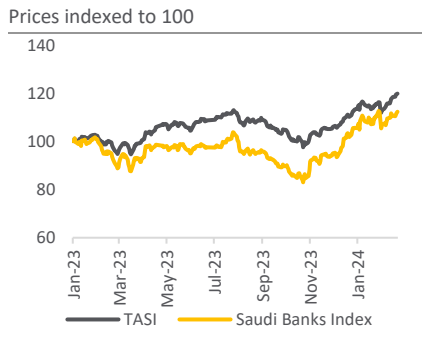


## KSA Banks

### Key takeaways from FY23/4Q23 earnings & 2024 Guidance



Source: Bloomberg

#### Valuation metrics of Saudi Banks

Bank	P/E*	P/B*	Div. Yield*
Al Rajhi	20.0x	3.5x	2.7%
SNB	12.3x	1.5x	4.2%
Riyad	11.2x	1.6x	4.6%
Alinma	16.5x	2.7x	2.8%
BJAZ	16.2x	1.1x	2.1%
Al Bilad	18.8x	3.0x	1.7%
BSFR	10.0x	1.2x	5.7%
Arab	9.7x	1.1x	5.6%
SAIB	8.7x	1.1x	5.4%
SAB	12.3x	1.2x	4.2%

Source: Bloomberg, \*based on Bbg cons. (12m fwd) as on 21<sup>st</sup> Feb 2024

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- Healthy loan growth:** KSA banks achieved a resilient low double-digit loan growth (+10.6% y/y) in FY23, defying a backdrop of higher interest rates and tighter liquidity conditions. This growth was primarily driven by booming demand for corporate credit (13.2% y/y; source: SAMA) in non-oil sectors, aligning with Vision 2030's diversification goals. This was further supported by ongoing government initiatives like the Sakani program, which contributed to mortgage loan growth (+11.2% y/y; source: SAMA). However, mortgage lending slowed in 2023 compared to previous years due to market maturity and higher interest rates. Meanwhile, retail (excl. mortgages) remained subdued (+2.7% y/y; source: SAMA) as consumers adjusted to higher borrowing costs and tightened credit standards.
- Deposit grew slower than loans, indicating tighter liquidity conditions:** KSA bank deposits grew at a slower pace at 7.8% in FY23. This indicates relatively tighter liquidity conditions in the system, pushing banks to resort to wholesale funding. As a result, the reported headline LDR rose to 99.2% from 96.7% in FY22. Banks have also witnessed a rise in the Time deposit mix (35% of total deposits at the end of FY23 vs. 29% in FY22; source: SAMA), pressuring the cost of funds for the industry.
- Asset yields rose:** Asset yields reached 5.8% for the sector in FY23 compared to 4.1% in FY22, depicting an expansion of 161bps. The corporate lending-dominated banks saw steeper increases in asset yields compared to the retail banks. Alinma and SABB bank witnessed asset yield expansion of nearly 200bps in FY23. Meanwhile, retail-focused, AlRajhi and SNB witnessed asset yield expansion of 111bps and 145bps, respectively.
- Cost of funds outpaced asset yields for the KSA banking sector:** Average SAIBOR3M increased to 5.9% in FY23 vs. 3.1% in FY22 which led to a rise in the Time deposit mix. Consequently, the cost of funds for the sector increased to 3.3% for the sector in FY23, compared to 1.2% in FY22. The cost of funding outpaced asset yield for most of the banks in the industry, except for SABB, ANB, and Alinma.
- Sector NIMs flat:** In FY23, NIMs remained stable at 3.2% compared to FY22. Corporate banks like Alinma (+25bps), SABB (+56bps), and ANB (+54bps) experienced NIM expansion, while retail banks like AlRajhi (-39bps) and SNB (-17bps) saw NIM contraction.
- Net income growth driven by a rise in interest income and normalization in provisions:** Net income growth of the sector stood at +11.9% y/y in FY23. This was driven by a 9.5% y/y rise in operating income coupled with a 1.1% y/y drop in provisions. Corporate banks saw robust net income expansion, while retail banks' net income rise remained muted.
- SNB emerged as a market leader in FY23:** SNB leads in profitability in KSA, reporting SAR20bn net income for FY23 (29% share). Additionally, it holds the top position in both loan market share (25%) and deposit share (24%), surpassing AlRajhi in both categories.
- Guidance:** As of the report date, banks that have released 2024 guidance (Figure 1), present mixed loan growth expectations. Retail banks (SNB and Al Rajhi) project mid-to-high single-digit growth, while corporate banks (Alinma and SAIB) anticipate mid-teens growth. Further, retail banks (Al Rajhi, SNB) expect stable NIMs due to the ongoing repricing of their retail portfolios. Conversely, corporate banks (Alinma, SAIB, BSFR) predict NIM compression primarily due to likely interest rate cuts. Meanwhile, the cost of risk is expected to remain at 2023 levels.

