KAMCO INVEST

Investment Strategy & Research

Saudi Banking Update- Q2 2025

Sector – Banks

The Saudi banking sector posted strong quarterly performance, with net profits rising 18% year-on-year and 3% above consensus expectations in Q2 2025. Retail banks (Al Rajhi, SNB, Albilad) reported earnings approximately 4% above expectations, while corporate banks came in about 3% higher than forecasts.

Aggregate loan growth remained strong at 16% year-on-year (y-o-y), outpacing deposit growth and pushing the system-wide loan-to-deposit ratio (LDR) to 106%. The main contributors to this expansion were Riyad Bank, SAB, Alinma, and Al Rajhi. Corporate loan growth was at 12.3% YTD (total loans less loans to individuals). However, net interest margins (NIMs) contracted sequentially, reflecting tighter liquidity conditions and intensified competition in the corporate segment. Despite softer oil prices, asset quality held firm, with some banks, particularly SNB, even reporting recoveries. Another notable positive was the strong momentum in non-interest income, which rose 26% y-o-y, supported by higher fees, commissions, trading income, and FX gains. Industry's cost-to-income ratio stood at 38.6% in Q2 25 vs 39.8% in Q2 24.

Corporate real estate loans showed a subdued q-o-q growth of 0.3% to reach SAR 221 Bn in Q2 2025 (Q1 2025: SAR 220.5 Bn), while retail came in at SAR 712 Bn (Q1 2025: SAR 698 Bn) showing a growth of 2%.The retail mortgage segment remains under pressure with new residential mortgage originations contracting by 32% in Q2 2025 to SAR 19 Bn (Q1 2025: SAR 27 Bn). This weakness is evident in bank-level disclosures, with SNB reporting a decrease of 2.5% in its mortgage book, Riyad Bank reported flat mortgage growth, and Al Rajhi with a 1.1% increase on a q-o-q basis.

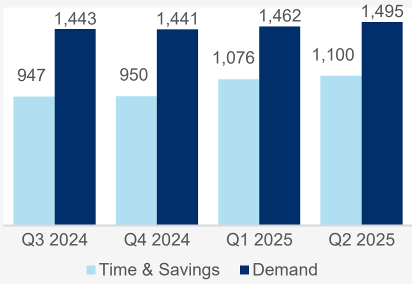
That said, we expect a turnaround in mortgage demand by Q4 2025, supported by a likely rate cut in September, REDF support programs, government housing initiatives, and seasonal promotions by banks and developers. The recent amendment to the White Land Tax Law, which introduced a 5–10% tax on vacant plots in the Kingdom to push landowners to develop, sell, or lease properties, should increase supply and, in turn, support mortgage growth in line with new developments. Starting January 2026, expatriates will be allowed to buy homes in Saudi Arabia, with conditional ownership in Makkah and Madinah. Saudi Arabia has also launched its first residential mortgage-backed securities through SRC to boost bank liquidity and lending.

In the shorter term, we believe banks remain conservative in expanding their ex-mortgage retail portfolios. With imminent rate cuts, we expect banks to segway back to non-mortgage retail in search of higher yields. In the meanwhile, management focus has shifted towards cost optimization, aiming to protect and gradually improve NIMs. Asset quality, on the other hand, remained robust despite low oil prices and most banks saw solid recoveries. As per SAMA, the net NPL stands at 1.9% as on Q1 2025. SNB reported a 35 bps fall in NPLs to 0.81%, whereas Al Rajhi bank's NPL saw a decline of 2 bps to 0.74% year-to-date (YTD).

Time & Savings deposits have grown 15.7% YTD, compared with 3.7% growth in demand deposits, intensifying competition for CASA accounts and prompting some banks, notably SNB, to offer cost-bearing CASA products. With funding costs elevated, banks have increasingly relied on costlier interbank deposits, additional Tier 1 capital, and other debt instruments, with major players such as Riyad Bank, SNB, and Al Rajhi reporting Tier 1 capital growth in the low-to-mid teens YTD.

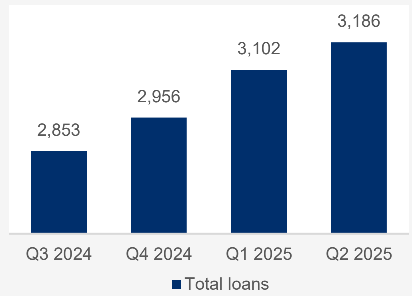
We believe the sector reflects cautious optimism, supported by retail loan growth prospects due to a potential rate cut, and ongoing government reforms, notably the amended White Land Tax Law while the outlook remains constrained by intensifying corporate competition, tighter liquidity, and elevated funding costs.

