Saudi Arabia

A&T BANK

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EXECUTIVE SUMMARY

Continuing economic slowdown in Saudi Arabia

The growth in Saudi Arabia is anticipated to ease to 0.4% in this year as oil production cuts which was due to lower external demand as well as the November 2016 OPEC agreement to cut output (in which Saudi Arabia pledged a cutback to 10.06mn bpd). Looking ahead, an improved environment is expected to result in stabilization of GDP growth around 1.9% in 2018 helped by the recovery in oil prices and the easing fiscal pressures, which will improve business and consumer sentiment.

Saudi authorities are taking actions to address the economy's heavy dependence on the hydrocarbon sector that accounted for 44% of GDP in 2016. Saudi Arabia's economic diversification strategy, "Vision 2030" and National Transformation Plan 2020 (NTP) will also contribute to the country's economic development with aiming to reduce oil dependency in the future.

Economic slowdown will continue to weigh on banking sector performance

The weak economic outlook in Saudi Arabia will continue to weigh on credit demand in the coming period. We expect weakness in credit demand to continue in 2017 amid lackluster business sentiment and slowdown in domestic government borrowing. However, on a more positive note, we believe that the worst is past for liquidity conditions as the Saudi Arabia Monetary Authority (SAMA) introduced various measures to mitigate liquidity pressures in 2016.

Despite decreasing liquidity pressures, the asset growth in the sector will continue to remain weak due to sluggish business sentiment and lower borrowing needs from the government. The asset growth is expected to slow to 1.2% in 2017, down from 2.2% in 2016 and from an annual average of 9.4% over 2011-2015.

Saudi Arabia – Turkey relationships

In the first four month of 2017, Turkey export to Saudi Arabia fell by 8.7% in compared to same period of the previous year and realized as USD1bn whereas import decreased by 5.7% to USD570mn. Overall, trade volume of Turkey to Saudi Arabia is standing at USD1.6bn in the first four month of 2017.

Saudi Arabia offers investment opportunities in tourism, retail, infrastructure and healthcare sector. With considering recent developments, Turkish firms could invest in these areas as the Saudi government announced that the airports, railways and ports will be opened up private sector investors in the coming period. 38 new health centers will be established and 68 new hotels will be opened in 2017.

1- SWOT - SAUDI ARABIA

Strengths

- Country's ample oil reserves, the largest in the world.
- Developed oil and gas infrastructure.
- A stable operating environment.
- As the main OPEC swing producer, Saudi Arabia is in a strong position within the cartel.
- Saudi Arabia has historically possessed a large pool of low-cost foreign labor.
- Low crime rate due to strict Islamic laws and high penalties.
- Widespread access to a range of traditional financial products and services.
- A growing local population means solid domestic demand for goods, services and infrastructure.

Weaknesses

- Terrorist attacks by several violent Islamist groups, including al-Qaeda and Islamic State.
- Restrained fiscal policy will complicate attempts to increase employment and living standards.
- Exports and government spending remain highly vulnerable to shifts in world oil prices.
- The legal system is opaque and unpredictable.
- High level subsidization of both oil and gas.
- Oil production cuts and spending rationalization weigh on economic activity.
- High unemployment rate (unemployment rate is around 12%).

Opportunities

- Sustained slump in global commodity prices will reduce imported inflationary pressures.
- Increased cooperation and coordination with neighboring countries would limit interstate and terrorist security threats.
- The government is ambitious to create jobs and diversify the economy.
- The construction of numerous railway networks will diversify internal transport options.
- Substantial underexplored acreage, including onshore unconventional and offshore Red Sea.
- Energy price liberalization.
- Continued expansion of the refining capacity.

Threats

- Rising regional instability.
- Sustained lower oil prices, undercutting Aramco's long-term revenue base.
- Any attacks on oil facilities could lead to a disruption of output.
- Perceptions of high security risk deter some investors.
- Reliance on government investment to drive growth limits opportunities for foreign investors.
- Congestion in the country's logistics network, particularly for ports and roads.

2- ECONOMIC OUTLOOK

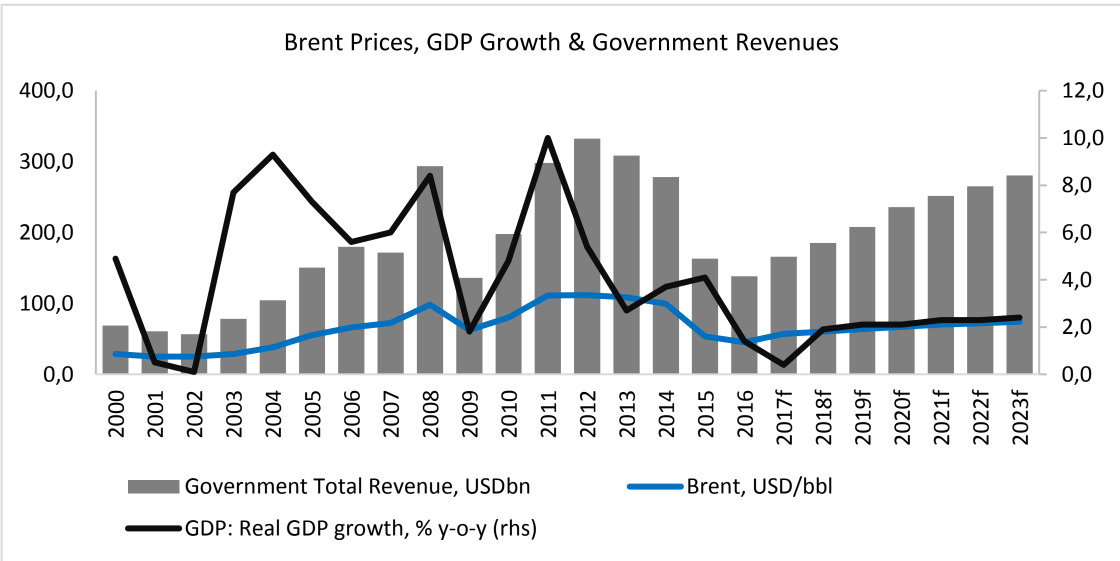
Main Economic Indicators				
	2015	2016	2017f	2018f
Nominal GDP, USD bn	651,1	639,6	681,8	733,1
Real GDP growth, % y-o-y	4,1	1,4	0,4	1,9
Consumer price inflation, % y-o-y, ave	2,2	3,5	2,2	4,0
Budget balance, % of GDP	-15,0	-13,0	-8,5	-5,5
Current account balance, % of GDP	-8,2	-10,0	0,5	1,8

Source: National Sources, BMI, IMF

A&T Bank View: *The growth in Saudi Arabia is anticipated to ease to 0.4% this year as oil production cuts and austerity measures will continue to weigh on economic outlook. However, growth is expected to pick up to 1.9% in 2018 helped by the recovery in oil prices and the easing fiscal pressures, which will improve business and consumer sentiment.*

Saudi Arabia saw strong economic growth over the past decade with high oil prices, which triggered government spending and increased the private sector activity, allowing the Saudi economy to grow by an annualized 6.0% between 2002 and 2014. Even in the global financial crisis in 2008 and 2009, the government was able to maintain spending elevated given a strong fiscal position. However, the ongoing period of low energy prices displays several challenges. As oil revenues declined, the fiscal and current account balance were deteriorated. However, we expect fiscal pressures to decline in the coming period as increasing oil prices will allow government to ease its austerity drive and combined with rising oil prices, the fiscal reforms will support the reduction of the budget deficit in the coming period. In funding side, government will likely continue to rely on a combination of foreign exchange reserve withdrawals and debt issuance in both global and domestic markets. On the other side, Saudi Arabia's economic diversification strategy, "Vision 2030" will also contribute to the country's economic development with aiming to reduce oil dependency in the future.

Saudi Arabia Economy Still Depends on Oil Sector



Source: National Sources, BMI, IMF

Main dynamics for the Saudi Arabia economy:

- ✓ *In* order to compensate revenue losses coming from the decline in oil prices, the government has implemented the new budget program. The new budget program includes spending cuts across most economic sectors, a value-added tax in conjunction with other countries in the region by 2018 and immediate hikes to the prices of fuel, water, electricity, ethane (the main feedstock for petrochemicals) and gas.

