Financial performance underpins optimism in the boardroom

A cursory glance at the quarterly financial performance of the banking sector in the first quarter of 2022 reflects a sturdy industry performance, particularly highlighted by an increase in net profit for this three-months period by 22.83% as compared to first quarter of 2021, and with a total assets growth of 3.75% since 31 December 2021. We have witnessed the revival in economic activities as many countries emerged from lockdowns and movement restrictions and global supply chains were largely restored — also a prolonged increase in oil price has helped the Saudi economy to thrive and the banking industry to capture the benefits.

Quarterly results 2021

The improved financial performance was mainly fueled by continued growth in the lending book across the industry as well as declining trend in estimated credit losses (ECL) period after period. The ECL charge for the three-months period that ended 31 March 2022 has declined by 11.47% when compared with respective period ended 31 March 2021. The total customer deposit also reported modest growth of 3.90% since 31 December 2021 evidencing that the liquidity has not been a challenge to date. These factors drove an overall increase in total equity for the banking industry.

Annual results 2022

At the close of 2021, the banking industry showed resurgence of the era of severe impact by the pandemic was passed, with an increase in profit of 40.15% (including a one-off impairment at SABB) and increase in total assets of SAR262 billion 9.46% when compared to 2020. The industry closed the asset base of SAR3,033 billion at the end of 31 December 2021, yielding the average return on assets of 1.6% against 1.02% during 2020. The total equity stands at SAR474 billion, yielding an average return on equity of 10.3% against 7.46% in 2020. The substantial growth in net income was largely achieved at the back of a decline in the impairment charge by 29% for FY2021 compared to FY2020. This was duly evidenced by a reduction in average non-performing loans (NPL) coverage ratio decreasing to 161% at the end of FY2021, compared to 164% for FY2020.

The trend of surging residential finance started to show maturity since the second quarter 2021, with anumber of new contracts that started to decrease relative to previous year. This has been a major growth area for some of the largest banks.

The outlook for the banking sector looks promising, owing to product innovation and conscious efforts on deploying digital solutions for improving efficiencies. Moreover, the entry of new digital banks that are gearing up for innovative and customer-centric products is expected to bring more liquidity in the banking system and enhance economic activity.

> **The substantial growth in net income largely achieved at the back of a decline in the impairment charge by 29%, evidenced by a reduction in average NPLC ratio.**

Industry performance of 10 listed banks

Net profit after zakat and tax

↑ 22.83%

Q1 – 2022 net income SAR14.76 billion
(Q1 – 2021 SAR12.02 billion)

Total assets

↑ 3.75%

As of Q1 – 2022 SAR3,147 billion
(YE – 2021 SAR3,033 billion)

Total customer deposit

↑ 3.90%

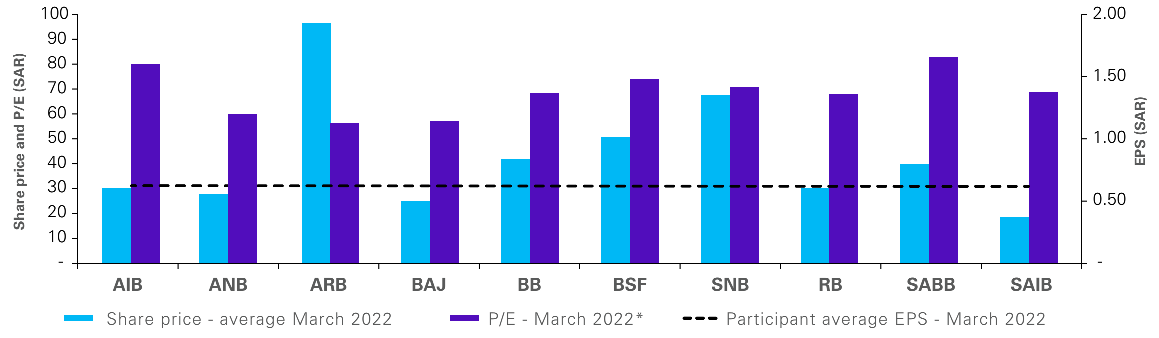
As of Q1 – 2022 SAR2,200 billion
(YE – 2021: SAR2,117 billion)

