Journal of Finance and Investment Analysis, vol. 2, no.4, 2013, 83-95
ISSN: 2241-0998 (print version), 2241-0996(online)
Scienpress Ltd, 2013

A Comparison of Financial Performance between Samba and AlRajhi Banks by Using DuPont Model

Ahmad Aref Almazari[1]

Abstract

This study basically aims at comparing the financial performance of Samba and AlRajhi banks from 2006-2011 by using the DuPont model of financial analysis. Samba and AlRajhi are considered the largest banks by market value in Saudi Arabia. The DuPont model is derived from an analysis of return on equity that divide performance into three parts: Operating efficiency ratio which is also known as financial performance ratio is measured by profit margin, asset use efficiency which determine if assets was utilized efficiently which is measured by total asset turnover, and financial leverage which shows to what extent the bank relies on debts which is measured by the equity multiplier. The results of the study discover that, the financial performance of the two banks as regards to net profit margin is relatively steady and reflects minimal volatility. Asset utilization has declined for both banks over the years under study. Equity multiplier was higher for Samba than AlRajhi, but volatility was almost low for both banks. Also, AlRajhi had less financial leverage to fund its assets. Furthermore, return on equity has sloped down for both banks over the period of this study.

JEL classification numbers: G21, G24
Keywords: DuPont analysis, Net profit margin, Total asset turnover, Equity multiplier, Return on equity.

1 Introduction

There are a numerous models used in business to analyze performance, one of the most prominent is the DuPont model. In this study performance is divided into three parts: Operating efficiency ratio which is also known as financial performance ratio is measured by profit margin, asset use efficiency which determine if assets was utilized efficiently

[1]Dr Ahmad Aref Almazari, Associate Professor of Finance and Economics. Department of Administrative Sciences-Finance Section, King Saud University-RCC. P.O.Box 28095, Riyadh 11437, Kingdom of Saudi Arabia.

Article Info: *Received :* July 26, 2013. *Revised :* August 28, 2013.
Published online : November 30, 2013

which is measured by total asset turnover, and financial leverage which shows to what extent the bank relies on debts which is measured by the equity multiplier. Net profit margin ratio measures to what extent a company can effectively control costs. The higher the net profit margin is, the more effective the company is at converting revenue into actual profit. The asset utilization ratio measures the bank management ability to make the best utilization of it is assets to generate profits. Financial leverage ratio is measured by equity multiplier. The equity multiplier is defined as total assets divided by stockholders equity, it show how a company's uses it is debts to finance its assets. Return on equity (ROE) is also very important measure of profitability which is calculated by dividing earnings after taxes on stockholders equity. Return on equity show how much a company can gain profits for it is shareholders. The higher the firm's return on equity is, the better is performance.

The present study compares the financial performance of SAMBA and AlRajhi banks which are the largest two Saudi banks by market value. These banks are operating in a very competitive environment with large amount of investments. The main objective of this paper is to find out the ratios of net profit margin, total asset turnover, equity multiplier and return on equity during 2006-2011.

In addition, bankers, decision makers and researchers can by using the same model to determine and assess the value of these banks and estimate the expected value of future cash flows. Many studies have been carried out in the literature on financial performance, but financial analysis on Saudi banks is limited, so this study can be a source of help to different groups such as; bankers, academicians, and the stockholders.

The paper is divided into sections. Section 1 proposes the main objectives and importance of study. Section 2 explore the related literature review. Section 3 offers a concise concept on SAMBA and AlRajhi banks. A financial analysis model for financial institutions is displayed in section 4. Section 5 discussing the financial analysis of SAMBA and AlRajhi banks. The remainder of the paper contains the summary and conclusion.

2 Literature Review

Soliman (2008) found out that, Du Pont analysis, is one of the tools of financial statement analysis which divide return on net operating assets into two components: profit margin and asset turnover. These two financial ratios measure different objects and have different properties. Previous research discovered that a positive change in asset turnover is correlated to future changes in earnings.

Mihaela, et al. (2010). studied the most profitable top 20 firms over the world in 2009 – through Du Pont Analysis model, but they discovered that they are not the most attractive ones for investors. They found out that firms does not preserve their ranks when indicators or ratios such as ROA (return on assets), ROE (return on equity) or ROS (return on sales) are taken into consideration

Carl, et al. (2011) suggested a model which can be used to analyze the financial position of a bank based on the DuPont model of financial analysis used by Saunders (2000) and applied by Collier, et al., (2010). Return on equity of the bank is disaggregated into three parts: 1) net profit margin, 2) total asset turnover, and 3) the equity multiplier due to leverage. The DuPont model was used to measure the performance of Bank Al Bilad. From analysis of the ratios, we are able to deduce that Bank Al Bilad has relied on debt to a higher degree each year to exhibit its return on equity figures, indicating a lower percentage of return on equity being derived from sales activities, or income from banking operations, and profit margin. This is a not an abnormal symptom for a bank that has endured relatively few seasons. However, it should be noted that indications to the contrary would be a good sign, if not ideal. It is anticipated, given the conditions of the region's developing capital market and its proximity to the lucrative oil industry and profiting governments that Bank Al Bilad will recover from the inconveniences evidenced in its most recent financial statements.

