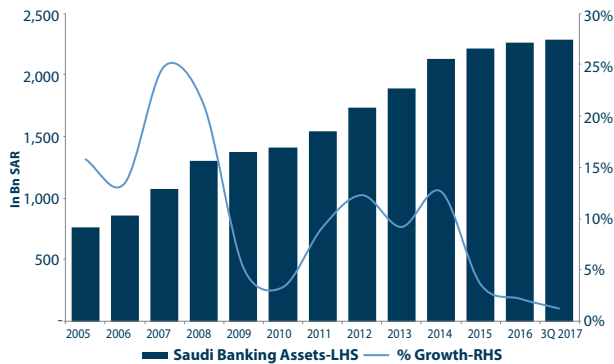


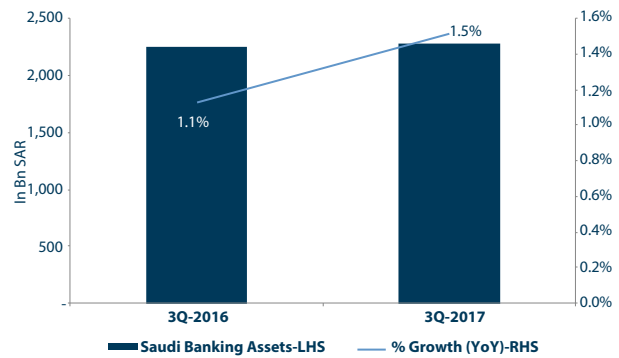
## Saudi Banking Sector – 3Q2017

In 3Q2017, the balance sheet of Saudi Arabia's banking sector increased 1.5% YoY and decreased 0.4% QoQ to SAR 2,283bn. Total loans accounted for 74.3% of the total assets, whereas deposits formed 70.2% of the total liabilities. The banking sector's balance sheet advanced at a 10-year CAGR of 8.6%.

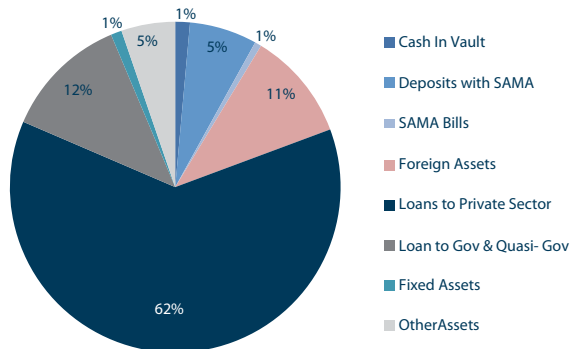
### Saudi banking Sector Balance Sheet Growth



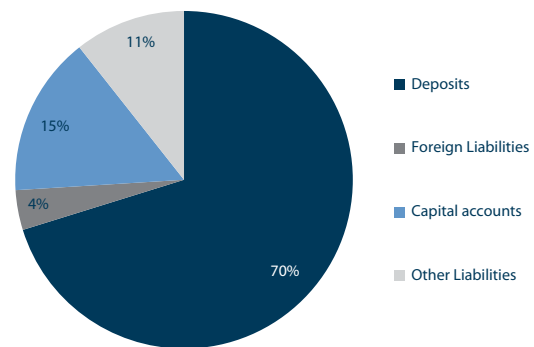
### Saudi Banking Sector Balance Sheet Growth – 3Q-2017



