

The report depicts the performance of banks sector in Saudi Arabia in 2016. The report shows the main banking indicators as loans, deposits, capital adequacy and profitability for the sector and individual companies.

Research Scope: The report includes all the data of the listed Saudi banks in the Saudi Stock. Thus, the number of companies under coverage in this report totaled 12 banks.

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Financial Indicators	Close Price* (SAR)	Market Cap (SAR MN)	EPS (SAR)	P/E Ratio *
Riyad	10.45	31,350	1.11	9.38
Aljazira	16.47	65,88	2.18	7.56
SAIB	13.95	97,65	1.50	9.27
Alawwal	11.14	12,734	0.93	11.96
Fransi	25.80	31,098	2.91	8.86
SABB	22.01	33,015	2.60	8.48
ANB	19.75	19,750	2.85	6.92
Samba	21.10	42,200	2.50	8.44
Al Rajhi	63.41	103,041	5.00	12.68
Albilad	18.93	11,358	1.35	14.06
Alinma	15.01	22,515	1.00	14.99
NCB	39.00	78,000	4.66	8.37

* As of closing prices on April 2, 2017.

Source: Banks filings, SAMA, Tadawul, General Authority for Statistics, and Albilad Capital.

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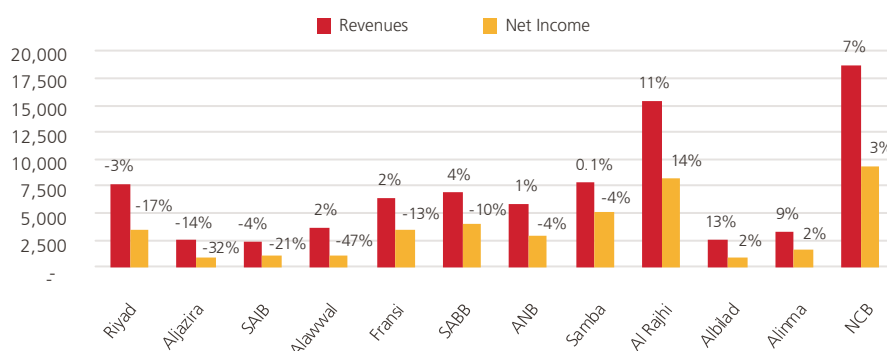
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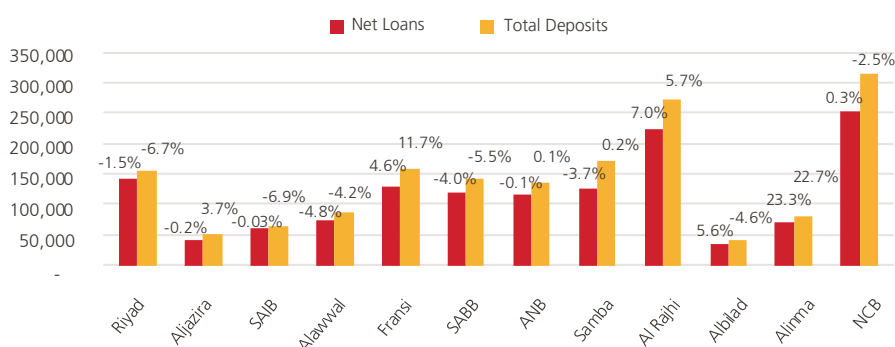
Executive Summary

- The banking sector has witnessed a significant deceleration in loans growth, posting SAR 1,394 billion (USD 372 billion), up 1.5% over the end of 2015; the lowest rate in the last five years.
- Deposits also grew slightly by just 0.6% above the prior-year, hitting SAR 1,675 billion (USD 447 billion). Corporate and personal deposits continue to dominate the structure of deposits, representing nearly 79% of total deposits.
- The loans to deposits ratio grew to 81.8% versus to 81% in 2015. On the other hand, the coverage rate came in at 178% in 2016 compared with 172% in 2015.
- Banking assets registered a slight increase of 2.1%, compared to 3.1% in 2015, coming in at SAR 2,214 billion (USD 590 billion), which is equivalent to 86% of GDP.
- Consolidated profit of the banking sector shrank 5.4% to SAR 41,3 billion in 2016. Furthermore, all banks recorded a decline in their profits, except Al Rajhi, NCB, Albilad, and Alinma Bank.
- Corporate segment has led the decline in the banking sector' profits during 2016. Corporate profits tumbled sharply by 21%, to SAR 14.7 billion (representing 36% of the banking sector's profits).
- Capital adequacy Tire I ratio posted 17.6%, whereas the capital adequacy Tire I + Tire II ratio came in at 19.7%, exceeding the requirement limit determined by SAMA.

Total Operation Income & Net Income (SAR million) with growth rates (%)—2016



Net Loans & Total Deposits (SAR million) with growth rates (%)—2016



Saudi Banking Sector

Overview

The Saudi economy growth slew down in 2016, to 1.4% at fixed prices, up to SAR 2,580 billion (USD 688 billion). The oil sector expanded 3.37%, meanwhile the non-oil sector increased slightly 0.11%, as a result of the weak growth of the private and the government sectors by 0.23% and 0.51%, respectively. There is no doubt that falling oil prices have played a major role in the slowing economy that depends basically on government spending.

The Arab Light crude averaged USD 41 per barrel in 2016, down 24% from 2015. Therefore, the government has offered multiple issues of treasury bonds. Worth SAR 92 billion to finance a part of the public spending, Thus, the banks' holding of local treasury bonds hit SAR 178.4 billion by the end of the year, piling up pressure on domestic liquidity and boosting banks interest.

As for money supply, the M3 growth also slowed down in 2016, registering a growth rate of 0.7% on an annual basis, the lowest since 1987, compared with 2.59% in the previous year. While, M2 growth has accelerated slightly to 3.5% compared with 2.5% in the prior year. At the end of 2016, the monetary base has amounted to SAR 302.4 billion (USD 80.6 billion), with a growth rate of just 0.3%, the lowest growth since 2001, as the monetary base growth exceeded 5% in the last 15 years.

On the other hand, the decline in banking sector liquidity and the delay of the government in paying dues of some companies have reflected on SIBOR (Saudi Interbank Offered Rate) for three months, reaching its highest level at 2.37% in Q3. After the Saudi Arabian Monetary Authority (SAMA) has taken some policies that enhanced the liquidity and the ability of the banking system to handle the regulatory requirements, SIBOR dropped again by the end of the year, with SAMA raising the Reverse Repo Rate during Q4 2016 from 0.50% to 0.75%, while maintaining the Repo Rate at 2.0% without any change.

As for the public debt, the Ministry of Finance has established an office for managing the Public Debt, and issued the first International bonds in October 2016 with a great success. This offering received the largest coverage within the emerging markets, moreover, it has been covered by up to 300%, with an issue value of USD 17.5 billion (SAR 65.6). This international issue has reduced the impact of the low liquidity in the banking sector.

