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Saudi Banking Sector

Quarterly Report | Q1-25



Double digit profit continues, driven by improvement in yield income, fee income and decline in provision expenses

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The Saudi banking sector posted record high quarterly earnings of SAR 22.2bn in Q1-25, up 19.4% Y/Y (+6.3% Q/Q). Seven out of ten listed banks posted above consensus earnings. Pre-provision profit for the sector was up 14.5% Y/Y in Q1-25. Earnings growth was mainly driven by the improvement in Net Interest Income (up 11.1% Y/Y in Q1-25 to SAR 29.6bn), which was supported by the 16.5% Y/Y and 14.8% Y/Y increase in loans and investments. Note that, NIMs for the sector were down 11bps Y/Y to 3.04% in Q1-25. Net loans and advances grew by 16.5% Y/Y (+5.4% Q/Q). Overall, average monthly run rate for mortgages stood at SAR 9.3bn in Q1-25, up 25.6%, compared to SAR 7.4bn in Q1-24. Total deposits for the sector grew by 6.5% Y/Y (up 4.0% on a sequential basis) to SAR 2,790bn. Demand deposit share in total deposits declined by 59bps Y/Y (down 101bps Q/Q) to 57.2%. Regulatory LDR saw an increase of 423bps Y/Y (-55bps Q/Q), as it reached 82.7% in Q1-25. We highlight that regulated LDR decreased Q/Q due to sukuk issuances and is comfortably below the regulatory limit. 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. 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.

Banking sector posts record net income in Q1-25, supported by double-digit growth in NII, NFI & lower provision expenses: The Saudi banking sector posted record high quarterly earnings of SAR 22.2bn in Q1-25, up 19.4% Y/Y (+6.3% Q/Q). Seven out of ten listed banks posted above consensus earnings; leading the group were **BSF** and **SNB**, which beat estimates by 15.4% and 9.9%. Conversely, **ALBILAD** and **SAIB** had biggest earnings misses of 4.3% and 2.5%, respectively. Bank wise, **ALRAJHI** posted the highest net income growth of 34.0% Y/Y in Q1-25, driven primarily by 25.7/32.9% Y/Y increase in NSCI/non-funded income, amidst a 10.3% and 21.0% increase in operating expenses and debt provisions, respectively. On the other end, **SAB** saw the smallest increase in earnings of 4.5% Y/Y, due to 75.6% Y/Y increase in debt provisions.

Loan growth still in double digits, mortgage issuances post massive increase in Q1-25: Net loans and advances grew by 16.5% Y/Y (+5.4% Q/Q). Overall, average monthly run rate for mortgages stood at SAR 9.3bn in Q1-25, up 25.6%, compared to SAR 7.4bn in Q1-24. Bank wise, **SAIB** and **SAB** led the sector posting loan growths of 23.1% Y/Y and 22.0% Y/Y, respectively in Q1-25. On the other hand, **ALBILAD** and **BSF** posted the smallest loan growths of 8.8% Y/Y and 12.7% Y/Y, respectively

Share of demand deposits is down 59bps Y/Y in Q1-25: Total deposits for the sector grew by 6.5% Y/Y (up 4.0% on a sequential basis) to SAR 2,790bn. Demand deposit share in total deposits declined by 59bps Y/Y (down 101bps Q/Q) to 57.2%. Banks wise **ALINMA** logged in the highest growth in deposits of 15.8% Y/Y in Q1-25, followed by **SAIB** which saw deposits grow by 15.0% Y/Y. On the other end, **SNB** and **AIRAJHI** lagged the sector with deposits growths of -4.6% Y/Y and 4.2% Y/Y in Q1-25, respectively. In terms of deposit quality, **SNB** and **ALRAJHI** maintained their lead in Q1-25, with the highest demand deposit weight of 74.4% and 67.0%, respectively.