ECL charge for the period

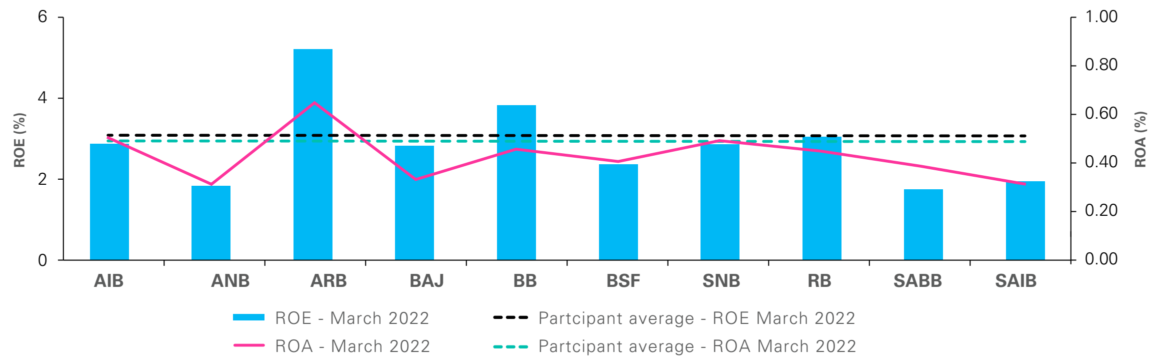
↓ 11.47%

Q1 – 2022 SAR2.24 billion
(Q1 – 2021: SAR2.53 billion)

