

## Saudi Banking Sector

### Recalibrating for a more moderate credit cycle – Initiating coverage on BSF, SAIB & BJAZ

The Saudi banking sector continues to benefit from a strong structural credit demand tied to infrastructure financing, including Vision 2030 projects, although the operating backdrop has become more balanced relative to conditions at the time of our initial sector coverage. We are now observing early signs of moderation in system-wide loan growth (8.0% YoY as of Apr-26, the lowest since Jan-20) and softer economic activity. In addition, SAMA's implementation of a 100-bps countercyclical capital buffer, effective from 25<sup>th</sup> May-26, introduces a supply-side constraint on credit expansion. As a result, we have revised our 2026e sector credit growth forecast down to 7.8% YoY from 11.7% YoY forecasted, previously. We also incorporate an increase in average cost of risk for our universe to 37 bps for 2026e from 31 bps in 2025, as we expect banks to adopt a more prudent risk stance amid potentially emerging credit risks. On margins, elevated SAIBOR-SOFR spreads (155 bps in 4M26 vs. 2-year average of 127 bps), are slowing down asset repricing, which is expected to support banks with corporate heavy loan books. The sector also benefits from growing fixed rate investment allocations that buffer near-term margin compression. We are expanding our coverage universe with the coverage initiation on three additional banks, assigning 'Overweight' ratings to Banque Saudi Fransi (BSF) and Saudi Investment Bank (SAIB) and a 'Neutral' stance on Bank AlJazira (BJAZ).

**Loan growth expected to moderate to 7.8% YoY in 2026e.** From a previously projected loan growth of low teens, we revise our forecast to 7.8% for 2026e, given the reprioritization of some Vision 2030 projects, SAMA's 100 bps countercyclical capital buffer, and expectations of a more stable rate environment. Our stance is supported by the more recent moderation in loan growth, which slowed down to 8.0% YoY by Apr-26. While the Fed funds rate currently stands at 3.50%-3.75% following cumulative cuts of 175 bps since mid 2024, expectations for further monetary easing in the near term have weakened materially. Accordingly, our 2026e base case assumes no rate cuts during the year. Meanwhile, SAIBOR-SOFR spreads remain elevated (average of 155 bps in 4M26 vs. a two year average of 127 bps), which is likely to benefit corporate-heavy banks by providing near-term support to asset yields.

**Higher fixed rate investments to support asset yields.** Amid expectations of a prolonged higher rate environment and delayed monetary easing, banks have increasingly shifted their investment portfolios toward fixed-rate instruments to preserve prevailing yields and reduce exposure to future repricing risk once the easing cycle eventually materializes. As a result, the sector average share of fixed-rate investments within the total investment book increased to 84.3% in 2025, compared to 75.2% in 2021.

**Liquidity risks persist.** Credit expansion across the banking sector continues to outpace deposit growth, resulting in a constrained liquidity position, with the sector headline LDR at 108.8% as of Apr-26. This imbalance has intensified competition for deposits, exerting upward pressure on funding costs and contributing to a widening of SAIBOR-SOFR spreads. In response to these liquidity dynamics and evolving regulatory requirements, banks have increasingly diversified their funding profiles through alternative sources, including higher Sukuk issuances.

**BSF and SAIB present attractive entry points.** BSF's shift toward retail lending (1Q26: 20.4% share of retail in loan book vs 14.2% in 2020), alongside a 90.1% allocation to fixed rate investments as of 1Q26, is expected to support asset yield resilience. SAIB, on the other hand, offers robust growth momentum with a 5-year loan CAGR of 15.3% (2020-2025), additionally supported by above-sector asset yields of 6.41% during 2025 (vs. sector's 6.08%).

**Risks:** Key challenges faced by the sector include a higher-than-expected slowdown in loan growth, higher expected credit loss provisioning, and liquidity pressures leading to a higher-than-expected rise in cost of funds.

#### SECTOR COVERAGE

	Bloomberg Code	Last Price (SAR)	Rating	Target Price (SAR)
BSF	BSF AB	19.4	Overweight	23.5
SAIB	SIBC AB	13.6	Overweight	15.7
BJAZ	BJAZ AB	11.5	Neutral	12.2

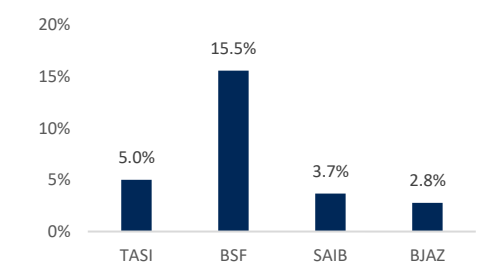
Close of 2<sup>nd</sup> Jun, 2026

#### VALUATIONS (2026e)

	PBV (x)	PER (x)	RoAE (%)	Div. Yield (%)
BSF	1.1	9.6	11.6	5.7
SAIB	0.9	9.8	9.8	5.1
BJAZ	0.9	11.3	8.5	4.4

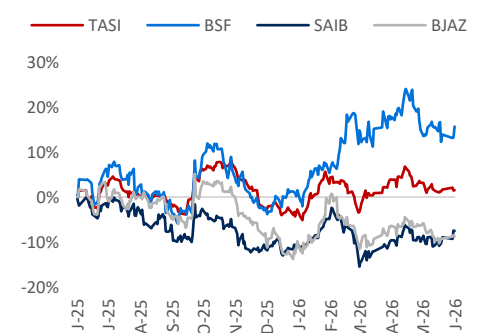
Source: Company financials, anbc research