Total Deposits (SAR Bn)



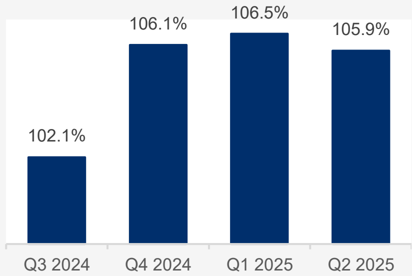
Source: SAMA

Loans and advances (SAR Bn)



Source: SAMA

Headline loan-to-deposit ratio (%)



Source: SAMA

Report Sections

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Saudi Mortgage Securitization to Boost Market Liquidity

As per Bloomberg analysis, Saudi mortgage growth is projected to grow at 12% CAGR through 2030, supported by higher land taxes that will expand housing supply and expected rate cuts that should make borrowing more affordable. Housing loans as a share of the Kingdom's nonoil GDP reached 22% in 2024, up from just 7% in 2015, marking a significant progress in closing the gap with the EU average of 35%, driven largely by a surge in mortgage originations between 2018 and 2022 after the launch of the Real Estate Development Fund's (REDF) subsidized mortgage program. Saudi banks are expected to transfer SAR 170–180 Bn of legacy mortgages to the Saudi Real Estate Refinance Company (SRC) by 2030. With SRC already financing about 5% of the market (SAR 31 Bn) in 2024, its financing share could rise to 14% by 2030.

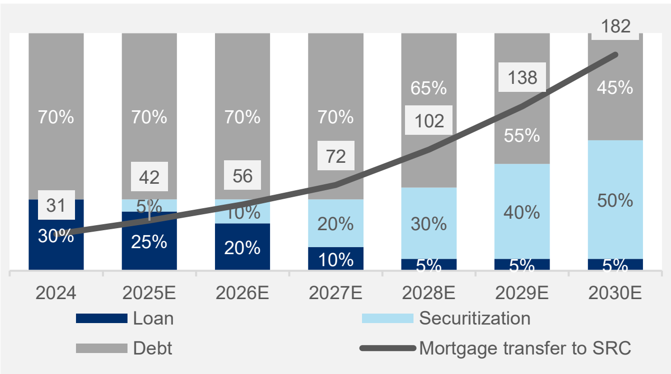
As Saudi Arabia's debt markets mature, SRC is expected to diversify its funding sources, with securitization emerging as a key tool. This could finance up to 50% of SRC's mortgage portfolio, unlocking SAR 85 Bn worth of securitization, equivalent to 6% of the total mortgage market. This shift would enhance bank liquidity, deepen the local debt market, and broaden opportunities for investors.

The Kingdom's property market is poised for a structural growth, driven by ownership reforms and supply-side measures. The Law of Real Estate Ownership by Non-Saudis, effective January 2026 will for the first allow expatriates to purchase personal residences and permit conditional ownership in Makkah and Madinah. This expansion of eligible buyers is expected to unlock new retail mortgage demand and deepen bank portfolios. Homeownership has already risen to 65.4% in 2024, ahead of schedule, with momentum shifting from villas to apartments. Mortgage originations reached SAR 91 Bn in 2024, up 17% year-on-year with steady monthly volumes. Monthly loan volume of SAR 8-9 Bn would support a 12% annual mortgage growth rate, in line with last year.

Saudi Arabia's decision to raise the levy on undeveloped land to up to 10% of the plot value and to impose fees on long-term vacant buildings is designed to discourage land hoarding and push owners to develop, sell, or lease their assets. This should unlock more land for housing projects, moderate land price inflation, improve housing affordability, and bring more projects within reach of middle-income buyers. As affordability improves, demand for retail mortgages is set to expand as more Saudi nationals and expatriates qualify for long-term financing.

