



Banking Pulse Quarterly Saudi Arabia

KPMG in Saudi Arabia
June 2020

Market Analysis

Implications of Covid-19 on business continuity and operational resilience, relief measures for businesses, and focus on cyber risks

Industry Insights

Adoption of advanced technologies to support service, measures for growth in MSMEs, optimize operational costs and mitigating fraud risk

Q1'20 Financial Performance

Analysis of the Q1 results of the performance of the eleven listed Saudi banks

Volume 1

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

Combating the economic fall-out with the backing of a timely stimulus program

The prevailing crisis could not have been envisaged even with the best of foresight a few months ago – a novel virus transforming into a pandemic and yielding profound consequences well beyond the health space into the domains of commerce and business. Expectedly, these have been extremely testing times for the banking sector – as it continues to witness its biggest challenge since the global financial crisis of 2008. As a result, there has been a flurry of activities at the ends of both individual banks and regulators, as an endeavor to identify, quantify and rectify the emerging impacts of Covid-19.

With the dissemination of financial results for first quarter of 2020, the magnitude of the Covid-19 impact on the banking industry has unfolded, albeit, it currently captures the initial effects that started emerging towards the end of March 2020 and the fact that timely and decisive regulatory measures in various jurisdictions were able to halt the downward push to some extent. The Saudi banking sector has been no different, with an average increase of 93.3% in expected credit losses (ECL) and a significant decrease in mark to market valuations.

A robust support program by SAMA meant that panic-driven measures such as foreclosures, un-economical debt restructurings and forced liquidations have not been rampant.

Khalil Ibrahim Al Sedais

Office Managing Partner – Riyadh
KPMG in Saudi Arabia

Also, healthy credit underwriting until February 2020 enabled the total assets and total gross loan book to post average growth of 3.9% and 4.96% respectively. Moreover, despite the hike in ECLs, a substantial amount of income, in the form of a SR 1.12 billion government grant resulting from SAMA support measures restricted the decline in net profitability only to 6.9%, relative to same period of FY 2019. This truly epitomizes the timeliness of these measures which have been a breath of fresh air not just for the corporates, especially in the MSME sector, but also banks as they combat the economic fall-out on the front lines. There are apprehensions that Q1 was the 'tip of the iceberg' or that the credit losses of latter periods will significantly out-number preceding results as businesses

continue to be in stress due to lockdowns and limited sales. Irrespective of how the future unfolds; the fluidity of prevailing situation endorses continued hyper-vigilance of banks across the aspects of risk management, asset protection and stakeholder engagement. Moreover, SAMA's ongoing support to banks through liquidity and relief, amplified by new measures such as the one announced recently, would remain to be a key mitigant. Most of the industry executives today find current uncertainties obstructing the view on short-medium term performance of the sector; but they also echo that only economic activity could stimulate recovery.

Notwithstanding the above, drawing upon the ability to identify a 'silver-lining' in most bleak of situations, it is evident that Covid-19 has also profoundly impacted how the banking sector views digital transformation.

Digital transformation transitioned from being 'one-of-the-agenda-items' in board rooms into an 'urgent-priority' as banks continue to explore better ways of conducting business via e-platforms across work-place collaboration, customer-onboarding and customer experience.

Ovais Shahab
Head of Financial Services
KPMG in Saudi Arabia

All of this means that the digital-driven paradigm-shift that was a close possibility not so long ago is now an imminent reality.

We welcome you all to delve into further insights of the foregoing themes in our first edition of the Banking Pulse which is part of a series of our industry wide endeavor to share and seek insights in the banking space following the latest Banking Perspectives. In this report, you will not only find industry's financial performance for the most recent period, but also comments from key executives that reflects the pulse of the market. As always, we look forward to your feedback.

Banking Pulse Quarterly

Industry Insights

Covid-19 and the banking industry I

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

SAMA stimulus package

This aims to enhance liquidity in the banking sector as well as reducing the burden on some banks that delayed payments of companies and weren't covered by the March support package, and those banks with high exposure to enterprises in Makkah or Madinah. SAMA is going to activate the open market operation for all banks during this month to enable them to get the required liquidity levels. Injecting liquidity aims to give more confidence to the banking sector and to enable them to give more loans after reopening the business activities.

