



Saudi Arabia's capital city, Riyadh, which has been the centre of the country's economic success story

# HITTING NEW HEIGHTS

## *Banking*

*Loans are up, deposits are growing and profits are healthy in Saudi Arabia's banks. But with growth opportunities in Islamic finance and a low proportion of home ownership in the country, there are still many more lucrative areas for these institutions to tap. **Stephen Timewell** reports.*

UNLIKE MANY BANKS AROUND THE WORLD, Saudi Arabian banks remain in a healthy financial condition, with strong economic fundamentals, robust growth in most areas and a high likelihood that their recent impressive performance will continue into 2012.

Saudi Arabia's \$130bn stimulus package in 2011 had a significant impact on the banking sector, bringing not only a major increase in customer deposits but also strong growth in lending. With provisions significantly lower in 2011 compared with the previous two years, banks produced strong profit growth in 2011 and very healthy performances.

The Saudi Arabian Monetary Agency (SAMA) showed incredible growth in all banking indicators with the aggregate net income of the banking system up 18.5% to SR32bn (\$8.5bn) in 2011, compared with just 8% net income growth in 2010. The results in 2011 showed that the Saudi banks had not only overcome the problems of the 2008

global financial crisis but also the massive defaults relating to the family dispute between Ahmad Hamad Algosaibi and Brothers and the Saad Group, with banks expanding their businesses in many new areas.

### LENDING UP

After weak lending growth in 2009 and 2010, government initiatives in 2011 led to a revival of lending, with SAMA reporting a 11.3% growth in lending, which added up to SR865bn of loans in 2011. Bankers believe that the country's expansionary 2012 budget instils confidence in its positive credit outlook. In its latest report, closed joint stock company Jadwa Investment says that bank lending to the private sector in Saudi Arabia posted its strongest gain in more than two years in January 2012, with new quarterly data showing that lending to individual consumers rose at a much faster pace than lending to companies in 2011.

Deposits have also seen significant growth. SAMA notes that customer deposits rose 11.4% in 2011 to SR1176bn. Jadwa Investment says that bank deposits rose for the fifth consecutive month in January 2012, with demand deposits accounting for the entire rise and accounting for 60% of total bank deposits. The company also says that bank excess deposits at SAMA remained very high, giving scope for further lending growth.

The Saudi statistics are not just a mirage, as the country's banks are showing solid fundamentals and performances. SAMA notes that the aggregate average Basel capital ratio in the country's banks is a high 17.4%, up from 17.1% in 2010. Key SAMA regulator Fahd Ibrahim Al Mufarrij says that all the bank capital is pure capital and that Saudi Arabia already meets the 2019 Basel III capital adequacy requirements. He adds that, given the banks had credit growth in excess of 10.5% in 2011, the country's lenders are likely to achieve credit growth in excess of 15% in 2012.

The banks continue to show improved financial performances, with average aggregate return on equity reaching a healthy 14.5%, up from 13.2% in 2010, and average aggregate return on assets rising to 2% from 1.9% in 2010. These figures put Saudi performance statistics well ahead of the banking sectors of most other countries in the world.

### BIG PLAYERS

Examining individual banks in Saudi Arabia, Al Rajhi Bank, one of the top four banks in the country, posted the largest net income in the fourth quarter of 2011, with profits of

SR1.9bn, 13% up on the fourth quarter of 2010. Deposits picked up in the final quarter and net loans expanded by 16% in 2011, far greater than the sector average of 11.3%.

Al Rajhi Bank, acknowledged as the largest Islamic banking group in the world, made a major structural change in March 2012. It is understood that long-standing chief executive Abdullah Sulaiman Al Rajhi decided to retire as CEO of the bank to pursue the family group's broad business interests. No further details were available as to the bank's future strategy.

Of the other major banks, Samba Financial Group had a strong final quarter of 2011, with profits up 4.9% on the final quarter of 2010 to reach SR945m. As with other banks, Samba's provisioning was down at SR70m in the fourth quarter of 2011 and its lending was up by almost 12% in 2011, and is expected to grow by 12% in 2012, fuelled by a buoyant project finance market and reasonable levels of corporate investment. Samba believes that lending growth should then gather pace in 2013 to reach about 16% as activity increases in Saudi Arabia's non-oil economy, especially housing.