Regulated LDR edges down, while normal LDR notches up Q/Q in Q1-25: Normal Loan-to-deposit (LDR) ratio increased by 643bps Y/Y (up 49bps Q/Q) to reach 106.5% in Q1-25; regulatory LDR saw an increase of 423bps Y/Y (-55bps Q/Q), as it reached 82.7% in Q1-25. We highlight that regulated LDR decreased Q/Q due to sukuk issuances and is comfortably below the regulatory limit.

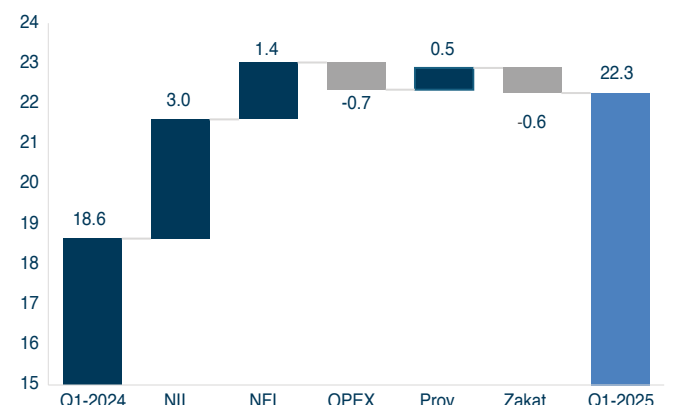
Sector's credit asset quality and operating efficiency continues to improve: Gross NPL ratio of the sector improved by 18bps Y/Y (3bps Q/Q) to 1.24% in Q1-25, while coverage stood at a healthy 126.9% (down 396bps and 470bps Y/Y and Q/Q). CoR declined by 13bps Y/Y (-2bps Q/Q) to 26bps in Q1-25. Amongst 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.



Banking sector posts record net income in Q1-25, supported by double-digit growth in NII, NFI & lower provision expenses:

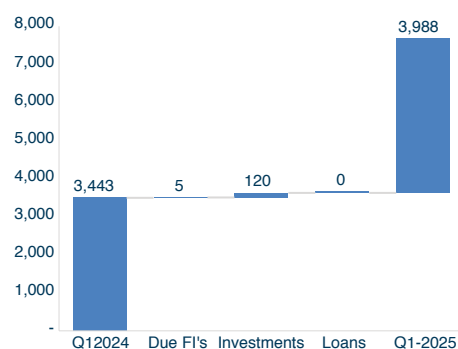
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Fig 1: Net income growth drivers (SAR mn)



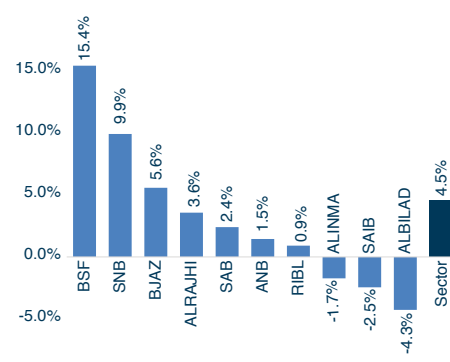
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 2: Earning assets grew by 15.9% Y/Y (SAR mn)



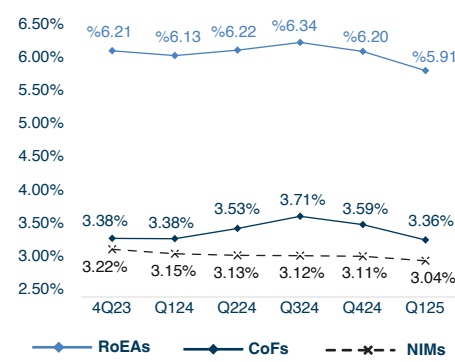
Source: Company financials, Aljazira Capital Research