In the adjusted DuPont method, ROE will be still remained as the dominate factor but with some necessary adjustments. ROE clearly demonstrates enterprise's efficiency in financing, investing, operating and capital management (Johansson 1998; Nissim& Penman 2001; Susan 2004; Milbourn, Haight 2005), so it serves as the most important indicator of how to maximize profitability and stockholder's wealth.

3 Overview on Samba Financial Group and AlRajhi Banks of Saudi Arabia

Samba Financial Group (Samba) is a joint-stock company incorporated in the Kingdom of Saudi Arabia. Samba was established in 1980. This bank is considered as the second-largest bank by market value in Saudi Arabia, it is widely spreaded internally and externally. It has 66 branches in the country and other branches in Europe, the Middle East, Dubai and Pakistan. Samba Financial Group provides various banking products and related services in the Saudi market. It offers individual customer time deposits, credit cards, retail investment products, and consumer loans, as well as current, call, and savings accounts. The company also offers Islamic banking products, as well as manages real estate projects. As of 31 March 2011, it was the third-largest bank in Saudi Arabia in terms of assets and total deposits and the fourth-largest in terms of total loans, with market shares of 13%, 13% and 8% respectively. Company Profile (2011).

Al Rajhi Bank is a joint stock company which is based in Saudi Arabia as an investment Corp. It is engaged in providing investment services in conformity with the Islamic Sharia principles. The bank was established in 1957, it is considered as one of the largest Islamic banks in the world, it has 500 branches spreaded over the world. The Bank is mainly engaged in these businesses: The retail transactions which deal with individual customer deposits, credit facilities, customer debit, current accounts (overdrafts), fees from banking services and remittance business; The Treasury business which includes treasury services, murabah with the Saudi Arabian Monetary Agency (SAMA), and international mutajara portfolio, and the Investment services and brokerage deals which covers investments of individuals and corporate in mutual funds, local and international share trading services and investment portfolios. Company Profile (2012).

4 A Financial Analysis Model for Financial Institutions

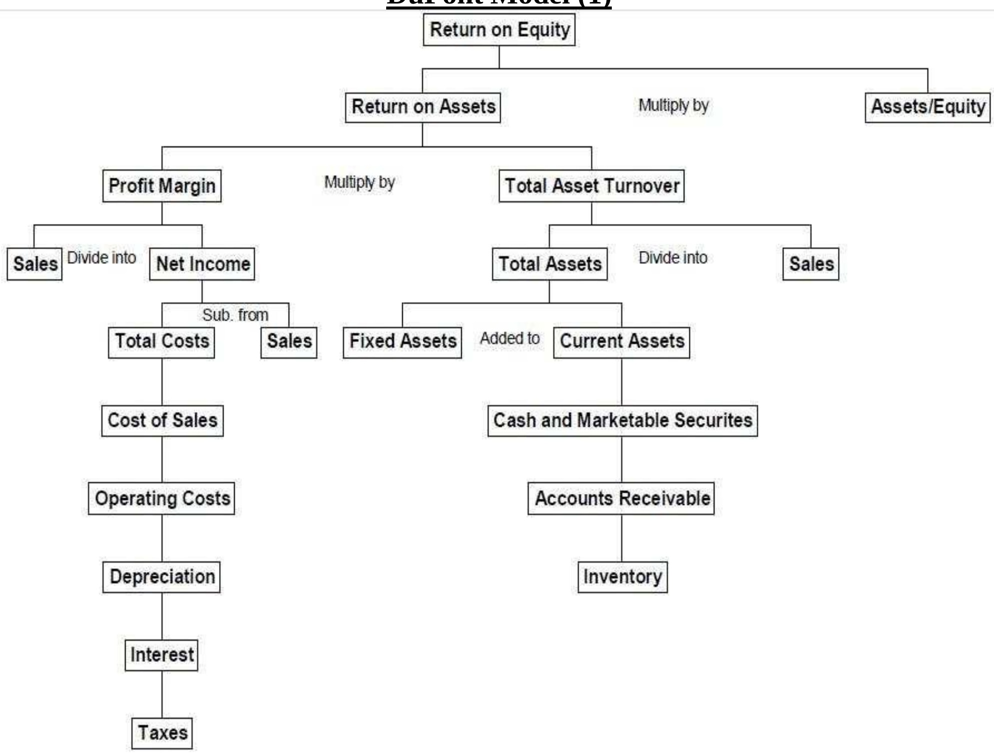
DuPont model of financial analysis is used by Saunders in (2000) and applied in Collier, et al., (2010), the DuPont model for financial analysis is one based on return on equity. According to the formula, the three elements of return on equity are net profit margin, total asset turnover, and the equity multiplier. Net profit margin alludes to a company's

profitability in regards to their ability to control costs. A more profitable company with more control over costs would exhibit a profit margin higher than competitors. Total Asset Turnover is a measure of a company's efficiency in using assets to generate sales. The higher that this ratio is the better. The equity multiplier is a measure of leverage. A higher equity multiplier ratio shows that an institution is relying more heavily on debt financing to obtain funds. As implied, these ratios can be useful tools in comparing a company to its competitors or overall industry. Return on equity, as computed from the other three ratios, is a measure of profitability, suggesting how much profit is being generated with investors' money. Through use of these ratios, authors will be able to construct pro forma financial statements.
Return on equity is calculated by multiplying return on assets by the equity multiplier. Return on assets is calculated by multiplying net profit margin by total asset turnover:

ROE = (ROA)*(EM)
ROA = (NPM)*(TAT)
ROE = (NPM)*(TAT)*(EM)

where;
ROE = Return on Equity
ROA = Return on Assets
EM = Equity Multiplier
NPM = Net Profit Margin
TAT = Total Asset Turnover

DuPont Model (1)



Net profit margin is calculated as net profit (or loss) divided by total revenue. Total asset turnover is calculated as total revenue divided by total assets. The equity multiplier is calculated as total assets divided by total stockholders' equity:

NPM = (NI) / (TR)
TAT = (TR) / (TA)
EM = (TA) / (TSE)

Where;
NPM = Net Profit Margin
NI = Net Income
TR = Total Revenue
TAT = Total Asset Turnover
TA = Total Assets
EM = Equity Multiplier
TSE = Total Stockholders' Equity

5 Financial Analysis of SAMBA and AlRajhi Banks

5.1 Balance Sheet Items

Table 1 shows the financial statements of SAMBA and AlRajihi, balance sheet and income statement for the years 2006 to 2011.

Table 1: Samba and AlRajhi Bank Financial Statements (2006-2011) (In Thousand Saudi Riyals "000")

Income Statement-Income	**Bank Name**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Average**
Commission Income	Samba	6990974	8386264	8425855	6351394	5194654	4854527	6700611
	Al Rajhi	0.000	0.000	0.000	0.000	0.000	0.000	0,000
Non Commission Income and Gains	Samba	2971760	2283397	1950700	2040127	2364039	2317632	2321276
	Al Rajhi	9509898	9321096	10575267	11505292	11661132	12502119	10845801
Net Revenue	Samba	9962734	10669661	10376555	8391521	7558693	7172159	8721654
	Al Rajhi	9509898	9321096	10575267	11505292	11661132	12502119	10845801
Income Statement-Expenses								
Commission Expenses	Samba	2690012	3441872	3364612	1281881	658193	478869	1985907
	Al Rajhi	0.000	0.000	0.000	0.000	0.000	0.000	0,000
Provision for Bad Loans	Samba	263676	422581	267082	604822	558792	301412	403061
	Al Rajhi	0.000	0.000	0.000	1760727	1908818	1645142	885781
Overheads	Samba	1798676	1965825	2301900	1944642	1906585	1957686	1979219
	Al Rajhi	2208007	2871439	4050663	2977337	2981485	3478709	3094607
Net Income	Samba	5210370	4807632	4442900	4560176	4435123	4303269	4626578
	Al Rajhi	7301891	6449657	6524604	6767228	6770829	7378268	6865413

Balance sheet-Assets		**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Average**
Cash	Samba	10256525	11097630	13799900	35847246	32580918	33508745	22848494
	Al Rajhi	9243902	13141199	11302029	11413020	19475196	20419467	14165802
Loans and Advances	Samba	67027647	80553307	98147182	84146523	80250825	89111429	83206152
	Al Rajhi	719387	909918	754410	695791	312062	375941	627918
Securities and Deposits	Samba	42827325	55896859	55096800	58474587	67373632	62906520	57095954
	Al Rajhi	91015158	105666090	146895289	152876744	160069648	193797898	141720138
Fixed and other Assets	Samba	3903316	3903316	1184730	7049913	7210465	7247196	5083156
	Al Rajhi	4230297	5169275	5978073	5744124	4984004	6220106	5387646
Total Assets	Samba	124014813	154413974	178891190	185518269	187415840	192773890	170504663
	Al Rajhi	105208744	124886482	164929801	170729729	184840910	220813412	161901513
Balance Sheet-Liabilities		**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Average**
Deposits and Dues	Samba	104916322	129275236	148191500	154447981	153263599	157885157	141329966
	Al Rajhi	81230668	97224226	130074249	128963913	148478218	180450246	127736920
Other Liabilities	Samba	3798873	7163175	10637900	8760210	8722559	6758830	7640258
	Al Rajhi	3798600	4056144	7823753	13024932	6044903	7542109	7048407
Shareholders Funds	Samba	15299618	17975563	19845785	22310078	25429682	28129903	21498438
	Al Rajhi	20179476	23606112	27031799	28740884	30317789	32821057	27116186
Total Liab & Share Holders Equity	Samba	124014813	154413974	178891190	185518269	187415840	192773890	170504663
	Al Rajhi	105208744	124886482	164929801	170729729	184840910	220813412	161901513

Source: Calculated from the banks financial statements (2006-2011) [12], [13].

SAMBA has four major asset categories: cash and balances with Saudi Arabian Monetary Agency (SAMA), loans and advances, securities and deposits, and fixed and other assets. Cash with SAMBA were increasing exponentially; it increased from SAR 10.2 billion in 2006 to SAR 33.5 billion in 2011 which is almost three times more, while reaching to its peaking point of SAR 35.8 in 2009. The calculated average from the financial statements of the bank throughout the periods was SAR 22.8 billion. Loans and advances have steadily increased SAR 67.0 billion in 2006 to SAR 89.1 billion in 2011 reaching it is peaking point of SAR 98.1 billion in 2008.The calculated average figure was 8.3 billion. Securities and deposits grew steadily over the period of study, it was increased from SAR 42.8 billion in 2006 to SAR 62.9 in 2011. The average figure SAR 57.09 billion. Fixed and other assets increased almost more than doubling, it rose from SAR 3.9 billion in 2006 to SAR 7.2 billion in 2011, but it fell to short of SAR 1.1 billion in 2008. The average was SAR 5.5 billion.

