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# Saudi Arabia Banking Pulse

## Quarter 1, 2024

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# FOREWORD

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Alvarez & Marsal Arabia Limited (A&M) is delighted to publish the Q1'24 edition of the Kingdom of Saudi Arabia (KSA) Banking Pulse (“The Pulse-KSA”). In this quarterly 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.

During Q1'24, L&A increased by 3.5% QoQ mainly driven by growth in corporate / wholesale banking (+3.7% QoQ). Deposits increased by 5.9% QoQ, faster than L&A; and was primarily driven by increase in CASA deposits (+8.2% QoQ). Operating income increased by 3.8% QoQ, majorly due to growth in non-core income (+16.2% QoQ) with marginal growth in NII (+0.8% QoQ). Furthermore, impairment charges (+10.7% QoQ) subdued the growth in net income (+6.0% QoQ).

Banks reported improved cost efficiency as cost-to-income ratio decreased by 1.4% QoQ; Stage 3 loans are well provided for with 58.3% coverage with stage 3 ECL allowance. Overall, RoE increased 0.7% point QoQ to 16.1% while ROA increased marginally by 0.1% point to 2.0% in Q1'24.

SAMA has maintained its interest rates in line with the US Fed, with repo rate and reverse repo rate stable at 6.0% and 5.5% in Q1'24. H2'24 is anticipated to be the beginning of interest rate cycle reversal, where lower policy rates could affect margins; banks will need to increase their focus on fee income. Ongoing regional tensions coupled with lower oil output makes the KSA economy largely dependent on the non-oil sector such as trade, hospitality and tourism etc. which now contribute 50% of GDP.

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

*Disclaimer:*

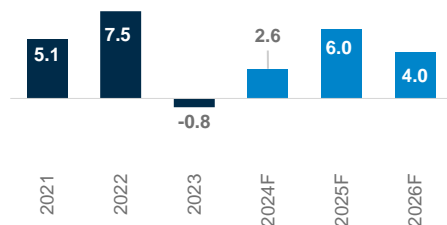
*The information contained in this document is of a general nature and has been obtained from publicly available information plus market insights. The information is not intended to address the specific circumstances of an individual or institution. There is no guarantee that the information is accurate at the date received by the recipient or that it will be accurate in the future. All parties should seek appropriate professional advice to analyze their particular situation before acting on any of the information contained herein. The growth figures for all the line items are on a quarterly basis (QoQ)*



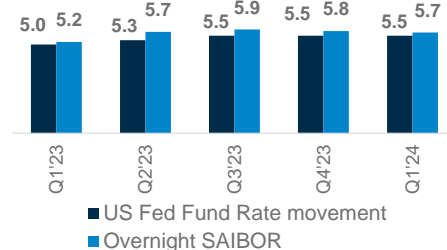
# KSA macro & sector overview

## Macro overview

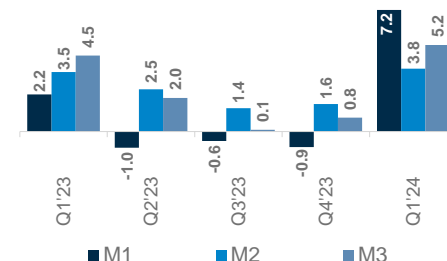
KSA GDP Growth Rate<sup>1</sup>, %



US Fed Funds Rate<sup>2</sup>, SAIBOR %



KSA Money Supply<sup>3</sup>, (% Quarterly)



- KSA's FY'23 GDP declined by 0.8% YoY due to high dependency on oil export revenues which were lower. In the latest IMF projections of April'24, KSA FY'24 GDP projections was reduced to 2.6% from an earlier estimate of 4.0%; however, FY'25 projections was increased to 6.0% from the earlier estimate of 4.2%

- PMI for Q1'24 decreased to 56.5 (from 57.8 in Q4'23). Although, slower than Q4'23, output levels for non-oil businesses expanded and input costs were favorable as firms reported greater purchasing efforts. Firms witnessed robust order intakes and strong demand conditions

- The US fed rates remained unchanged at 5.50% in Q1'24. On account of high inflation, rate cuts are likely to be delayed to autumn '24. US Labor Department reported inflation at 3.5% in March'24, well above the Fed's 2.0% target rate

- SAMA kept repo (6.0%) and reverse repo (5.5%) rates unchanged. Contrary to the rising benchmark interest rates, the overnight SAIBOR rate fell by 8bps QoQ to 5.7% at the end of Q1'24

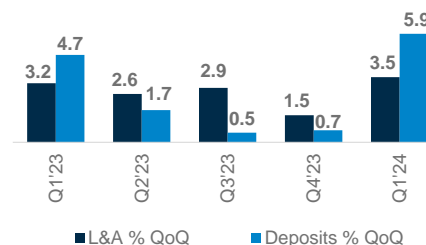
- In Q1'24, M2 money supply increased by 3.8% QoQ to **SAR 2.5tn**. Time & Savings deposits witnessed a decline of 2.4% QoQ to **SAR 0.8tn**

- M1 money supply increased by 7.2% QoQ to **SAR 1.6tn** as Demand deposits increased at the same pace to **SAR 1.4tn** in Q1'24 to now account for 59.9% of all deposits

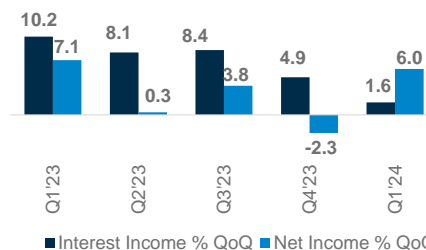
- M3 money supply increased by 5.2% QoQ to **SAR 2.8tn** in Q1'24

## Banking overview Q1'24

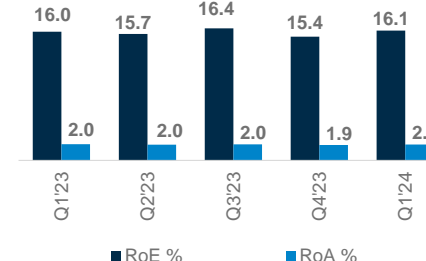
KSA Banks L&A and Deposits<sup>4</sup>, %



KSA Banks' Profitability<sup>4</sup>, %



KSA Banks' Profitability<sup>4</sup>, %



- In Q1'24, aggregate loans & advances (L&A) of top ten KSA banks grew slower (+3.5% QoQ) than deposits (+5.9% QoQ)
- Credit outlay is expected to be slower during FY'24 due to lower mortgage lending growth and tighter liquidity. However, Corporate / Wholesale lending growth will benefit from Vision 2030 projects and the resulting stronger economic activity
- The LDR retreated by 2.2% points QoQ on higher deposit growth, to be at 97.0% in Q1'24

- Aggregate total interest income grew by 1.6% QoQ in Q1'24, resulting in a marginal growth of 0.8% QoQ in NII
- Aggregate net profit increased by 6.0% QoQ in Q1'24 majorly due to significant increase in net fees and commission income (+23.0% QoQ)
- Improved cost efficiency, with operating expenses declining by 0.5% QoQ also contributed to profitability
- Increase in impairment charges during the quarter by 10.7% QoQ, however, undermined profitability

- Aggregate RoE improved by 75bps QoQ to 16.1% in Q1'24
- RoA improved marginally by 6bps QoQ to 2.0%, with net profit and average total assets growing by 6.0% and 3.8% QoQ, respectively

# KSA banking sector continues expansion in L&A, deposits and overall profitability

➔ Improved
 ↔ Stable
 ➔ Worsened

	Metric	Q4'23	Q1'24	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Key Trends of Q1'24
Size	L&A Growth (QoQ)	1.5% <span style="color: green;">➔</span>	3.5%						1 L&A increased by 3.5% QoQ, however, deposits increased at a faster pace by 5.9% QoQ
	Deposits Growth (QoQ)	0.7% <span style="color: green;">➔</span>	5.9%						
Liquidity	Loan-to-Deposit Ratio (LDR)	99.2% <span style="color: orange;">➔</span>	97.0%						2 LDR dropped by 2.2% QoQ to 97.0% in Q1'24
Income & Operating Efficiency	Operating Income Growth (QoQ)	-1.1% <span style="color: green;">➔</span>	3.8%						3 Aggregate operating income increased by 3.8% QoQ; NII contributed to this growth marginally (+0.8% QoQ) and non-core income grew by 16.2% QoQ
	Operating Income / Assets	3.6% <span style="color: gray;">↔</span>	3.6%						
	Non-Interest Income / Operating Income	19.5% <span style="color: green;">➔</span>	21.8%						4 NIM remained stable at 3.0%; YoC decreased by 7bps QoQ while CoF remained stable at 3.3%
	Yield on Credit (YoC)	8.4% <span style="color: orange;">➔</span>	8.3%						
	Cost of Funds (CoF)	3.3% <span style="color: gray;">↔</span>	3.3%						5 C/I ratio improved by 138bps QoQ as operating expenses decreased 0.5% QoQ and operating income increased by 3.8% QoQ
	Net Interest Margin (NIM)	3.0% <span style="color: gray;">↔</span>	3.0%						
Risk	Cost-to-Income Ratio (C/I)	33.0% <span style="color: green;">➔</span>	31.6%						6 Coverage ratio increased by 4.3% points QoQ, while CoR remained stable at 0.4% in Q1'24
	Coverage Ratio	158.7% <span style="color: green;">➔</span>	163.0%						
Profitability	Cost of Risk (CoR)	0.4% <span style="color: gray;">↔</span>	0.4%						7 RoE increased by 0.7% points QoQ to 16.1% and ROA increased by 0.1% point QoQ to 2.0%
	Return on Equity (RoE)	15.4% <span style="color: green;">➔</span>	16.1%						
	Return on Assets (RoA)	1.9% <span style="color: green;">➔</span>	2.0%						8 RoRWA remained stable at 2.6%, while capital adequacy ratio declined by 0.5% QoQ to 19.6%
Capital	Return on Risk-Weighted Assets (RoRWA)	2.6% <span style="color: gray;">↔</span>	2.6%						
	Capital Adequacy Ratio (CAR)	20.1% <span style="color: orange;">➔</span>	19.6%						

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

# KSA banking industry developments

## Key Sector Developments



### New Entrants

- SAMA licensed 'Funding Souq' (a digital financing platform for SME's) to provide debt-based crowdfunding solutions which will improve the efficiency of financial transactions
- 'Loop' is a new digital payments technology company in KSA, that has partnered with Mastercard to offer greater access to advanced credit card offerings and innovative payment solutions
- UAE-based payments firm 'Network International' has obtained a license from SAMA to expand its merchant acquiring business in KSA.