Another big bank, Riyadh Bank, posted net profits of SR778m in the final quarter of 2011, a modest 1.8% up on the previous year. Talal Al-Qudaibi, president and CEO of the bank, was pleased with the performance in 2011, with healthy growth in lending of almost 11% and demand deposits up by 20%. Mr Al-Qudaibi is confident that both consumer and corporate lending will continue to grow in 2012, and with a lot of liquidity in the system, he believes growth could reach 12%. The boost in fourth-quarter income is attributed to the rise in the bank's gross operating income with operating income rising 11.2% to SR1.65m compared to a year earlier.

Mr Al-Qudaibi is proud of Riyadh Bank's strong capital adequacy ratio of 17.1% in 2011 and also emphasises the bank's market strength in trade finance, where Riyadh is Saudi Arabia's number one provider with a 19.9% market share. He explains that at the end of the third quarter of 2011, Riyadh's total trade finance, including letters of credit, letters of guarantee and acceptances, reached SR71.8bn, well ahead of National Commercial Bank (NCB) and Saudi British Bank.

Riyadh Bank is also keen to show its strength in corporate banking, where it maintained top position in the country at the end of the third quarter of 2011, with total corporate banking assets of SR87bn, accounting for 15.4% market share and well ahead of Banque Saudi Fransi and NCB. >>

### SAUDI BANKING SYSTEM STATISTICS, DECEMBER 2011

Saudi riyal (bn)		
	2011	2010
Total assets	1548	1411
Loans and advances	865	777
Investments	354	345
Customer deposits	1176	1056
Capital and reserve	221	204
Net Income	32	27
%		
Basel capital ratio (average)	17.4	17.1
Return on equity	14.5	13.2
Return on assets	2.0	1.9

Source: Saudi Arabian Monetary Agency

Mr Al-Qudaibi also says that both Fitch and Standard & Poor's affirmed Riyadh's A+ rating, the highest rating awarded to banks in Saudi Arabia, emphasising the bank's strong financial position. He says that Riyadh, along with other banks, was increasingly involved in the emerging mortgage market. Although Saudi Arabia's mortgage law has been under discussion for many years and is not yet finalised, banks are proceeding with mortgages and Riyadh has built up a SR5bn book which is expected to expand further in years to come.

While bankers have concerns over legal rulings on eviction if mortgages go sour, the risks are seen as minimal since the bank retains title to the property and is generally very selective in who it lends to. The eviction issue, however, remains to be resolved.

#### OPENING DOORS

Mortgages look set to be a major growth area in Saudi Arabia and, according to a recent NCB report, the country's government is targeting 80% home ownership by 2024. Progress in the country has been slow, however, and mortgage loans as a percentage of gross domestic only represent 2%, compared to 17% in the United Arab Emirates.

According to the NCB report: "Most banks are now viewing mortgages as a priority area. Loans are typically capped at SR3m and have tenors of up to 30 years. Overall indebtedness levels tend to be capped at 60% of net income, with a 50% ceiling at the mortgage product level. By contrast, SAMA's consumer credit regulations cap individual personal finance loans at 33% of income."



**MOST BANKS ARE NOW VIEWING MORTGAGES AS A PRIORITY AREA. LOANS ARE TYPICALLY CAPPED AT SR3M AND HAVE TENORS OF UP TO 30 YEARS** *NCB report*

Once the long-awaited mortgage law is finalised, the mortgage market should take off.

Another important development in Saudi banking is the growth in female employees across the sector. Mr Al-Qutaibi stresses that Riyadh Bank has increased its proportion of women in its work force to 20% with 1000 women working in all areas of the bank. He explains that this is a big increase on the 7% share the bank had in 2005. While Riyadh is understood to have more women employees than any other bank, all banks are expanding their employment of women as more and more graduates emerge and women's banking gains greater traction.

There are also reports that the banking regulator SAMA plans to introduce a female section into its operations. With women now able to receive unemployment benefit, significant changes with regards to gender issues are taking place in the country.

#### NEW GROWTH STORIES

Many banks showed strong profit growth in 2011, and there are widespread expectations that this trend will continue in 2012. Saudi British Bank recorded a net profit of SR2.89bn in 2011, a 53.4% increase on 2010 with healthy growth in customer deposits and loans of 11.5% and 14.3%, respectively. Medium-sized Arab National Bank produced net profits for 2011 of SR2.17bn, a 13.6% increase on 2010, while smaller Saudi Hollandi Bank had a successful year with net income up 30.6% to SR1.03bn.

