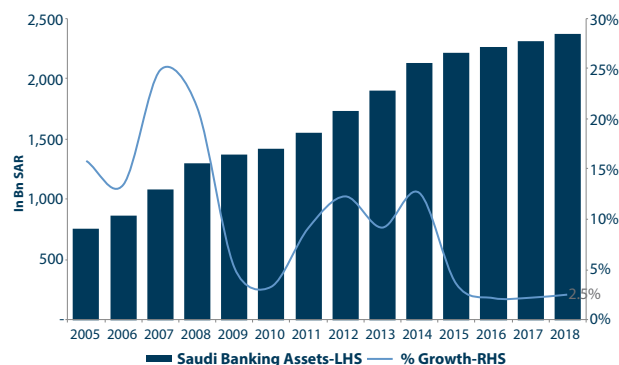
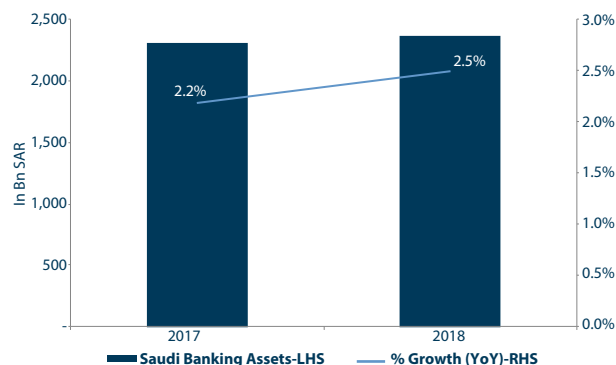


In Q4-18, Saudi banking sector's balance sheet grew 2.5% Y/Y and 1.4% Q/Q to SAR 2,363bn. Total loans accounted for 75.6% of total assets, whereas deposits formed 70.3% of total liabilities. The banking sector's balance sheet advanced at a 10-year CAGR of 6.1%.

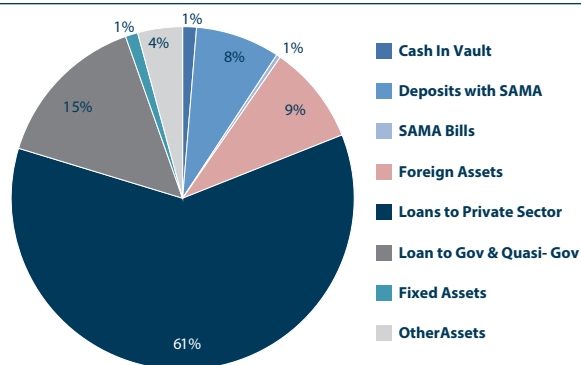
Saudi banking Sector Balance Sheet Growth



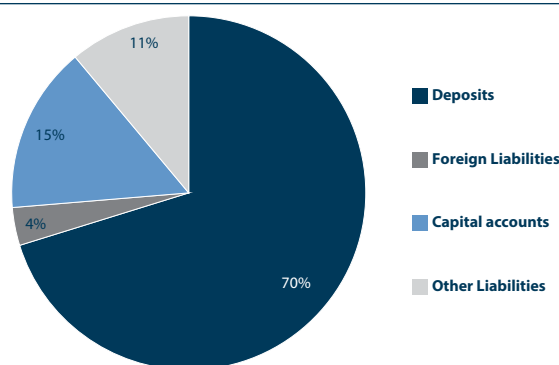
Saudi Banking Sector Balance Sheet Growth – Q4-18