#### RELATIVE PERFORMANCE (YTD)



Source: Bloomberg, anbc research

#### RELATIVE PRICE PERFORMANCE



Source: Bloomberg, anbc research

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## Executive Summary

- **Credit growth to moderate over the near term.** Loan growth across the Saudi banking sector is expected to moderate over the near term as a confluence of potential risks, including demand-side pressures and tightening funding conditions, weigh on the pace of expansion. Total financing by Saudi banks has grown at a CAGR of 13.1% between 2020 to 2025. Loan growth has decelerated more recently, with sector-wide credit expanding by 8.0% YoY to SAR 3.4 tn as of Apr-26, the slowest annual growth rate recorded since January 2020. The reprioritization of some Vision 2030 projects and the recent contraction in non-oil private sector activity are expected to weigh on the growth. The May-26 Riyadh Bank PMI stood at 52.8. While the reading has improved from 48.8 recorded in Mar-26, the index remains below its 5 year average of 56.8. The pace of overall business expansion remained constrained by delayed client spending decisions, and shipping disruptions which continued to impact supply chains. If this trend continues, it is likely to weigh on corporate appetite for borrowing in the near term, particularly for working capital, trade finance, and SME lending. On the retail side, individual lending growth has moderated in recent years, with retail loans expanding at a CAGR of 8.9% between 2021-2025. As of Apr-26, retail loans for the banking sector grew 3.6% YoY to SAR 1.5 tn, compared to corporate loan growth of 11.6% YoY to SAR 1.9 tn. Looking ahead, we forecast loan growth of 7.8% YoY in 2026e.
- **Easing monetary conditions provide mixed implications for banks' earnings.** Following three 25 bps interest rate cuts in 2025, the US Fed funds rate currently stands at 3.50%-3.75%. However, expectations for further monetary easing during 2026e have weakened materially, with rates expected to remain relatively sticky in the near term. Our base case assumes no additional rate cuts in 2026e. Banks with asset books anchored in longer-duration, fixed-rate products are better positioned to sustain yields, once interest rate cut eventually materializes in 2027f. However, funding pressure remains elevated, as reflected in average 6M SAIBOR-SOFR spreads of 155 bps during 4M26, materially above the 2-year average of 127 bps. This is further exacerbated by the structurally higher share of time and savings deposits, which now account for 42.5% of total deposits (as of Apr-26) versus 34.9% in 2023, increasing the overall cost of funding and placing pressure on NIM, particularly for banks with a higher reliance on interest-bearing deposits.
- **Liquidity tightness remains a key sector-wide constraint.** Strong credit expansion has continued to outpace deposit growth, resulting in elevated liquidity pressures across the system. Sector-wide LDR ratios reached 112.7% by Dec-25, materially above the 10-year average of 96.5%, though it has recovered slightly since, to 108.8% in Apr-26. This imbalance has intensified competition for deposits and contributed to wider funding spreads. Incremental loan growth has increasingly been supported through wholesale funding channels, with Saudi banks issuing SAR 64.9 bn in sukuks in 2025, underscoring the sector's growing dependence on market-based funding to sustain balance-sheet growth.
- **Non-interest income growth.** As net interest margins are expected to remain under pressure amid elevated funding costs, banks have increasingly shifted their strategic focus toward strengthening non-interest income streams. This rebalancing is evident in the strong performance of non-interest income, which recorded robust YoY growth of 19.4% in 2025, outpacing the 8.5% YoY growth in net interest income over the same period. The acceleration in non-interest income reflects increased emphasis on cross-selling and improvements in fee and commission-based income, as well as exchange and investment income. This diversification of revenue sources not only helps offset margin compression but also enhances earnings stability and reduces reliance on spread based income, particularly in a more competitive and liquidity constrained operating environment.

- **Key risks to sector growth.** The Saudi banking sector faces several downside risks that could weigh on growth and profitability over the medium term. Loan expansion is expected to moderate as Vision 2030 enters its consolidation phase. Additionally, the introduction of a 100-bps countercyclical capital buffer by SAMA (effective 25<sup>th</sup> May-26) encourages a more disciplined approach to balance sheet growth. The decline in non-oil private-sector activity, with Riyadh Bank PMI recorded at 52.8 in May-26 (below its 5 year average of 56.8), poses a potential risk of moderation in working capital utilization and a softer outlook for trade finance activity over the near term if conditions persist. This weakening non-oil private sector momentum also elevates the risk of emerging credit stress across corporates, which is likely to lead to an increase in ECL provisioning by banks. Liquidity conditions also remain a key risk, as persistent funding constraints may intensify competition for deposits and drive funding costs higher. Additionally, increased reliance on sukuk issuance could potentially exert additional pressure on profitability.
- **BSF: Shift towards retail lending to support margins.** BSF's strategic pivot toward higher-yielding retail lending, with retail loans increasing from 14.2% of the loan book in 2020 to 20.4% in 1Q26, is expected to protect asset yields. The benefit of slower downward repricing of retail loans is expected to materialize once interest rates begin to ease in 2027f. This is further supported by the bank's fixed rate investment portfolio, in which 90.1% of securities are fixed-income instruments, providing an additional stabilizing buffer for margins. On the funding side, BSF has proactively diversified its liability mix, with debt securities and term loans rising to 11.8% of total capital in 1Q26 from 5.3% in 2024, helping offset structurally high LDR levels of 111.2% as of Mar-26. Additionally, the bank's total CAR of 21.0% in 1Q26, one of the highest in the sector, provides meaningful headroom to absorb regulatory tightening while supporting both growth and dividend sustainability. We initiate coverage on BSF with a target price of SAR 23.5/share, and an 'Overweight' rating.
- **SAIB: Strong loan growth and above-average asset yields to support profitability.** SAIB has recorded strong credit expansion, with a 5-year loan CAGR of 15.3% versus the sector CAGR of 13.1% (2020-2025), driven primarily by its corporate-focused franchise (gross corporate book's 5-year CAGR of 17.5%). SAIB's earnings resilience is further supported by asset yields of 6.41% in 2025, above the sector's yields of 6.08%, as well as its largely fixed rate investment portfolio, contributing 96.1% to total investments, as of 2025. During 1Q26, asset yields declined to 5.94%, due to lower yields on corporate loans, though still remaining above the sector's yields of 5.79%. In addition, the bank's improving credit quality, with NPL ratio declining to 0.9% in 1Q26 (from 2.0% in 2020) and provision coverage at 194.1%, provides solid balance sheet protection. That said, margin pressure remains a key overhang, as SAIB's weaker funding mix, with CASA ratio of 26.1% as of Mar-26, versus the sector's 58.4%, has kept the cost of funds elevated. However, we believe the bank's combination of strong loan growth, above-average asset yields, and improving asset quality is expected to support profitability. We initiate coverage on SAIB with an 'Overweight' rating and a target price of SAR 15.7/share.
- **BJAZ: Robust liquidity position offset by profitability headwinds.** BJAZ maintains ample liquidity headroom, supported by the sector's lowest headline LDR ratio of 92.2% as of 1Q26. This provides the bank with the flexibility to support balance-sheet growth without immediate funding pressure. However, despite solid loan expansion, profitability has remained constrained, as asset yields continue to lag sector averages. In addition, the bank's relatively higher reliance on time deposits has resulted in elevated funding costs, keeping net interest margins below peer levels. Cost efficiency also remains a key challenge, with the operating cost to income ratio standing at 52.8% in 1Q26, the highest in the sector and above the industry average of 30.1%, further weighing on earnings performance. We initiate coverage on BJAZ with a 'Neutral' stance and a target price of SAR 12.2/share.

## Banking Sector Overview

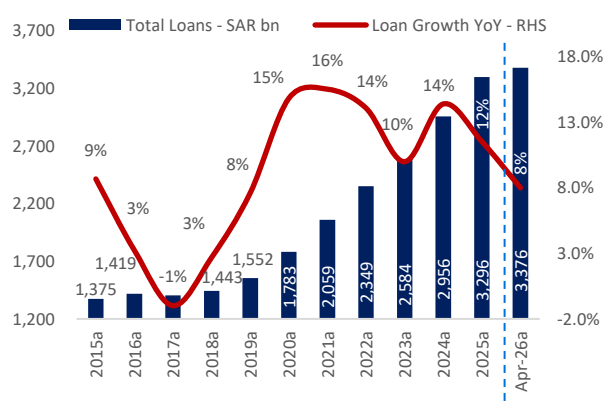
### KSA banking sector on track to meet Vision 2030 milestones

The Financial Development Sector Program (FSDP) acts as a key enabler to achieve Vision 2030 targets. The program outlines key targets for the sector, including raising banking sector assets to SAR 4.6 tn by 2030. The sector has already exceeded its asset target ahead of schedule, with total assets standing at SAR 5.1 tn by Apr-26 (+7.8% YoY). Banking sector’s assets increased at a 2020-2025 CAGR of 10.7%. FSDP initiatives also aim to deepen financial inclusion and efficiency by increasing SME lending to 20% of total financing. FSDP outlined a target of SME lending share in total financing of 11% for 2025, which the sector achieved, with banks’ SME lending share reaching 11.3% by Dec-25. The program also aims to expand the share of non-cash transactions to 80%, which nearly reached its target with 79% penetration in 2Q25.