Bank SAMBA has three major liabilities accounts: customer deposits and dues, other liabilities, and shareholders' funds. Customer deposits and dues increased from SAR 10.49 billion in 2006 to SAR 14.82 billion in 2008 and then rose to SAR 15.79 billion in 2011. The average of customer deposits was SAR 14.13 billion. Other liabilities reached to more than doubled over the years, reaching it is peak of SAR 10.64 billion in 2008. In 2011, it was fallen sharply as compared to the peak value reaching to SAR 6.76 billion, creating an average of SAR 7.64 billion. Shareholders fund grew from SAR 15.30 billion in 2006 to SAR 28.13 billion in 2011, which almost double than the base value. Due to

the continuous growth, the shareholders funds averaged over the six years period at SAR 21.50 billion.
Furthermore, table 1 shows the financial statements of AlRajhi bank for the years 2006 to 2011. AlRajhi has the same four major asset categories. Cash with AlRajhi bank has increased to more than doubling; it grew from SAR 9.24 billion in 2006 to SAR 20.42 billion in 2011, registering an average of SAR 12.19 billion. Loans and advances declined to doubling; from SAR 719 million in 2006 to 376 million in 2011, reaching it is peak of SAR 909 in 2007. The calculated average figure was 628 million. Securities and deposits grew to more than doubling over the period of study, it was increased from SAR 91.02 billion in 2006 to SAR 193.80 in 2011. The average figure SAR 141.72 billion. Fixed and other assets have steadily increased from SAR 4.23 billion in 2006 to SAR 6.22 billion in 2011. The calculated average figure was 5.38 billion.
Bank AlRajhi has also three major liabilities accounts: customer deposits and dues, other liabilities, and shareholders' funds. Customer deposits and dues increased more than doubling; from SAR 81.23 billion in 2006 to SAR 130.07 billion in 2008 and then rose to SAR 180.45 billion in 2011. The average of customer deposits was SAR 127.74 billion. Other liabilities reached almost to more than doubled over the years, reaching it is peak of SAR 13.02 billion in 2009, creating an average of SAR 7.05 billion. Shareholders fund grew steadily from SAR 20.18 billion in 2006 to SAR 32.82 billion in 2011, which almost one third of the base value. Due to the continuous growth, the shareholders funds averaged over the six years period at SAR 27.11 billion.

5.2 Income Statement Items

Bank SAMBA receives income from two major sources: commission income and non commission income from investments. Commission income declined from SAR 6.99 billion in 2006 to SAR 4.85 billion in 2011, reaching it is peak of SAR 8.42 billion in 2008. The average income from commissions for the six years period is SAR 6.70 billion. Non commission income and gains decreased from SAR 2.97 billion to SAR 2.31 billion. The average income from other gains amounts to SAR 2.43 billion.
Bank SAMBA expenses fall into three major categories: commission expenses, provision for bad loans, and overheads. Commission expenses declined sharply from SAR 2.69 billion in 2006 to SAR 479 million in 2011, reaching a peak of SAR 3.44 billion in 2007. The average expense in this category was 1.98 billion. Provision for bad loans fluctuated from SAR 263 million in 2006 to SAR 301 million in 2011. The six years average is SAR 403 million. Overheads expenses steadily rose from SAR 1.79 billion in 2006 to SAR 1.95 billion, reaching it is peak of 2.30 billion in 2008. The calculated average is SAR 1.97 billion.
Bank AlRajhi receives income from one source only: non commission income from investments. This major source rose steadily from SAR 9.51 billion in 2006 to SAR 12.50 billion in 2011, averaging SAR 10.84 billion. Bank AlRajhi expenses fall into two major categories: provision for bad loans, and overheads. Provision for bad loans item started in this bank in the year 2009, the value declined from SAR 1.76 billion to SAR 1.64 billion reaching it is peak of 1.91 in 2010. The calculated average is SAR 1.77 billion. Overhead expenses rose from SAR 2.20 billion in 2006 to SAR 3.48 million in 2011, reaching it is peak of SAR 4.05 billion in 2008.

5.3 Discussion of Financial Ratios

Table 2 contains percent of assets, percent of revenues ratios, and the ratios used to compute the DuPont analysis for both banks SAMBA and AlRajhi.

Table 2: Samba and AlRajhi Bank Financial Statements Ratios Computations (2006-2011)