Banking Sector – Assets Breakdown – 4Q2018



Saudi Banking Sector Balance Sheet Growth – Q4-18

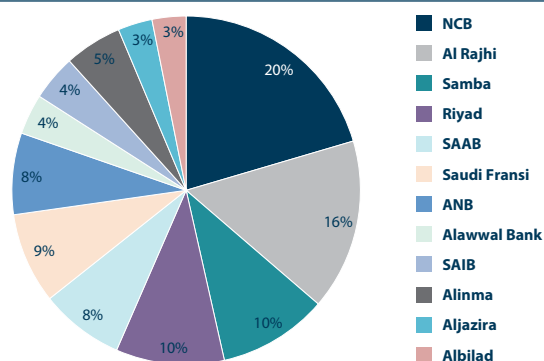


Source: SAMA

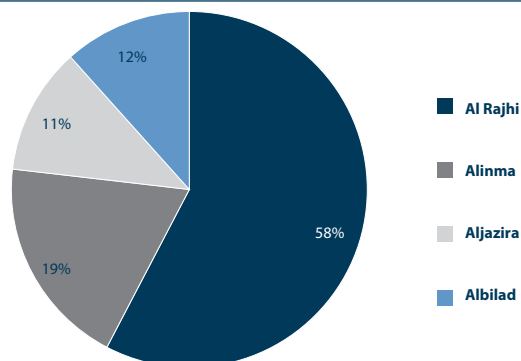
The Saudi banking sector has 12 listed banks. In terms of the balance sheet size, National Commercial Bank (NCB) (with assets of more than SAR 453.4bn) is the largest bank in the Kingdom, accounting for 20.0% of the total market, followed by Al Rajhi Bank (asset base of SAR 365.0bn and 16.1% market share). Samba (asset base of SAR 229.9bn) and Riyadh Bank (total assets worth SAR 229.9bn) account for 10.1% each of total banking assets, respectively.

Of the 12 banks, Al Rajhi Bank, Alinma Bank, Bank Albilad, and Bank AlJazira are Shariah-compliant and account for 27.9% of total banking assets. Al Rajhi Bank is the largest Shariah-compliant bank in the Kingdom, accounting for 57.7% of the total asset market share in Q4-18 (up from 57.6% in Q3-18).

Market Share of Total Banking Assets – 4Q2018



Asset Market Share of Shariah-compliant Banks – 4Q2018



Source: Bloomberg

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Deposits

Saudi banking deposits and money supply rose steadily at a 10-year CAGR of 7.0% each. Total deposits rose 2.2% Y/Y to SAR 1.700tn in Q4-18 from SAR 1.664tn in Q4-17.

Demand deposits advanced 3.8% Y/Y to SAR 1,037.8bn in Q4-18 from SAR 1,000.1bn in Q4-17.

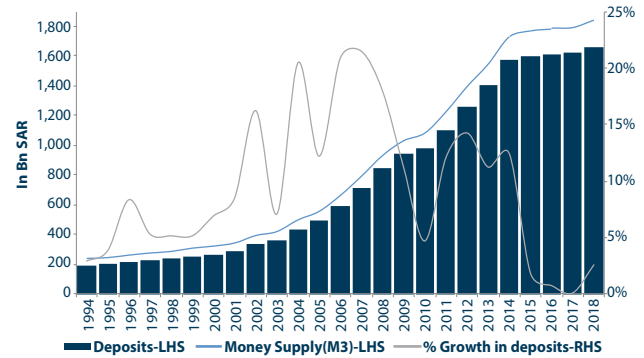
Of the total deposits, demand deposits accounted for 62.5% (unchanged from Q3-18), whereas time and savings deposits made up 26.4%.

The breakdown of deposits shows that Business and Individuals held 77.0% of total deposits, while Government entities accounted for 20.6%.

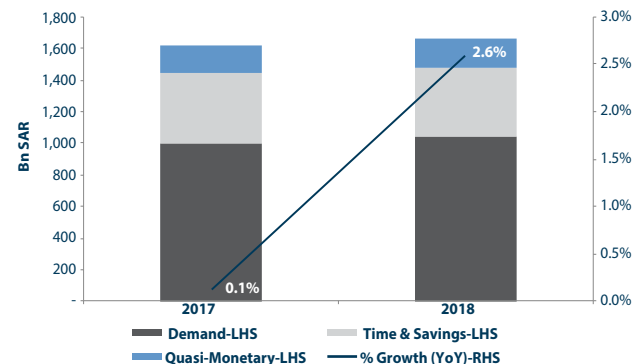
Businesses and Individuals hold 89.2% of the demand deposits, while Government entities hold the remaining 10.8% (down from 11.0% in Q3-18).