### Lending book leading the asset growth

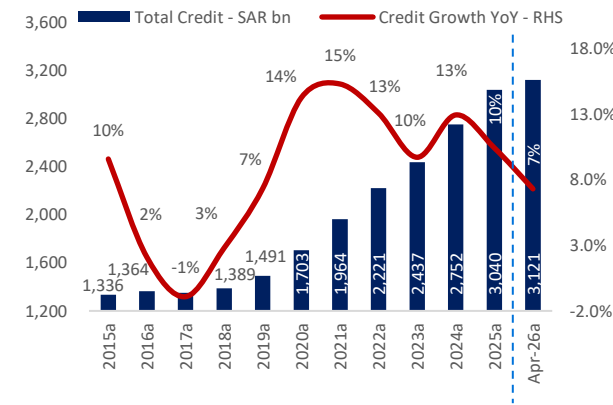
Saudi Arabia’s banking sector has delivered sustained double-digit loan growth since 2020, with total credit expanding at a 2020-2025 CAGR of 13.1%, largely driven by private-sector borrowing. Total bank lending reached SAR 3.4 tn by Apr-26, up 8.0% YoY. Notably, corporate lending remained resilient despite elevated interest rates in preceding periods, underpinned by structurally strong demand linked to Vision 2030. Large-scale development initiatives, including giga projects such as the Red Sea Project, and Qiddiya, have generated substantial financing requirements across construction, infrastructure, logistics, and allied sectors, positioning banks as key enablers of the Kingdom’s economic transformation. As a result, corporate loan growth has maintained strong momentum, supported by expanding exposures to real estate, construction, financial services, and utilities.

**Chart 1: Post-2019 loans posted double digit growth**



Source: SAMA, anbc research

**Chart 2: Banks credit to private sector**

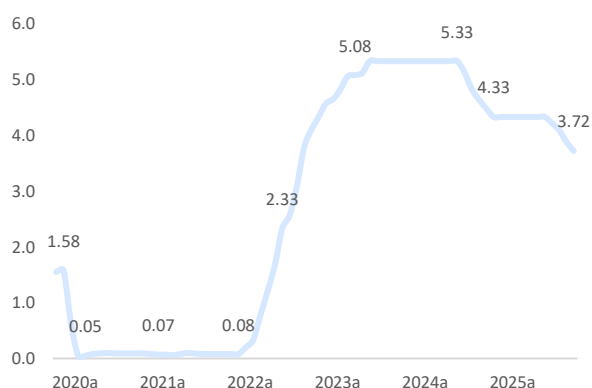


Source: SAMA, anbc research

### Elevated interest rates weighed on individual loan momentum

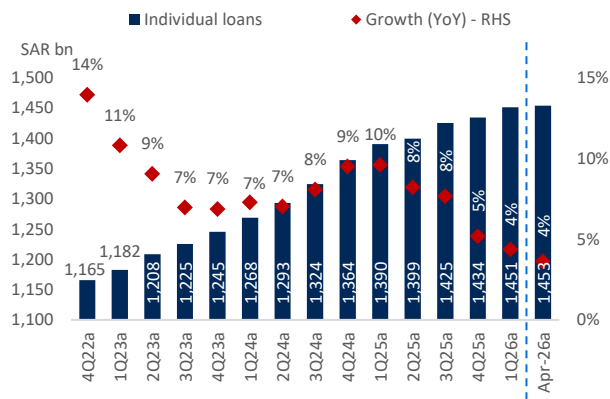
While overall credit growth remained robust, individual loan growth moderated amid a high interest rate environment. Between 2021 and 2025, individual loans grew at a CAGR of 8.9%, lagging total loan growth of 12.5% over the same period. The sharp tightening in global monetary conditions, culminating in the Fed funds rate peaking at 5.25%-5.50% between 2H23-1H24, led to higher borrowing costs, which affected affordability and dampened incremental retail demand. Consequently, the contribution of individual loans to total credit declined from 49.5% in 2021 to 43.5% by the end of 2025, highlighting a relative shift in growth composition toward corporate lending.

Chart 3: Fed funds effective rate (%)



Source: US Fed, anbc research

Chart 4: Slowdown in individual loan growth

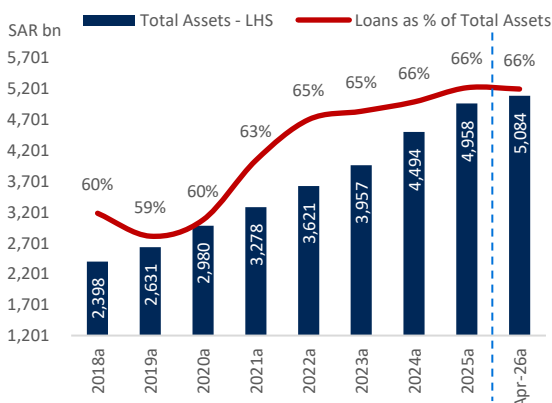


Source: SAMA, anbc research

### Regional developments could prompt a more cautious credit outlook

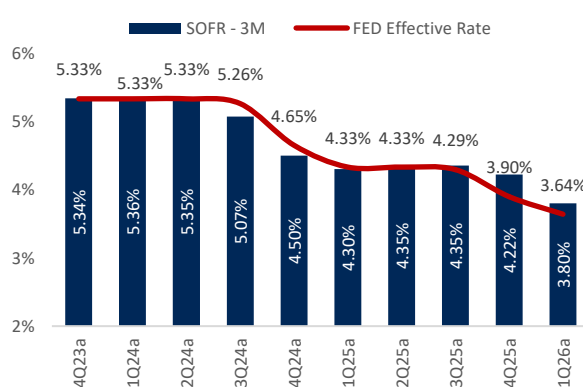
During 2024, the US Federal Reserve pivoted toward a monetary easing cycle, implementing cumulative rate cuts of 100 bps in 2H24. This was followed by a further 75 bps reduction in 2025, bringing the federal funds target range down to 3.50%-3.75%. While additional rate cuts had previously been anticipated by the end of 2026e, the trajectory of monetary policy has become increasingly uncertain amid elevated geopolitical risks, which could encourage a more cautious stance by the Federal Reserve and support a higher for longer rate environment. Hence, we anticipate no further rate cuts in 2026e. Against this backdrop, KSA credit growth is expected to moderate more meaningfully than previously anticipated. Banks with lower LDR levels retain a relative advantage, given their stronger liquidity buffers and greater capacity to deploy credit selectively.

