Saudi Arabia Banking Pulse

Year Ending 31st December 2023

ALVAREZ & MARSAL

FOREWORD

Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the 4th 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.

The performance of the KSA banks covered by this report is largely robust and positive. Operating income grew by 9.5% reflecting the effect of higher NII. The year also saw NIM improving to 3.1% with both the C/I ratio (-58bps YoY) and the cost of risk (-5bps YoY) showing improvement. Overall, ROE increased to 14.5% while ROA stayed constant at a healthy 2.0%.

We expect the outlook for Saudi banks to continue to be stable to positive.

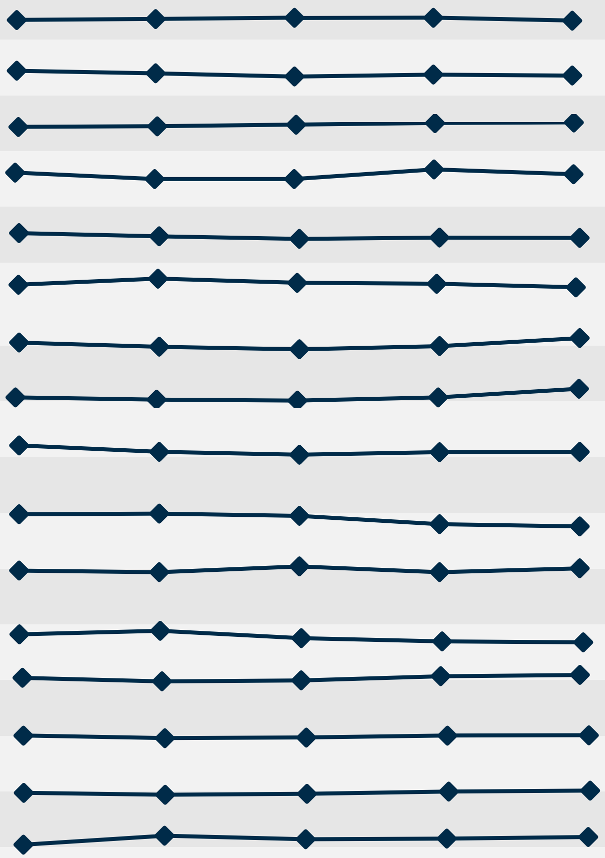
We hope that you will find our 4th annual edition of the KSA Banking Pulse useful and informative.

Continuous credit demand, improving spreads and operating efficiencies drove banks' profitability increases

Improved Stable Worsened

	Metric	FY'22	FY'23
Size	Loans and Advances (L&A) Growth (YoY)	14.4%	10.6%
	Deposits Growth (YoY)	8.3%	7.8%
Liquidity	Loan-to-Deposit Ratio (LDR)	96.7%	99.2%
Income & Operating Efficiency	Operating Income Growth (YoY)	15.4%	9.5%
	Operating Income / Assets	3.7%	3.7%
	Non-Interest Income (NII) / Operating Income	21.9%	20.9%
	Yield on Credit (YoC)	5.8%	8.0%
	Cost of Funds (CoF)	1.1%	2.9%
	Net Interest Margin (NIM)	3.0%	3.1%
	Cost-to-Income Ratio (C/I)	32.5%	31.9%
Risk	Coverage Ratio	148.0%	158.7%
	Cost of Risk (CoR)	0.5%	0.4%
Profitability	Return on Equity (RoE)*	13.7%	14.5%
	Return on Assets (RoA)*	2.0%	2.0%
	Return on Risk-Weighted Assets (RoRWA)	2.4%	2.5%
Capital	Capital Adequacy Ratio (CAR)	19.9%	20.1%

FY'19 FY'20 FY'21 FY'22 FY'23



Key Trends of FY'23

1. During FY'23, aggregate L&A increased by 10.6% YoY and deposits grew by 7.8% YoY
2. LDR increased to 99.2% (+2.5% points YoY) during FY'23 as L&A growth outpaced growth in deposits
3. Operating income increased by 9.5% YoY as NII grew by 10.9% YoY and non-core income increased by 4.3% YoY
4. NIMs increased marginally to 3.1% in FY'23 on expansion of YoC more than CoF
5. C/I ratio improved by 0.6% points to 31.9% as operating income increased (+9.5% YoY) faster than operating expenses (+7.5% YoY)
6. Cost of risk decreased by 5bps YoY, as banks lowered provisions by 1.1% YoY on an aggregate level
7. RoE (+0.8% points YoY) increased marginally and RoA remained stable as aggregate net income expanded by 11.8% YoY
8. RoRWA improved (+0.1% points YoY) to 2.5%; Capital adequacy ratio improved (+0.2% points YoY) to 20.1%

Note 1: YoY stand for year over year
Note 2: Annual income was used in the calculation of operating income growth
Source: Financial statements, Investor presentations, A&M analysis

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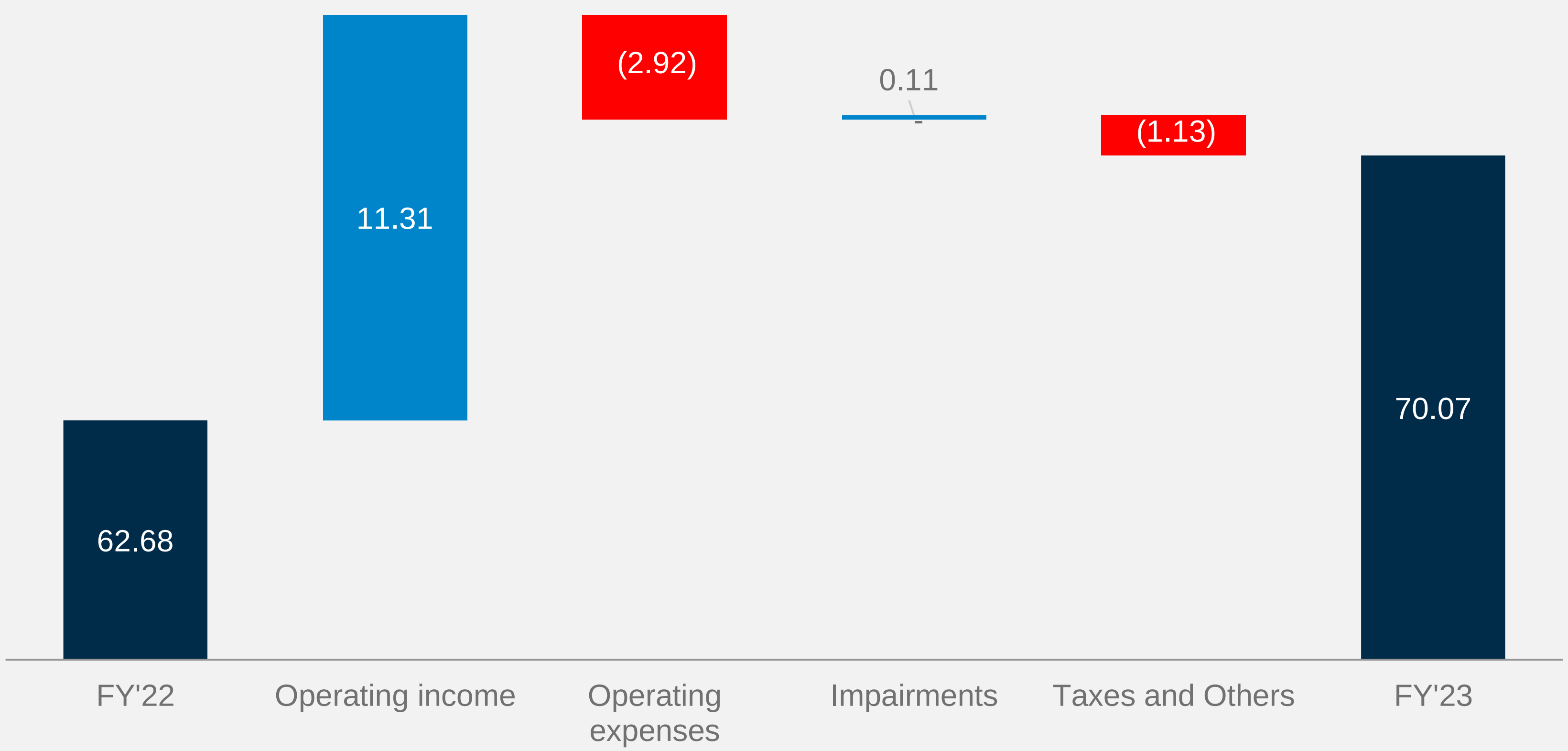
Higher operating income coupled with reducing impairment charges enhanced profitability

