

August 2025



Saudi Banking Sector

Quarterly Report I Q2-25



High teen profit growth continues, driven by improvement in yield income and double digit fee income growth; LDR near historic highs due to liquidity pressures

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The Saudi banking sector posted record high quarterly earnings of SAR 22.9bn in Q2-25, up 17.7% Y/Y (+3.2% Q/Q). Eight out of ten listed banks posted above consensus earnings. Pre-provision profit for the sector was up 15.2% Y/Y in Q2-25. Earnings growth was mainly driven by the improvement in Net Interest Income (up 9.4% Y/Y in Q2-25 to SAR 29.9bn), which was supported by the 15.8% Y/Y and 14.3% Y/Y increase in loans and investments, respectively (total earning assets were up 15.5% Y/Y in Q2-25). Note that, NIMs for the sector were down 17bps Y/Y to 2.96% in Q2-25. Overall, monthly run rate for mortgages stood at SAR 6.3bn in Q2-25, up 3.7% Y/Y, compared to SAR 6.1bn in Q2-24. On a sequential basis mortgages declined by 31.6% as markets awaits for more clarity on the recent changes in white land rules. Total deposits for the sector grew by 6.9% Y/Y (up 2.7% on a sequential basis) to SAR 2,867bn. Demand deposit share in total deposits declined by 137bps Y/Y (up 33bps Q/Q) to 56.8%. Normal Loan-to-deposit (LDR) ratio increased by 556bps Y/Y (down 22bps Q/Q) to reach 106.3% in Q2-25; regulatory LDR saw an increase of 235bps Y/Y (-105bps Q/Q), as it reached 81.6% in Q2-25. In 2024 most of non-government sukuk issuances were made by banks and NBFI to strengthen capital, this trend is continuing in 2025. Gross NPL ratio of the sector improved by 16bps Y/Y (4bps Q/Q) to 1.20% in Q2-25, while coverage stood at a healthy 128.9% (down 380bps and +200bps Y/Y and Q/Q). CoR declined by 6bps Y/Y (-1bps Q/Q) to 25bps in Q2-25. The sector experienced a 183bps Y/Y (30bps Q/Q) improvement in the cost to income ratio to 29.5% in Q2-25, as operating income increased by 12.9% Y/Y, while operating expenses increased by 6.3% Y/Y.

Banking sector posts record net income in Q2-25, supported by strong growth in NII, NFI & lower provision expenses:

The Saudi banking sector posted record high quarterly earnings of SAR 22.9bn in Q2-25, up 17.7% Y/Y (+3.2% Q/Q). Eight out of ten listed banks posted above consensus earnings. Leading the group were **ALBILAD** and **ANB**, which beat estimates by 7.1% and 5.8%. Conversely, **SAB** and **BJAZ** had biggest earnings misses of 0.9% and 0.8%, respectively. Bank wise, **ALRAJHI** posted the highest net income growth of 30.9% Y/Y in Q2-25, driven primarily by 24.7/29.1% Y/Y increase in NSCI/non-funded income, amidst a 9.5% and 39.0% increase in operating expenses and debt provisions, respectively. On the other hand, **SAIB** saw the smallest increase in earnings of 5.4% Y/Y, due to 3.5% Y/Y increase in NII

Loan growth still in double digits, mortgage issuances post massive sequential drop in Q2-25:

Net loans and advances grew by 15.8% Y/Y. Overall, monthly run rate for mortgages stood at SAR 6.3bn in Q2-25, up 3.7% Y/Y, compared to SAR 6.1bn in Q2-24. On a sequential basis mortgages declined by 31.6% as markets awaits for more clarity on the recent changes in white land rules. Bank wise, **RIBL** and **SAIB** led the sector posting loan growths of 21.8% Y/Y and 19.6% Y/Y, respectively in Q2-25. On the other hand, **BSF** and **Albilad** posted the smallest loan growths of 6.5% Y/Y and 10.9% Y/Y, respectively.

Share of demand deposits is down 137bps Y/Y in Q2-25:

Total deposits for the sector grew by 6.9% Y/Y (up 2.7% on a sequential basis) to SAR 2,867bn. Demand deposit share in total deposits declined by 137bps Y/Y (up 33bps Q/Q) to 56.8%. Banks wise **BJAZ** logged in the highest growth in deposits of 15.8% Y/Y in Q2-25. On the other hand, **BSF** lagged the sector with deposits growths of -6.9% Y/Y. In terms of deposit quality, **SNB** and **ALRAJHI** maintained their lead in Q2-25, with the highest CA ratio of 75.7% and 66.6%, respectively. **SAIB** and **BJAZ** have lowest CA ratios of 27.9% and 29.0% with in the sector.