Hollandi's managing director, Bernd van Linder, emphasises the importance of >>

#### SAUDI ARABIA'S BANKS: TOTAL TRADE FINANCE\*

Bank	2008			2009				2010				Third quarter 2011			
	Amount	Market share %	Rank	Amount	Market share %	Rank	Movement	Amount	Market share %	Rank	Movement	Amount	Market share %	Rank	Movement
Riyadh Bank	48,783,399	18%	2	56,934,644	19.8%	1	8,151,245	64,588,411	20%	1	7,653,767	71,752,229	19.9%	1	7,163,818
Nat Comm Bank	49,890,519	18%	1	52,913,520	18.4%	2	3,023,001	62,665,043	19%	2	9,751,523	65,997,174	18.3%	2	3,332,131
SABB	31,875,303	12%	5	37,950,567	13.2%	4	6,075,264	45,582,410	14%	4	7,631,843	55,944,001	15.5%	3	10,361,591
B'que Saudi Fransi	45,524,974	17%	3	48,173,495	16.8%	3	2,648,521	50,212,206	15%	3	2,038,711	53,929,477	15.0%	4	3,717,271
Samba	35,811,148	13%	4	32,298,865	11.2%	5	-3,512,283	33,430,173	10%	5	1,131,308	36,423,024	10.1%	5	2,992,851
Arab National Bank	21,408,267	8%	6	20,879,944	7.3%	6	-528,323	23,444,470	7%	6	2,564,526	27,839,512	7.7%	6	4,395,042
Saudi Hollandi Bk	17,179,588	6%	7	15,200,973	5.3%	7	-1,978,615	17,282,646	5%	7	2,081,673	19,221,935	5.3%	7	1,939,289
Rajhi	12,602,582	5%	8	12,419,246	4.3%	8	-183,336	10,997,324	3%	8	-1,421,922	9,630,381	2.7%	8	-1,366,943
Imma	-	0%	12	1,105,442	0.4%	12	1,105,442	5,002,911	2%	10	3,897,469	7,751,662	2.2%	9	2,748,751
Saudi Inv. Bank	5,064,788	2%	9	4,300,664	1.5%	9	-764,124	5,467,261	2%	9	1,166,597	6,011,235	1.7%	10	543,974
Jazera	3,011,193	1%	10	3,172,433	1.1%	10	161,240	2,931,604	1%	11	-240,829	3,409,210	0.9%	11	477,606
Bilad	1,650,319	1%	11	2,230,505	0.8%	11	580,186	2,673,506	1%	12	443,001	2,588,600	0.7%	12	-84,906
<b>Total</b>	<b>272,802,080</b>	<b>100%</b>		<b>287,580,298</b>	<b>100%</b>		<b>14,778,218</b>	<b>324,277,965</b>	<b>100%</b>		<b>36,697,667</b>	<b>360,498,440</b>	<b>100%</b>		<b>36,220,475</b>

\*Includes letters of credit, letters of guarantee and acceptances  
Source: City of London's Global Financial Centre Index