### New Business Trends

- SAMA announced the share of electronic payments by retail consumers reached ~70.0% of total payments in KSA in FY'23 (up from ~62.0% in FY'22)
- KSA's Public Investment Fund (PIF) is discussing a potential partnership with Andreessen Horowitz, one of Silicon Valley's top venture capital firms, for USD 40bn investment in AI making PIF the largest investor in AI after SoftBank
- National Infrastructure Fund has launched a new Construction Finance Program to enable and accelerate strategic infrastructure projects in the Kingdom



### New Investments

- Saudi's NEOM plans to raise USD 1.3bn from first-ever sukuk sale. NEOM has appointed banks including HSBC and the securities units of ALRAJHI and SNB to advise on this sale
- NEOM has secured a new revolving credit facility (RCF) of SAR 10bn from nine local KSA banks to drive forward its construction plans. The facility will support short-term financing requirements
- RIBL is considering IPO of its investment banking arm, Riyadh Capital, making it the first Saudi lender to spin-off its investment banking arm
- SNB Capital launched new oil and gas fund (a Real Assets and Natural Resources fund) in Feb'24 raising more than USD 230mn as it aims to diversify its portfolio and explore in the energy industry

## Key Sector Developments



### New Emerging Technologies

- Mozn launches new solution within its AI-powered platform FOCAL to reinforce the financial sector. With this AI technology, it offers precise, customizable solutions for decision making and regulatory compliance
- IDEMIA Secure Transactions partners with ANB to launch a card developed with Braille printing technology in KSA
- ANB has partnered with Finshape (a FinTech solutions provider) introducing the 'Money Stories' format (data analytics and story-like snapshots for decision making), that categorizes customer spending and forecasts and communicate relevant connecting offers



### Expected Challenges

- Prevailing geo-political conflicts in the Middle East can cause volatility in oil prices leading to tighter liquidity conditions
- Risk will continue to be present because of KSA financial institutions' heavy reliance on government deposits (~31% of total deposits in Q1'24) and growing market funding
- Higher interest rates due to persistent inflation will constrain mortgage lending growth in FY'24; margins are likely to be pressurized as the interest rate cycle begins reversal
- OPEC+ has agreed to continue oil production cuts making the KSA economy dependent on non-oil activities for economic growth



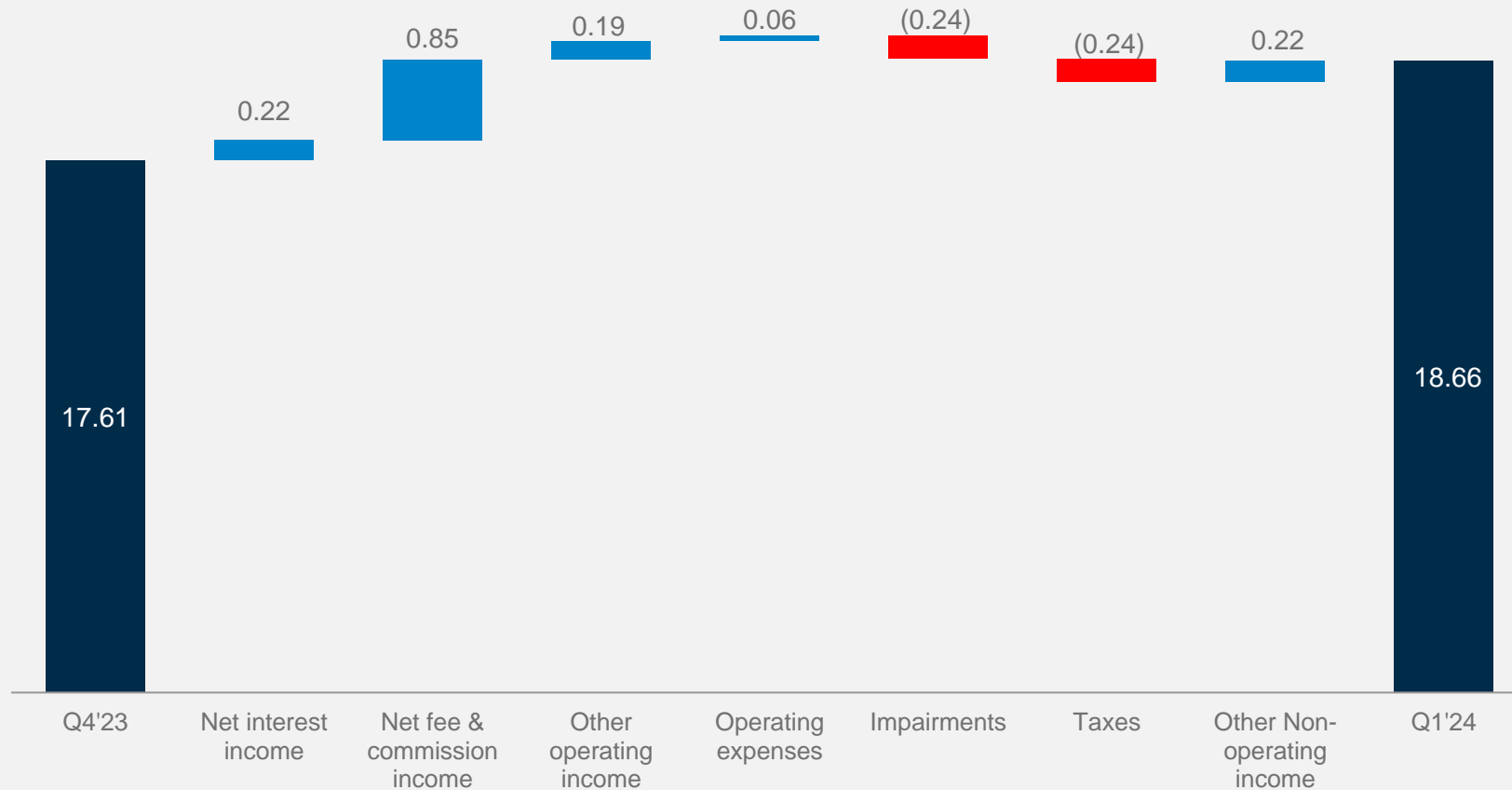
### New Regulations

- SAMA announced the issuance of the "Rules for Regulating Buy Now Pay Later (BNPL) Companies," as part of its role in supervising and controlling the BNPL companies. The rules aim to regulate the licensing of the (BNPL) companies and set minimum standards and procedures required to offer (BNPL) services.



# Banks witnessed slow growth in NII; net income grew primarily on the back of fee and non-core income

## Net income bridge – SAR Bn



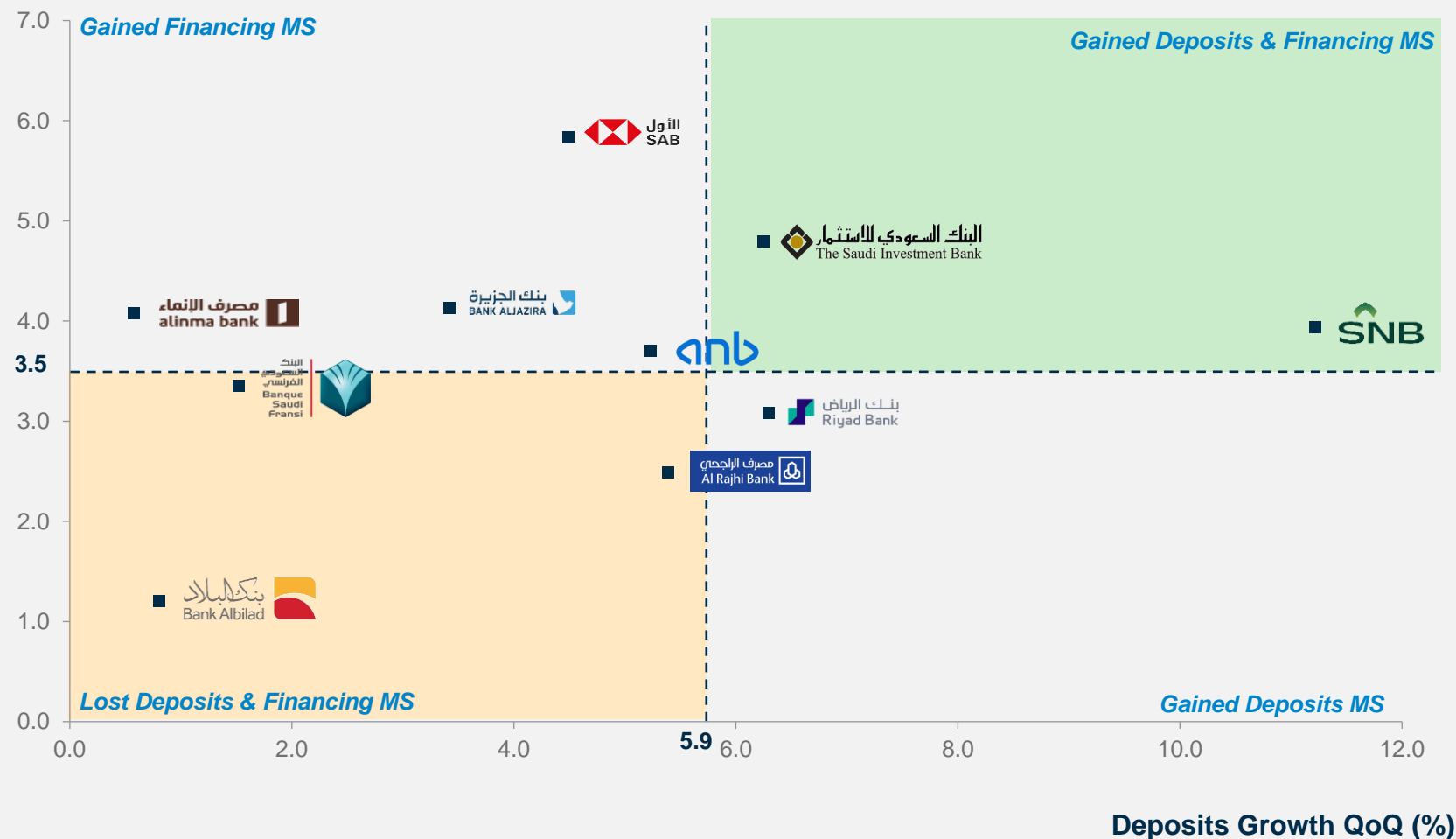
Source: Financial statements, Investor presentations, A&M analysis

## KEY TAKEAWAYS

- Aggregate net income increased by 6.0% QoQ to SAR 18.7bn
- Operating income increased by 3.8% QoQ; major contributor to this growth was fee and non-core income (+16.2% QoQ) while NII grew marginally (+0.8% QoQ)
  - On an aggregate level, banks collected higher fee generated income with a growth of 23.0% QoQ
- Improved cost efficiency further supported the growth in net income as operating costs went down marginally by 0.5% QoQ
- However, net income was undermined by increase in impairment charges (+10.7% QoQ) and taxes which underwent reversal in the previous two quarters

# 1 Banks continues to increase credit outlay and deposit mobilization

## L&A Growth QoQ (%)



## KEY TAKEAWAYS

- Aggregate L&A of the top ten banks increased by 3.5% QoQ, faster than the previous quarter (+1.5% QoQ)
  - Corporate / wholesale loans reported growth of +3.7% QoQ driving the overall L&A growth in Q1'24
  - SAB and SAIB reported the highest increase in L&A growth by 5.8% and 4.8% QoQ
- Aggregate deposits increased substantially by 5.9% QoQ
  - At the peak of the interest rate cycle, banks successfully managed to grow their low cost deposits book i.e., CASA (+8.2% QoQ)
  - SNB's deposit increased the most by 11.2% QoQ, mainly due to surge in CASA (+11.9% QoQ)