### Banking Sector – Assets Breakdown – 3Q-2017



### Banking Sector – Liabilities & Capital Breakdown – 3Q-2017

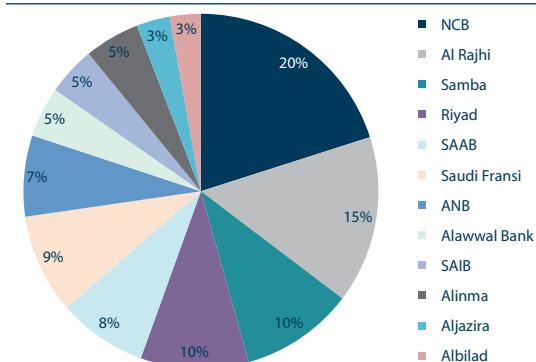


Source: SAMA

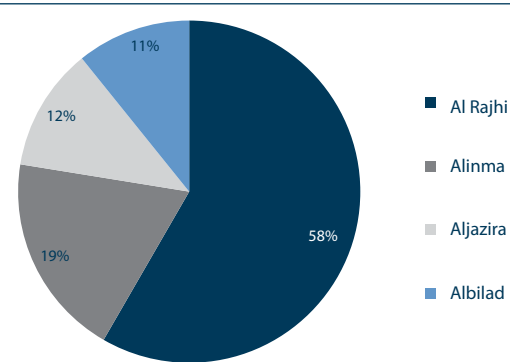
The Saudi banking sector has 12 listed and other non-listed banks. In terms of balance sheet size, National Commercial Bank (NCB) (assets of more than SAR 444.7bn) is the largest in the Kingdom, accounting for 20.1% of the total market, followed by Al Rajhi Bank (asset base of SAR 338.0bn and 15.3% market share). Samba (asset base of SAR 228.9bn) and Riyadh Bank (total assets worth SAR 218.2bn) account for 10.3% and 9.8% of the total banking assets, respectively.

Of the 12 banks, Al Rajhi Bank, Alinma Bank, Bank Albilad, and Bank AlJazira are Shariah-compliant and account for 26.2% of the total banking assets. Al Rajhi Bank is the largest Shariah-compliant bank in the Kingdom, accounting for 58.3% of the total market share in 3Q2017 (down from 59.2% in 2Q2017).

### Market Share of Total Banking Assets – 3Q-2017



### Asset Market Share of Shariah-compliant Banks – 3Q-2017



Source: Bloomberg

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## Deposits

Saudi banking deposits and money supply rose steadily at a 10-year CAGR of 9.0% and 9.1%, respectively. Total deposits edged up 1.3% YoY to SAR 1.602tn in 3Q2017 from SAR 1.582tn in 3Q2016.

Demand deposits advanced 3.8% YoY to SAR 977.8bn in 3Q2017 compared with SAR 942.5bn in 3Q2016.

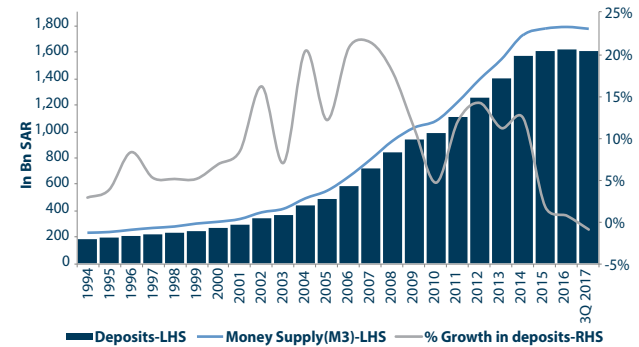
Of the total deposits, demand deposits account for 61.0% (up from 60.1% in 2Q2017), whereas time and savings deposits make up only 29.4%.

The breakdown of deposits shows 77.1% of the total deposits are held by individuals and 21.3% by government entities.

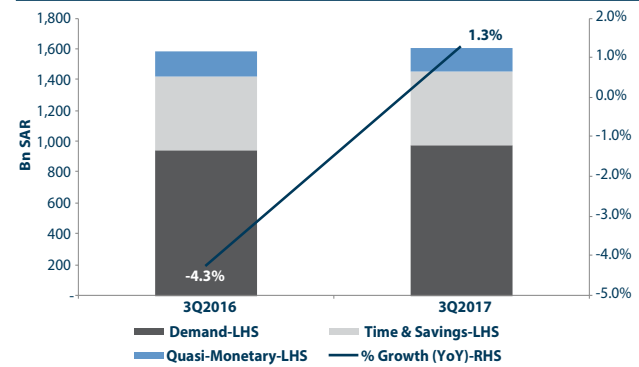
Businesses and individuals hold 91.0% of the demand deposits, while the government holds the remaining 9.0% (down from 9.9% in 2Q2017).

With regard to time and savings deposits, businesses and individuals hold nearly 52.9%, while government entities hold 47.1% (down from 48.9% in 2Q2017).