With regard to time and savings deposits, Businesses and Individuals held nearly 61.7%, while Government entities accounted for 38.3% (down from 41.5% in Q3-18).

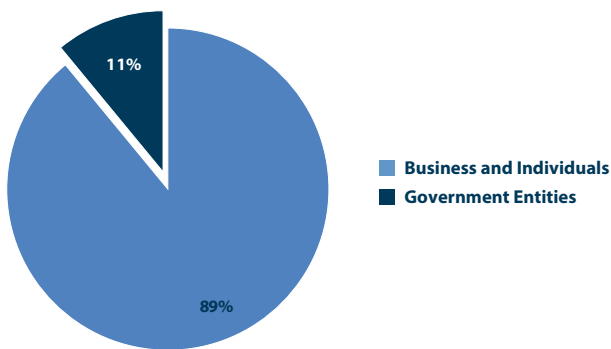
Deposits Growth



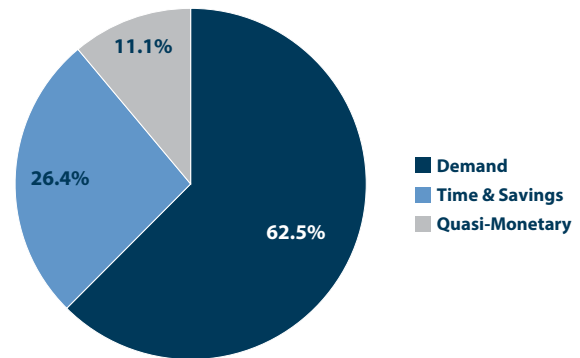
Deposit Growth – 4Q2018



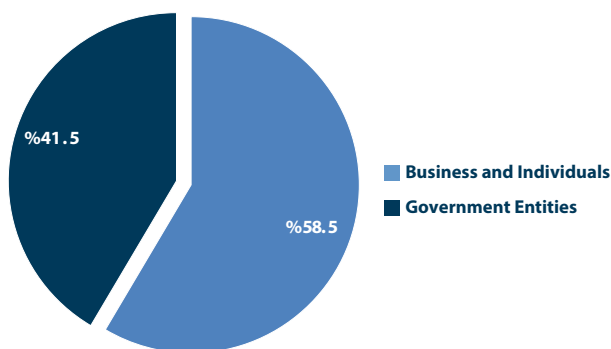
Demand Deposits Break Down



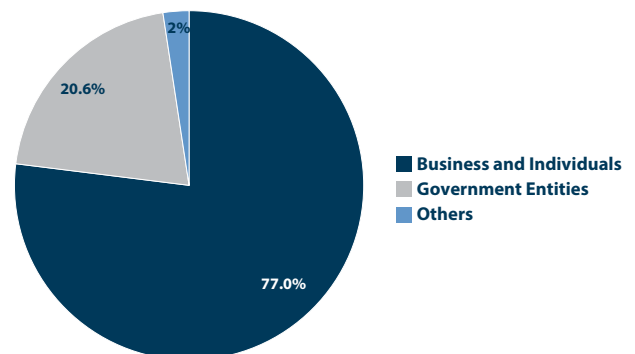
Deposits Break Down



Times & Savings Deposit Break Down



Deposits by Sector



Deposits – Breakdown by Bank

National Commercial Bank (deposit base of SAR 319bn) is the largest bank in Saudi Arabia, followed by Al Rajhi Bank (deposit base of SAR 294bn).

Bank Albilad recorded highest growth (19.7% Y/Y) in deposits improving its market share to 3.4% in Q4-18 from 2.9% in Q4-17. Riyadh Bank stood second, increasing the deposit base 10.0% Y/Y and market share to 10.0% in Q4-18 from 9.3% in Q4-17.

