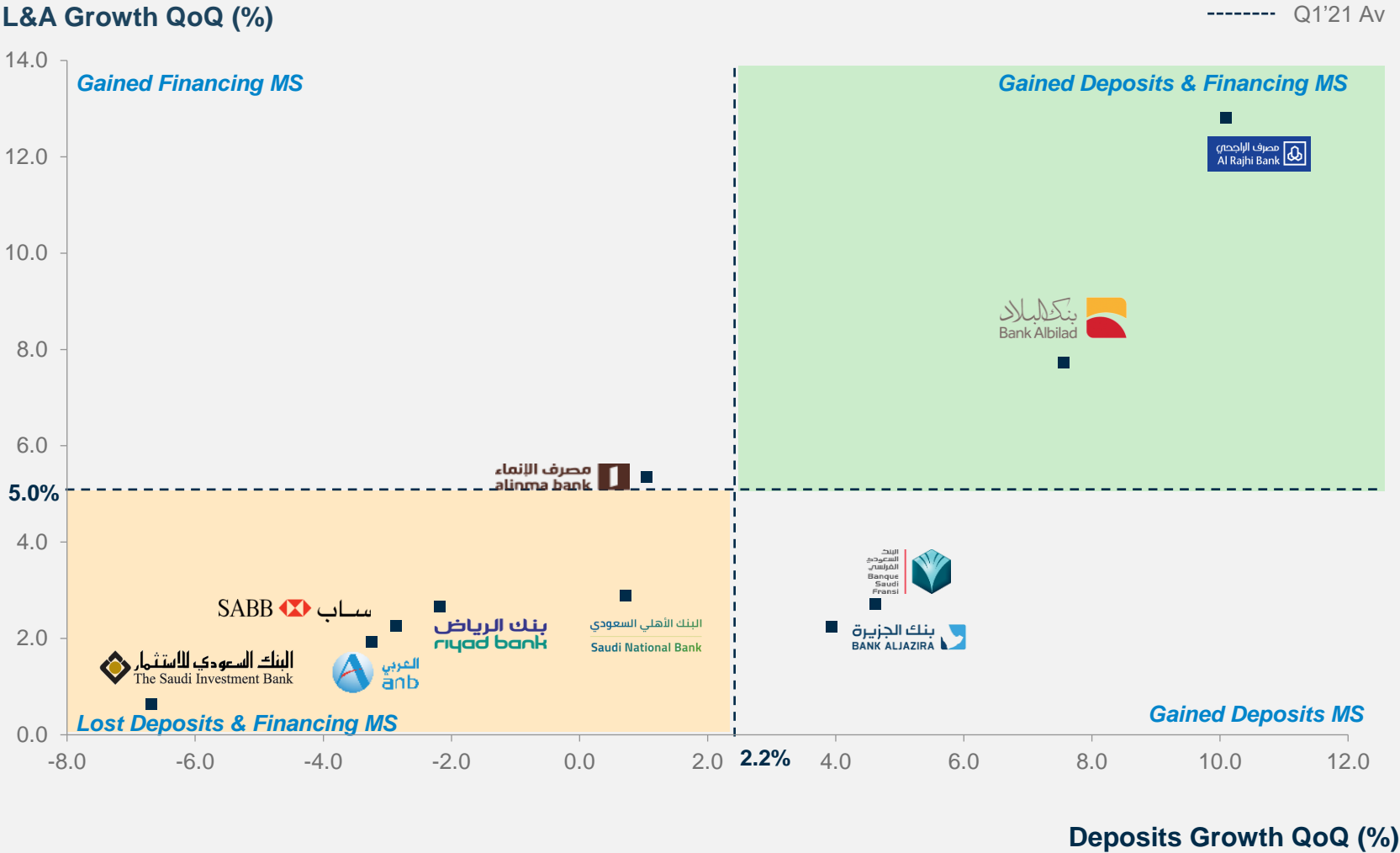
	Metric	Q4'20	Q1'21	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Key Trends of Q1'21
Size	L&A Growth (QoQ)	2.3%	➔ 5.0%						1 Growth in L&A more than doubled to +5.0% QoQ, while deposits growth slowed to +2.2% QoQ
	Deposits Growth (QoQ)	3.3%	➔ 2.2%						
Liquidity	Loan-to-Deposit Ratio (LDR)	87.2%	➔ 89.7%						2 LDR increased to 89.7%, as loan growth outpaced deposits growth
Income & Operating Efficiency	Operating Income Growth (QoQ)	3.6%	➔ 1.2%						3 Growth in operating income slowed to 1.2%, due to 1.3% QoQ fall in net interest income, partially offset by higher fee and other operating income
	Operating Income / Assets	3.9%	↔ 3.9%						
	Non-Interest Income (NII) / Operating Income	23.0%	➔ 24.9%						4 NIM and yield on credit deteriorated, while cost of funds remained stable on QoQ basis C/I ratio improved by 2.2% points QoQ to 33.5% in Q1'21, as operating expenses fell 5% QoQ
	Yield on Credit (YoC)	5.3%	➔ 5.1%						
	Cost of Funds (CoF)	0.4%	↔ 0.4%						
	Net Interest Margin (NIM)	3.1%	➔ 3.0%						
	Cost-to-Income Ratio (C/I)	35.6%	➔ 33.5%						5 Coverage ratio increased by 4.2% points QoQ, while cost of risk decreased ~66 bps QoQ
	Coverage Ratio	146.8%	➔ 150.9%						6 RoE and RoA increased as the aggregate profit for the top 10 banks increased 34.1% QoQ
Risk	Cost of Risk (CoR)	1.3%	➔ 0.6%						
Profitability	Return on Equity (RoE)	10.3%	➔ 13.5%						7 RoE and RoA increased as the aggregate profit for the top 10 banks increased 34.1% QoQ
	Return on Assets (RoA)	1.5%	➔ 1.9%						
	Return on Risk-Weighted Assets (RoRWA)	1.9%	➔ 2.4%						8 RoRWA also increased in line with higher net income, while capital adequacy ratio increased marginally 20.4%
Capital	Capital Adequacy Ratio (CAR)	20.3%	➔ 20.4%						