Net income bridge – SAR bn



KEY TAKEAWAYS

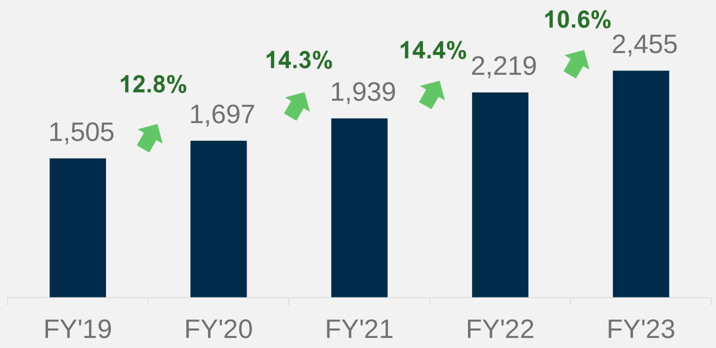
- Aggregate net income increased by 11.8% YoY to SAR 70.1bn
- Higher operating income (+9.5% YoY) along with lower impairments (-1.1% YoY) were the major growth drivers for net income
- Both higher net interest income (+10.9% YoY) and non interest income (+4.3% YoY) growth were major contributors

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

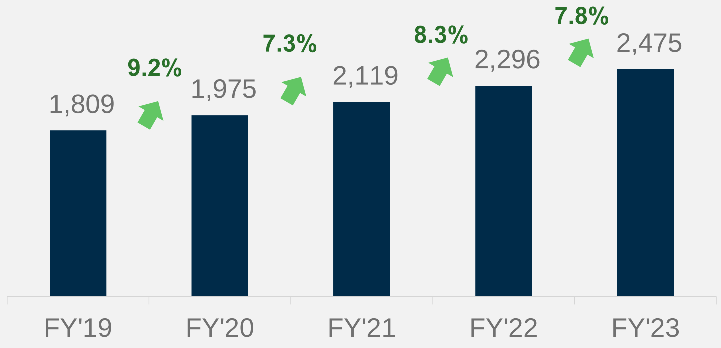
L&A growth surpassed that of deposits, leading to increase in LDR ratio

Improved Stable Worsened

Total Loans and Advances (L&A)
(SAR Bn)



Total Deposits
(SAR Bn)



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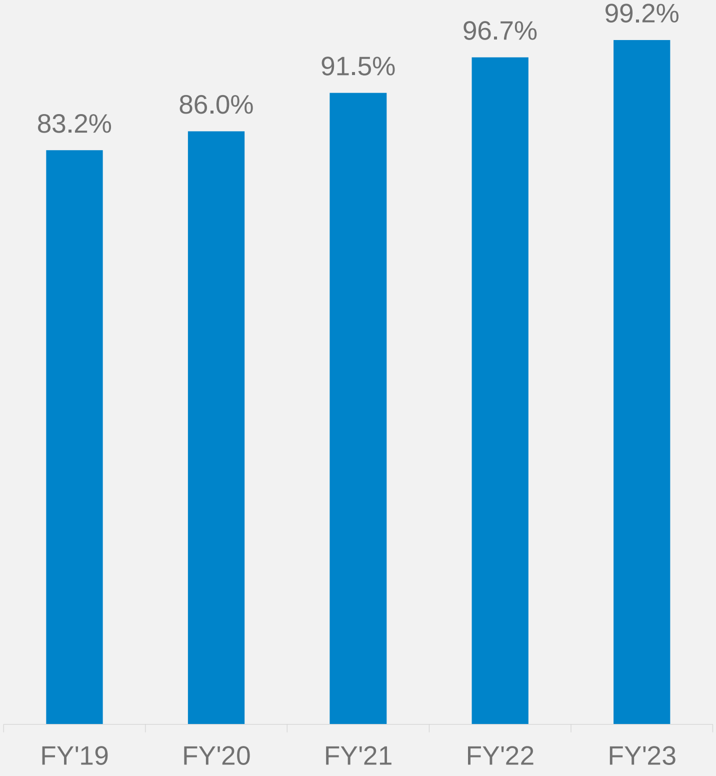
Loan-to-Deposit Ratio
(%, Yearly)



KEY TAKEAWAYS

- Aggregate L&A grew by 10.6% YoY, faster than growth in deposits (+7.8% YoY)
- LDR ratio increased by 2.5% points YoY to 99.2%, reflecting strong overall credit demand
- LDR increased the most for RIBL (+6.7% points YoY) to 107.6% in FY’23
- ALINMA reported the highest decline in the LDR by 8.5% points YoY in FY’23

Source: Financial statements, investor presentations, A&M analysis, SAMA

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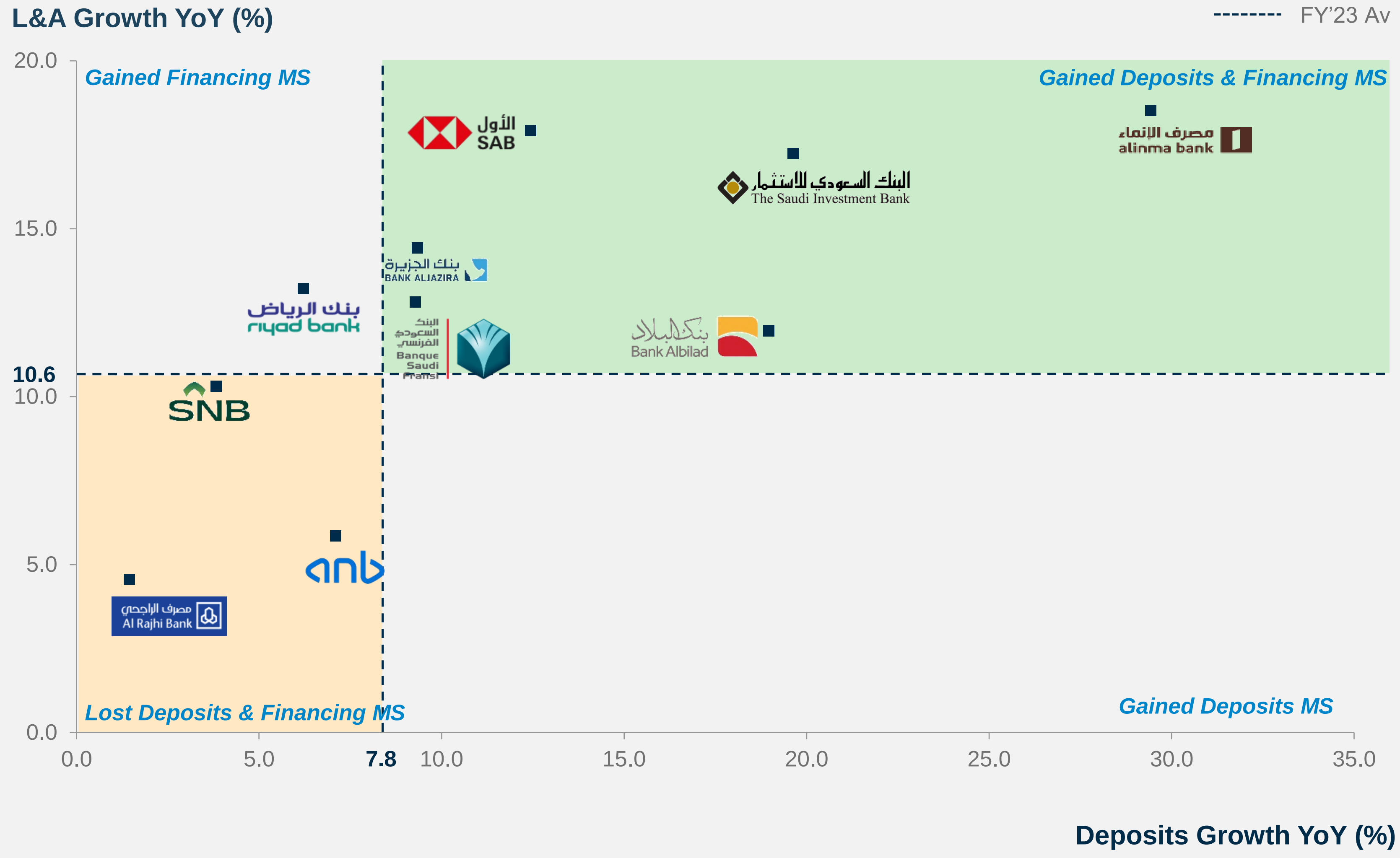
ALINMA drove both L&A and deposits growth