Chart 5: Loan growth leading overall assets growth



Source: SAMA, anbc research

Chart 6: Interest rates - trend

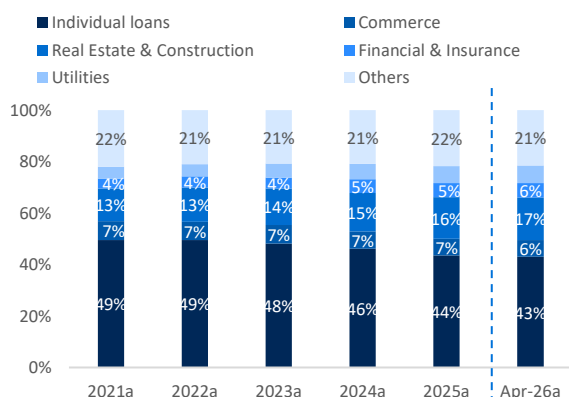


Source: US FED, Bloomberg, anbc research

On the retail side, residential new mortgages by banks grew 17.1% YoY to SAR 91.1 bn in 2024, though new mortgage originations remained below the 2021 level of SAR 152.5 bn. However, in 2025, new mortgage originations declined 11.7% YoY to SAR 80.4 bn, with the total number of contracts falling 11.0% YoY.

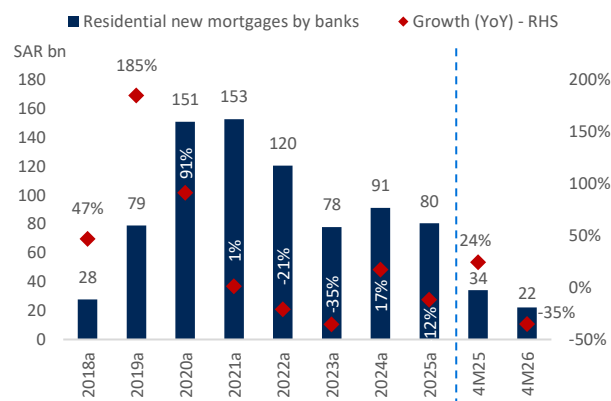
Looking ahead, the structural case for mortgage recovery remains intact, supported by Sakani program reforms, including reducing the minimum eligibility age for housing subsidies from 25 to 20 years and removing the dependency regulatory requirement for wives and divorced mothers. However, near-term momentum is likely to be tempered by softer consumer confidence. During 4M26, new mortgage originations by banks saw a 35.2% YoY decline to SAR 22.1 bn, while total contracts fell 25.1% to 33,335. The revival in demand for retail lending will be contingent on both continued interest rates easing and the stabilization of the current regional backdrop.

Chart 7: Loan composition



Source: SAMA, anbc research

Chart 8: Mortgage originations



Source: SAMA, anbc research

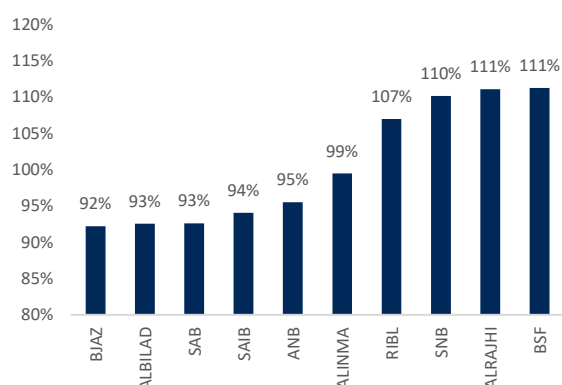
On the corporate side, while the Vision 2030-related project pipeline continues to provide a structural underpinning for credit demand, regional conflict-related disruptions risk deferring incremental financing activity. The non-oil sector faces supply chain disruptions and delayed client spending decisions, as evidenced by the Riyadh Bank PMI recorded at 52.8 in May-26, below its 5 year average of 56.8. While the PMI recovered from its reading of 48.8 in Mar-26, overall business expansion remained modest amid delayed client spending decisions, while ongoing shipping disruptions continued to weigh on supply chains. This contraction is likely to translate into more cautious inventory management and delayed expansion plans by corporates, thereby dampening demand for short-term financing. Consequently, we expect moderation in working capital utilization and a softer outlook for trade finance activity over the near term. Additionally, SAMA's implementation of the 100-bps countercyclical capital buffer (effective 25<sup>th</sup> May-26) is expected to raise effective capital requirements, further encouraging banks to prioritize capital efficiency and risk-adjusted returns over volume driven loan book expansion. These factors point to a more selective lending environment. We therefore revise our banking universe loan growth forecast for 2026e to 7.8% YoY, below our prior expectation of low-double-digit growth.

### Loan book composition to drive asset yield dynamics

Once interest rate cuts resume in 2027f, the effect of monetary easing on NIM will vary depending on the composition of banks' portfolios. Banks with a higher proportion of retail lending, particularly fixed rate mortgages, typically have more stable asset yields, as their portfolios reprice slowly. On the other hand, banks with a greater share of corporate loans, which are predominantly floating-rate, experience more immediate yield compression as assets reprice more quickly. However, with average SAIBOR-SOFR spreads (6M) elevated at 155 bps during 4M26 vs 2-year average of 127 bps, corporate loans are also expected to witness a slower repricing, hence protecting banks with high corporate exposures from faster yield compressions.

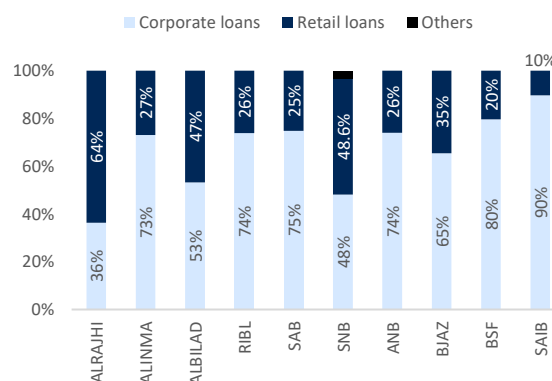
Within Saudi-listed banks, Bank AlJazira (BJAZ) has the lowest LDR levels of 92.2% as of 1Q26, followed by Bank Albilad (Albilad) with an LDR of 92.5%. Conversely, Banque Saudi Fransi (BSF) reported the highest LDR level of 111.2% as of 1Q26, while Al Rajhi Bank (Al Rajhi) follows with an LDR of 111.0%.

Chart 9: Loan to deposit ratio - 1Q26a



Source: Company financials, anbc research

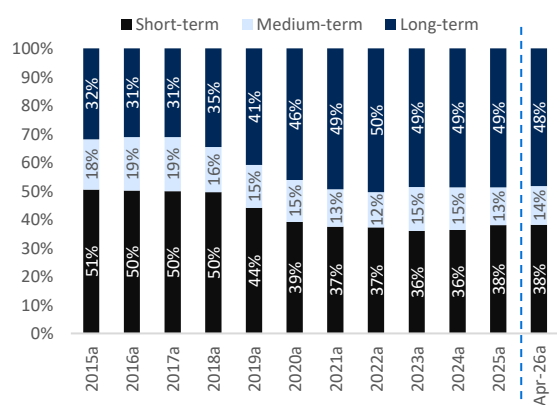
Chart 10: Gross loan book composition - 1Q26a



Source: Company financials, anbc research

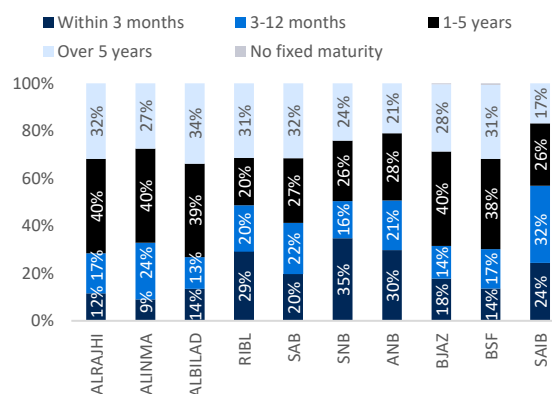
Additionally, banks with a higher share of longer-maturity loans are likely to experience slower asset repricing. Within the sector, as of 2025, Albilad has the highest proportion of longer-term loan maturities, with 73.2% of its loan portfolio maturing in over one year. In comparison, SAIB has the shortest loan profile, with 56.9% of its loans maturing within one year.

