Financial performance indicates growth in high yield assets and profitability

The financial results of the banking sector in Saudi Arabia for FY2022 reflect a robust industry performance, particularly highlighted increase in net profit by circa 28 percent as compared to FY2021, and total assets growth of 11.5 percent since 31 December 2021.

While global supply chains have been under pressure due to challenges on multiple fronts including geopolitical apprehensions, consistently higher oil prices have helped the domestic economy to thrive and expand on its Vision 2030 ambitions.

The banking industry has continued to capture the benefits of economic expansion, evidenced by an increase in lending and reaching an industry-wide loan-to-deposit ratio of approximately 95.5 percent at the end of December 2022 and noticing increase in loan book by 14.44 percent while witnessing increase in deposits by 8.34 percent. Further, a declining trend was observed in estimated credit losses (ECL) year-after-year.

The increase in net profit of 28.39 percent is contributed by increase in average net interest margin by 0.2 percent supported by double digit asset growth and interest rate increases across all portfolios. Moreover, there has been a marked decrease in ECL allowances which has declined by 19.25 percent when compared with FY2021. ECL allowances have been lower on account of better portfolio performance across various sectors which have reaped benefits of economic expansion.

A loan-to-deposit ratio of 95 percent across the industry demonstrates there will further pressure on the banks to increase liquidity and raise deposits to support the healthy expansion of asset growth which is expected to continue in line with the economic growth and focus of the government on key sectors and the roll-out of its giga projects. Banks have anticipated these pressures, evidenced by their focus on raising Tier I capital in the form of debt issuances, notably sukuk, and tailoring their banking products to future economic needs and shifting market dynamics. An upsurge in such Tier I capital issuance has been noted across the banking participants with the aim to support core equity base and fulfil the financial and strategic needs. During last twelve months, US$7.5 billion has been issued, with the expectation to further increase soon.

In the first few months of 2023, the global banking sector is faced with challenges, particularly heightened by shockwaves arising out of Silicon Valley Bank and Signature Bank in the US, and the acquisition of Credit Suisse by UBS in Europe in an attempt to save the sector from further upheaval. While these developments do not leave any substantial effect on Saudi banks; such instances demand some introspection and risk aversion to avoid any spill-over effect.

Looking ahead, while macro-economic indicators are supportive of further growth, industry participants have to learn from global challenges and local opportunities and pursue competition on the basis of individual strengths. The regulator and the market participants will have a closer eye on the capital adequacy and liquidity position and a proactive approach will help market participants in acquiring market share.

An ambitious economic agenda of the government will help the banking industry to further grow during 2023. The increased cost of fund and liquidity constraints will require strategic planning for capital injections and innovative funding solutions.

Khalil Al Sedais
Regional Managing Partner - Riyadh

Industry performance of publicly listed banks

Net profit after zakat and tax

28.39%

YE – 2022 net income **SAR 62.71 billion**
(YE – 2021: **SAR 48.84 billion**)

Total assets

11.49%

As of YE **– 2022 SAR 3,382 billion**
(YE **– 2021: SAR 3,033 billion)**

Total customer deposit

8.34%

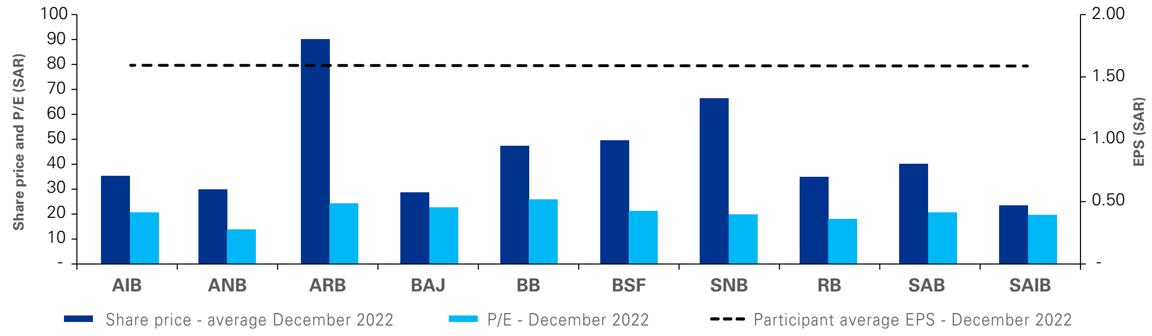
As of YE **– 2022 SAR 2,296 billion**
(YE **– 2021: SAR 2,119 billion)**