- ✓ We do not expect sharp increase in oil prices this year as volatility in oil market is continuing and OPEC and non-OPEC countries statements about the oil market will continue to affect oil prices in the coming period. For this reason, Saudi Arabia's economic diversification strategy is important to reduce country's dependency from the oil sector with increasing the non-oil sectors share in the coming period.

- ✓ While lower oil prices negatively affected consumer and business confidence in 2016, the easing liquidity conditions following the kingdom's debut on the Eurobond market in October 2016 and recovery in oil prices could improve both oil and non-oil sector in the coming years.

- ✓ The Saudi Arabia economy will continue to face a myriad of headwinds, including poor performance of the retail, hotels and restaurants sector, increasing unemployment and continued review of infrastructure projects by the government.

- ✓ The Saudi government will continue to undertake fiscal reform over the coming years, in an attempt to diversify government revenues and boost investor confidence in the kingdom.

- ✓ The combination of a rebound in oil revenue as a result of higher oil prices, rising non-oil revenue, and improving efficiency in expenditure will result in the fiscal deficit falling to single digits.

- ✓ The current account deficit will narrow in the coming period boosted by a rise in oil export revenue.

- ✓ SAMA will hike interest rates by another 25 basis points in 2017, taking the reverse repo rate to 1.25% by the end of the year, as it follows moves by the FED in order to support confidence in the peg. Liquidity pressures will remain manageable, as SAMA takes proactive measures to support liquidity conditions in the country, primarily through debt issuance.

- ✓ The private consumption growth to remain strong over the remainder of the current decade, with a host of structural factors supporting the outlook for consumer purchases. Retail sales will continue to benefit from favorable demographics and the support to household incomes provided by the extensive Saudi welfare system.

- ✓ Inflation is expected to trade around 3.0% in the coming years and the price pressures will be mostly driven by the government's fiscal policies. Fiscal pressures stemming from the slump in oil prices and the introduction of a 5% value-added tax (VAT) in 2018 will be the main forces driving inflation in the coming years.

Political developments will continue to affect economic outlook:

- On May 29, a bombing in the city of Awamiya, located in Saudi Arabia's Eastern province, left two police officers wounded. This is the second attack against security forces in the region.

- The Eastern province, which hosts the majority of the kingdom's Shi'a population (between 10 and 15% of the total Saudi population), will remain a flashpoint for security risk in Saudi Arabia.

- Regional tensions between Sunni Saudi Arabia and Shi'a Iran have intensified over the past few years, with both countries vying for regional geopolitical hegemony and religious leadership.

- With no end in sight to regional tensions between Saudi Arabia and Iran, the Eastern province will remain a focal point of tensions.

- U.S. President Donald Trump's policy in the Middle East will focus on isolating Iran and strengthening historical ties with Arab Sunni monarchies and Israel, through military cooperation and limited scrutiny over human rights. Increased U.S. support to Saudi Arabia raises the risk of Riyadh's growing more assertive towards Iran, which would have destabilizing implications for the region.

- Saudi Arabia, UAE, Bahrain and Egypt announced that they were cutting diplomatic ties with Qatar. In a sharp escalation, they have also closed their borders to Qatari aircraft and ships.

- The decision of Saudi Arabia and other nations to cut ties with Qatar was probably motivated largely by the desire to reaffirm Saudi hegemony and keep Qatar in line. Saudi Arabia wants to be a major power in the GCC and for others to fall in line behind the Saudi position. At this stage, we think that Qatar will make substantial effort to de-escalate the situation and accommodate some of the demands made by Saudi Arabia, notably cracking down on dissidents and activists in Qatar, and expelling leaders from Hamas and the Muslim Brotherhood. As such, we do not believe that the diplomatic cut-off will have any major impact on the Qatari economy.

Oil policy in Saudi Arabia:

Lower oil price condition is cementing a strategic refocusing of investment away from crude and towards non associated gas. The BMI's latest report has shown that Saudi Arabia's oil and gas reserves are located in the country's east and north-eastern provinces. National oil company Saudi Aramco estimates total proven reserves of 261.1bn barrels (bbl) of oil and 8.4trn cubic metres (tcm) of gas, the bulk of which is associated. Reserves are spread across 121 fields, with over half concentrated in nine giant fields in the kingdom's northeast: Ghawar, Safaniya, Khurais, Manifa, Shaybah, Qatif, Khursaniyah, Zuluf and Abqaiq.

- Oil exploration in Saudi Arabia is conducted by Saudi Aramco. In 2015, the company reported a total of five oil and gas discoveries. Three were oil fields - Faskar, Janab and Maqam - and two were non-associated gas fields - Edmee and Murooj; they bring the total number of discovered fields to 134. Aramco has been conducting geological and geophysical studies in the Red Sea since 2009.

- In recent years, Aramco has been moving to establish itself as a major player in the unconventionals sector. According to Aramco CEO Khalid al-Falih, the company will invest an additional USD7bn on unconventional gas exploration over the coming years.

- Saudi Arabia will continue to grow its oil production in order to maintain its oil export commitments in the face of growing domestic demand.

- Refining capacity will rise to nearly 3.31mn b/d by the end of the forecast period, driven by the Jazan and Yanbu refinery projects. High refinery utilization rates will see refined fuels production reach 3.3mn b/d by 2026.

- In our view, OPEC's oil production cut agreement in 2016 (which is extended until March 2018) will severely weigh on Saudi Arabia's growth. Meanwhile, Saudi Arabia's Vision 2030 program will continue to support Saudi Arabia's oil policy.

- The Saudi Arabia oil policy; which include, maintaining spare capacity, integrating down the value chain through investing in refining and petrochemicals, increasing the role of gas in the energy mix, introducing efficiency measures and deploying renewables in the power mix to free crude oil for exports are not likely to change in the next few years as has been confirmed by the National Transformation Programme.

Saudi Aramco privatization process:

The success of the Initial Public Offering (IPO) of national oil company Saudi Aramco will be crucial in determining the economic and political trajectory of the kingdom over the coming decade. As a central tenet of Vision 2030, a successful listing would boost investor confidence and fast track the diversification process, while bolstering Mohammed bin Salman's political capital. Failure to deliver on the IPO would put a halt to the reform drive and weaken the position of liberal forces in the kingdom.

Listing 5% of Aramco is a central goal of Vision 2030 and its associated National Transformation Plan, which provides detailed targets of the Vision 2030 agenda. The Saudi government estimates the value of Aramco at USD2trn, based on proven reserves of almost 270bn barrels. As such, listing even 5% of the company, which should derive around USD100bn in proceeds according to the government's estimates, will have wide ramifications for the kingdom's economy and public finances.

Aramco's listing will be crucial in the diversification of government revenues. The proceeds of the listing will be managed by the Public Investment Fund, and will be reinvested to generate investment income in the future. The listing of Aramco is also expected to generate a notable uptick in foreign capital in the kingdom, and bolster investor confidence in the Saudi economy, especially given that the IPO will force greater transparency onto Aramco. Compared with other GCC states, Saudi Arabia has only modest experience in terms of privatizations, notably due to a lack of adequate legislative framework.

Illustrating this, proceeds from privatizations in the 2000s accounted for only 1.1% of GDP, compared with 2.2% for the UAE, 2.5% for Oman and 2.9% for Bahrain. The IPO was expected to take place in early 2018, but the expected date has since been pushed off to late 2018 or early 2019. This is likely due to Aramco's desire to complete the financial restructuring process to make the company more attractive to investors.

3- FOREIGN TRADE & INVESTMENT

Saudi Arabia's major export partners were China (13.1%), EU (11.7%) and Japan (10.9%) in 2016; whereas the three major import partners were EU (25.3%), China (16.2%) and USA (15%). The country's biggest export is mineral fuels, oils, distillation products (83% share from total export), plastic and articles, organic chemicals and ships, boats and other floating structures. In terms of imports, the top products imported by Saudi Arabia is machinery, nuclear reactors, boilers, vehicles, electrical equipment and articles of iron and steel.