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

ALRAJHI Outperformed its Peers on L&A and Deposits Growth Performance



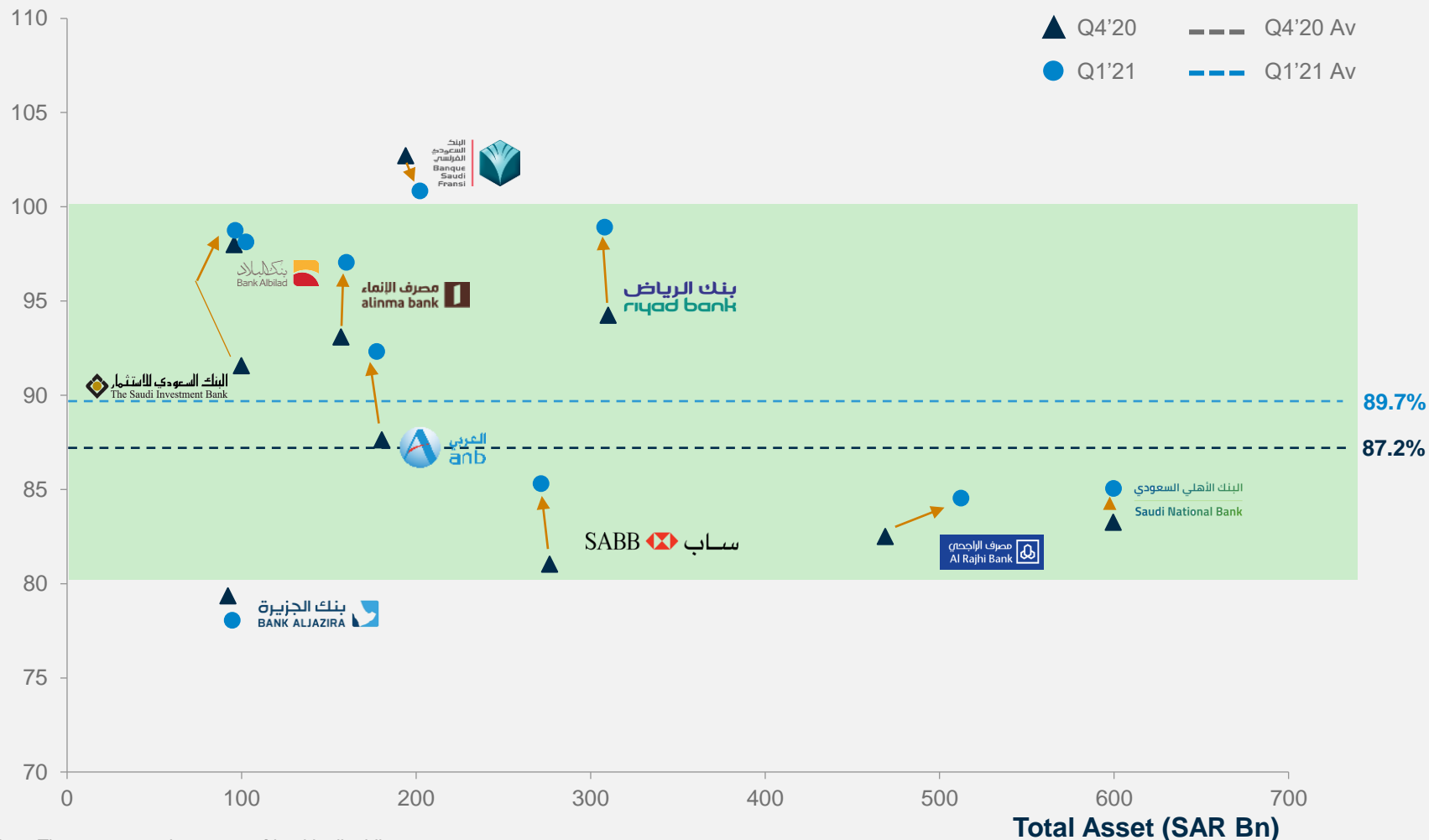
KEY TAKEAWAYS

- L&A of the top ten banks increased by 5.0% QoQ in Q1'21 while deposits growth slowed to 2.2% in Q1'21
- ALRAJHI reported the highest L&A (+12.8% QoQ) and deposits (+10.1% QoQ) growth
 - L&A growth was driven by strong increase in mortgage lending (+20.2% QoQ)
 - Deposits grew driven by 8% QoQ increase in demand deposits
- SIB underperformed its peers as its L&A increase by just 0.6% QoQ, while deposits fell 6.7% QoQ

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

Eight of the Top Ten Banks Reported an Increase in LDR

Loans to Deposits Ratio (%)

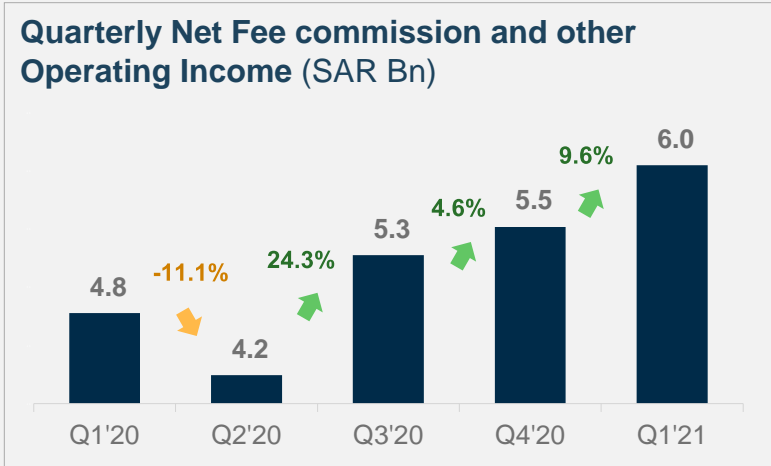
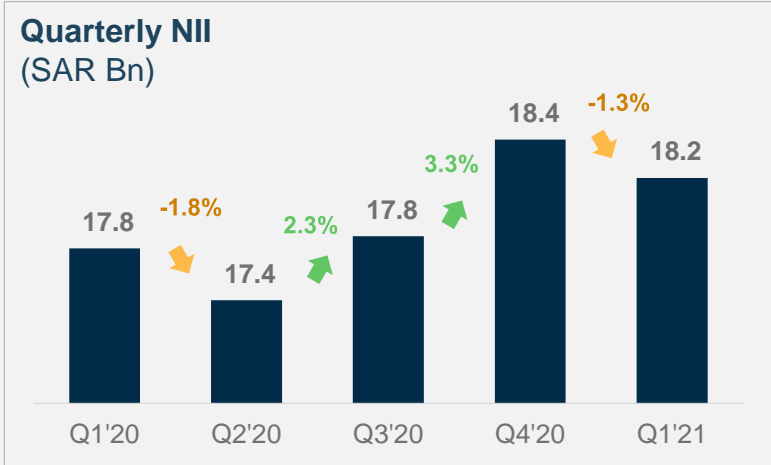


KEY TAKEAWAYS

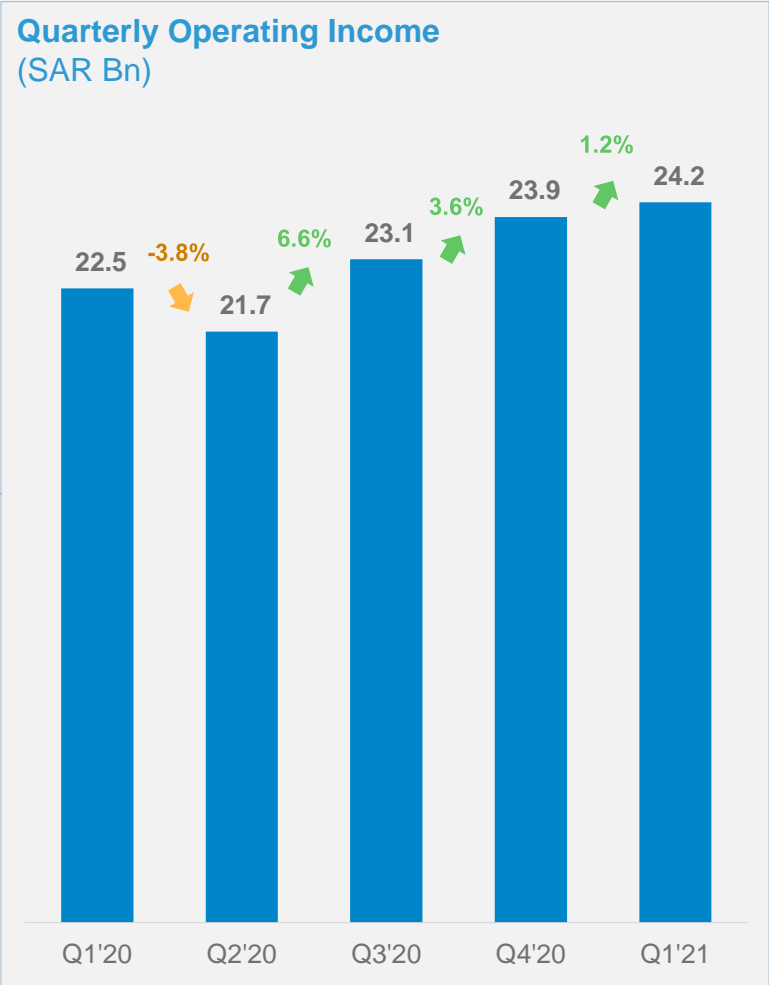
- Aggregate LDR increased from 87.2% in Q4'20 to 89.7% in Q1'21
- The slower growth in the deposits could be partly attributable to a decline in system-wide time & saving deposits (-4.5% QoQ)
- SIB reported the highest increase in LDR (+7.2% points QoQ), while BSF (-1.9% QoQ) reported the highest decrease during Q1'21