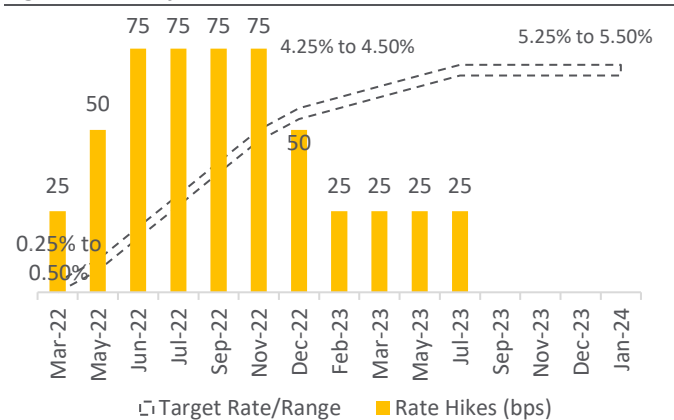
Figure 1: 2024 Guidance

Banks	Loan Growth		NIM		Cost to Income		Cost of Risk		Tier I ratio		ROE	
	2024e	2023a	2024e	2023a	2024e	2023a	2024e	2023a	2024e	2023a	2024e	2023a
SNB	High-single-digit	10.0%	3.0-3.2%	3.06%	below 27%	27.6%	0.30-0.50%	0.16%	18-19%	19.4%	16-17%*	16.8%*
AlRajhi	Mid-single-digit	4.6%	2.94-3.14%	2.99%	below 27%	27.2%	0.25-0.35%	0.39%	>20%	20.4%	>19%	19.4%
Alinma	Mid-teens	18.5%	3.76-3.86%	3.81%	~30%	31.3%	0.65-0.75%	0.77%	19-20% <sup>1</sup>	17.5% <sup>1</sup>	>19%	17.2%
BSFR	Low-double-digit	12.8%	3.1-3.3%	3.53%	below 32%	32.4%	0.60-0.70%	0.96%	17-18% <sup>#</sup>	16.7% <sup>#</sup>	11-13%*	10.6%*
SAIB	>15%	17.0%	~2.75%	2.98%	41.5-42.5%	41.8%	0.45-0.50%	0.47%	>18.75%	19.4%	>12%	11.7%
BJAZ	Mid-teens	14.0%	2.10-2.15%	2.05%	below 56%	58.2%	0.30-0.35%	0.30%	16.5-17.0%	17.3%	>8% <sup>2</sup>	7.9% <sup>2</sup>
SAB	Ahead of market <sup>3</sup>	18.0%	2.85-2.95%	3.04%	Below 32%	32.4%	0.30-0.45%	0.27%			15-16%*	15.3%*

Source: Earnings Presentations, \*Return on Tangible Equity, <sup>1</sup>CAR Pillar 1, <sup>#</sup>CET1, <sup>2</sup>ROAE before zakat and tax, <sup>3</sup>works out to around low double-digit to low teens

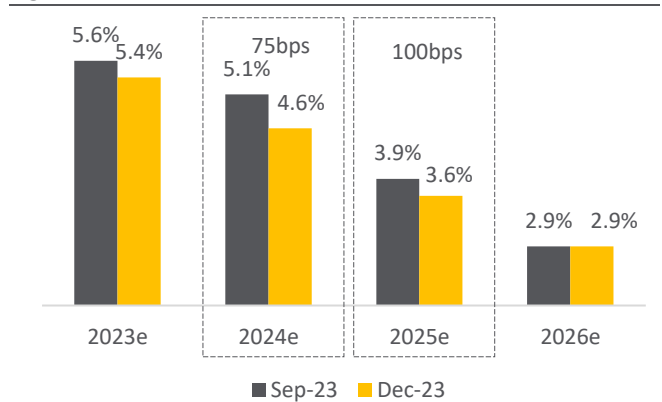
**9. Interest rate outlook:** The US Fed maintained interest rates during its January 2024 meeting (Figure 2). Additionally, it highlighted that the FOMC currently lacks the confidence to initiate rate cuts in the March meeting, considering the current trajectory of inflation. Overall, the Fed has signaled three rate cuts for 2024, totaling 75bps (versus market expectations of four cuts) and has indicated a reluctance to implement further cuts beyond this threshold. The resurgence of "Higher for Longer" interest rate sentiments gained momentum following January's US CPI reading (0.3% m/m, 3.1% y/y), which exceeded expectations (0.2% m/m, 2.9% y/y). Figure 4 illustrates Fed rate predictions at three distinct junctures: i) October 18, 2023, when the "Higher for Longer" sentiment reached its peak, ii) January 12 of the current year, marking the pinnacle of belief in a dovish pivot by the Fed towards rate cuts and iii) at the close of trade after the January CPI release. Clearly, interest rate predictions have now once again aligned closely with last year's October "Higher for Longer" sentiments, marking a notable deviation from market expectations.