- Dr. Ahmed Alkholifey, Governor,
Saudi Arabian Monetary Authority

Prioritizing digital transitions

In recent years fintech has become prevalent on a global scale. Saudi banks have adapted to this digital transformation and now provide clients with easy access for daily transactions. Today, the majority of our customers use our digital channels. Over 60% of retail customers used our digital platforms in 2019, including a rapid transition to the mobile banking app. This trend is expected to continue in the future, as customer journeys become digitalized due to the convenience of online banking.

- Faisal Omar Alsaggaf, CEO,
National Commercial Bank.

Loans and mortgages

Given the economic situation, maybe loan growth is not the number one priority for banks. We expect mortgage financing to continue growing strongly.

- Ammar Alkhudairy, Chairman,
SAMBA Financial Group

Reliance on government spending

The cashflows of certain industries and sectors are strained, though much will depend on government spending during the rest of the year. Hopefully we will not see a major dislocation of the corporate fabric and then companies, whether SME or larger corporations will manage to sail through – with only few exceptions.

- Robert M. Eid, CEO,
Arab National Bank

Navigating unknown unknowns

The impact of Covid-19 has been felt in every aspect of banking – liquidity risk, credit risk, operational risk, etc. Though I expect the global economy has pasted the worst of this crisis, given the high level of adaptation and dynamism that banks have exercised, there are still 'unknown unknowns' that banks need to be prepared for. In Saudi Arabia particularly, the government was able to navigate the crisis diligently and act quickly – an important ability in this crisis. The hundreds of billions of Saudi riyals that were injected in the economy has greatly helped lessen the Covid-19 crisis effects and enable the various aspects of the economy to sustain the impact. Saudi banks, under the supervision of SAMA, were able to continue to offer credit to the economy and not cause the business environment to halt. The level of agility and diligence that the regulator and the financial institutions exhibited during the crisis has continued to reinforce the confidence in the Saudi financial system – a confidence that continues to grow and strengthen regionally and globally.

- Faisal Al Omran, CEO,
Saudi Investment Bank

Banking Pulse Quarterly

Industry Insights

Covid-19 and the banking industry II

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

Monetary resilience

Saudi Arabia's financial and monetary indicators and banking resilience are good and far healthier than most countries. The Kingdom faces no liquidity risks, and SAMA is capable to inject liquidity if needed through several means, including Open Market Operations. The bank credit to the private sector posted a 12.2% growth in April, the highest since 2015. The capital adequacy ratio (CAR) exceeded 18.6%, while loan-to-deposit ratio (LDR) and liquidity coverage ratio (LCR) surpassed 80% and 201.5%, respectively, higher than the recommendations of Basel Committee on Banking Supervision.

- Dr Fahad Aldossari, Deputy Governor for Research and International Affairs, SAMA

Evolving cyber and fraud risks

Cyber and fraud risk are expected to be high, at the time when most of the workforce is connecting remotely and customers are using e-commerce platforms. Safeguarding customers from these evolving cyber threats and fraud risks and implementing appropriate measures are the key priorities. This requires redundant controls to be replaced with a robust infrastructure that caters to new and emerging technology challenges.

- Naif Albashir, Chief Risk Officer, National Commercial Bank

Automation in trade finance

SABB completed first phase of automating bank guarantees through Wethaq, and permits beneficiaries to verify bank guarantees automatically. In the second phases, it will allow complete management of bank guarantees, including issuance, release, amendment and cancellation.

- SABB in press statement

Widening sales channels

The impact of Covid-19 on the banking sector will likely be truly visible in Q3 and Q4 of this year due to the snowball effect. With that in mind, all the measures that the Saudi government and SAMA have taken to protect our economy, we are very optimistic that this phase will pass, and things will go back to normal. As banks, it is our role to support our clients, our partners, though providing financing and credit to ensure we overcome the current challenges. Banks will continue to be vigilant on the credit underwriting due to the uncertain surrounding customer businesses. However, a proactive approach towards widening sales channels using technology, a self-driven team and strong capital base will help us and our partners to overcome this obstacle.

- Tareq Al Sadhan, CEO, Riyad Bank

Financial reporting challenges

Challenges faced by banking sector in last few months have been unprecedented. While the business effects of Covid-19 were unraveling, financial accounting and reporting landscape had its own set of novel challenges. From the estimation of expected credit losses in a highly fluid environment to the identification of the effects of government support program, it truly has been an eventful quarter.