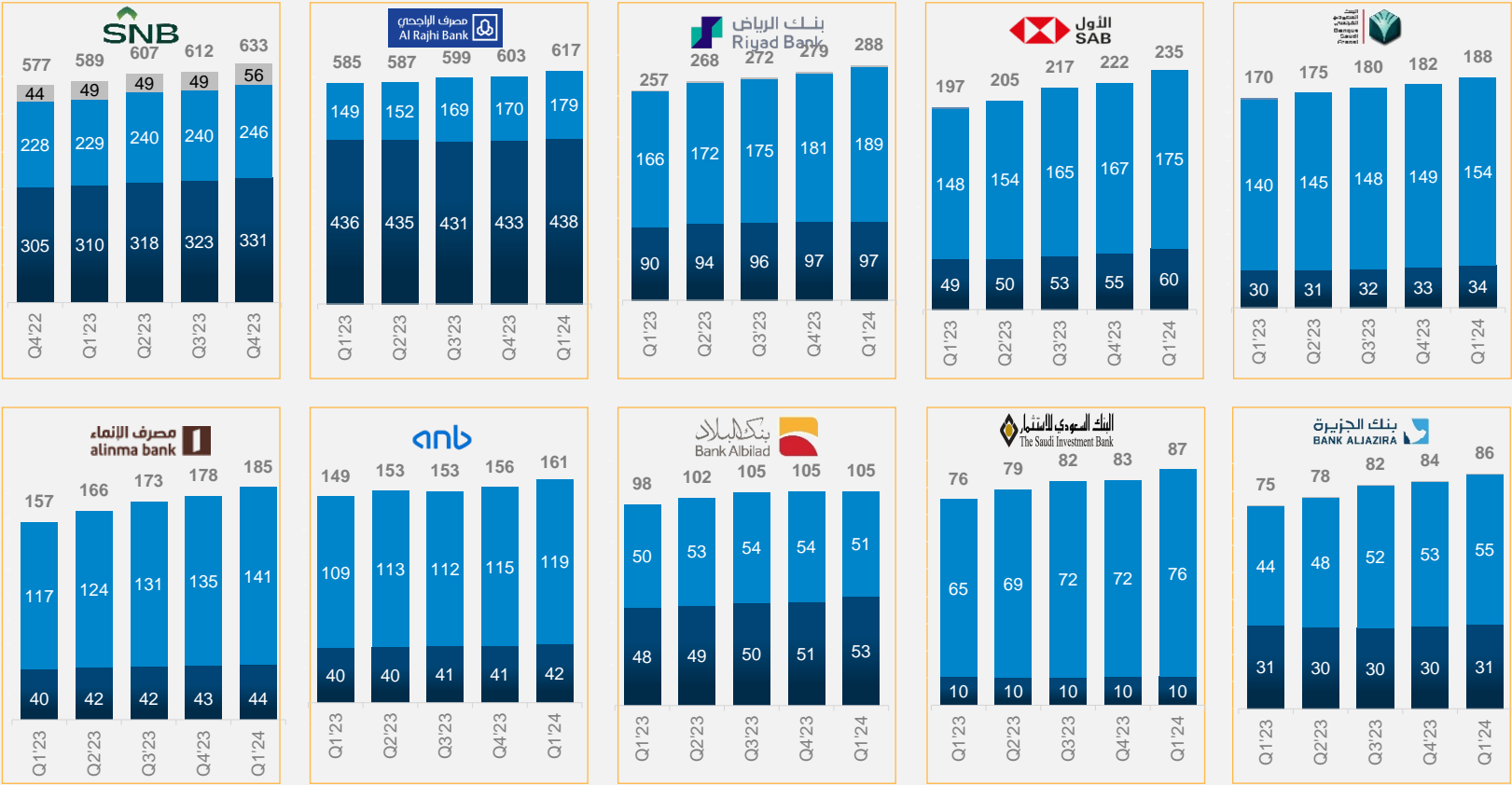
Note: MS stands for market share

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

# Corporate lending expected to benefit from Vision 2030 projects and the ensuing stronger economic activity

■ Retail ■ Corporate / Wholesale ■ Others

## 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

## KEY TAKEAWAYS

- Corporate / Wholesale lending drove the aggregate L&A with a growth of 3.7% QoQ (accounted for ~53.6% of aggregate L&A); retail segment increased by 2.3% QoQ, contributing 44.1% to aggregate L&A
  - ALRAJHI drove the corporate lending segment with a growth of 5.3% QoQ, however, SAIB reported the highest growth in the segment (+5.4% QoQ)

## Aggregate L&A (SAR bn)

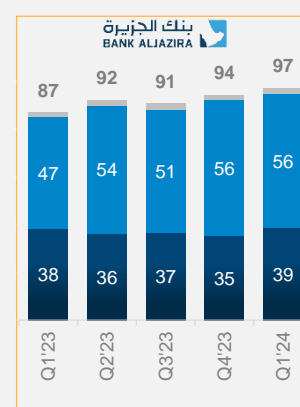
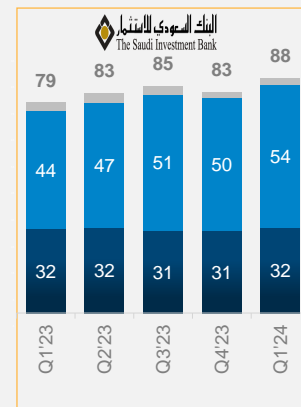
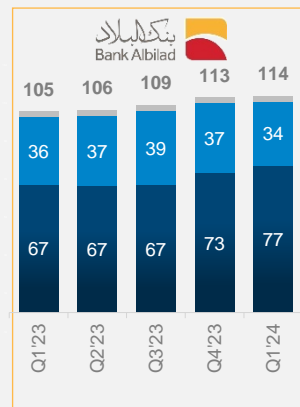
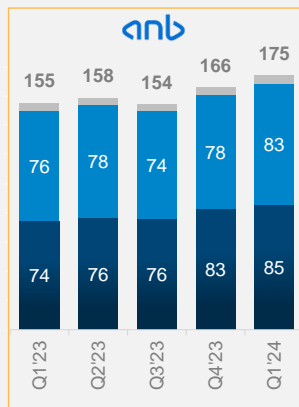
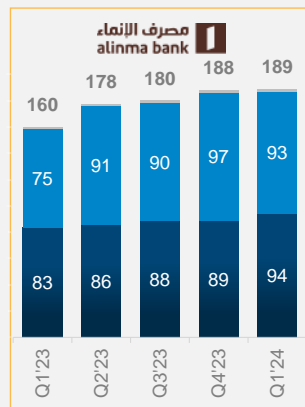
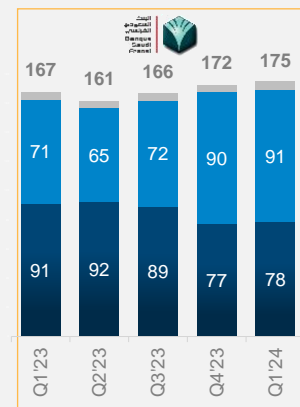
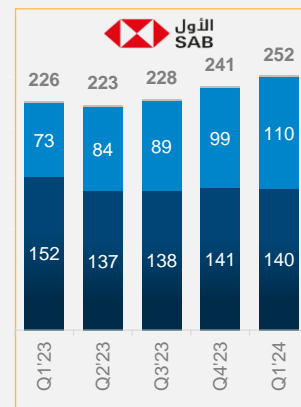
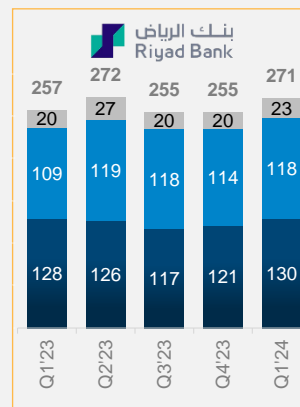
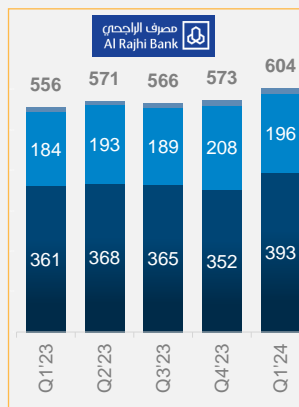
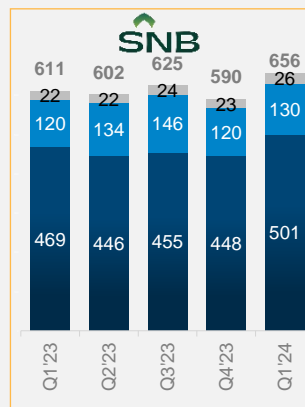




# Despite peak interest rates, banks managed to increase CASA deposits

■ CASA ■ Time deposits ■ Others

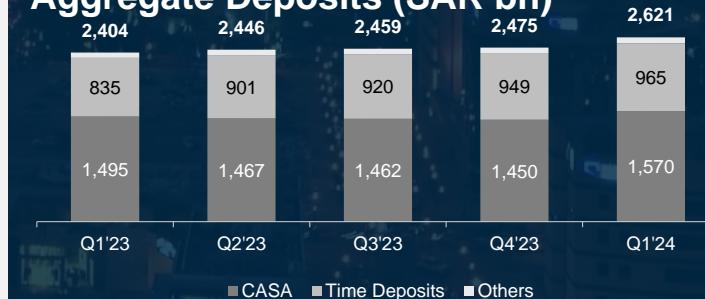
## Deposits (SAR bn)



## KEY TAKEAWAYS

- On an aggregate level, banks reported a surge in the CASA deposits (+8.2% QoQ) in Q1'24. CASA accounts for ~59.9% of the total deposits
- High cost deposits i.e., time deposits increased by 1.7% QoQ (accounting for 36.8% of the total deposits)
- Both SNB and ALRAJHI contributed to the growth in CASA as it grew by 11.9% and 11.7% QoQ in Q1'24
- Time deposits in SAB increased the most (+11.5% QoQ) in Q1'24

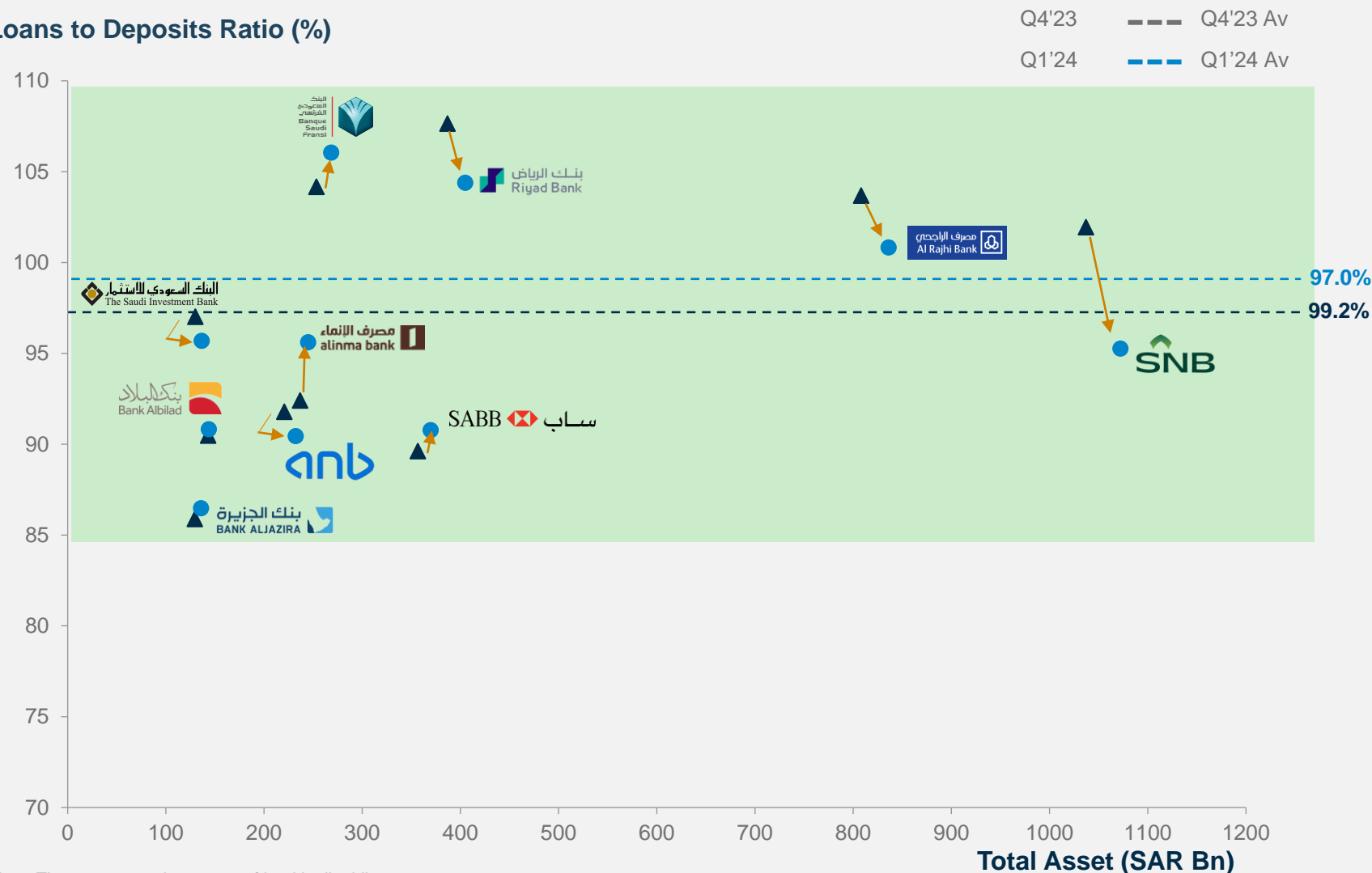
## Aggregate Deposits (SAR bn)