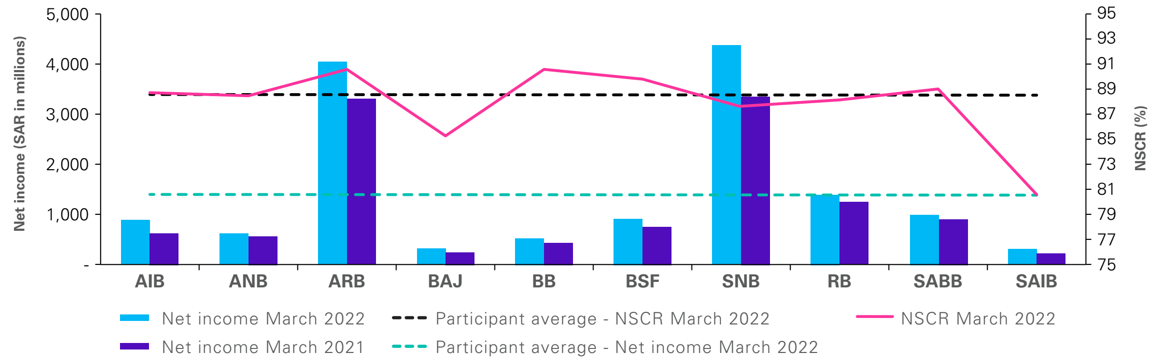
Share price, P/E & EPS



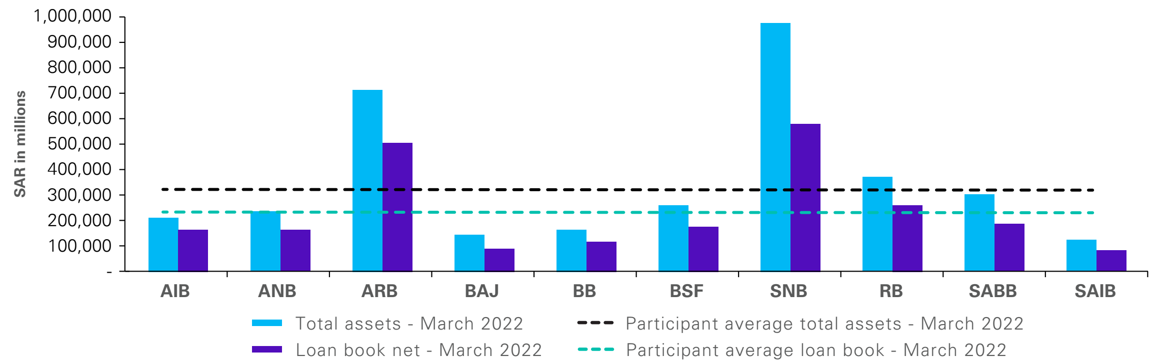
ROE & ROA



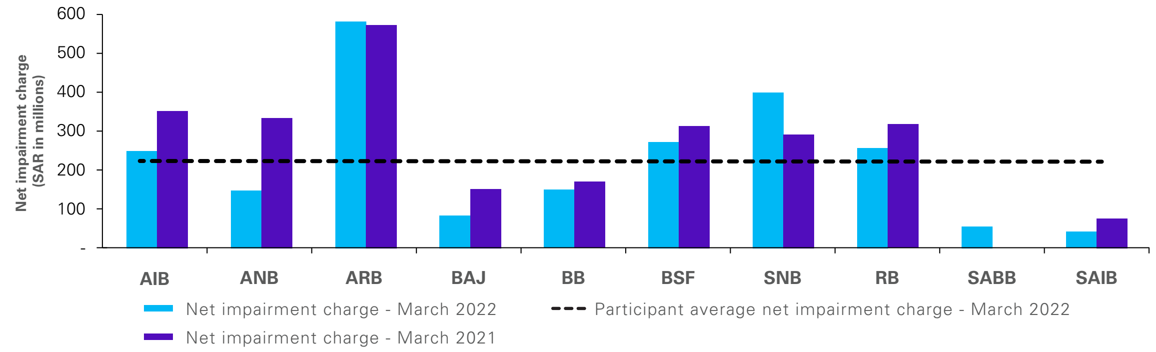
Net income



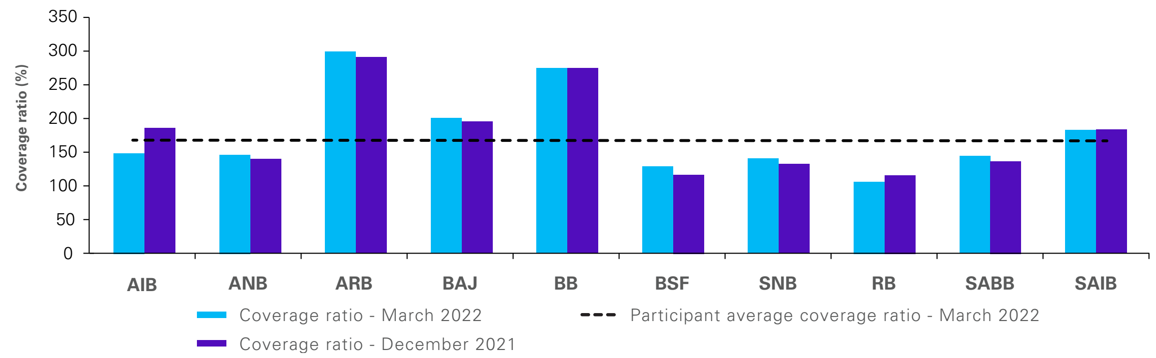
Total assets & Total loan book



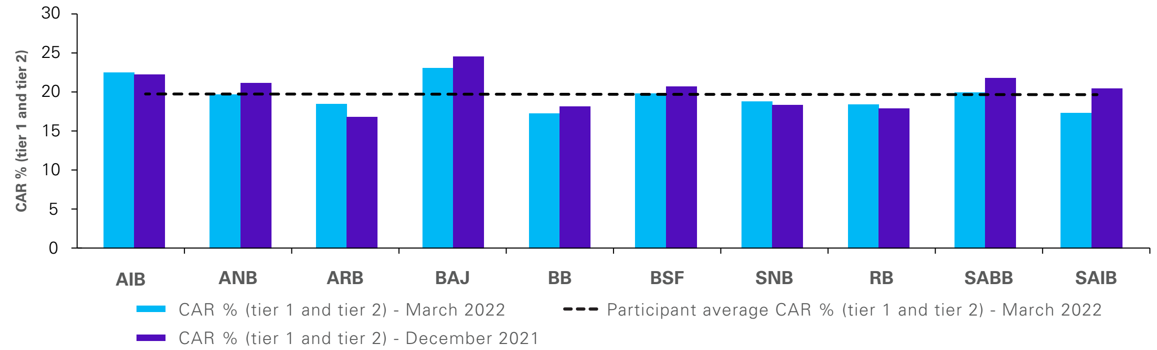
Net impairment charge



NPL coverage ratio



Capital adequacy ratio



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**		

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 three-months period that ended 31 March 2022 to total equity. **ROA** is the ratio of net income for the three-months period that ended 31 March 2022 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. **NCSR** is the net special commission rate.