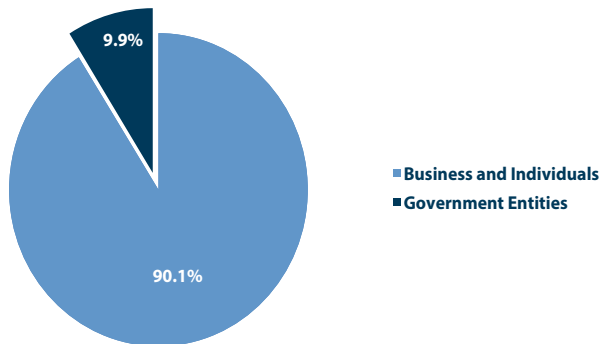
## Deposits Growth



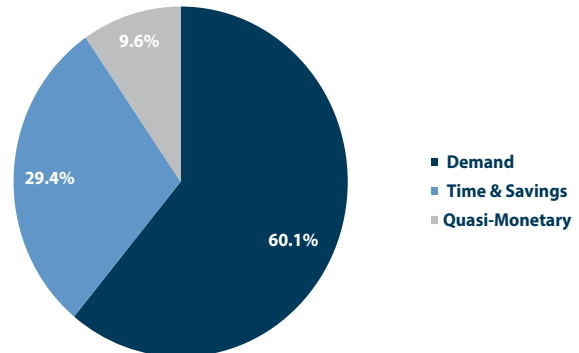
## Deposit Growth - 3Q-2017



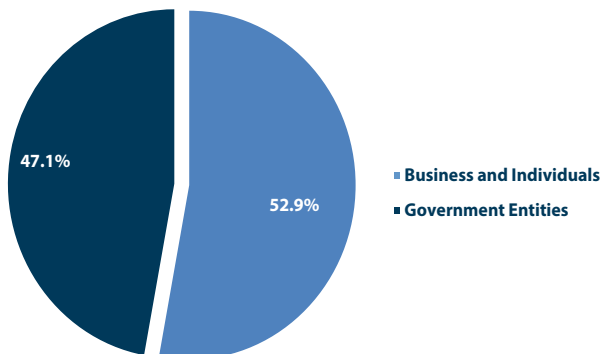
## Demand Deposits Break Down



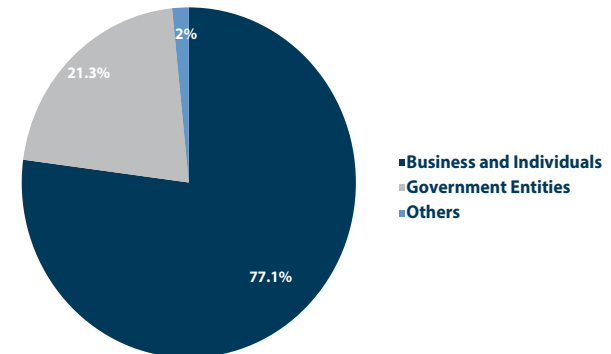
## Deposits Break Down



## Times & Savings Deposit Break Down



## Sector-wise Deposits



Source: SAMA

## Deposits – Breakdown by Bank

National Commercial Bank (deposit base of SAR 303bn) is the largest bank in Saudi Arabia, followed by Al Rajhi Bank (deposit base of SAR 270bn).

Alinma bank recorded the highest growth (12.8% YoY) in deposits and improved its market share to 5.3% in 3Q2017 from 4.7% in 3Q2016. Albilad Bank stood second, increasing the deposit base 12.5% YoY and market share to 2.8% in 3Q2017 from 2.5% in 3Q2016.

Saudi British Bank registered the biggest decline of 6.6% YoY in deposit base from SAR 144bn in 3Q2016 to SAR 135bn in 3Q2017. Market share fell from 8.7% to 8.2% in 3Q2017. It was followed by Samba, which saw its deposits fall 4.2% YoY to SAR 167bn, causing its market share to fall to 10.1% in 3Q2017 from 10.5% in the previous corresponding period.

Al Rajhi Bank, the largest Shariah-compliant bank, recorded a 0.9% YoY decline in deposit base and its market share remained unchanged at 16.4% in 3Q2017. Meanwhile, NCB's market share fell from 18.8% to 18.3% in 3Q2017 as its deposits witnessed a decline of 2.8% YoY.