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

# 4 Banks witnessed faster deposits mobilization outpacing L&A growth

## Loans to Deposits Ratio (%)



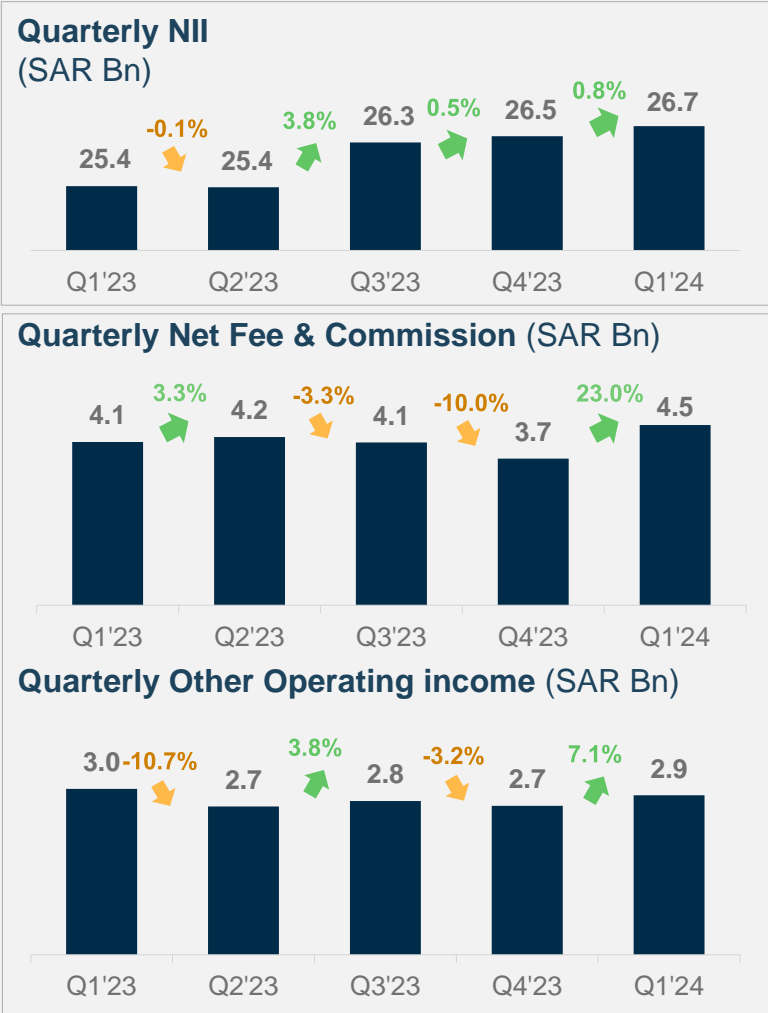
Note: The green zone is an area of healthy liquidity  
Source: Financial statements, A&M analysis

## KEY TAKEAWAYS

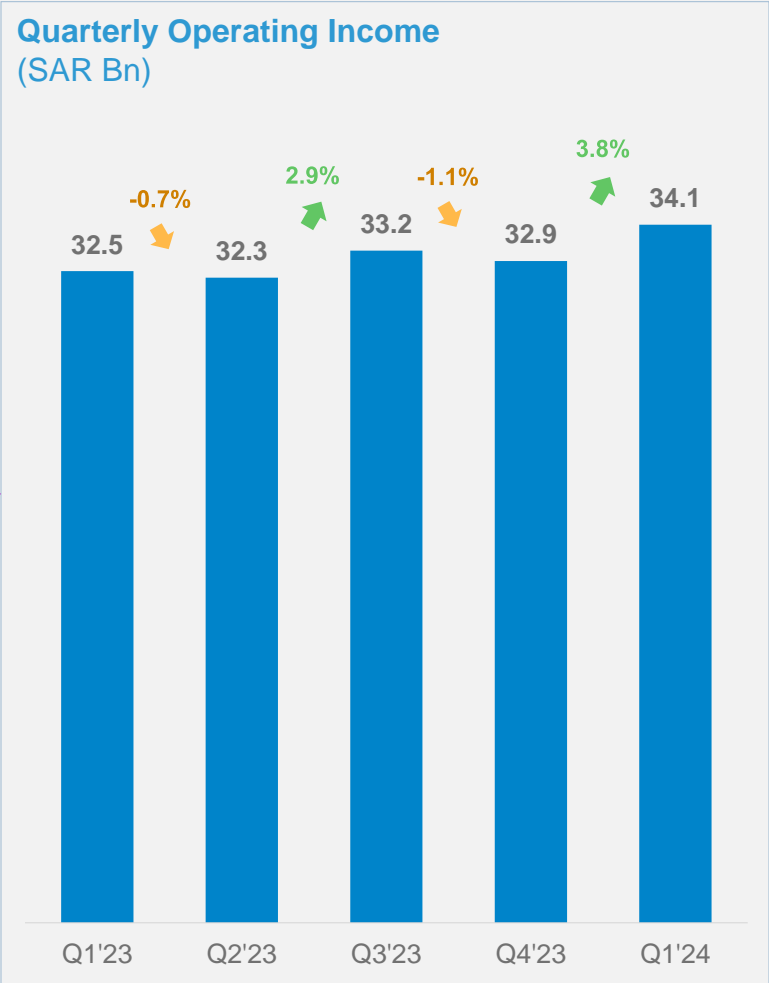
- Aggregate LDR decreased by 2.2% points QoQ to 97.0%
- ALINMA reported the highest increase in LDR (+3.2% points QoQ)
  - This was due to a surge in L&A by 4.1% QoQ as against a marginal increase in deposits (+0.6% QoQ)
- SNB reported the highest decline in LDR (-6.7% QoQ) to 95.3% in Q1'24
  - The base of total deposits increased by 11.2% QoQ, in which CASA contributed with an increase of 11.9% QoQ and time deposits increased by 7.9% QoQ

# Operating income grew mainly on the back of higher fee income

➔ Improved 
 ↔ Stable 
 ➔ Worsened



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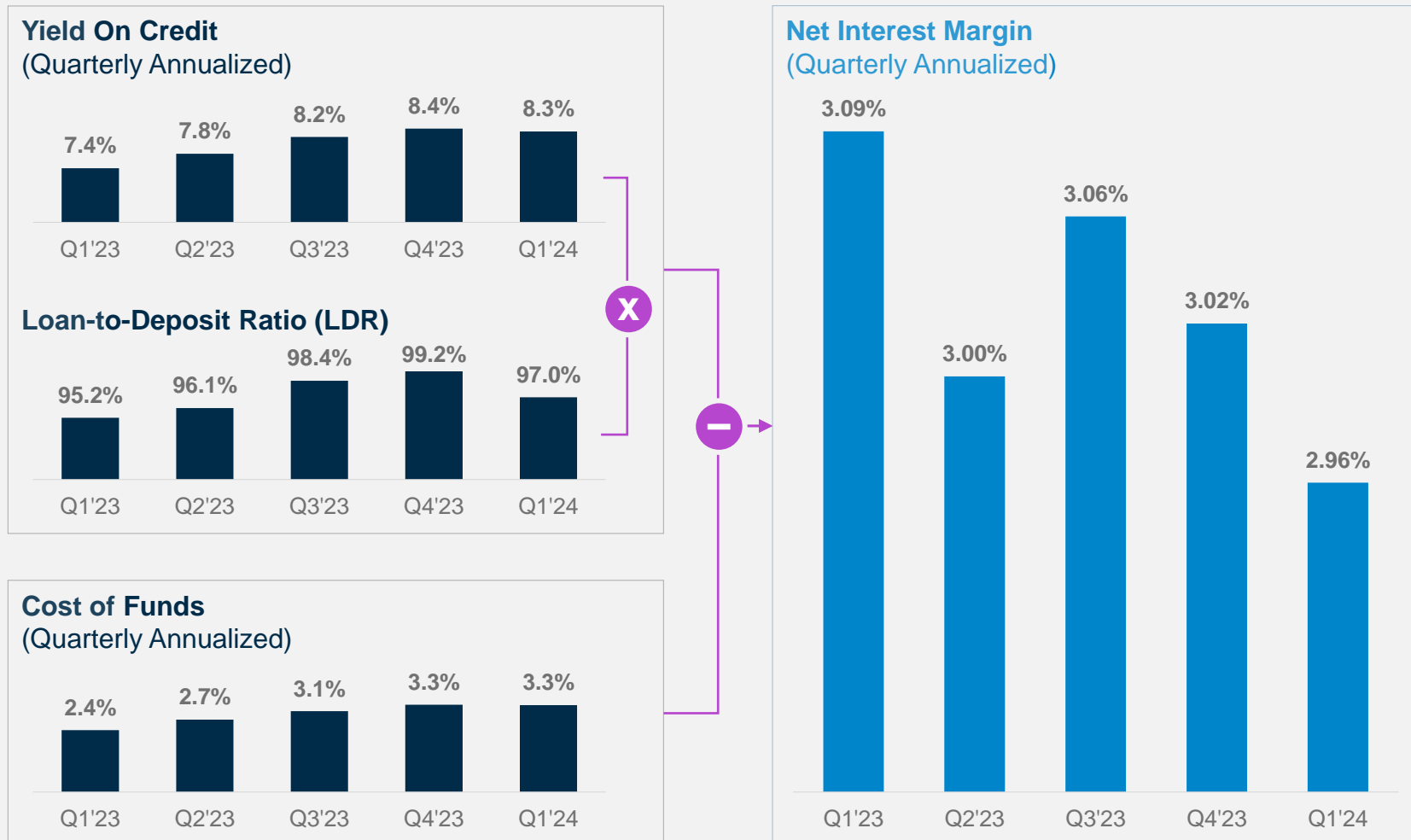


## KEY TAKEAWAYS

- Total operating income increased by 3.8% QoQ
  - At the peak of the interest rate cycle, NII grew marginally by 0.8% QoQ
  - Fee and other non-core income contributed the most as it registered an increase of 16.2% QoQ; net fees and commission income increased by 23.0% QoQ
- SNB led the aggregate net fees and commission income as it grew by 51.2% QoQ in Q1'24
- ANB reported the highest increase in total operating income (+10.2% QoQ)
- SAIB reported a decline of 1.4% QoQ in the total operating income as non-core income (-20.7% QoQ) undermined the growth in NII (+3.0% QoQ)

