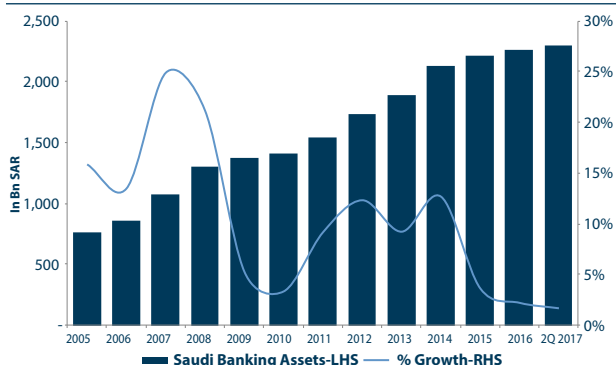


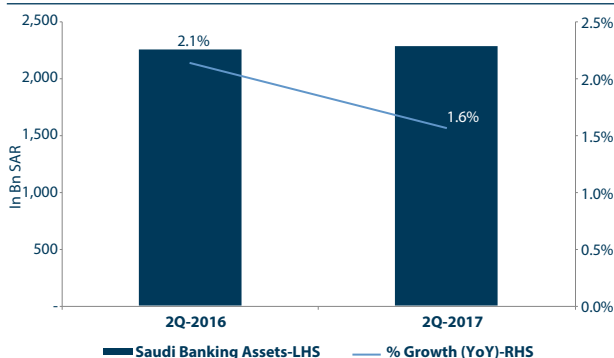
### Saudi Banking Sector – 2Q 2017

In 2Q2017, the balance sheet of Saudi Arabia’s banking sector increased 1.6% YoY and 1.1% QoQ to SAR 2,293bn. Total loans accounted for 72.7% of total assets, whereas deposits formed 71.3% of total liabilities. The banking sector’s balance sheet grew at a 10-year CAGR of 10.5%.

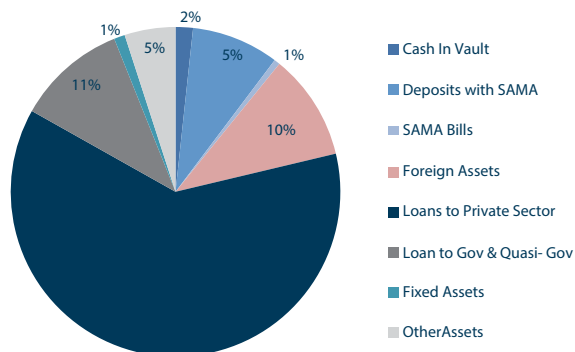
#### Saudi banking Sector Balance Sheet Growth



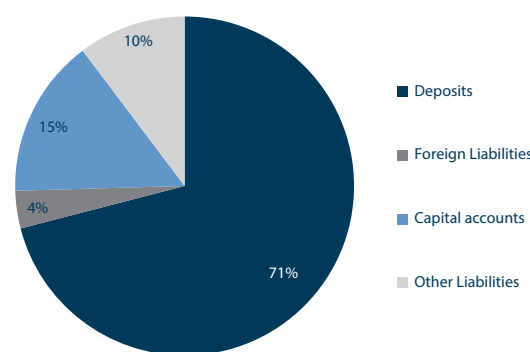
#### Saudi Banking Sector Balance Sheet Growth – 2Q-2017