Import Partners	Value (Million Euro)	Share (%)
World	121,272	100
EU	30,649	25,3
China	19,673	16,2
USA	18,204	15,0
Japan	6,429	5,3
UAE	6,089	5,0
South Korea	5,241	4,3
India	3,525	2,9
Thailand	2,511	2,1
Turkey	**2,509**	**2,1**
Brazil	2,302	1,9

Export Partners	Value (Million Euro)	Share (%)
World	153,289	100
China	20,110	13,1
EU	17,940	11,7
Japan	16,691	10,9
India	15,722	10,3
USA	14,426	9,4
South Korea	13,381	8,7
Singapore	6,928	4,5
Taiwan	4,641	3
Tanzania	4,406	2,9
Thailand	4,163	2,7

Source: European Commission, Directorate-General for Trade

Export growth will be relatively limited over the coming years, despite positive developments in the petrochemicals, mining, and metals sectors. Industrial projects currently in the pipeline will help to diversify Saudi Arabia's export base. However, we retain our view that crude oil exports will see only limited increases over the rest of the decade, with most of the country's production gains directed towards domestic consumption. Import growth will be slower than in the past decade, as a less expansionary fiscal policy stance reduces the demand for imported goods. That said; demand for capital goods, raw materials, and machinery from abroad will remain fueled by Saudi Arabia's infrastructure investments and limited domestic manufacturing capacity.

Saudi Arabia Foreign Trade Indicators				
Indicator Name	**2015**	**2016**	**2017**	**2018**
Goods and services exports, USDbn	216,4	200,2	247,4	267,1
Goods and services exports, USDbn, % y-o-y	-39,0	-7,5	23,6	8,0
Goods and services exports, % of GDP	33,2	31,3	36,3	36,4
Goods and services imports, USDbn	244,2	243,3	224,0	234,6
Goods and services imports, USD, % y-o-y	-5,3	-0,4	-7,9	4,7
Goods and services imports, % of GDP	37,5	38,0	32,9	32,0
Balance of trade in goods and services, USDbn	-27,7	-43,1	23,4	32,5
Balance of trade in goods and services, USD, % y-o-y	-128,6	55,4	-154,2	39,2
Balance of trade in goods and services, % of GDP	-4,3	-6,7	3,4	4,4

Source: BMI

Foreign direct investment in Saudi Arabia:

Inflows of foreign direct investment peaked at about USD40bn in 2009 but have been trending down since then and totaled just USD7.4bn in 2016, figures from the UNCTAD showed. In the past, foreign investment was heavily concentrated in the oil and gas sector of the world's top crude exporter, as well as downstream industries such as petrochemicals. However, the plunge of oil prices over the past 18 months has called that strategy into question.

The country is now seeking foreign capital in a wide range of sectors without direct links to oil. Mining may prove one of the most attractive investment areas for foreigners. While the kingdom has been extensively explored for oil and gas, deposits of many other minerals had not yet been fully identified. It is believed to have big deposits of phosphate, bauxite, base metals and gold. Last year, the government said it would let foreign investors own 100% of retail and wholesale businesses. Previously, the ceiling was 75%. Authorities have since received expressions of interest from foreign retailers. The government new economic reform program, which includes privatization, will reduce the oil dependency with making state spending more efficient and will increase foreign investors attractiveness in the coming period.

Saudi Arabia's King Salman visited Asian region this year to diversify its economy beyond oil exports and attract more foreign investors from Asia. According to the Reuters news, in China, the Saudi king oversaw the signing of deals worth as much as USD65bn in industries including light manufacturing and electronics, as both sides played up a Saudi role in China's One Belt, One Road strategy to integrate Eurasian economies.

Saudi Arabia: Foreign Direct Investment	2014	2015	2016
FDI Inward Flow (USDmn)	8,012	8,141	7,453
FDI Stock (USDmn)	215,909	224,050	231,502
Number of Greenfield Investments	97	92	90
FDI Inwards (in % of GFCF)	4,2	4,2	4,5
FDI Stock (in % of GDP)	28,5	34,4	36,2

Source: UNCTAD, 2016, GFCF: Gross Fixed Capital Formation

Saudi Arabia investment opportunities:

Saudi Arabia's transport infrastructure was one of the main targets for government expenditure during the Ninth Development Plan, which ran between 2010 and 2014, and will continue to benefit under the National Transformation Plan, part of Vision 2030. The airports, railways and ports will be opened up private sector investors, according to the plan. For roads, 5% of all roads will be targeted to be privately developed, while in rail projects it is 50% and for ports 70%. **For the rail sector**, metro systems in Riyadh and Mecca, USD14bn Haramain High Speed Railway Project (the Project links the cities of Mecca and Medina via Jeddah and King Abdullah Economic City) and Makkah metro rail project are the main projects.

For the airport sector, the General Authority of Civil Aviation (GACA) announced it would privatise 27 airports by mid-2018. The new Abha Airport, King Abdulaziz International Airport Expansion, Prince Naif bin Abdulaziz Regional Airport Expansion and New Taif International Airport projects are the major projects in the sector.

For the healthcare sector, the government has allocated USD32bn for the health and social development. Much of this spending is aimed at boosting infrastructure, including plans for 38 new health centres with a total of 9100 hospital beds. Tourism sector also provides some opportunities for the investors. The 68 new hotels and 29,033 hotel rooms will be opened in 2017. **For the retail sector;** Majid Al Futtaim will build two shopping malls in East and North Riyadh. The personal care market is expected to grow by 3.6% this year, while ready-made clothing sector is projected to expand by 3.5%.

4- BANKING SECTOR

USD/SAR: 3,75 (average)

Strengths

- The banking system is well capitalized and broadly stable, with commercial banks meant to cap their loan-to-deposit ratios at 90%.
- The major players benefit from foreign capital and know-how but are protected from out-and-out competition.
- Government support is more than just implicit: no Saudi bank has ever failed, and the government owns stakes in many of the larger banks.

Weaknesses

- Lending activity remains dependent on government spending, which we believe will be curtailed as oil prices stay low.
- The Saad/al-Gosaibi crisis of 2009, which has still not been fully resolved, has exposed a key risk management weakness of the sector: the historical lack of due diligence when 'name lending' to family businesses and conglomerates.
- Tighter liquidity will present a growing problem for Saudi banks, particularly since we do not expect an imminent oil price recovery.

Opportunities

- The banking sector is still underdeveloped in terms of banking assets relative to overall GDP.
- There is a large middle class and a relatively young population.
- Several of the larger banks are major players in Islamic finance and - unlike their Iranian counterparts - are widely seen as such.
- Liquidity pressures will ease modestly, benefiting from the government's repayments to contractors and from the Eurobond issue of October 2016.

Threats

- The real estate market has not been immune to the regional property market woes; a prolonged downside in prices could hurt banks' asset portfolios.
- Weaker profit growth in the Saudi corporate sector as oil prices stay low will cause a deterioration in asset quality over the next few years.

A&T Bank Research View: *The weak economic outlook in Saudi Arabia will continue to weigh on credit demand in the coming period. We expect weakness in credit demand to continue in 2017 amid lackluster business sentiment and slowdown in domestic government borrowing. However, on a more positive note, we believe that the worst is past for liquidity conditions as the SAMA introduced various measures to mitigate liquidity pressures in 2016.*

Saudi Arabia's banking sector will face an increasing deterioration in credit quality throughout 2016 due to economically disruptive nature of the government's 2016 budget and the continuing turbulence of the global oil markets. However, Saudi Arabia banking sector is well positioned to weather the new stresses on asset quality. Non-performing loans made up just 1.4% of total loans held by Saudi banks in 2016, and capital buffers are strong.

In an effort to ease the liquidity pressures in the system, SAMA introduced various measures. Injection of USD5.3bn in time deposits in commercial banks in September 2016 and the USD17.5bn Eurobond issuance in October 2016 provided much-needed relief to liquidity conditions. Helped by the improving liquidity in the system, the 3-month Saudi Arabia inter-bank offered rate has fallen by more than 60 basis points since October 2016.

Despite decreasing liquidity pressures, the asset growth in the sector will continue to remain weak due to sluggish business sentiment and lower borrowing needs from the government. The asset growth is expected to slow to 1.2% in 2017, down from 2.2% in 2016 and from an annual average of 9.4% over 2011-2015. The sector will recover from 2018 onwards, but asset growth will remain below historical standards.

The credit demand from the private sector is expected to decline in the coming years as the delayed payments to contractors decreased and the repayments started in 2016. Previously, delayed payments to contractors by the government forced private firms to borrow to manage their cash positions. Since October 2016 and the beginning of repayments, banks' claims on the private sector have significantly weakened, contracting by 0.1% y-o-y in March 2017. We expect public sector borrowing to decline from the Saudi commercial banks as gains in oil prices will support government revenues and the government turned to international debt markets with issuing Eurobonds.