Aggregate Operating Income Increased for the Third Consecutive Quarter

➔ Improved
 ↔ Stable
 ➔ Worsened



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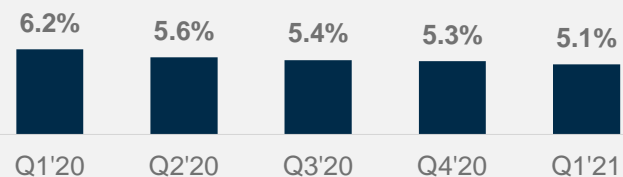
KEY TAKEAWAYS

- Total operating income increased by 1.2% QoQ, as banks reported strong increase in their trading income
- ANB (+11.1%) reported the highest increase in operating income, as the bank reported strong gains from sale of debt instruments
- ALRAJHI's operating income increased 2.7% QoQ, as income from retail and treasury segments increased by ~4% and 17%, respectively
- On the other hand, SIB's operating income fell the most (-8.0% QoQ) on account of substantial trading losses

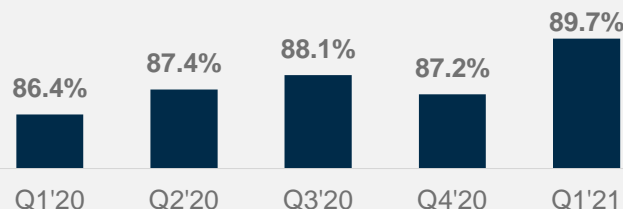
Note: Some numbers might not add up due to rounding
 Source: Financial statements, investor presentations, A&M analysis

NIM deteriorated After Improving Marginally in the Previous Quarter

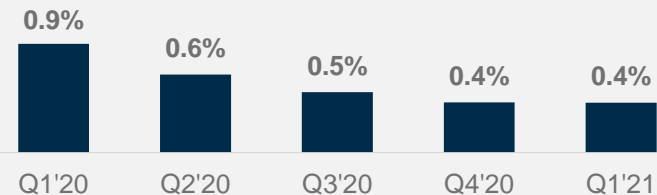
Yield On Credit
(Quarterly Annualized)



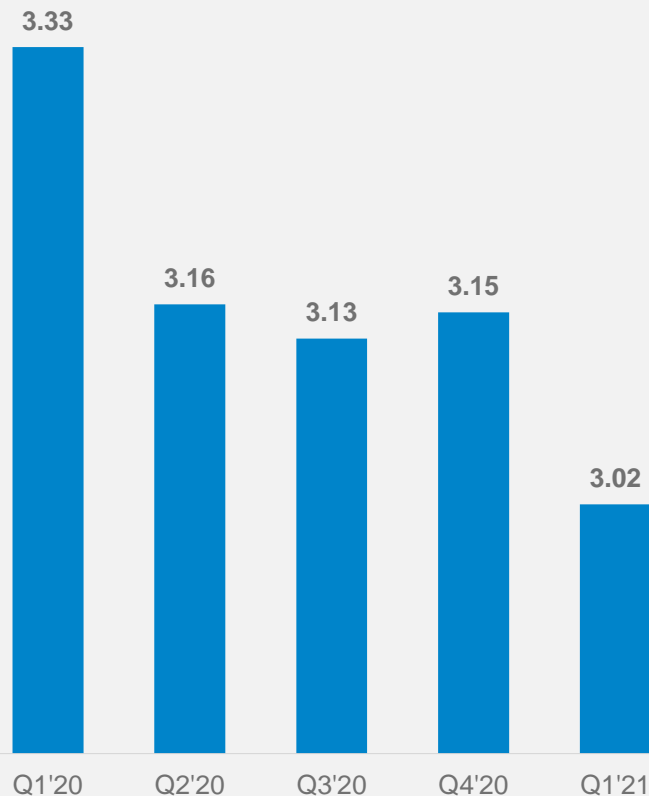
Loan-to-Deposit Ratio (LDR)



Cost of Funds
(Quarterly Annualized)



Net Interest Margin
(%, Quarterly Annualized)