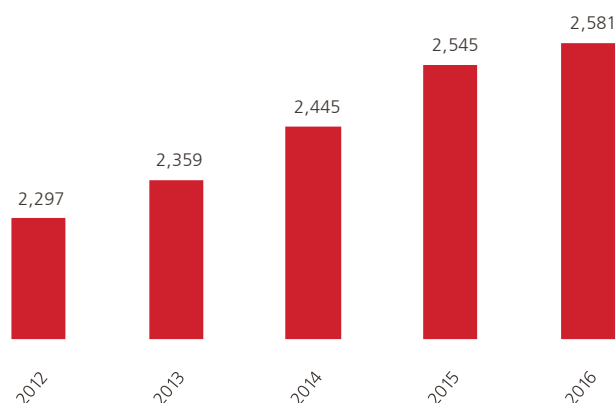
Arabian Light Crude Oil Price (USD / Barrel)



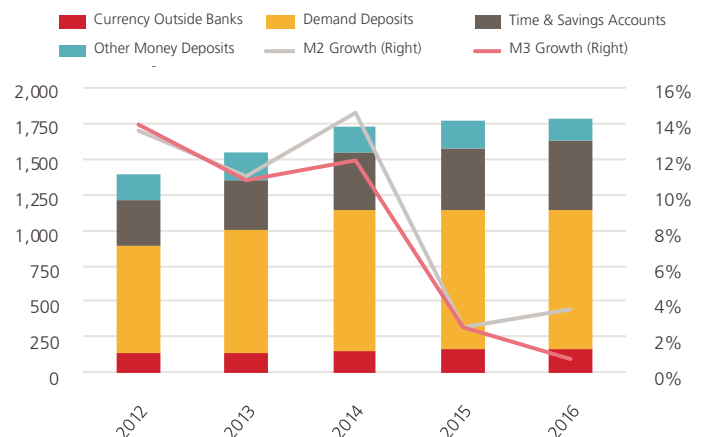
Saudi Oil Production (Million Barrel / Day)



Gross Domestic Product (GDP) (SAR billion)



Money Supply Breakdown (SAR billion)



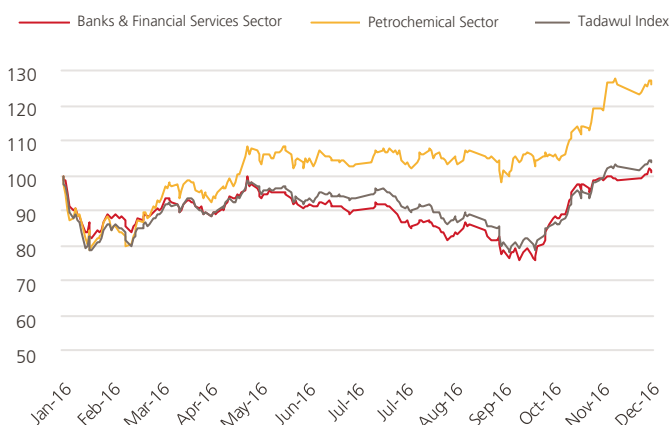
Saudi Banking Sector

Banking sector in the Saudi Stock Market

The Saudi stock market (TADAWUL) has witnessed several fluctuations during 2016, influenced by the global and local surrounding economic conditions, including the political situation in the region, the structural reforms of the local economy, and the decline in government spending, along with lower oil prices. Though, the Tadawul All Share Index (TASI) has ended the year rising by 4.3%, due to the increase in the petrochemical index by 25% from the lows recorded in January 2016, which was associated with a drop in oil prices to low levels before bouncing back by the end of the year.

The Banks & Financial Services sector jumped 9.2% YoY at the end of 2016, where the shares of just 4 banks have risen compared with 8 losing shares. The market value of the sector has reached SAR 429.3 billion (down 1% over the previous year) which is equivalent to 26% of the total market value. In addition, Banks & Financial Services sector was the most active within the market sectors in terms of value of shares as well as number of shares traded in 2016. The value of shares for Banks has reached SAR 219 billion, equivalent to 18.9% of the total value of outstanding shares during the year. While, the number of outstanding shares for the sector amounted to 14.2 billion shares, which represented 21% of the total volume traded during the year.

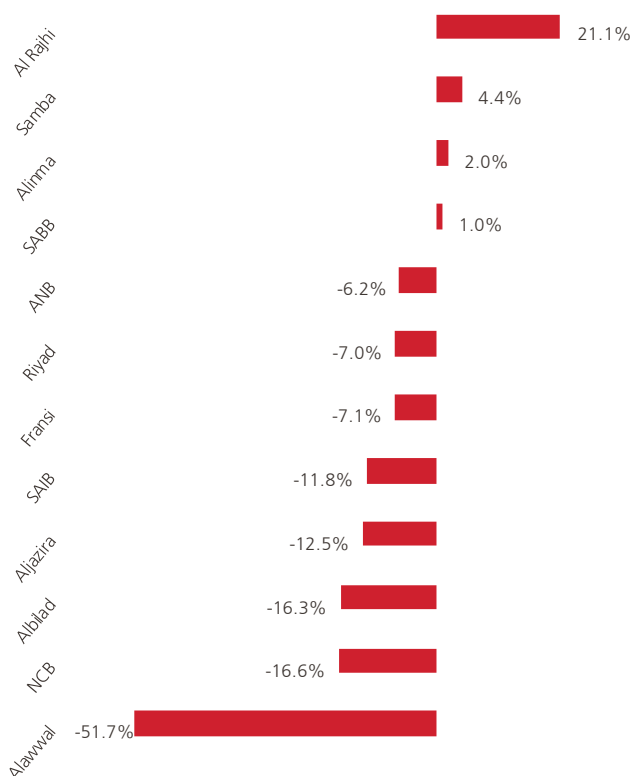
Improvement in economic conditions drive the stock market



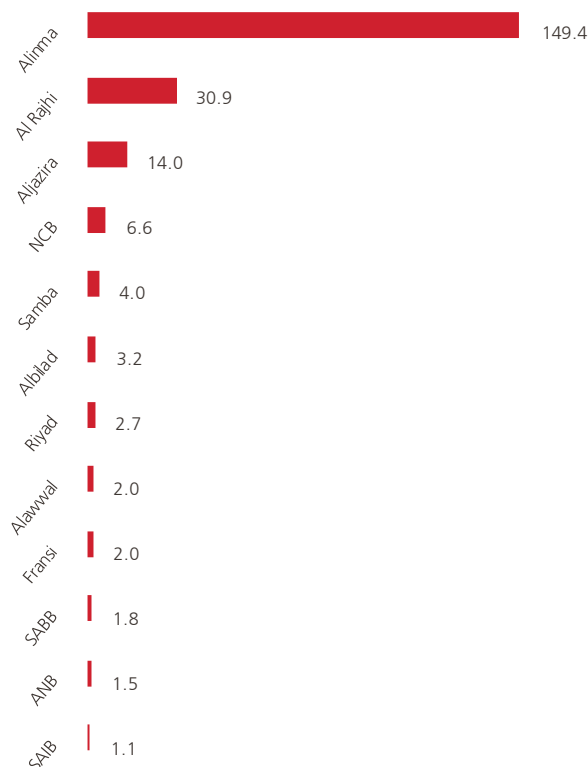
Corporate Actions During 2016

Company	Old Share Capital (SAR million)	New Share Capital (SAR million)	Action Type
Saudi Investment Bank	6,500	7,000	Bonus (1 free share for every 13 shares held)
Bank Albilad	5,000	6,000	Bonus (1 free share for every 5 shares held)
Alawwal Bank	5,715	11,431	Bonus (1 free share for every 1 share held)

Stock Performance - 2016



Value of Shares Traded - 2016 (SAR billion)



Saudi Banking Sector

Sector Performance

Saudi banks' profits decreased 5% in 2016, reaching SAR 41.3 billion (USD 11 billion) compared with SAR 43.7 billion (USD 11.7 billion) for the prior-year, driven by three main factors: (1) significant raise in investment and finance costs (special commission expense), on the back of attracting some high cost deposits. (2) increase in total operating expenses because of the sharp growth in impairment charges for credit losses. (3) decline in net non-interest income.

On the side of the balance sheet, assets rose slightly by 2.1% compared to 3.4% in 2015, coming in at SAR 2,214 billion (USD 590 billion), which represented 86% of the Gross domestic Product (GDP). Overall, the slowing growth of banking assets was a result of the decline in net investment by 13%, in addition to the declining growth in net loans of 1.5% compared with 8.2% in the previous year.

Similarly, the sector liabilities registered a slight increase of 1.1%, due to the weak growth of deposits, which represented about 89% of total liabilities. As the growth of loans was higher than the growth rate of deposits, the loans to deposits ratio shifted up by 78 basis points to 81.8%. Furthermore, the liabilities among banks grew 5% over the previous year, resulting in increasing the finance cost.

In terms of liquidity, it remained at a high level, as total cash jumped 27% in 2016: the cash to total assets rate came at 16.5%. In addition, the rate of cash to total deposits and current deposits expanded by 4.5% and 7% respectively, reaching 22% and 35%. On the other hand, the capital adequacy Tire I ratio posted 17.6%, whereas the capital adequacy Tire I + Tire II ratio came in at 19.7%, exceeding the requirement limit determined by the Saudi Arabian Monetary Agency (SAMA).