Alawwal Bank registered the biggest decline of 17.5% Y/Y in its deposit base to SAR 65bn in Q4-18 from SAR 78bn in Q4-17. Market share fell to 3.8% in Q4-18 from 4.7% in Q4-17. It was followed by the Saudi British Bank, which saw its deposits fall 6.9% Y/Y to SAR 131bn, causing its market share to fall to 7.7% in Q4-18 from 8.4% in the previous corresponding period.

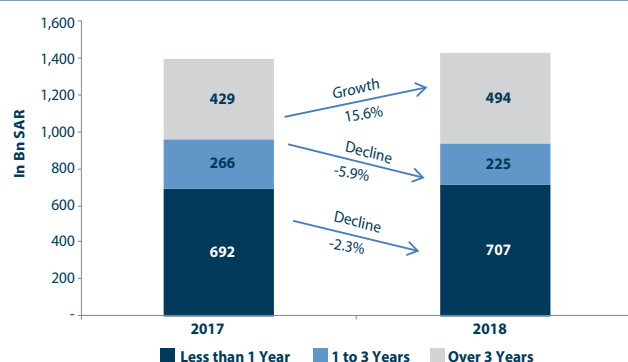
Al Rajhi Bank, the largest Shariah-compliant bank, recorded a 7.6% Y/Y growth in the deposit base, while its market share increased to 17.3% in Q4-18 from 16.4% in Q4-17. Meanwhile, Banque Saudi Fransi's market share declined to 8.7% in Q4-18 from 9.1% in Q4-17, as its deposits witnessed a decline of 1.7% Y/Y.

Loans

The total loan book of Saudi Arabia's banking sector increased 2.8% Y/Y to SAR 1.43tn in Q4-18, registering a 10-year CAGR of 6.7%.

About 49.6% (up from 49.3% Y/Y) of the loans extended have a maturity of less than a year. Loans with a maturity of one to three years fall by 15.4% Y/Y, due to which its share plunged to 15.8% in Q4-18 from 19.2% in Q4-17.