- Muhammad Tariq, Head of Audit, KPMG Saudi Levant Cluster

Banking Pulse Quarterly

Q1'2020 financial performance of 11 listed banks in Saudi Arabia

Net Profit after zakat and tax



↓ 6.9%

Q1 – 2020 net income SAR 11.32 billion
(Q1 -2019: SR 12.16 billion)

Total assets



↑ 3.9%

As of Q1 – 2020 SAR 2,540 billion
(Q4 -2019: SAR 2,445 billion)

Total customer deposit



↑ 1.5%

As of Q1 – 2020 SAR 1,835 billion
(Q4-2019: SAR 1,809 billion)

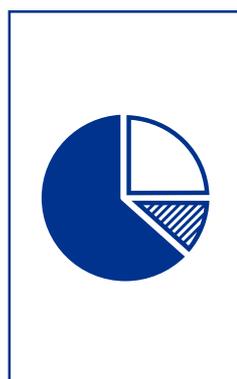
ECL charge



↑ 93.3%

Q1 – 2020 SAR 3.3 billion
(Q1 2019: SAR 1.7 billion)

SAMA Stimulus Program



Modification loss recorded on deferral of installment due from MSME sector

SAR 0.99 billion

Income recorded on the deposit received from SAMA

SR 1.12 billion

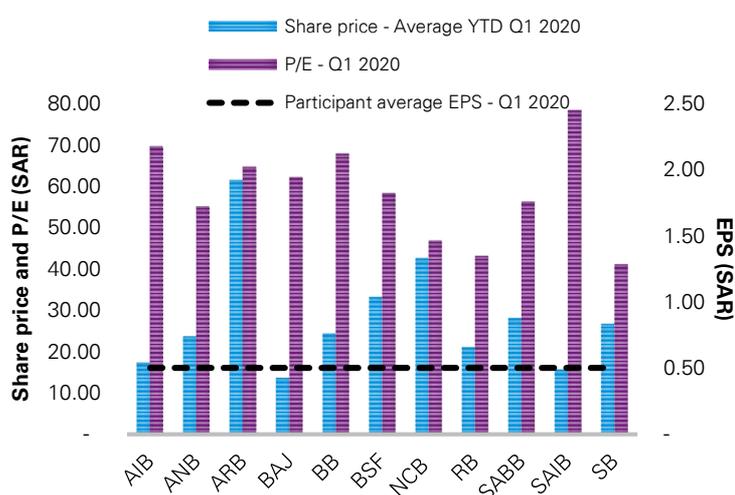
Total deposit received from SAMA as of 31st March 2020

SR 18.8 billion

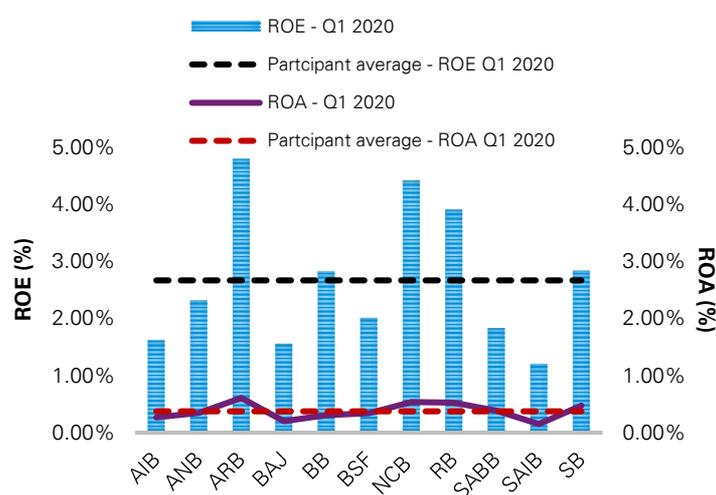
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Q1'2020 financial performance of 11 listed banks in Saudi Arabia