Chart 11: Short-term loans' share is in decline



Source: SAMA, anbc research

Chart 12: Loan maturity profile - 2025a



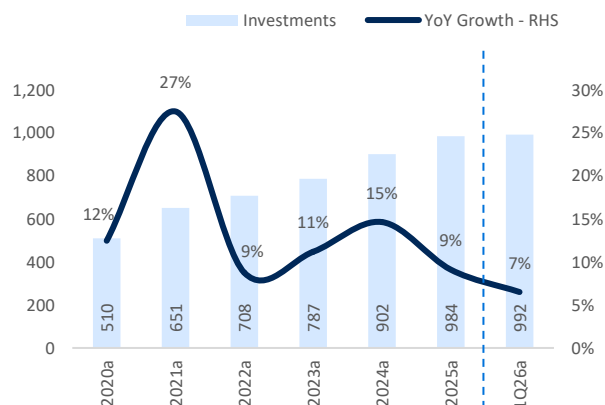
Source: Company financials, anbc research

### Fixed rate investment portfolios to cushion asset repricing

Saudi banks have increasingly shifted their investment portfolios toward fixed-rate instruments in recent periods. This has helped banks preserve investment income by delaying the impact of downward repricing resulting from declining interest rates during 2024-2025. Given that any additional rate cuts are expected to be potentially back ended into 2027f, fixed-rate portfolios should continue to support yields once rate cuts materialize. In contrast, banks with a larger share of floating-rate investments remain more exposed to repricing risk, as yields on these assets adjust downward more quickly once rates begin to ease, placing pressure on NIM.

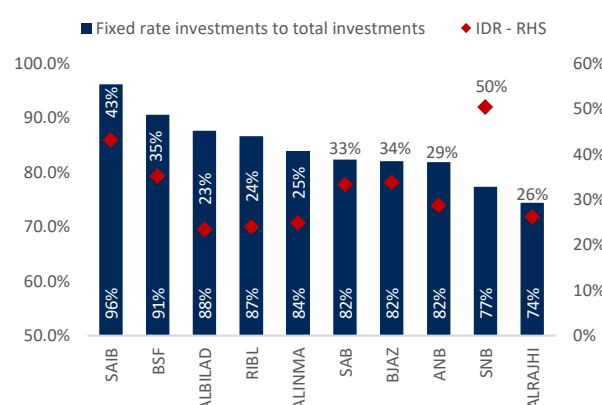
As of 2025, SAIB holds the highest proportion of fixed rate investments in its investment book, at 96.1%. On the other hand, Al Rajhi's portfolio comprises 74.4% of fixed rate investments, the lowest share of fixed rate investments in the sector.

Chart 13: Sector investment book



Source: Company financials, anbc research

Chart 14: Fixed rate inv. to total inv. – 2025a



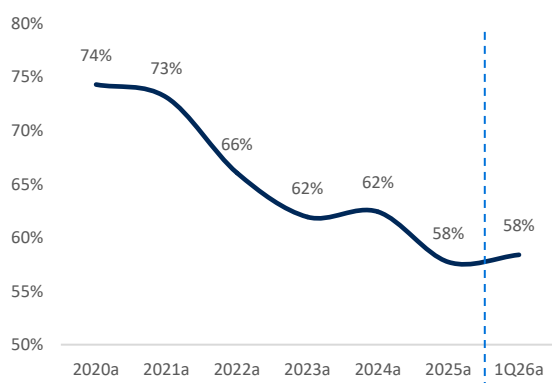
Source: Company financials, anbc research

### Liquidity strains and CASA migration to pressure the cost of funds

On the funding side, deposit growth has lagged behind financing expansion, leading to liquidity pressures in the sector and increasing competition among banks to secure deposits. These liquidity pressures have contributed to the elevated SAIBOR-SOFR spread compared to historical averages.

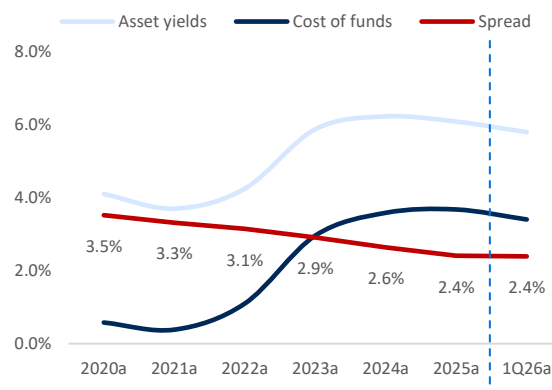
During the period of monetary tightening, Saudi banks witnessed a shift in deposit mix, with the share of CASA to total deposits declining. CASA ratio for the sector was 62.4% in 2024, down from 74.3% in 2020, reflecting a migration of deposits toward higher-yielding time deposits as customers sought more competitive returns amid a rising rate environment. The CASA ratio fell further to 57.7% in 2025, despite the declining interest rate environment, due to the high competition for deposits within the sector. This placed increasing pressure on the cost of funds, lowering the spread between asset yields and the cost of funds. The overall sector’s average spread narrowed from 3.52% in 2020 to 2.41% in 2025. The CASA ratio recovered slightly to 58.4% in 1Q26, while spreads stood at 2.39%, remaining flat YTD.

Chart 15: CASA ratio



Source: Company financials, anbc research

Chart 16: Contraction in sector’s net spreads

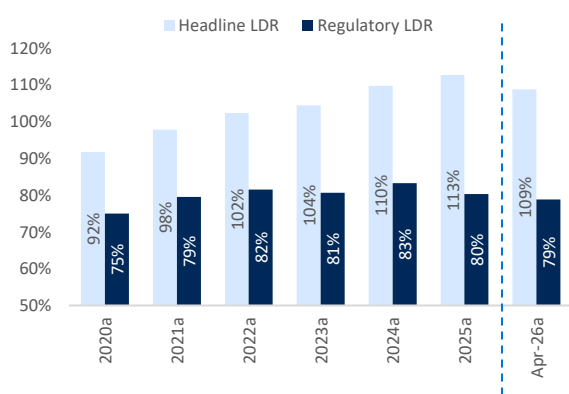


Source: Company financials, anbc research

### Liquidity remains a key challenge

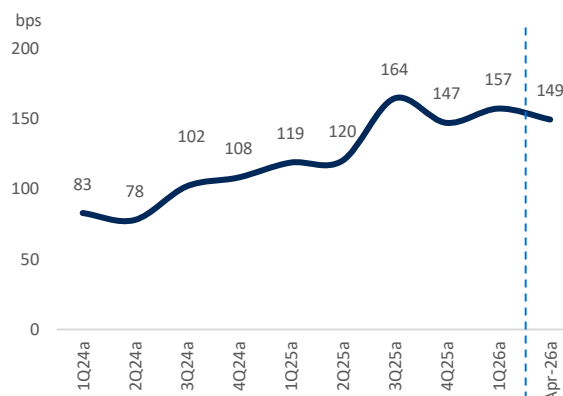
Headline LDR was recorded at 108.8% by the end of Apr-26, compared to a 10-year average LDR of 96.5%. The liquidity pressures are also reflected in the elevated SAIBOR-SOFR spread, which averaged at 155 bps in 4M26, compared to a 2-year average of 127 bps.

