Banking pulse quarterly

Industry insights and Q3 financial performance of the banking sector in Saudi Arabia

KPMG in Saudi Arabia
December 2021

Regrouping for a better tomorrow

After a tumultuous twenty months, the global economy is settling into a rhythm and a sense of normalcy. That said, threats as a result of the Covid-19 pandemic remain, of which the Omicron-variant, emerging from Southern Africa is the latest example, while countries in Northern Europe were already re-implementing partial lockdowns and movement restrictions. The further opening up of the Middle East, with the Kuwait as the latest out of the GCC bloc to resume international air travel without major restrictions, have provided economies an opportunity to regroup and start a cautious recovery process. Courtesy of a robust and diligent government strategy, Saudi Arabia's progress on the inoculation front has been stellar allowing the Kingdom to refocus on its economic priorities.

The Kingdom's banking sector has continued to lead the charge towards recovery in the first nine-month period of FY2021. With 6.3% growth in total assets since 31 December 2020 and a nine-months period-on-period increase of 12% in in net income after tax and Zakat (calculated excluding the one-off goodwill impairment of SABB in 2020), the sector continues to post strong results without reporting any single domestically significant corporate credit default. Thanks to a sustained strong growth in mortgage finance, the total lending exposure of Saudi banks to private sector is edging towards SAR 2 trillion mark. In September, the sector's total deposits crossed the foregoing landmark for the first time. Also worth lauding is a continued decline in net credit loss charges for the sector that started to build up since March 2020. During the nine-month period that ended 30 September, a decline of 18% has been reported relative to same period of FY2020. Despite the inevitable adverse effects of Covid-19, these statistics continue to remind us of the successful initiatives taken by the government, regulators and banks.

A successful completion of merger between National Commercial Bank (NCB) and SAMBA Financial Group into Saudi National Bank (SNB) was also notable during the period. At an effective purchase consideration of SAR 78.5 billion, the merged giant is comfortably placed as the largest commercial bank of Saudi Arabia and the third largest lender in the GCC. However, the one-off merger-related costs of SAR 100 million and post-merger notional ECL pick-up epitomize some of the challenges in mergers of this dimension. Moreover, as part of the applicable accounting standards, the merged entity is required to iteratively monitor identified intangibles and residual goodwill amounting to SAR 28.5 billion.

The recently issued licenses for the first digital banks in Saudi Arabia are a strong reminder of the digital imperative.

Consistent with global trends, the total number of branches across the Saudi banking sector declined by 5% over the last year to under 2,000, while the number of ATMs has increased considerably. The rise of digital banking during the pandemic was certainly a contributing factor to this phenomenon. The recently issued licenses to STC Bank (formerly STC pay) and Saudi Digital Bank as the first digital banks in the country are a strong reminder of the digital imperative and Vision 2030's objective of increasing non-cash transactions to 70% by 2025.

There has also been a growing focus on cybersecurity and other protocols around stability of technology infrastructure across all banks. Data privacy is now also a sector-wide priority. Full engagement across the bank is key as privacy professionals look to embed privacy into the DNA of business operations and customer engagement. In creating a sustainable and effective data protection strategy, banks should develop a solid framework of best practices and infuse those practices in their procedures and culture.

In our latest CEO Outlook, we noted that CEOs across the globe are responding to a stakeholder desire for ESG programs to fit squarely into an organization's purpose, with 78% of surveyed CEOs in Saudi Arabia commenting they have seen increased demands from stakeholders, such as investors, regulators and customers, for increased reporting and transparency on ESG issues. Growing exposure to global financial markets and heightened attention from ratings agencies have invigorated Saudi banks on their ESG priorities.

We wish you an insightful read of this edition of our newest Banking pulse quarterly, part of a series of our industry-wide endeavor to share and seek insights in the banking space.

Khalil Ibrahim Al Sedais
Office Managing Partner - Riyadh
KPMG in Saudi Arabia

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Industry voices

Mergers & acquisitions

"M&A transactions are arguably among the most profoundly complex events in the financial services sector. Contrary to common perception, reasonable mergers often improve the quality of the products, enhance customer satisfaction and have the ability to grow and bring better efficiency. They generate substantial synergies, which provides for higher earnings, an expanded customers base, and cash-flow growth through a larger and more diversified balance sheet."