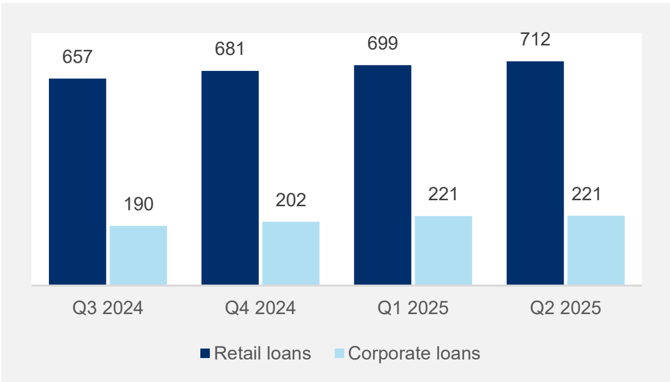
Banks have prioritized corporate lending as longer-term fixed rate mortgage loans calls for longer term higher cost sources of funding. However, with the positive regulatory drivers, we expect real estate and mortgage segments to pick up pace and the current slowdown, transitory. Additionally, banks are expected to return to non-mortgage retail loans (leasing, personal, vehicle finance, credit cards etc.) in pursuit of higher yields taking into account the imminent rate cut this year. The launch of Saudi Arabia's first residential mortgage-backed securities through SRC will increase Saudi bank's appetite for mortgage loans and inject additional liquidity into the financial system which structurally bodes well for the sector overall.

Debt Securitization (SAR Bn)



Source: Bloomberg

Real Estate Loans (SAR Mn)



Source: SAMA

Saudi National Bank

Q2-2025 Update | **Sector- Banks**

SNB reported a 9% YTD increase in loans and advances, broadly in line with our projections. Growth was driven primarily by the corporate segment, which expanded by 20% YTD, supported by strong momentum in wholesale financing and healthy contributions from the MSME portfolio. On the funding side, customer deposits rose 14% YTD, underpinned by robust growth in current and call accounts (+19% YTD). Notably, a larger share of this growth came from cost-bearing call accounts, yet deposit inflows still aligned with our projections. This deposit performance is particularly significant given the tighter system liquidity and elevated competition for stable funding. Management appears to be delivering on earlier commitments, with the recovery of lost UHNI accounts contributing to the CASA momentum.

Total operating income increased 7% y-o-y to SAR 9.51 Bn, with fee income rising 30% y-o-y to SAR 2.4 Bn. In contrast, net special commission income (NSCI) remained flat at SAR 7.1 Bn, trailing our estimates by 9%. The shortfall reflected repricing pressure in the corporate loan book, softer asset yields, and a 20 bps increase in cost of funds than our forecast. SNB delivered record net income of SAR 6.13 Bn, up 19% y-o-y, surpassing the industry average of 16.5%. Earnings were supported by strong momentum in non-funded income (+23% y-o-y, +6% q-o-q), sustaining the positive trajectory observed earlier in the year.

The NSCI margin moderated to 2.91% as of H1 2025, down 29 bps y-o-y. Wholesale yields softened as benchmark rates edged lower, while the retail segment came under pressure from SNB's ongoing strategic shift toward fixed-rate lending. Management guided for an NSCI margin base of ~2.9% for FY-2025-26. Funding costs rose further, with interbank borrowings up 12% YTD. On the capital front, Tier 1 growth was modest (+3% year-till-date), while Tier 2 capital surged 118% YTD following the issuance of a USD 1.25 Bn Tier 2 sukuk, the largest in the bank's history. Operating leverage remained a key strength. The cost-to-income ratio as of H1 2025 improved to 26.6% (-143 bps y-o-y), underscoring tight cost discipline. Asset quality also stood out, with the NPL ratio declining 10 bps q-o-q to 0.81%. This improvement underscores the bank's prudent underwriting standards and proactive recovery efforts, supported by tighter credit monitoring, which continue to limit slippages and strengthen the overall loan book.

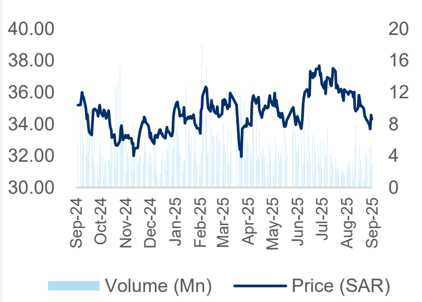
SNB's balanced loan portfolio and below-industry LDR position it well to capture incremental demand once interest rate cuts materialize, while ongoing mega-project financing and government homeownership initiatives should support loan origination. The bank's strategic funding shift and CASA strength is likely to reduce funding costs further, reinforcing profitability. As the flagship bank of the Saudi housing program, SNB remains well-placed to leverage upcoming growth catalysts in both retail and corporate financing. Saudi Arabia's retail mortgage growth is expected to remain resilient, supported by structural reforms, rising homeownership, and SRC's growing role in refinancing and securitization. Policy measures such as higher land taxes and ownership reforms for expatriates will expand supply and unlock new mortgage demand. Considering these strong growth drivers, we reiterate our Outperform rating for the bank.