Regulated LDR edges down Q/Q in Q2-25:

Normal Loan-to-deposit (LDR) ratio increased by 556bps Y/Y (down 22bps Q/Q) to reach 106.3% in Q2-25; regulatory LDR saw an increase of 235bps Y/Y (-105bps Q/Q), as it reached 81.6% in Q2-25. We highlight that regulated LDR decreased Q/Q due to sukuk issuances and is comfortably below the regulatory limit.

Sector's credit asset quality and operating efficiency continues to improve:

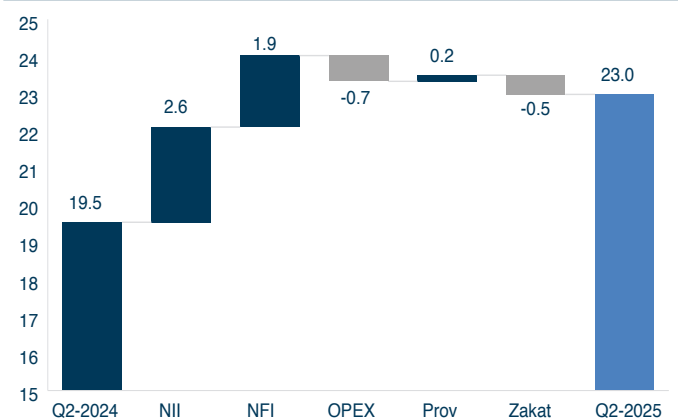
Gross NPL ratio of the sector improved by 16bps Y/Y (4bps Q/Q) to 1.20% in Q2-25, while coverage stood at a healthy 128.9% (down 380bps and +200bps Y/Y and Q/Q). CoR declined by 6bps Y/Y (-1bps Q/Q) to 25bps in Q2-25. Amongst listed banks, **ALRAJHI** retained its top position on asset quality front, with NPL ratio of 0.75% (down 4bps Y/Y), while **SAB** despite undergoing the sizable NPL improvement (down 30bps Y/Y) still had the industry's highest NPL ratio of 2.85% in Q2-25. The sector experienced a 183bps Y/Y (30bps Q/Q) improvement in the cost to income ratio to 29.5% in Q2-25, as operating income increased by 12.9% Y/Y, while operating expenses increased by 6.3% Y/Y.



Banking sector Q2-25 net income is up 17.7% Y/Y, supported by strong growth in NII, NFI & lower provision expenses:

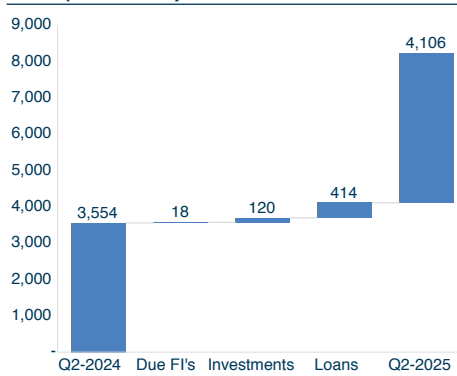
The Saudi banking sector posted record high quarterly earnings of SAR 22.9bn in Q2-25, up 17.7% Y/Y (+3.2% Q/Q). Eight out of ten listed banks posted above consensus earnings; leading the group were **ALBILAD** and **ANB**, which beat estimates by 7.1% and 5.8%. Conversely, **SAB** and **BJAZ** had biggest earnings misses of 0.9% and 0.8%, respectively. Pre-provision profit for the sector was up 15.2% Y/Y in Q2-25. Earnings growth was mainly driven by the improvement in Net Interest Income (up 9.4% Y/Y in Q2-25 to SAR 29.9bn), which was supported by the 15.8% Y/Y and 14.3% Y/Y increase in loans and investments, respectively (total earning assets were up 15.5% Y/Y in Q2-25). Note that NIMs for the sector were down 17bps Y/Y to 2.96% in Q2-25. Growth in non-funded income remained strong at 25.8% Y/Y in Q2-25. Operating expenses grew by 6.3% Y/Y, while the cost-to-income ratio improved by 183bps Y/Y to 29.5%. Debt provisions declined by 7.6% Y/Y to SAR 1.91bn in Q2-25, which translates to cost-of-risk (CoR) of 25bps, as compared to 32bps in the same period last year. Overall, sector RoE improved by 108bps Y/Y to 16.2% in Q2-25, the improvement is mainly owed to expansion in net margins by 2.37ppts Y/Y to 58.51% and increasing leverage (assets/equity stood at 7.88x in Q2-25 vs 7.55x in Q2-24).