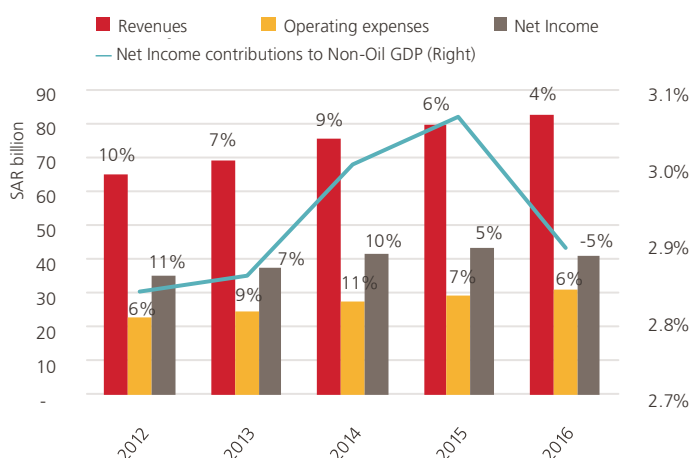
Revenues Market Share

		2015	2016
1	NCB	%21.8	%22.4
2	Al Rajhi	%17.2	%18.4
3	Samba	%9.7	%9.3
4	Riyad	%10.0	%9.3
5	SABB	%8.3	%8.3
6	Fransi	%7.9	%7.7
7	ANB	%7.2	%7.0
8	Alawwal	%4.5	%4.4
9	Alinma	%3.8	%4.0
10	Albilad	%2.9	%3.1
11	Aljazira	%3.6	%3.0
12	SAIB	%3.1	%2.9

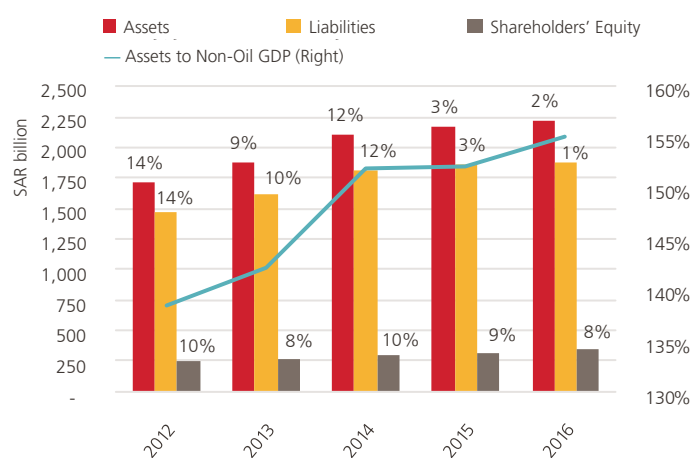
Assets Market Share

		2015	2016
1	NCB	%20.7	%19.9
2	Al Rajhi	%14.5	%15.3
3	Samba	%10.8	%10.5
4	Riyad	%10.3	%9.8
5	Fransi	%8.5	%9.2
6	SABB	%8.7	%8.4
7	ANB	%7.9	%7.7
8	Alawwal	%5.0	%4.7
9	Alinma	%4.1	%4.7
10	SAIB	%4.3	%4.3
11	Aljazira	%2.9	%3.0
12	Albilad	%2.4	%2.4

Income vs Expense with growth rates



Balance Sheet Breakdown with growth rates



Saudi Banking Sector

Banking Segments Performance

Retail sector

The retail segment has shown a strong growth in 2016. Retail revenues increased 8%, up to SAR 35.7 billion, representing 43% of total banking sector revenues, with the support of high demand for consumer loans and credit card, driven by the expansion in population and the products of personal loan. However, the profits of the retail segment surged 15%, coming in at SAR 13 billion, which represented 32% of the banking sector's profits. The retail sector has witnessed a major variation in terms of banks performance, as Al Rajhi bank possessed nearly 40% of the segment's net profit, followed by NCB accounted for 24%, meanwhile 10 banks shared the remaining 36% of the segment's profit.

Corporate Sector

The corporate segment has led the decline in the banking sector's profits during 2016. Profits tumbled sharply by 21%, to SAR 14.7 billion (representing 36% of the banking sector's profits), mainly due to the sharp swell in impairment charge for credit losses compared with the prior-year. Reflecting the slowdown in economic activity and the decline in government spending. At the segment level, five banks possessed 68% of the segment's net profit, as follows: NCB, Samba SABB, Saudi Fransi, and Riyadh bank with shares of 18.2%, 14.3%, 12.7%, 12.3% and 10.3%, respectively.

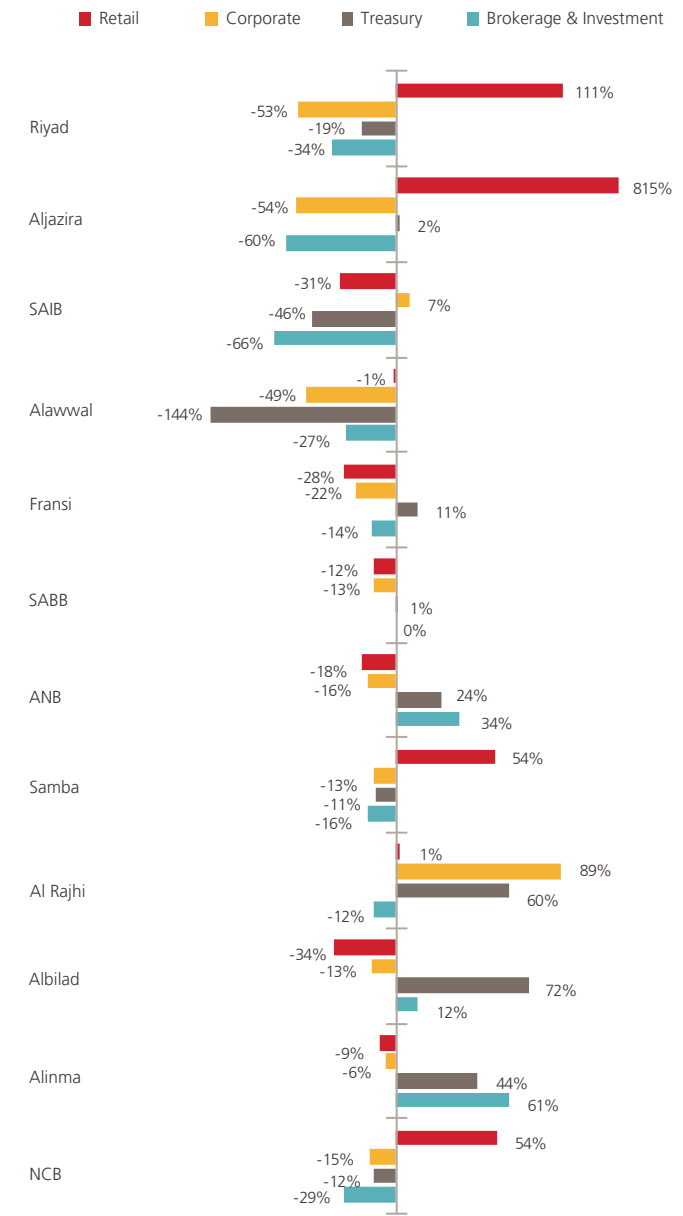
Treasury Sector

The treasury revenues stabilized at 17% of the total banking sector's revenues in 2016, while its profits declined by 2%, reaching SAR 11.5 billion (representing 28% of the banking sector's profits). NCB possessed 26% of the total segment profit, followed by Al Rajhi Bank and Samba with shares of 14% and 13% respectively.