**Chart 17: LDR remains elevated**



Source: SAMA, anbc research

**Chart 18: Elevated SAIBOR-SOFR spreads**



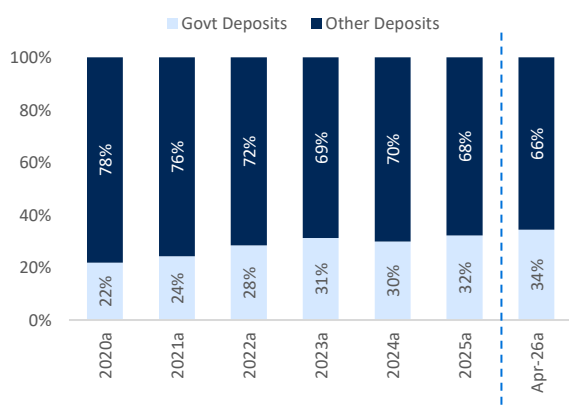
Source: SAMA, anbc research

Government deposits constitute a substantial share of total deposits, rising to 34.3% as of Apr-26, compared with a 10-year average of 25.0%. The government is increasingly retaining its deposits within the domestic banking system, which has helped support sector-wide liquidity. However, looking ahead, government deposits with local banks are expected to remain modest in the near term, given the projected fiscal deficit in 2026e. Elevated spending commitments under Vision 2030 continue to absorb a significant share of public resources.

Even with higher government placements, the overall deposit base has remained slow to absorb the rapid increase in financing. Consequently, liquidity pressures persist, reflecting a tightening funding environment and reinforcing reliance on alternative funding sources.

Banks have undertaken additional measures to alleviate these pressures, particularly through increased sukuk issuances. Total sukuk issued by banks during 2025 amounted to SAR 64.9 bn. BSF recorded the highest issuance volume at SAR 11.5 bn in 2025, followed by Al Rajhi and SAB, with SAR 9.4 bn and SAR 9.1 bn, respectively. These sukuk issuances, however, may exert pressure on profitability, as they are typically issued at relatively higher rates than the savings deposit rate.

**Chart 19: Increase in share of government deposits**



Source: SAMA, anbc research

**Chart 20: Sukuk issuances by banks - 2025a**

Bank	Total (SAR mn)
BSF	11,500
ALRAJHI	9,375
SAB	9,125
ANB	8,975
ALINMA	7,500
RIBL	6,688
SNB	6,418
BJAZ	2,875
ALBILAD	2,438
SAIB	-
<b>Total</b>	<b>64,893</b>

Source: Tadawul, anbc research

## Recent regulatory updates encourage disciplined balance sheet growth

### SAMA's 100 bps countercyclical buffer

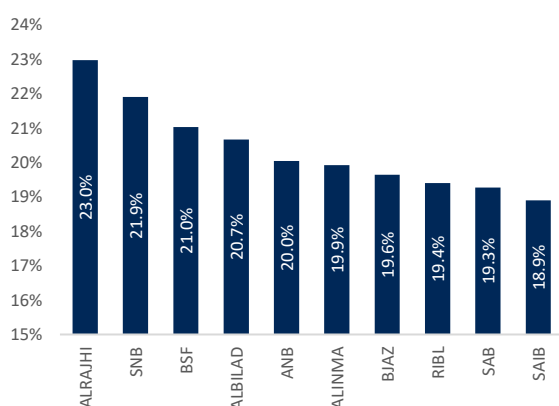
SAMA recently raised the counter-cyclical buffer (CCB) from 0% to 1% of risk-weighted assets, effective 25<sup>th</sup> May-26. The measure strengthens the banking sector's capital resilience and enhances its ability to absorb potential future

shocks. While the higher buffer raises minimum capital requirements, the impact on loan growth and dividend distributions is expected to be manageable over the medium term.

From a lending perspective, the higher capital requirement may encourage banks to adopt a more disciplined approach to balance sheet expansion, with greater focus on capital efficient and risk adjusted growth opportunities. As a result, sector-wide credit growth could continue to normalize following a period of exceptionally strong expansion.

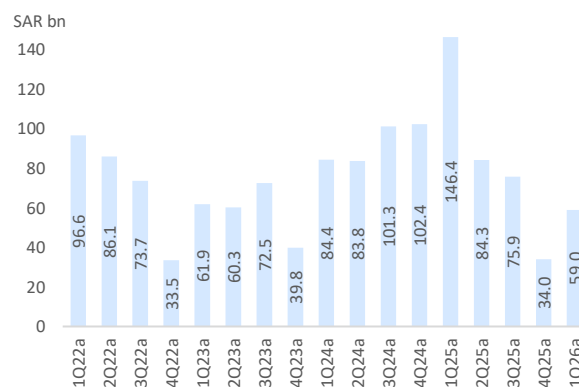
Recent trends reflect a moderation in growth. Net loan origination activity has eased, with total net originations reaching SAR 59.0 bn in 1Q26 compared with SAR 146.4 bn in 1Q25. Nevertheless, credit growth remains positive, reflecting continued demand for financing despite a more measured pace of expansion.

**Chart 21: 1Q26a CAR (Tier 1+2)- Al Rajhi leads sector**



Source: Company financials, anbc research

**Chart 22: Net quarterly loan originations**



Source: SAMA, anbc research

The higher buffer may also influence dividend distribution policies, as banks seek to maintain capital levels comfortably above regulatory requirements. In this context, some banks may choose to retain a greater portion of earnings, resulting in more balanced payout ratios over the near term. This dynamic was evident in Al Rajhi, for which the dividend payout ratio declined to 26.2% in 1H25, compared to the last two-year average of 58.1%. The bank’s management highlighted that the lower payout was intended to preserve capital and support the balance sheet. Resultantly, the bank’s capital adequacy stood the highest in the sector at 21.9% by Dec-25, and increased further to 23.0% in 1Q26. Subsequently, Al Rajhi has moved back toward its historical distribution profile, declaring a dividend of SAR 1.75/share in 2H25, implying a payout ratio of 58.5% for the period and bringing the full-year payout ratio to 42.7%.

**New guide to service fees and credit card regulations to impact non-interest income**

SAMA has also introduced new credit card regulations governing issuance, operation, and fees. The updated framework standardizes disclosures, caps cash withdrawal and international transaction fees, and introduces more flexible repayment terms. These measures are expected to boost credit card adoption, digital payments, and customer confidence, but they may also pressure banks’ fee-based income.