Figure 2: US Fed fund rate



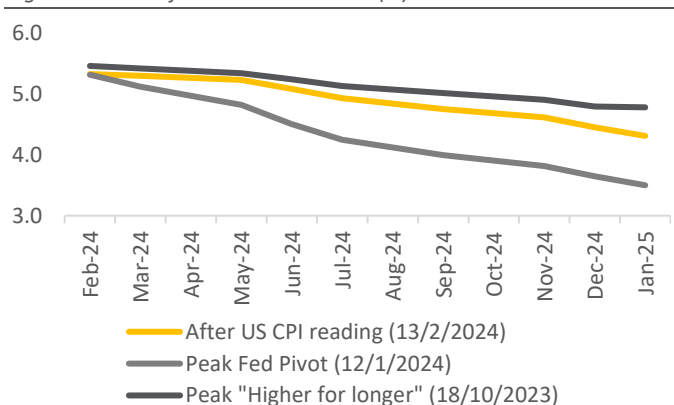
Source: Bloomberg, GIB Capital

Figure 3: US Fed Dot Plot



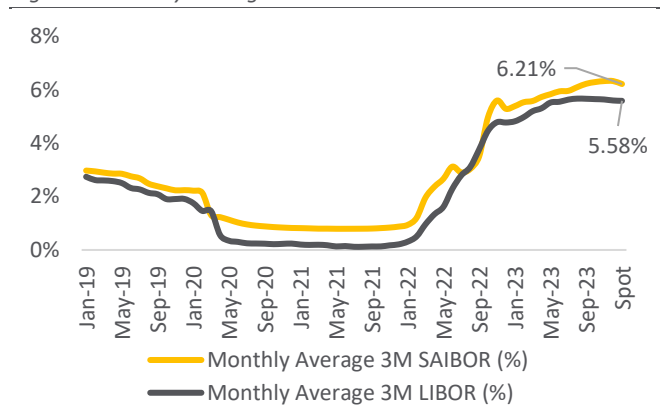
Source: Bloomberg, GIB Capital

Figure 4: US Fed funds rate Prediction (%)



Source: Bloomberg, GIB Capital

Figure 5: Monthly Average 3M SAIBOR vs. LIBOR



Source: Bloomberg, SAMA, GIB Capital

## FY23 and 4Q23 earnings Summary

Figure 6: Interest Income

Int. Inc. (SARmn)	FY23	FY22	y/y	4Q23	4Q22	y/y
SNB	49,857	34,393	45.0%	13,673	10,252	33.4%
Al Rajhi	38,738	28,202	37.4%	10,705	8,534	25.4%
Riyad	20,606	12,908	59.6%	5,600	4,092	36.9%
SABB	17,088	9,322	83.3%	4,740	3,198	48.2%
BJAZ	6,265	3,916	60.0%	1,760	1,191	47.9%
ANB	12,477	7,657	62.9%	3,363	2,521	33.4%
Albilad	7,544	4,972	51.7%	2,031	1,481	37.1%
Alinma	13,228	7,613	73.8%	3,754	2,437	54.1%
BSFR	13,218	8,307	59.1%	3,506	2,649	32.4%
SAIB	7,415	4,067	82.3%	2,032	1,344	51.2%
<b>Total</b>	<b>186,435</b>	<b>121,356</b>	<b>53.6%</b>	<b>51,165</b>	<b>37,699</b>	<b>35.7%</b>

