



# Banking Pulse Quarterly Saudi Arabia

**KPMG in Saudi Arabia**

**August 2020**

## Market Analysis

Implications of Covid-19 on the banking sector, reflections on operational resilience and evolving priorities

## Industry Insights

Enhancing financial stability, resilience for dealing with complexities, trust as the cornerstone and inorganic growth opportunities

## Q2'20 Financial Performance

Analysis of the Q2 results of the performance of the eleven listed Saudi banks

### *Volume 2*

*The Banking Pulse Quarterly provides an overview of the major developments shaping the banking industry in Saudi Arabia – an engaging compilation of performance metrics and key trends from the industry*

# Banking Pulse Quarterly

## Market Analysis

### Resilience, recovery and roadmap for a brighter future

*As we approach the half year mark of the Covid-19 outbreak, the profound effects have unraveled the high degree of uncertainty of the medium-term prognosis. As expectations hinge between optimism from an imminent fully sanctioned vaccine and apprehensions of a second-wave; both the corporates and civil society continue to tackle challenges and deal with the new operating model of remote working and pursuing cost efficiencies. Yet, it has not been all 'doom-and-gloom' and as a silver-lining we have seen success stories of the proactive role played by governments, central banks and regulators. Their support for the banking sector has continued to play a vital role in the handling of distressed segments and providing additional liquidity and rapid roll-out of the forbearance measures.*

The banking sector in Saudi Arabia during last six month has reflected proactive approaches to deal with the liquidity, credit and market risk challenges, as well as close engagement with all stakeholders, especially SAMA. At the end of March 2020, there were apprehensions that the deteriorated results were only the 'tip of the iceberg' in terms of emerging losses and only detailed studies will unfold actual credit losses. Given Q2, 2020 was marked by the full-force of the pandemic and a month-long lockdown of business; the credit losses recognized during this period are understandably 1.6 times higher than Q12020. However, the net decline in profitability has marginally increased from 6.9% for Q1 2020 to 7.4%\* for the first six months, relative to the respective corresponding period of FY 2019. Similarly, the increase in credit losses that had hiked up to 93% during Q1 2020, have concluded at 41% by the end of the first half of FY 2020. While the deferral programs initiated by SAMA for MSME sector (and respective banks for healthcare sector) in Q1 2020 approach conclusion by September 2020, SAMA has provided additional liquidity support of SR 71 billion to the banking sector during Q2 2020. The foregoing support, along with improving marked-to-market values of domestic sovereign bonds and global capital markets have significantly circumvented further exacerbation of operating results.

SAMA's liquidity support has also enabled the sector to continue posting period-on-period improvement in its cumulative deposit and asset base even since Q1 2020.

**Khalil Ibrahim Al Sedais**  
Office Managing Partner – Riyadh,  
KPMG in Saudi Arabia

Banks have revisited various facets of their credit loss recognition models, aptly capturing: the evolving customer risk profile, industry outlook, impact of relief programs etc. We have observed approaches ranging from 'light-touch' to more rigorous ones, essentially depending upon the availability of sufficient and reliable data.

As the Kingdom endeavors to return to normalcy, there is growing optimism that robust regulatory reforms along with the capital built in prior years has enabled banks to have seen the worst through. Moreover, the recently announced mega-merger between the National Commercial Bank and SAMBA Financial Group, the subdued yet net-positive credit-underwriting (especially across mortgage finance) along with the developments in the digital landscape epitomize improving market sentiments. In fact, the current year is fast evolving into a monumental year for Kingdom's fintech space. With two-thirds of the companies active in the payments (with 98% of the userbase), the demand for hygienic, cashless transactions has only increased. An important catalyst for these developments remains the conducive environment, created by the financial sector regulators and complemented by close collaboration between the banking sector and *fintechs* through which synergies have been found.

It is evident that future sustainability and success of the sector essentially depends on taking decisive actions vis-à-vis optimization of non-interest cost base, enhancement of digital capabilities, capital protection and investment in imperative technologies such as advanced data analytics and cyber security. Moreover, considerations related to environmental, social and governance issues are expected to be central to the agenda of banks.