Although Saudi commercial banks will find it more difficult to grow their asset bases amid the deterioration of the macroeconomic backdrop, we do not believe that overall sector stability is at risk as 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 SAMA. According to the BMI's latest report, the Bank al-Rajhi, Saudi Arabia's second largest lender, outperformed other domestic lenders in the first nine months of 2016 with net profit expanding by 17.3% y-o-y, as it increased its exposure to corporate lenders, focusing on healthcare, transportation, housing and energy, which are set to benefit from Vision 2030. With the exception of Bank al-Rajhi, net profit at Saudi commercial banks has declined in the first nine months of 2016. While Saudi Banks faced a challenging year in 2016, the government Vision 2030 program, which will create more diverse and sustainable economy, should improve the banking sector long-term outlook.

Saudi Arabia - Selected Commercial Banks Profitability and Assets

	Total Assets, SARbn (Q316)	Asset Market Share (Q316)	Asset Change, % chg y-o-y (9M16)	Net Profit, % chg y-o-y (9M16)
National Commercial Bank	438,8	19,5%	-3,1	1,0
Al Rajhi Bank	330,5	14,7%	1,3	17,3
Samba Financial Group	238,3	10,6%	3,7	-1,7
Riyad Bank	223,5	9,9%	3,4	-4,7
Banque Saudi Fransi	195,7	8,7%	1,6	1,6
Saudi British Bank	185,9	8,3%	-1,7	-3,1
Arab National Bank	167,3	7,4%	0,9	-3,4
Saudi Hollandi Bank	106,9	4,8%	6,9	-16,4
Alinma Bank	102,9	4,6%	18,1	2,6
Saudi Investment Bank	96,3	4,3%	5,5	-31,8
Bank Al-Jazira	66	2,9%	-2,5	-36,2
Bank Albilad	55,7	2,5%	13,5	0,4

Source: BMI

Saudi Arabia Commercial Banking Sector							
Indicator Name	2014	2015	2016	2017	2018	2019	2020
Total assets, SARmn	2.132.576	2.208.768	2.256.364	2.283.440	2.363.361	2.457.895	2.561.127
Total assets, USDmn	568.050	588.377	601.697	608.917	630.229	655.438,0	682.967
Total assets, % of GDP	75,4	90,2	93,4	86,3	82,4	80,0	77,3
Total assets, % y-o-y	12,6	3,6	2,2	1,2	3,5	4,0	4,2
Client loans, SARmn	1.250.646	1.361.628	1.405.503	1.426.586	1.483.649	1.557.832,0	1.641.955
Client loans, USDmn	333.132	362.714	374.801	380.423	395.639	415.421,0	437.854
Client loans, % y-o-y	11,6	8,9	3,2	1,5	4,0	5,0	5,4
Client loans, % of GDP	44,2	55,6	58,2	53,9	51,7	50,7	49,6
Client deposits, SARmn	1.575.578	1.604.767	1.617.010	1.646.116	1.728.422	1.832.127	1.949.383
Client deposits, USDmn	419.684	427.482	431.202	438.964	460.912	488.567,0	519.835
Client deposits, % of GDP	55,7	65,5	66,9	62,2	60,2	59,6	58,9
Client deposits, % y-o-y	12,4	1,9	0,8	1,8	5,0	6,0	6,4
Loan/deposit ratio	79,4	84,9	86,9	86,7	85,8	85,0	84,2
Loan/asset ratio	58,6	61,7	62,3	62,5	62,8	63,4	64,1

Source: SAMA, BMI

List of Banks in Saudi Arabia

1-Al-Rajhi Bank
2-Arab National Bank
3-Bank Al-Bilad
4-Bank Al-Jazira
5-Banque Saudi Fransi
6-Riyad Bank
7-Samba Financial Group
8-Saudi Hollandi Bank
9-National Commercial Bank
10-Saudi British Bank
11-Saudi Investment Bank
12-Alinma Bank
13-Gulf International Bank
14-Emirates NBD
15-National Bank of Bahrain
16-National Bank of Kuwait
17-Muscat Bank
18-Deutsche Bank
19-BNP Paribas
20-JPMorgan Chase
21-National Bank of Pakistan
22-State Bank of India
23-TC Ziraat Bankasi
24-ICBC

Source: SAMA, BMI

5- TURKEY & SAUDI ARABIA:

Saudi Arabia became the 9th country in Turkey's top twenty-country export list in 2016. In the context of the Turkey-Saudi Arabia trade relationship, Turkey export to Saudi Arabia decreased by 8.7% to USD3.2bn in 2016 and import fell by 13.3% to USD1.8bn. The trade volume of Turkey to Saudi Arabia is standing at USD5bn in 2016, lower than trade volume of 2015, which amounted as USD5.6bn. At the end of 2016, Saudi Arabia has taken 0.9% share from Turkey's total import and 2.2% share from Turkey's total export. With this result, Saudi Arabia became the 9th country in Turkey's top twenty-country export list in 2016. The trade balance is in favor of Turkey.

In the first four month of 2017, Turkey export to Saudi Arabia fell by 8.7% in compared to same period of the previous year and realized as USD1bn whereas import decreased by 5.7% to USD570mn. Overall, trade volume of Turkey to Saudi Arabia is standing at USD1.6bn in the first four month of 2017, lower than trade volume amounted as USD1.7bn in the same period of the 2016. Turkey mainly exports electrical machinery & equipment, carpets & other textile floor coverings and mineral fuels, mineral oils and products to Saudi Arabia. While Turkey mainly imports plastics and organic chemicals from Saudi Arabia. As of 2016, Saudi Arabia ranked 1st in in total plastic raw material imports of Turkey. In export side, Turkey could further increase its export to Saudi Arabia mainly for the chemical, electrical, agricultural and textile sectors.

Saudi Arabia -Turkey Foreign Trade Relationship				
Years	Export (USDmn)	Import (USDmn)	Trade Balance	Trade Volume
2010	2.218	1.381	837	3.598
2011	2.763	2.002	762	4.765
2012	3.677	2.171	1.506	5.848
2013	3.191	2.015	1.177	5.206
2014	3.047	2.343	704	5.390
2015	3.473	2.117	1.355	5.590
2016	3.172	1.835	1.337	5.007
2017*	1.032	570	462	1.602

Source: Turkstat, Foreign Trade Statistics, 2017* included January-April 2017 period.

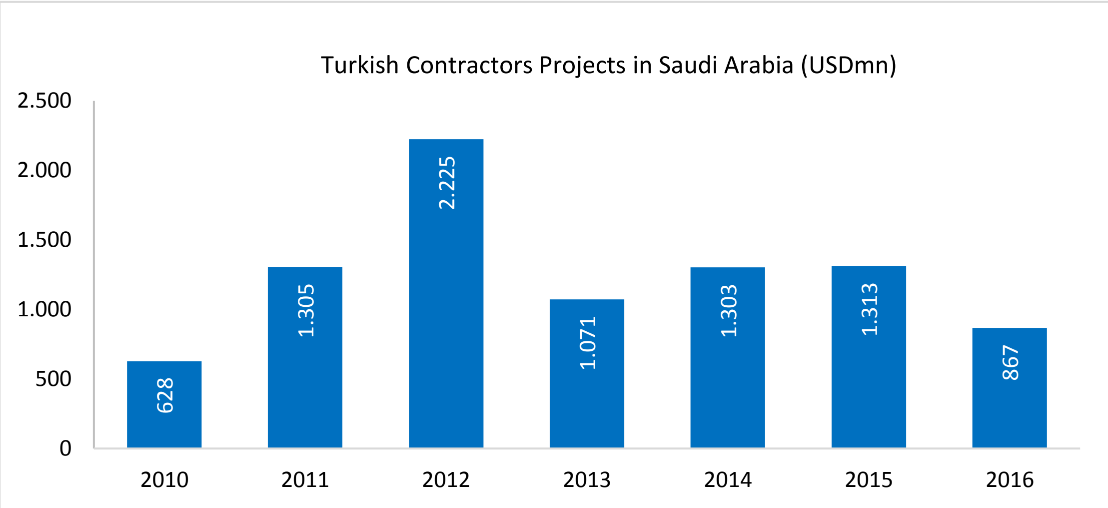
Turkey's Exports to Saudi Arabia by Products (USD thousands)	Value in 2014	Value in 2015	Value in 2016	Share in Total Export
Electrical machinery and equipment and parts thereof	268.540	416.901	397.176	12,5%
Carpets and other textile floor coverings	370.277	388.195	322.293	10,2%
Mineral fuels, mineral oils and products of their distillation	197.203	279.994	235.453	7,4%
Machinery, mechanical appliances, nuclear reactors, boilers	232.931	271.231	207.677	6,5%
Furniture; bedding, mattresses, mattress supports	134.608	195.579	181.866	5,7%
Articles of apparel and clothing accessories, knitted or crocheted	108.606	111.112	137.890	4,3%
Vehicles other than railway or tramway rolling stock, and parts	102.829	140.826	135.188	4,3%
Articles of apparel and clothing accessories, not knitted or crocheted	134.735	129.912	128.866	4,1%
Edible fruit and nuts; peel of citrus fruit or melons	66.014	79.276	121.162	3,8%
Articles of stone, plaster, cement, asbestos, mica or similar materials	111.271	114.891	120.580	3,8%
Articles of iron or steel	119.856	129.595	107.119	3,4%
Iron and steel	204.853	130.884	96.312	3,0%
TOTAL	**3.047.134**	**3.472.634**	**3.171.965**	