#### Banking Sector – Assets Breakdown – 2Q-2017



#### Banking Sector – Liabilities & Capital Breakdown – 2Q-2017

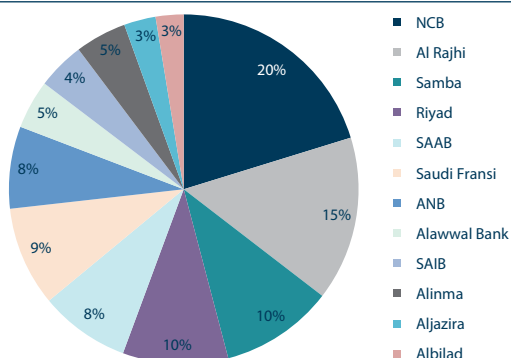


Source: SAMA

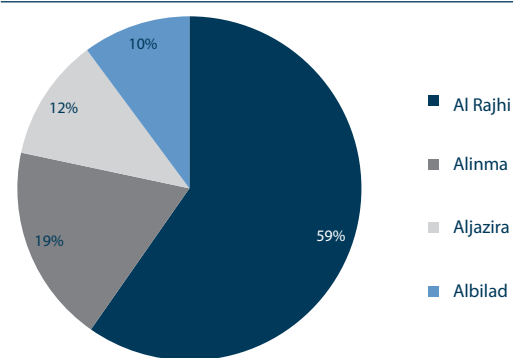
The Saudi banking sector has 12 listed banks and other non-listed banks. In terms of the balance sheet size, National Commercial Bank (NCB) (assets of more than SAR 449.8bn) is the biggest bank in the Kingdom, accounting for 20.1% of the total market, followed by Al Rajhi Bank (an asset base of SAR 345.6bn and 15.4% of the market share). Samba (asset base of SAR 231.1bn) accounts for 10.3% while Riyadh Bank (total assets worth SAR 219.0bn) accounts for 9.8% of total banking assets.

Of the 12 banks, Al Rajhi Bank, Alinma Bank, Bank Albilad, and Bank AlJazira are Shariah-compliant banks, accounting for 26.0% of total banking assets. Al Rajhi Bank is the largest Shariah-compliant bank in the Kingdom, accounting for 59.2% of the total market share in 2Q 2017 (down from 59.7% in 1Q 2017) among Shariah banks.

#### Market Share of Total Banking Assets – 2Q-2017



#### Asset Market Share of Shariah-compliant Banks – 2Q-2017



Source: Bloomberg

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### Deposits

Saudi banking deposits and money supply rose steadily at a 10-year CAGR of 9.8% each. Total deposits edged up 2.7% YoY to SAR 1.635tn in 2Q2017 from SAR 1.592tn in 2Q2016.

Demand deposits advanced 1.9% YoY to SAR 982.4bn in 2Q2017 compared to SAR 963.9bn in 2Q2016.

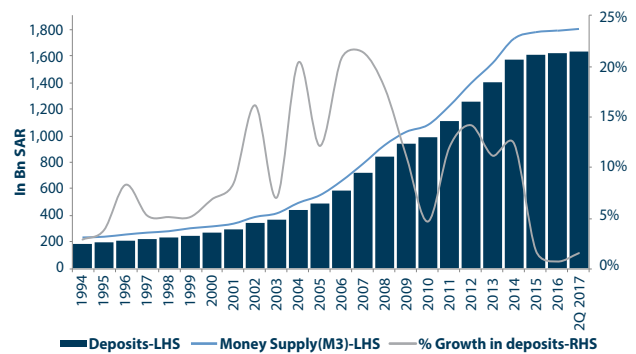
Of the total deposits, demand deposits account for 60.1% (down from 61.9% in 1Q2017), whereas time and savings deposits account for only 29.3%.

The breakdown of deposits shows that almost 76.7% of the total deposits are held by individuals and 21.7% by government entities.

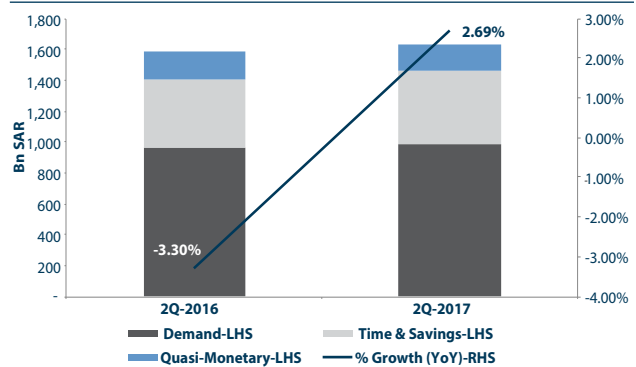
Businesses and individuals hold 90.1% of the demand deposits, while the government holds the remaining 9.9% (up from 9.0% in 1Q2017).