Fig 1: Net income growth drivers (SAR mn)



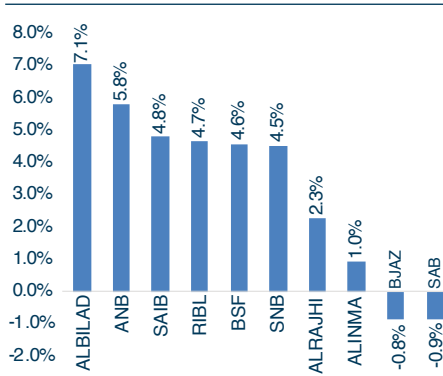
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 2: Earning assets grew by 15.5% Y/Y (SAR mn)



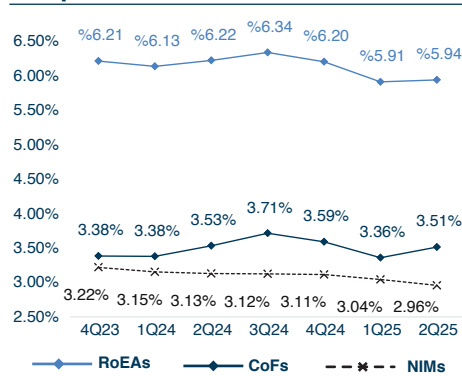
Source: Company financials, Aljazira Capital Research

Fig 3: Q2-25 earnings actual vs estimates



Source: Company financials, Aljazira Capital Research

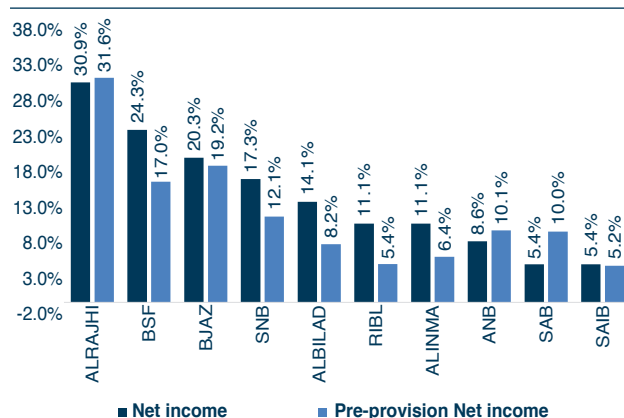
Fig 4: NIMs have contracted by 17bps Y/Y



Source: Company financials, Aljazira Capital Research

Bank wise, **ALRAJHI** posted the highest net income growth of 30.9% Y/Y in Q2-25, driven primarily by 24.7/29.1% Y/Y increase in NSCI/non-funded income, amidst a 9.5% and 39.0% increase in operating expenses and debt provisions, respectively. **BSF** stood out as the second best with Q2-25 with net income growth of 24.3% Y/Y, which is attributable to 13.2% Y/Y expansion in NSCI and 19.9% Y/Y growth non-commission income. On the other hand, **SAIB** saw the smallest increase in earnings of 5.4% Y/Y, due to 3.5% Y/Y increase in NII. On Pre-provision basis (Net profit adjusted for provisions) **ALRAJHI** posted growth of 31.6% Y/Y. **SAIB** and **RIBL** stood out as major laggards on Pre-provision net income basis, with profits up 5.2% Y/Y and 5.4% Y/Y, respectively, the aforementioned performance is owed to 40/51bps contraction in NIMs, respectively.

Fig 5: Banks wise Q2-25 earning performance (Y/Y)