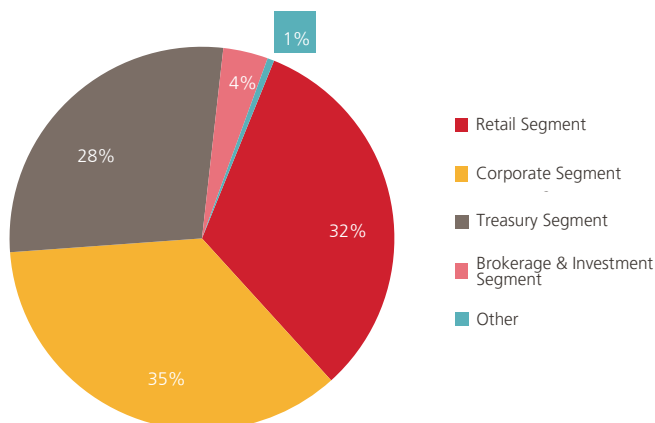
Brokerage and Investment Sector

The segment revenues slumped by 12%, to SAR 3.1 billion thus representing 4% of the banking sector revenues. Moreover, the profits of the segment tumbled 17%, languishing at SAR 1.6 billion. Regarding the individual performance of banks, Al Rajhi Bank and Samba captured equally 52% of the segment profit, followed by NCB which seized 15%.

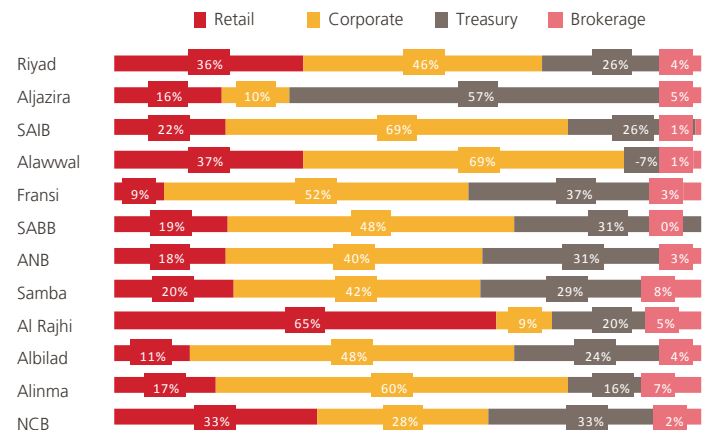
Net Income Growth per Segment for Each Bank—2016



Banking Segments Breakdown—2016



Net Income Breakdown per Segment for Each Bank—2016



Saudi Banking Sector

Loans

The loans portfolio of Saudi banks slowed significantly, hitting SAR 1,394 billion at the end of 2016, growing just 1.5% over the previous year; the lowest rate in the last five years. This deceleration is attributable to a decline in corporate loans growth, because of a slowing economic activity and lower government spending, despite the expansion of the retail loans by 5%. Factoring in the hefty contribution of the corporate segment in total sector loans (69%), its impact on the sector has huge.

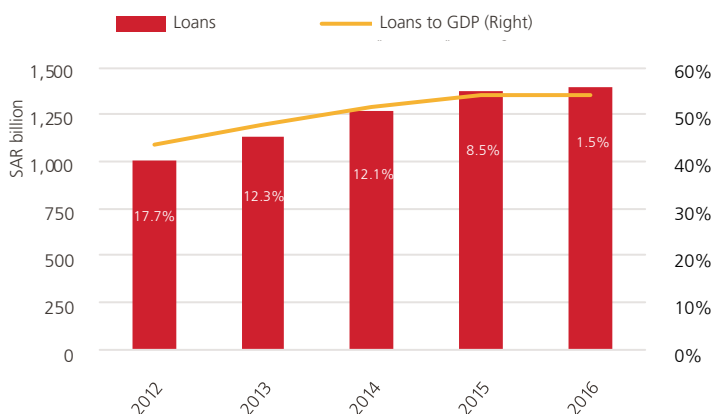
Lending Market share

NCB and Al Rajhi Bank seized 34% of net loans, meanwhile five other banks (Riyadh, Fransi, Samba, SABB and ANB) possessed 45%, with market shares between 8% to 10% for each bank. The other five banks shared the remaining 21% of net loans in 2016.

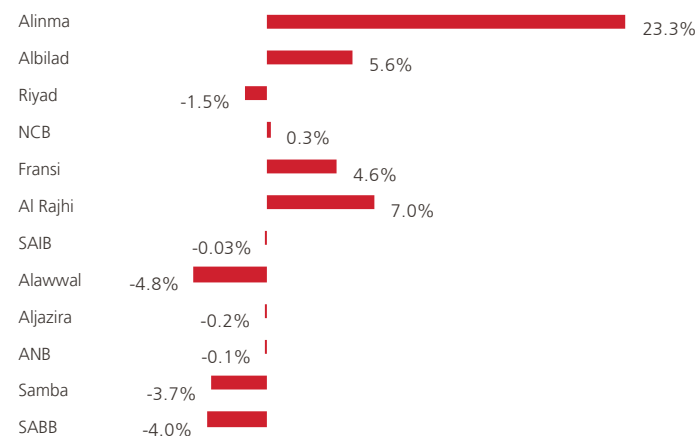
Loans Market Share

		2015	2016
1	NCB	%18.4	%18.2
2	Al Rajhi	%15.3	%16.1
3	Samba	%10.6	%10.2
4	Riyad	%9.0	%9.3
5	SABB	%9.5	%9.0
6	Fransi	%9.2	%8.7
7	ANB	%8.4	%8.3
8	Alawwal	%5.6	%5.2
9	Alinma	%4.1	%5.0
10	Albilad	%4.4	%4.3
11	Aljazira	%3.1	%3.0
12	SAIB	%2.5	%2.6

Net Loans Growth



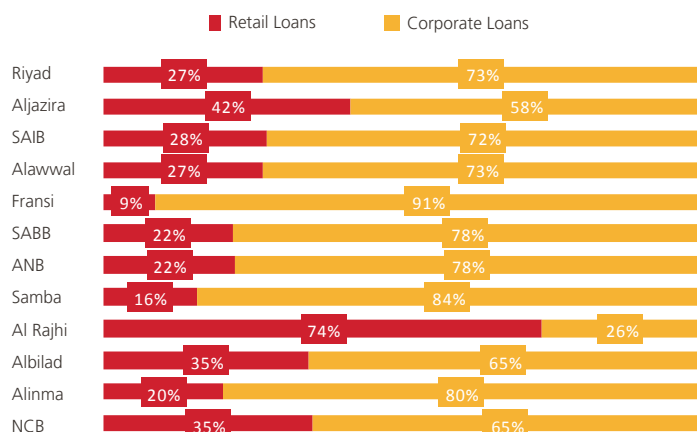
Loans Growth per Each Bank—2016



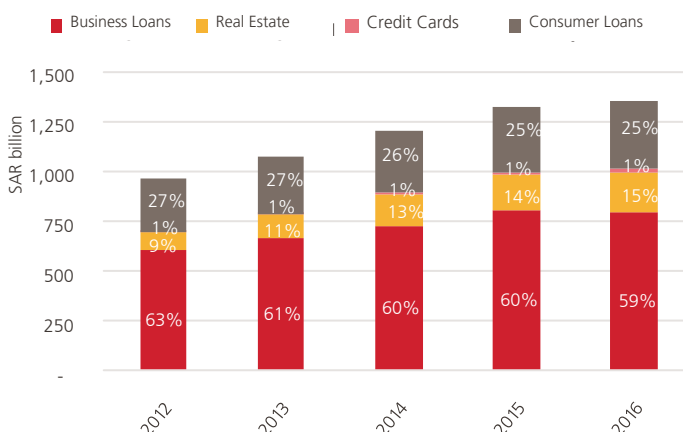
Credit Card expanded 7% in 2016

Corporate loans still form the greater part of the total loans. However, its share has declined by about 1.5% compared to the previous year. In contrast, retail loans expanded 5% on an annual basis, increasing its share to 33% of total loans. Credit card loans jumped 7% over the previous year, to nearly SAR 10 billion by the end of 2016. This has led to rise the credit card loans share to 2.2% of retail banking loans.