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

# Higher asset base and tightening spreads led to NIM contraction



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

## KEY TAKEAWAYS

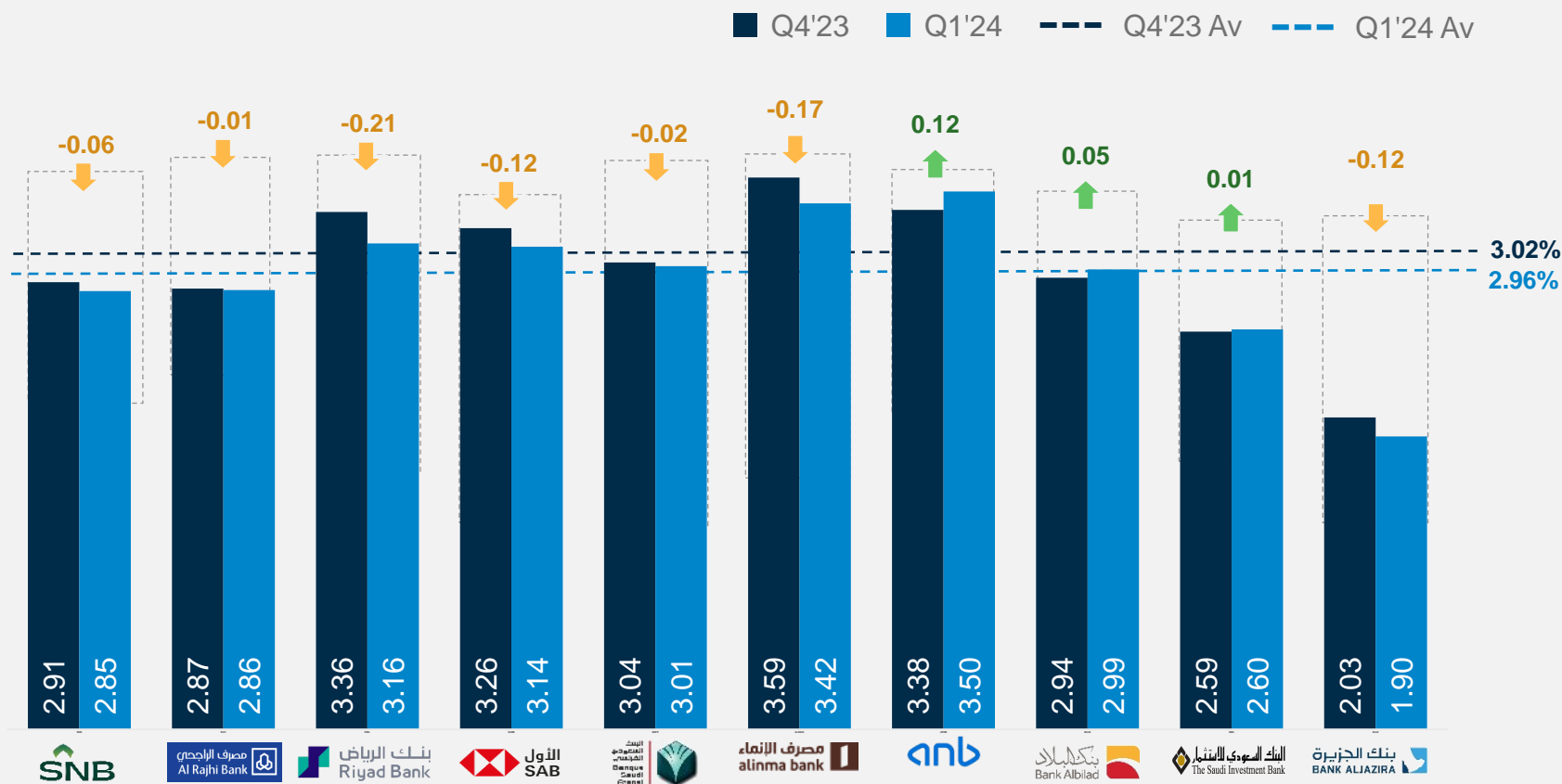
- NIM contracted marginally by 6bps QoQ to 2.96%
  - Yield on credit decreased by 7bps QoQ whereas cost of funds remained stable at 3.3% in Q1'24
  - Overall, at the peak of the interest rates, NII grew marginally (+0.8% QoQ) indicating the banks could not reprice all assets favorably
  - The net spread between yield on credit and cost of funds shrunk marginally by 6bps QoQ in Q1'24
  - This coupled with decrease in LDR by 2.2% QoQ led to NIM contraction



# Majority of the banks reported a contraction in NIM

→ Improved   ← Stable   → Worsened

## Net interest margin (% Quarterly)



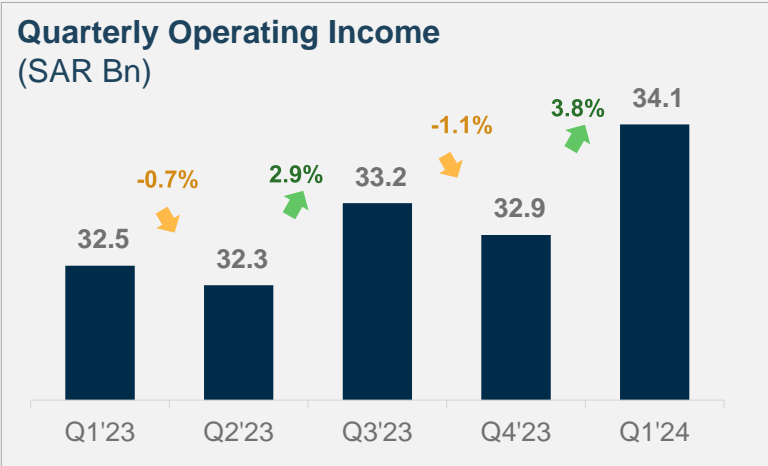
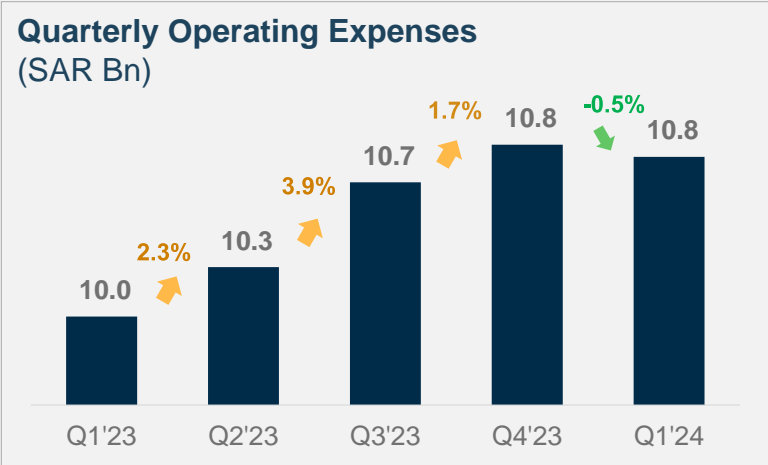
## KEY TAKEAWAYS

- Seven out of the top ten banks reported contraction in NIM, dragging the aggregate down by 6bps QoQ in Q1'24
- NIM for RIBL deteriorated the most (-21bps QoQ) due to a decline in NII (-2.9% QoQ)
  - This was followed by ALINMA with NIM contracting by 17bps QoQ
  - Cost of borrowing for ALINMA was expensive in this quarter as total interest expense increased by 5.1% QoQ, resulting in decline in NII by 2.1%
- NIM for ANB expanded the most as the NII witnessed a substantial growth in comparison to other banks (+6.9% QoQ)

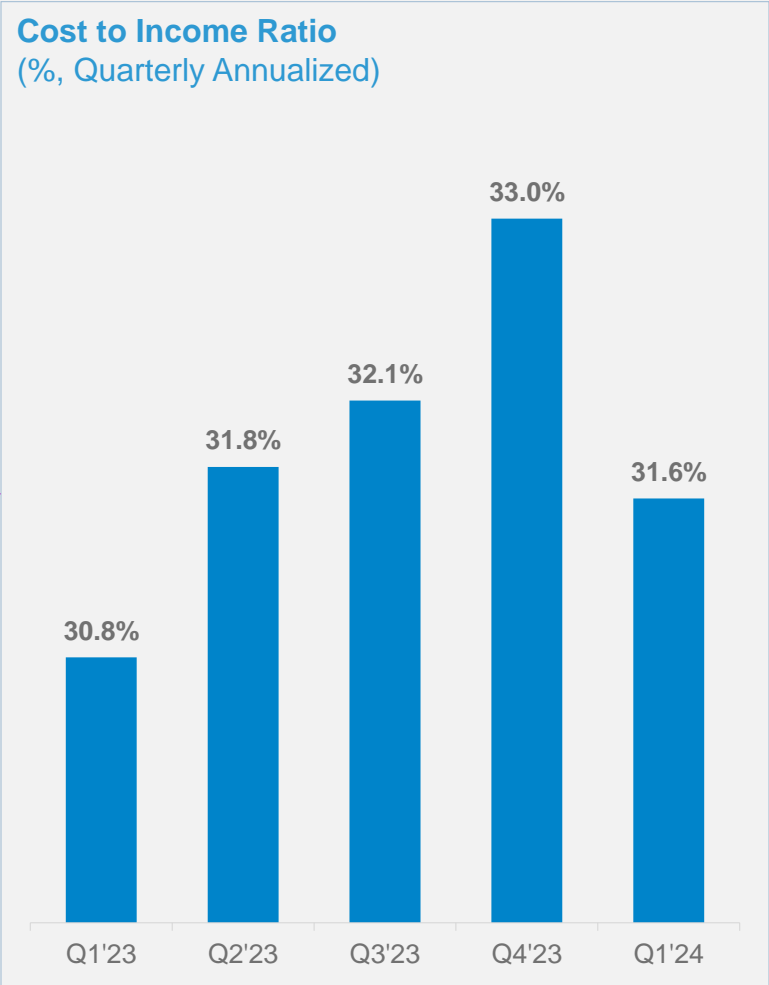


# Marked improvement in cost efficiency; however led by revenue rather than cost

➡ Improved    ↔ Stable    ➡ Worsened



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## KEY TAKEAWAYS

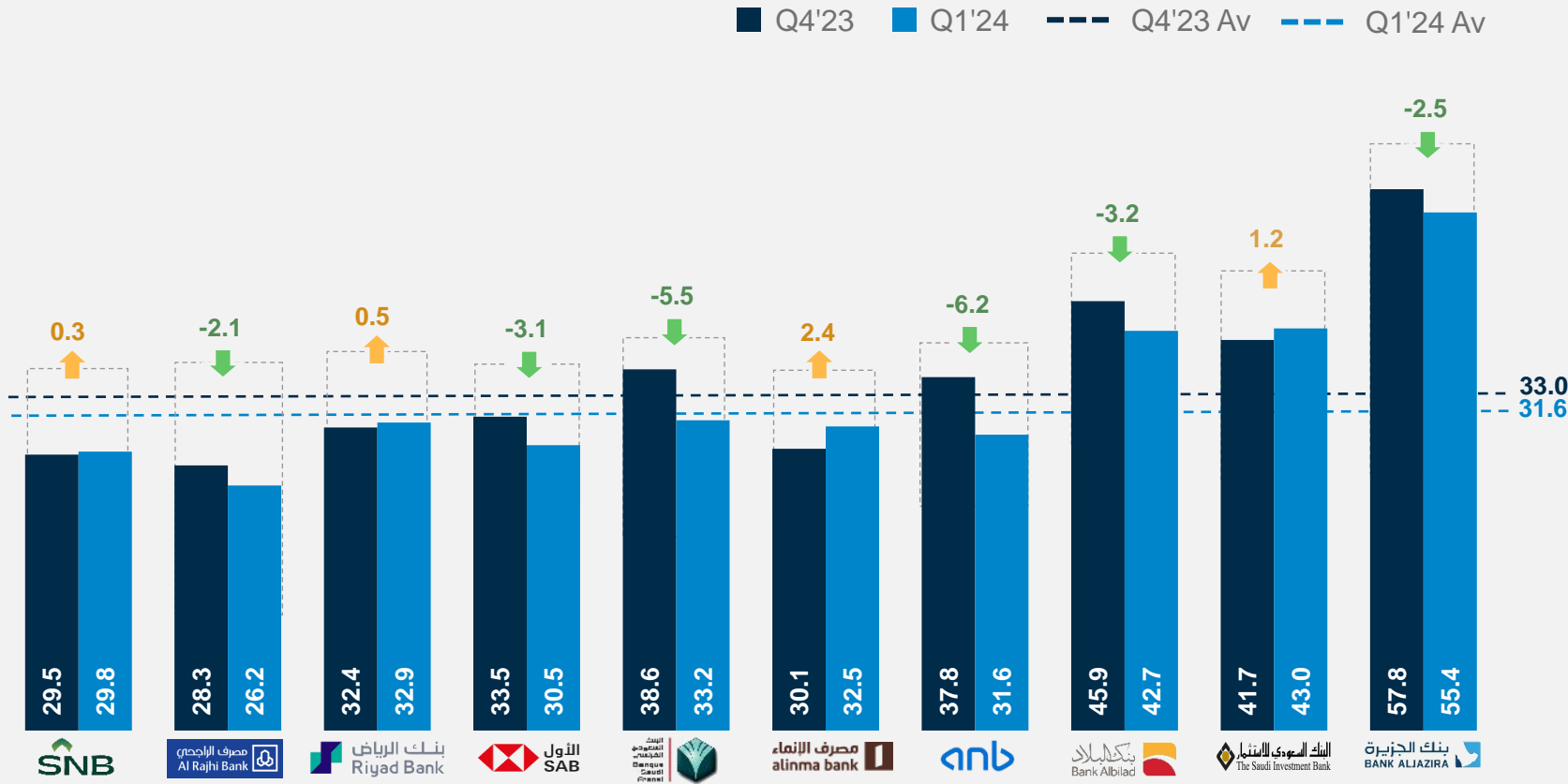
- C/I ratio improved for the first time after four consecutive quarters by 138bps QoQ to 31.6% in Q1'24
  - This was attributable to a decline in operating expenses (-0.5% QoQ) and increase in operating income (+3.8% QoQ)
- C/I ratio improved the most for ANB (-616bps points QoQ) followed by BSFR (-545bps QoQ)
- Major contributor to decrease in operational and admin costs is a reduction by some banks in the number of branches across KSA in Q1'24, which are ANB (2), SAB (1) and BALB (1); conversely, SNB and RIBL added 4 and 1 branch, respectively