Fig 3: Q1-25 earnings actual vs estimates



Source: Company financials, Aljazira Capital Research

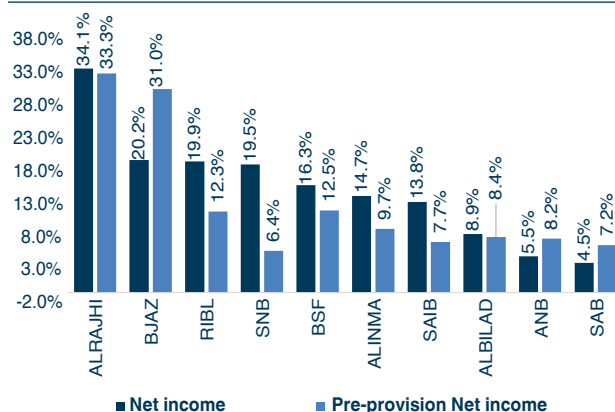
Fig 4: NIMs have contracted by 11bps Y/Y



Source: Company financials, Aljazira Capital Research

Bank wise, **ALRAJHI** posted the highest net income growth of 34.0% Y/Y in Q1-25, driven primarily by 25.7/32.9% Y/Y increase in NSCI/non-funded income, amidst a 10.3% and 21.0% increase in operating expenses and debt provisions, respectively. **BJAZ** stood out as the second best with Q1-25 with net income growth of 20.2% Y/Y, which is attributable to 21.6% Y/Y expansion in NSCI and 21.3% Y/Y growth non-commission income. On the other end, **SAB** saw the smallest increase in earnings of 4.5% Y/Y, due to 75.6% Y/Y increase in debt provisions. On Pre-provision basis (Net profit adjusted for provisions) **ALRAJHI** posted growth of 33.3% Y/Y). **SNB** and **SAB** stood out as major laggards on Pre-provision net income basis, with profits up 6.4% Y/Y and 7.2% Y/Y, respectively, the aforementioned performance is owed to 12/30bps contraction in NIMs for **SNB/SAB**, respectively.

Fig 5: Banks wise Q1-25 earning performance (Y/Y)

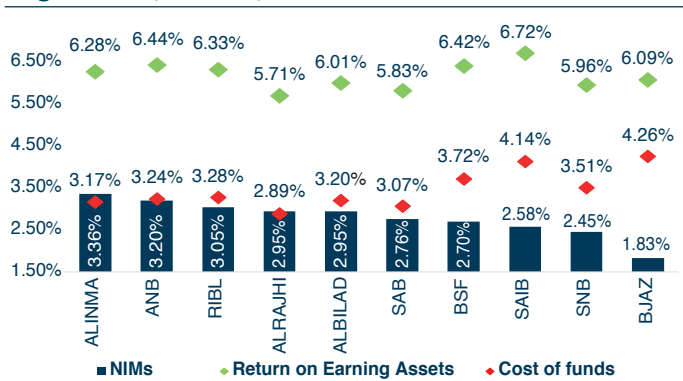


Source: Company financials, Aljazira Capital Research



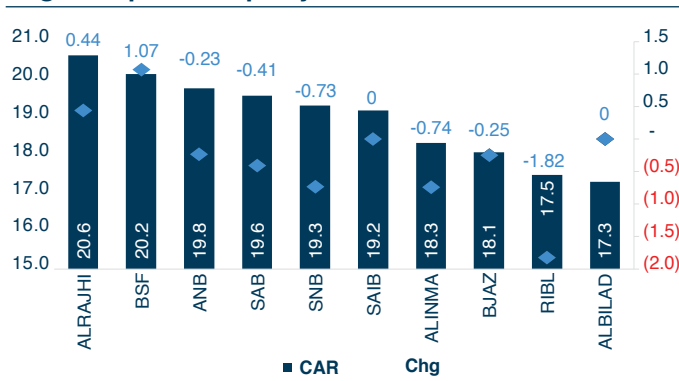


Fig 6: NIMs, RoEAs, CoFs



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, AIRAJHI leads the sector with total CAR of 20.6%, up 44bps Y/Y. BSF closely follows with CAR of 20.2% (up 107bps Y/Y). While ALBILAD has the lowest CAR of 17.3% (unchanged); closely followed by RIBL with a CAR of 17.5%. BSF saw strongest increase in CAR of 107bps, while RIBL saw the largest attrition in CAR of 182bps.