**Ovais Shahab**  
Head of Financial Services  
KPMG in Saudi Arabia

Overall, in many ways trust in banks is at an all-time high, and they are being viewed by stakeholders in a positive light. The key now is to retain the collective gains from the various aforementioned factors and build on them for a brighter, more prosperous tomorrow.

With the foregoing themes in perspective, we wish you an insightful read of the second edition of our Banking Pulse and we look forward to your feedback.

\*excluding the impact of impairment of goodwill amounting to SR 7.4 billion at SABB bank during the current period arising due to factors unique to the circumstances and fully explained in bank's communication dated 25 August 2020 on Tadawul.

# Banking Pulse Quarterly

## Industry Insights

## From resilience to recovery in the banking sector I

How does the sector identifies opportunities for resilience in a post-pandemic world?

### Continued regulatory support

Monetary and banking indicators continue to achieve good performance during 2020 despite the Covid-19 pandemic. Money supply recorded a y/y increase of 9.0 percent to SAR 2,052 billion in June, banking deposits grew by 9.0 percent to SAR 1,843 billion, and bank credit extended to the private sector went up by 13.2 percent to SAR 1,610 billion. As part of its role in activating the monetary policy and enhancing the financial stability, SAMA has contributed to reducing the impacts of the Covid-19 pandemic on the Saudi economy by introducing a number of initiatives. The most important initiatives were launching the SAR 50 billion Private Sector Finance Support Program in March this year and injecting SAR 50 billion into the banking sector in June 2020. Such programs were introduced as part of SAMA's efforts to support economic growth and enhance banking sector liquidity and ability to continue its role in providing credit facilities for the private sector.

*SAMA statement in the 2019 annual report*

### Reshaping priorities

The government's recent incentive programs cushioned the effects of the pandemic on the banking sector and helped ensure business continuity by providing liquidity to lenders and supporting SMEs. Our recent investment in upgrading our operating models for the digital age helped us meet the unexpected global disruption to in-person banking. It also allowed us to devote our resources to support our communities at time when our customers looked for stability and support. We expect the banking sector as a whole to now reconsider what the economy of the future will look like and build to that vision.

**Rania Nashar**, Chief Executive Officer, SAMBA Financial Group

### Mergers & acquisitions

As the M&A in the Saudi banking sector took a positive turn in mid-2019, it went sluggish in the early days of the Covid-19 outbreak. With initial signs of gradual recovery in the recent weeks, we have seen the announcement of a large merger transaction which we believe to be healthy for the banking sector. Merged banks will not only benefit from greater pricing power and gaining market share but will also bring them operational rationalization and cost efficiencies.

**Islam Al Bayaa**, Head of Advisory, KPMG in Saudi Arabia

### Building resilience

It was necessary for the Saudi financial sector to assure employees, customers, and shareholders of the resilience of the banking sector. Although the outlook is challenging, Saudi banks have significant balance sheet strength that they can draw on through SAMA's guidance. Saudi banks have sizable capital buffers that can absorb any potential stress while continuing to deliver solid access to credit and a good return to investors. If we take that dynamic into consideration, there is nothing on the horizon that will impact that significantly. There is a crisis and downturn, but I do not see it becoming severe enough to put the Saudi lenders' sizable capital buffers at risk. This is also reflected in the reviews by rating agencies as the rating action reaffirms almost all the ratings and only updating the outlook based on the country rating, which is understandable given the low oil price. From the balance sheet strength in the financial system and prudent regulation from SAMA, it has ensured that resilience continues in the financial sector and acts as a good balance and assurance of the Saudi economy.

**Abdulaziz Al Resais**, Chief Risk Officer, Al Rajhi Bank

# Banking Pulse Quarterly

## Industry Insights

## From resilience to recovery in the banking sector II

How does the sector identifies opportunities for resilience in a post-pandemic world?