Source: Company Data, GIB Capital

Figure 7: Interest Costs

Int. Costs (SARmn)	FY23	FY22	y/y	4Q23	4Q22	y/y
SNB	22,848	8,106	181.9%	6,786	3,475	95.3%
Al Rajhi	17,469	6,029	189.7%	5,156	2,955	74.5%
Riyad	8,192	2,855	186.9%	2,459	1,241	98.2%
SABB	6,747	1,914	252.5%	2,039	907	124.8%
BJAZ	3,890	1,308	197.3%	1,118	598	87.0%
ANB	5,340	2,021	164.2%	1,529	876	74.5%
Albilad	3,434	1,085	216.6%	1,027	499	105.9%
Alinma	5,573	1,547	260.4%	1,700	769	121.0%
BSFR	5,383	1,881	186.2%	1,638	871	88.1%
SAIB	3,998	1,222	227.1%	1,207	519	132.7%
<b>Total</b>	<b>82,874</b>	<b>27,968</b>	<b>196.3%</b>	<b>24,657</b>	<b>12,708</b>	<b>94.0%</b>

Source: Company Data, GIB Capital

Figure 8: Net Interest Income

NII (SARmn)	FY23	FY22	y/y	4Q23	4Q22	y/y
SNB	27,009	26,287	2.7%	6,887	6,777	1.6%
Al Rajhi	21,269	22,173	-4.1%	5,549	5,579	-0.5%
Riyad	12,414	10,052	23.5%	3,142	2,852	10.2%
SABB	10,341	7,408	39.6%	2,701	2,291	17.9%
BJAZ	2,375	2,607	-8.9%	643	593	8.4%
ANB	7,137	5,636	26.6%	1,834	1,645	11.5%
Albilad	4,110	3,887	5.7%	1,004	982	2.3%
Alinma	7,655	6,066	26.2%	2,054	1,668	23.2%
BSFR	7,835	6,426	21.9%	1,868	1,778	5.1%
SAIB	3,417	2,845	20.1%	825	826	-0.1%
<b>Total</b>	<b>103,562</b>	<b>93,388</b>	<b>10.9%</b>	<b>26,507</b>	<b>24,990</b>	<b>6.1%</b>

Source: Company Data, GIB Capital

Figure 9: Asset yields

Asset Yields (%)	FY23	FY22	y/y	4Q23*	4Q22*	y/y
SNB	5.7%	4.3%	145bps	6.3%	5.1%	118bps
Al Rajhi	5.3%	4.2%	111bps	5.9%	5.1%	79bps
Riyad	6.2%	4.4%	182bps	6.7%	5.6%	118bps
SABB	5.5%	3.5%	201bps	6.1%	4.7%	132bps
BJAZ	5.4%	3.7%	172bps	6.1%	4.5%	159bps
ANB	6.3%	4.1%	213bps	6.8%	5.5%	131bps
Albilad	6.1%	4.4%	163bps	6.5%	5.3%	124bps
Alinma	6.1%	4.1%	198bps	6.9%	5.3%	166bps
BSFR	5.8%	4.1%	172bps	6.2%	5.2%	95bps
SAIB	6.6%	4.2%	237bps	7.2%	5.5%	165bps
<b>Average</b>	<b>5.8%</b>	<b>4.1%</b>	<b>161bps</b>	<b>6.3%</b>	<b>5.2%</b>	<b>116bps</b>

Source: Company Data, GIB Capital \*Annualized

Figure 10: Cost of Funds

Cost of Funds (%)	FY23	FY22	y/y	4Q23*	4Q22*	y/y
SNB	3.9%	1.4%	245bps	4.6%	2.4%	215bps
Al Rajhi	3.0%	1.1%	198bps	3.6%	2.1%	151bps
Riyad	3.2%	1.2%	202bps	3.9%	2.1%	179bps
SABB	2.8%	0.9%	191bps	3.4%	1.7%	169bps
BJAZ	4.1%	1.5%	261bps	4.8%	2.8%	197bps
ANB	3.2%	1.3%	191bps	3.7%	2.3%	142bps
Albilad	3.0%	1.1%	190bps	3.6%	2.1%	154bps
Alinma	3.0%	1.1%	190bps	3.6%	2.1%	150bps
BSFR	3.1%	1.2%	193bps	3.8%	2.2%	159bps
SAIB	4.8%	1.8%	305bps	5.8%	3.0%	282bps
<b>Average</b>	<b>3.3%</b>	<b>1.2%</b>	<b>213bps</b>	<b>4.0%</b>	<b>2.2%</b>	<b>177bps</b>

