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Saudi National Bank



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Saudi National Bank (SNB) came into existence from 1st April 2021 following the merger of National Commercial Bank and Samba financial group. The merger has resulted in the creation of the third-largest bank in the GCC region in assets base after Qatar National Bank and First Abu Dhabi Bank.

The National Commercial Bank was established in 1953 and enjoyed the leadership position among Saudi Banks with a strong franchise in the corporate and retail banking segments. Samba Financial Group was established in 1955 under Citibank's name. In 1999, the institution was merged with United Saudi Bank. The need to create a stronger consolidated institution led to the merger between National Commercial Bank (NCB) and Samba financial group. SNB, the combined entity, is the largest institutional and specialized lender in Saudi Arabia.

Both NCB and Samba's asset base is primarily concentrated in Saudi Arabia. National Commercial Bank's revenues in 2020 were predominantly from Saudi Arabia, which accounted for 89% of the bank's total revenue during the year. The bank has sizeable presence in markets such as Turkey and Bahrain, which accounted for 7% and 3% of the bank's revenue in 2020 respectively. Samba Financial Group's revenue also stems predominantly from Saudi Arabia (more than 95%) as last disclosed in 2019.

Why do we like SNB?

Market leadership

SNB is the largest bank in Saudi Arabia based by banking assets and has a well-diversified presence in both corporate and retail segments

- » **#1** in Total Assets, Financing and Customer Deposits
- » **#2** in number of branches, ATMs and POS machines in KSA
- » **#1** in Corporate Banking Assets in KSA
- » **#2** in Retail Banking Assets in KSA

SNB held a 32.4% market share in total assets, 29.6% share in Net Loans and a 31.6% share in Customer Deposits among all listed domestic banks at the end of 2020. Being the largest bank in the country gives SNB an advantage in terms of cost of funding. With a larger customer base spanning across geographies, SNB would be able to benefit from scale and have opportunities to cross-sell a wide variety of products to existing customers.

Well-diversified portfolio

SNB's stream of revenues is well diversified between Retail, Corporate and Treasury segments. Revenues from Retail segment grew at a substantially higher pace than that of the corporate segment in 2020 due to the higher uptake of Mortgage loans, driven by the national housing program. Performance of the corporate segment was dented by the effect of COVID-19. The revenue share within various segments for 2020 based on consolidated financials of NCB and Samba was as follows:

- » Retail – **39.7%**
- » Treasury – **26.4%**
- » Corporate – **23.2%**
- » International Banking – **5.2%**
- » Capital Markets – **3.7%**
- » Investment Banking – **1.8%**

The recent merger between NCB and Samba Financial Group further consolidates the position of SNB as the leading corporate bank in KSA while also edging closer to Al Rajhi Bank in terms of retail presence. SNB's corporate assets as of 2020 consolidated financials are more than twice that of the second largest corporate bank (Riyadh Bank) in the country. In terms of Retail banking assets, SNB is second only to Al Rajhi Bank. Together, both banks have an aggregate market share of more than 60% of total retail banking assets among listed domestic banks. As SNB is well-diversified, it is better positioned to absorb macroeconomic or policy shocks that could be specific to different segments.