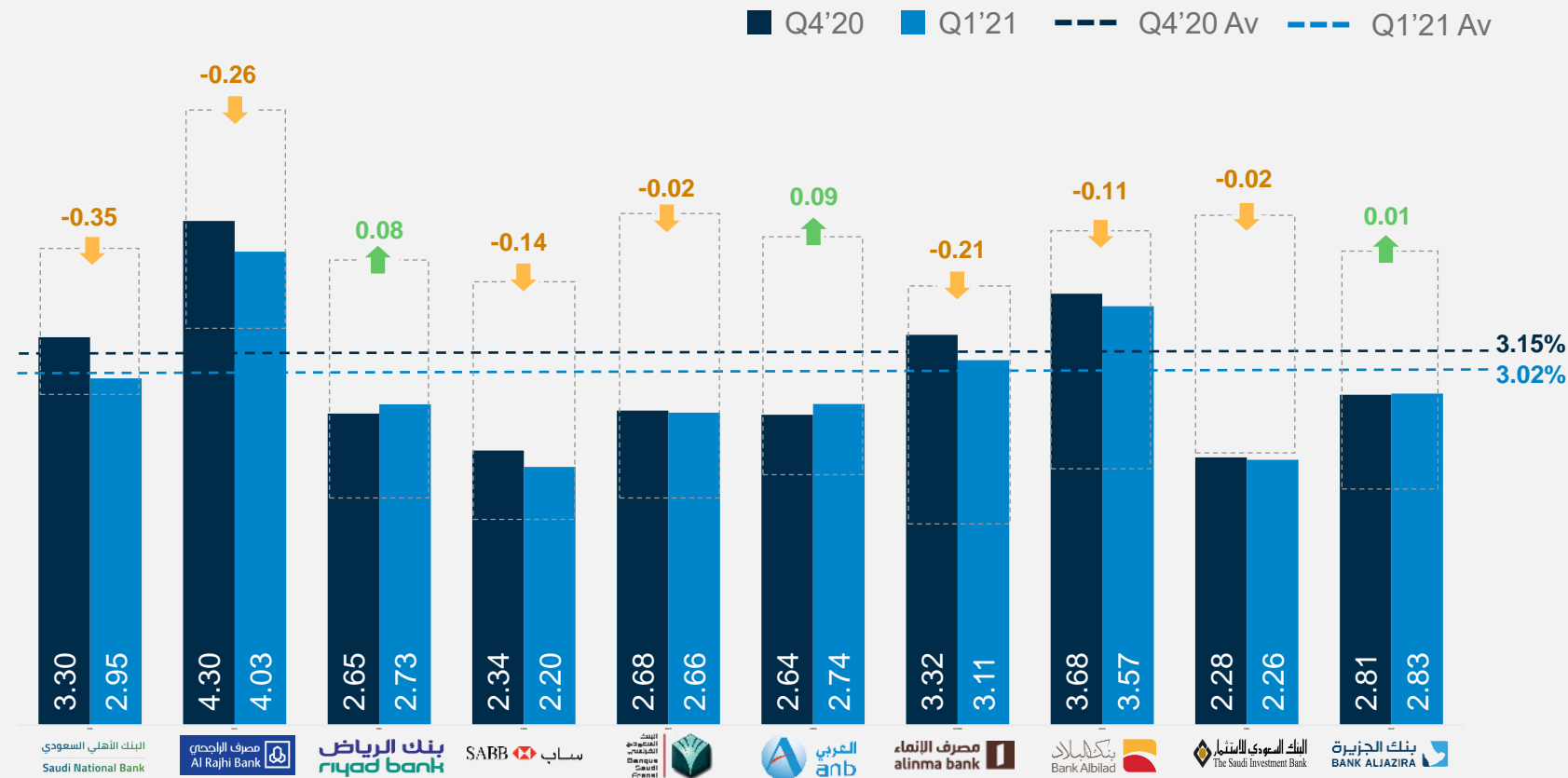
KEY TAKEAWAYS

- NIM fell by 13 bps QoQ to reach its multi-period low levels of 3.02%
- Yield on credit decreased by 24 bps QoQ, while cost of funds remained flat QoQ at 0.4%

RIBL, ANB and BJAZ Reported NIM Expansion, While Other Banks Witnessed Margin Contraction

➔ Improved ➔ Stable ➔ Worsened

Net Interest Margin (% Quarterly)



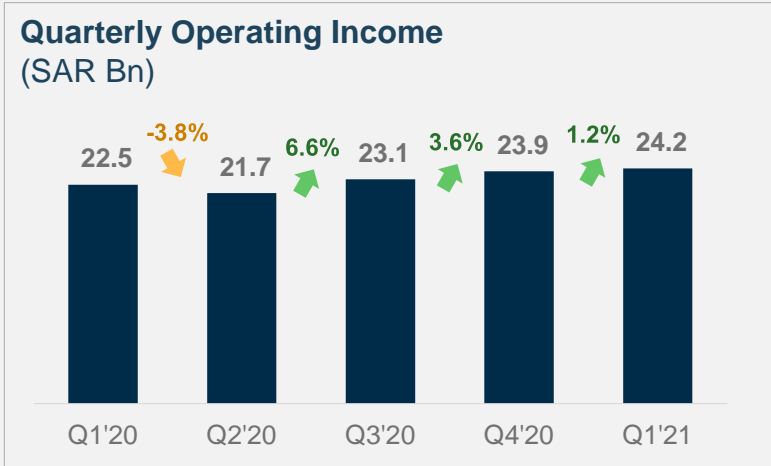
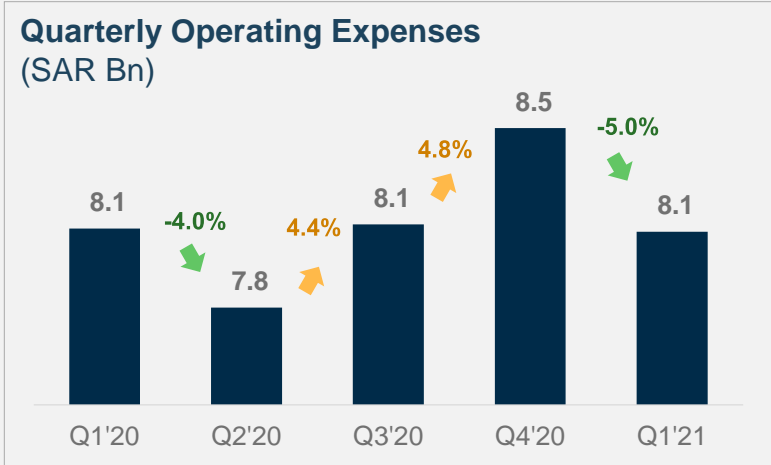
KEY TAKEAWAYS

- NIM for seven of the top ten banks witnessed contraction during Q1'21
- SNB (-35 bps QoQ) and ALRAJHI (-26 bps QoQ) reported the highest decrease in NIM during the period
- On the other hand, RIBL (+8 bps QoQ), ANB (+9 bps QoQ) and BJAZ (+1 bps QoQ) were the only banks that reported the expansion in NIM

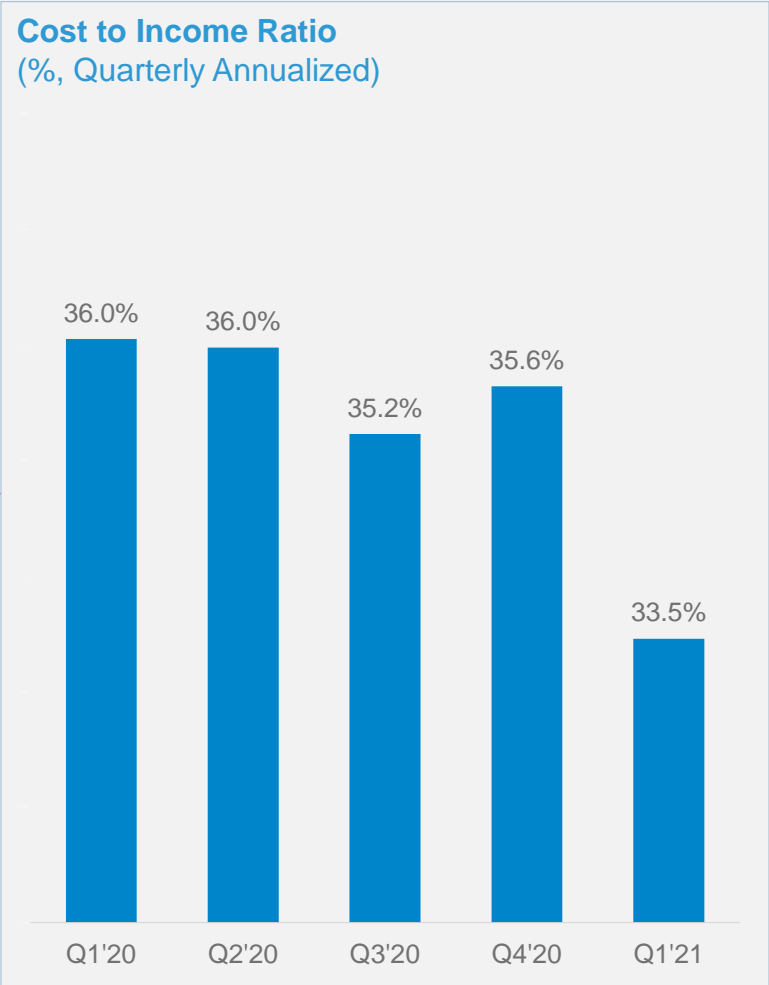
Note: Some numbers might not add up due to rounding
Source: Financial statements, investor presentations, A&M analysis

Operating Efficiency of KSA Banks Improved Significantly, After Deteriorating in the Previous Quarter