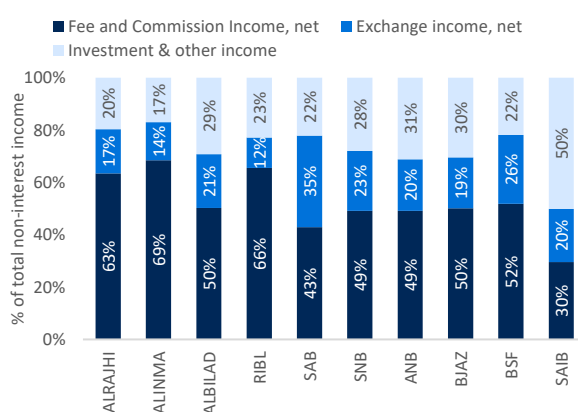
Additionally, SAMA introduced a new Guide to Financial Institutions Services Fees, effective 1Q26, which includes reductions and caps across a wide range of banking and payment services. The regulation comes as part of SAMA’s efforts to enhance financial inclusion and improve transparency across the system. Under the new regulation, SAMA has made reductions across several fee categories, including administrative fees on non-real-estate financing products, MADA card services costs, and check issuance costs.

The new framework is expected to influence revenue mix dynamics across Saudi banks, particularly for banks with a larger contribution from fee and commission income. While certain fee categories may face pressure under the

revised regulations, the impact is likely to vary depending on each bank’s ability to offset lower fees through higher transaction volumes and broader customer engagement.

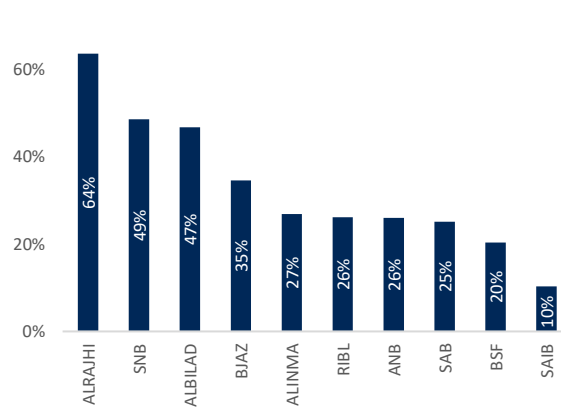
In this regard, Alinma, RIBL, and Al Rajhi have relatively greater exposure, with fee and commission income contributing more than 60% of non-interest income during 2025. Similarly, banks with a stronger retail banking focus may experience a more noticeable impact given the higher volume of customer transactions typically associated with retail banking activities. Al Rajhi has the largest retail exposure in the sector, with retail financing accounting for 63.6% of its gross loan book as of 1Q26, followed by SNB and Albilad at 48.6% and 46.8%, respectively.

**Chart 23: Non-interest income composition - 2025a**



Source: Company financials, anbc research

**Chart 24: Share of retail loans/total loans - 1Q26a**



Source: Company financials, anbc research

Additionally, the cap on administrative fees on non-real estate financing has been reduced from 1.0% of the finance amount or SAR 5,000, whichever is lower, to 0.5% or SAR 2,500, whichever is lower. This is expected to support loan growth, as the cost of borrowing for customers reduces. Hence, while banks may face near-term headwinds due to lower fees, this impact can be mitigated by greater customer activity, increased adoption of digital payment solutions, and stronger credit demand.

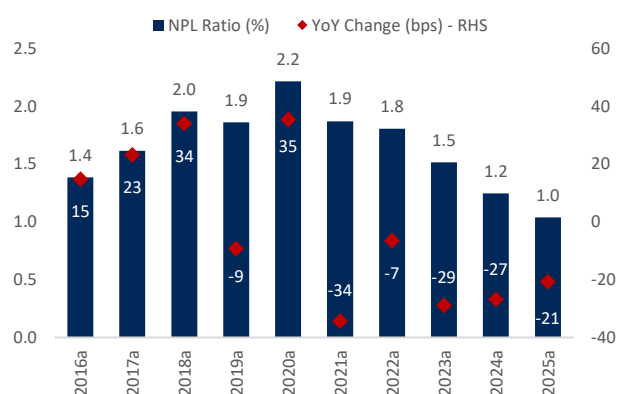
### Asset quality has improved, though geopolitical risks pose a threat

The banking sector’s asset quality has strengthened over recent years, underpinned by enhanced risk management practices and a healthy macro-credit environment. The sector’s NPL ratio has declined from a peak of 2.2% in 2020 to 1.0% in 2025, indicating robust loan portfolios.

The sector’s cost of risk has also continued its downward trajectory, reaching 33 bps in 2024 and easing further to 30 bps in 2025, reflecting lower provisioning requirements and improved recoveries. Coverage levels have remained robust, with the sector recording an average coverage ratio of 169.1% in 2025, underscoring the banks’ strong provisioning buffers and resilience against potential asset-quality deterioration.

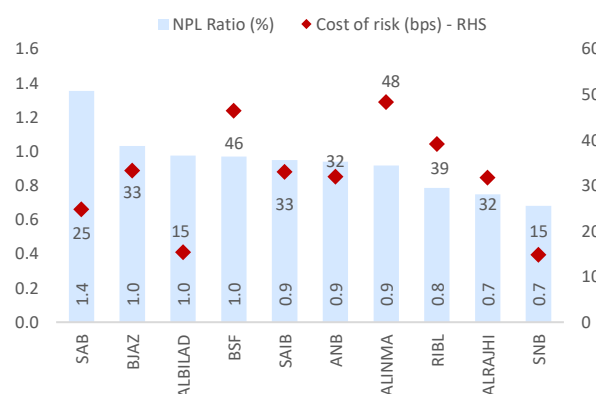
As of Dec-25, SNB has the lowest NPL ratio in the banking sector at 0.68%, followed by Al Rajhi at 0.75%. On the other hand, SAB’s NPL ratio stands at 1.35%, the highest in the sector. SNB recorded the lowest cost of risk in 2025 at 15 bps, due to an impairment reversal of SAR 172.9 mn in 2Q25.

Chart 25: NPL ratio



Source: SAMA, anbc research

Chart 26: NPL ratio and cost of risk - 2025a



Source: Company financials, anbc research

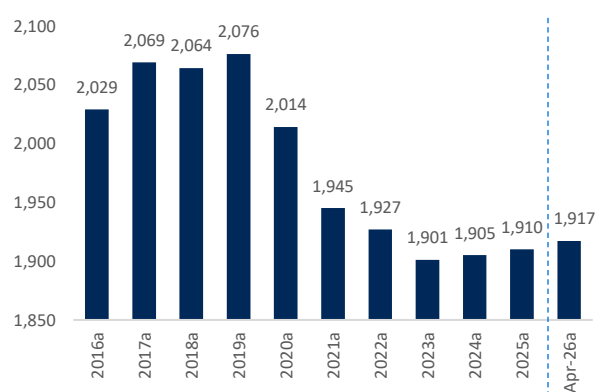
However, the current period of regional geopolitical stress could pose a risk of asset quality deterioration, particularly if the conflict proves more prolonged or severe than anticipated. The softening in business activity, new orders, and client spending, if sustained, could erode borrowers' ability to meet debt obligations and translate into upward pressure on non-performing loans. Even though Saudi banks maintain meaningful buffers, we expect provisioning costs to drift modestly higher through 2026 as banks adopt a more conservative reserving stance in response to the elevated uncertainty.