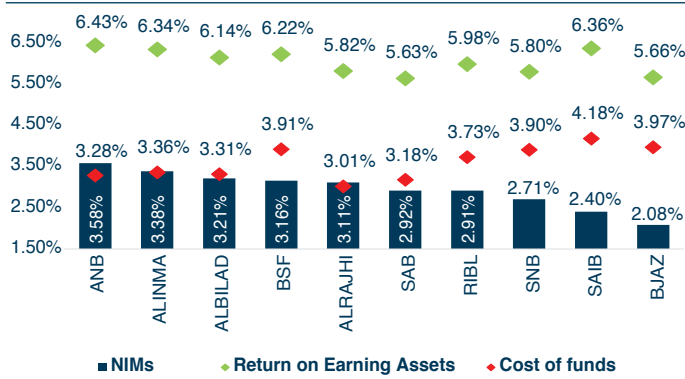


Source: Company financials, Aljazira Capital Research



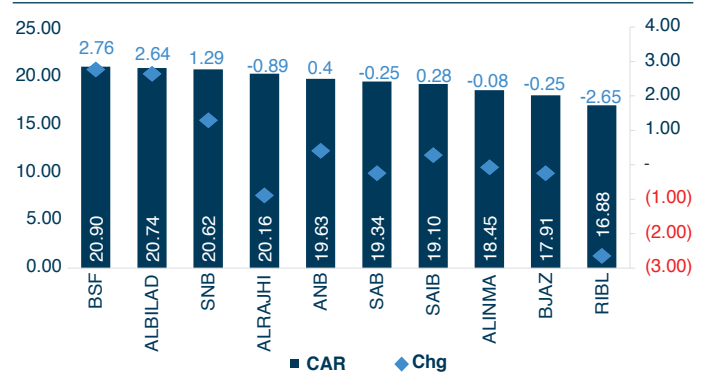


Fig 6: NIMs, RoEAs, CoFs



Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 7: Capital adequacy ratio %



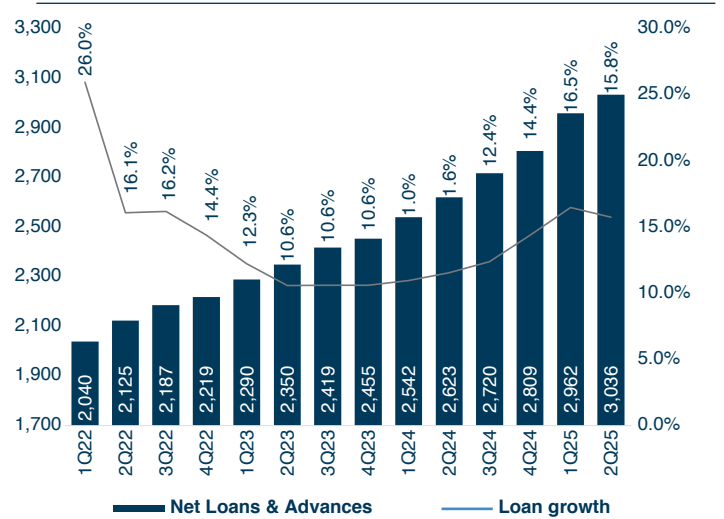
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Sector capital adequacy, sizably above regulatory requirement: Bank wise, BSF leads the sector with total CAR of 20.9%, up 276bps Y/Y. Albilad closely follows with CAR of 20.7% (up 264bps Y/Y). While RIBL has the lowest CAR of 16.9% (-265bps); closely followed by BJAZ with a CAR of 17.9%. BSF saw strongest increase in CAR of 276bps, while RIBL saw the largest attrition in CAR of 265bps.

Loan growth still in double digits, mortgage issuances saw a massive slowdown in Q2-25: Net loans and advances grew by 15.8% Y/Y. Overall, monthly run rate for mortgages stood at SAR 6.3bn in Q2-25, up 3.7% Y/Y, compared to SAR 6.1bn in Q2-24. On a sequential basis mortgages declined by 31.6% as markets awaits for more clarity on the recent changes in white land rules.

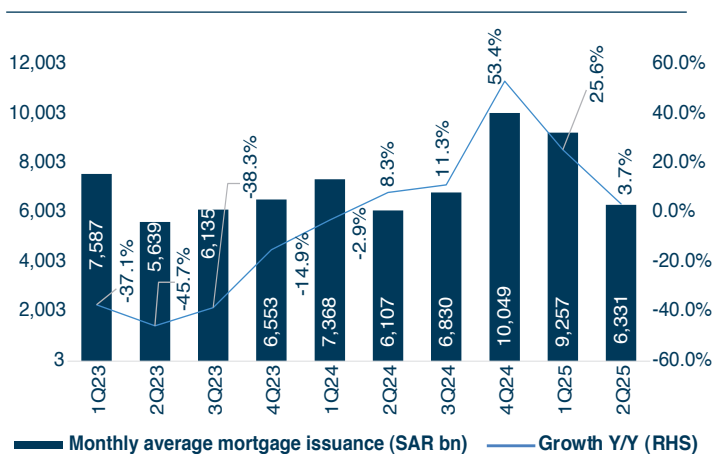
Bank wise, **RIBL** and **SAIB** led the sector posting loan growths of 21.8% Y/Y and 19.6% Y/Y, respectively in Q2-25. On the other hand, **BSF** and **Albilad** posted the smallest loan growths of 6.5% Y/Y and 10.9% Y/Y, respectively.