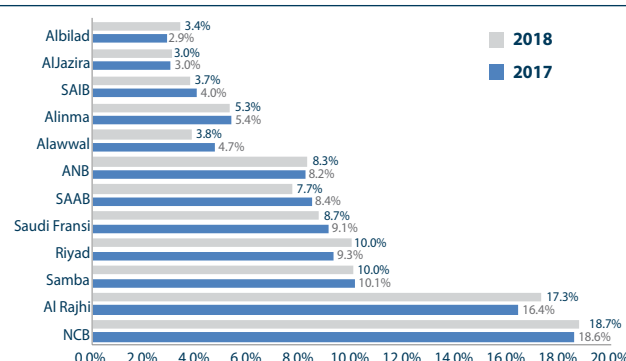
Loans Maturity- Growth



Deposit Growth by Bank

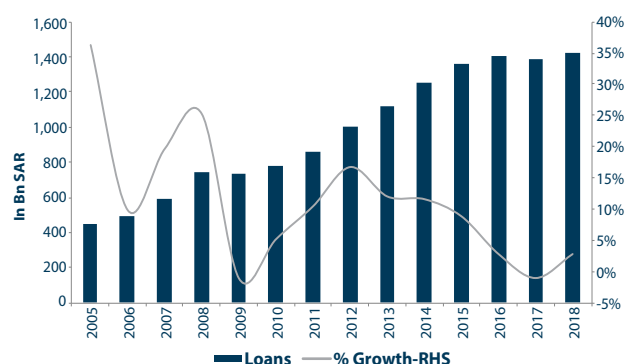


Deposits Market Share Comparison

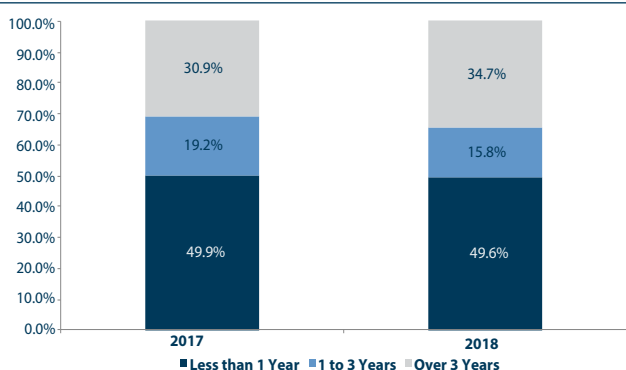


Source: Company Financials, Bloomberg

Loans Growth



Loans Share According to Maturity Profile



Source: SAMA

Loan Breakdown

The commerce sector is the largest borrower among all sectors, accounting for 19.7% of total loans, followed by the manufacturing sector (11.9% of total loans). The construction sector, which ranks third, witnessed a decline in borrowing, due to which its share decreased to 6.8% in Q4-18 from 6.4% in Q4-17.

Retail Loans

The sector's retail loans [excluding real estate financing, finance leasing and financing against shares (margin lending)] stood at SAR 339.0bn in Q4-18, indicating a decrease of 1.6% Q/Q.

Loans for home renovation financing are the biggest constituent of retail loans, accounting for almost 8.3% in Q4-18. Loans for vehicles accounted for 5.0% of total retail loans.

Retail loans acquired through credit cards accounted for 4.5% in Q4-18, a jump from 3.7% in Q4-17.

Real Estate Loans

Real estate loans grew at a CAGR of 19.4% to SAR 240.2bn during 2011-18. In Q4-18, the retail and corporate sectors accounted for 58.8% and 41.2% of the total real estate loans, respectively.

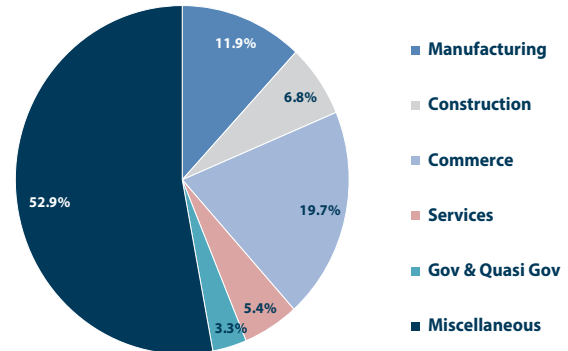
Real estate loans in the corporate sector recorded a considerable increase of 9.8% Y/Y to SAR 98.9bn in Q4-18 after witnessing 0.2% Y/Y growth in Q4-17. Retail loans advanced 16.4% Y/Y to SAR 141.4bn in Q4-18 after increasing 9.9% Y/Y in Q4-17.

Market Share in Loans by Bank

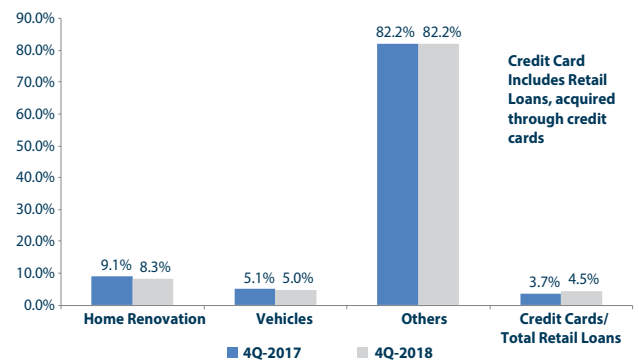
NCB, the sector's biggest lender, witnessed a rise in market share to 18.8% in Q4-18 from 18.2% in Q4-17. Al Rajhi Bank, with the second largest market share, fell marginally to 16.7% in Q4-18 from 17.0% in Q4-17. NCB was the biggest gainer in terms of market share in the loans market, whereas Samba and Saudi British Bank declined the most.