Key Financials - SAR Mn	Q2 2025	Q2 2024	%	H1 2025	%YoY
Operating income	9,507	8,916	7%	19,122	7%
Fee Income	2,420	1,864	30%	4,781	23%
Net Income	6,127	5,168	19%	12,111	18%
EPS	0.99	0.84	17%	1.95	17%
Loans and advances	714,839	637,235	12%	714,839	12%
Customer deposits	658,675	632,693	4%	658,675	4%
NSCI margin (%)	2.79	3.08	*(29 bps)*	2.91%	*(21 bps)*
Cost-to-income ratio	26.9%	28.5%	*160 bps*	26.6%	*143 bps*

Source: Kamco Invest Research, SNB

Outperform

CMP 17-Sep-2025:	**SAR 34.30**
Target Price:	**SAR 38.77**
Upside:	**13.0%**



Price Perf:	**1M**	**3M**	**12M**
Absolute	-4.6%	0.4%	-2.6%
Relative	-1.2%	1.3%	10.7%

Source: Kamco Invest Research, Refinitiv

Stock Data	
Bloomberg Ticker	SNB: AB
Last Price (SAR)	34.30
MCap (SAR Mn)	205,800
MCap (USD Mn)	54,870
Stock Performance - YTD	2.7%
P/TB – FY-2025E (x)	1.1
P/E – FY-2025E (x)	8.5
Dividend Yield – FY-2025E (%)	6.8
52-Week Range (SAR)	31.55/37.72

Source: Kamco Invest Research, Refinitiv

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Riyad Bank

Q2-2025 Update — Sector- Banks

Riyad Bank delivered a mixed performance in Q2 2025, with strong corporate loan growth of 14.4% year-till-date (YTD), fee-based revenue growth and lower costs offset by weakness in asset yields and marginal increase in the cost of funds. Loans and advances rose to SAR 345.7 Bn, surpassing our expectations and registering a 10.9% YTD growth vs industry growth of 7.8%.

The growth was led by the corporate segment which grew by 14.4% YTD, surpassing our estimates, while retail loans grew at a more measured pace of 3.1% YTD, reflecting the bank's continued tilt toward wholesale banking. The growth in floating rate loans (14.4%) vis-à-vis growth in fixed rate loans (3.1%) coupled with the lagging effect of a rate-cut led asset yields pressures thereby impacting the net-interest margins by 40 bps to 2.99% in H1 2025 over 3.39% in H1 2024.

Net special commission income (NSCI) came in at SAR 3.2 Bn and increased 3.3% y-o-y despite a high loan growth due to lower than anticipated asset yields. Fee income increased by 31.0% y-o-y to SAR 2.54 Bn in H1 2025.

Customer deposits came in slightly above our expectations, at SAR 316.8 Bn, growing 3.4% year-till-date. However, the deposit mix weakened with a 9.5% drop in current and call accounts (CASA), offset by a 20% rise in time deposits. CASA ratio dropped to 47.2% in Q2 2025 from 54.5% in Q2 2024. The decrease in CASA ratio and increase in interest-bearing sources of funding led to the increase in the cost of financing by 8 bps q-o-q to 2.97%. This shift suggests an intensifying competition for funding, especially as system liquidity remains tight and rate normalization continues to drive deposit repricing across the sector.

On the brighter side, cost efficiencies were a standout. Operating expenses were significantly lower than expected at SAR 1.33 Bn and 7.6% lower year-on-year, suggesting strong cost control and digital-led productivity gains. Impairment charges stood at SAR 311 Mn, below our expectations though on a year-on-year basis it increased by ~150% (due to lower base effect from recoveries in FY 2024). The bank reported a minor decrease in NPL ratio from 1.18% in Q2 2024 to 1.13% at the end of Q2 2025. The bank reported a cost-to-income ratio of 30.0% in H1 2025, improving upon 31.8% in H1 2024, highlighting continued operating leverage and scale benefits. While margins were compressed, the improvement in efficiency metrics partially cushioned the bottom line.