Fig 8: Loan and advances



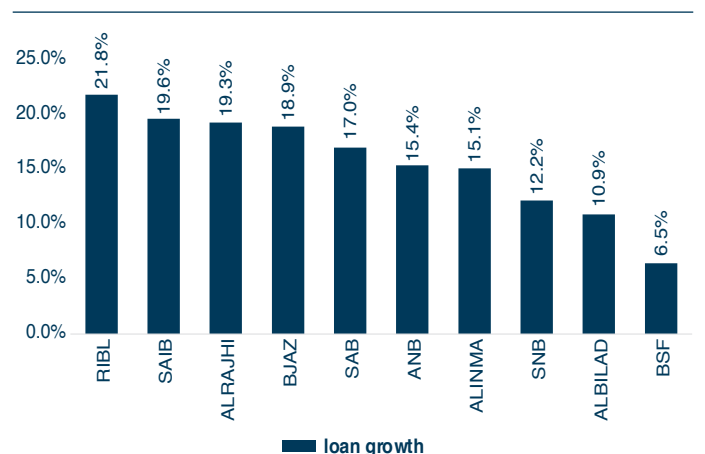
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 9: Mortgage issuances have slowed down (SAR bn)



Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 10: Banks wise Q2-25 loan growth (Y/Y)



Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research





Share of demand deposits is down 137bps Y/Y in Q2-25: Total deposits for the sector grew by 6.9% Y/Y (up 2.7% on a sequential basis) to SAR 2,867bn. Demand deposit share in total deposits declined by 137bps Y/Y (up 33bps Q/Q) to 56.8%.

Banks wise **BJAZ** logged in the highest growth in deposits of 15.8% Y/Y in Q2-25, followed by **ANB** which saw deposits grow by 14.9% Y/Y. On the other end, **BSF** and **ALRAJHI** lagged the sector with deposits growths of -6.9% Y/Y and 3.1% Y/Y in Q2-25, respectively.

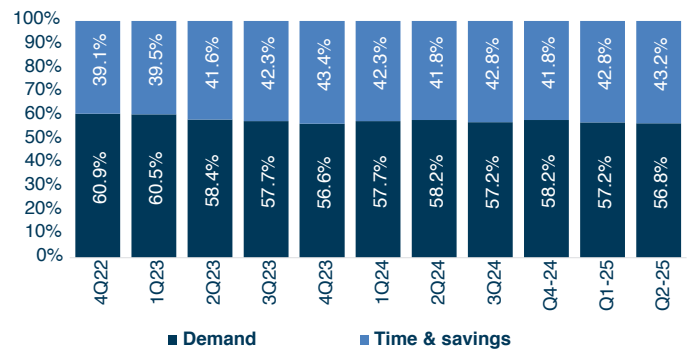
In terms of deposit quality, **SNB** and **ALRAJHI** maintained their lead in Q2-25, with the highest demand deposit weight of 75.7% and 66.6%, respectively. **SAIB** and **BJAZ** have lowest demand deposit ratios of 27.9% and 29.0% with in the sector.

In terms of change in deposit mix, **BSF** saw the largest improvement as its share of demand deposits increased by 3.8ppts Y/Y in Q2-25 to 44.1%, followed by **ANB** which saw share of non-remunerative deposits increase by 1.9ppts Q/Q to 51.5%. **RIBL** and **ALBILAD** on the other hand saw share of non-remunerative demand deposits decrease by 5.0ppts Y/Y and 4.9ppts Y/Y to 43.6% and 62.1%, respectively.

Regulated LDR edges down Q/Q in Q2-25: Normal Loan-to-deposit (LDR) ratio increased by 556bps Y/Y (down 22bps Q/Q) to reach 106.3% in Q2-25; regulatory LDR saw an increase of 235bps Y/Y (-105bps Q/Q), as it reached 81.6% in Q2-25. The aforementioned notable increase in LDR ratios is owed to the sizable 15.8% Y/Y increase in net loans & advances in Q2-25 and a smaller 6.9% Y/Y increase in deposits. We highlight that regulated LDR decreased Q/Q due to sukuk issuances and is comfortably below the regulatory limit.