KEY TAKEAWAYS

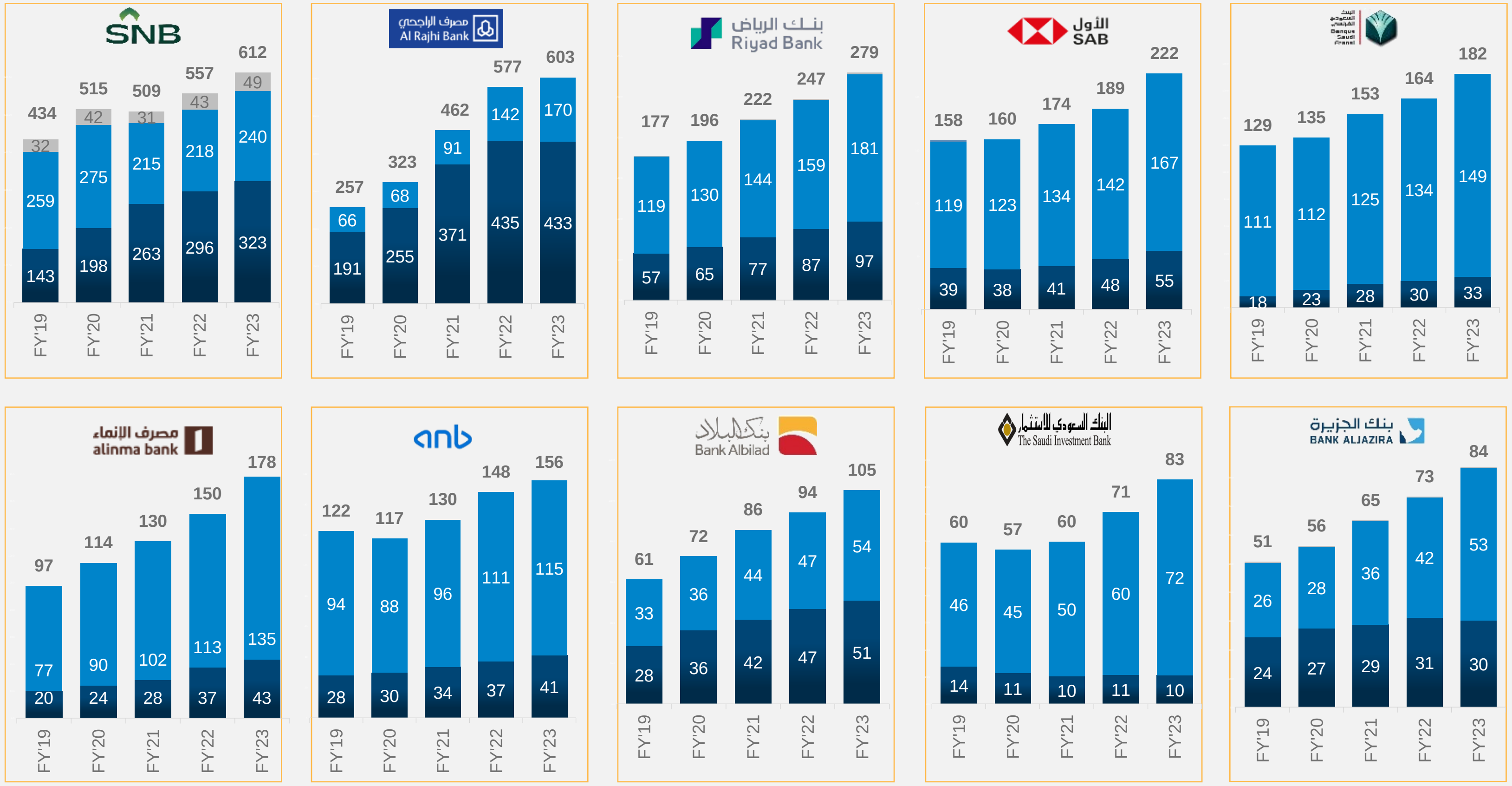
- L&A and deposits grew for all the banks, however, aggregate L&A grew higher than aggregate deposits
- ALINMA reported highest growth in both L&A and deposits, reporting growth of 18.5% YoY and 29.4% YoY, respectively
- ALRAJHI reported lowest L&A and deposit growth of 4.6% YoY and 1.4% YoY, respectively

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

Sustained high credit demand from Corporate / Wholesale segment

Retail   Corporate / Wholesale   Others

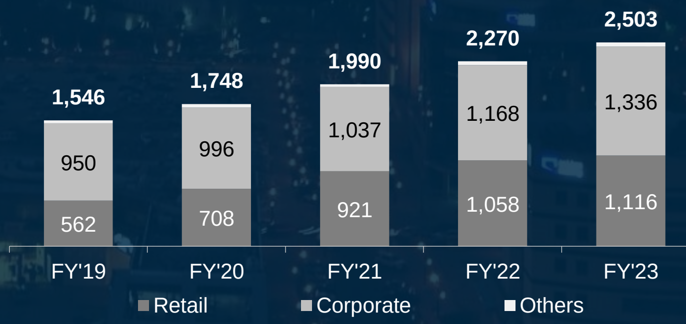
Loans and advances (SAR bn)



KEY TAKEAWAYS

- Corporate / Wholesale lending reported the highest growth of 14.4% YoY (accounted for ~53.4% of aggregate L&A) followed by retail segment (+5.5% YoY) contributing 44.6% to aggregate L&A
  - BJAZ reported a growth of 26.7% YoY in the corporate / wholesale deposits, driving the overall growth. ALINMA reported the highest increase in retail loans (+16.0% YoY) in FY'23

Aggregate L&A (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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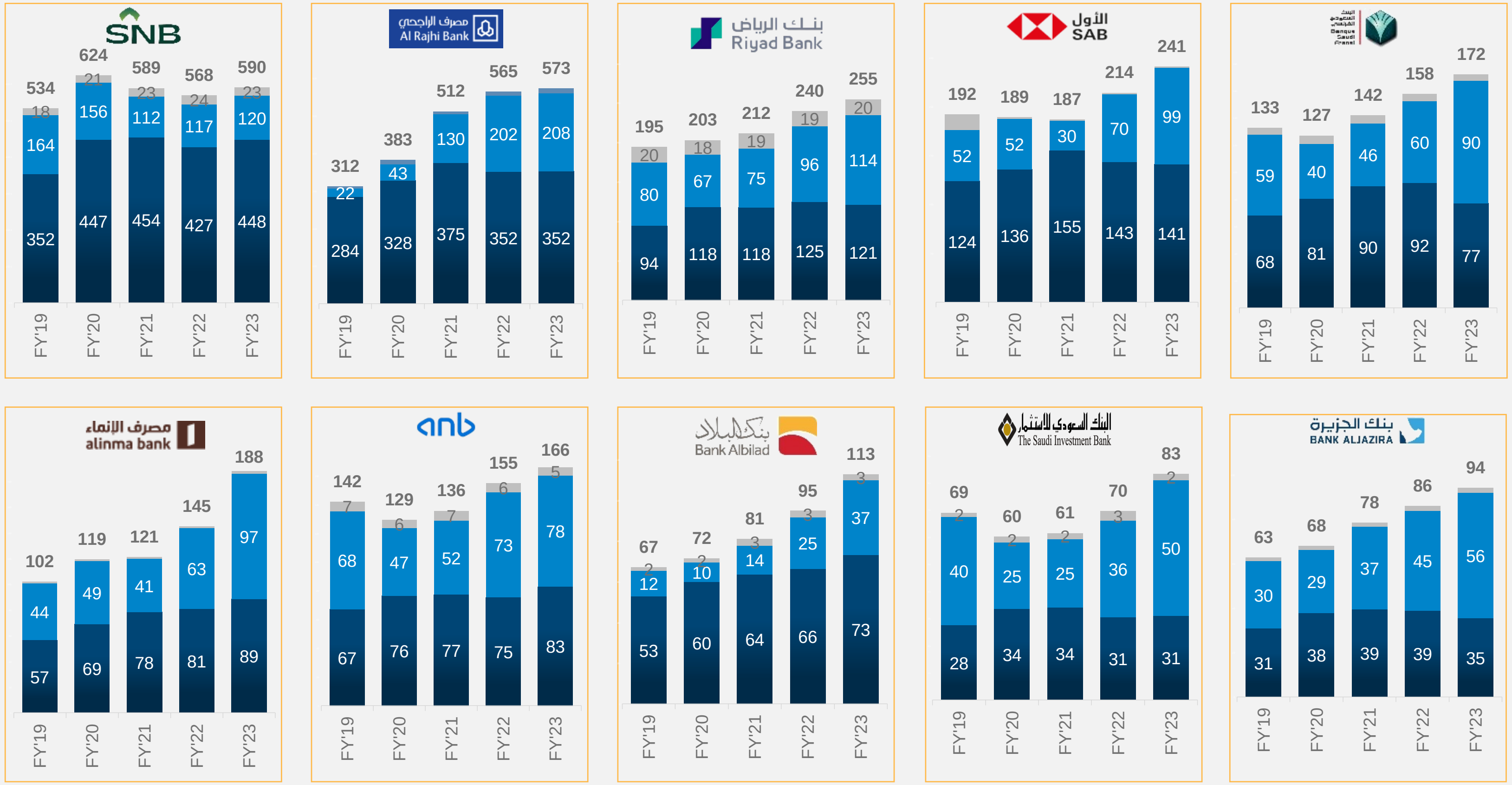
Time deposits increased as customers remained responsive to high interest rates