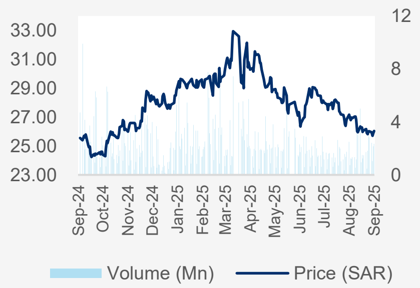
Riyad Bank appears poised to benefit from a credit expansion cycle given its strong corporate pipeline, improving asset quality, and SAMA-weighted LDR levels of 85.3%. That said, NIM compression, a weaker CASA ratio, and lower asset yields remain near-term concerns. We believe mortgage growth is in a transitory stage and will pick up over the short term, supported by an imminent rate cut in 2025, various structural reforms, and government initiatives. Riyad Bank has revised its FY 2025 loan growth outlook upwards from low double digits to the mid-teens, on the back of strong corporate performance. With intensifying pricing competition, asset yields could continue to be pressured. A sustained focus on digital efficiency and deposit mix optimization will be essential for unlocking further value in H2 2025. We maintain our Neutral rating, balancing Riyad Bank's strong growth outlook against persistent margin and funding headwinds.

Key Financials - SAR Mn	Q2 2025	Q2 2024	%	H1 2025	% YoY
Operating income	4,520	3,997	13%	9,024	12%
Fee Income	1,320	901	47%	2,542	31%
Net Income	2,597	2,338	11%	5,083	15%
EPS	0.82	0.75	8%	1.61	13%
Loans and advances	354,550	291,051	22%	354,550	22%
Customer deposits	316,811	276,009	15%	316,811	15%
NSCI margin (%)	2.90	3.37	*(47 bps)*	2.99%	*(40 bps)*
Cost-to-income ratio	29.3%	30.6%	*130 bps*	30.0%	*180 bps*

Source: Kamco Invest Research, RIBL

Neutral

CMP 17-Sep-2025:	**SAR 26.04**
Target Price:	**SAR 26.37**
Upside:	**1.3%**



Price Perf:	1M	3M	12M
Absolute	-3.6%	-2.1%	2.5%
Relative	-1.4%	-2.5%	14.7%

Source: Kamco Invest Research, Argaam

Stock Data	
Bloomberg Ticker	RIBL AB
Last Price (SAR)	26.04
MCap (SAR Mn)	78,120
MCap (USD Mn)	20,828
Stock Performance - YTD	-8.5%
P/B – FY-2025E (x)	1.3
P/E – FY-2025E (x)	7.9
Dividend Yield – FY-2025E (%)	6.3
52-Week Range (SAR)	23.88/33.2

Source: Kamco Invest Research, Refinitiv

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Saudi Awwal Bank

Q2-2025 Update **Sector - Banks**

Outperform

CMP 17-Sep-2025:	**SAR 30.68**
Target Price:	**SAR 42.85**
Upside:	**39.7%**

Saudi Awwal Bank (SAB) reported a mixed set of results for Q2-2025, with some operational outperformance offset by weakness in net interest income. Loans and advances stood at SAR 282.6 Bn, 4% above our projections, largely due to a pickup in its corporate segment. The company recorded 8.9% YTD loan growth compared to the industry growth of 7.8%.

Corporate lending for SAB grew at 17% y-o-y and is 75% of the bank's loan portfolio. SAB's retail loans grew by 16% y-o-y over the same period with mortgage originations continuing at a robust pace in Q2 2025 and recorded a 22.2% y-o-y increase in gross mortgage lending in Q2 2025. However, the bank's higher exposure towards floating rate loans and the rate-cut repricing led to a decrease in the net interest margin by 20 bps to 2.65%, lower than our expectation of 2.97%.

Net special commission income (NSCI) came in at SAR 2.85 Bn, slightly trailing our estimate by 1.3% and fee income to SAR 874 Mn, up 11% year-on-year, lower than the sector growth of ~26% year-on-year.