With regard to time and savings deposits, businesses and individuals hold nearly 51.1%, while government entities hold 48.9% (up from 44.4% in 1Q2017)

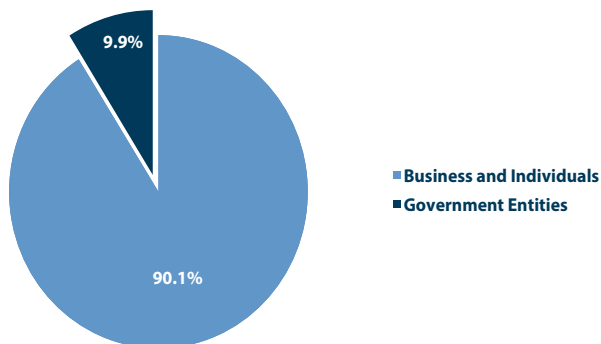
### Deposits Growth



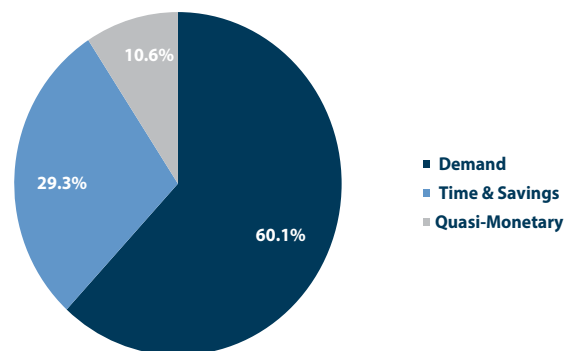
### Deposit Growth – 2Q-2017



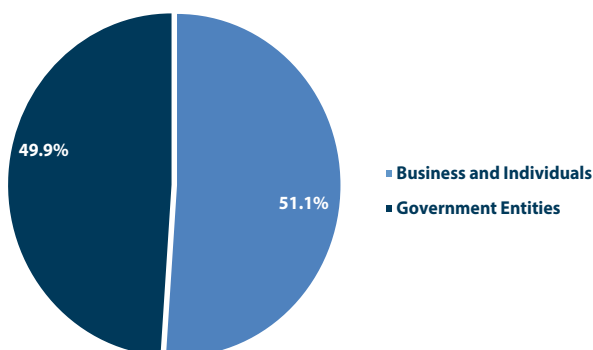
### Demand Deposits Break Down



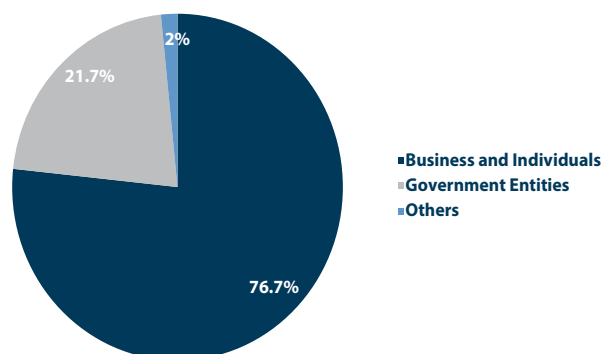
### Deposits Break Down



### Times & Savings Deposit Break Down



### Sector-wise Deposits



Source: SAMA

### Deposits – Breakdown by Bank

National Commercial Bank (deposit base of SAR 315bn) is the largest bank in Saudi Arabia, followed by Al Rajhi Bank (deposit base of SAR 285bn).

Banque Saudi Fransi recorded the highest growth (18.1% YoY) in deposits and improved market share from 8.3% in 2Q2016 to 9.7% in 2Q2017. Alinma Bank stood second, increasing the deposit base by 15.7% YoY and market share to 5.1% in 2Q2017 from 4.5% in 2Q2016.

Saudi British Bank registered the biggest decline of 8.0% YoY in its deposit base, as deposits fell from SAR 150bn in 2Q2016 to SAR 138bn and market share from 9.0% to 8.2% in 2Q2017. It was followed by Alawwal Bank (SAAB's probable merger candidate), which saw its deposits fall 5.4% YoY to SAR 82bn, causing its market share to fall to 4.8% in 2Q2017 from 5.2% in the same period of the previous year.