### Trust as cornerstone

Covid-19 is being discussed by industry professionals as a 'one in 25 year - or even 50 year - event' affecting the real world and financial markets alike. Rare as these events maybe in their category, a growing realization is that forces of nature and human behavior can create disruptions more frequently than one anticipates during benign periods. This realization emphasizes the need, during normal periods, for foresighted and continuous investment in people, technology, and (risk-) policies and processes - including Business Continuity readiness. A cornerstone requirement in the business of financial intermediation is trust. Financial institutions need to maintain capital and liquidity buffers to weather difficult periods. We have been fortunate in the Kingdom with sound regulatory oversight requiring strong capital buffers and liquidity metrics in the banking sector. Swift and pragmatic initiatives from government bodies, SAMA, and market participants have ensured effective management of the unprecedented disruption.

**Ravishanker Visvanathan**, Chief Risk Officer,  
Banque Saudi Fransi

### Fintech as usual

Despite the challenges of Covid-19, we have seen progress in regulations, infrastructure and an increasing number of investment rounds in fintech companies, which have built a solid foundation to support the emergence of a growing fintech industry in Saudi Arabia that will contribute in a meaningful way to Vision 2030.

**Nejoud Almulaik**, CEO, Fintech Saudi

### Financial Reporting Challenges

From financial reporting perspective, the recent few months have been one of the most challenging period for the banking sector since the implementation of IFRS 9. From the deep and profound impacts on the assessment of credit losses based on limited client information and fair value measurement in volatile market to the accounting implications of multiple support programs and the less conspicuous yet significant implications for impairment assessment and lease modification. We have successfully tackled these challenges by leveraging on our: ideology of transparency, skilled human capital, state-of-the-art models and frameworks together with consistent engagement with all stakeholders.

**Lama Ghazzaoui**, Chief Financial Officer, NCB

### Going contactless

Having laid the necessary regulatory groundwork in 2019, SAMA was able to swiftly introduce new measures early on in the coronavirus outbreak aimed at stimulating the broader economy and digital commerce in particular. These actions, which included waiving all transactions fees on purchases made through POS terminals or e-commerce sites for six months, are now supporting social-distancing precautions, while facilitating the consumption of goods and services post-lockdown.

**Ziad Al Yousef**, Managing Director, Saudi Payments

# Banking Pulse Quarterly

Q2'2020 financial performance of 11 listed banks in Saudi Arabia

## Net Profit after zakat and tax\*



↓ 7.4%

Q2 – 2020 net income SAR 20.64 billion  
(Q2 -2019: SR 22.29 billion)

\* Net profit after zakat and tax is calculated excluding the impact of goodwill impairment in SABB. Had it been included, overall net profit after zakat and tax would have reduced by 40.6% to **SAR13.23 billion**.

## Total assets



↑ 7.7%

As of Q2 – 2020 SAR 2,633 billion  
(Q4 -2019: SAR 2,446)

## Total customer deposit



↑ 3.0%

As of Q2 – 2020 SAR 1,863 billion  
(Q4-2019: SAR 1,809 billion)

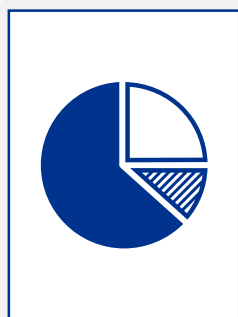
## ECL charge for six months



↑ 41.4%

Q2 – 2020 SAR 8.6 billion  
(Q2 2019: SAR 6.1 billion)

## SAMA Stimulus Program



Gross Modification  
loss recorded on  
deferral of installment  
due from MSME  
sector

**SAR 1.28 billion**

Gross Income  
recorded on the  
deposit received  
from SAMA

**SR 1.46 billion**

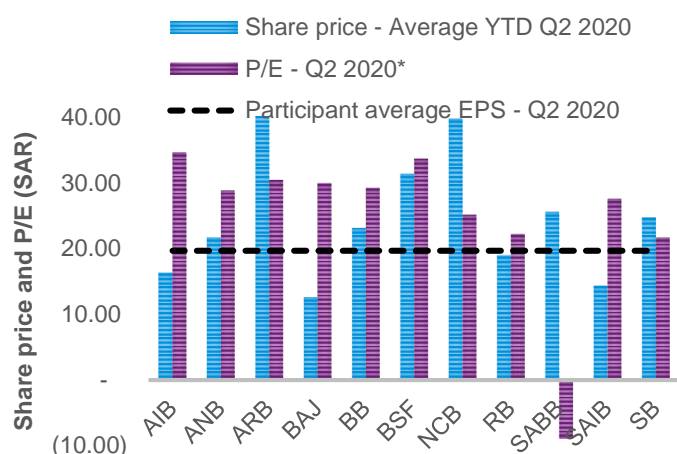
Total deposit  
received from  
SAMA as of 30th  
June 2020