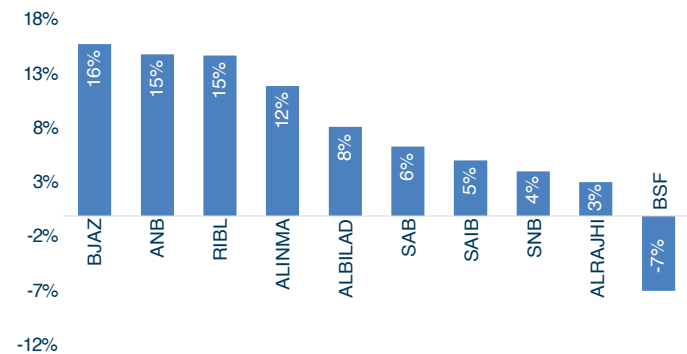
Bank wise, **ALRAJHI** has the highest LDR ratio of 116%, while **BJAZ** has the lowest ratio of 91%. In terms of change **ALRAJHI** and **BSF** saw the largest increases in LDR ratios of 15.6ppts Y/Y and 14.4ppts Y/Y to 116% and 115%, respectively. While **ANB** and saw the smallest increase in LDR ratio of 0.4ppts to 92%.

Fig 11 A: Share of demand deposits is down 137bps Y/Y



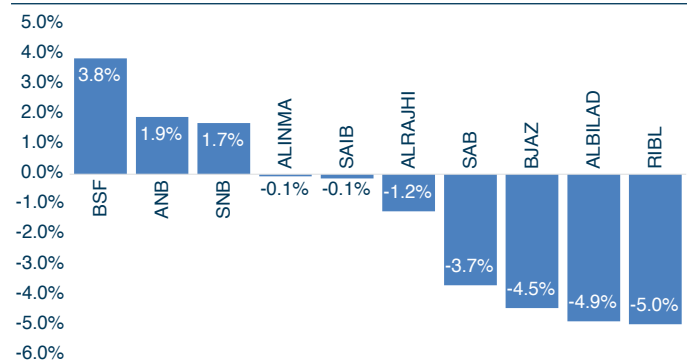
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 11 B: Bank wise deposit growth in Q2-25



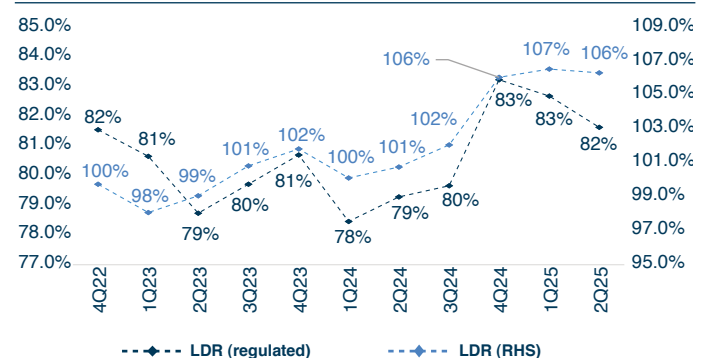
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 12: Chg in demand deposits Q/Q (ppts)



Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 13: Regulated LDR edges down Q/Q



Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

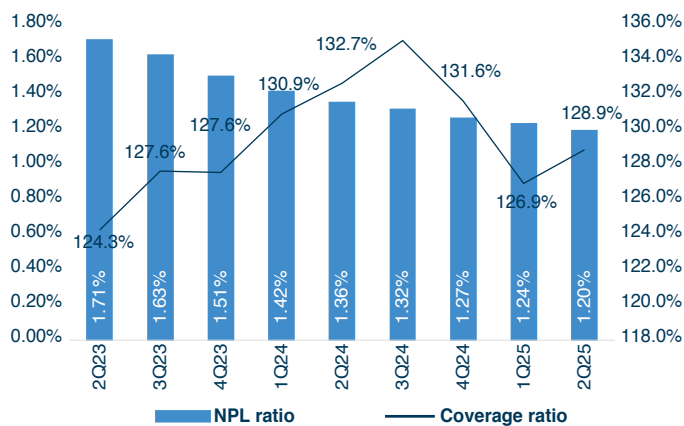




Sector's credit asset quality and operating efficiency continues to improve: Gross NPL ratio of the sector improved by 18bps Y/Y (3bps Q/Q) to 1.24% in Q1-25, while coverage stood at a healthy 126.9% (down 396bps and 470bps Y/Y and Q/Q). CoR declined by 13bps Y/Y (-2bps Q/Q) to 26bps in Q1-25. Amongst listed banks, **ALRAJHI** retained its top position on asset quality front, with NPL ratio of 0.75% (down 3bps Y/Y), while **SAB** despite undergoing the sizable NPL improvement (down 58bps Y/Y) still had the industry's highest NPL ratio of 2.8% in Q1-25.