Al Rajhi Bank, the largest Shariah-compliant bank, recorded a 4.7% YoY rise in deposit base and an improvement in market share from 16.4% to 16.9% in 2Q2017. Meanwhile, NCB's market share fell from 18.9% to 18.6% in 2Q2017 as its deposits decreased marginally.

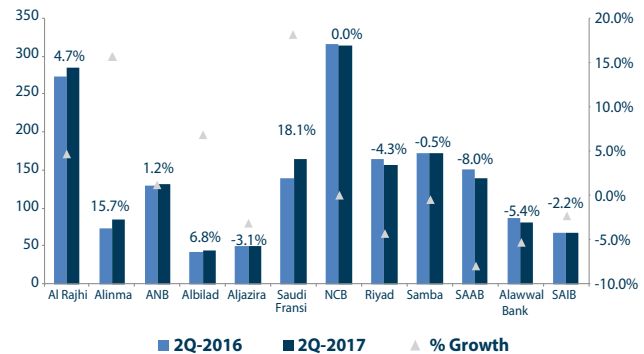
### Loans

The total loan book of Saudi Arabia's banking sector declined 1.7% YoY to SAR 1.41tn toward the end of 2Q2017, registering a 10-year CAGR of 10.2%.

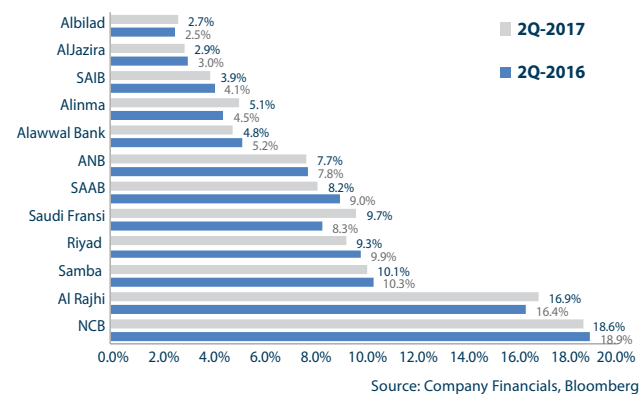
About 50.4% (up from 49.9% QoQ) of the loans extended have a maturity of less than a year. Loans with a maturity of one to three years posted a strong decline of 9.9% YoY, due to which its share contracted from 19.5% in 2Q2016 to 17.9% in 2Q2017.

The high concentration of short-term loans in a rising interest rate environment makes it easier for the banks to re-price new loans.