Shariah-compliant banks' market share rose to 29.1% in Q4-18 from 28.7% in Q4-17, despite Al Rajhi's share decreasing marginally. Among other Shariah-compliant banks, Alinma's market share increased to 5.9% in Q4-18 from 5.7% in Q4-17. In addition, Bank Albilad's market share grew to 3.6% in Q4-18 from 3.2% in Q4-17.

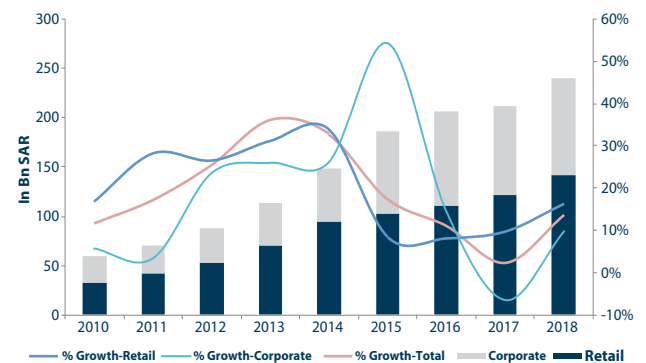
Loan Distribution by Sector



Retail Loans-Break down

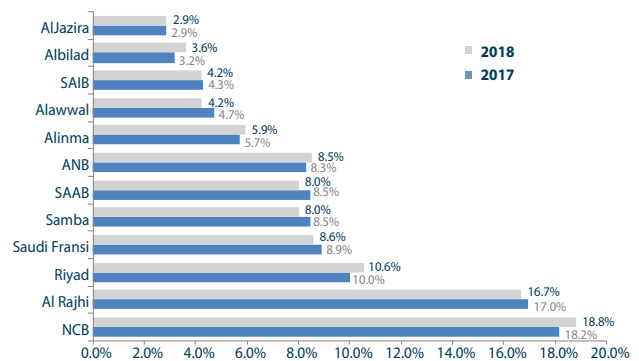


Real Estate Loans



Source: SAMA

Market Share in Loans by Bank



Source: Company Financials

Of the 12 banks in the sector, eight registered Y/Y increases in gross loans.

Albilad Bank's loan book registered the highest increase of 17.0% Y/Y in Q4-18, further strengthening its market share. Riyadh Bank, with an 8.8% Y/Y jump in gross loans, was the second best performer.

Alawwal Bank declined the most, with gross loans contracting 7.2% Y/Y in Q4-18, followed by Samba and Saudi British Bank (down 2.8% Y/Y each).

Shariah-compliant banks' total gross loans grew 4.3% Y/Y in Q4-18.

Non-Performing Loans

The sector's non-performing loan ratio jumped to 1.72% in Q4-18 compared with 1.39% in Q4-17. The NPL coverage ratio increased to 162% in Q4-18 from 159% in Q4-17.

Al Rajhi and Riyadh Bank have better NPL ratios within the sector at 0.95% and 1.02%, respectively. The NPL coverage of Al Rajhi and Albilad stood at 342% and 235%, respectively, in Q4-18.

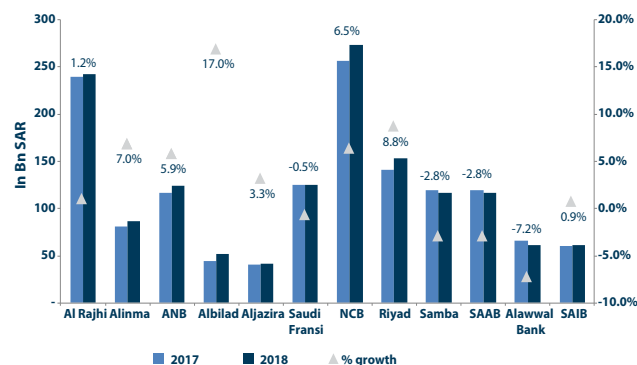
Alawwal Bank had the highest NPL ratio of 4.02%, while its NPL coverage ratio stood at 157% in Q4-18. Alinma Bank's NPL coverage improved the most to 200% in Q4-18 from 159% in Q4-17, while Saudi Investment Bank posted the biggest drop from 139% in Q4-17 to 67% in Q4-18.