Fundamentals

SNB's fundamentals remain intact despite encountering operating challenges in recent years from the COVID-19 pandemic during 2020 and the Oil price slump in 2014-15. Post-merger, SNB is well capitalized and has a well-balanced risk profile. S&P has affirmed a long-term credit rating of 'A-' to the bank, which is on par with the Sovereign rating for Saudi Arabia. The aggregate revenues of NCB and Samba grew by 6.5% in 2020 compared to the previous year, which was higher than the industry average of 3.8%. In terms of profitability, SNB's net income grew at 1.7% in 2020 compared to 2019. CAGR of aggregate net income between 2015 and 2020 stood at 1.8% as Samba financial group's performance was a drag on the overall performance. However, it was still better than industry average of -3.6% during the period. Notably, Al Rajhi Bank's net income during the same period grew at 8.2% per annum. Growth in customer deposits during the past five years was better than industry average for NCB but not for Samba. On an aggregate level, SNB's customer deposits grew by 4.8% between 2015 and 2020, fairly in line with the industry average of 4.7%. Al Rajhi's customer deposits grew at a much more rapid pace of 8.4% during the same period as it was more retail-focused. The case was similar for credit growth, where the growth in SNB's net loans was in line with the industry average between 2015 and 2020. The asset quality of NCB remained intact despite high corporate exposure. NCB's Non-performing loans ratio stood at 1.72% in 2020, which was lower than 1.84% witnessed in 2019. The bank's overall NPL ratio reduced despite heavy corporate exposure. Al Rajhi Bank and Alinma Bank were the only banks with lesser NPL to total loan ratio for 2020 among Saudi Banks, with 1.07% and 1.31% respectively. Samba Financial Group's NPL to total loan ratio was a tad higher at 2.03% in 2020. Samba and NCB have been managed to stay efficient from a cost to income

perspective during the past five years. Samba Financial Group, Al Rajhi Bank and NCB were the top 3 banks in terms of 5-year average efficiency ratio¹ at 34.1%, 36.3% and 37.5% respectively in 2020. NCB and Samba are expected to cut costs further after the merger completion. Government of Saudi Arabia owns more than 50% of the bank's shares indirectly through its sovereign wealth fund (Public Investment Fund), Saudi Public Pension Agency, and the General Organisation for Social Insurance. The high level of government ownership provides more stability to the bank, brings in public sector deposits and increases its capacity to absorb macro shocks.

Shareholder wealth

NCB's annualized total shareholder return between 2014 and 2020 stood at 7.1%. During the same period, Samba Financial Group's annualized total return stood at 8.7%. Both banks have outperformed the broader Tadawul Index. However, among listed banks, Al Rajhi Bank and Riyadh Bank have outperformed NCB during the same period with annualized total returns of 11.6% and 9.5%. Both NCB and Samba Financial Group have a history of paying dividends consistently. The value of USD 1 invested in NCB and Samba at the end of 2013 would amount to USD 1.61 and USD 1.80 respectively at the end of 2020.

¹ $\text{Non-Interest Expense} / (\text{Total Revenue} - \text{Interest Expense})$



Key risks one should be mindful of

Economic conditions remain a key risk for all Saudi Arabia Banks. Due to the high dependence on oil, business cycles are highly reliant on their prices. When prices are down, the overall economy tends to grow at a sluggish pace, which could have a profound impact on the corporate sector. With SNB holding a large portion of its total assets in the corporate side, there would be a more pronounced effect on profitability and asset quality compared to banks that are more retail-focused if oil prices are lower. High government ownership carries the risk of the bank working predominantly for towards the government's goals and vision rather than the sole purpose of profit-making, which could affect the interests of minority shareholders. Samba's profitability witnessed a dip in 2018 and didn't return to levels earlier levels. NCB and Al Rajhi are the only Saudi banks to have an average ROE of more than 15% in the past five years. The merger of NCB with Samba could affect the profitability of the combined entity in the short term. As per the bank, cost and revenue synergies are expected to kick-in after the merger. However, there is always an inherent risk attached to large mergers where the expected synergies do not work out. Al Rajhi Bank has shown better organic growth in recent years due to its predominant retail focus.

Possible Future Scenarios

The merger between National Commercial Bank and Samba financial group to create a national champion is expected to boost NCB's corporate presence significantly with the combined entity (Saudi National Bank) being well capitalized and having a more balanced risk profile. Once market conditions rebound from the impact of COVID-19, better lending opportunities are expected to emerge and provide SNB the impetus to improve revenue generation. NCB expects significant cost and revenue synergies from the merger. As with any merger, there is a risk of the synergies not working out as expected. As there has been a consolidation wave in the banking sector due to the impact of COVID-19 on bank profitability, there is a risk of Al Rajhi Bank acquiring a more corporate focused bank to improve its scale and corporate presence. In that case, the entity could possibly pose a challenge to Saudi National Bank in terms of presence. In its absence, SNB being a bigger bank could possibly enjoy lower cost of funding and allocate more resources towards digitization, thereby consolidating its position as one of the leading banks in the GCC.