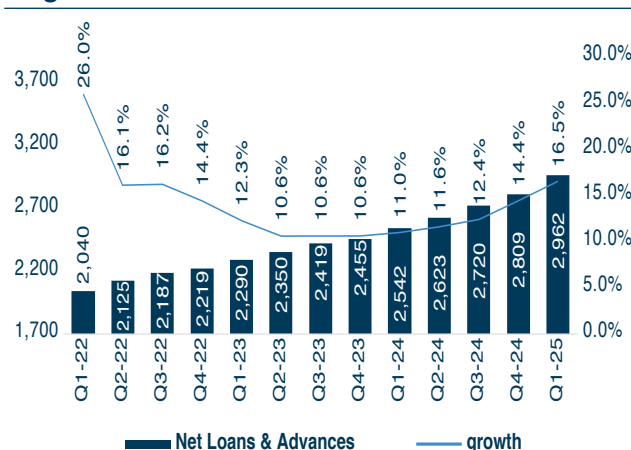
Loan growth still in double digits, mortgage issuances post massive increase in Q1-25:

Net loans and advances grew by 16.5% Y/Y (+5.4% Q/Q). Overall, average monthly run rate for mortgages stood at SAR 9.3bn in Q1-25, up 25.6%, compared to SAR 7.4bn in Q1-24.

Bank wise, SAIB and SAB led the sector posting loan growths of 23.1% Y/Y and 22.0% Y/Y, respectively in Q1-25.

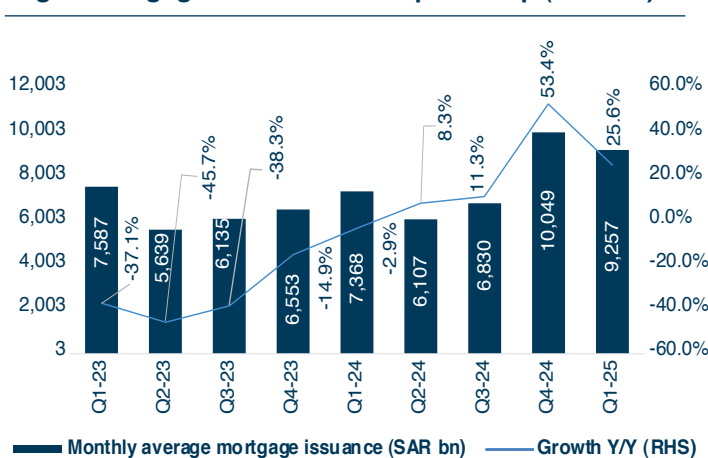
On the other hand, ALBILAD and BSF posted the smallest loan growths of 8.8% Y/Y and 12.7% Y/Y, respectively.

Fig 8: Loan and advances



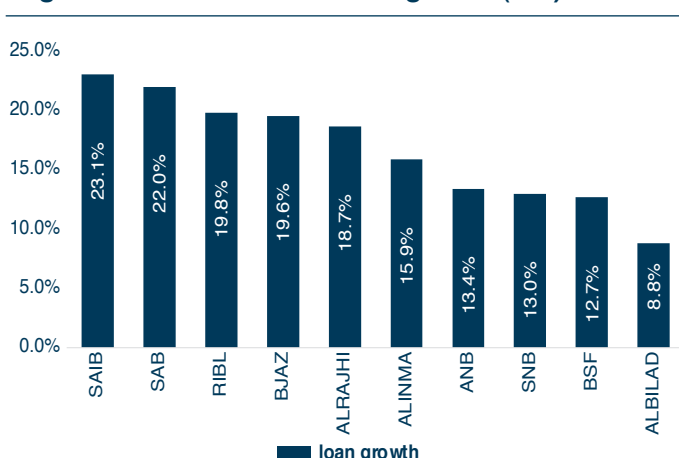
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 9: Mortgage issuances have picked up (SAR bn)