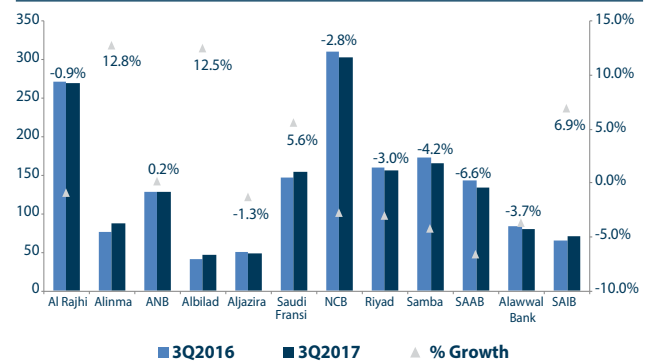
## Loans

The total loan book of Saudi Arabia's banking sector declined 1.5% YoY to SAR 1.41tn toward the end of 3Q2017, registering a 10-year CAGR of 9.5%.

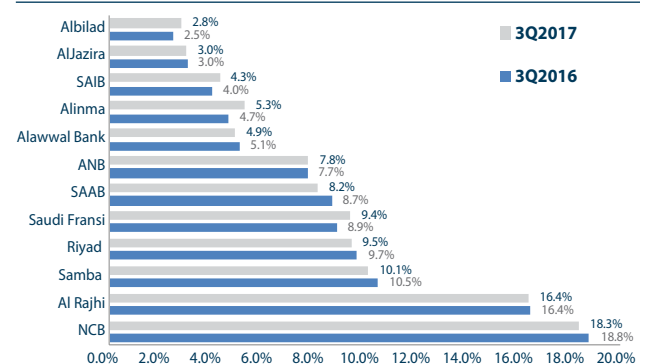
About 51.4% (up from 50.4% QoQ) of the loans extended have a maturity of less than a year. Loans with a maturity of one to three years posted a decline of 5.9% YoY, due to which its share contracted from 19.1% in 3Q2016 to 18.3% in 3Q2017.

High concentration of short-term loans in a rising interest rate environment makes it easy for banks to re-price new loans.