Income Statement-Income	**Bank Name**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Average**
Commission Expenses	Samba	27.00%	32.25%	32.43%	15.28%	8.71%	6.68%	20.39%
	Al Rajhi	00.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Provision for Bad Loans	Samba	2.65%	3.96%	2.57%	7.21%	7.39%	4.20%	4.66%
	Al Rajhi	00.00%	0.00%	0.00%	15.30%	13.16%	13.16%	6.94%
Overheads	Samba	18.05%	18.42%	22.18%	23.17%	25.25%	27.30%	22.40%
	Al Rajhi	23.22%	30.81%	38.30%	25.88%	27.82%	27.82%	28.98%
Net Income	Samba	52.30%	45.06%	42.82%	54.34%	58.68%	60.00%	52.20%
	Al Rajhi	76.78%	69.19%	61.70%	58.82%	59.02%	59.02%	64.09%
Total Income Statement	Samba	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
	Al Rajhi	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Balance sheet-Assets		**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Average**
Cash and Balances	Samba	8.27%	7.19%	7.71%	19.32%	17.38%	17.38%	12.88%
	Al Rajhi	8.79%	10.52%	6.85%	6.68%	10.54%	9.25%	8.77%
Loans and Advances	Samba	54.05%	52.17%	54.86%	45.36%	42.82%	46.23%	49.25%
	Al Rajhi	0.68%	0.73%	0.46%	0.41%	0.17%	0.17%	0.44%
Securities and Deposits	Samba	34.53%	36.20%	30.80%	31.52%	35.95%	32.63%	33.60%
	Al Rajhi	86.51%	84.61%	89.07%	89.54%	86.60%	87.77%	87.35%
Fixed and other Assets	Samba	3.15%	4.45%	6.62%	3.80%	3.85%	3.76%	4.27%
	Al Rajhi	4.02%	4.14%	3.62%	3.36%	2.70%	2.82%	3.44%
Total Assets	Samba	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
	Al Rajhi	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Balance Sheet-Liabilities		**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Average**
Deposits and Dues	Samba	84.60%	83.72%	82.84%	83.25%	81.78%	81.90%	83.02%
	Al Rajhi	77.21%	77.85%	78.87%	75.54%	80.33%	81.72%	78.59%
Other Liabilities	Samba	3.06%	4.64%	5.95%	4.72%	4.65%	3.51%	4.42%
	Al Rajhi	3.61%	3.25%	4.74%	7.63%	3.27%	3.42%	4.32%
Shareholders Funds	Samba	12.34%	11.64%	11.09%	12.03%	13.57%	14.59%	12.54%
	Al Rajhi	19.18%	18.90%	16.39%	16.83%	16.40%	14.86%	17.09%
Total Liab & Share Holders Equity	Samba	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
	Al Rajhi	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
DuPont Ratios		**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Average**
Net Profit Margin (NPM)	Samba	0.5230	0.4506	0.4282	0.5434	0.5868	0.5999	0.5220
	Al Rajhi	0.7678	0.6919	0.6170	0.5882	0.5806	0.5902	0.6393
Asset Utilization (TAT)	Samba	0.0803	0.0691	0.0580	0.0452	0.0403	0.0372	0.0550
	Al Rajhi	0.0904	0.0746	0.0641	0.0674	0.0631	0.0566	0.0694
Equity Multiplier (EM)	Samba	8.1057	8.5902	9.0141	8.3154	7.3699	6.8530	8.0414
	Al Rajhi	5.2137	5.2900	6.1013	5.9403	6.0968	6.7278	5.8950
Return On Equity (ROE)	Samba	0.3731	0.2675	0.2239	0.2044	0.1744	0.1530	0.2327
	Al Rajhi	0.3618	0.2764	0.2414	0.2355	0.2233	0.2248	0.2605
ROE (%)	Samba	37.31%	26.75%	22.39%	20.44%	17.44%	15.30%	23.27%
	Al Rajhi	36.18%	27.64%	24.14?%	23.55%	22.33%	22.48%	26.05%
ROE on EM (%)	Samba	4.60%	3.11%	2.48%	2.46%	2.37%	2.23%	2.88%
	Al Rajhi	6.94%	5.22%	3.96%	3.96%	3.66%	3.34%	4.51%
ROE from EM	Samba	32.71%	23.64%	19.91%	17.98%	15.07%	13.07%	20.40%
	Al Rajhi	29.24%	22.42%	20.18%	19.59%	18.67%	19.14%	21.54%

Source: Computed from the banks financial statements (2006-2011) [12], [13].

As a percent of total assets of SAMBA bank, cash and balances with SAMBA averages 12.88%, with a high of 19.32% in 2009 and a low of 7.19% in 2007. Customer loans and advances averages 49.25%, with a high of 54.86% in 2008 and a low of 42.82% in 2010. Securities and deposits averages 33.60% with a high of 36.20% in 2007 and a low of 30.80% in 2008. Fixed and other assets shows the least variability with an average of 4.27% with a high of 6.62% in 2008 and a low of 3.15% in 2008.

As a percentage of total liabilities, customer deposits and dues averaged 83.02%, other liabilities averaged 4.42% and shareholders fund averaged 12.54%. Customer deposits and dues were at their highest percentage in 2008 at 84.60% and lowest percentage in 2010 at 81.78%. Other liabilities were at their highest percentage in 2008 at 5.95% and lowest percentage in 2006 at3.06%. Shareholders fund were at their highest percentage in 2011 at 14.59% and lowest percentage in 2008 at 11.09%.

As a percentage of total revenue, commission expenses were at their highest percentage in 2008 at 32.43% and lowest percentage in 2011 at 6.68% with an average of 20.39%. Provision for bad loans were at their highest percentage in 2010 at 7.39% and lowest percentage in 2006 at 2.65% with an average of 4.66%. Bank overheads were at their highest percentage in 2011 at 27.30% and lowest percentage in 2006 at 18.05% with an average of 22.40%.