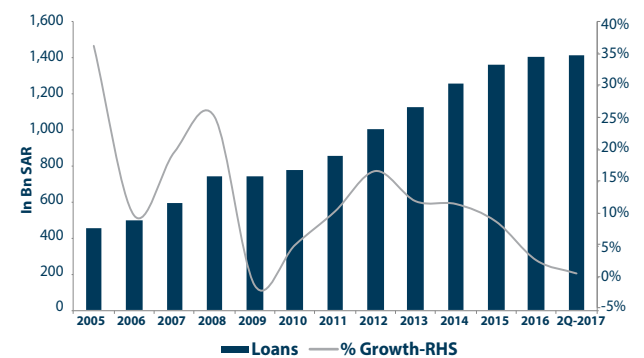
### Bank Deposits Growth



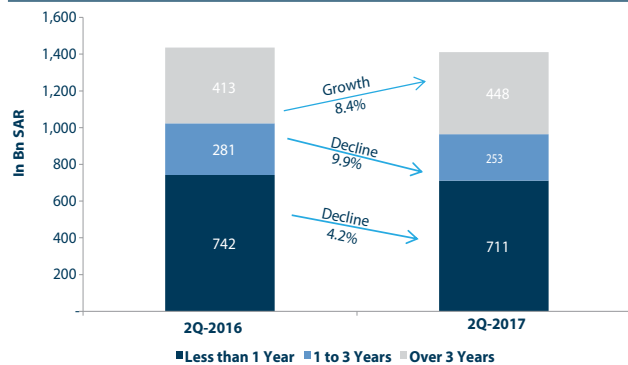
### Deposits Market Share Comparison



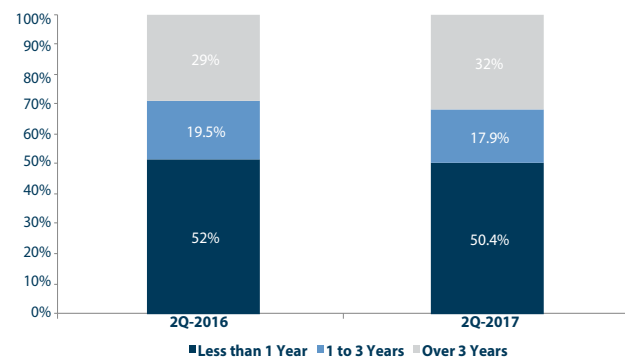
### Loans Growth



### Loans Maturity- Growth



### Loans Share According to Maturity Profile



Source: SAMA

### Loans Breakdown

The commerce sector is the largest borrower among all sectors, accounting for 21.9% of total loans, followed by the manufacturing sector (12.2% of total loans). The construction sector, which ranks third, witnessed a decline in borrowing due to which its share fell from 7.9% in 2Q2016 to 7.3% in 2Q2017.

### Retail Loans

The sector's retail loans [excluding real estate financing, finance leasing, and financing against shares (margin lending)] contracted 1.3% YoY (down 1.0% QoQ) to SAR 338.6bn in 1Q2017.

Loans for vehicles are the biggest constituent of retail loans, accounting for almost 9.2% in 1Q2017. Loans for home renovation financing accounted for 8.1% of total retail loans.

Of total retail loans, those acquired through credit cards accounted for 3.1% in 1Q2017, a jump from 3.0% in 1Q2016.

### Real Estate Loans

Starting 1Q2010, real estate loans registered a seven-year CAGR of 22.3% standing at SAR 212.5bn in 1Q2017. The retail and corporate sectors accounted for 52.9% and 47.1% of total real estate loans, respectively.

Corporate-sector real estate loans rose 14.4% YoY to SAR 100.0bn in 1Q2017, whereas retail loan advanced 5.9% YoY to SAR 112.5bn. However, corporate-sector loans witnessed a decline in growth from 25.6% YoY in 1Q2016 to 14.4% in 1Q2017.

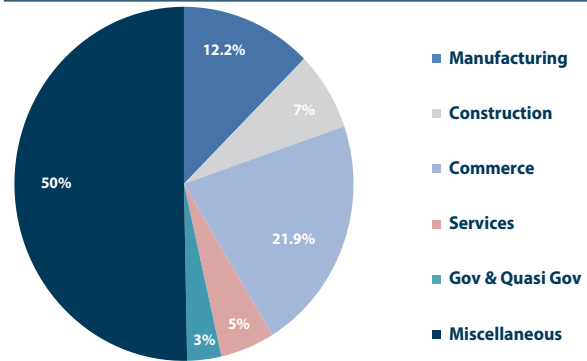
### Bank-wise Market Share in Loans

The sector's biggest lender, National Commercial bank (NCB), witnessed a decline in market share to 18.3% in 2Q2017 from 18.4% in 2Q2016. Al Rajhi Bank, with the second largest market share, witnessed an increase to 16.6% in 2Q2017 from 15.7% in 2Q2016. Alinma Bank was the second biggest gainer in terms of market share (after Al Rajhi Bank) in the loan market, while Saudi British Bank (SABB) was the biggest loser.

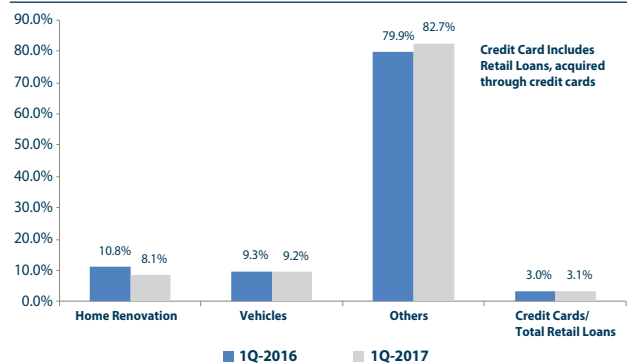
SABB's market share accounted for 8.4% in 2Q2017, a drop from 9.1% in 2Q2016.