■ CASA ■ Time deposits ■ Others

Deposits (SAR bn)



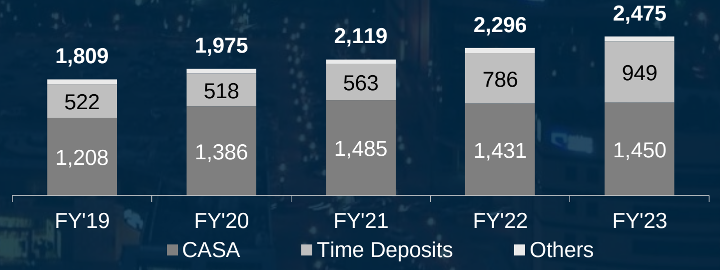
Note: Scaling and some numbers might not add up due to rounding

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

KEY TAKEAWAYS

- Rising interest rates has resulted in growth of time deposits (+20.6% YoY), which accounted for 38.3% of total deposits in FY'23 up from 34.3% in FY'22
- CASA (which accounts for ~58.6% of the total deposits) marginally increased by 1.3% YoY
- ALINMA reported the highest increase in time deposits (+55.3% YoY) in FY'23

Aggregate Deposits (SAR bn)



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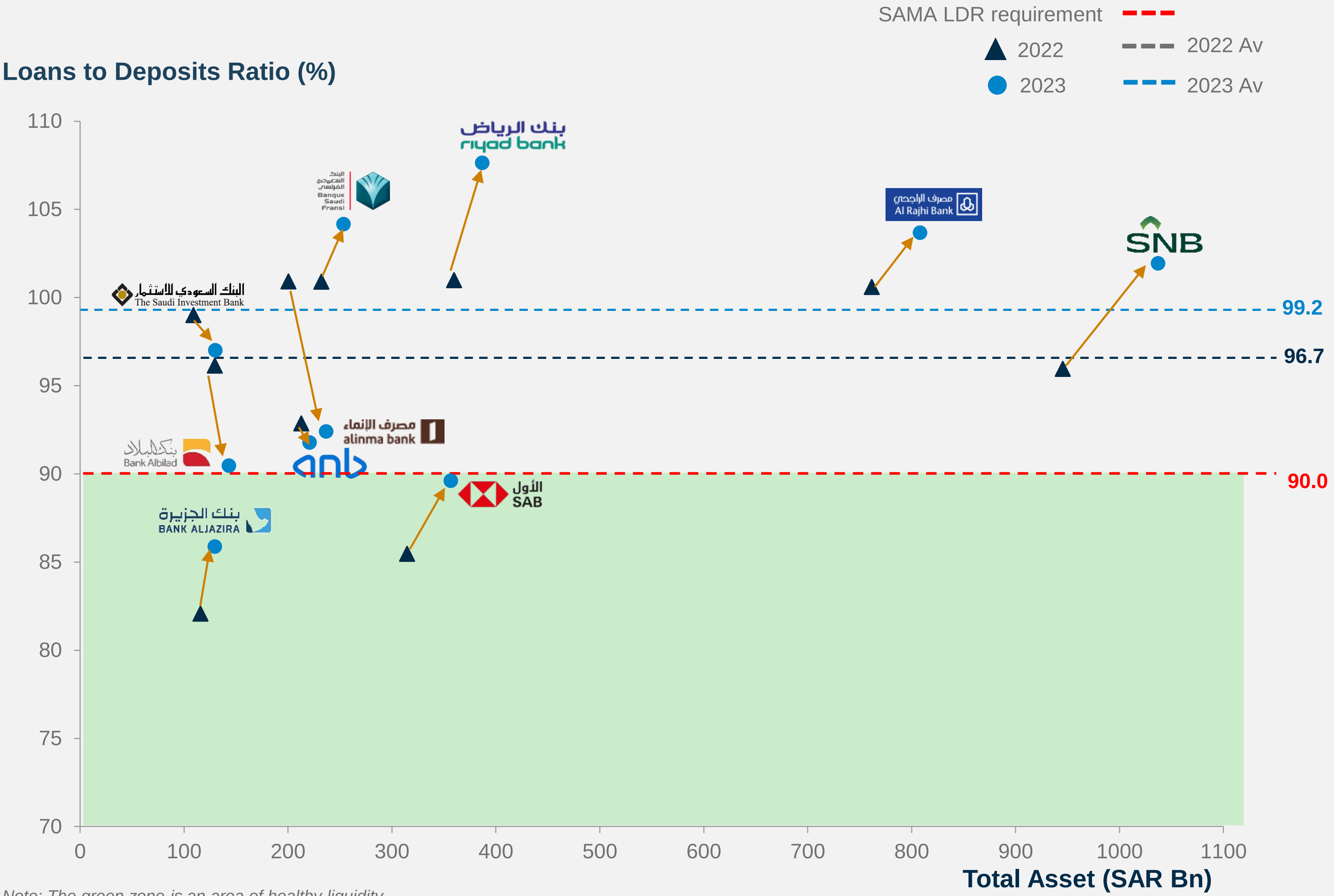
RIBL and SNB were the major drivers for rise in LDR

Loans to Deposits Ratio (%)

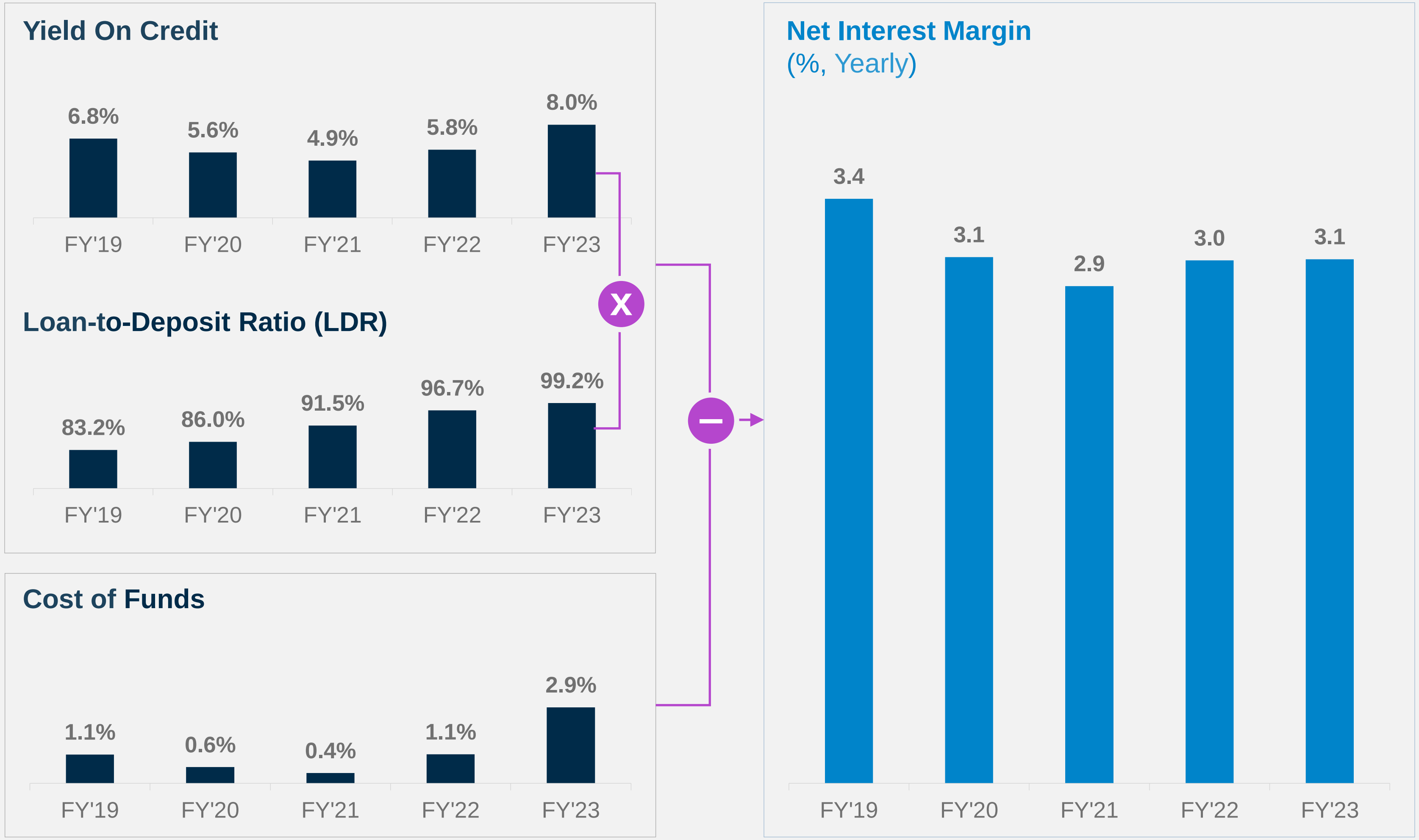


Note: The green zone is an area of healthy liquidity
Source: Financial statements, A&M analysis