Lending Structure for Each Bank—2016



Segments Contribution to Net Loan



Saudi Banking Sector

A Continuation of concentration in some segments may increase credit risk

As for the main economic segments, the loans are distributed among twelve segments. Four of these segments acquired 65% of total loans: personal (25%), commerce (21%), manufacturing (12%), and construction (7%), while the rest 35% had is among the remaining sectors. Indeed, the high degree of concentration may increase the credit risk when some segments are facing a slowdown in the economy.

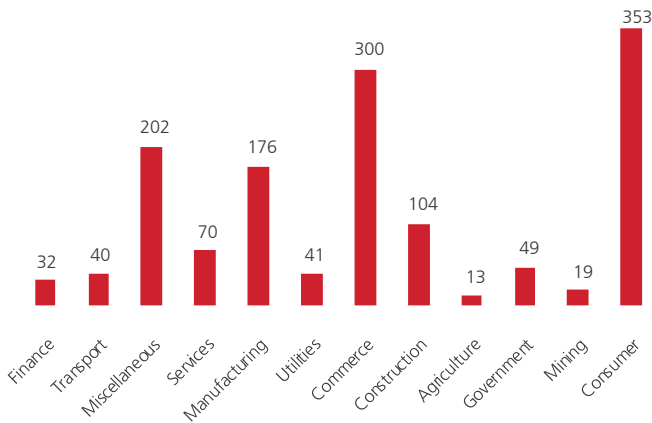
Relative contribution of short-term loans indicates to increase the opportunities

The short-term loans to total loans ratio came in at 50%. This could be an advantage for those banks, due to their ability to re-lend these funds in the short term, on the other hand, this would be within the cycle of increasing in Global interest-rates, which may increase the profitability of these banks. On the side of personal loans' maturity, its split as follows short term (32%), medium term (27%), and long term (41%).

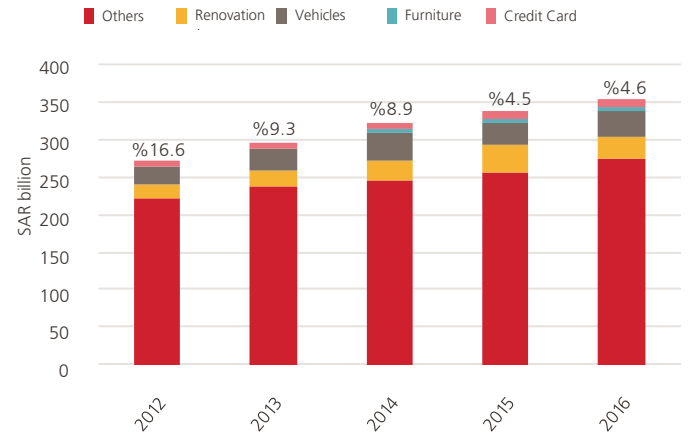
Loans Breakdown—2016



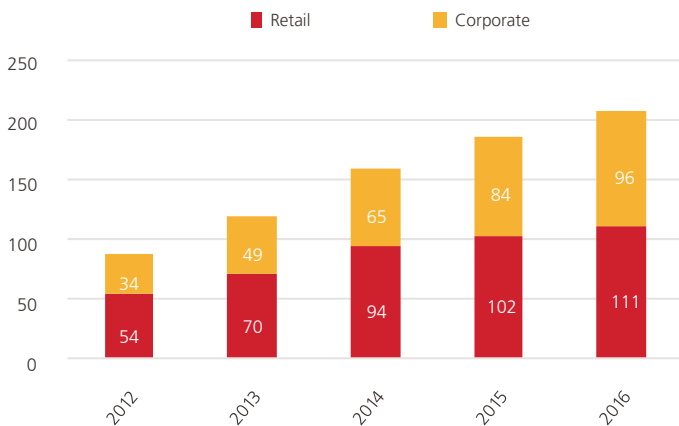
Loans Breakdown per Economic Segment—2016



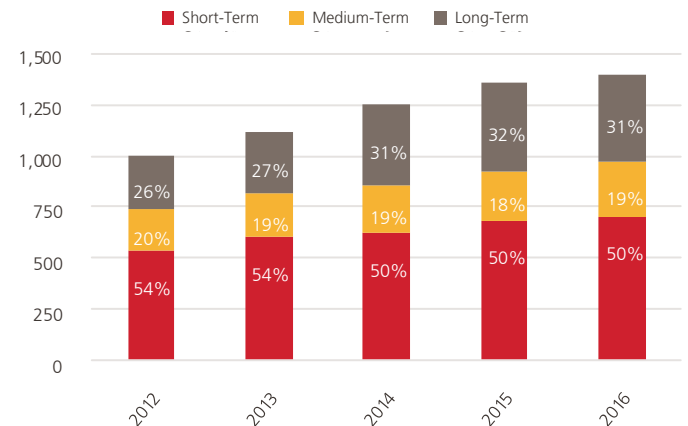
Consumer Loans Growth



Real Estate Loans (SAR billion)



Loans Maturity Terms



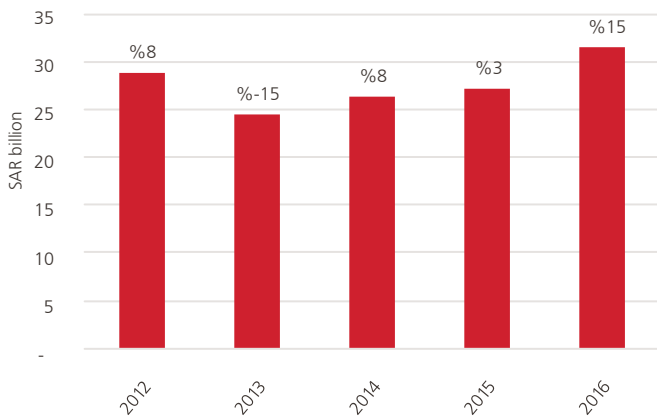
Saudi Banking Sector

The rising credit provisions to improve the coverage rate of bad loans

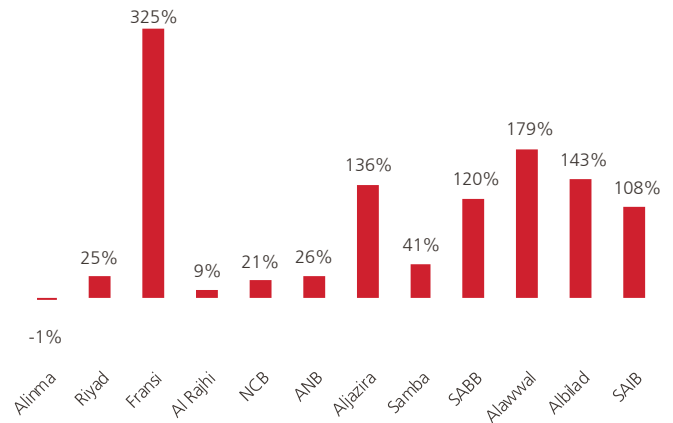
Non-performing loans edged up 11% above the previous year, at a faster pace than total loan growth. Therefore, the non-performing loans rate increased slightly to 1.25%, however, it's still close to historical low levels.

Furthermore, credit provisions jumped 15%, basically due to the sharp growth in impairment charge for credit losses of the corporate sector by 211%, despite the decline in the credit provisions of the retail sector. As a result of the increase in provisions, the coverage rate came in at 178% compared with 172% in the previous year, which also indicates improvement in the sector asset quality.