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

Fig 10: Banks wise Q1-25 loan growth (Y/Y)



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





Share of demand deposits is down 59bps Y/Y in Q1-25:

Total deposits for the sector grew by 6.5% Y/Y (up 4.0% on a sequential basis) to SAR 2,790bn. Demand deposit share in total deposits declined by 59bps Y/Y (down 101bps Q/Q) to 57.2%.

Banks wise **ALINMA** logged in the highest growth in deposits of 15.8% Y/Y in Q1-25, followed by **SAIB** which saw deposits grow by 15.0% Y/Y. On the other end, **SNB** and **AIRAJHI** lagged the sector with deposits growths of -4.6% Y/Y and 4.2% Y/Y in Q1-25, respectively.

In terms of deposit quality, **SNB** and **ALRAJHI** maintained their lead in Q1-25, with the highest demand deposit weight of 74.4% and 67.0%, respectively. **SAIB** and **BJAZ** have lowest demand deposit ratios of 27.5% and 31.4% with in the sector.

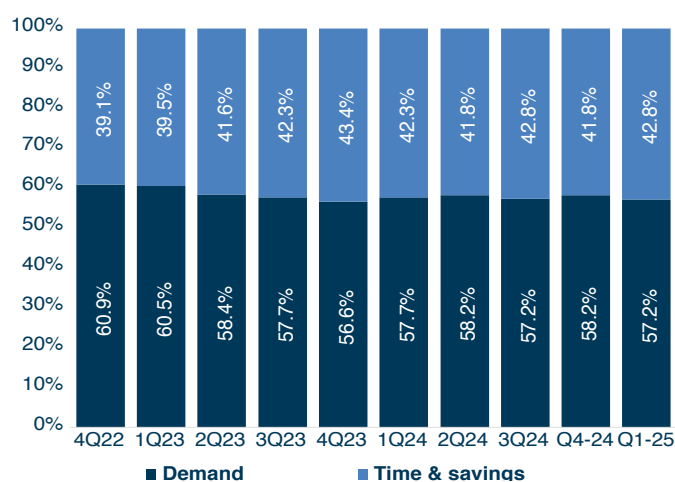
In terms of change in deposit mix, **SAB** saw the largest movement as its share of demand deposits decrease by 5.4ppts Q/Q in Q1-25 to 46.0%, followed by **ALRAJHI** which saw share of non-remunerative deposits drop by 4.1ppts Q/Q to 67.0%. **ALBILAD** and **SNB** on the other hand saw share of non-remunerative demand deposits increase by 3.7ppts Q/Q and SNB saw share of demand deposits increase by 2.2ppts to 74.4%.

Regulated LDR edges down, while normal LDR notches up Q/Q in Q1-25:

Normal Loan-to-deposit (LDR) ratio increased by 643bps Y/Y (up 49bps Q/Q) to reach 106.5% in Q1-25; regulatory LDR saw an increase of 423bps Y/Y (- 55bps Q/Q), as it reached 82.7% in Q1-25. The aforementioned notable increase in LDR ratios is owed to the sizable 5.4% Q/Q increase in net loans & advances in Q1-25 and a smaller 4.0% Q/Q increase in deposits. We highlight that regulated LDR decreased Q/Q due to sukuk issuances and is comfortably below the regulatory limit.