**SR 89.37 billion**

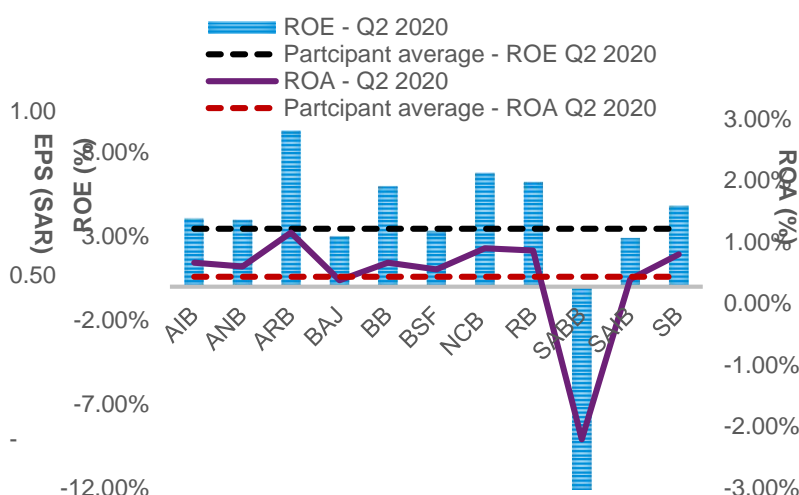
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Q2'2020 financial performance of  
11 listed banks in Saudi Arabia