The market share of Shariah-compliant banks rose to 27.8% in 2Q2017 from 25.9% in 2Q2016. This was primarily led by Al Rajhi. Among other Shariah-compliant banks, Alinma's market share increased from 4.6% in 2Q2016 to 5.4% in 2Q2017. In addition, Bank Albilad witnessed an increase in market share from 2.6% in 2Q2016 to 2.9% in 2Q2017. However, Bank AlJazira's market share declined from 3.1% in 2Q2016 to 2.9% in 2Q2017.

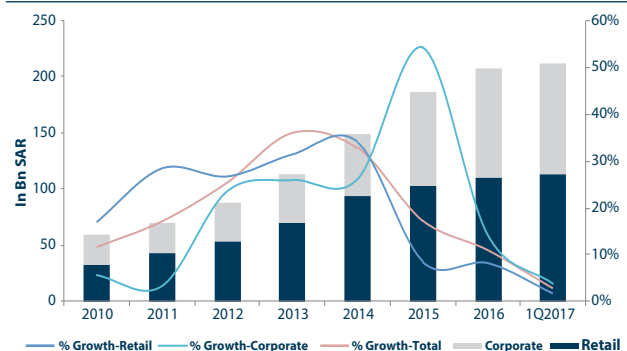
### Sector wise Loans Distribution



### Retail Loans-Break down

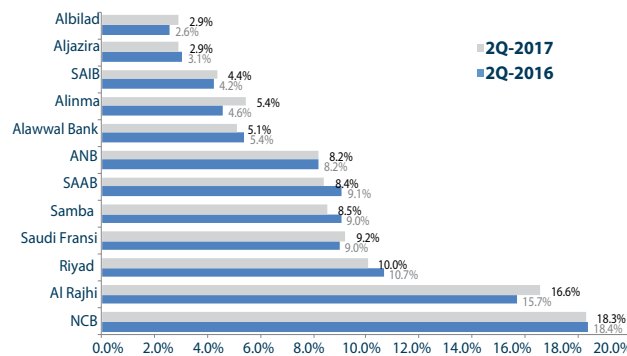


### Real Estate Loans



Source: SAMA

### Bank Market Share



Source: Company Financials

Among the 12 banks in the sector, five registered a YoY increase in gross loans.

Alinma Bank registered the strongest growth of 16.2% YoY in its loan book in 2Q2017, which helped it increase its market share.

Albilad, with a 9.9% YoY jump in gross loans, was the second best performer. Saudi British Bank, which saw its gross loans contract 9.5% YoY in 2Q2017, was the worst performer, followed by the Riyadh Bank (down 7.9% YoY). Banque Saudi Fransi witnessed the slowest growth in loans (0.3% YoY).

Shariah-compliant banks showed an average growth rate of 5.6% YoY in gross loans in 2Q2017.

### Non-Performing Loans

The sector's non-performing loan ratio in 2Q2017 stood at 1.27% compared to 1.09% in 2Q2016. The NPL coverage ratio improved to 182% in 2Q2017 from 178% in 2Q2016.

Al Rajhi and Alinma, with NPL ratios of 0.75% and 0.85%, respectively, are the best in the industry. The NPL coverage of Al Rajhi and Alinma stood at 317% and 180%, respectively, in 2Q2017.

Alawwal Bank had the highest NPL ratio of 2.69% and its NPL coverage ratio stood at 132% in 2Q2017. Al Rajhi registered the greatest improvement in NPL coverage from 195% in 2Q2016 to 317% in 2Q2017, while Saudi Investment Bank posted the biggest drop in NPL coverage ratio from 212% in 1Q2017 to 99% in 2Q2017.