## SAUDI ARABIA'S BANKS: CORPORATE BANKING – NET INCOME (AFTER PROVISION)

Bank	2008			2009					2010					Third quarter 2011				
	Amount	Market share %	Rank	Amount	Market share %	Rank	Movement	Growth % 2008/09	Amount	Market share %	Rank	Movement	Growth % 2009/10	Amount	Market share %	Rank	Movement	Growth % 2010/11
Riyad Bank	1,844,234	14%	1	2,055,697	26.7%	1	211,463	11.5%	1,665,169	19%	1	-390,528	(19%)	1,754,939	19.2%	1	89,770	5.4%
B'que Saudi Fransi	1,421,562	11%	6	1,295,632	16.8%	3	-125,930	(8.9%)	1,584,012	18%	2	288,380	22%	1,387,601	15.2%	2	-196,411	(12.4%)
Samba	1,830,434	14%	3	1,737,818	22.6%	2	-92,616	(5.1%)	1,572,891	18%	3	-164,927	(9%)	1,377,911	15.1%	3	-194,980	(12.4%)
SAAB	1,495,343	12%	5	805,988	10.5%	5	-689,355	(46.1%)	1,128,978	13%	4	322,990	40%	1,036,530	11.3%	4	-92,448	(8.2%)
Rajhi	1,760,613	14%	4	913,843	11.9%	4	-846,770	(48.1%)	957,905	11%	5	44,062	5%	898,325	9.8%	5	-59,580	(6.2%)
Nat Comm Bank	1,838,009	14%	2	218,661	2.8%	8	-1,619,348	(88.1%)	708,816	8%	6	490,155	224%	626,960	6.9%	6	-81,856	(11.5%)
Saudi Hollandi Bk	857,597	7%	8	-175,565	(2.3%)	12	-1,033,162	(120.5%)	544,993	6%	7	720,558	(410%)	622,741	6.8%	7	77,748	14.3%
Arab National Bank	904,054	7%	7	468,937	6.1%	6	-435,117	(48.1%)	104,249	1%	9	-364,688	(78%)	617,488	6.8%	8	513,239	492.3%
Inma	-	0%	12	71,799	0.9%	9	71,799	-	307,284	4%	8	235,485	328%	357,764	3.9%	9	50,480	16.4%
Saudi Inv. Bank	531,369	4%	9	355,017	4.6%	7	-176,352	(33.2%)	-89,081	(1%)	12	-444,098	(125%)	227,164	2.5%	10	316,245	355.0%
Jazera	262,295	2%	10	-8,421	(0.1%)	10	-270,716	(103.2%)	67,359	1%	10	75,780	900%	173,128	1.9%	11	105,769	157.0%
Bilad	138,916	1%	11	-47,969	(0.6%)	11	-186,885	(134.5%)	30,917	0%	11	78,886	164%	58,947	0.6%	12	28,030	90.7%
<b>Total</b>	<b>12,884,426</b>	<b>100%</b>		<b>7,691,437</b>	<b>100%</b>			<b>-5,192,989</b>	<b>(40.3%)</b>	<b>8,583,492</b>	<b>100%</b>		<b>892,055</b>	<b>11.60%</b>	<b>9,139,498</b>	<b>100%</b>		<b>556,006</b>

6.5%

## SAUDI ARABIA'S BANKS: CORPORATE BANKING – ASSETS

Bank	2008			2009					2010					Third quarter 2011				
	Amount	Market share %	Rank	Amount	Market share %	Rank	Movement	Growth % 2008/09	Amount	Market share %	Rank	Movement	Growth % 2009/10	Amount	Market share %	Rank	Movement	Growth % 2010/11
Riyad Bank	82,011,291	15%	1	89,797,956	17.2%	1	7,786,665	9.5%	86,364,273	16%	1	-3,433,683	(4%)	87,823,269	15.4%	1	1,458,996	1.7%
B'que Saudi Fransi	74,196,505	14%	3	70,625,354	13.5%	2	-3,571,151	(4.8%)	71,821,358	14%	3	1,196,004	1.7%	79,703,753	14.0%	2	7,882,395	11.0%
Nat Comm Bank	63,193,930	12%	4	66,018,675	12.6%	3	2,824,745	4.5%	76,063,835	14%	2	10,045,160	15.2%	75,626,591	13.3%	3	-437,244	(1%)
Samba	78,899,334	15%	2	65,694,330	12.6%	4	-13,205,004	(16.7%)	60,324,118	11%	4	-5,370,212	(8%)	69,507,118	12.2%	4	9,183,000	15.2%
SABB	58,450,117	11%	5	57,326,634	11.0%	5	-1,123,483	(1.9%)	55,952,908	11%	5	-1,373,726	(2%)	63,376,230	11.1%	5	7,423,322	13.3%
Arab National Bank	52,845,677	10%	7	45,724,514	8.7%	7	-7,121,163	(13.5%)	45,635,351	9%	7	-89,163	(0%)	49,257,709	8.6%	6	3,622,358	7.9%
Rajhi	53,589,887	10%	6	50,978,976	9.7%	6	-2,610,911	(4.9%)	47,568,053	9%	6	-3,410,923	(7%)	49,020,131	8.6%	7	1,452,078	3.1%
Saudi Hollandi Bk	35,523,172	7%	8	33,881,231	6.5%	8	-1,641,941	(4.6%)	30,817,161	6%	8	-3,064,070	(9%)	31,663,280	5.6%	8	846,119	2.7%
Saudi Inv. Bank	19,772,432	4%	9	20,510,618	3.9%	9	738,186	3.7%	21,134,601	4%	9	623,983	3%	21,272,126	3.7%	9	137,525	0.7%
Inma	-	0%	12	1,054,571	0.2%	12	1,054,571	-	13,795,070	3%	11	12,740,499	1208%	20,022,196	3.5%	10	6,227,126	45.1%
Jazera	13,119,473	2%	10	13,534,044	2.6%	10	414,571	3.2%	13,986,811	3%	10	452,767	3%	14,587,074	2.6%	11	600,263	4.3%
Bilad	7,137,318	1%	11	8,291,522	1.6%	11	1,154,204	16.2%	8,047,032	2%	12	-244,490	(3%)	8,151,027	1.4%	12	103,995	1.3%
<b>Total</b>	<b>538,739,136</b>	<b>100%</b>		<b>523,438,425</b>	<b>100%</b>		<b>-15,300,711</b>	<b>(2.8%)</b>	<b>531,510,571</b>	<b>100%</b>		<b>8,072,146</b>	<b>1.54%</b>	<b>570,010,504</b>	<b>100%</b>		<b>38,499,933</b>	<b>7.2%</b>