KEY TAKEAWAYS

- Aggregate LDR increased (+2.5% point YoY) to 99.2% in FY'23 from 96.7% in FY'22
- LDR increased the most for RIBL (+6.7% points YoY) to 107.6% in FY'23
  - Due to increase in L&A (+13.2% YoY) more than deposit (+6.2% YoY) in FY'23
  - This was followed by SNB with a increase of 6.0% points YoY
- On the other hand, ALINMA reported the highest decline in the LDR by 8.5% points YoY in FY'23

NIM expanded marginally on slower differential loan and deposit growth in FY'23



KEY TAKEAWAYS

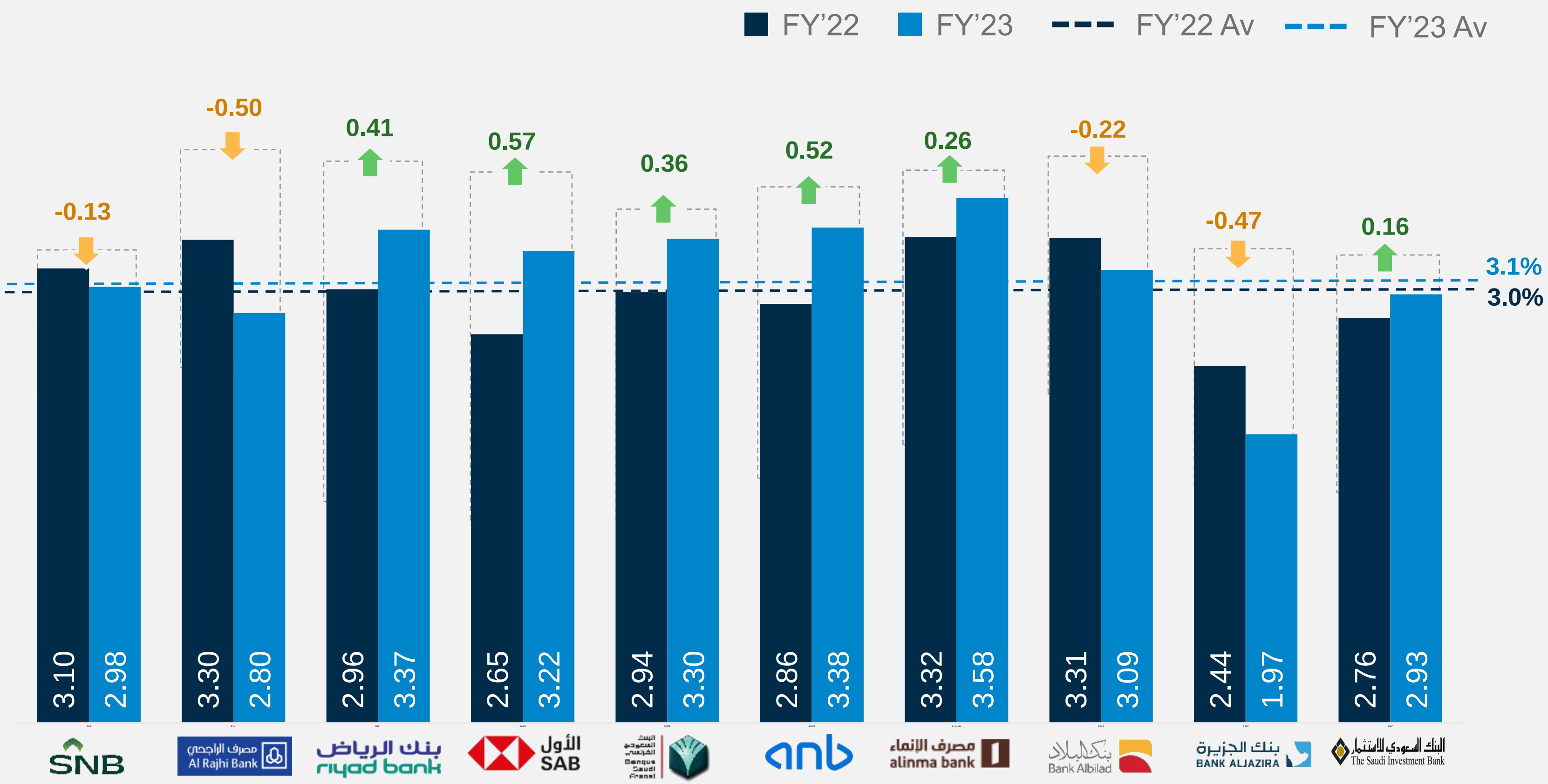
- NIM improved marginally to 3.1% in FY'23, as SAMA increased the policy rate
  - SAMA increased the repo rates by 100bps YoY to 6.0% in FY'23
  - Yield on Credit expanded (+2.1% points YoY) more than cost of funds (+1.8% points YoY)
  - Slower pace of differential loan growth in comparison to deposit growth
- SAB reported the highest improvement (+57bps YoY) in NIM, followed by ARNB (+52bps YoY)
- ALRAJHI reported highest decline in the NIM (-50bps YoY)

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

SAB and RIBL primarily drove the aggregate NIM

Improved Stable Worsened

Net Interest Margin (%, Yearly)



KEY TAKEAWAYS

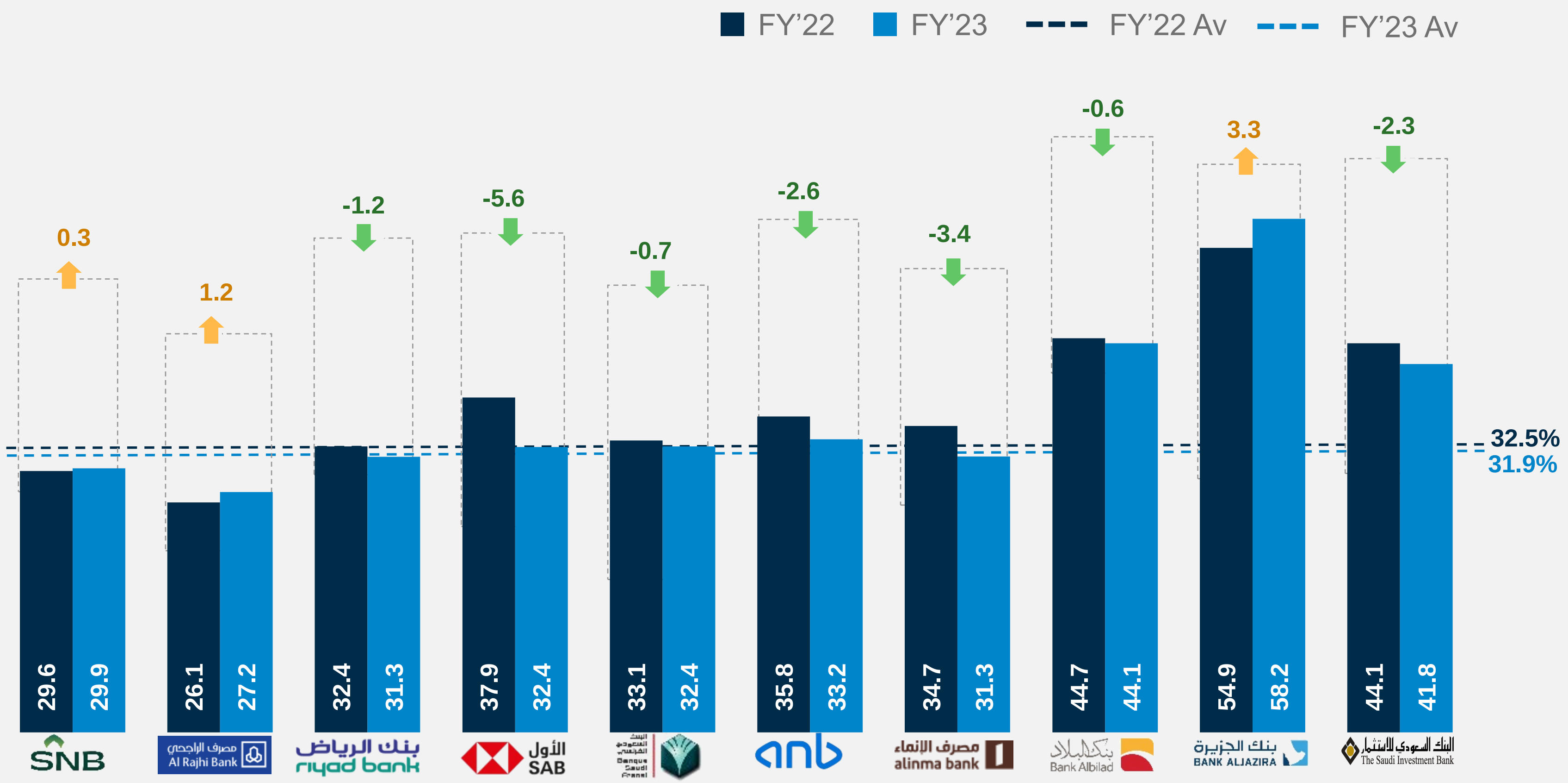
- Aggregate NIM grew marginally as six of the top ten bank reported expansion in NIM
- SAB (+57bps YoY) reported the highest increase in NIM during FY’23
  - NII for SAB grew by 39.6% YoY
- NIM for ALRAJHI contracted the most (-50bps YoY)
  - Due to significant increase in cost of funds (+158bps YoY) in comparison to increase in yield on credit (+114bps YoY)
  - Followed by BJAZ, BALB and SNB which reported NIM contraction of 47bps, 22bps and 13bps YoY, respectively