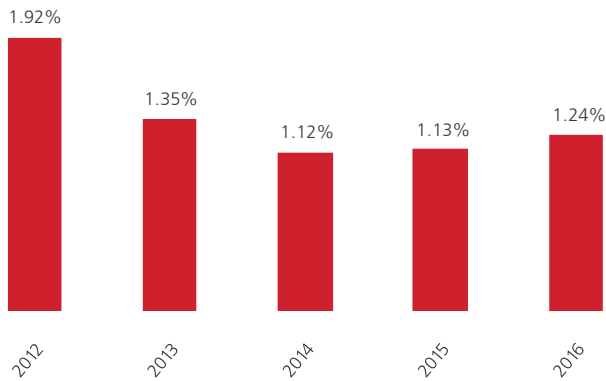
Accumulated Provision Charge Growth



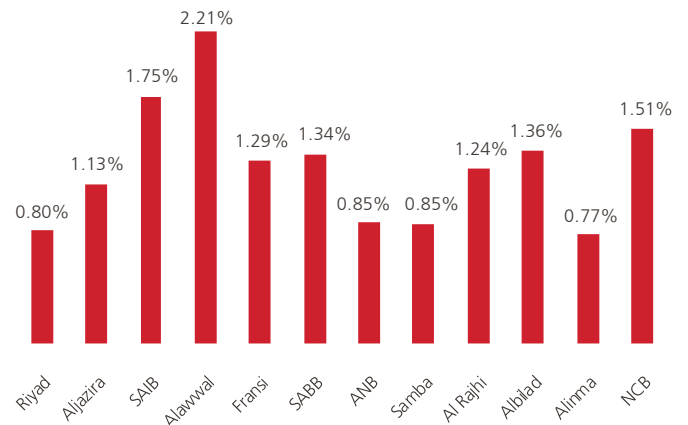
Provision Charge Growth per Each Bank—2016



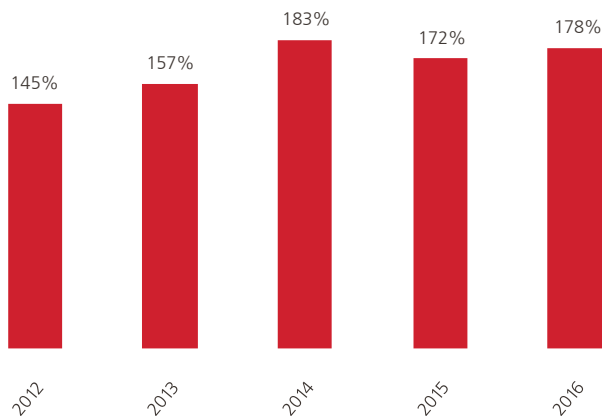
Non-Performing Loans (NPLs) to Total Loans Ratio



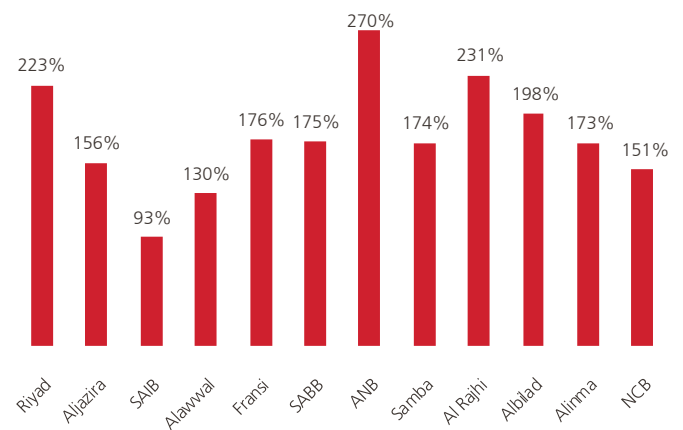
Non-Performing Loans (NPLs) to Total Loans per Each Bank—2016



Coverage Ratio



Coverage Ratio per Each Bank



Saudi Banking Sector

Customer Deposits

Total customer deposits grew slightly by 0.6%, recording SAR 1,675 billion. Demand deposits was the main driver behind the slowdown in deposit growth, stabilizing at the same level of the previous year, while both savings and time deposits increased 14% and 2%, respectively.

The decline in demand deposits growth was due to attracting term deposits by major banks. This is associated with an unfavorable environment for the private sector as well as the preference of individuals to invest in time and savings accounts. In addition, the withdrawals by independent government institutions, the decline in oil revenues, and the enlargement of government spending policies have played a major role in the pressure on liquidity and slowing growth of deposits.

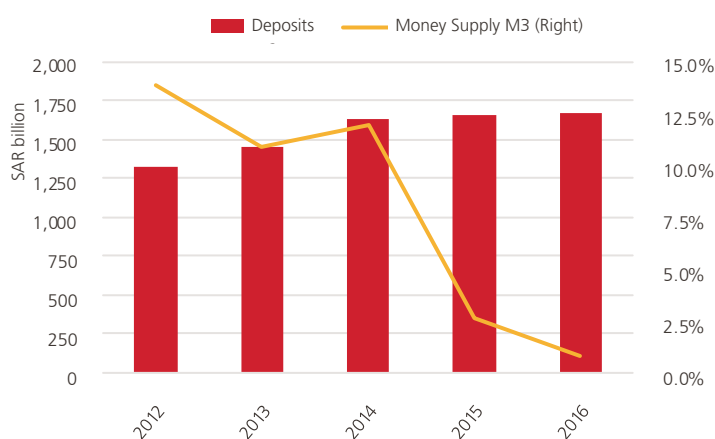
Market shares

The three large banks (NCB, Al Rajhi, and Samba) possessed 45% of the banking deposits, with market shares of 19%, 16% and 10% respectively. While, the other nine banks shared the remaining 55% of the market deposits.

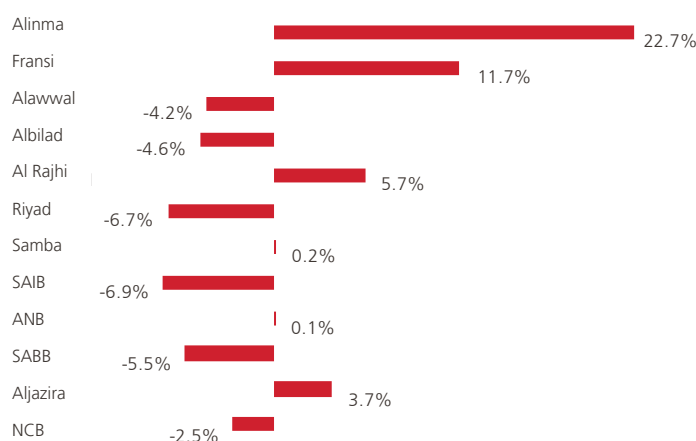
Deposits Market Share

		2015	2016
1	NCB	%19.5	%18.8
2	Al Rajhi	%15.5	%16.3
3	SAMBA	%10.3	%10.3
4	Riyad	%8.5	%9.5
5	SABB	%10.1	%9.4
6	Fransi	%8.9	%8.4
7	ANB	%8.2	%8.1
8	Alawwal	%5.4	%5.1
9	Alinma	%3.9	%4.8
10	Albilad	%4.2	%3.9
11	Aljazira	%3.0	%3.1
12	SAIB	%2.5	%2.4

Total Deposits Growth



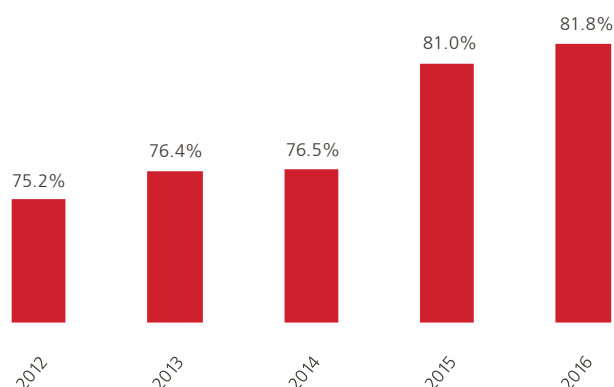
Total Deposits Growth per Each Bank



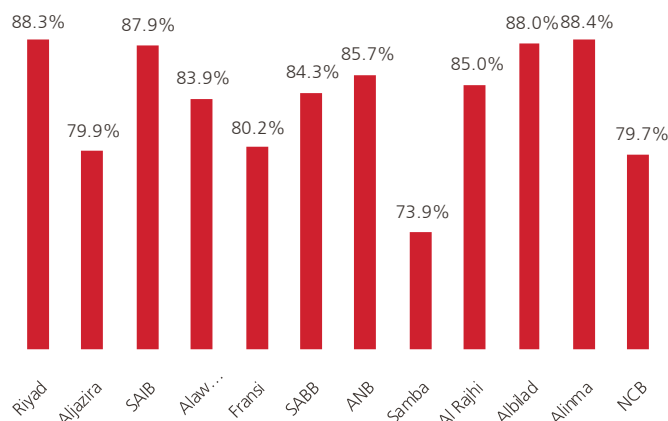
The loans to deposits rate stabilizes at a comfort level

As a result of loans growth at a faster pace than deposits growth, the loans to deposits ratio grew to 81.8% compared with 81% in the prior year. However, this rate is still below the limits of SAMA, indicating the ability of banks to grant more credit.