Source: Company Data, GIB Capital \*Annualized

Figure 11: Net Interest Margins

NIMs (%)	FY23	FY22	y/y	4Q23*	4Q22*	y/y
SNB	3.1%	3.3%	-17bps	3.2%	3.4%	-21bps
Al Rajhi	2.9%	3.3%	-39bps	3.1%	3.3%	-28bps
Riyad	3.7%	3.4%	32bps	3.8%	3.9%	-9bps
SABB	3.3%	2.7%	56bps	3.5%	3.4%	6bps
BJAZ	2.1%	2.5%	-42bps	2.2%	2.3%	-2bps
ANB	3.6%	3.0%	54bps	3.7%	3.6%	13bps
Albilad	3.3%	3.5%	-17bps	3.2%	3.5%	-28bps
Alinma	3.5%	3.3%	25bps	3.8%	3.6%	18bps
BSFR	3.4%	3.2%	28bps	3.3%	3.5%	-22bps
SAIB	3.0%	2.9%	9bps	2.9%	3.4%	-48bps
<b>Average</b>	<b>3.2%</b>	<b>3.2%</b>	<b>0bps</b>	<b>3.3%</b>	<b>3.4%</b>	<b>-14bps</b>

Source: Company Data, GIB Capital \*Annualized

Figure 12: Operating Income

Op. inc. (SARmn)	FY23	FY22	y/y	4Q23	4Q22	y/y
SNB	34,589	33,005	4.8%	8,625	8,119	6.2%
Al Rajhi	27,531	28,575	-3.7%	7,050	7,264	-2.9%
Riyad	15,899	13,599	16.9%	3,932	3,742	5.1%
SABB	12,710	9,650	31.7%	3,178	2,780	14.3%
BJAZ	3,335	3,495	-4.6%	890	821	8.4%
ANB	8,567	6,862	24.8%	2,096	1,918	9.3%
Albilad	5,303	5,191	2.1%	1,337	1,349	-0.8%
Alinma	9,726	7,963	22.1%	2,569	2,148	19.6%
BSFR	9,324	8,017	16.3%	2,191	2,243	-2.3%
SAIB	3,967	3,278	21.0%	1,013	930	8.9%
<b>Total</b>	<b>130,950</b>	<b>119,636</b>	<b>9.5%</b>	<b>32,881</b>	<b>31,314</b>	<b>5.0%</b>

Source: Company Data, GIB Capital

Figure 13: Cost to income ratio

Cost to income ratio	FY23	FY22	y/y	4Q23	4Q22	y/y
SNB	29.9%	29.6%	30bps	29.5%	29.1%	39bps
Al Rajhi	27.2%	26.1%	116bps	28.3%	27.5%	79bps
Riyad	31.3%	32.4%	-118bps	32.4%	30.4%	200bps
SABB	32.4%	37.9%	-559bps	33.5%	38.7%	-520bps
BJAZ	58.2%	54.9%	329bps	57.8%	56.9%	93bps
ANB	33.2%	35.8%	-258bps	37.8%	37.2%	61bps
Albilad	44.1%	44.7%	-60bps	45.9%	45.1%	77bps
Alinma	31.3%	34.7%	-343bps	30.1%	34.9%	-480bps
BSFR	32.4%	33.1%	-69bps	38.6%	32.3%	633bps
SAIB	41.8%	44.1%	-232bps	41.9%	42.7%	-74bps
<b>Total</b>	<b>36.2%</b>	<b>37.3%</b>	<b>-116bps</b>	<b>37.6%</b>	<b>37.5%</b>	<b>11bps</b>

Source: Company Data, GIB Capital

Figure 14: Provisions

Provisions (SARmn)	FY23	FY22	y/y	4Q23	4Q22	y/y
SNB	923	1,685	-45.2%	431	166	159.6%
Al Rajhi	1,504	2,001	-24.8%	405	352	15.1%
Riyad	1,972	1,281	54.0%	483	364	32.7%
SABB	562	445	26.3%	50	212	-76.4%
BJAZ	229	286	-20.0%	68	50	35.9%
ANB	992	880	12.7%	182	270	-32.6%
Albilad	324	551	-41.2%	47	139	-66.1%
Alinma	1,299	1,189	9.2%	324	441	-26.5%
BSFR	1,594	1,360	17.2%	413	476	-13.2%
SAIB	359	192	87.2%	110	249	-55.7%
<b>Total</b>	<b>9,757</b>	<b>9,869</b>	<b>-1.1%</b>	<b>2,514</b>	<b>2,719</b>	<b>-7.6%</b>