## Bank Deposits Growth

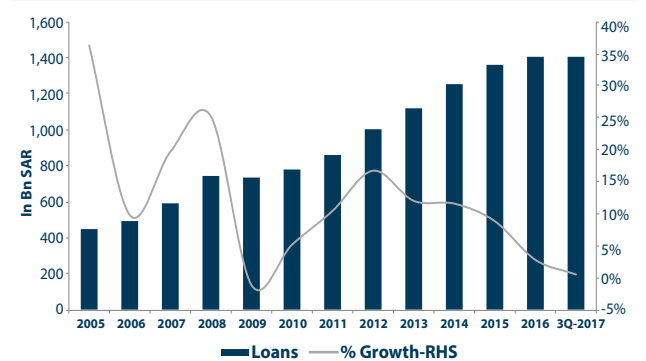


## Deposits Market Share Comparison

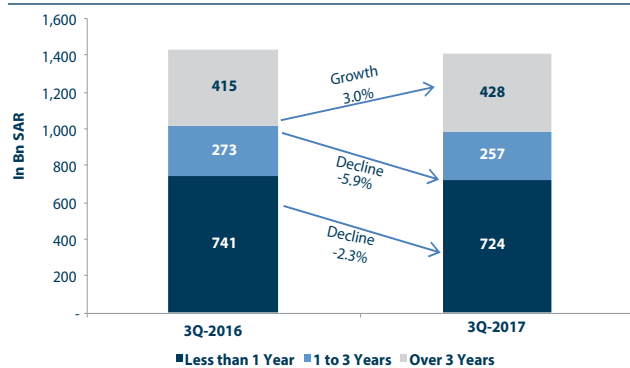


Source: Company Financials, Bloomberg

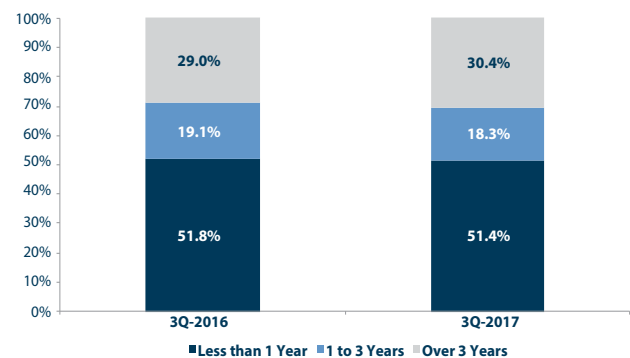
## Loans Growth



## Loans Maturity- Growth



## Loans Share According to Maturity Profile



Source: SAMA

## Loan Breakdown

The commerce sector is the largest borrower among all sectors, accounting for 22.7% of the total loans, followed by the manufacturing sector (11.9% of the total loans). The construction sector, which ranks third, witnessed a decline in borrowing due to which its share fell from 8.0% in 3Q2016 to 7.4% in 3Q2017.

## Retail Loans

The sector's retail loans (excluding real estate financing, finance leasing, and financing against shares (margin lending) contracted 0.8% YoY (up 0.5% QoQ) to SAR 340.2bn in 2Q2017.

Loans for vehicles are the biggest constituent of retail loans, accounting for almost 10.0% in 2Q2017. Loans for home renovation financing comprised 7.7% of the total retail loans.

Retail loans acquired through credit cards accounted for 3.1% in 2Q2017, a jump from 3.0% in 2Q2016.

## Real Estate Loans

Starting 2Q2010, real estate loans registered a seven-year CAGR of 22.1% to SAR 223.4bn in 2Q2017. In 2Q2017, the retail and corporate sectors accounted for 51.5% and 48.5% of the total real estate loans, respectively.

Real estate loans in the corporate sector rose 29.6% YoY to SAR 108.3bn in 2Q2017, whereas retail loans advanced 6.3% YoY to SAR 115.0bn. Loans in the corporate sector witnessed an increase in growth from 14.4% YoY in 2Q2016 to 29.6% YoY in 2Q2017.

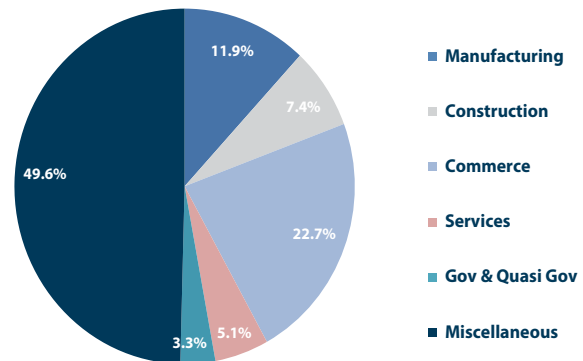
## Market Share in Loans by Bank

The market share of National Commercial bank (NCB), the sector's biggest lender, marginally increased to 18.3% in 3Q2017 from 18.2% in 3Q2016. Al Rajhi Bank, with the second largest market share, advanced to 16.6% in 3Q2017 from 15.9% in 3Q2016. Alinma Bank was the second biggest gainer in terms of market share (after Al Rajhi Bank) in the loan market, while Riyadh Bank was the biggest loser.

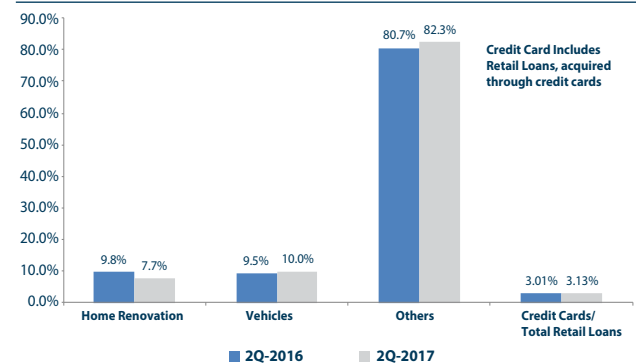
Riyad Bank's market share dropped to 10.0% in 3Q2017 from 10.6% in 3Q2016.

The market share of Shariah-compliant banks rose to 28.0% in 3Q2017 from 26.3% in 3Q2016, primarily led by Al Rajhi. Among other Shariah-compliant banks, Alinma's market share increased from 4.8% in 3Q2016 to 5.5% in 3Q2017. In addition, Bank Albilad's market share grew from 2.6% in 3Q2016 to 3.0% in 3Q2017. However, Bank AlJazira's market share declined from 3.0% in 3Q2016 to 2.9% in 3Q2017.