➡ Improved ↔ Stable ➡ Worsened



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KEY TAKEAWAYS

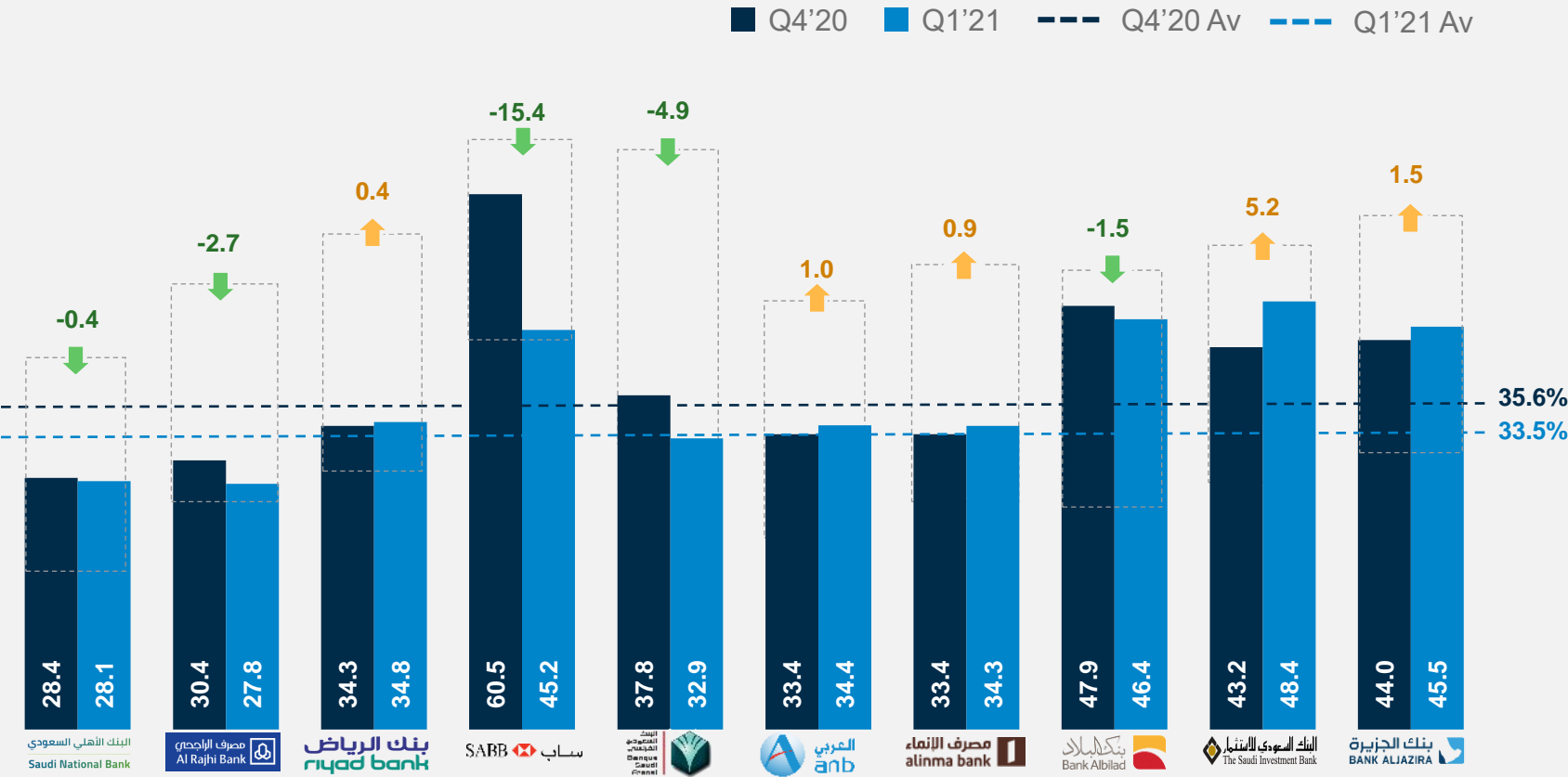
- C/I ratio decreased by 2.2% points QoQ to 33.5%, largely driven by:
 - 5.0% decrease in operating expense along with 1.2% increase in operating income
- Among the major banks, SABB (-26.9% QoQ) and ALRAJHI (-6.3% QoQ) reported the highest decline in operating expenses

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

Operating Efficiency Improved Substantially for SABB, while it Deteriorated the Most for SIB

➔ Improved ➔ Stable ➔ Worsened

Cost to Income Ratio (% , Quarterly)



KEY TAKEAWAYS

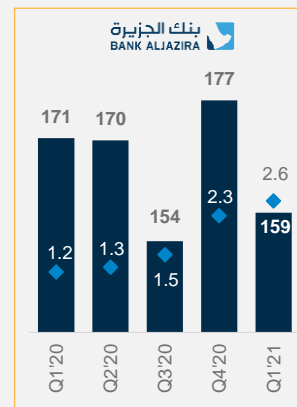
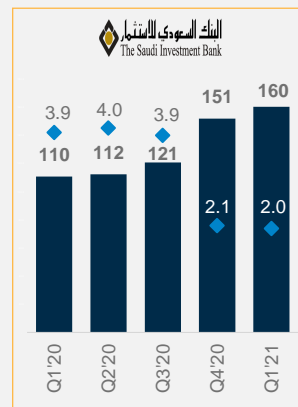
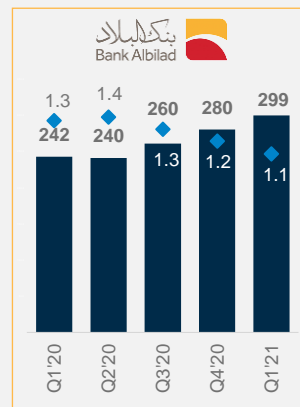
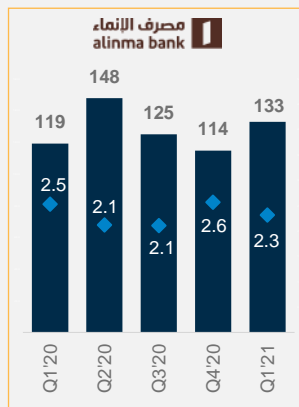
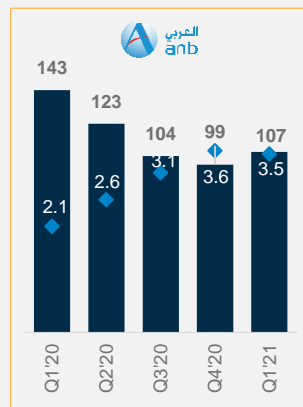
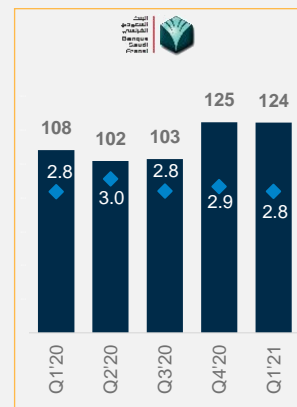
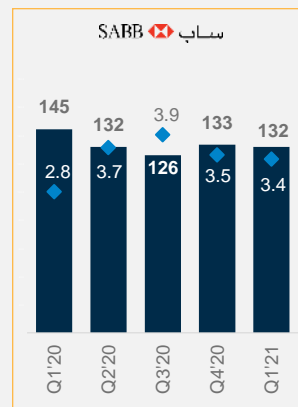
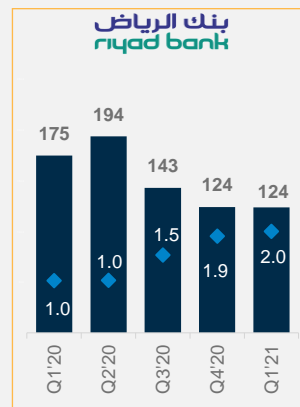
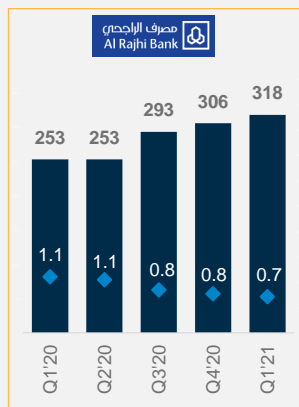
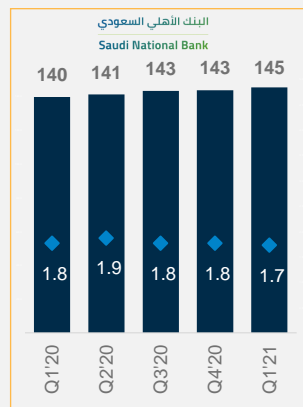
- Five of the top ten banks witnessed improvement in cost to income ratio
- SABB saw the highest improvement in C/I ratio of 15.4% points QoQ, on account of lower costs due to realization of synergies post merger
 - G&A costs decreased by 53% QoQ
- SIB's C/I ratio increased the most by 5.2% points, as the operating costs increased by 3.0% QoQ while operating income fell by 8.0% 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 Continued to Improve while NPL / Net Loan Ratio Remain Unchanged