Advances-to-Deposit Ratio

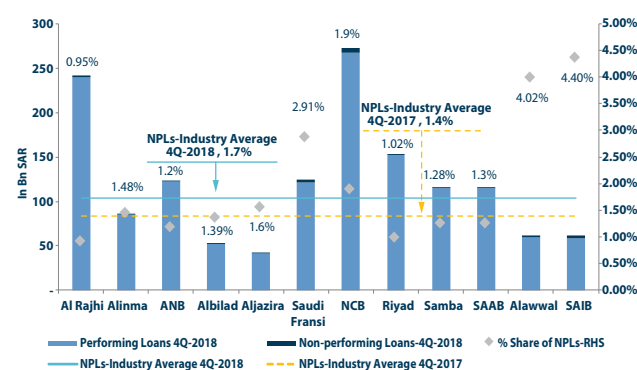
The industry ADR ratio rose to 85.4% in Q4-18 from 84.8% in Q4-17; as total gross loans rose 3.0% Y/Y, while deposits increased by 2.2% Y/Y.

SAIB posted the highest ADR of 96.1%, followed by Alinma Bank at 95.6% in Q4-18. Samba recorded the lowest ADR of 68.4% in Q4-18 compared with 71.3% in Q4-17.

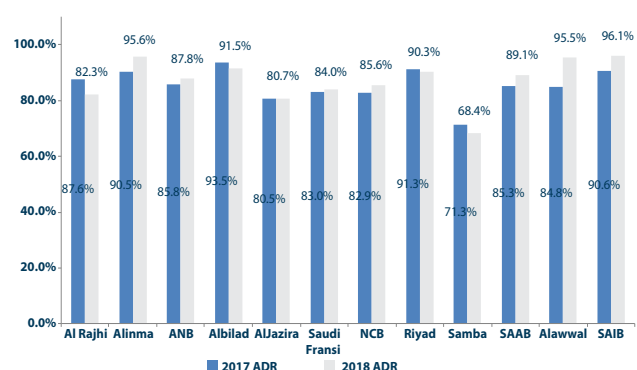
Loan Distribution by Bank



Performing Loans to NPLs



ADR ratio



Source: Company Financials

NIMs Remain Under Pressure

Of the 12 banks, seven recorded a Y/Y rise in NIM in 2018.

Al Rajhi registered the highest increase in NIM (up 1.18%) to 2.98% in 2018. Overall, the sector's return on savings and time deposits increased 13.2% Y/Y in 2018.

NCB reported the highest cost of SAR 3,936mn on savings deposits in 2018 compared with SAR 3,320mn in 2017, a 18.5% Y/Y increase.

NCB recorded the highest return on time and savings deposits at 7.89%, followed by Albilad at 1.93%.

Samba's return on time and saving deposits of 1.98% was the lowest in the sector, followed by Alinma (2.04%).

Operating Income Breakdown

The sector's operating income jumped 6.5% Y/Y to SAR 22.7bn in Q4-18 from SAR 21.3bn in Q4-17.

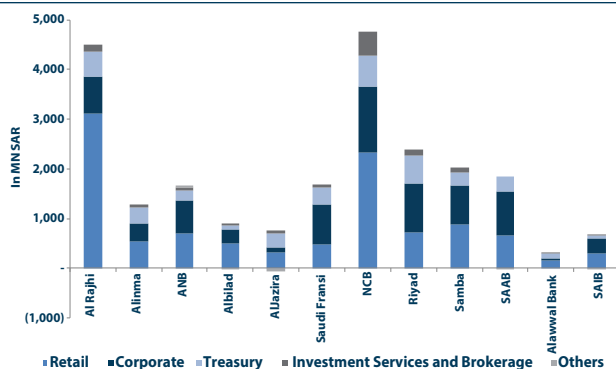
Retail accounted for 47.1% of the total operating income in Q4-18 compared with 45.7% in Q4-17. Retail income increased 9.8% Y/Y.