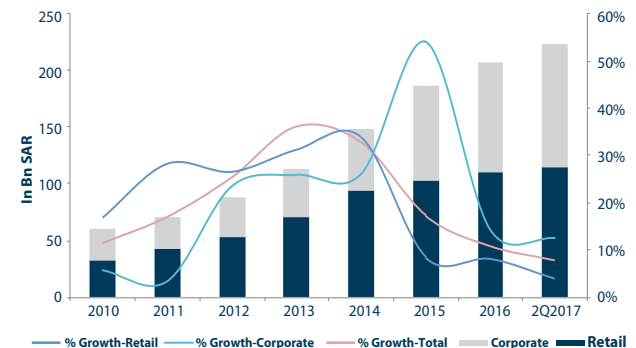
## Sector wise Loans Distribution



## Retail Loans-Break down

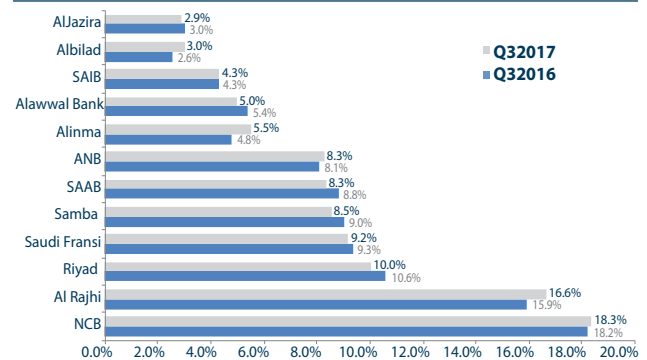


## Real Estate Loans



Source: SAMA

## Bank Market Share



Source: Company Financials

Of the 12 banks in the sector, four registered YoY increase in gross loans.

Albilad Bank's loan book registered the strongest growth of 15.2% YoY in 3Q2017, helping it increase its market share.

Alinma, with a 12.8% YoY jump in gross loans, was the second best performer. Alawwal Bank was the worst performer, with gross loans contracting 9.2% YoY in 3Q2017, followed by Riyad Bank (down 7.2% YoY). Arab National Bank posted the slowest growth in loans (0.5% YoY).

Shariah-compliant banks' gross loans grew 6.4% YoY on average in 3Q2017.

### Non-Performing Loans

The sector's non-performing loan ratio stood at 1.33% in 3Q2017 compared with 1.14% in 3Q2016. The NPL coverage ratio fell to 169% in 3Q2017 from 178% in 3Q2016.

Al Rajhi and Samba, with NPL ratios of 0.73% and 0.88%, respectively, are leaders in the industry. The NPL coverage of Al Rajhi and Samba stood at 326% and 186%, respectively, in 3Q2017.

Alawwal Bank had the highest NPL ratio of 2.84% and its NPL coverage ratio stood at 138% in 3Q2017. Al Rajhi's NPL coverage improved the most from 201% in 3Q2016 to 326% in 3Q2017, while Saudi Investment Bank posted the biggest drop in NPL coverage ratio from 196% in 3Q2016 to 90% in 3Q2017.

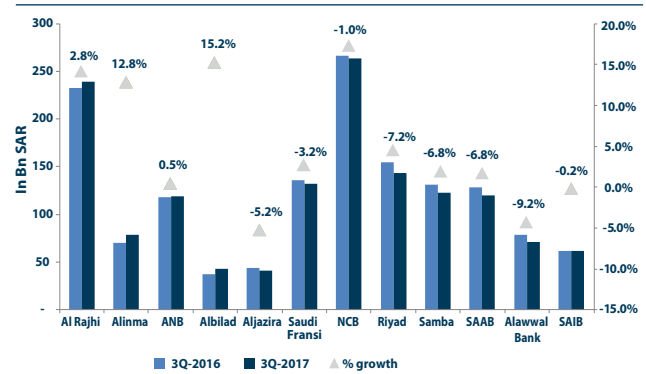
### Advances-to-Deposit Ratio

The industry ADR ratio fell to 87.1% in 3Q2017 from 88.1% in 3Q2016, as total gross loans declined 1.6% YoY and deposits declined 0.5% YoY.