ECL charge for the year

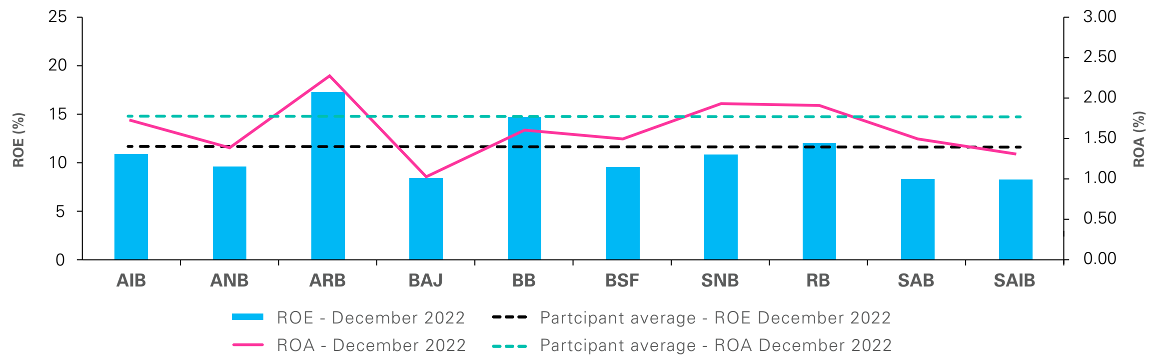
19.25%

YE **– 2022 SAR 9.87 billion**
(YE **– 2021: SAR 12.22 billion)**

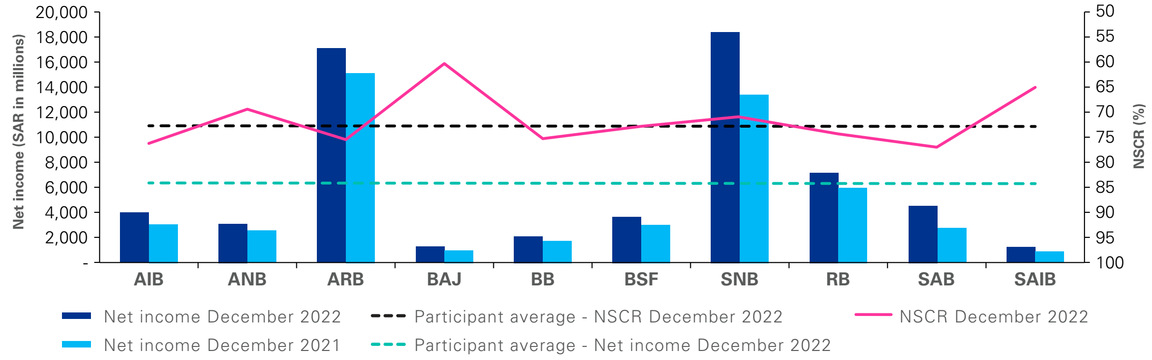
Share price, P/E & EPS



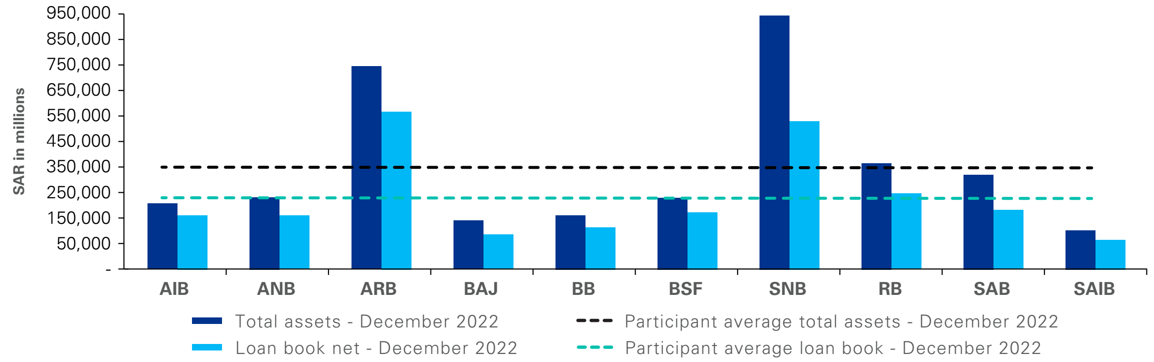
ROE & ROA



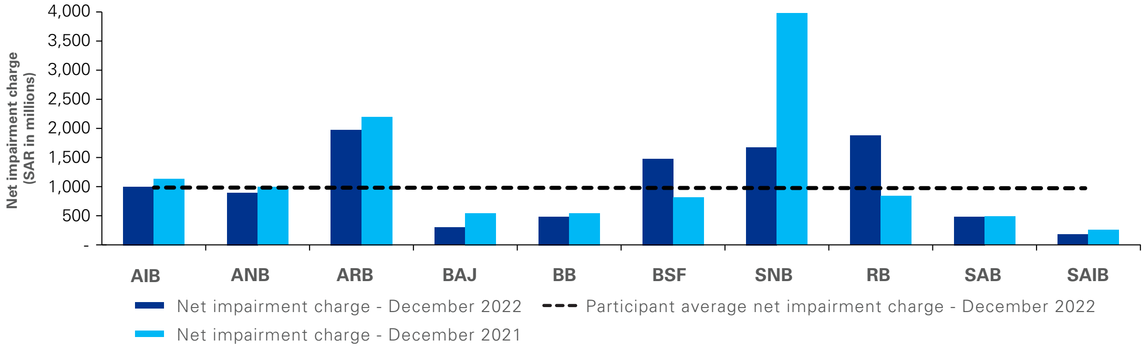
Net income



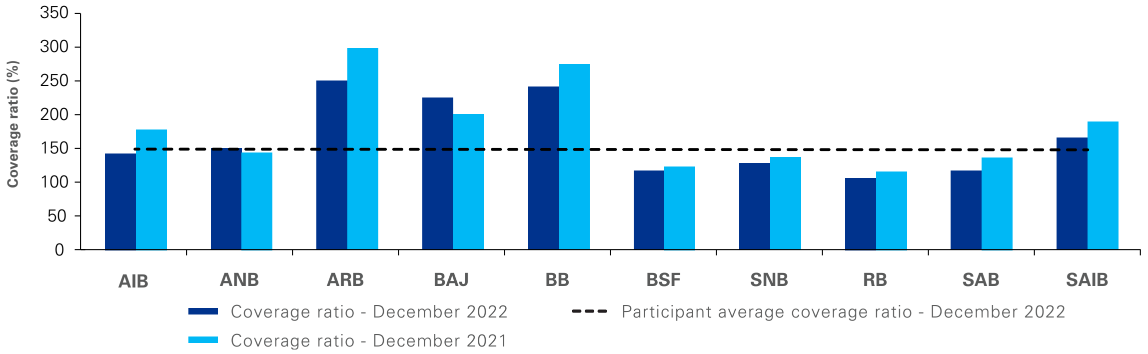
Total assets & Total loan book



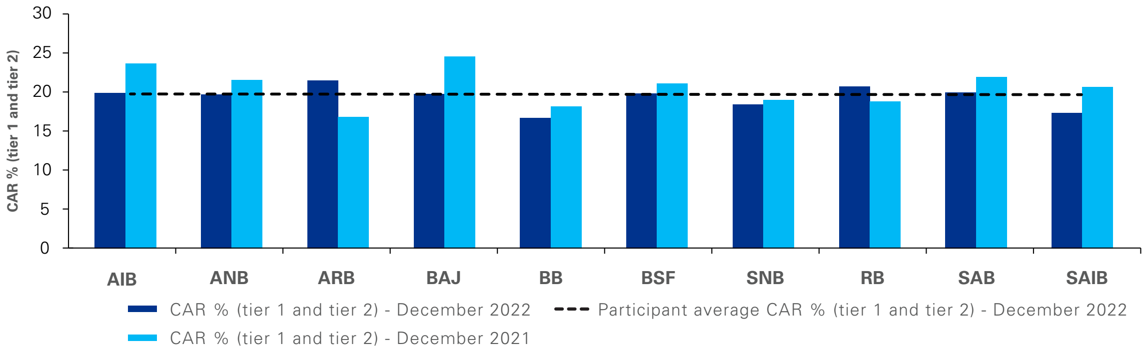
Net impairment charge