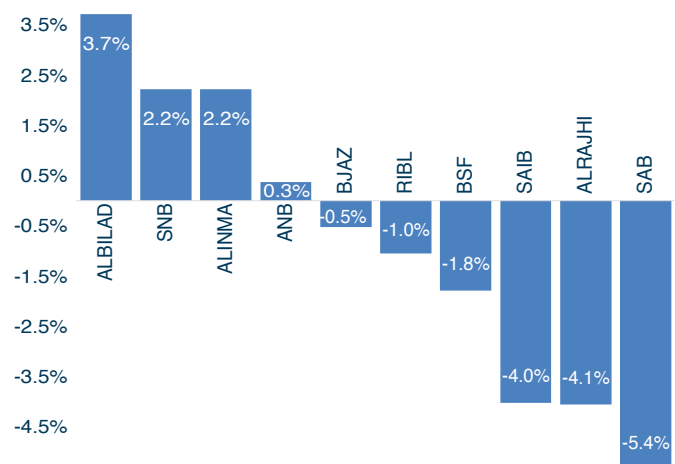
Bank wise, **ALRAJHI** has the highest LDR ratio of 114.9%, while **ALBILAD** has the lowest ratio of 90.7%. In terms of change **SNB** and **ALRAJHI** saw the largest increases in LDR ratios of 17.5ppts Y/Y and 14.0ppts Y/Y to 112.8% and 114.9%, respectively. While **ALBILAD** and saw a decrease in LDR ratios of 17bps 90.7%.

Fig 11: Share of demand deposits is down 59bps Y/Y



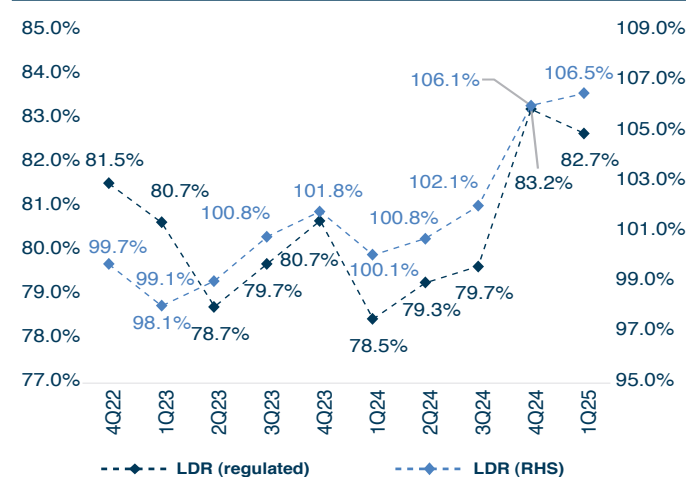
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

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



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

Fig 13: LDR is down from recent highs



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

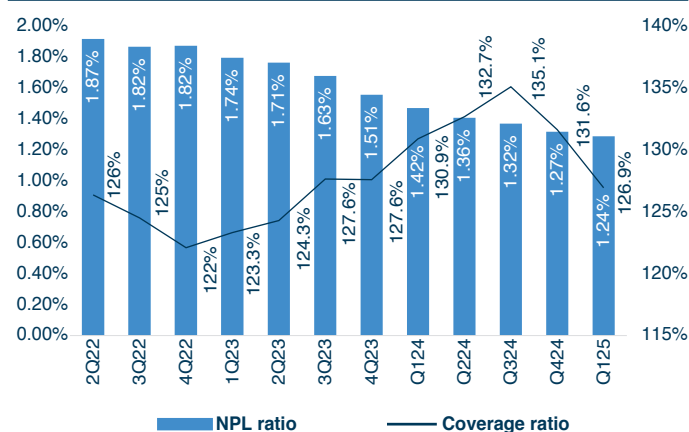




Sector's credit asset quality and operating efficiency continues to improve:

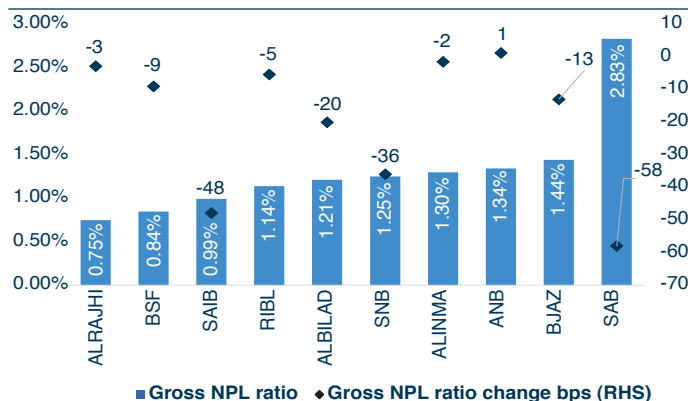
Gross NPL ratio of the sector improved by 18bps Y/Y (3bps Q/Q) to 1.24% in Q1-25, while coverage stood at a healthy 126.9% (down 396bps and 470bps Y/Y and Q/Q). CoR declined by 13bps Y/Y (-2bps Q/Q) to 26bps in Q1-25. Amongst listed banks, **ALRAJHI** retained its top position on asset quality front, 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.

Fig 15: Asset quality improves further



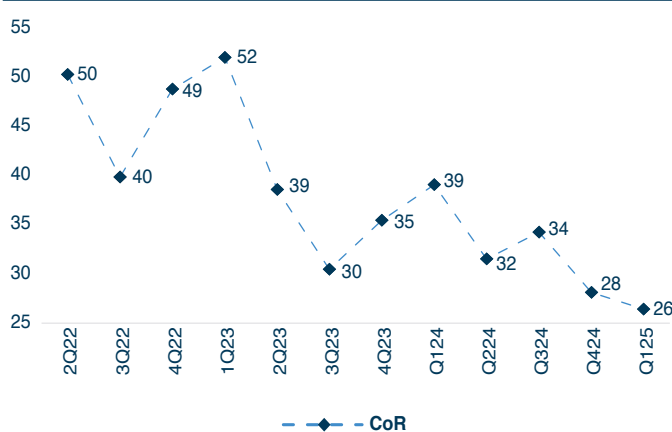
Source: SAMA Monthly Bulletin, Company financials, Aljazira Research

Fig 14: Alrajhi & BSF lead on asset quality



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

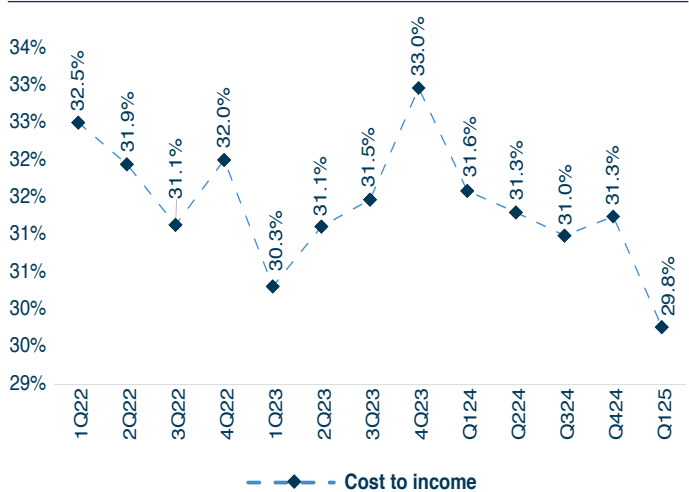
Fig 16: Cost of risk improved to 26bps in Q1-25