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

Coverage Ratio¹ and NPL / Net Loans Ratio (% , Quarterly)



KEY TAKEAWAYS

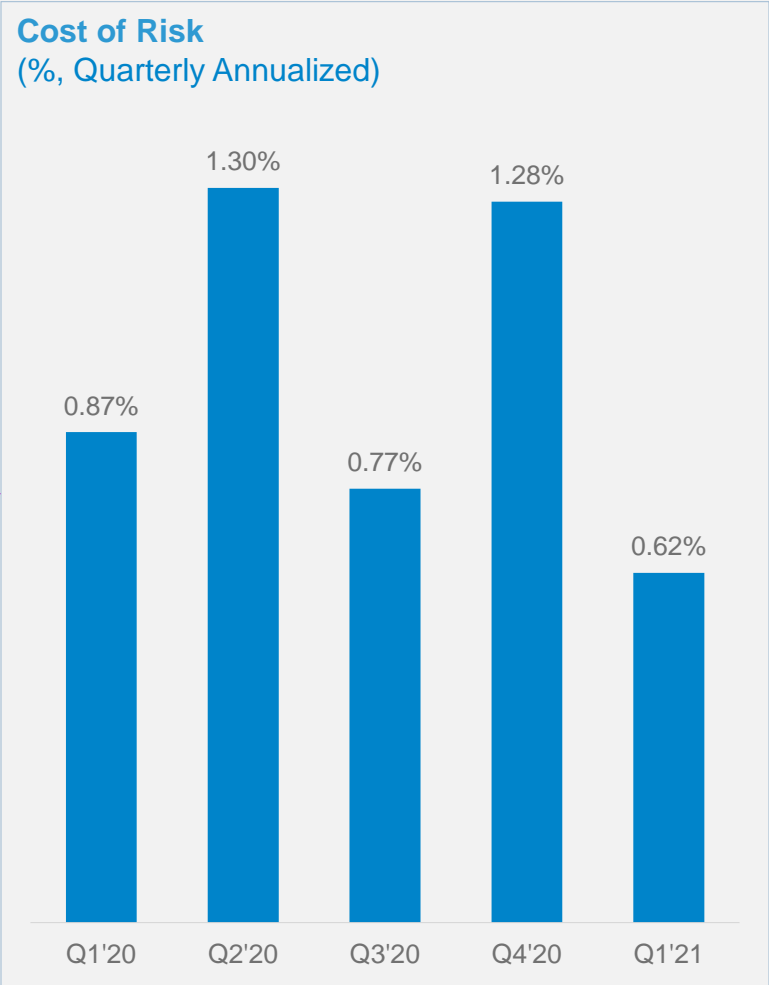
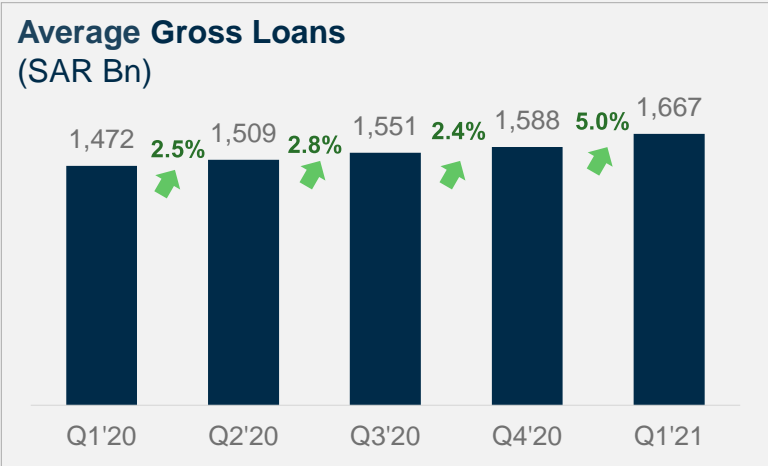
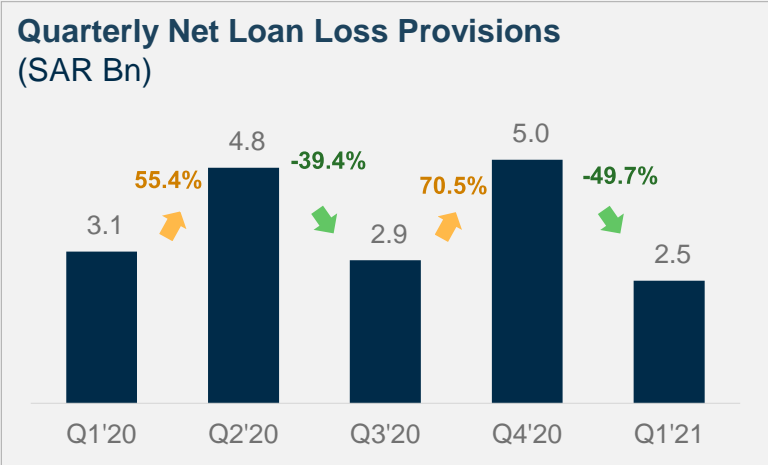
- Aggregate coverage ratio increased to 151% (+4.2% points QoQ), while NPL / net loan ratio was unchanged at 2.0%
- BALB's and ALINMA's coverage ratio increased at the highest rate of 19.2% points and 18.3% points, respectively
- On the other hand, BJAZ reported the highest decrease in coverage ratio by 17.7% points to 159%
- ANB reported the highest NPL/net loan ratio at 3.5%, while ALRAJHI reported the lowest 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 Decreased Substantially in Line With Lower Provisioning

➡ Improved ↔ Stable ➡ Worsened



KEY TAKEAWAYS

- Total impairments declined by ~50% in Q1'21 to SAR 2.5bn
- Cost of risk fell to its lowest level in the last five quarters and reached the pre-pandemic levels
- Improving macroeconomic situation could be the possible reason behind the decline in provisioning