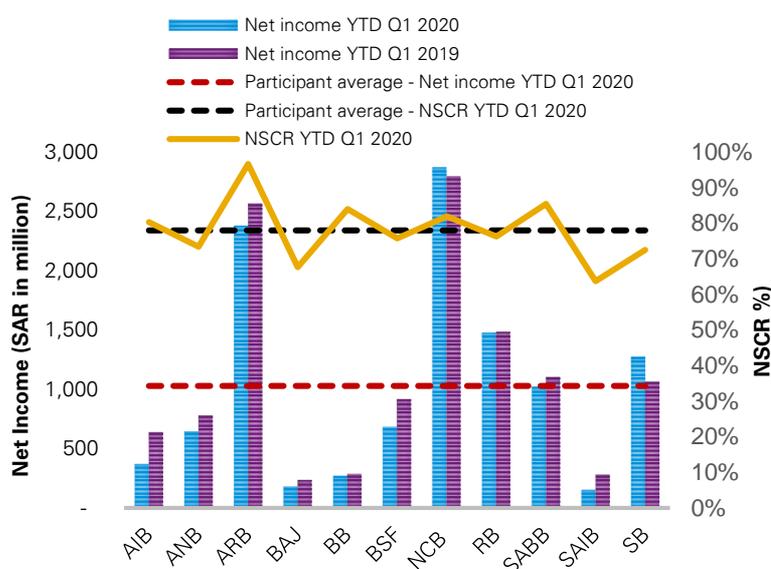
Share price, P/E & EPS



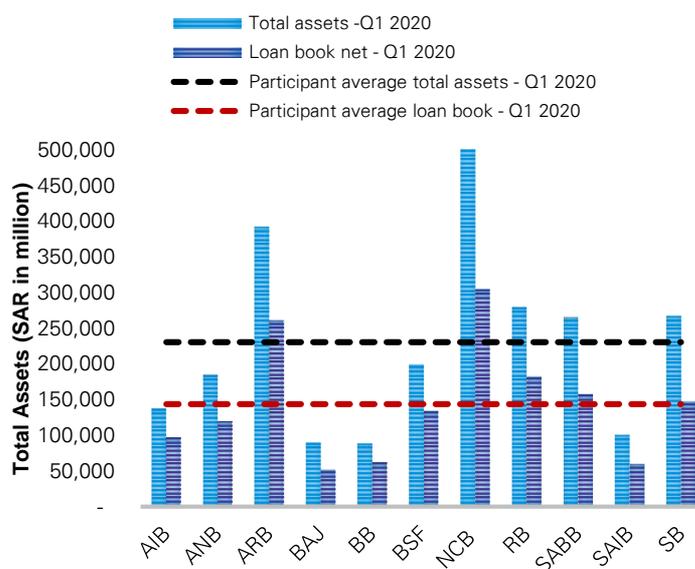
ROE & ROA



Net income - YTD Q1 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

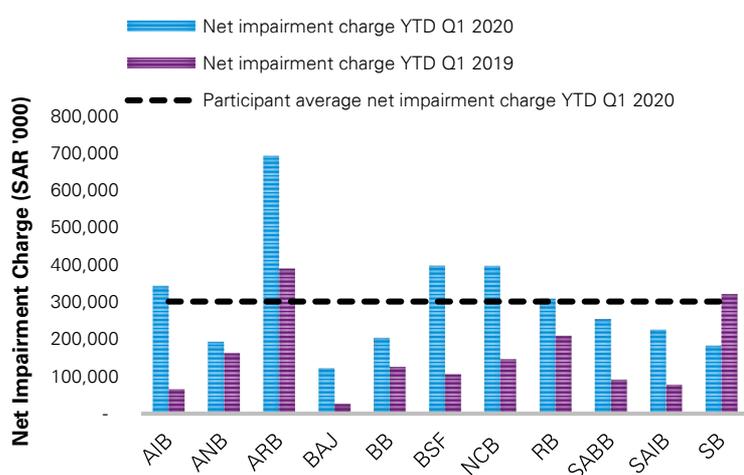
Bank Al Bilad	BB
Banque Saudi Fransi	BSF
National Commercial Bank	NCB
Riyadh Bank	RB