The Corporate sector's contribution rose to 31.8% in Q4-18 from 31.1% in Q4-17. Earnings from the corporate sector stood at SAR 7.2bn (up 8.8% Y/Y).

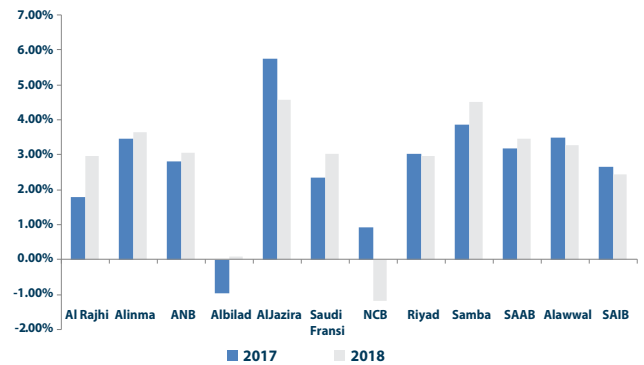
Treasury income rose 0.2% Y/Y to SAR 3.7bn, whereas Investment income decreased 7.3% Y/Y to SAR 1,177mn.

NCB, with an operating income of SAR 4.7bn, contributed 20.9% to total sector earnings in Q4-18, followed by Al Rajhi's contribution of 19.8% with earnings of SAR 4.5bn.

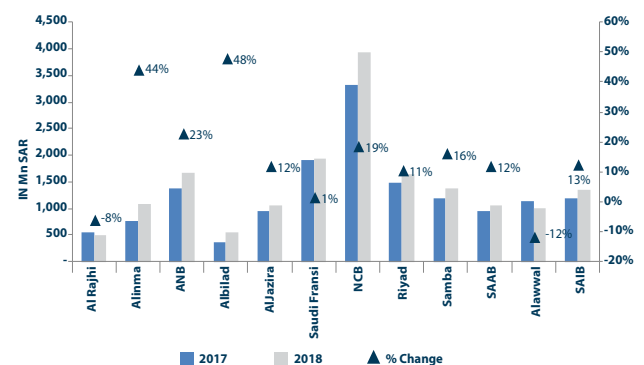
Operating Income by Company (4Q 2018)



NIM

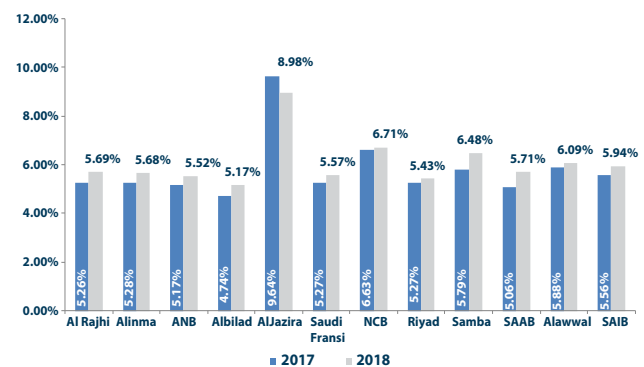


Absolute Return on Savings and Time Deposits

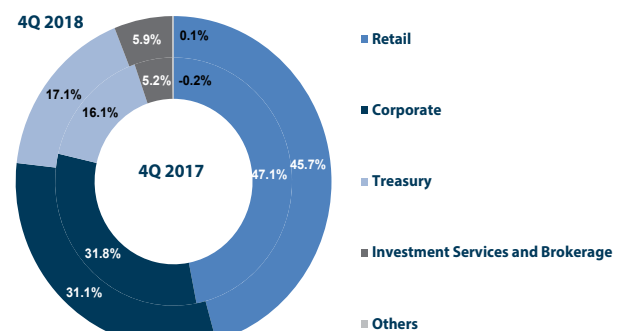


Source: Company Financials, Bloomberg

Lending rates



Operating Income Breakdown



Source: Company Financials

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1. **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.
2. **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.
3. **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.
4. **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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