Source: City of London's Global Financial Centre Index

## SAUDI ARABIA'S BANKS: CORPORATE BANKING – LIABILITY

Bank	2008			2009					2010					Third quarter 2011				
	Amount	Market share %	Rank	Amount	Market share %	Rank	Movement	Growth % 2008/09	Amount	Market share %	Rank	Movement	Growth % 2009/10	Amount	Market share %	Rank	Movement	Growth % 2010/11
Riyad Bank	79,578,668	17%	2	94,341,932	20.5%	2	14,763,264	18.6%	87,774,172	18%	1	-6,567,760	(7%)	90,570,303	18.0%	1	2,796,131	3%
Nat Comm Bank	43,074,929	9%	6	50,475,600	11.0%	4	7,400,671	17.2%	71,245,236	15%	3	20,769,636	41%	75,550,367	15.0%	2	4,305,131	6%
Samba	86,078,545	19%	1	94,865,033	20.6%	1	8,786,488	10.2%	74,175,619	15%	2	-20,689,414	(22%)	74,566,229	14.8%	3	390,610	1%
B'que Saudi Fransi	52,165,161	11%	4	52,530,684	11.4%	3	365,523	0.7%	53,587,463	11%	4	1,056,779	2%	54,516,269	10.8%	4	928,806	2%
SABB	41,808,929	9%	7	39,664,579	8.6%	6	-2,144,350	(5%)	47,781,713	10%	5	8,117,134	20%	47,541,826	9.5%	5	-239,887	(1%)
Rajhi	51,714,002	11%	5	33,941,558	7.4%	7	-17,772,444	(34%)	42,679,043	9%	7	8,737,485	26%	46,381,318	9.2%	6	3,702,275	9%
Arab National Bank	58,070,342	13%	3	42,866,253	9.3%	5	-15,204,089	(26%)	45,014,061	9%	6	2,147,808	5%	42,146,627	8.4%	7	-2,867,434	(6%)
Saudi Inv. Bank	22,789,555	5%	8	22,762,292	5.0%	9	-27,263	(0%)	26,660,874	6%	8	3,898,582	17%	23,751,102	4.7%	8	-2,909,772	(11%)
Saudi Hollandi Bk	19,225,338	4%	9	23,271,194	5.1%	8	4,051,856	21.1%	21,332,976	4%	9	-1,944,218	(8%)	22,059,073	4.4%	9	726,097	3%
Jazera	2,999,789	1%	10	1,997,904	0.4%	11	-1,001,885	(33%)	3,151,604	1%	11	1,153,700	58%	16,239,895	3.2%	10	13,088,291	415%
Inma	-	0%	12	506,812	0.1%	12	506,812	-	1,653,965	0%	12	1,147,153	226%	4,673,220	0.9%	11	3,019,255	183%
Bilad	2,119,233	0%	11	2,296,542	0.5%	10	177,309	8.4%	5,461,089	1%	10	3,164,547	138%	4,640,466	0.9%	12	-820,623	(15%)
<b>Total</b>	<b>459,624,491</b>	<b>100%</b>		<b>459,526,383</b>	<b>100%</b>		<b>-98,108</b>	<b>(0.0%)</b>	<b>480,517,815</b>	<b>100%</b>		<b>20,991,432</b>	<b>4.57%</b>	<b>502,636,695</b>	<b>100%</b>		<b>22,118,880</b>	<b>4.6%</b>