Turkey's Imports from Saudi Arabia by Products (USD thousands)	Value in 2014	Value in 2015	Value in 2016	Share in Total Import
Plastics and articles thereof	1.722.563	1.324.536	1.239.141	68%
Organic chemicals	387.448	369.971	353.074	19%
Mineral fuels, mineral oils and products of their distillation	40.035	137.203	107.909	6%
Aluminum and articles thereof	81.649	209.317	54.738	3%
Miscellaneous articles of base metal	7.294	15.986	11.826	1%
Glass and glassware	1.198	3.851	10.295	1%
TOTAL	**2.343.144**	**2.117.220**	**1.835.230**	

Source: Trademap

<u>Turkish Firms in Saudi Arabia Construction Sector:</u>

Saudi Arabia is one of the important market for Turkish contractor ship services. Saudi Arabia has become the second country between the other Gulf countries after Qatar that Turkish contracting firms were undertaken the projects, according to Turkish Ministry of Economy. In 2016, Turkish contractors total project amount in Saudi Arabia decreased to USD867mn from USD1.3bn due to tightening liquidity conditions and increasing geopolitical risks. In 2016, Qatar (19.3%) was the number one market for Turkish contractors, followed by Saudi Arabia (6.9%), Uzbekistan (6.9%), Bahrain (6.3%) and UAE (5.1%).



Source: Turkish Contractors Union

An active Saudi-Turkish Business Council, which includes entrepreneurs from both countries, will continue to promote trade relationship in the coming period. While Turkish investors have benefited from a host of infrastructure projects in Saudi Arabia, Saudi Arabian investors mainly invest in tourism and real estate sectors. In December 2016, Saudi Arabia and Turkey have signed eight agreements encompassing a number of investment areas. Saudi Arabia offers investment opportunities in tourism, retail, infrastructure and healthcare sector. With considering recent developments, Turkish firms could invest in these areas as the Saudi government announced that the airports, railways and ports will be opened up private sector investors in the coming period. 38 new health centres will be established and 68 new hotels will be opened in 2017.

Turkish Contractors Projects in Abroad by Countries (2016)		
Countries	Project Value (USD)	Share (%)
Qatar	2.416.584.536	19,3%
Saudi Arabia	867.563.237	6,9%
Uzbekistan	862.324.741	6,9%
Bahrain	789.234.166	6,3%
UAE	634.453.420	5,1%
Kuwait	626.266.592	5,0%
Senegal	496.655.292	4,0%
Pakistan	465.758.412	3,7%
Ukraine	457.110.851	3,6%
Morocco	452.086.225	3,6%
Other Countries	4.916.679.949	39,2%
Total	**12.532.631.196**	

Source: Ministry of Economy

The Projects Finished by Turkish Companies:

- ✓ Jubail C10 Sea Water Cooling Channel, **ENKA Construction**
- ✓ Jeddah Central and South Zone (Phase 2) Construction of the main secondary sewage network, **GURIS Construction**
- ✓ Mecca Tunnels, **STFA Construction**
- ✓ King Khalid Tunnels, **STFA Construction**
- ✓ Yanbu Refinery, **TEKFEN Construction**
- ✓ East Region Transmission Line Phase 2, **YUKSEL Construction**
- ✓ Murwani Dam, **YUKSEL Construction**

Ongoing Projects by Turkish Companies:

- ✓ Riyadh Metro Project Phase 1, **DOGUS Construction**
- ✓ Prince Mohammed Bin Abdulaziz International Airport New Terminal Building and Infrastructure, **TAV**
- ✓ Taif Hospital Complex, **YENIGUN Construction**
- ✓ King Khalid Air Base Campus Construction, **YUKSEL Construction**
- ✓ Khurais Satellite GOSP Project Contract with Snamprogetti Saudi Arabia Ltd., **GAMA Construction**

Between the 2002-2016 period, Saudi Arabian direct investment to Turkey reached to USD1.9bn. There are 800 Saudi companies currently investing in Turkey and their investment amount reached to USD2bn. Meanwhile, more than 200 Turkish companies are currently operating in Saudi Arabia with investments amounting to around USD642mn. In 2015, Turkish firms total undertaken projects in Saudi Arabia exceeded USD1bn.

Direct Investments From Saudi Arabia to Turkey:

- ✓ Turk Telekom's 55% share has taken from the Dubai based Oger Telecom which has connected with Saudi Oger.
- ✓ The Saudi food company Savola has purchased the Yudum Gıda from the National Bank of Kuwait.
- ✓ Saudi Basic Industries Corporation (SABIC) and Baser Petrokimya have established the company named as Sabic Polimer Endüstrisi A.S.
- ✓ National Commercial Bank of Saudi Arabia (NCB) has purchased the Turkiye Finans Participation Bank's 60% shares which amounted as USD1.1bn.
- ✓ Eczacıbaşı Vitra, Ülker-FMC, Fırat Pen, Star Döşemelik Kumaş, Has Turizm, Cons Jeans are resident in Saudi Arabia and continuing their business activities.
- ✓ In Petkims privatization process, the Saudi Arabian Injaz Projects was in the consortium.

6- APPENDIX

SAUDI ARABIA BANKS PROFILES:

(Source: BMI)

1- Al-Rajhi Bank

Strengths

- One of the largest financial institutions in Saudi Arabia and the largest Islamic bank in the world.
- One of the strongest capital-based companies in the region.
- Strong customer franchise in the retail sector.
- Considering its large retail base, the bank would ultimately be financially assisted by the government if needed.
- Strong credit ratings.

Weaknesses

- Low business and geographic diversification.
- Exposed to more difficult economic environment considering the global financial crisis and lower oil prices.

Opportunities

- Expansion beyond its retail operations into investment and corporate banking.
- Continued global growth of Islamic finance.
- Strong increase in total assets and customer deposits during H116.
- Reduction in operating expenses in H116.

Threats

- More competitive market.
- Rating downgrades in H116.
- Slump in oil prices squeezing Saudi economy.

<u>Overview</u>

Founded in 1957, Al Rajhi Bank is one of the largest Islamic banks in the world with reported total assets of SAR331bn (at end-H116). The bank is family-owned.

With more than 50 years of experience in banking and trading activities, the various individual establishments under the Al Rajhi name were merged into the umbrella 'Al Rajhi trading and exchange corporation' in 1978, and it was in 1988 that the bank was established as a Saudi share holding company. Deeply rooted in Islamic banking principles, the shari'a-compliant banking group is instrumental in bridging the gap between modern financial demands and intrinsic values while spearheading numerous industry standards and development.