### Advances to Deposit Ratio

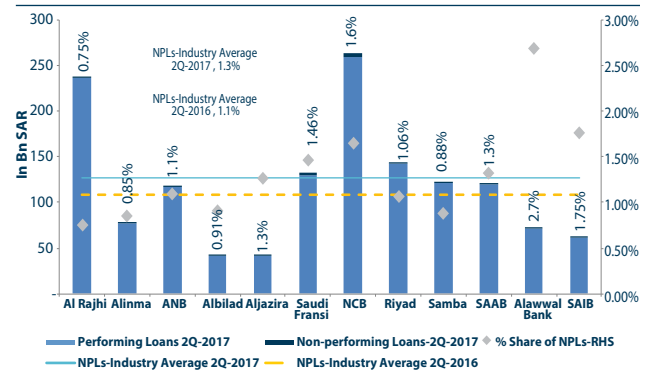
The industry ADR ratio fell to 85.1% in 2Q2017 from 88.3% in 2Q2016 as total gross loans declined 2.1% YoY while deposits increased 1.6% YoY.

Saudi Investment Bank posted the highest ADR of 94.2%, followed by Bank Albilad at 92.7% in 2Q2017. Samba recorded the lowest ADR of 71.5% in 2Q2017 compared to 77.2% in 2Q2016.

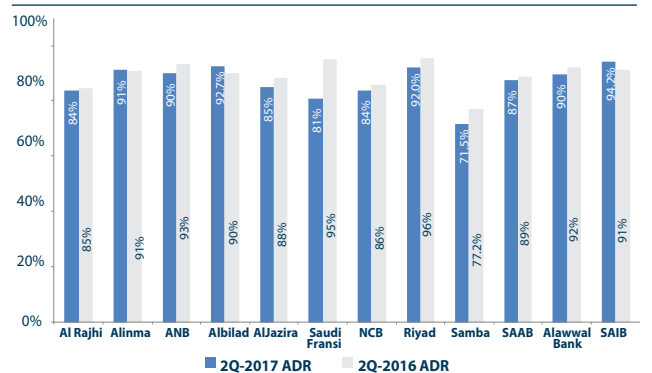
### Bank Loans Distribution



### Performing Loans to NPLs



### ADR ratio



Source: Company Financials

### NIM Remain Under Pressure

Of the 12 banks, only two (down from three in 1Q2017) posted a decrease in its net interest margin (NIM).

NCB recorded the greatest drop in NIM from 0.40% in 2Q2016 to 0.17% in 2Q2017, followed by Albilad (0.35% to 0.20%). Alawwal Bank registered the largest increase in NIM. Its NIM rose by 0.25% in 2Q2017 to 0.75% from 0.50% in 2Q2016. Overall, the sector's return on savings and time deposits decreased 9% YoY in 2Q2017 compared to 19% YoY growth seen in 1Q2017.

NCB reported the highest cost of SAR 794mn in 2Q2017 on savings deposits compared to SAR 981mn in 2Q2016, a decrease of 19.1% YoY. The highest jump in return on deposit was posted by Banque Saudi Fransi at 39.3% YoY.

NCB recorded the highest return on time and savings deposits at 1.45%, followed by Bank Albilad at 1.04%.

Saudi British Bank's return on time and saving deposits of 0.40% was the lowest in the market, followed by SAMBA (0.48%).

### Operating Income Breakdown

The sector posted an operating income of SAR 21.3bn in 2Q2017 compared to SAR 21.1bn in 2Q2016, depicting a 1.4% YoY jump.

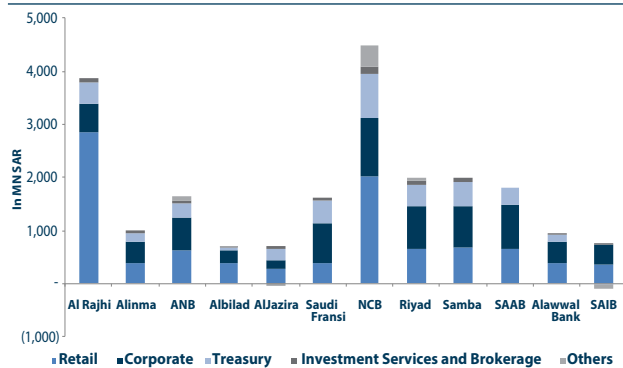
Retail accounted for 45.4% of the total operating income in 2Q2017 compared to a share of 44.4% in 2Q2016. Retail income increased 3.8% YoY.