Saudi British Bank	SABB
Saudi Investment Bank	SAIB
Samba Bank	SB

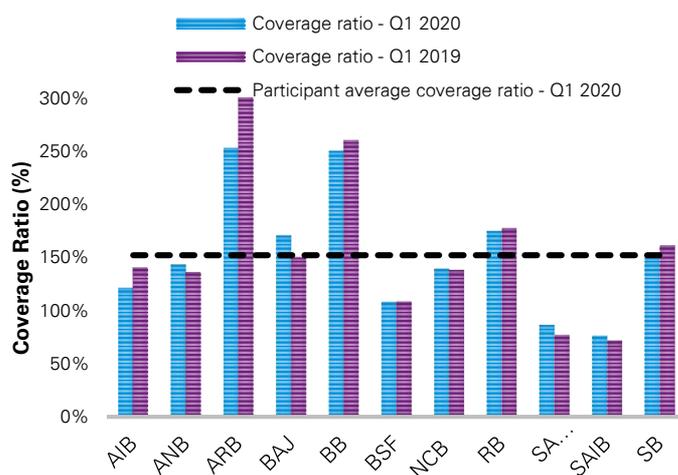
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Q1'2020 financial performance of 11 listed banks in Saudi Arabia

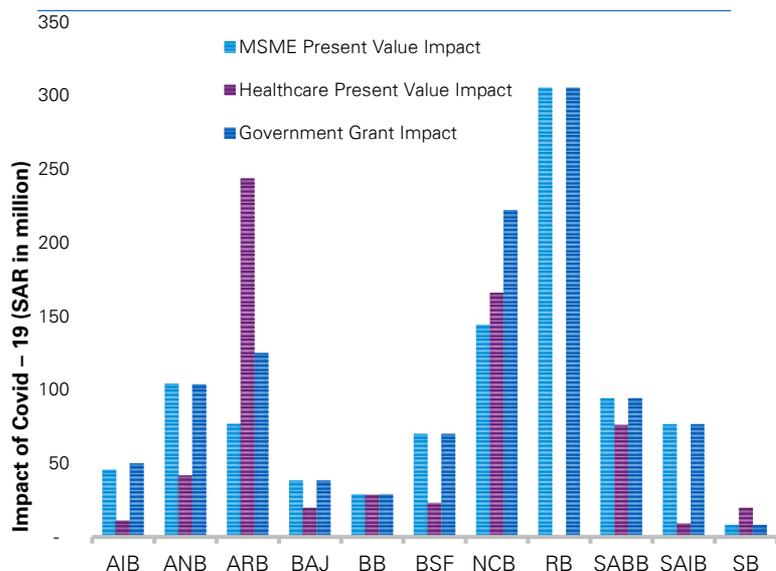
Net impairment charge



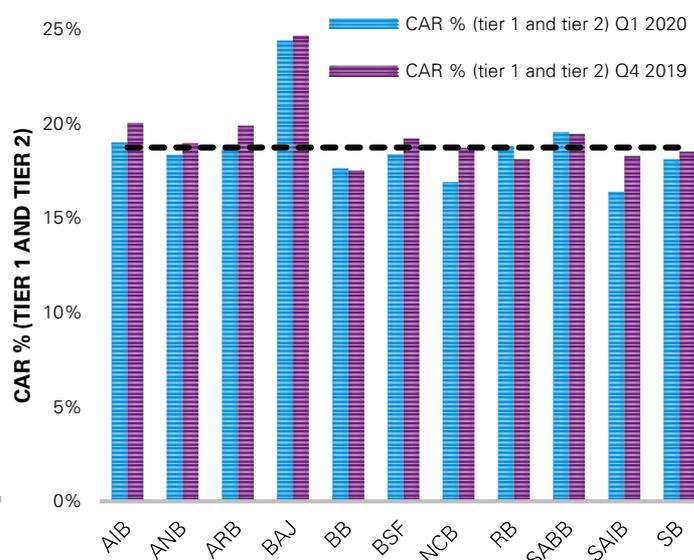
NPL coverage ratio



Impact driven by Covid-19



Capital adequacy ratio



Glossary:

P/E ratio is calculated as the average closing price for 3 months (as derived from Tadawul) divided by the earnings per share (EPS). **ROE** is the ratio of net income to total equity. **ROA** is the ratio of net income 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.



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SAMA Governor, <https://www.arabnews.com/node/1683376/business-economy>; SAMA Deputy Governor, quoted during *Empowering Saudi Economy during Pandemic* organized by CKFC); <https://www.argaam.com/en/article/articledetail/id/1381951>; SAMBA, LinkedIn statement; ANB, <https://saudigazette.com.sa/article/592776>; SABB, http://www.tradearabia.com/news/BANK_368187.html. All other comments were made directly to KPMG.