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

# Most of the banks reported an enhanced cost efficiency; C/I ratio was largely driven by ANB and BSFR

➔ Improved 
 ↔ Stable 
 ➔ Worsened

Cost to Income Ratio (% , Quarterly)



## KEY TAKEAWAYS

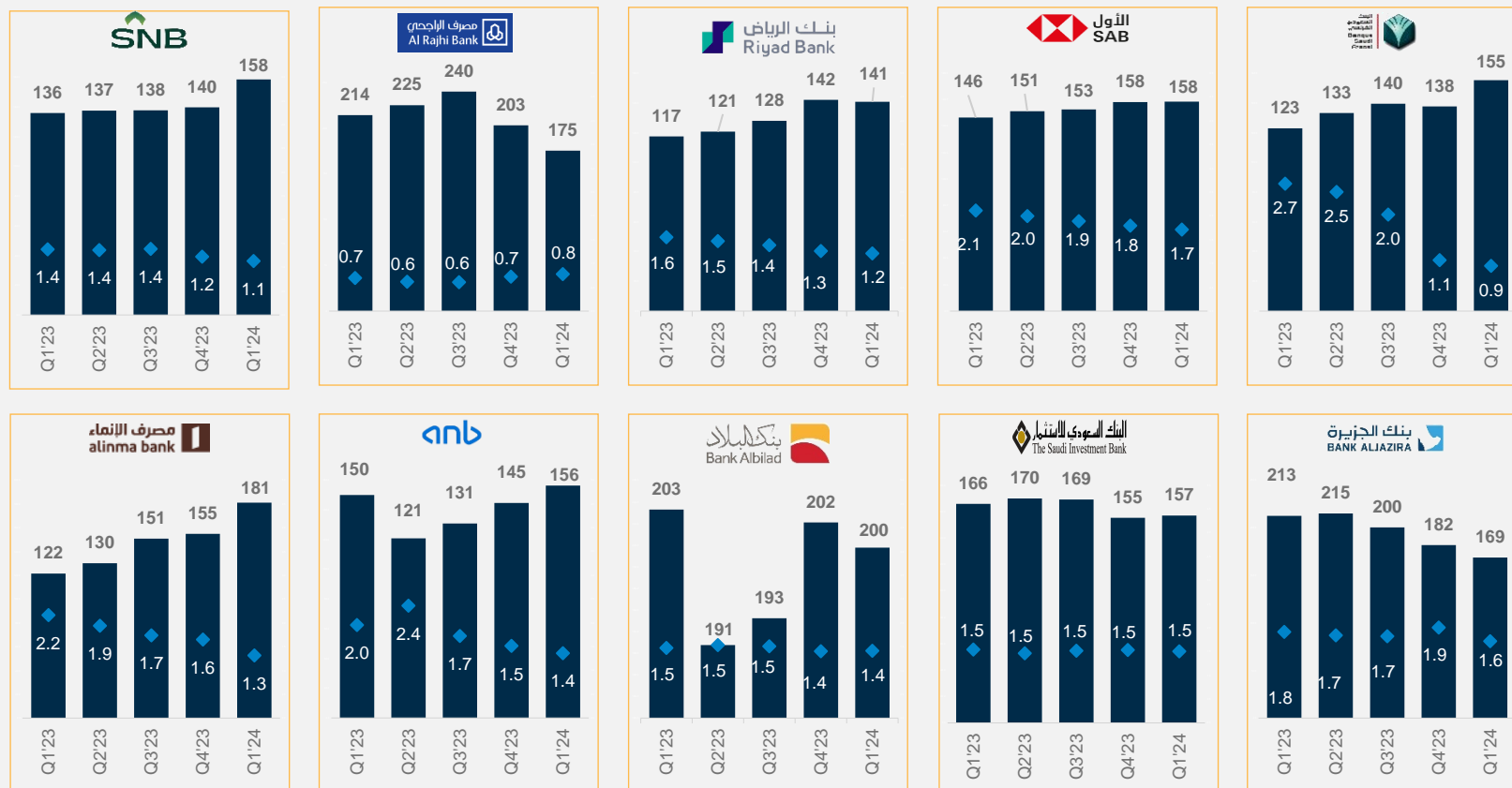
- Majority of the KSA banks reported an improved cost efficiency in Q1'24
- ANB and BSFR reported the significant improvement in C/I ratio by 616bps QoQ and 545bps QoQ, respectively
  - ANB's substantial declining operating expenses (-7.8% QoQ) and increasing operating income (+10.2% QoQ) led to improving of cost efficiencies
  - The operating expenses decreased as ANB shut down 2 of its branches during the quarter
- ALINMA's C/I ratio deteriorated the most by 239bps QoQ in Q1'24
  - This was followed by SAIB with an increase of 123bps 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

# Asset quality and coverage ratio 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

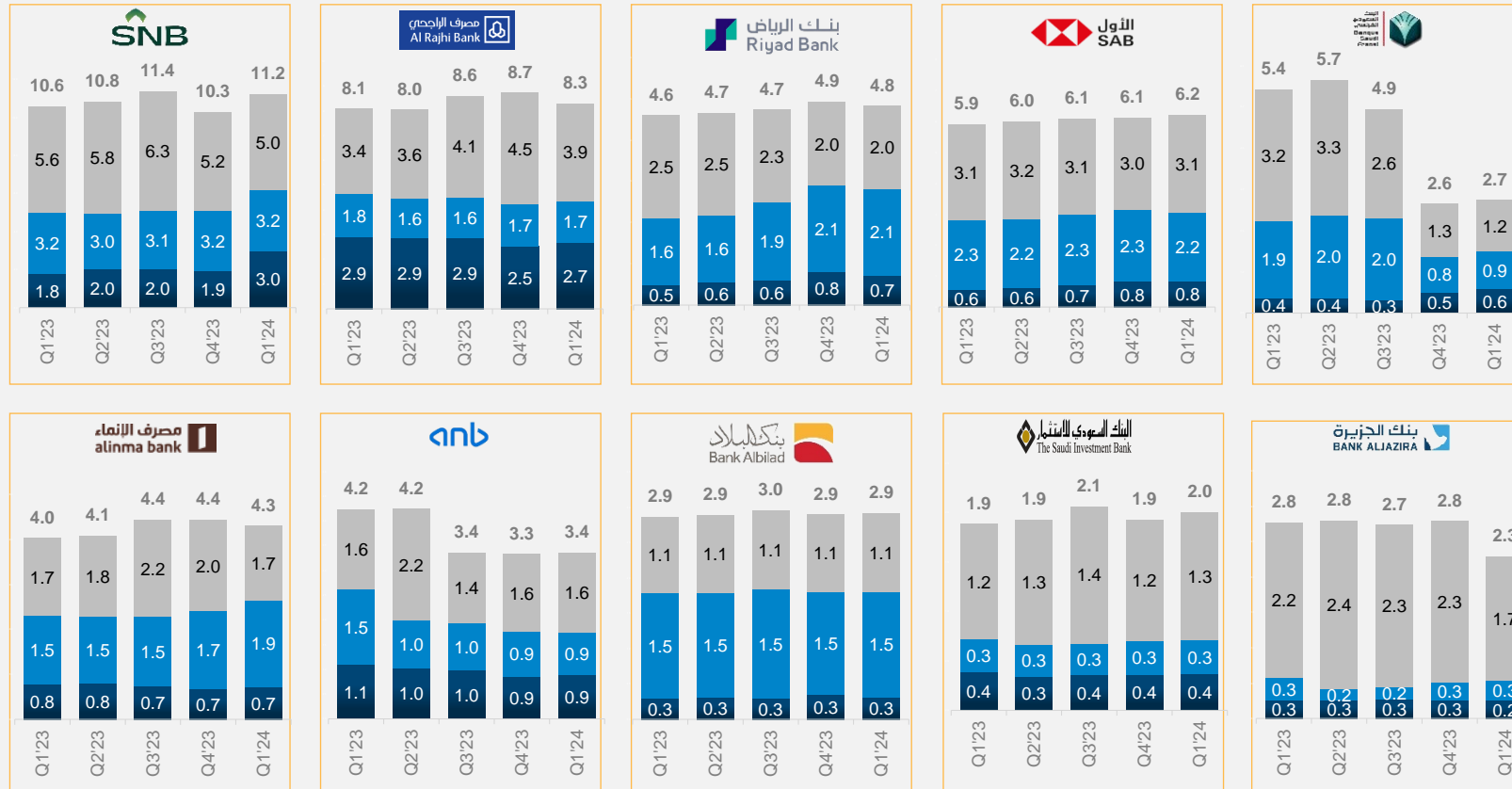
## KEY TAKEAWAYS

- Asset quality improved by 7bps QoQ to 1.2% in Q1'24
  - Banks maintained a precautionary stance where the aggregate coverage ratio increased by 4.3% points QoQ
  - NPL decreased (-2.5% QoQ), however allowance for impairment increased by 10.7% QoQ
  - ALRAJHI's coverage ratio dropped below 200% by 27.7% points QoQ
- Eight out of ten banks reported an improved NPL / Net loans ratio
  - ALINMA and BIAZ drove the aggregate NPL / Net Loans ratio with a decrease of 33bps and 29bps QoQ

# 11 Stage 3 loans 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

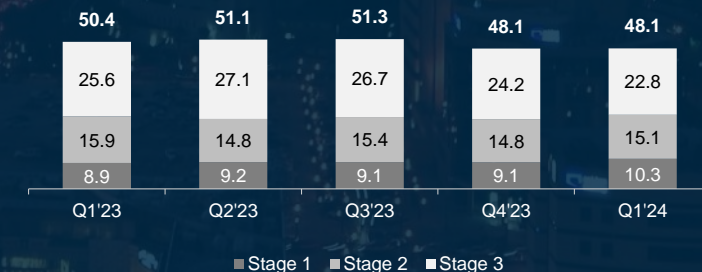
Note 2: L&A mix by stage consists of 9 banks (ex-RIBL). We have used comparable ECL by stage (ex-RIBL) numbers for key takeaway comments