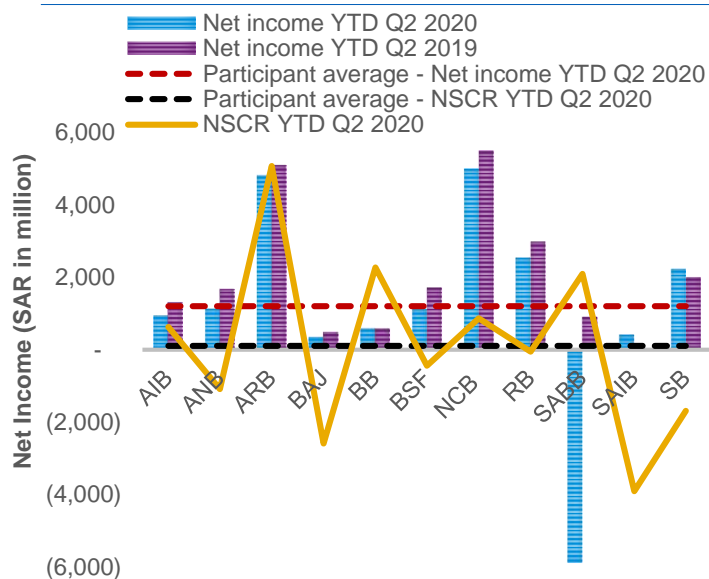
## Share price, P/E & EPS



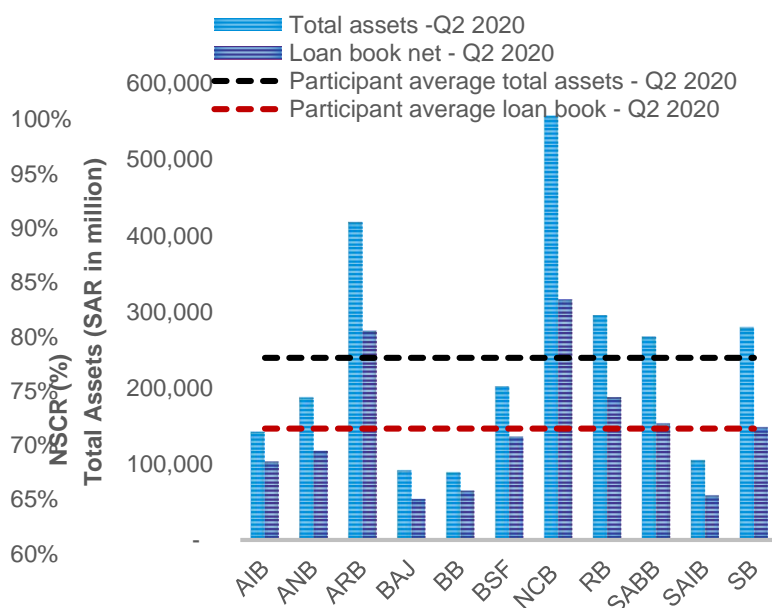
## ROE & ROA



## Net income - YTD Q2 2020 & Net special commission income ratio (NSCR)



## Total assets & Total loan book



### Legend:

Alinma Bank	AIB
Arab National Bank	ANB
Al Rajhi Bank	ARB
Bank Al Jazira	BAJ

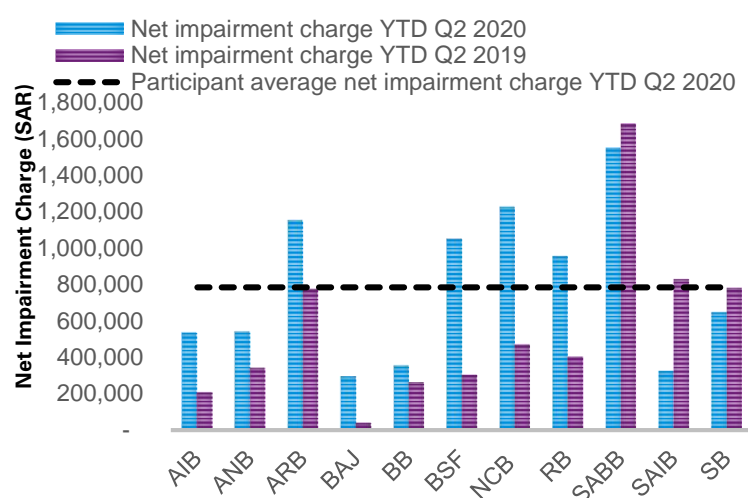
Bank Al Bilad	BB
Banque Saudi Fransi	BSF
National Commercial Bank	NCB
Riyadh Bank	RB

Saudi British Bank	SABB
Saudi Investment Bank	SAIB
Samba Bank	SB

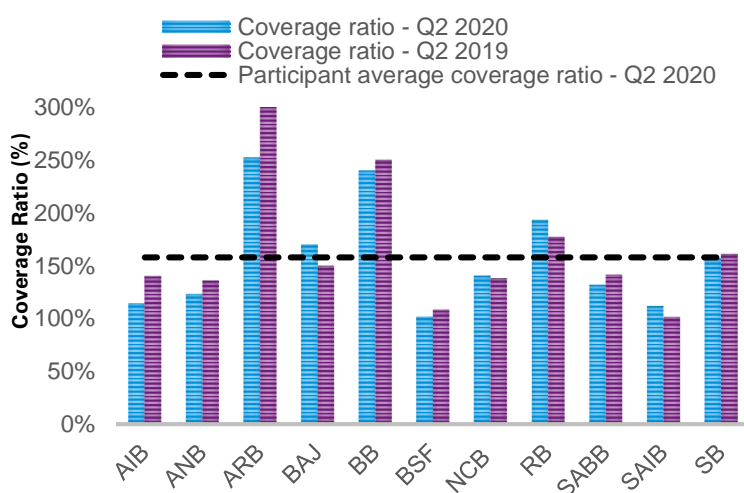
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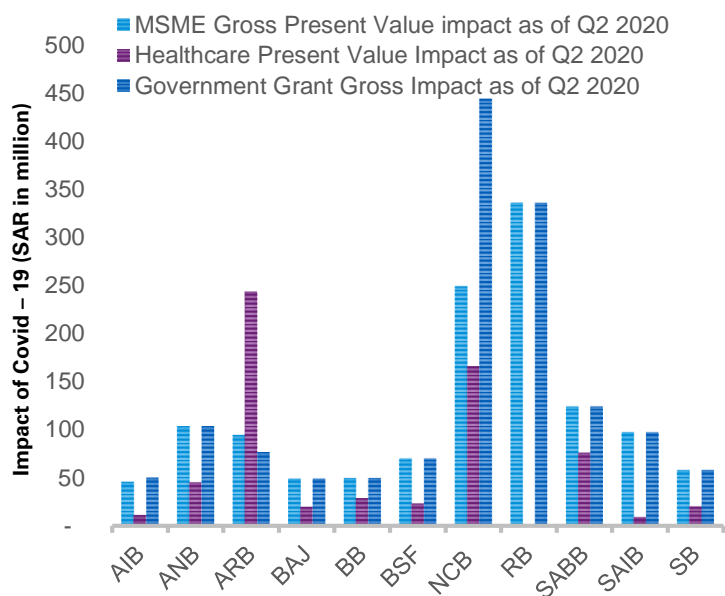
## Net impairment charge