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

SAB majorly improved the aggregate C/I ratio

Improved Stable Worsened

Cost to Income Ratio (%, Yearly)



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

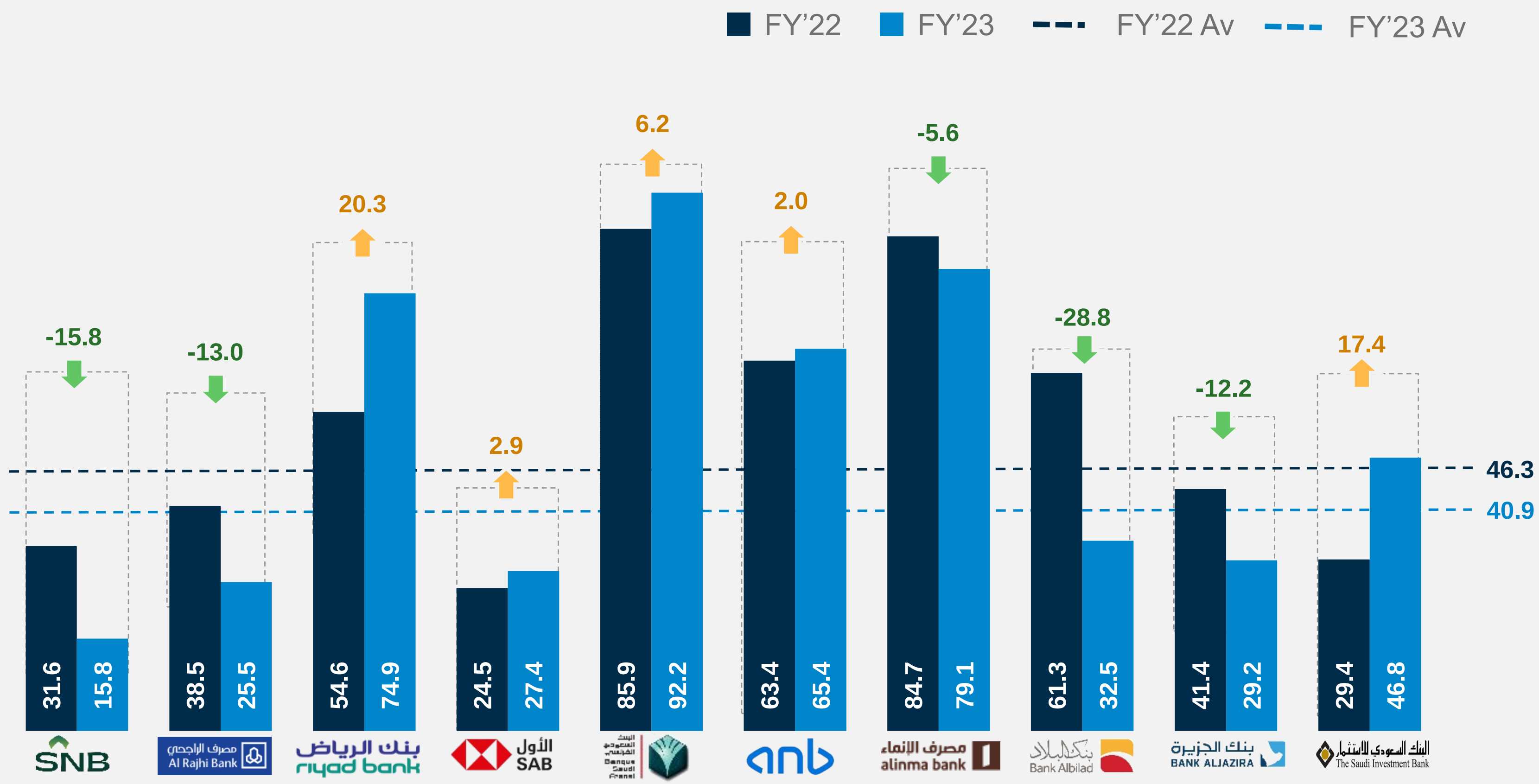
KEY TAKEAWAYS

- Seven of the top ten banks reported an improvement in C/I ratio and the aggregate C/I ratio improved 0.6% points YoY in FY’23
- C/I ratio for SAB improved the most (5.6% points YoY) in FY’23
  - Operating income grew 31.7% YoY higher than operating expense (+12.3% YoY)
  - Rationalized branch operation by reducing 6 branches
- BAJZ, ALRAJHI and SNB reported deterioration in C/I ratio by 329bps, 116bps and 30 bps YoY, respectively
  - BJAZ and ALRAJHI reported lower operating income growth than that of operating expenses
  - SNB was impacted by high synergy costs post-merger with SAMBA, even though the bank rationalized the branch operation expenses by reducing 24 branches in FY’23