The corporate sector's contribution advanced 1.7% from 31.1% in 2Q2016 to 32.8% in 2Q2017. Earnings from the corporate sector stood at SAR 7.0bn.

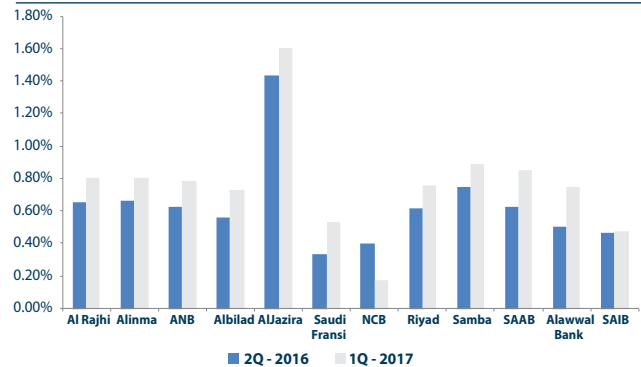
Treasury income retreated 5.8% YoY, whereas investment income plunged 21.6% YoY. Meanwhile, other income declined 21.3% YoY.

NCB, with an operating income of SAR 4.5bn, contributed 21.0% to total sector earnings in 2Q2017, followed by Al Rajhi's contribution of 18.2% (earnings of SAR 3.9bn).

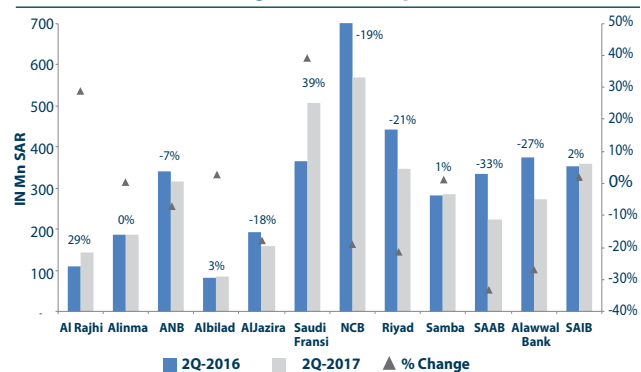
### Company-wise Operating Income



### NIMS

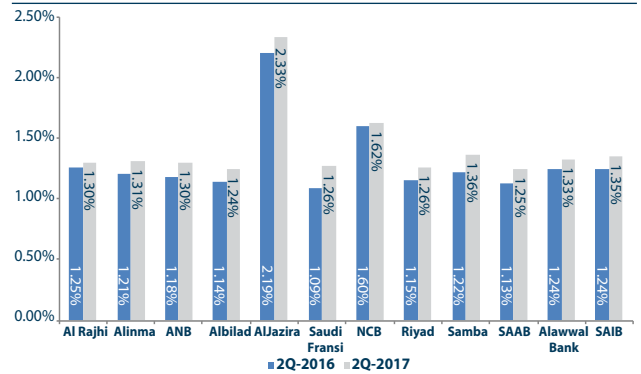


### Absolute Cost on Saving and Time Deposits

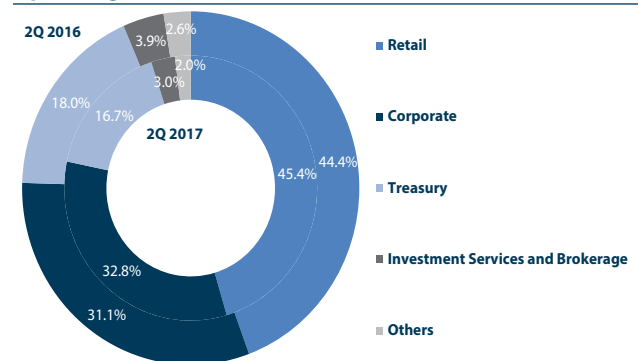


Source: Company Financials, Bloomberg

### Lending rates



### Operating Income Breakdown



Source: Company Financials

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- Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
- Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
- Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
- Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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