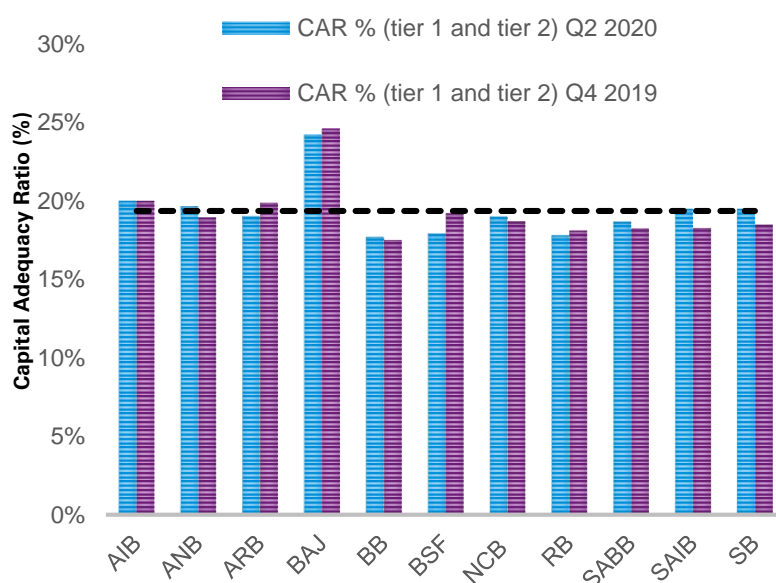
## NPL coverage ratio



## Impact driven by Covid-19



## Capital adequacy ratio



### Glossary:

**P/E ratio** is calculated as the average closing price for six months (as derived from Tadawul) divided by the earnings per share (EPS). **ROE** is the ratio of net income for the six months period to total equity. **ROA** is the ratio of net income for the six months period to total assets. **Interest margin** is the ratio of net special commission income to total special commission income. **Coverage ratio** is the ratio of total ECL for loans and advances to total NPL. **Loan to deposit ratio** is the ratio of total loans and advances to total deposits.

# Banking Pulse Quarterly

Further reading

## In the spotlight



### Banking in the new reality



Stay tuned for our regular thought leadership on the financial services industry. Aside from publication, you can find a selection of publications on insurance, asset management and Islamic Finance.

We explore forward-looking perspectives, including post Covid-19 scenarios around fintech and reporting priorities

- Six macro trends that are shaping the industry and will be pivotal to banks' future success.

## From the global desk



### Frontiers in Finance



Market insights and forward-looking perspectives for financial services leaders and professionals

### Asset Atlas: The 2019 financial services landscape



Broad-ranging picture of deal activity and future opportunities across the financial services sector



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**References:**

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*Fintech Saudi:* <https://www.arabnews.com/node/1720926/business-economy>  
*Saudi Payments:* <https://saudigazette.com.sa/article/596715/BUSINESS/Shift-under-way-in-Kingdom-towards-e-commerce-and-digital-transactions>  
All other comments were made directly to KPMG.