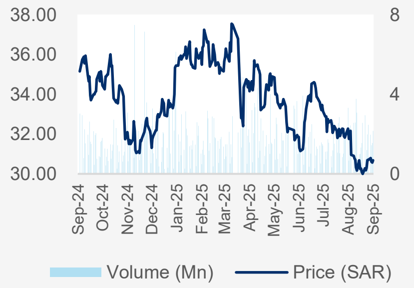
Customer deposits were relatively in line with our expectations, rising to SAR 297 Bn. Notably, CASA growth was subdued, while time deposits grew by 22% YTD. Total customer deposits rose by 11.2% YTD, while proportion of CASA reduced to 48% from 52% in Q2 2024. The banks' SAMA-weighted LDR is at 83% at the end of Q2 2025. Cost of funds increased by 10 bps to 3.08% in Q2 2025.

On the positive side, operating expenses were well contained at SAR 1.07 Bn, lower by 9.7% against our forecast, while the bank reported a cost-to-income ratio of 28.9%, (down 193 bps year-till-date), driven by strong cost controls. This helped offset revenue softness, leading to a broadly in-line pre-tax profit of SAR 2.48 Bn. Cost of risk increased from 19 bps to 30 bps in Q2 2025 with impairment charges at SAR 216 Mn, 10% below our projections. NPL ratio remained stable at 1.4% on a y-o-y basis while total NPLs including purchased or originated credit impaired (POCI) were at 2.7% slightly down from 2.6% at 2024-year end.

SAB's stable funding profile and strong cost discipline position the bank to benefit from the upcoming rate cut cycle. Despite 75% of its loan portfolio being corporate-focused, total asset yields declined by only ~20 bps in Q2 2025 y-o-y, a resilient outcome compared to peers with lower corporate exposure. Performance has been improving steadily, with 20% y-o-y loan growth in 2024 and a similar trajectory expected in 2025, while mortgage-led retail lending is now expanding at a pace comparable to corporate loans. The bank has diversified and expanded its fixed-rate mortgage book, which should provide steady support underpinned by structural reforms. Post-merger, SAB has improved on key metrics such as cost-to-income ratio, LDR (with headroom for further growth), and NPLs, while demonstrating the ability to grow both corporate and retail books without overreliance on either segment. The 100 bps Fed rate cut has been stimulatory rather than disruptive, fueling credit expansion while allowing SAB to maintain stable NIMs despite the modest decline in asset yields. We believe the bank remains undervalued relative to peers and is poised for a market re-rating, thereby reiterating our Outperform rating.

Key Financials - SAR Mn	Q2 2025	Q2 2024	%	H1 2025	%YoY
Operating income	3,721	3,492	7%	7,341	6%
Fee Income	874	758	15%	1,655	11%
Net Income	2,127	2,018	5%	4,262	5%
EPS	1.03	0.98	2.1%	2.07	5.1%
Loans and advances, net	282,604	241,552	17%	282,604	17%
Customer deposits	297,003	279,167	6.4%	297,003	6.4%
NSCI margin (%)	2.65	2.86	*(21 bps)*	2.70	*(20 bps)*
Cost-to-income ratio (%)	28.9	30.8	*140 bps*	29.2	*140 bps*

Source: Kamco Invest Research, SAB



Price Perf:	**1M**	**3M**	**12M**
Absolute	-3.4%	-1.5%	-14.2%
Relative	0.0%	-0.6%	-0.9%

Source: Kamco Invest Research, Refinitiv

Stock Data	
Bloomberg Ticker	SABB: AB
Last Price (SAR)	30.68
MCap (SAR Mn)	63,041
MCap (USD Mn)	16,808
Stock Performance - YTD	-8.6%
P/TB – FY-2025E (x)	1.0
P/E – FY-2025E (x)	7.1
Dividend Yield – FY-2025E (%)	7.0
52-Week Range (SAR)	29.9/38

Source: Kamco Invest Research, Refinitiv

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Saudi Arabia's property market is set for structural growth, driven by ownership reforms and supply-side measures. The **Law of Real Estate Ownership by Non-Saudis**, effective January 2026, will for the first time allow expatriates to buy personal residences, while also permitting conditional ownership in Makkah and Madinah. This expansion of eligible buyers is expected to unlock new retail mortgage demand and deepen bank portfolios. Homeownership has already risen to 65.4% in 2024, ahead of schedule, with momentum shifting from villas to apartments. Mortgage originations reached SAR 91 Bn in 2024, up 17% year-on-year, with steady monthly volumes indicating 12% annualized growth.

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