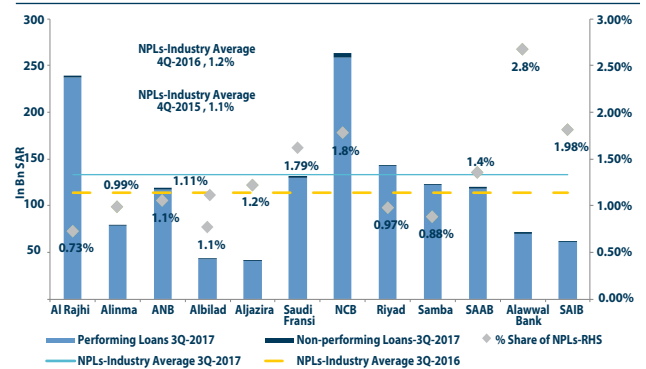
Albilad Bank and Arab National Bank posted the highest ADR's of 92.5% each, followed by Riyad Bank at 92.1% in 3Q2017. Samba recorded the lowest ADR of 73.6% in 3Q2017 compared with 75.7% in 3Q2016.

Notably, the Saudi Arabian Monetary Agency (SAMA) had increased the regulatory ADR limit to 90% from 85%.

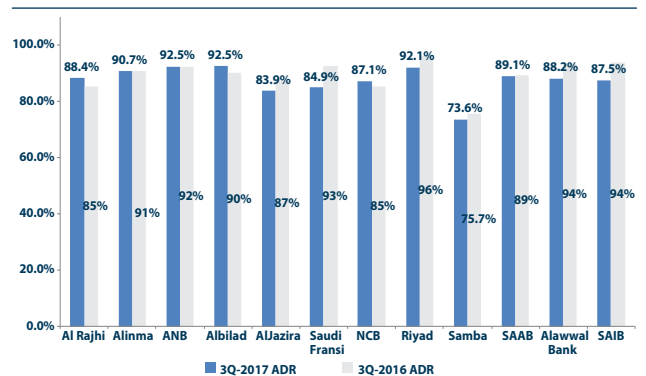
### Bank Loans Distribution



### Performing Loans to NPLs



### ADR ratio



Source: Company Financials

## NIMs

Of the 12 banks, the net interest margin (NIM) of three banks decreased (up from two in 2Q2017).

NCB recorded the greatest drop in NIM from 0.44% in 3Q2016 to 0.21% in 3Q2017, followed by Al Rajhi (0.60% to 0.45%). Alawwal Bank registered the largest increase in NIM (up 0.31%) to 0.83% in 3Q2017 from 0.52% in 3Q2016. Overall, the sector's return on savings and time deposits decreased 19% YoY in 3Q2017 compared with 9% YoY decline in 2Q2017.

NCB reported the highest cost of SAR 833mn on savings deposits in 3Q2017 compared with SAR 935mn in 3Q2016, a decrease of 11.0% YoY. Banque Saudi Fransi was the only bank to record a growth in return on deposit at 9.4% YoY.

NCB recorded the highest return on time and savings deposits at 1.42%, followed by Al Rajhi at 0.88%.

Saudi British Bank's return on time and saving deposits of 0.43% was the lowest in the market, followed by Samba (0.46%).

## Operating Income Breakdown

The sector's operating income jumped 4.9% YoY to SAR 21.8bn in 3Q2017 from SAR 20.8bn in 3Q2016.

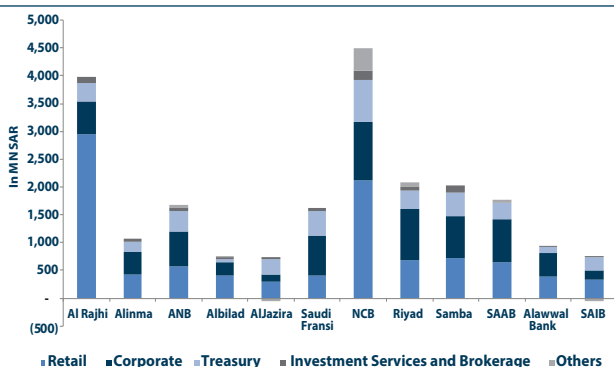
Retail accounted for 45.6% of the total operating income in 3Q2017 compared with 44.4% in 3Q2016. Retail income increased 7.7% YoY.