Ahmed Aldhabi
Group Chief Financial Officer
Saudi National Bank

Banking sector liquidity

"The SAMA deferral program could have some impact on cash flow projection and liquidity as the deposit injection by the central bank created stability in the system and allowed banks to support the economy through regular lending activities. On average, liquidity ratios of banks remain comfortable and most banks would be able to mitigate any stress in liquidity if and when SAMA deposits mature. In general, banks conduct annual stress tests their liquidity through the internal liquidity adequacy assessment process (ILAAP) under the supervision of SAMA which also gives comfort to the system."

Adel Mallawi
Chief Investment Officer
Banque Saudi Fransi

Environmental, social and governance ESG) priorities

"We aim to play a leading role in financing renewable energy projects and we are already working on revamping our branch network to reduce our carbon footprint, and our high degree of digitization makes us more environmentally friendly. Part of our strategy concentrates on the youth segment, encouraging financial education and inclusion, while we also focus on female empowerment by hiring women in senior positions and increasing the percentage of female employees."

Abdullah Al-Khalifa
Chief Executive Officer
Alinma Bank

Industry performance

Q3'2021 financial performance of 10 listed banks in Saudi Arabia

Net profit after zakat and tax*

11.7%

Q3 – 2021 net income SAR 36.38 billion
(Q3 – 2020 SAR 32.6 billion)

Net profit after zakat and tax is calculated excluding the impact of the one-off goodwill impairment in SABB in 2020. Had it been included, overall net profit after zakat and tax would have reflected an increase of **44.7% as compared to similar period last year.*

Net special commission income

3.1%

Q3 – 2021 SAR 59.4 billion
(Q3 – 2020 SAR 57.6 billion)

ECL charge for nine-months period

18.3%

Q3 – 2021: SAR 9.7 billion
(Q3 – 2020: SAR 11.8 billion)

Total assets

6.3%

As of Q3 – 2021: SAR 2,946 billion
(Q4 – 2020: SAR 2,771 billion)

Total loans

10.9%

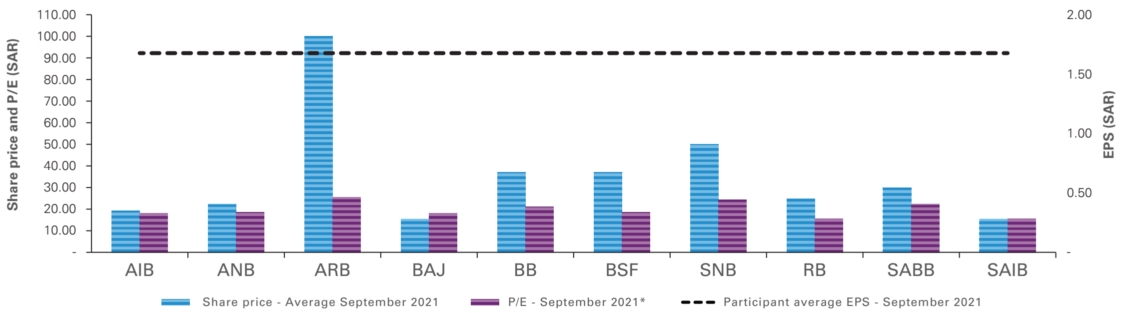
As of Q3 – 2021: SAR 1,883 billion
(Q4 – 2020: SAR 1,697 billion)

Total customer deposit

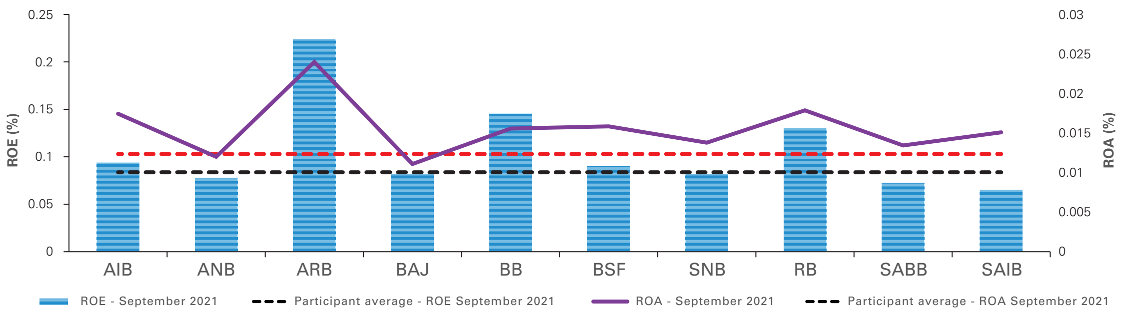
4.3%

As of Q3 – 2021: SAR 2,059 billion
(Q4 – 2020: SAR 1,975 billion)