Furthermore, table 2 contains total assets of AlRajhi bank, cash and balances with AlRajhi averages 8.77%, with a high of 10.54% in 2010 and a low of 6.68% in 2009. Customer loans and advances averages 0.44%, with a high of 0.73% in 2007 and a low of 0.17% in 2010 and 2011. Securities and deposits averages 87.35% with a high of 89.54% in 2007 and a low of 84.61% in 2007. Fixed and other assets is also shows the least variability with an average of 3.44% with a high of 4.14% in 2007 and a low of 2.70% in 2010.

As a percentage of total liabilities, customer deposits and dues averaged 78.59%, other liabilities averaged 4.32% and shareholders fund averaged 17.09%. Customer deposits and dues were at their highest percentage in 2011 at 81.72% and lowest percentage in 2009 at 75.54%. Other liabilities were at their highest percentage in 2009 at 5.95% and lowest percentage in 2007 at 3.25%. Shareholders fund were at their highest percentage in 2006 at 19.18% and lowest percentage in 2011 at 14.86%.

As a percentage of total revenue, commission expenses for AlRajhi bank were zero because the bank does not deal with such kind of transactions like SAMBA bank. Provision for bad loans started in this bank in 2009, it was at their highest percentage in 2009 at 15.30% and lowest percentage in 2010 and 2011 at 13.16% respectively, with an average of 13.87%. Bank overheads were at their highest percentage in 2008 at 38.30% and lowest percentage in 2006 at 23.22% with an average of 28.98%.

5.4 DuPont Analysis of SAMBA and AlRajhi Banks

Net profit margin for SAMBA bank averages 52.20% with a range from 52.30% in 2006 to 59.99% in 2011, while net profit margin for AlRajhi bank averages 63.93% with a range from 76.78% in 2006 to 59.02% in 2011. Figure 1 shows net profit margin for both banks.

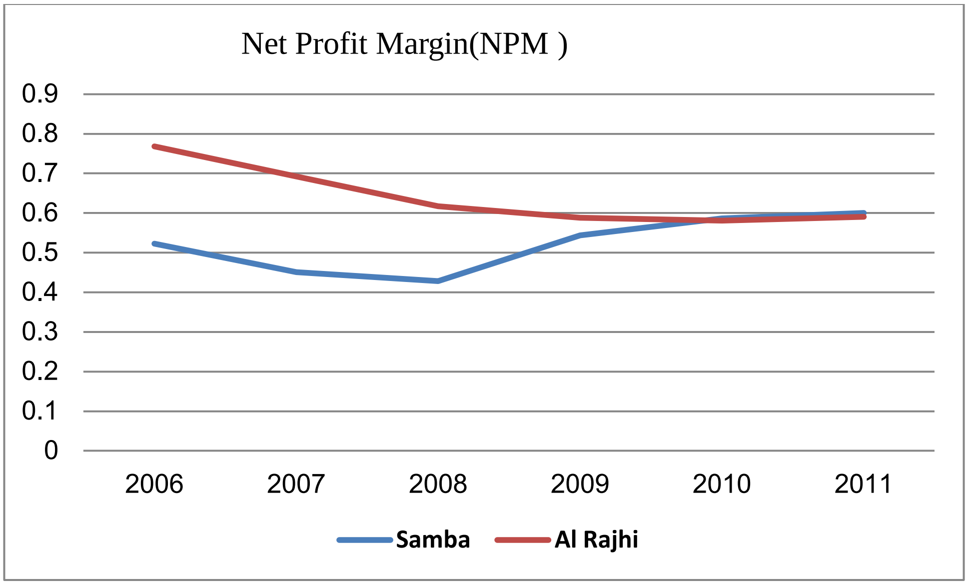


Figure 1: Samba and Al Rajhi Banks NPM

Total asset turnover for SAMBA bank averages 5.50 times with a range which declined from 8.03 times in 2006 to 3.72 times in 2011, but total asset turnover for AlRajhi averages 6.94 times with a range which declined from 9.04 times in 2006 to 5.66 times in 2011. Figure 2 shows total asset turnover for both banks.

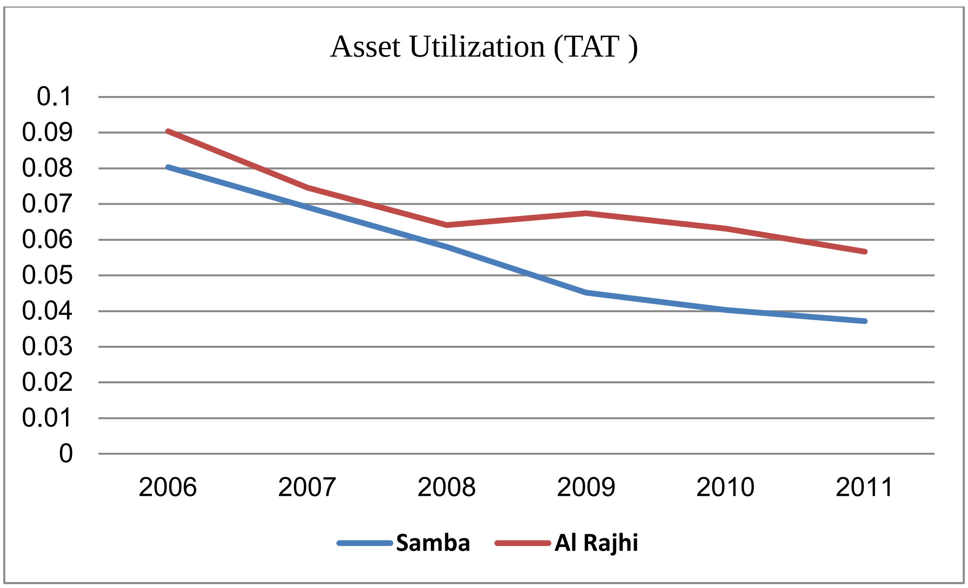


Figure 2: Samba and Al Rajhi Banks TAT

The equity multiplier for SAMBA averages 8.04 times with a range from 8.11 times in 2006 to 6.85 times in 2011, while the equity multiplier for AlRajhi averages 5.90 times with a range from 5.21 times in 2006 to 6.73 times in 2011. Figure 3 shows the equity multiplier for both banks.