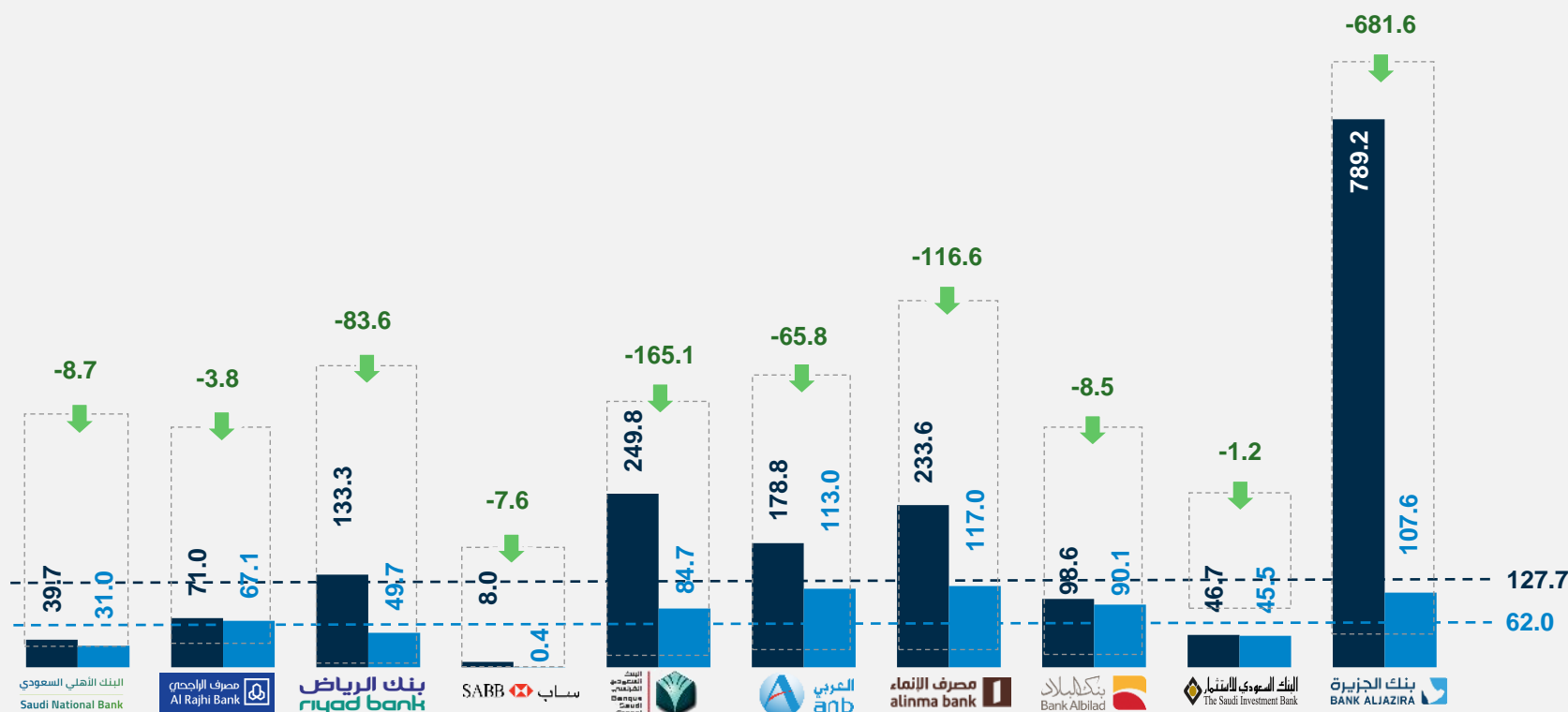
Note: Scaling and some numbers might not add up due to rounding
Source: Financial statements, investor presentations, A&M analysis

Cost of Risk has Improved Across All the Banks

→ Improved ↔ Stable → Worsened

Cost of Risk (bps) – Net of Reversals

■ Q4'20 ■ Q1'21 --- Q4'20 Av --- Q1'21 Av



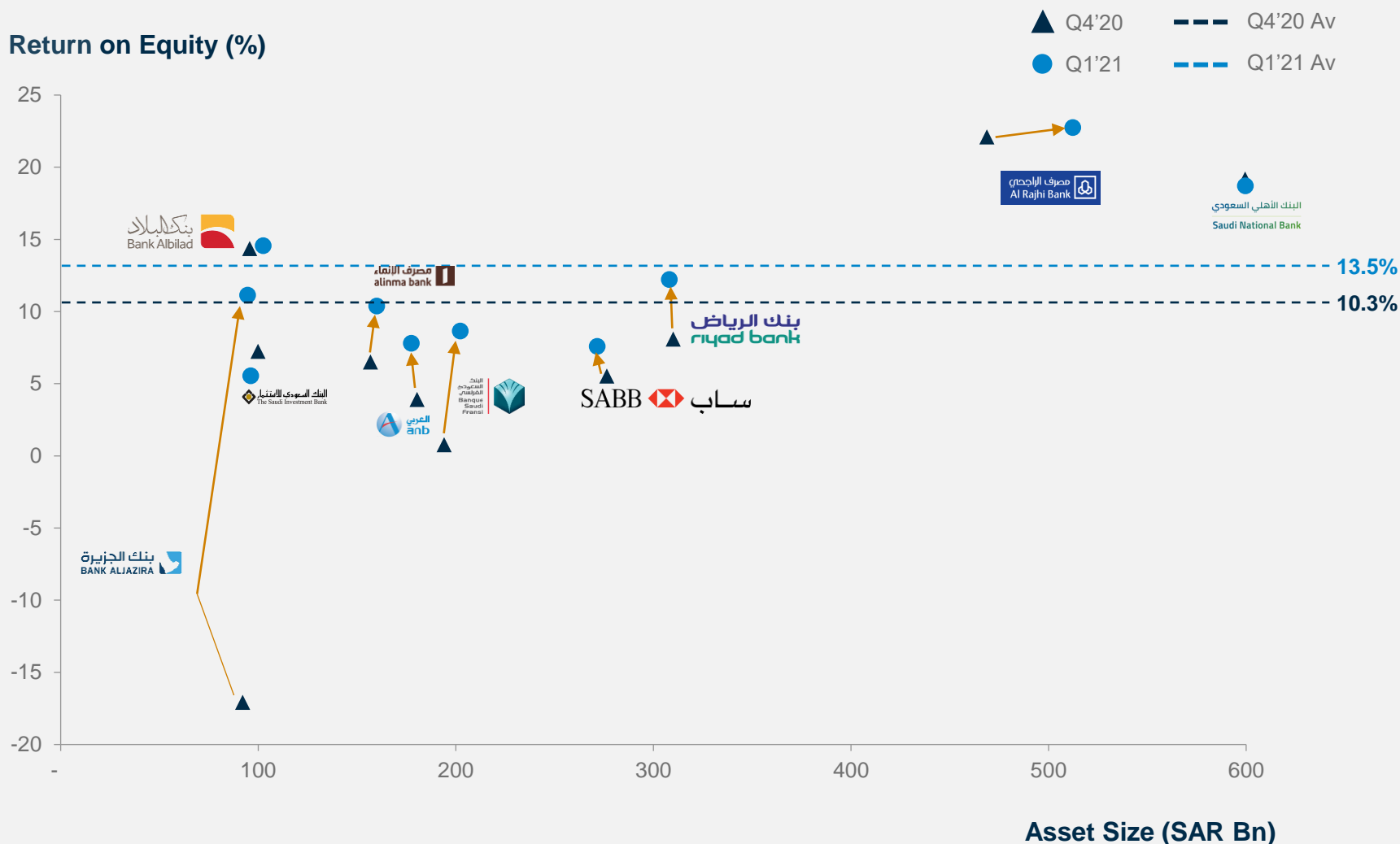
Note: Scaling and some numbers might not add up due to rounding
Source: Financial statements, investor presentations, A&M analysis