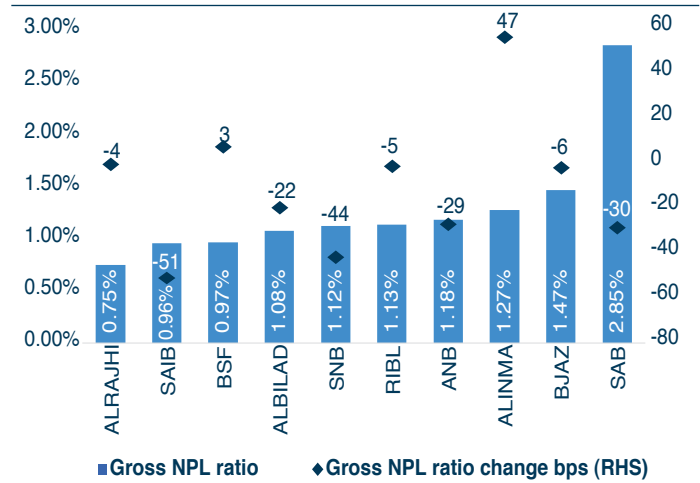
The sector experienced a 183bps Y/Y (-148bps Q/Q) improvement in the cost to income ratio to 29.8% in Q1-25, as operating income increased by 12.8% Y/Y, while operating expenses increased by 6.3% Y/Y. Operating income growth was driven by 11.1% Y/Y increase in net interest income, and a 19.1% Y/Y increase in non-yield income.

Fig 15: Asset quality improves further



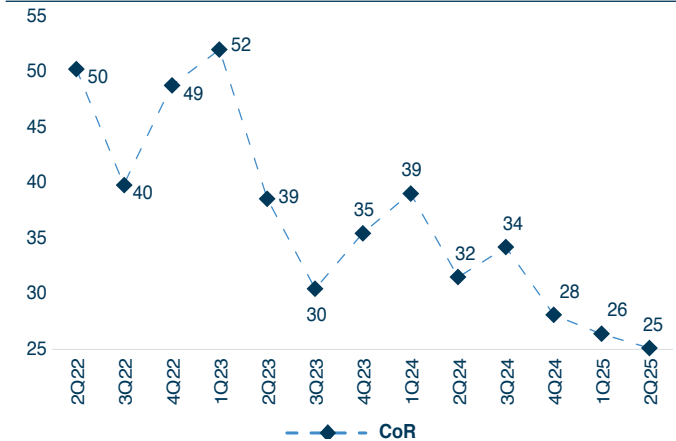
Source: SAMA Monthly Bulletin, Company financials, Aljazira Research

Fig 14: Alrajhi & SAIB lead on asset quality



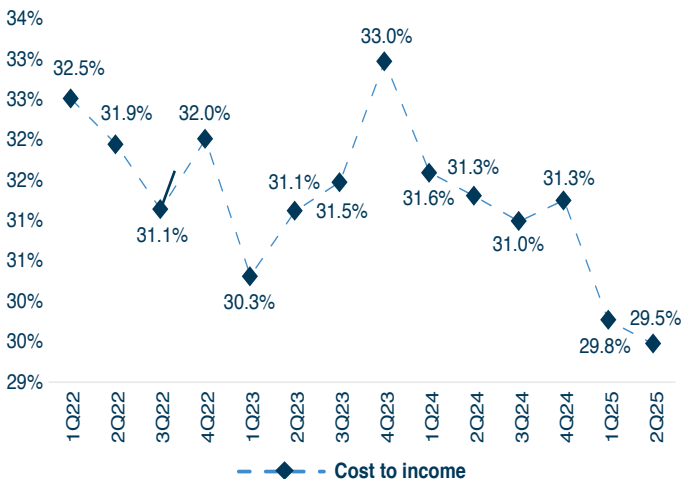
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 16: Cost of risk improved to 25bps in Q2-25