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

## KEY TAKEAWAYS

- Stage 1 loans increased by 4.0% QoQ and accounts for ~93.4% of the total loans
- Stage 3 loans are well provided for with 58.3% coverage by stage 3 ECL allowance in Q1'24
- Aggregate ECL increased marginally by 0.1% QoQ whereas, stage 3 ECL declined 5.7% QoQ indicating lesser provision for bad loans and improvement in asset quality

## Aggregate ECL (SAR bn)

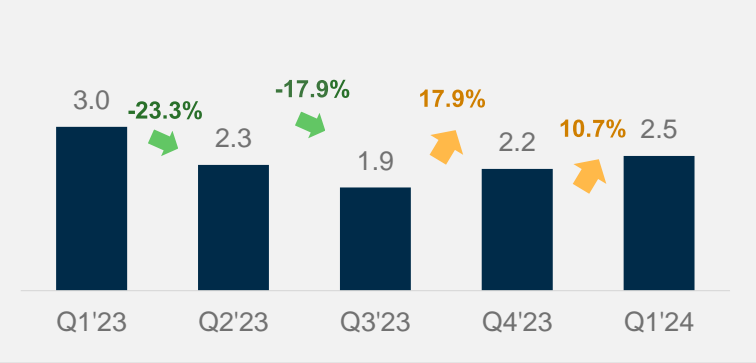




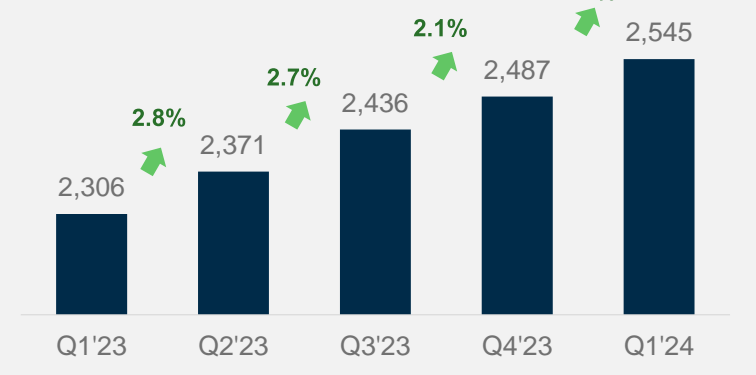
# Cost of risk worsened, albeit marginally, as banks reported higher impairment charges

➔ Improved   ➔ Stable   ➔ Worsened

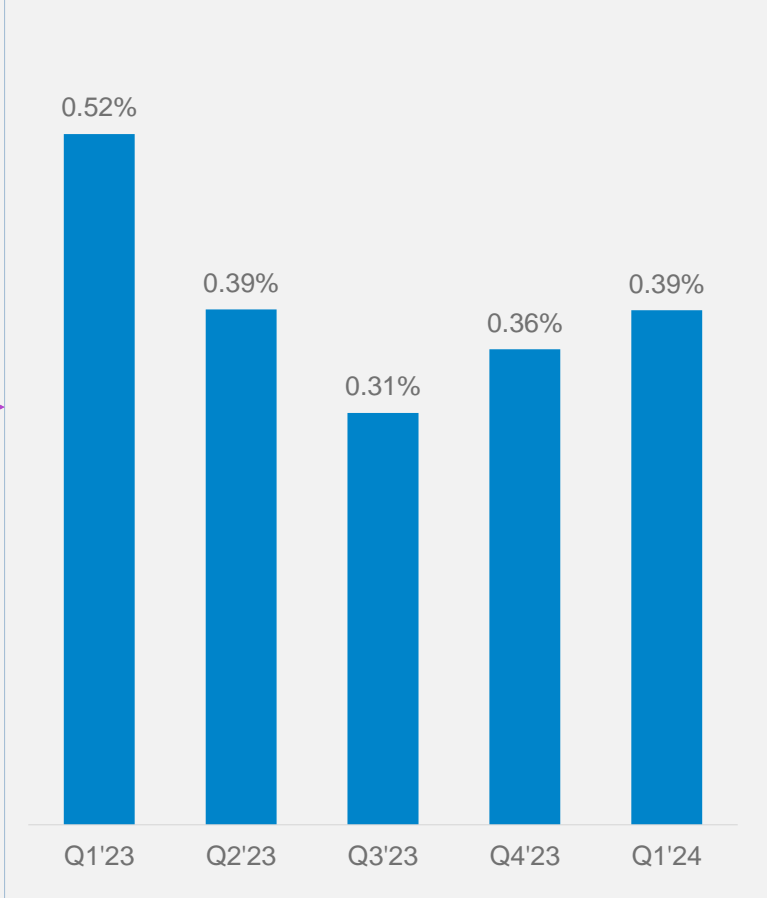
**Quarterly Net Loan Loss Provisions**  
(SAR Bn)



**Average Gross Loans**  
(SAR Bn)



**Cost of Risk**  
(%, Quarterly Annualized)



## KEY TAKEAWAYS

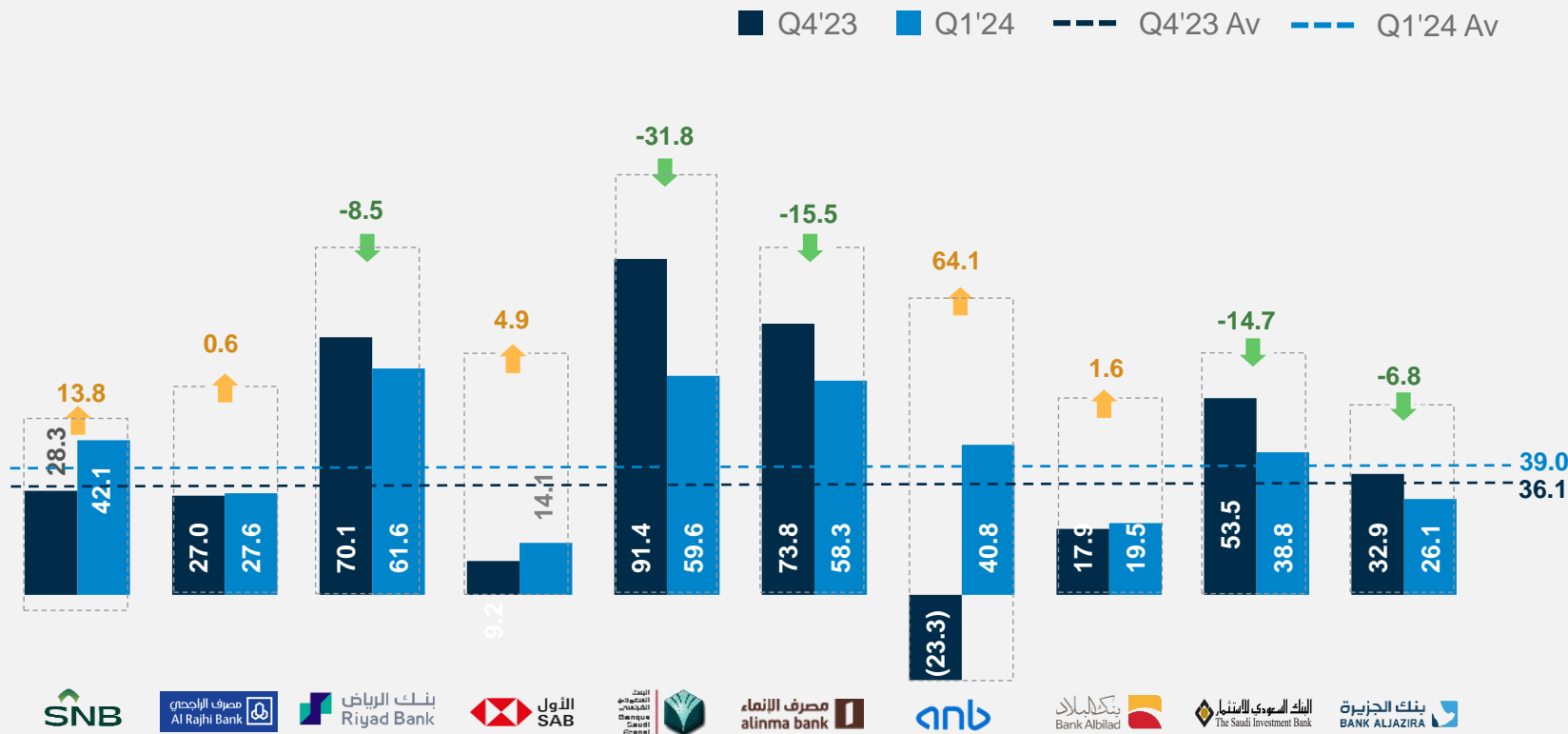
- Aggregate cost of risk deteriorated marginally by 3bps QoQ to 0.39% in Q1'24 from 0.36% in the previous quarter
  - This was due to an increase in the aggregate impairment charges (+10.7% QoQ) to SAR 2.5bn in Q1'24
- Half of the top ten banks reported a deterioration in cost of risk, with ANB reporting the highest deterioration of 64bps QoQ to 0.4%
- BSFR reported the highest improvement in CoR (-32bps QoQ) followed by ALINMA (-16bps QoQ) and SAIB (-15bps QoQ)



# Cost of risk worsened as ANB drove the aggregate

➔ Improved 
 ↔ Stable 
 ➔ Worsened

Cost of Risk (bps) – Net of Reversals



## KEY TAKEAWAYS

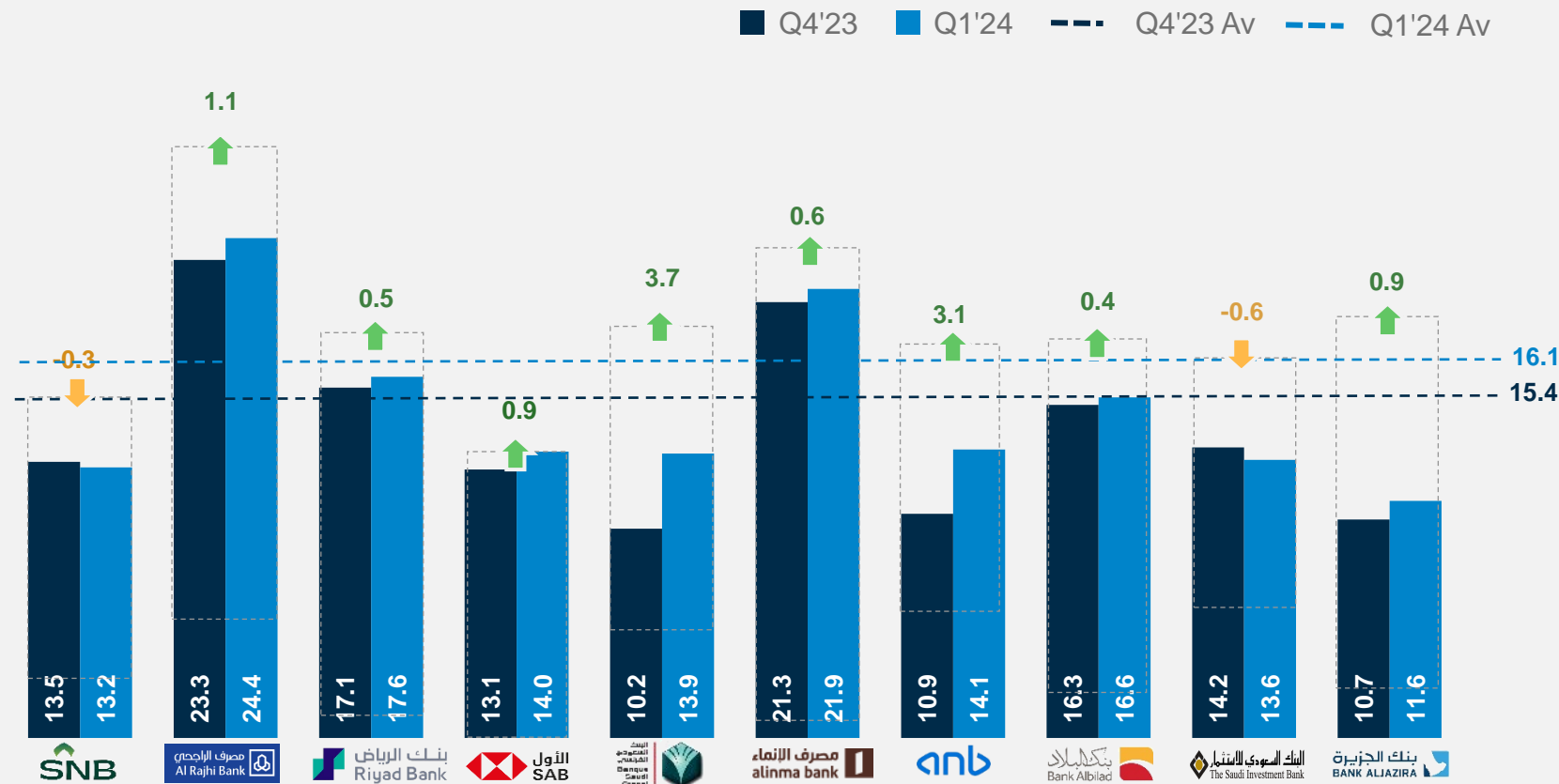
- Aggregate cost of risk deteriorated by 3bps QoQ to 0.39% in Q1'24 from 0.36% in Q4'23
- ANB drove the aggregate cost of risk with an increase of 64bps QoQ
  - This was followed by SNB (+14bps QoQ)
  - In ANB, the bank reported impairment charges of SAR 161mn as opposed to a reversal of SAR 89mn in the previous quarter
- BSFR reported the highest improvement in cost of risk by 32bps QoQ
  - This was due to decrease in total impairment charges mainly from lower commercial impairments, partly offset by higher consumer and investment & off-balance impairments