The corporate sector's contribution declined 1.4% from 32.5% in 3Q2016 to 31.1% in 3Q2017. Earnings from the corporate sector stood at SAR 6.8bn (up 0.5% YoY).

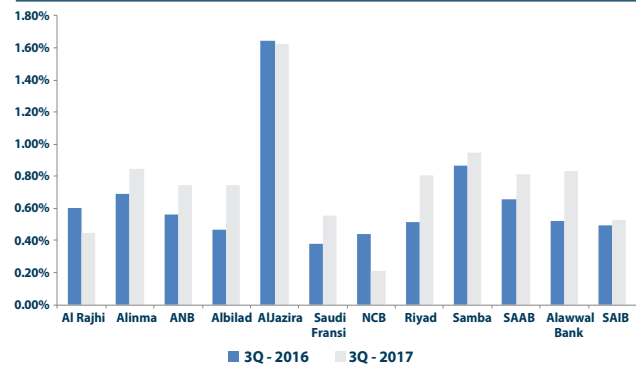
Treasury income rose 12.7% YoY and investment income increased 5.7% YoY. Meanwhile, other income declined 27.0% YoY.

NCB, with operating income of SAR 4.5bn, contributed 20.6% to the total sector earnings in 3Q2017, followed by Al Rajhi's contribution of 18.2% (earnings of SAR 4.0bn).

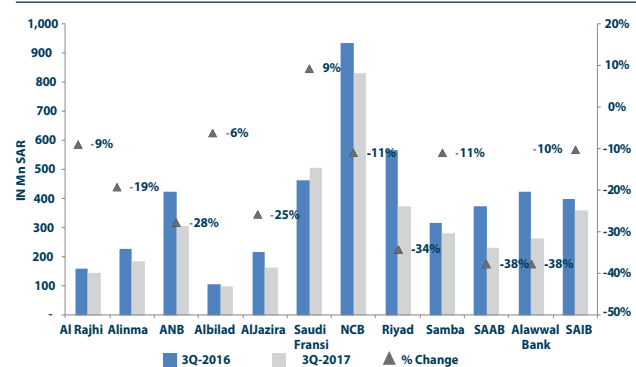
## Company-wise Operating Income



## NIMS

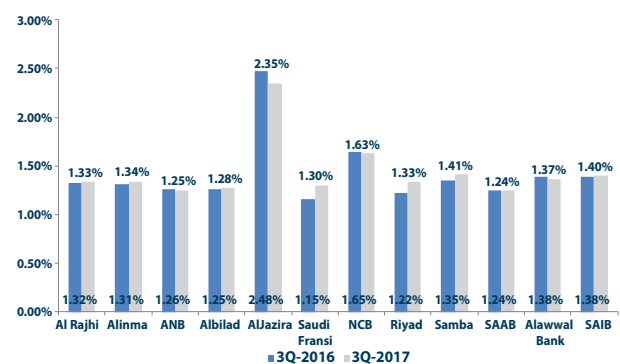


## Absolute Cost on Saving and Time Deposits

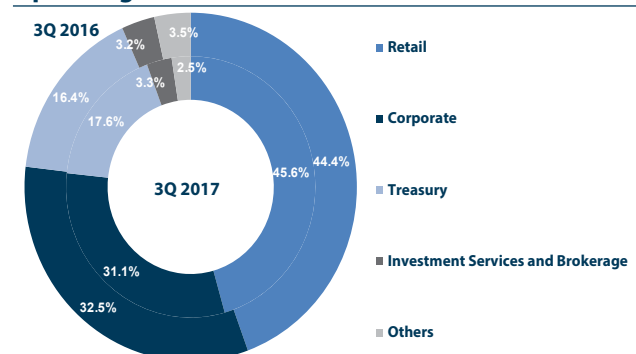


Source: Company Financials, Bloomberg

## Lending rates



## Operating Income Breakdown



Source: Company Financials



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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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