With an established base in Riyadh, Saudi Arabia, Al Rajhi Bank has a vast network of more than 530 branches (at end June 2016), over 110 dedicated women's branches, more than 4,250 ATMs, 55,000 POS terminals installed with merchants, and the largest customer base of any bank in the kingdom, in addition to 198 remittance centres across the kingdom. The first men's branch was opened in Aldirah in 1957, with the first women's branch being opened in Al Shmaisi in 1979. The bank has an expanding international presence, with 31 foreign branches at end-June 2016. Malaysia marked the bank's first foray into the South East Asian banking scene, whereby the core banking products were introduced to the Asian market, providing a whole new Islamic banking experience. Al Rajhi Bank currently has 24 branches in Malaysia. Al Rajhi Bank currently has 24 branches in Malaysia. Al Rajhi Bank is now operating in Kuwait too, with a fully fledged branch offering retail and corporate banking solutions. The lender is also operating in Jordan, with six branches fully functional in Amman. In May 2015, the CEO Abdul Aziz al-Zabin resigned for personal reasons, and he was replaced by foreign national Steve Bertamini.

Highlights

The bank achieved net profit of SAR4.1bn in H116, compared with the SAR3.5bn reported in H115, an increase of 17.6% y-o-y. Total operating income reached SAR7.6bn, up 9.2% y-o-y, while operating expenses fell by 4.5% y-o-y to SAR2.5bn.

The bank reported a 5.0% rise in total assets in H116, from SAR315.6bn to SAR331.4bn at the end of 2015. In addition, customer deposits reached SAR271.0bn, up 5.7% from six months prior. Customer loans also expanded by 6.8%, from SAR210.2bn to SAR224.5bn, over the same period.

As at end-June 2016 (latest available figures), the bank's Tier 1 and total capital adequacy ratios stood at 18.1% and 19.1% respectively, a change from 18.5% and 19.6% at end-2014. The NPL ratio dipped from 1.5% at end-2015 to 1.4% at the close of June 2016. Al Rajhi retains strong credit ratings, though suffered downgrades in H116. Fitch cut its 'A+' long-term IDR for the bank to 'A' in April 2016, while S&P cut from 'A' to 'BBB+' a month earlier. The bank is rated 'A1' by Moody's, with a stable outlook.

Al-Rajhi Bank Market Indicators								
	2009	2010	2011	2012	2013	2014	2015	March-2016
Market Capitalisation SAR	106,875	124,500	104,250	97,500	109,500	83,606	84,646	102,521
Market Capitalisation USD	28,495	33,199	27,799	25,994	29,197	22,268	22,552	27,323
Share Price SAR	65.77	76.62	64.16	60.00	67.39	51.45	52.09	63.09
Share Price USD	17.54	20.43	17.11	16.00	17.97	13.70	13.88	16.81
Share Price USD, % change (eop)	27.3	16.5	-16.3	-6.5	12.3	-23.7	1.3	na
Change, year-to-date	na	na	na	na	na	na	na	na
Shares Outstanding (mn)	1,625	1,625	1,625	1,625	1,625	1,625	na	na

Al-Rajhi Bank Balance Sheet (USDmn)								
	2008	2009	2010	2011	2012	2013	2014	2015
Total Assets	43,530	45,521	49,286	58,88	71,287	74,624	81,958	84,091
Loans & Mortgages	37,726	30,087	32,097	37,537	45,919	49,885	54,852	56,009
Total Deposits	31,638	32,758	38,146	46,245	59,012	61,751	68,205	68,267
Total Shareholders' Equity	7,203	7,663	8,084	8,752	9,723	10,265	11,159	12,426
Earnings Per Share (USD)	1,07	1,11	1,11	1,21	1,29	1,13	1,12	1,17

Al-Rajhi Bank Key Ratios (%)								
	2008	2009	2010	2011	2012	2013	2014	2015
Return On Assets	4.5	4.1	3.8	3.6	3.2	2.7	2.3	2.3
Return On Equities	25.8	24.3	22.9	23.4	22.8	19.8	17.0	16.1
Loan Deposit Ratio	122.6	95.3	86.7	83.2	80.0	82.7	82.4	84.3
Loan Asset Ratio	89.1	68.6	67.1	65.4	66.2	68.4	68.6	68.4
Equity Asset Ratio	16.5	16.8	16.4	14.9	13.6	13.8	13.6	14.8
Total Risk Based Capital Ratio	21.4	19.3	20.6	20.0	19.8	19.6	19.6	20.8
Tier 1 Capital Ratio	14.6	13.8	15.2	14.7	14.7	18.5	18.5	19.7

Source: BMI

2- Arab National Bank

Strengths

- Relatively large Saudi and Middle Eastern bank.
- Offers a broad range of domestic and international commercial and Islamic products and services.
- Strong credit ratings.

Weaknesses

- Exposure to the economic slowdown.
- Lower capital ratios compared with larger peers in Saudi Arabia.
- Dip in net income in 9M16.

Opportunities

- Cross-selling of products.
- Expansion of Islamic banking.
- Improved capital ratios in 2016.

Threats

- Increasing competitive pressure.
- Falling oil prices and new regulatory changes.
- Ratings downgrades during H116**.**

Overview

Arab National Bank (ANB), a Saudi joint-stock company formed in 1979, is one of the top 15 banks in the Middle East. ANB operates through 199 local branches, of which 48 are women's branches, 95 remittance centres, 1,300 ATMs and around 20,000 point-of-sale terminals. The bank also has branch in London, which was established in 1991 and provides services to UK customers.

It offers a range of domestic and international commercial and Islamic products and services to the retail and corporate sectors. ANB Group also includes subsidiaries dealing in consultancy and investment, mutual fund and asset management, local and international equity trading, foreign exchange and treasury services. The bank has more than 2mn customers and 3,500 employees, of which around 90% are Saudi citizens.

As part of its expansion in Islamic banking, ANB issues a SAR2mn, 10-year sukuk bond through a private placement in October 2015. This will help shore up the bank's capital position, it said in a statement. ANB is part of the ANB Group, a universal commercial bank catering for corporate and retail clients.

Highlights

ANB announced a preliminary net profit of USD619mn for 9M16, compared with US632mn in the same period of 2015, a decrease of 3.4%. ANB's total operating income reached USD1,208mn during 9M16, up 1.3% y-o-y compared with USD1,193mn a year earlier. By the end of September 2016, total assets reached a reported USD44.6bn. The loan portfolio reached USD30.0bn (up from USD30.7bn at end-2015) and customers' deposits fell from USD36.2bn to USD34.2bn over the same nine-month period.

As at September 30 2016 (latest available data) ANB reported a Tier 1 capital adequacy ratio of 14.5%, and total CAR of 16.3%. This compared with 14.4% and 14.9% respectively, a year earlier.

After downgrades from all the main agencies in early 2016, ANB is rated 'A-' by Fitch, 'BBB+' by Standard & Poor's, and 'A2' by Moody's as of October 2016.

Arab National Bank Market Indicators								
	2009	2010	2011	2012	2013	2014	2015	March-2016
Market Capitalisation SAR	27,560	24,505	23,375	22,440	26,180	30,500	23,550	22,090
Market Capitalisation USD	7,348	6,534	6,233	5,983	6,981	8,124	6,274	5,887
Share Price SAR	27.51	24.46	23.37	22.44	26.18	30.50	23.55	22,09
Share Price USD	7.34	6.52	6.23	5.98	6.98	8.12	6.27	5.89
Share Price USD, % change (eop)	36.0	-11.1	-4.4	-4.0	16.7	16.4	-22.8	na
Change, year-to-date	na	na	na	na	na	na	na	na
Shares Outstanding (mn)	1,002	1,002	1,000	1,000	1,000	1,000	na	na

Arab National Bank Balance Sheet (USDmn)								
	2008	2009	2010	2011	2012	2013	2014	2015
Total Assets	32,322	29,408	30,939	31,351	36,429	36,779	43,859	45,406
Loans & Mortgages	19,893	17,813	17,652	19,424	23,016	23,586	27,627	30,678
Total Deposits	24,711	22,045	22,451	23,428	28,677	28,363	34,527	36,151
Total Shareholders' Equity	3,376	3,860	4,105	4,461	4,775	5,116	5,497	6,030
Earnings Per Share (USD)	0.66	0.63	0.51	0.58	0.63	0.67	0.77	0.79

Arab National Bank Key Ratios (%)								
	2008	2009	2010	2011	2012	2013	2014	2015
Return On Assets	2.3	2.0	1.7	1.9	1.9	1.8	1.9	1.8
Return On Equities	21.4	17.5	12.9	13.6	13.8	13.7	14.5	14.0
Loan Deposit Ratio	81.6	82.6	81.2	85.9	82.8	85.1	81.9	86.9
Loan Asset Ratio	62.4	61.9	58.9	64.2	65.2	65.6	64.4	69.2
Equity Asset Ratio	10.4	13.0	13.2	14.1	13.0	13.8	12.5	12.8
Total Risk Based Capital Ratio	14.1	16.3	17.0	16.5	14.8	16.0	14.9	15.5
Tier 1 Capital Ratio	11.9	14.3	15.1	15.0	13.8	15.1	14.1	13.6

Source: BMI

3- National Commercial Bank

Strengths

- The largest bank in the Arab world in terms of capital.
- Majority state-owned.
- Strong Islamic banking arm.
- Boasts one of the highest credit ratings in the Saudi banking sector.
- Strong capital position.