Aggregate cost of risk improved marginally on back of lower impairment charges

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

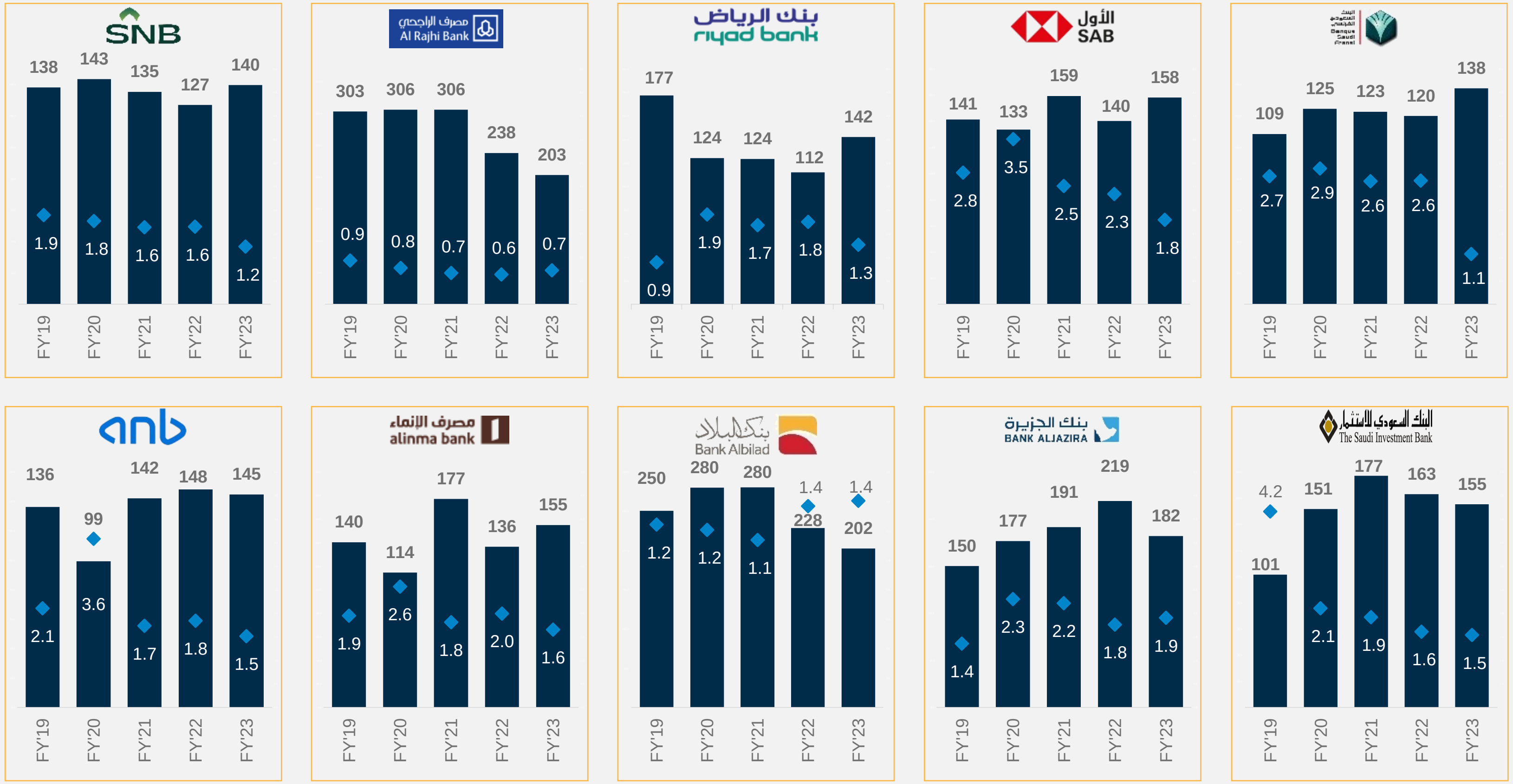
KEY TAKEAWAYS

- Aggregate CoR improved 5bps to 0.41% in FY'23
- Aggregate impairment charges reduced by 1.1% YoY
- BALB reported a significant improvement in CoR (-29bps YoY) to 0.33% in FY'23
  - Driven by significant drop in impairment charge (-41.2% YoY) in FY'23
- RIBL reported highest deterioration in CoR by 20bps YoY
  - Impairment charges increased 54.0% YoY

KSA banks remain well covered above 150% along with improving asset quality

Coverage Ratio, % ◆ NPL / Net loans, %

Coverage Ratio[1] and NPL / Net Loans Ratio (%, Yearly)



KEY TAKEAWAYS

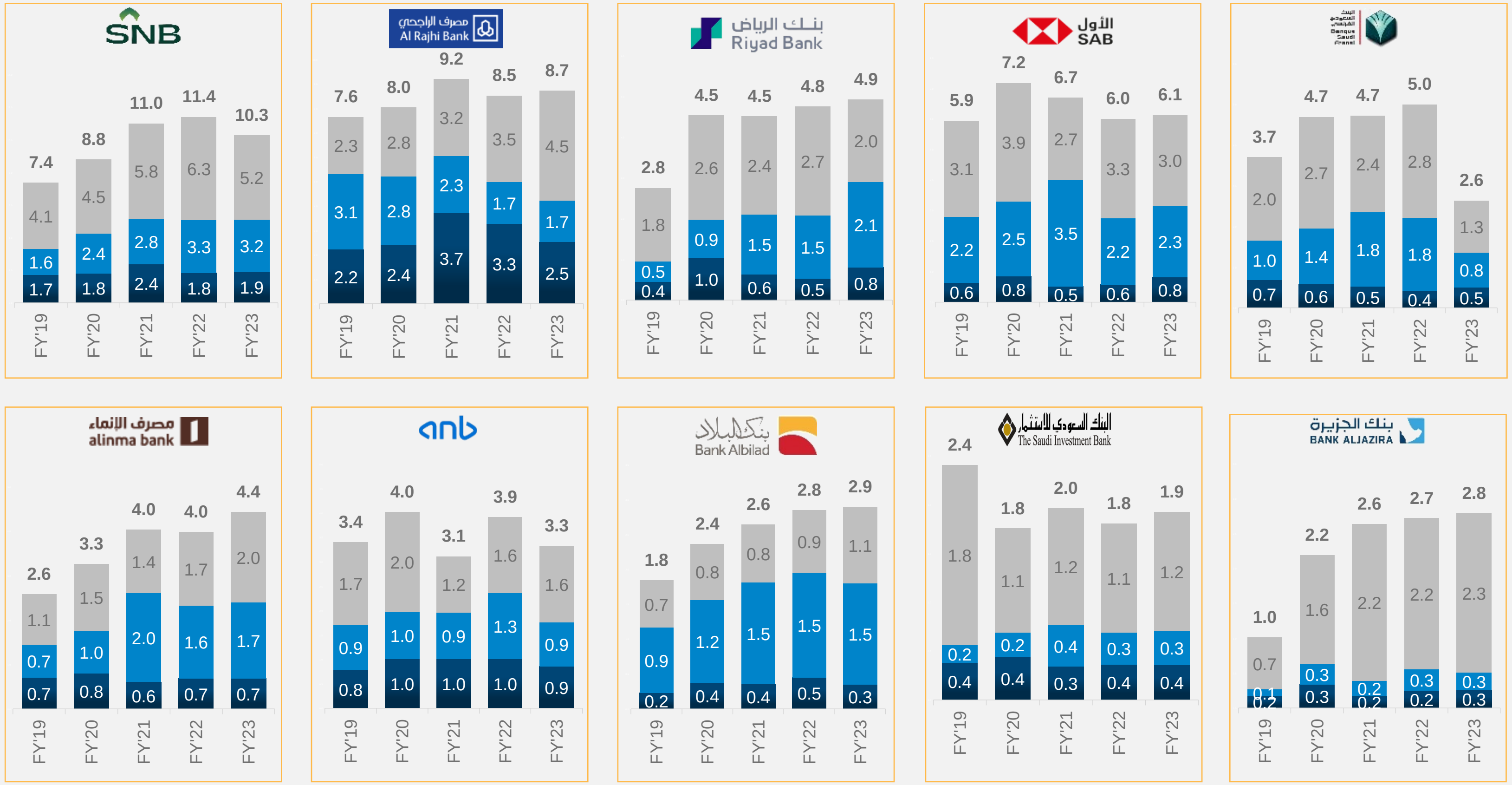
- Asset quality improved further as NPL / Net Loan ratio decreased to 1.2% in FY'23 compared to 1.6% in FY'22
- Aggregate coverage ratio increased to 158.7% (+10.7% points YoY) in FY'23; remains well above 150.0%
- Seven of the top ten banks reported an improvement in NPL; highlighting the improving asset quality of the banks
- RIBL reported a substantial increase in coverage ratio by 30.1% points YoY to 142.1%
  - RIBL's NPL decreased by 18.4% YoY
- BJAZ and ALRAJHI reported substantial decrease in coverage ratio by 37.3% points and 34.8% points YoY

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

ECL declined as asset quality improved across the board

Stage 1 Stage 2 Stage 3

Stage wise ECL (SAR bn)



Note 1: Scaling and some numbers might not add up due to rounding

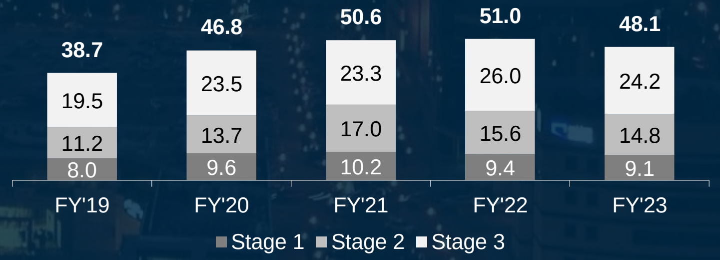
Note 2: L&A mix by stage consists of 9 banks (ex-RIBL). We have used comparable ECL by stage (ex-RIBL) numbers for key takeaway comments

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

KEY TAKEAWAYS

- Stage 1 loans increased 10.4% YoY and accounts for ~92.8% of the total loans
- Stage 3 loans are well provided for with 53.2% coverage by stage 3 ECL allowance in FY’23
- Aggregate ECL and stage 3 ECL decline 5.7% YoY and 7.0% YoY, respectively indicating lesser provision for bad loans and improvement in asset quality

Aggregate ECL (SAR bn)