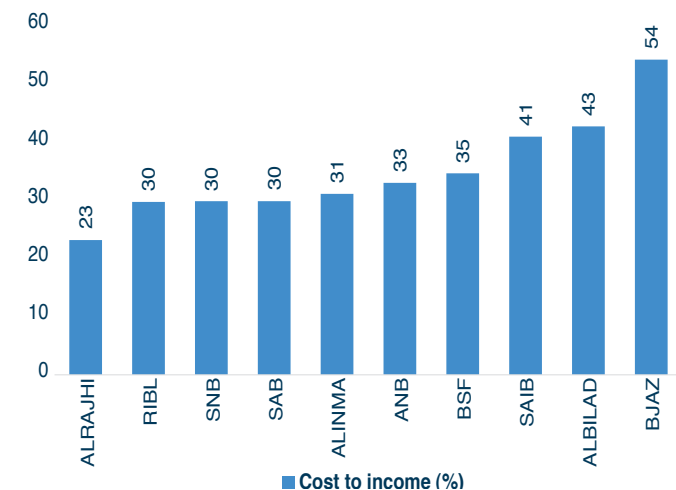
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 17: Cost to income



Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 18: Bank wise Cost to income

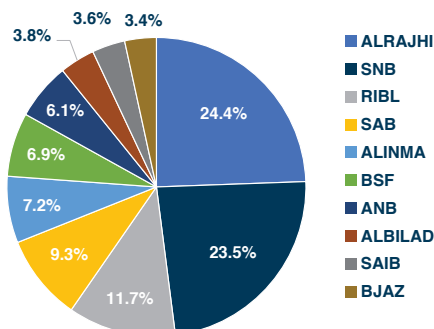


Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research





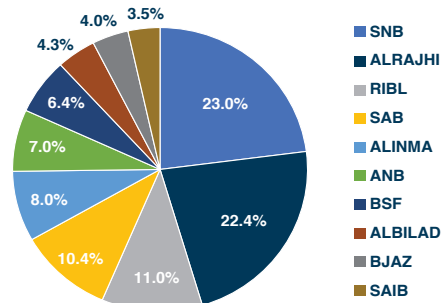
Fig 19: Loans market share



Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Loans market share: ALRAJHI leads with Q2-25 loan market share of 24.4%, up 71bps Y/Y. Alrajhi and RIBL saw the biggest increases in Q2-25 credit market share of 71bps Y/Y and 58bps Y/Y, to 24.4% and 11.7%, respectively. While SNB and BSF experienced biggest declines in loan market share of 76bps Y/Y and 61bps Y/Y to 23.5% and 6.9%. The share of Islamic banks in total lending stood at 35.4% in Q2-25 up 50bps Y/Y, with ALRAJHI having the largest share of 24.4%.

Fig 20: Deposits market share



Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Deposits market share: SNB leads with deposit market share of 23.0% in Q2-25, down 49bps Y/Y. RIBL and ANB saw the largest increases in Q2-25 deposit market share of 81bps Y/Y and 52bps Y/Y respectively, while BSF and ALRAJHI saw largest declines in market share of 91bps and 70bps Y/Y, respectively. Share of Islamic banks in total deposits decreased by 22bps Y/Y in Q2-25 to 34.7%, with ALRAJHI leading with a market share of 22.4%

Table 1: Return heat map for the sector Q2-25

| | RoE | NIMs | RoEAs | Cost of funds | Cost to income | CA ratio | CoR (bps) |
|---------|------|------|-------|---------------|----------------|----------|-----------|
| ALRAJHI | 22.8 | 3.11 | 5.82 | 3.01 | 23.2 | 66.6 | 34 |
| ALBILAD | 17.3 | 3.21 | 6.14 | 3.31 | 42.7 | 62.1 | 17 |
| ANB | 13.4 | 3.58 | 6.43 | 3.28 | 33.0 | 51.5 | 40 |
| BJAZ | 10.0 | 2.08 | 5.66 | 3.97 | 54.1 | 29.0 | 39 |
| RIBL | 17.1 | 2.91 | 5.98 | 3.73 | 29.7 | 43.6 | 42 |
| SAB | 13.5 | 2.92 | 5.63 | 3.18 | 29.9 | 46.9 | 27 |
| BSF | 12.8 | 3.16 | 6.22 | 3.91 | 34.6 | 44.1 | 53 |
| SAIB | 13.2 | 2.40 | 6.36 | 4.18 | 41.0 | 27.9 | 27 |
| ALINMA | 18.9 | 3.38 | 6.34 | 3.36 | 31.1 | 44.7 | 50 |
| SNB | 13.5 | 2.71 | 5.80 | 3.90 | 29.8 | 75.8 | 2 |

Source: SAMA, Company financials, Aljazira Capital Research





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RESEARCH
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RATING
TERMINOLOGY

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

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