Weaknesses

- Exposed to a more difficult economic environment given the global financial crisis and lower oil prices.
- It is not clear to what extent the Saudi banks are exposed to injudicious real estate lending in other parts of the Middle East.

Opportunities

- Looking to expand into Islamic regions and has a 67% interest in the largest Islamic bank in Turkey.
- Raised USD6bn with successful IPO in November 2014.
- Net income rose 1.0% y-o-y in 9M16.
- Reported growth in loan portfolio in 9M16.
- Successful series of Sukuk issuances in 2015.

Threats

- More competitive market and slower economic growth in the region.
- Potential privatization could create new challenges.
- Further oil price shocks putting pressure on wider economy.
- Ratings downgrades from S&P and Fitch in 2016.

Overview

National Commercial Bank (NCB), also known as Alahli Bank, was founded in 1953 as the first commercial bank in Saudi Arabia. It was originally structured as a general partnership, but became a Saudi joint-stock company in 1997. The government, through the public investment fund of the Ministry of Finance, became the majority shareholder in 1999. NCB is listed and is the largest bank in the Arab world in terms of capital. It also has a strong Islamic banking arm.

Since the 1990s the bank provided a wide range of innovative Islamic finance services. NCB was the first promoter or manager of mutual funds in Saudi Arabia and describes itself as the largest financial asset manager in the Arab world. In November 2014, NCB raised USD6bn with its heavily oversubscribed IPO on Saudi Arabia's Tadawul All Share Index, selling a 25% stake.

At end-2015, the bank operated 352 branches throughout the Kingdom, dedicated exclusively to Islamic Banking services, as well as a network of 2,927 ATMs to reach 4.86mn customers. Bank employees throughout the Kingdom reached 7,515, of which 95.4% are Saudis. It also has international branches or offices in Bahrain, Beirut, Singapore, Seoul and Shanghai.

NCB owns 90.424% of NCB Capital, its investment arm the Premier Investment bank in the Kingdom, **and owns 67% of Turkiye Finans Katilim Bankasti (TFKB),** the leading participation bank in Turkey, with a branch network of 282. NCB is considered to be one of the first Saudi companies to implement the principle of Corporate Governance, and the first bank in Saudi Arabia to receive International Certification on Business Continuity Management.

In June and July 2015, NCB issued SAR3bn in Sukuk bonds as it sought to shore up its capital base and expand its Islamic Banking operations. It followed this up with another SAR2.7bn Tier 1 Sukuk issuance in December 2015.

Highlights

NCB reported record net income of SAR7.03bn in 9M16, rising by 1.0% over the SAR6.96bn recorded in the same period of 2015. This was supported by a 8.9% increase in special commission income and a 7.1% y-o-y rise in foreign exchange income.On the balance sheet, total assets declined from SAR447bn as at September 30 2015 to SAR439bn a year later. Over the same 12-month period, the loan portfolio expanded 9.0% y-o-y to SAR260bn while customer deposits declined from SAR367bn to SAR311bn.

At end-Q316 (latest available data) the bank's Tier 1 capital adequacy ratio was 16.7% (up from 14.5% at the same point a year earlier), while the total CAR was 19.0%, up from 16.7% and still among the highest of any bank in Saudi Arabia.In November 2015, Standard & Poor's cut NCB's long-term rating to 'A', from 'A+', and followed with another downgrade to 'BBB+' in March 2016. One month later, Fitch cut NCB's long-term rating from 'Á+' to 'A'.

National Commercial Bank Balance Sheet (USDmn)								
	2008	2009	2010	2011	2012	2013	2014	2015
Total Assets	59,098	68,643	75,291	80,315	92,066	100,599	115,828	119,719
Loans & Mortgages	28,752	29,904	33,489	36,075	43,585	50,045	58,789	67,016
Total Deposits	45,781	54,013	61,103	63,852	72,926	80,152	88,719	86,133
Total Shareholders' Equity	7,337	8,228	8,761	9,489	10,506	11,342	12,497	14,799

National Commercial Bank Key Ratios (%)								
	2008	2009	2010	2011	2012	2013	2014	2015
Return on Assets	0.9	1.7	1.8	2.1	2.0	2.2	2.1	2.1
Return on Equities	7.3	14.6	15.6	18.4	18.0	20.0	20.1	18.3
Loan Deposit Ratio	64.5	57.6	57.4	59.0	62.3	64.0	67.8	78.6
Loan Asset Ratio	50.0	45.4	46.6	46.9	49.4	51.0	51.9	56.6
Equity Asset Ratio	11.8	11.4	11.1	11.3	10.9	10.8	10.4	12.1
Total Risk Based Capital Ratio	16.6	19.3	18.0	18.2	17.5	17.1	17.2	17.2
Tier 1 Capital Ratio	16.1	18.6	17.1	17.2	16.5	16.2	14.7	15.1

Source: BMI

4- Riyad Bank

Strengths

- Leading financial institution in Saudi Arabia in terms of assets.
- Strong customer franchise in the retail sector.
- Maintains strong credit ratings.

Weaknesses

- Exposed to a more difficult economic environment amid lower oil prices.
- It is not clear to what extent Saudi banks are exposed to injudicious real estate lending in other parts of the Middle East.
- Vulnerable to riyal volatility.

Opportunities

- Looking to move into insurance.
- SAMA license for real estate financing and lease financing.
- Expanding loan portfolio during 9M16.

Threats

- More competitive market.
- Ratings downgrades from S&P and Fitch in 2016.
- Threat of further oil price shocks.
- Fall in net income in 9M16.

Overview

Riyad Bank is one of the largest financial institutions in Saudi Arabia, with a strong and growing corporate and retail banking franchise. It is the country's third largest lender in terms of market value. The bank has a branch in London, UK, and representative offices in Houston (US) and Singapore. As of end-2015 (latest confirmed figures) the lender offered its clients an accessible network of more than 300 branches, with 81 women's branches and 19 self-service electronic branches. The bank also has a broad ATM network, with more than 2,700 machines.The bank operates in five segments: retail banking, corporate banking, investment banking and brokerage, treasury and investment, and 'other'. Its largest source of revenue is special commission income.

In retail banking it principally handles individual customers' current accounts and deposits, and provides loans, overdrafts, credit and debit card facilities and investment products. In corporate banking it handles corporate customers' current accounts and deposits, and provides loans, overdrafts and other credit facilities and derivative products. In the investment banking and brokerage segment, Riyad deals with investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities. The treasury and investment segment provides money market trading and treasury services and management of the bank's investment portfolio.

Facing pressure from falling oil prices, Riyad Bank issued a SAR4bn Sukuk in June 2015 in an attempt to boost its capital base. In December 2013, the Saudi Arabian Monetary Agency (SAMA) issued the first licence for real estate financing and lease financing to Riyad Bank. In January 2016, the bank launched a new mortgage financing programme with The Real Estate Development Fund. In another first for Saudi Arabia, the bank launched a new contactless bank card with Gemalto. In October 2016, Riyad Bank CEO Talal al-Qudaibi announced he would be retiring immediately, with his deputy Abdul Majeed Abdullah al-Mobarak taking over.

Highlights

Riyad Bank's net profit for the first nine months of 2016 reached SAR3.05bn, against SAR3.20bn the previous year, a decrease of 4.7%. Total operating income declined 3.4% to SAR5.87bn over the same period.Total assets reached SAR223.5bn as of September 30 2016, up 3.0% on level recorded 12 months earlier. Over the same period, loans rose 10.2% y-o-y to SAR152.6bn and customer deposits were down by 0.2% y-o-y to reach SAR160.8bn. As of September 30 2016 (latest available figures), Riyad Bank's Tier 1 and Total capital adequacy ratios, in accordance with Basel III terms, stood at 16.2% and 18.3% respectively. This is changed from 16.1% and 18.4% a year earlier.