Source: Company Data, GIB Capital

Figure 15: Net Income

Net Income (SARmn)	FY23	FY22	y/y	4Q23	4Q22	y/y
SNB	20,010	18,581	7.7%	4,935	4,791	3.0%
Al Rajhi	16,621	17,151	-3.1%	4,170	4,405	-5.3%
Riyad	8,046	7,019	14.6%	1,955	2,028	-3.6%
SABB	7,002	4,826	45.1%	1,857	1,234	50.5%
BJAZ	1,020	1,109	-8.0%	279	244	14.6%
ANB	4,071	3,070	32.6%	941	790	19.1%
Albilad	2,369	2,082	13.8%	607	540	12.4%
Alinma	4,839	3,599	34.5%	1,320	860	53.5%
BSFR	4,223	3,575	18.1%	828	903	-8.3%
SAIB	1,762	1,508	16.8%	447	350	27.7%
<b>Total</b>	<b>69,963</b>	<b>62,520</b>	<b>11.9%</b>	<b>17,339</b>	<b>16,145</b>	<b>7.4%</b>

Source: Company Data, GIB Capital

Figure 16: Loans and Deposits

Banks	Loans (SARmn)			Deposits (SARmn)			Headline LDR (%)		
	FY23	FY22	y/y	FY23	FY22	y/y	FY23	FY22	y/y
SNB	601,527	545,311	10.3%	590,051	568,283	3.8%	101.9%	96.0%	6ppts
Al Rajhi	594,205	568,338	4.6%	573,101	564,925	1.4%	103.7%	100.6%	3ppts
Riyad	274,398	242,365	13.2%	254,908	240,007	6.2%	107.6%	101.0%	7ppts
SABB	215,936	183,132	17.9%	240,940	214,279	12.4%	89.6%	85.5%	4ppts
BJAZ	80,781	70,599	14.4%	94,054	86,023	9.3%	85.9%	82.1%	4ppts
ANB	152,235	143,829	5.8%	165,861	154,871	7.1%	91.8%	92.9%	-1ppts
Albilad	102,080	91,179	12.0%	112,831	94,843	19.0%	90.5%	96.1%	-6ppts
Alinma	173,624	146,492	18.5%	187,901	145,169	29.4%	92.4%	100.9%	-9ppts
BSFR	179,391	159,012	12.8%	172,209	157,592	9.3%	104.2%	100.9%	3ppts
SAIB	80,751	68,883	17.2%	83,233	69,579	19.6%	97.0%	99.0%	-2ppts
<b>Total</b>	<b>2,454,928</b>	<b>2,219,140</b>	<b>10.6%</b>	<b>2,475,088</b>	<b>2,295,570</b>	<b>7.8%</b>	<b>99.2%</b>	<b>96.7%</b>	<b>3ppts</b>

Source: Company Data, GIB Capital

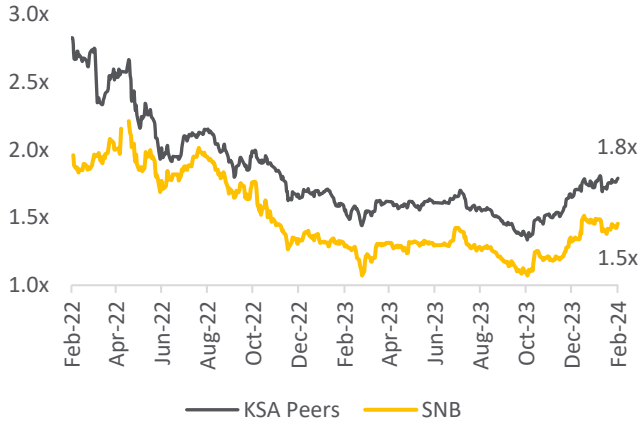
Figure 17: Loan and deposit market share

Banks	Loan market share			Deposit market share		
	FY23	FY22	y/y	FY23	FY22	y/y
SNB	25%	25%	-7bps	24%	25%	-92bps
Al Rajhi	24%	26%	-141bps	23%	25%	-145bps
Riyad	11%	11%	26bps	10%	10%	-16bps
SABB	9%	8%	54bps	10%	9%	40bps
BJAZ	3%	3%	11bps	4%	4%	5bps
ANB	6%	6%	-28bps	7%	7%	-5bps
Albilad	4%	4%	5bps	5%	4%	43bps
Alinma	7%	7%	47bps	8%	6%	127bps
BSFR	7%	7%	14bps	7%	7%	9bps
SAIB	3%	3%	19bps	3%	3%	33bps