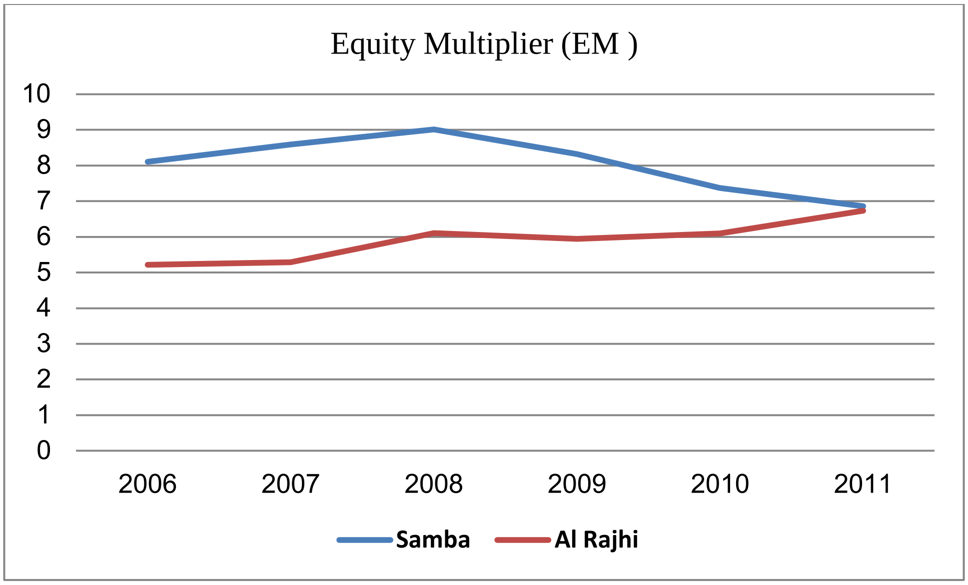


Figure 3: Samba and Al Rajhi Banks EM

Return on equity for SAMBA averages 23.27% with a range from 37.31% in 2006 to 15.30 in 2011. Return on equity for AlRajhi averages 26.05% with a range from 36.18% in 2006 to 22.48 in 2011. Figure 4 exhibits the slope down of return on equity for both banks.