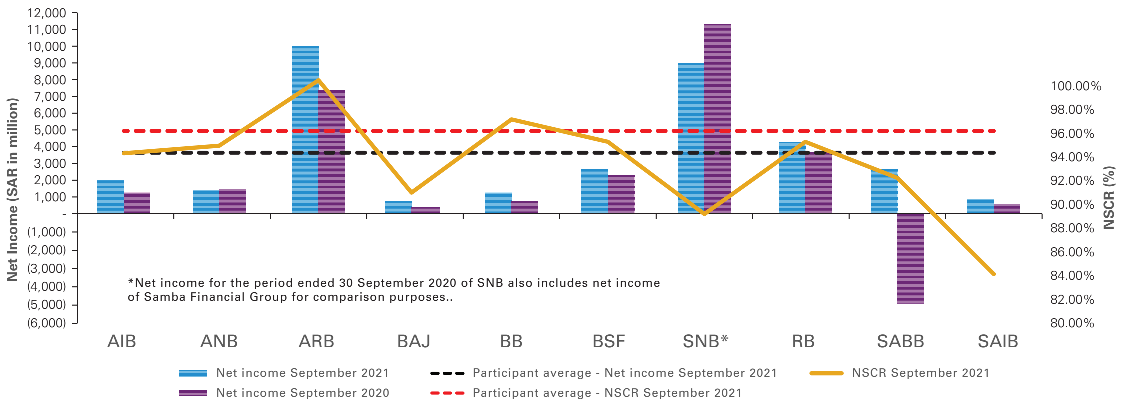
Share price, P/E & EPS



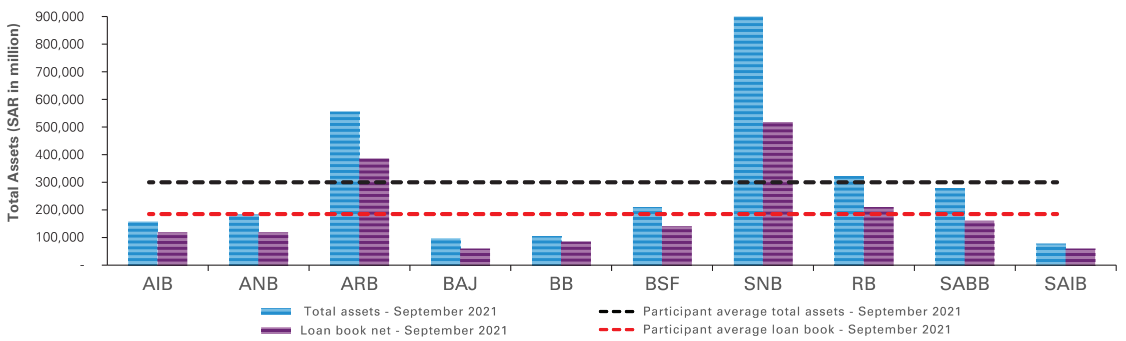
ROE & ROA



Net income



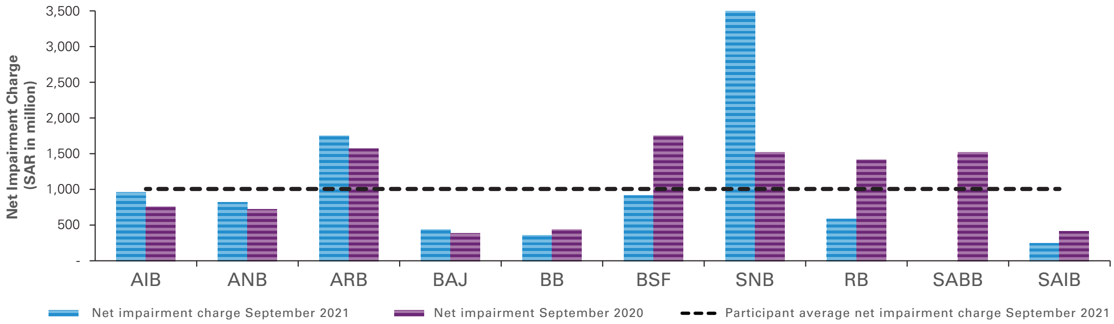
Total assets & Total loan book



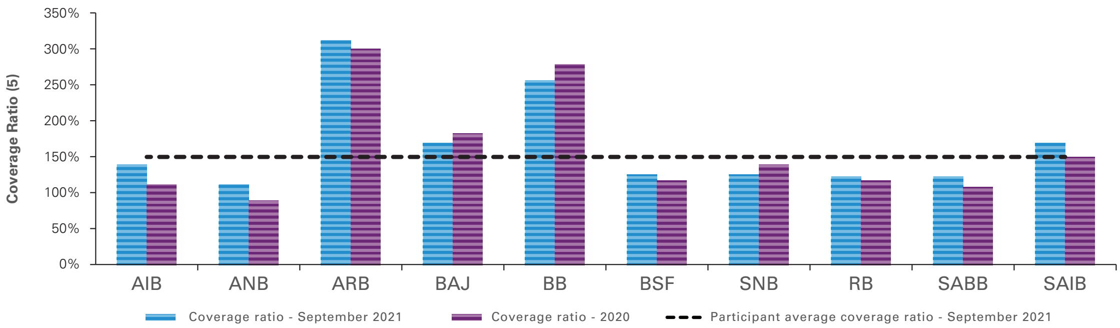
Legend:

Alinma Bank	**AIB**	Bank Al Bilad	**BB**	Saudi British Bank	**SABB**
Arab National Bank	**ANB**	Banque Saudi Fransi	**BSF**	Saudi Investment Bank	**SAIB**
Al Rajhi Bank	**ARB**	Saudi National Bank	**SNB**		
Bank Al Jazira	**BAJ**	Riyad Bank	**RB**		

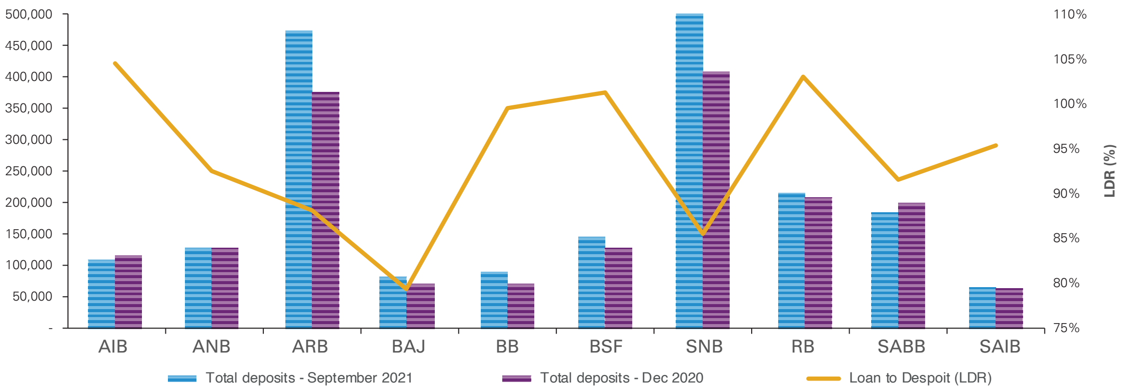
Net impairment charge



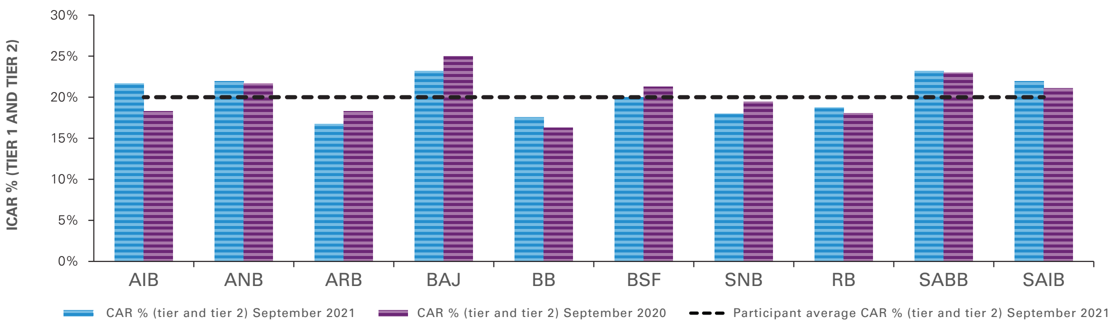
NPL coverage ratio



Loan to Deposit Ratio (LDR)



Capital adequacy ratio



Glossary:

P/E ratio is calculated as the average closing price (as derived from Tadawul) divided by the earnings per share (EPS). **ROE** is the ratio of net income for the period ended 30 September 2021 prorated to full year to total equity. **ROA** is the ratio of net income for the period ended 30 September 2021 prorated to full year 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 financing and advances to total deposits.

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The quote by Abdullah Al-Khalifa, CEO of Alinma Bank was submitted to KPMG as part of the CEO Outlook Saudi Arabia 2021.