Loans to Deposits Ratio



Loans to Deposits Ratio per Each Bank

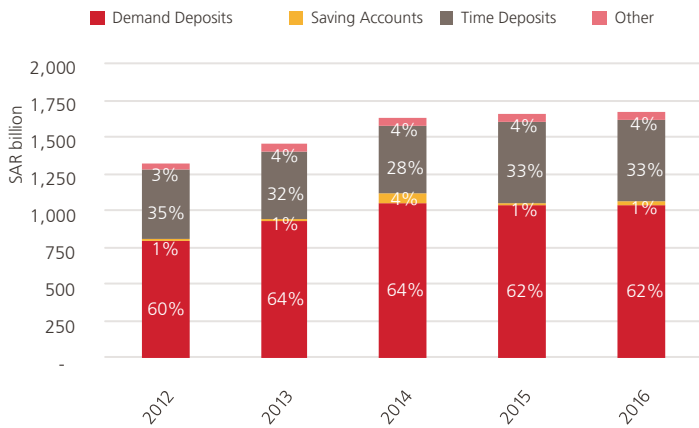


Saudi Banking Sector

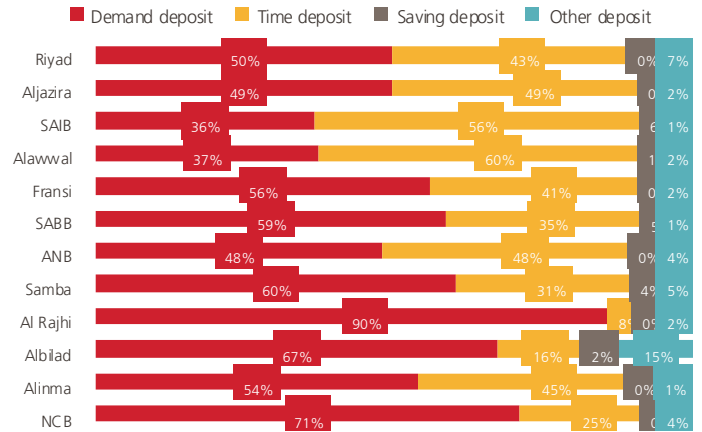
Deposits Distribution

During 2016, corporate and personal deposits rose 4.3% over the previous year, representing nearly 79% of deposits. Government deposits slid 10%, thus contributing 19% of total deposits from 22% in 2015.

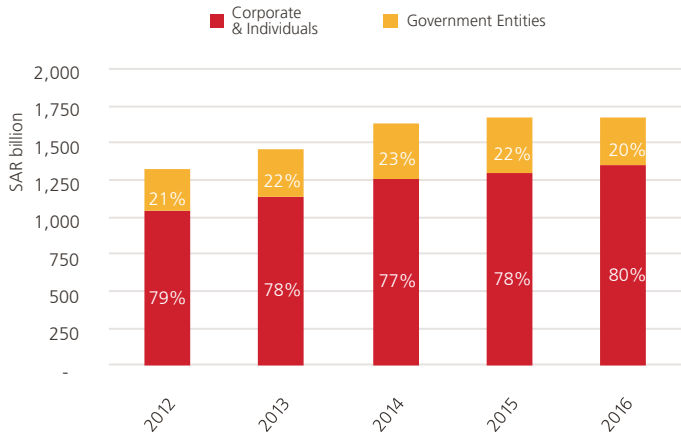
Sector Deposits Breakdown



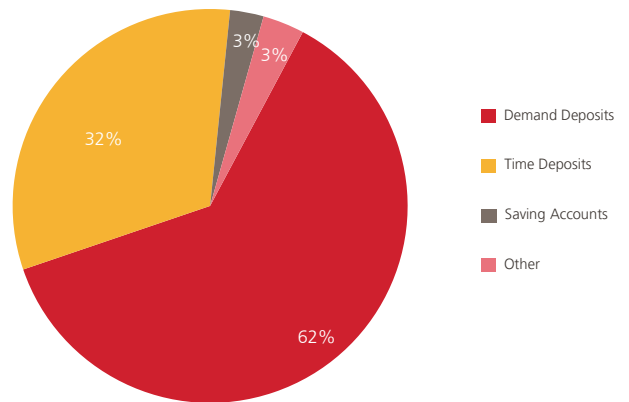
Deposits Breakdown for Each Bank



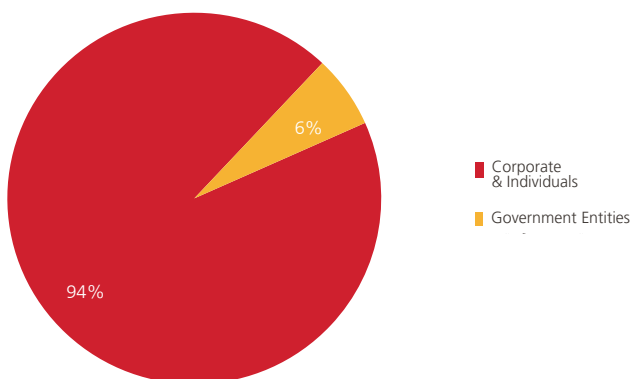
Customer Contribution to Total Deposits



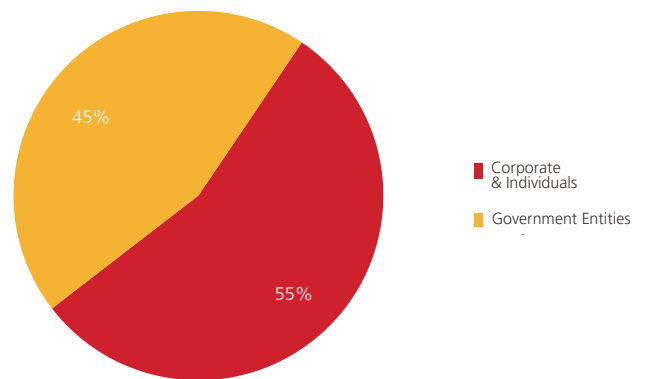
Deposits Breakdown—2016



Customer Contribution to Demand Deposits



Customer Contribution to Time & Saving Accounts

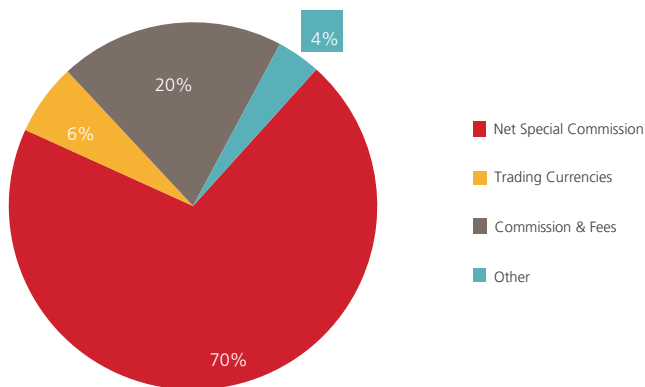


Saudi Banking Sector

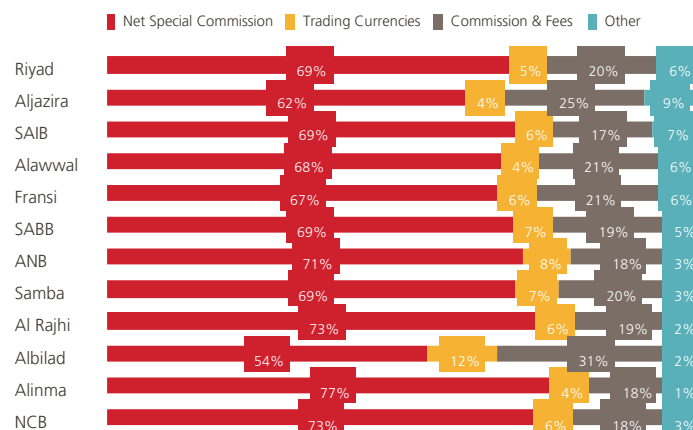
Sector Profitability

The profits of Saudi banks have shrunk 5.4%, to SAR 41.3 billion in 2016, compared with SAR 43.7 billion for the previous year. All banks recorded a decline in their profits, except Al Rajhi, NCB, Albilad, and Alinma Bank which augmented the net profit by 14%, 3%, 2% and 2%, respectively. Al Rajhi Bank and NCB acquired nearly 42% of the sector profitability. At the sector level, net special commission income contributed by 70% of total operating income, followed by fees and commission income which contributed 20%.