Source: Company Data, GIB Capital

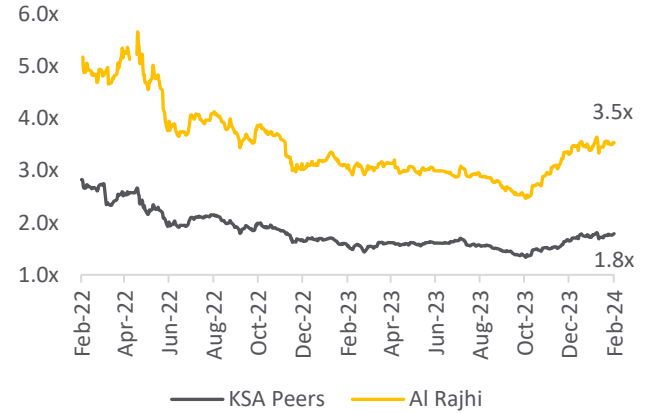
## Valuation multiples

Figure 18: SNB valuation trend (Blended 12m forward P/BV)



Source: Bloomberg, GIB Capital

Figure 19: AlRajhi valuation trend (Blended 12m forward P/BV)



Source: Bloomberg, GIB Capital

Figure 20: Alinma valuation trend (Blended 12m forward P/BV)



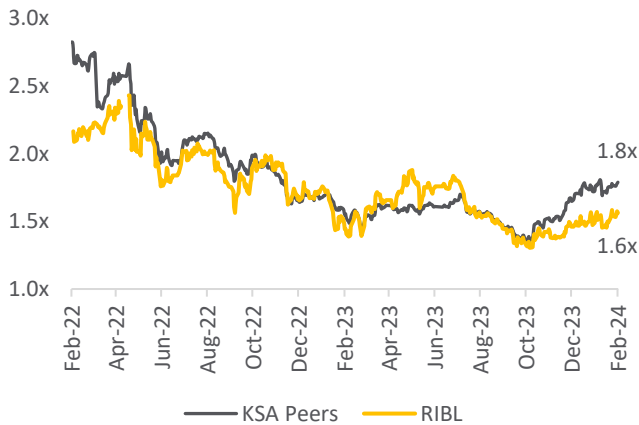
Source: Bloomberg, GIB Capital

Figure 21: SAB valuation trend (Blended 12m forward P/BV)



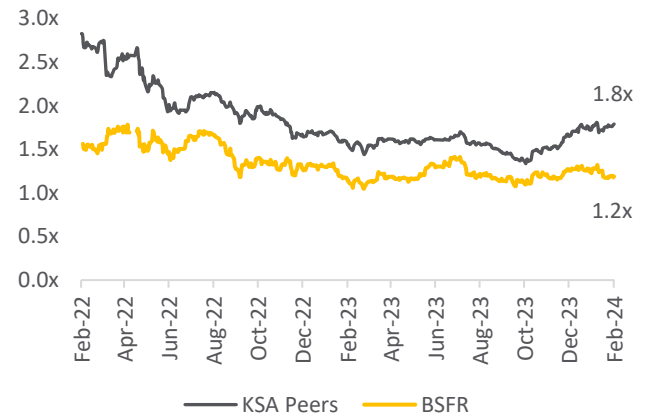
Source: Bloomberg, GIB Capital

Figure 22: Riyadh valuation trend (Blended 12m forward P/BV)



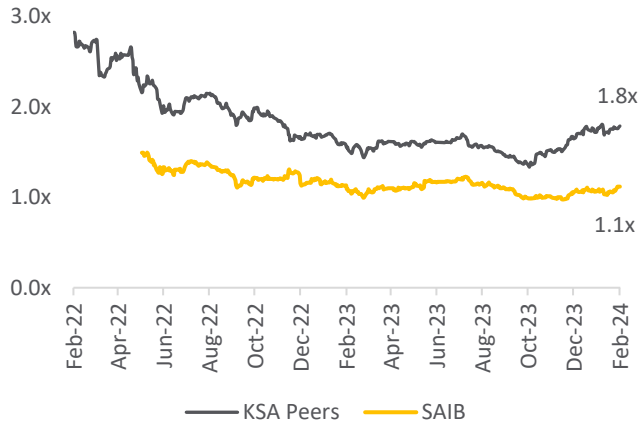
Source: Bloomberg, GIB Capital

Figure 23: BSFR valuation trend (Blended 12m forward P/BV)