KEY TAKEAWAYS

- Cost of risk for all the banks has improved in Q1'21
- BJAZ reported the highest fall in cost of risk (-681.6 bps QoQ) to 1.1% in Q1'21 driven by:
 - 86.1% decrease in impairment provisions to SAR 153mn
- SABB reported the lowest cost of risk, as the bank reported net release under its retail banking & wealth management segment due to IFRS model updates
- Improvement in RIBL's cost of risk is on account of net reversals worth SAR 158mn reported under its retail segment

7 Aggregate RoE Increased, Supported by Higher Profitability

Return on Equity (%)

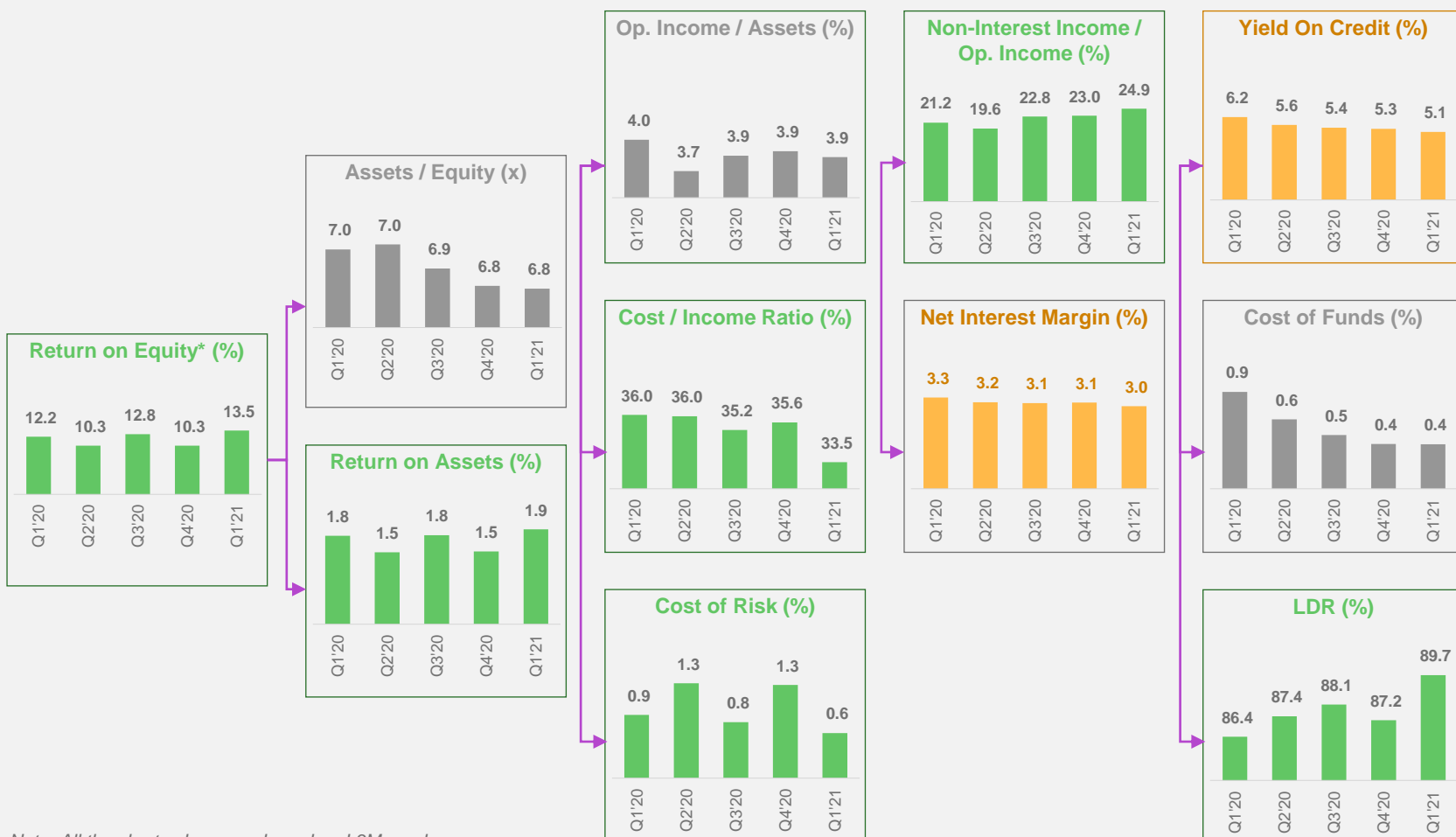


KEY TAKEAWAYS

- Combined RoE increased from 10.3% in Q4'20 to 13.5% in Q1'21, highest in the last six quarters
- BJAZ reported the highest increase in the RoE, as the bank turned profitable during the quarter
- SABB, BSF, ANB and SIB continued to report single digit RoEs, with SIB reporting the lowest at 5.5%

KSA Banking Sector: Mortgage Lending and Public Spending to Drive Growth in FY'21

■ 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 increased to 13.6%, reaching pre-pandemic levels
- Looking ahead, credit growth is likely to be driven by continuous strength in mortgage lending and pick up in corporate credit demand in H2'21
 - Corporate lending is expected to gain traction as PIF program support business activity
- Outlook on cost of risk remains negative for the near term, as Saudi Central Bank's loan deferral program comes to an end by H1'21
- As the NCB-SAMBA merger comes into effect, other domestic banks could also look to consolidate their position
 - This is because merged banks have stronger capital bases, know-how and can grab a larger share in major project financing

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*
21-Jan-21	Bank Audi Egypt	Egypt	First Abu Dhabi Bank	100.0%	NA	Completed
16-Sep-20	Ahli United Bank Egypt SAE	Egypt	Ahli United Bank BSC	14.4%	304	Pending
30-Jun-20	Al Khaliq Commercial Bank PQSC	Qatar	Masraf Al Rayan QSC	100%	4,492	Pending
25-Jun-20	Samba Financial Group	Saudi Arabia	National Commercial Bank	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	599.6	SNB	البنك الأهلي السعودي Saudi National Bank
Al Rajhi Bank	512.2	ALRAJHI	مصرف الراجحي Al Rajhi Bank
Riyad Bank	308.0	RIBL	بنك الرياض riyad bank
Saudi British Bank	271.6	SABB	SABB ساب
Banque Saudi Fransi	202.2	BSF	البنك السعودي الفرنسي Banque Saudi Fransi
Arab National Bank	177.4	ANB	العربي anb
Alinma Bank	160.0	ALINMA	مصرف الإنماء alinma bank
Bank Albilad	102.5	BALB	بنك البلاد Bank Albilad
Saudi Investment Bank	96.3	SIB	البنك السعودي للاستثمار The Saudi Investment Bank
Bank Aljazira	94.6	BJAZ	بنك الجزيرة BANK ALJAZIRA

Note: Banks are sorted by assets size
* As on 31st March 2021