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

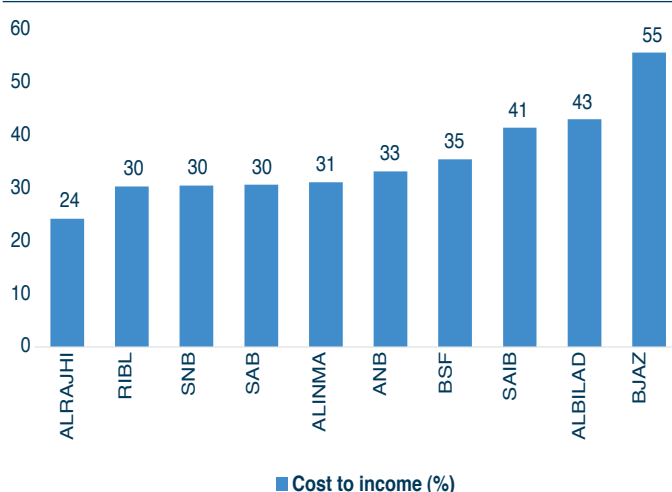
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Fig 17: Cost to income



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

Fig 18: Bank wise Cost to income

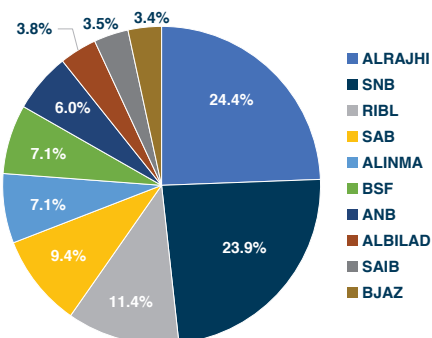


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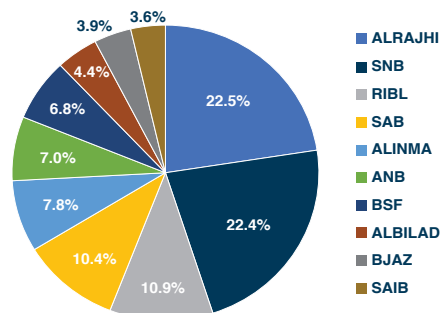
Fig 19: Loans market share



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

Loans market share: ALRAJHI leads with Q1-25 loan market share of 24.4%, up 44bps Y/Y. **Alrajhi** and **SAB** saw the biggest increases in Q1-25 credit market share of 44bps Y/Y and 42bps Y/Y, to 24.4% and 9.4%, respectively. While **SNB** and **ALBILAD** experienced biggest declines in loan market share of 75bps Y/Y and 27bps Y/Y to 23.9% and 3.8%. The share of Islamic banks in total lending stood at 35.3% in Q1-25 up 14bps 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: ALRAJHI leads with deposit market share of 22.5% in Q1-25, down 37bps Y/Y. **ALINMA** and **RIBL** saw the largest increases in Q1-25 deposit market share of 67bps Y/Y and 61bps Y/Y respectively, while **SNB** and **ALRAJHI** saw largest declines in market share of 246bps and 37bps Y/Y, respectively. Share of Islamic banks in total deposits increased by 42bps Y/Y in Q1-25 to 34.8%, with **ALRAJHI** leading with a market share of 22.5%

Table 1: Return heat map for the sector Q1-25

	RoE	NIMs	RoEAs	Cost of funds	Cost to income	CA ratio	CoR (bps)
ALRAJHI	17.2%	3.0%	6.0%	3.2%	42.6%	64.0%	19
ALBILAD	18.6%	3.4%	6.3%	3.2%	30.9%	47.5%	43
ANB	21.8%	3.0%	5.7%	2.9%	24.0%	67.0%	28
BJAZ	13.5%	3.2%	6.4%	3.2%	32.9%	51.2%	46
RIBL	9.7%	1.8%	6.1%	4.3%	55.2%	31.4%	41
SAB	12.2%	2.7%	6.4%	3.7%	35.2%	41.6%	51
BSFR	17.0%	3.1%	6.3%	3.3%	30.1%	48.9%	39
SAIB	13.3%	2.8%	5.8%	3.1%	30.4%	46.0%	20
ALINMA	13.4%	2.6%	6.7%	4.1%	41.1%	27.5%	24
SNB	13.2%	2.5%	6.0%	3.5%	30.2%	74.4%	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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