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

# Higher operating income and improved cost efficiency resulted in ROE expansion

➔ Improved 
 ↔ Stable 
 ➔ Worsened

## Return of Equity (%)



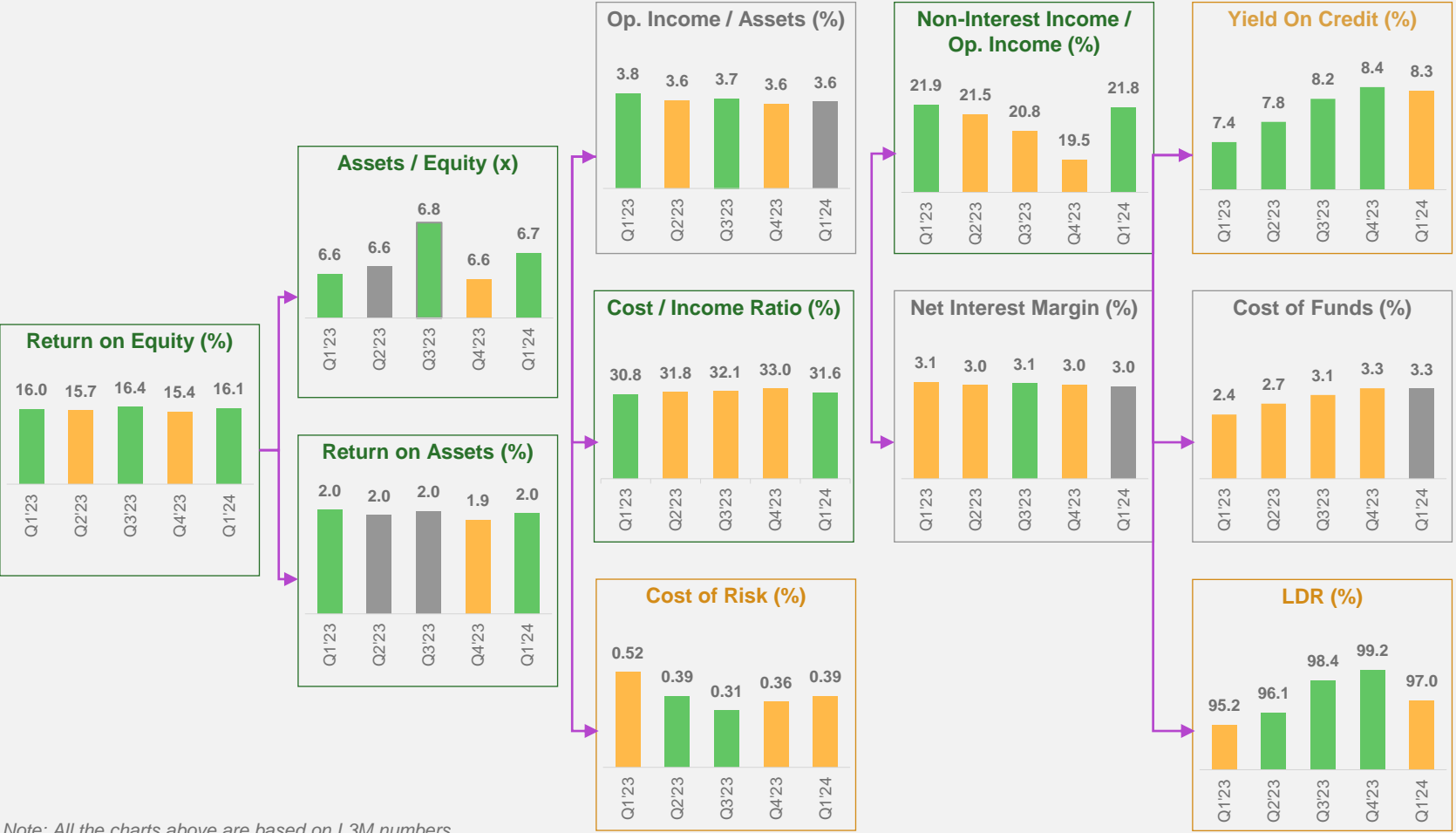
## KEY TAKEAWAYS

- Aggregate RoE improved (+0.75% point QoQ) to 16.1% in Q1'24
  - This was due to increase in aggregate net income by 6.0% QoQ in Q1'24
- Eight out of top ten banks witnessed improved profitability, with BSFR reporting the highest improvement in RoE by 3.7% points QoQ
- Only SAIB and SNB reported a deterioration in RoE by 61bps and 27bps QoQ, respectively in Q1'24

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

# KSA banks ought to navigate upcoming economic headwinds and changes in interest rate cycle

■ 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

- Profitability ratios improved as bank's fees and non-core income majorly contributed to the growth; RoE and RoA improved by 0.7% points and 0.1% points QoQ, respectively in Q1'24
- According to GASTAT, there was an economic decline of 1.8% YoY in Q1'24, majorly attributable to the substantial fall in oil activities by 10.6% YoY
  - Non-oil activities grew by 2.8% YoY and government activities further grew by 2.0% YoY in Q1'24
  - Oil dependence remains a weakness for KSA, where the budget revenue is expected to comprise ~60% in FY'24-25. A change in oil output by 500k b/d (barrels per day) impacts the budget by ~1.0% of GDP
  - Regional instability and Vision 2030 risks pose a threat and calls for a challenging environment in KSA. However, KSA government continues to provide liquidity with injecting deposits into the system
- While SAMA continues to follow US fed with respect to the benchmark interest rates, we expect interest rate reversal to begin in H2'24 which could challenge the bank profitability and margins
- KSA banks remain well capitalized at 19.6% CAR in Q1'24

# GCC Banking Consolidation

## GCC list of M&A transactions in banking sector since April 2019

Announcement Date	Target Company	Target Country	Acquirer Company	% Sought	Consideration (SAR mn)	Deal Status*
05-Apr-24	Yapi ve Kredi Bankasi AS	Turkey	First Abu Dhabi Bank	100%	NA	Proposed
12-Mar-24	Al Salam Bank Algeria	Algeria	Al Salam Bank BSC	13.6%	NA	Completed
27-Feb-24	United Bank Egypt	Egypt	Kuwait Finance House KSCP	100%	NA	Proposed
27-Feb-24	United Bank Egypt	Egypt	Qatar Islamic Bank SAQ	100%	NA	Proposed
27-Feb-23	Ahli United Bank	Kuwait	Kuwait Finance House KSCP	100%	6,040	Completed
21-Jun-23	Al Salam Bank Algeria	Algeria	Al Salam Bank BSC	15.7%	NA	Completed
05-Jan-23	Abu Dhabi Islamic Bank (Egypt)	Egypt	Abu Dhabi Islamic Bank	2.4%	NA	Completed
20-Aug-23	HSBC Bank Oman	Oman	Sohar International Bank	100%	NA	Completed
25-May-22	National Bank of Kuwait (Banking)	Jordan	Arab Jordan Investment Bank	100%	NA	Completed
20-Jan-21	Bank Audi SAE (Egypt)	Egypt	First Abu Dhabi Bank PJSC	100%	2,248	Completed
16-Sep-20	Ahli United Bank Egypt SAE	Egypt	Ahli United Bank BSC	14.35%	304	Pending
30-Jun-20	Al Khaliq Commercial Bank PQSC	Qatar	Masraf Al Rayan QSC	100%	13,996	Completed
25-Jun-20	Samba Financial Group SJSC	Saudi Arabia	National Commercial Bank SJSC	100%	58,434	Completed
31-Dec-19	Alizz Islamic Bank SAOG	Oman	Oman Arab Bank SAOC	100%	NA	Completed
12-Sep-19	Ahli United Bank BSC	Bahrain	Kuwait Finance House KSCP	100%	21,870	Pending
15-Aug-19	Cqur Bank LLC	Qatar	VTB Bank PJSC	19%	NA	Completed
08-Aug-19	DenizBank AS	Turkey	Emirates NBD PJSC	0.15%	NA	Completed
20-Jun-19	Warba Bank KSCP	Kuwait	Kuwait & Middle East Financial Investment Co KSCP	75.70%	NA	Proposed

Source: Bloomberg

\*Proposed Status: Board suggests shareholders to consider the acquisition

\*Pending Status: Acquisition has announced \*Completed Status: Acquisition has completed

\*Notes: Proposed deal between Bank Dhofar and Ahli Bank (Oman) has not been approved by the Central Bank of Oman



# 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	1,072.1	SNB	
Al Rajhi Bank	836.0	ALRAJHI	
Riyad Bank	404.9	RIBL	
Saudi Awwal Bank	369.6	SAB	
Banque Saudi Fransi	268.4	BSF	
Alinma Bank	244.9	ALINMA	
Arab National Bank	232.1	ANB	
Bank Albilad	143.7	BALB	
Saudi Investment Bank	136.4	SAIB	
Bank Aljazira	135.8	BJAZ	

Note: Banks are sorted by assets size  
\* As on 31<sup>st</sup> March 2024

# Our Middle East Financial Services Team



**Hazim Almegren**

Managing Director  
ME Financial Services

halmegren@alvarezandmarsal.com  
M: +966 50 2263977



**Asad Ahmed**

Managing Director  
ME Financial Services

aahmed@alvarezandmarsal.com  
M: +971 50 181 0047



**Tariq Hameed**

Managing Director  
EMEA Financial Services

thameed@alvarezandmarsal.com  
M: +966 59 987 6105  
M: +44 776 960 520



**Sam Gidoomal**

Managing Director  
ME Financial Services

sgidoomal@alvarezandmarsal.com  
M: +971 50 298 4917



**Ankit Uppal**

Senior Director  
ME Financial Services

auppal@alvarezandmarsal.com  
M: +971 52 903 4576



**Mohammed Jaffar**

Senior Director  
ME Financial Services

mjaffar@alvarezandmarsal.com  
M: +971 54 307 3225



**Dana Abdalhadi**

Director  
ME Financial Services

dabdalhadi@alvarezandmarsal.com  
M: +971 56 546 1319



**Aksinya Sorokina Kavanosyan**

Director  
ME Financial Services

akavanosyan@alvarezandmarsal.com  
M: +971 54 586 6582