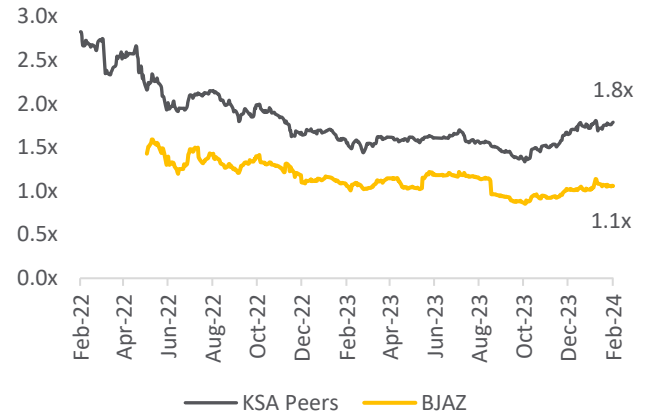
Source: Bloomberg, GIB Capital

Figure 24: SAIB valuation trend (Blended 12m forward P/BV)



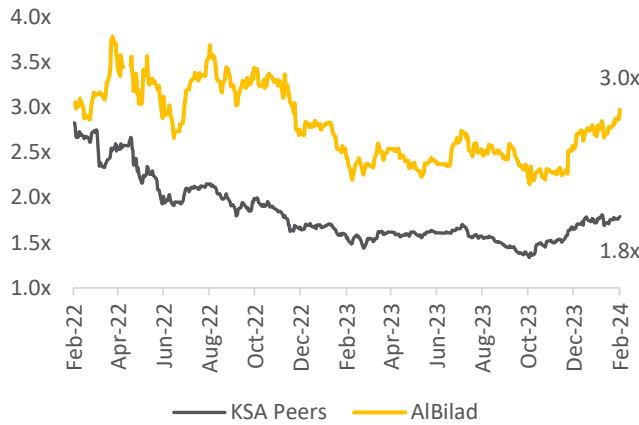
Source: Bloomberg, GIB Capital

Figure 25: BIAZ valuation trend (Blended 12m forward P/BV)



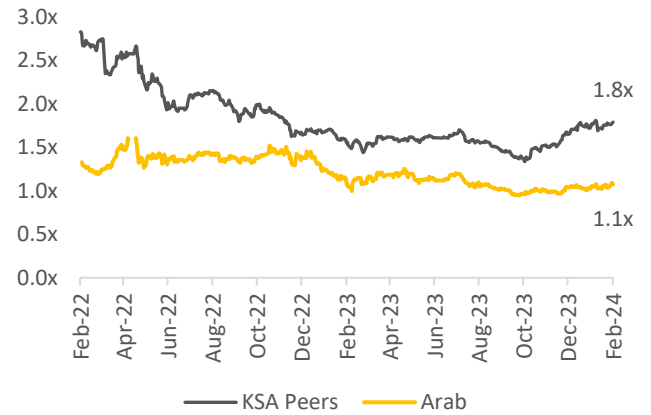
Source: Bloomberg, GIB Capital

Figure 26: AlBilad valuation trend (Blended 12m forward P/BV)



Source: Bloomberg, GIB Capital

Figure 27: Arab valuation trend (Blended 12m forward P/BV)



Source: Bloomberg, GIB Capital

## Appendix

**Annualized cost of funds:** We calculate annualized cost of funds by multiplying quarterly interest expense by four and divide it by the total deposits outstanding at the end of the quarter.  $\text{Cost of Fund (COF)} = (\text{quarterly interest expense} * 4) / \text{Total Deposits}$

**Annualized asset yield:** We calculate annualized yield by multiplying quarterly interest income by four and divide it by the sum of total loans and investments outstanding at the end of the quarter.  $\text{Asset Yield} = (\text{quarterly interest income} * 4) / (\text{Total Loans} + \text{Total Investments})$

**Annualized Net Interest Margin (NIM):** We calculate NIM by multiplying quarterly net interest income (interest income *less* interest expense) by four and divide it by the sum of total deposits and investments outstanding at the end of the quarter.  $\text{Net Interest Margin (NIM)} = (\text{quarterly net interest income} * 4) / (\text{Total Loans} + \text{Total Investments})$

**Cost to income ratio:** Opex before provisions for credit losses and other losses divided by total operating income



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