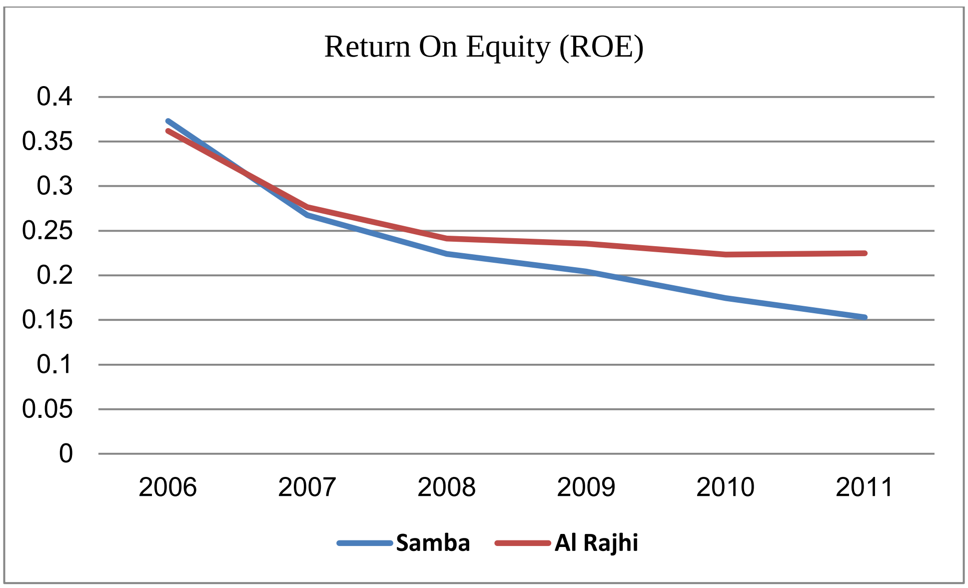


Figure 4: Samba and Al Rajhi Banks ROE

In fact, return on equity volatility stems from significant variability in the component parts of return on equity: net profit margin, total asset turnover, and the equity multiplier, Collier, et al., (2010). Institutions in the financial industry tend to exercise a higher level of financial leverage and, consequently, exhibit higher equity multipliers. Therefore, by adjusting for the equity multiplier it is possible to determine how much of the return on equity was derived from profit margins and sales. In 2006, 4.60% of the positive return on equity of SAMBA was derived from sales and profit margin where the bank's leverage contributed 32.71%. In the same year, 6.94% return on equity of AlRajhi was derived from sales and profit margin where the bank's leverage contributed 29.24%. In 2007 to 2011, the values of 3.11%, 2.48%, 2.46%, 2.37%, and 2.23% of the return on equity of SAMBA was derived from sales and profit margin where the bank's leverage contributed 23.64%, 19.91%, 17.98%, 15.07%, and 13.07% respectively. Meanwhile, in 2007 to 2011, the values of 5.22%, 3.96%, 3.96%, 3.66%, and 3.34% of the return on equity of AlRajhi was derived from sales and profit margin where the bank's leverage contributed 22.42%, 20.18%, 19.59%, 18.67%, and 19.14% respectively. It is worth mentioning that, the most recent financial ratios of these banks were affected by the global financial crisis and economic strains. However, despite the difficult challenges and changes in the world markets, these banks continued with confidence their growth and success journey.

6 Summary and Conclusion

This paper tends to measure the performance of SAMBA and AlRajhi banks from the period of 2006 to 2011, as the two largest banks in Saudi Arabia by market value. DuPont model system of financial analysis is used for this purpose. The bank return on equity is disaggregated into three parts: 1) net profit margin, 2) total asset turnover, and 3) the equity multiplier due to leverage. From analysis of the ratios, it was found that both banks had high return on equity, though it was declining over the years of study due to the impact of recent world financial crisis. Net profit margin exhibit relative stability for both banks over the years of study with minimum volatility. The equity multiplier were almost stable indicators for both banks for the same period, and it shows that these banks has relied on debt to a higher degree. Asset utilization shows a decline for SAMBA bank over the years of study, and with a minimum volatility for AlRajhi. Net profit margin for SAMBA reached approximately to 59.99 percent, and to 76.78 percent for AlRajhi with an average of 52.20 percent and 63.93 percent respectively. Total asset turnover reached it is peak for SAMBA with 8.03 percent and to 9.04 percent for AlRajhi with an average of 5.50 percent and 6.94 percent respectively. Equity multiplier reached approximately to 9.01 percent for SAMBA, and to 6.72 percent for AlRajhi with an average of 8.04 percent and 5.89 percent respectively.

The present study can help both bankers and academicians, bankers can have clear insight on their financial activities and concentrate more on performance which will promote effective financial system, Academicians will have a background to carry more studies in the same field which will participate in improving the banks performance. As a matter of fact, Saudi banks can perform better as they exist in a very save, sound and stable economic environment.

References

[1] M. Soliman, The Use of DuPont Analysis by Market Participants, The Accounting Review, University of Washington, 83(3), 2008, 823–853. faculty.haas.berkeley.edu/kli/papers/Soliman-2008TAR.pdf

[2] H. Mihaela, O. Claudia, and B. Lucian, A Du Pont Analysis of the 20 Most Profitable Companies in the World, 2010 International Conference on Business and Economics Research IACSIT, 1,2011,45-48. www.ipedr.com/vol**1**/10-B00015.pdf

[3] B. Carl, J. McGowan, R. Andrew and Z. Stambaugh, Financial Analysis Of Bank Al Bilad , International Business & Economics Research Journal, **10**(3), 2011, 12-13. http://journals.cluteonline.com/index.php/IBER/article/view/4096.

[4] A. Saunders, Management of Financial Institutions, McGraw Hill, Third Edition, 2000. www.gettextbooks.co.in/author/Anthony_Saunders

[5] W. Collier, B. Carl, J. McGowan, and M. Junaina, "Evaluating the Impact of a Rapidly Changing Economic Environment on Bank Financial Performance Using the Dupont System of Financial Analysis," Asia Pacific Journal of Finance and Banking Research, **4**(4), M. 2010, 25-35. http://ro.uow.edu.au/commpapers/1730/

[6] S. Johansson, The Profitability, Financing, and Growth of the Firm: Goals ,Relationships and Measurement Methods. Lund, Sweden: Student literature, 1998. http://www.amazon.co.uk/Profitability-Financing-Growth-Firm-Relationships/dp/8763000334

[7] D. Nissim, and S. Penman, Ratio Analysis and Equity Valuation: from Research to Practice, Review of Accounting Studies, 2001,114-154. link.springer.com/article/10.1023%2FA%3A1011338221623

[8] M.M. Susan, Why The DuPont Model Is Important, Valuation Strategies, 7(3), 2004, 24－31. leidykla.vgtu.lt/conferences/BM_2012/.../262_268_Zhang.pdf

[9] G., Milbourn, and T. Haight, Providing Students with an Overview of Financial Providing Students with an Overview of Financial Statements Using the DuPont Analysis Approach, Journal of American Academy of Business **6**(1), 2005, 46－50. http://www.docstoc.com/docs/45107318/Providing-Students-with-an-Overview-of-Financial-Statements-Using

[10] Samba Financial Group, Samba Financial Group, Company Profile-2011 www.alacrastore.com/.../moodys-global-credit-research-Samb..

[11] AlRajhi Bank, Company Profile, Al Rajhi Bank on the Forbes Global 2000 List, *2012.* www.forbes.com/companies/al-rajhi-bank/

[12] Bank SAMBA Financial Statements, 2006-2011. Tadawul, www.tadawul.com.sa/

[13] Bank AlRajhi Financial Statements, 2006-2011. Tadawul. www.tadawul.com.sa/