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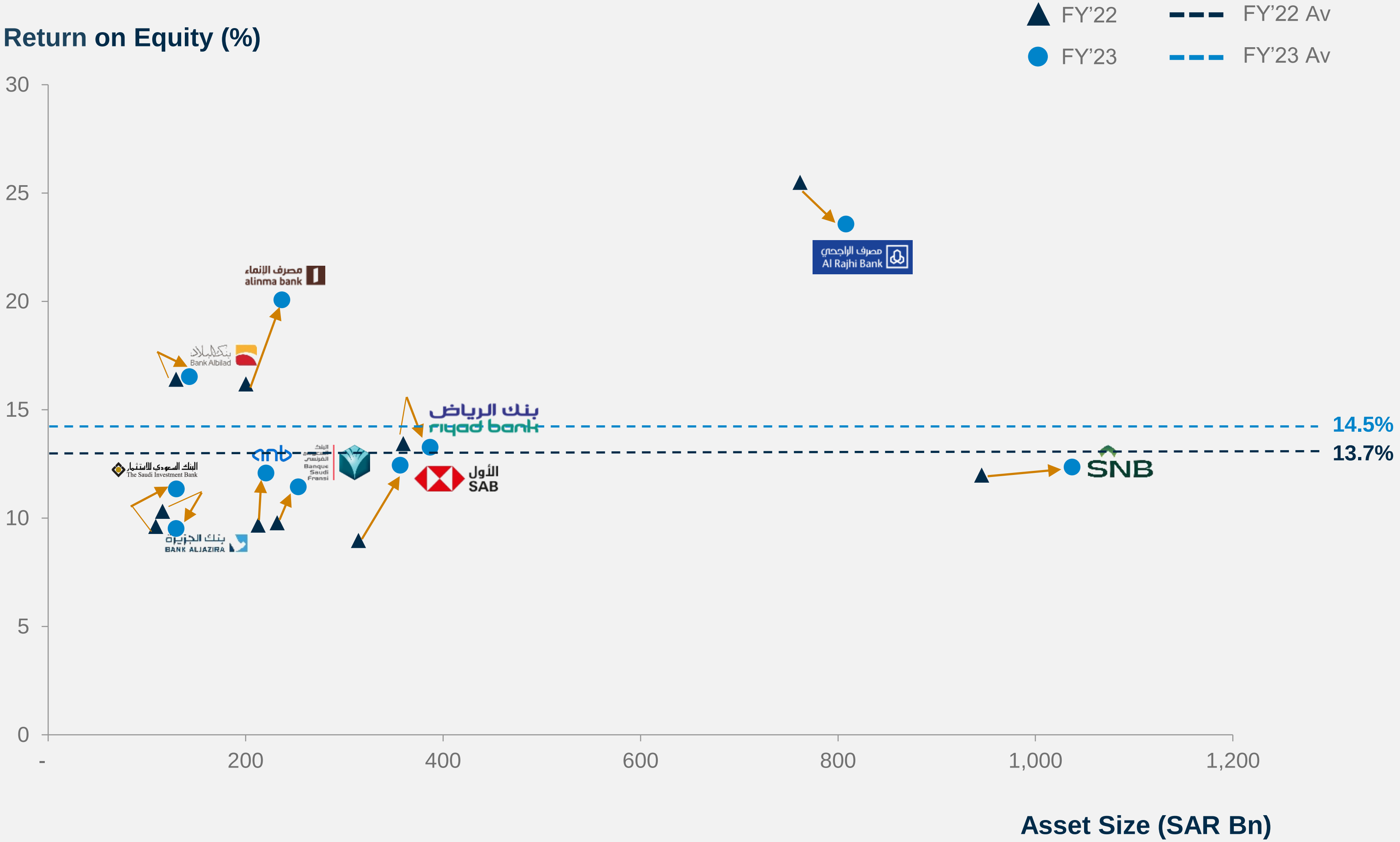
Return ratios improved in line with increase in overall profitability

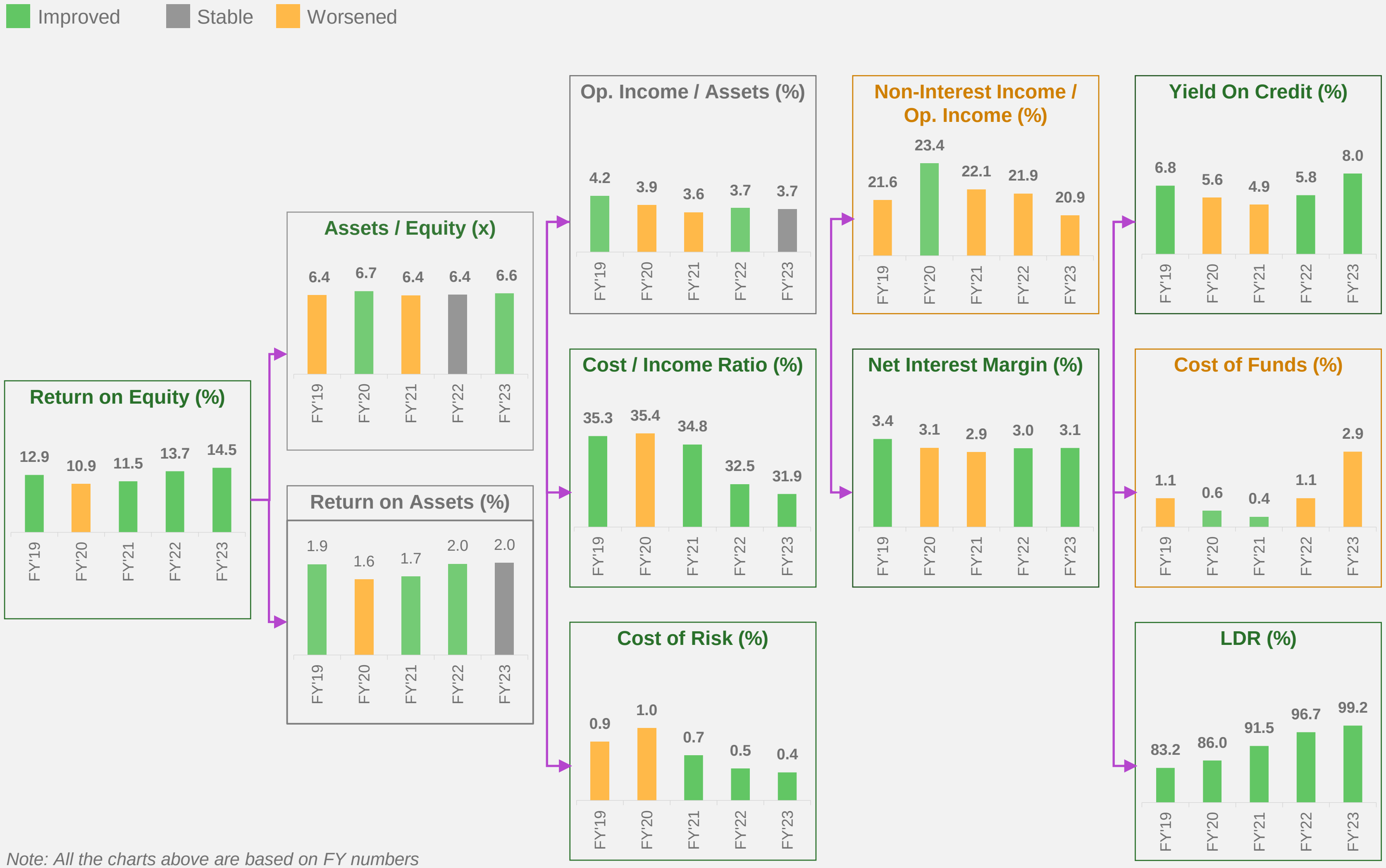


KEY TAKEAWAYS

- Aggregate RoE increased (+79bps YoY) to 14.5% in FY'23, as banks witnessed increase (+11.8% YoY) in aggregate profitability
  - ALINMA reported the highest improvement in RoE (+388 bps YoY) to 20.1% in FY'23
  - ALRAJHI reported the highest decline in RoE of 192bps YoY to 23.6% in FY'23, with the highest RoE among the peers

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

The sector witnessed improved profitability and RoE benefitting from the rising interest rate scenario during FY’23



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’23, supported by higher net profit (+11.8% YoY)
  - Profitability improved due to increase in operating income (+9.5% YoY) which was further supported by lower impairments (-1.1% YoY)
- KSA’s banking sector is expected to play pivotal role in achieving objectives of Vision 2030
  - Liquidity pressure of FY’22 was moderated by deposits inflows from Government related entities ensuring reasonable liquidity in FY’23
- We expect positive outlook for KSA banks with significant liquidity, prospective loan growth, improving asset quality and well capitalized books
- However, given the upcoming interest rate scenario of rate cuts by H2’24, the NIMs will remain stable at around 3.0% levels

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

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

Glossary (cont'd.)

Bank	Assets (SAR Bn)*	Abbreviation	Logo
Saudi National Bank	1037.1	SNB	
Al Rajhi Bank	808.1	ALRAJHI	
Riyad Bank	386.8	RIBL	
Saudi British Bank	356.6	SAB	
Banque Saudi Fransi	253.4	BSF	
Alinma Bank	236.7	ALINMA	
Arab National Bank	220.7	ANB	
Bank Albilad	143.1	BALB	
Saudi Investment Bank	130.0	SIB	
Bank Aljazeera	129.6	BJAZ	

Note: Banks are sorted by assets size
** As on 31st December 2023*

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