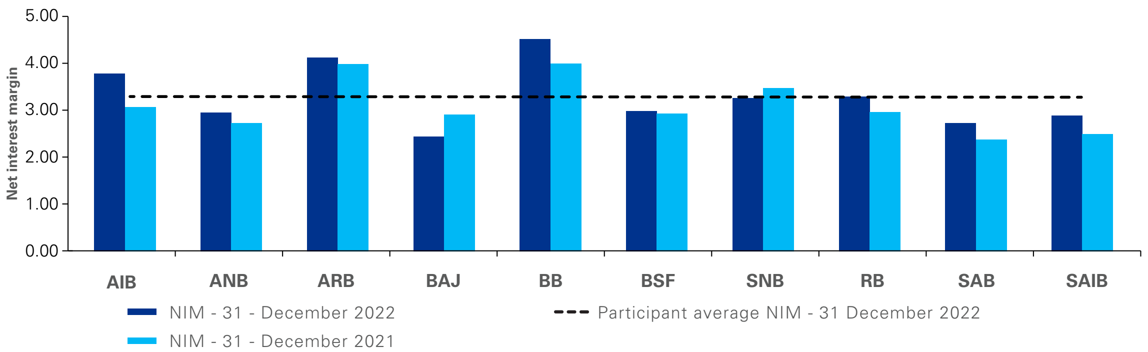
NPL coverage ratio



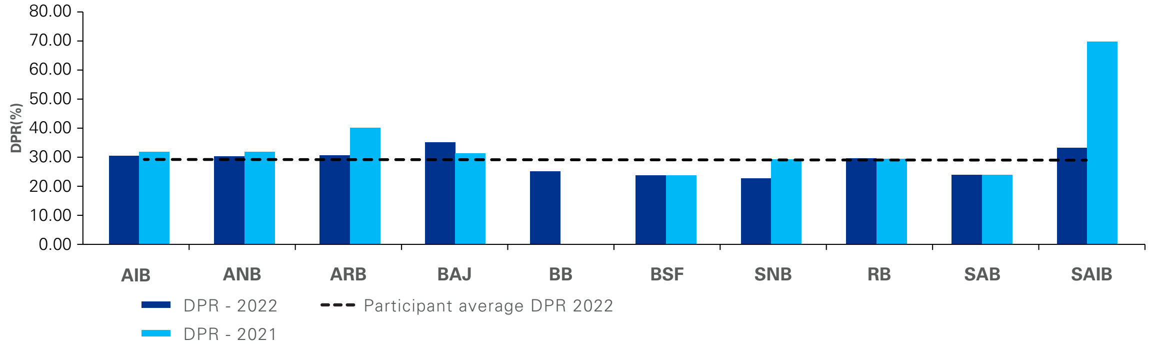
Capital adequacy ratio



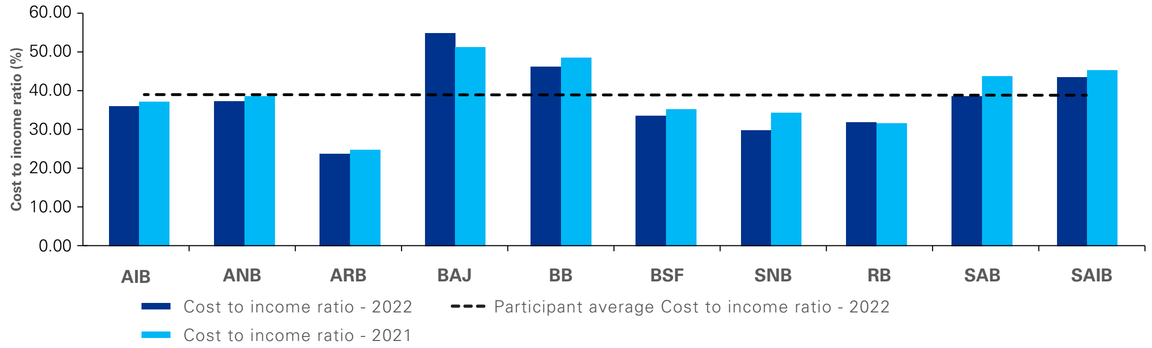
Net interest margin



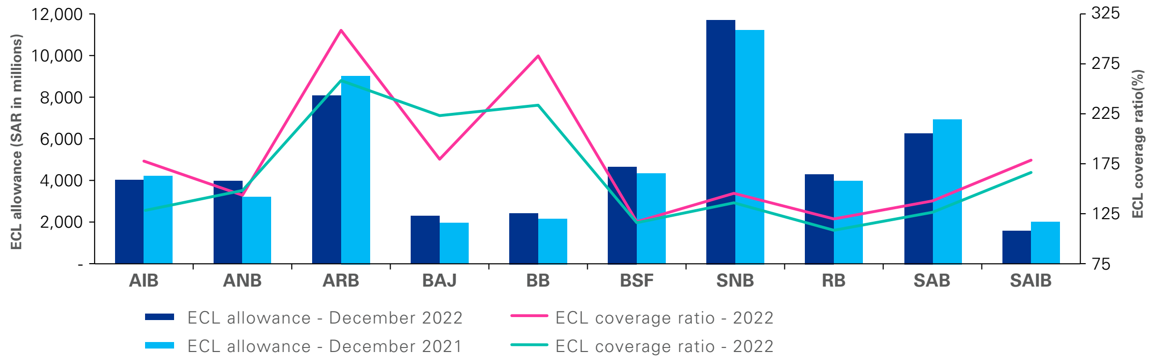
Dividend payout ratio



Cost to income ratio



ECL allowance and coverage ratio



Legend:

Alinma Bank	**AIB**	Bank Al Bilad	**BB**	Saudi Awwal Bank	**SAB**
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 year ended 31 December 2022 to total equity. **ROA** is the ratio of net income for the year ended 31 December 2022 to total assets. **Net interest margin** is the ratio of net interest income for the year ended 31 December 2022 to average of earning assets. **Coverage ratio** is the ratio of total expected credit losses (ECL) for loans and advances to total non-performing loans (NPL). **Loan-to-deposit** is the ratio of total loans and advances to total deposits. **NCSR** is the net special commission rate.