NCB Key Financials & Ratios

Income Statement (in SAR Millions)	2016	2017	2018	2019	2020
Net Interest Income	13,550	13,661	15,123	16,382	16,300
Loan Loss Provision	1,931	1,893	1,430	1,420	1,951
Non-Interest Income	6,021	5,767	4,845	5,179	6,437
Non-Interest Expense	-8,223	-7,571	-7,708	-7,223	-7,852
Net Income	9,317	9,802	9,594	11,401	11,440

Source: Refinitiv

Balance Sheet (in SAR Millions)	2016	2017	2018	2019	2020
Assets					
Gross Loans	259,521	256,035	272,488	289,651	355,500
Total Assets	442,657	444,792	452,177	507,264	599,446
Liabilities					
Interest Bearing Deposits	79,172	63,545	60,812	96,169	87,388
Total Equity	58,738	63,041	64,737	68,888	79,410
Total Liabilities & Shareholders' Equity	442,657	444,792	452,177	507,264	599,446

Source: Refinitiv

Key Ratios	2016	2017	2018	2019	2020
Efficiency Ratio (Cost to Income)	42.0%	39.0%	38.6%	33.5%	34.5%
Nonperforming Loans (% of Total Loans)	4.2%	4.2%	-	1.8%	1.7%
Tier 1 Risk-Adjusted Capital Ratio	16.9%	17.7%	-	18.0%	19.3%
Loans/Deposits (End of Period)	70.0%	76.0%	78.0%	75.0%	74.0%
Return on Assets	2.1%	2.2%	2.4%	2.7%	2.3%
Return on Common Equity	16.5%	16.1%	15.0%	17.1%	14.8%

Source: Refinitiv

Samba Financial Group Key Financials & Ratios

Income Statement (in SAR Millions)	2016	2017	2018	2019	2020
Net Interest Income	5,382	5,732	6,152	6,377	5,675
Loan Loss Provision	200	287	156	1,103	1,373
Non-Interest Income	2,562	2,331	2,216	2,453	3,949
Non-Interest Expense	-2,738	-2,752	-2,663	-3,107	-3,334
Net Income	5,003	5,021	3,051	3,984	4,201

Source: Refinitiv

Balance Sheet (in SAR Millions)	2016	2017	2018	2019	2020
Assets					
Gross Loans	127,106	119,659	116,319	144,695	159,997
Total Assets	231,489	227,546	229,938	259,528	296,945
Liabilities					
Interest Bearing Deposits	164,095	161,655	164,262	174,947	201,285
Total Equity	42,443	44,583	42,213	45,359	47,958
Total Liabilities & Shareholders' Equity	231,489	227,546	229,938	259,528	296,945

Source: Refinitiv

Key Ratios	2016	2017	2018	2019	2020
Efficiency Ratio (Cost to Income)	34.5%	34.1%	31.8%	35.2%	34.6%
Nonperforming Loans (% of Total Loans)	2.5%	2.9%	4.6%	-	2.0%
Tier 1 Risk-Adjusted Capital Ratio	21.8%	20.6%	22.1%	-	19.2%
Loans/Deposits (End of Period)	68.0%	67.0%	64.0%	72.0%	68.0%
Return on Assets	2.1%	2.2%	2.4%	1.9%	1.8%
Return on Equity	12.1%	11.5%	12.8%	10.6%	10.5%

Source: Refinitiv

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Serving businesses and institutions with reliable information and intelligence about Middle East and North Africa needed to catalyze growth, understand the larger environment economies, businesses and financial markets and provide customized, actionable solutions



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