Amid rising economic risks due to falling oil prices, Standard & Poor's cut Riyad Bank's long-term rating from 'A+' to 'A' in November 2015, and again to 'BBB+' in March 2016. Fitch also downgraded the bank's rating from 'A+' to 'A' in April 2016.

Riyad Bank Market Indicators								
	2009	2010	2011	2012	2013	2014	2015	March-2016
Market Capitalisation SAR	40,350	39,900	34,950	34,500	43,800	50,970	37,260	34,650
Market Capitalisation USD	10,758	10,640	9,320	9,198	11,679	13,576	9,927	9,235
Share Price SAR	13.45	13.30	11.65	11.50	14.60	16.99	12.42	11.55
Share Price USD	3.59	3.55	3.11	3.07	3.89	4.53	3.31	3.08
Share Price USD, % change (eop)	27.0	-1.1	-12.4	-1.3	27.0	16.2	-26.9	na
Change, year-to-date	na	na	na	na	na	na	na	na
Shares Outstanding (mn)	3,000	3,000	3,000	3,000	3,000	3,000	na	na

Riyad Bank Balance Sheet (USDmn)								
	2008	2009	2010	2011	2012	2013	2014	2015
Total Assets	42,539	47,032	46,277	48,234	50,704	54,727	57,155	59,499
Loans & Mortgages	25,693	28,399	28,273	30,124	31,319	34,980	35,555	38,546
Total Deposits	27,992	33,402	33,849	37,284	38,982	40,849	43,702	44,518
Total Shareholders' Equity	6,845	7,528	7,795	8,042	8,522	9,031	9,465	9,737
Earnings Per Share (USD)	0.27	0.27	0.25	0.28	0.31	0.35	0.39	0.36

Riyad Bank Key Ratios (%)								
	2008	2009	2010	2011	2012	2013	2014	2015
Return On Assets	1.9	1.8	1.6	1.8	1.9	2.0	2.1	1.8
Return On Equities	13.6	11.2	9.8	10.6	11.2	12.0	12.5	11.2
Loan Deposit Ratio	93.4	85.9	85.3	82.2	82.1	86.9	82.6	87.7
Loan Asset Ratio	61.4	61.0	62.4	63.6	63.1	64.9	63.1	65.6
Equity Asset Ratio	16.1	16.0	16.8	16.7	16.8	16.5	16.6	16.4
Total Risk Based Capital Ratio	16.1	18.3	18.3	17.1	17.7	17.1	17.3	18.4
Tier 1 Capital Ratio	13.9	15.8	16.0	14.8	15.3	16.6	16.8	16.2

Source: BMI

5- Samba Financial Group

Strengths

- Top tier financial institution in Saudi Arabia in terms of assets.
- Strong deposit growth provides liquidity.
- Strong capitalization.
- Offers a wide range of banking products and services to clients.
- Very strong capital ratios.

Weaknesses

- Exposed to the ramifications of low oil prices on the Saudi economy.
- Vulnerable to riyal volatility.
- Decline in net profit in 9M16.

Opportunities

- Innovative products and services.
- Looking to expand its footprint and brand overseas.
- Rise in lending in 9M16.
- Fall in capital ratios in H116.

Threats

- More competitive market and slower economic growth in the region.
- Potential for further oil price shocks.
- Ratings downgrade from S&P and Fitch in H116.

Overview

Samba Financial Group, formed in 1980 as Saudi American Bank after a royal decree requiring majority Saudi ownership of all banks, is the descendent of Citibank's operations in Saudi Arabia, which dated back to a branch in Jeddah in 1955. Citi originally had a 40% stake in the bank and was responsible for running it according to a technical agreement. In 1999 Samba merged with United Saudi Bank, with the result that Citi's stake fell to less than 23%. Citi then reduced its holding to 20%, selling a portion to a Saudi agency. At the end of 2003 Citi sold its stake to the semi-state run General Organisation for Social Insurance (GOSI) and the technical agreement came to an end.

Samba has 72 branches, 25 women's centres and 496 ATMs in Saudi Arabia. Its international operations consist of branches in London, Qatar and Dubai, as well as a subsidiary with 34 branches and 28 ATMs in Pakistan. In March 2007 the group acquired 68% of Crescent Commercial Bank in Pakistan. Crescent was established in 2002 and was previously called Mashreqbank Pakistan.

Within the Saudi banking sector, Samba is regarded as an innovative player. In 1997 it was one of the largest banks in the country to establish a subsidiary, Samba Fund Management, which introduced Saudi Arabia's first local equity fund SAIF. The fund is open to overseas investors and listed on the London Stock Exchange. In 2001 Samba was the first Saudi bank to establish an internet-banking platform called SambaAccess.

Samba offers a wide range of banking products such as loans, financial advisory products, underwriting services and other transaction products and services. Its commercial segment caters to small- and medium-sized enterprises, while credit cards and car financing products are found under the Al-Khair brand name for asset-backed Islamic products. In January 2015, the bank said it would seek to boost capital by around SAR8bn through issuing bonus shares in order to support future growth.

Highlights

Samba's preliminary net profit for 9M16 stood at SAR3.9bn, down 1.7% y-o-y on the same period in the previous year. The bank said this was largely due to a 3.4% y-o-y hike in operating expenses.

Total assets as at end-September 2016 were SAR238.3bn, an increase of 2.0% on the same point a year earlier. As of the same date, loans and advances amounted to SAR129.8bn, an increase of 1.9% y-o-y, while customer deposits were down 0.6% y-o-y to SAR173.0bn.

As at end-H116 (latest figures available), Samba's Tier 1 capital ratio stood at 25.8%, down from 31.9% a year earlier. The total capital adequacy ratio slid from 32.7% to 28.0% over the same period, but still remained among the highest levels in the country. In April 2016, Fitch lowered the outlook on Samba Group's long-term rating from 'A+' to 'A'. This followed two rate cuts from Standard & Poor's, bringing the bank's rating down to 'BBB+' amid a review of new pressures on the Saudi banking sector.

Samba Financial Group Market Indicators

	2009	2010	2011	2012	2013	2014	2015	March-2016
Market Capitalisation SAR	45,450	55,125	41,940	40,230	45,000	46,320	46,660	48,700
Market Capitalisation USD	12,118	14,700	11,183	10,726	11,999	12,337	12,432	12,979
Share Price SAR	22.73	27.56	20.97	20.12	22.50	23.16	23.33	24.35
Share Price USD	6.06	7.35	5.59	5.36	6.00	6.17	6.22	6.49
Share Price USD, % change (eop)	-1.4	21.3	-23.9	-4.1	11.9	2.8	0.8	na
Change, year-to-date	na	na	na	na	na	na	na	na
Shares Outstanding (mn)	2,000	2,000	2,000	2,000	2,000	2,000	na	na

Samba Financial Group Balance Sheet (USDmn)

	2008	2009	2010	2011	2012	2013	2014	2015
Total Assets	47,665	49,464	49,972	51,404	53,115	54,671	57,904	62,676
Loans & Mortgages	26,151	22,435	21,398	23,762	27,937	30,252	33,048	34,588
Total Deposits	35,765	39,228	35,586	36,600	39,655	42,219	43,626	45,665
Total Shareholders' Equity	5,345	5,999	6,827	7,535	8,462	9,314	10,364	10,753
Earnings Per Share (USD)	0.59	0.61	0.59	0.57	0.58	0.60	0.67	0.70

Samba Financial Group Key Ratios (%)

	2008	2009	2010	2011	2012	2013	2014	2015
Return On Assets	2.7	2.5	2.4	2.3	2.2	2.2	2.4	2.3
Return On Equities	23.6	21.6	18.6	16.1	14.5	13.6	13.6	13.2
Loan Deposit Ratio	75.4	59.5	62.9	67.4	72.5	73.5	77.4	76.9
Loan Asset Ratio	56.6	47.2	44.8	48.0	54.2	56.8	58.3	56.0
Equity Asset Ratio	11.1	12.0	13.6	14.6	15.9	17.0	17.8	17.1
Total Risk Based Capital Ratio	14.1	17.1	18.9	19.2	20.0	19.4	19.9	19.5
Tier 1 Capital Ratio	13.1	16.0	17.8	18.1	19.0	18.6	19.2	19.5

Source: BMI