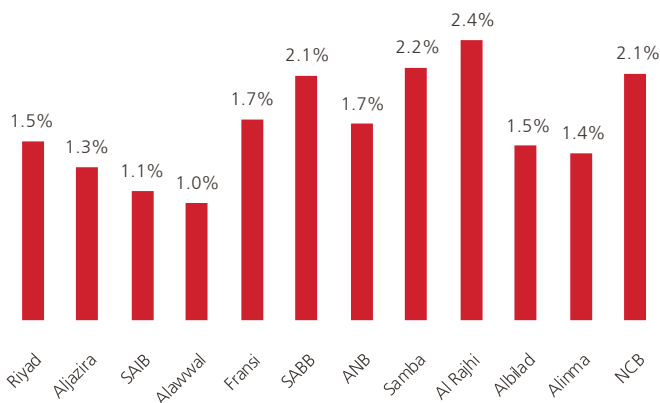
Banking Sector Revenues Breakdown—2016



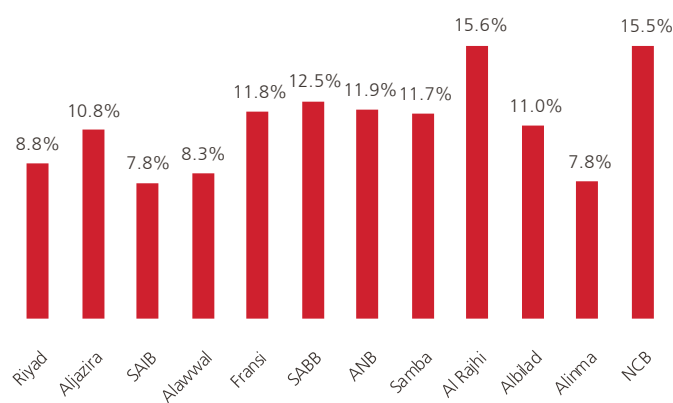
Revenues Breakdown per Each Bank—2016



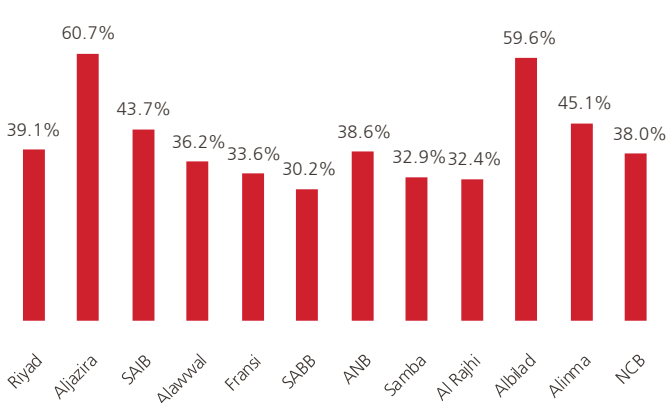
Return on Assets Ratio



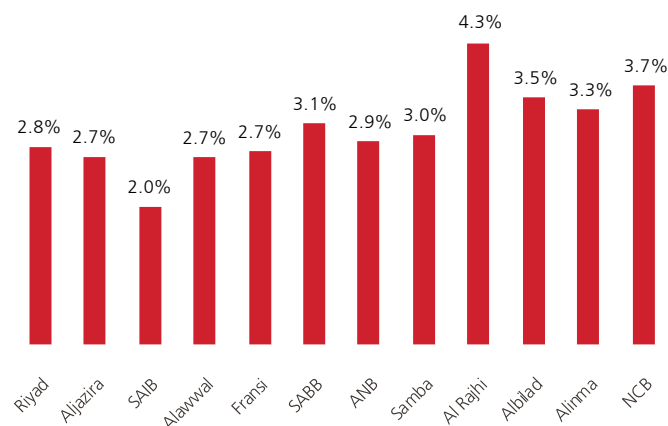
Return on Equity Ratio



Expenses to Income Ratio



Net Interest Margin



Consolidated Financial Statements

Balance Sheet

(SAR million)	2012	2013	2014	2015	2016
Assets					
Cash and balance with SAMA	190,042	199,042	198,716	146,809	238,171
Due from banks and other financial institutions	102,851	68,719	79,542	142,140	127,803
Investments, net	362,729	426,220	497,484	450,238	392,743
Loans and advances, net	1,005,383	1,129,136	1,265,575	1,373,712	1,394,245
Long-term Investments, net	1,656	1,462	2,046	4,365	5,275
Property and equipment, net	16,012	17,562	19,406	22,008	24,326
Other assets	34,434	30,859	35,754	30,302	31,615
Total assets	1,713,107	1,873,000	2,098,524	2,169,574	2,214,178
Liabilities and Shareholders' Equity					
Due to banks and other financial institutions	78,088	76,359	80,742	99,850	104,999
Demand deposits	800,709	928,030	1,053,104	1,039,238	1,038,595
Saving Accounts	12,898	14,485	69,774	17,595	20,066
Time deposits	464,501	463,521	455,573	545,419	557,921
Other deposits	46,240	53,498	57,640	62,840	58,842
Total customer deposits	1,324,348	1,459,535	1,636,092	1,665,091	1,675,424
Other liabilities	66,702	74,718	92,659	90,981	95,417
Total liabilities	1,469,138	1,610,612	1,809,493	1,855,923	1,875,840
Shareholders' equity	243,969	262,388	289,031	313,651	338,338
Total liabilities and shareholders' equity	1,713,107	1,873,000	2,098,524	2,169,574	2,214,178

Income Statement

(SAR million)	2012	2013	2014	2015	2016
Special commission income	49,600	53,647	58,126	62,102	76,157
Special commission expense	(6,893)	(7,226)	(7,635)	(8,494)	(17,891)
Net special commission income	42,707	46,421	50,492	53,608	58,266
Fees and commission income, net	15,324	15,541	17,344	17,037	16,408
Exchange income, net	3,264	3,798	4,383	5,085	5,223
Other operating income	3,712	3,662	3,290	4,316	3,191
Total operating income	65,007	69,421	75,509	80,045	83,087
Salaries and employee-related expenses	(12,492)	(13,732)	(15,162)	(16,785)	(16,892)
General and administrative expenses	(5,804)	(6,204)	(7,197)	(7,159)	(8,398)
Other operating expenses	(4,387)	(4,816)	(5,095)	(5,455)	(5,774)
Total operating expenses	(22,683)	(24,752)	(27,453)	(29,399)	(31,063)
Impairment charge for credit losses, net	(7,646)	(6,994)	(6,758)	(6,782)	(9,924)
Impairment charge for Investment, net	92	(46)	(223)	(466)	(930)
Net operating income	34,770	37,630	41,076	43,399	41,170
Share in earnings of associates, net	493	132	534	363	287
Net income	35,263	37,762	41,610	43,762	41,458
Non-controlling interest	(162)	(140)	(146)	(53)	(111)
Net income available to shareholders	35,101	37,622	41,465	43,709	41,347

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CMA Authorization Number 08100-37