Source: City of London's Global Financial Centre Index

creating jobs and says that his bank's focus is on financing small and medium-sized enterprises as well as expanding its retail presence beyond its current 45 branches.

In Saudi Arabia's highly competitive banking sector, an important new development is the growth of the newer, smaller banks, which are having a big impact on the market and are the fastest growing banks in the sector. Alinma Bank, which was established three years ago with substantial capital of SR15bn, has made giant strides in both the corporate and retail sectors. After its first full operational year in 2010, in which it produced net income of SR15m, Alinma has expanded dramatically in 2011 producing net income of SR431m.

Chief executive of Alinma, Abdulmohsen Al Fares, says that the bank opened 20 branches in 2011 taking its network to 72 branches and 430 ATMs. He also says that his bank was one of the first to open a banking facility for blind people, and says that he sees big potential in housing with the percentage of people owning their own homes in the country currently very low at 37%. Mr Al Fares adds that Alinma's revenues in 2011 more than doubled to SR1.39bn from SR662m in 2010. He is also keen to stress that Alinma's female workforce is growing – the bank currently employs 140 women – and it also has 30 female-only branches.

Another important development for Alinma came in March 2012 with the launch of a 30% initial public offering (IPO) by Alinma Investment, a wholly owned subsidiary of Alinma Bank. The IPO for Tokio Marine Saudi Arabia (under formation) involves share capital of the company of SR200m, 70% of the shares which are held by Alinma Bank, Tokio Marine and Nichido Fire insurance, Sabic Industrial Investments, Saudi Establishment for Trade and Distribution, Sheikh Abdullah Ben Mohammed ben Abdul Aziz Al Romaizan and Geant Saudi, with the remaining 30% offered for public subscription at SR10 per share. The IPO represents an important new move in co-operative insurance in Saudi Arabia and will provide fully sharia-compliant products.

Looking ahead, bankers appear to be remarkably bullish about how they see the prospects for the Saudi Arabian banking sector. Another good year is expected in 2012, and the emergence of sukuk in the country with the highly successful SR15bn General Authority of Civil Aviation issue in January 2012 provides yet more justification for the confident mood that prevails throughout the country's banking sector. 




### CHANGE AT THE TOP AT SAMA

On December 13, 2011, the well-respected banker Dr Fahad Almubarak took over as governor of the Saudi Arabian Monetary Agency (SAMA), the country's prime banking regulator. Mr Almubarak replaced Dr Mohammad Al-Jasser, who had been governor since February 2009 and who had previously been vice-governor for 15 years. Mr Al-Jasser has become Saudi Arabia's minister of national economy and planning.

Mr Almubarak has been a well-known member of Saudi Arabia's financial community for many years and his transition to SAMA governor has been said to be well received and smooth.

Previously, Mr Almubarak has worked in executive management positions providing investment management and corporate finance advisory services during most of his career. Recently he was chairman and managing director of Morgan



MR ALMUBARAK'S  
TRANSITION TO  
SAMA GOVERNOR  
HAS BEEN WELL  
RECEIVED AND  
SMOOTH 

Stanley Saudi Arabia

He has also served as a member of the Saudi Arabian Consultative Council (the Shoura Council) and was vice-chairman of its economic and energy committee. He was the first chairman of the Saudi stock exchange (Tadawul) and was a member of the negotiating team which coordinated the partial privatisation of international oil companies in the Saudi Arabian natural gas industry. He has been on the board of several public and private companies.

Mr Almubarak started his career as assistant professor at King Fahd University of Petroleum and Minerals. He holds a doctorate in philosophy, a degree in business administration, a masters in engineering management and a masters in accountancy and taxation from the University of Houston, and a masters degree in business administration and a bachelor of science degree in civil engineering from SMU University, Dallas.