### Digitalization

Saudi banks are accelerating their digital transformation efforts, with digitalization now a core pillar of their corporate strategies. This shift aligns with FSDP's objective of achieving 80% cashless transactions by 2030, a target the financial sector is already close to meeting, having reached 79% cashless transactions as of 2Q25. The rapid adoption of digital channels is expected to materially enhance operational efficiency across the sector.

Greater digital penetration is contributing to structurally lower operating costs by enabling banks to rationalize branch networks, streamline manual processes, and reduce reliance on physical infrastructure. This is reflected in the steady decline in the number of bank branches in the Kingdom, from 2,029 in 2016 to 1,917 in 1Q26, as customers increasingly migrate to digital platforms for everyday transactions. Over time, these efficiency gains are expected to translate into improved cost-to-income ratios and enhanced profitability.

Chart 27: Total banks branches operating in KSA



Source: SAMA, anbc research

Chart 28: Digital app adoption across Saudi banks

Bank	Total Downloads*	Rating*
ANB	1,100,000	4.40
ALRAJHI	24,920,000	4.50
SNB	7,900,000	4.80
BSF	254,260	4.10
ALINMA	3,280,000	4.50
ALBILAD	316,720	2.40
SAIB	129,690	4.20
SAB	1,850,000	3.10
BJAZ	499,150	4.80
RIBL	1,330,000	4.60

\*as of 28<sup>th</sup> May, 2026

Source: Apptally, anbc research

An analysis of mobile application performance across Saudi banks highlights Al Rajhi demonstrating a lead, with ~24.9 mn total downloads, highlighting its dominant digital presence and strong customer acquisition momentum. SNB follows with 7.9 mn downloads, reflecting its sizeable customer base and continued investment in digital capabilities. SNB and BJAZ's apps maintain the highest user ratings at 4.80.

## Risks

Key risks faced by the banking sector include:

- **Slowdown in loan growth:** A more gradual phase of Vision 2030 project execution, with adjustments to the timing of certain initiatives may lead to a more balanced pace of credit demand. Additionally, the recent 100-bps countercyclical buffer introduced by SAMA enhances the sector's capital framework and supports a more measured approach to lending. This may encourage banks to maintain a balanced pace of balance sheet growth, contributing to a normalization of loan growth following the strong expansion observed in recent years.
- **Liquidity challenges:** If liquidity constraints persist, banks may face rising funding costs as competition for deposits intensifies. Elevated sukuk issuance, used to bridge funding gaps, could further pressure profitability, given the higher cost of funding relative to consumer deposits.
- **Asset quality deterioration:** Geopolitical disruption and a potential stalling of the monetary easing cycle could weaken borrowers' repayment capacity. This may drive NPL ratios higher and prompt banks to increase provisioning, placing upward pressure on the cost of risk after several years of improving credit conditions.
- **Margin compression:** As interest rates ease, banks with a higher share of floating-rate loans may experience faster asset repricing. In contrast, funding costs may adjust more slowly, leading to a decline in NIM.

3 June 2026

## Banque Saudi Fransi

We initiate coverage on Banque Saudi Fransi (BSF) with a 2026e target price of SAR 23.5/share and an 'Overweight' rating. The bank's balance sheet is supported by a shift towards retail lending, reinforced by a diversified funding strategy. While near-term earnings are expected to face margin pressure from elevated funding costs and a sticky rate environment, BSF's strategic repositioning, particularly its pivot toward retail banking, capital market funding, and high-quality fixed-rate investments, provides earnings resilience and supports sustainable long-term returns.

**Pivot towards retail lending and fixed investment portfolio to protect margins.** BSF's shift toward fixed rate retail assets (share of retail loans: 20.4% in 1Q26 vs 14.2% in 2020), is expected to provide earnings resilience once interest rate cuts resume in 2027f. While BSF's predominantly floating-rate corporate book remains exposed to asset yield compression once rates begin to decline in 2027f, the growing retail mix helps preserve asset yields for longer due to the relatively slower repricing nature of retail loans. This provides a hedge and is expected to strengthen further as retail loans move toward management's targeted ~25% share of the loan book by 2030f. Additionally, with 90.1% of BSF's investment portfolio in fixed rate securities, the investment portfolio plays a stabilizing role. The fixed-nature of investments is positioned to maintain relatively steady yields.

**Near-term NIM compression is cushioned by elevated SAIBOR-SOFR spreads.** The average 6M SAIBOR-SOFR spread of 137 bps in 2025, is above the 2-year average of 127 bps, which has meaningfully dampened the impact of US rate cuts on corporate loan yields in a way that has little precedence in prior easing cycles. Due to elevated SAIBOR-SOFR spreads, BSF's asset yields fell only 22 bps in 2025 despite a 75 bps US Fed rate reduction. We expect this buffer to persist through 2026e, and forecast NIM of 3.09% for 2026e, supported by elevated SAIBOR-SOFR spreads, management's expectations of higher repricing of corporate loans, and a shift towards fixed rate retail loans.

**Proactive funding diversification amid tight liquidity.** The bank's deposit growth has been in line with the sector, with a 2020-2025 CAGR of 9.0% versus the industry average of 8.5%, with structurally high LDR levels (110.1% in 2025). In response, BSF has accelerated capital-market funding, emerging as one of the most active issuers among Saudi banks. Debt securities and term loans now constitute 11.8% of total capital (1Q26), up from 5.3% in 2024. This funding diversification broadens BSF's investor base, extends liability tenor, and enhances flexibility to support medium-term asset growth.

**Strong capital strength to support dividend sustainability.** BSF's total CAR of 21.0% in 1Q26 is one of the highest among Saudi banks. With CAR at sufficient levels, the bank is expected to support dividend sustainability and absorb SAMA's 100 bps countercyclical buffer without constraining loan growth.

**Valuation:** We initiate coverage with an 'Overweight' rating on BSF. Our valuation is based on a sustainable RoAE assumption of 13.5%, a 55.0% payout ratio, and an implied long-term growth rate of 6.1%. Applying a cost of equity of 11.6% results in a justified P/B of 1.3x and a 2031f BVPS of SAR 23.8, translating into a 2026e target price of SAR 23.5/share. This implies a 21.1% upside relative to the current market price of SAR 19.4/share.

**Risks:** While BSF's asset quality indicators have improved in recent years, we remain mindful of the bank's sensitivity to shifts in the operating environment, particularly given its increasing retail exposure. Additionally, BSF's elevated LDR increases reliance on wholesale funding and may amplify margin pressure if deposit competition further intensifies. Moreover, if lending growth moderates beyond our estimates, it could pose downside risk to our earnings forecasts.

### RATING SUMMARY

Target Price (SAR)	23.5
Upside/Downside (%)	21.1
Div. Yield (%)	5.7
Total Exp. Return (%)	26.9

Source: Company financials, anbc research

### OVERWEIGHT

### ISSUER INFORMATION

Bloomberg Code	BSF AB
Last Price (SAR)	19.4
No of Shares (mn)	2,500
Market Cap bn (SAR/USD)	48.6/13.0
52-week High / Low (SAR)	21.0/15.5
12-month ADTV (mn) (SAR/USD)	40.9/10.9
Free Float (%)	73.7
Foreign Holdings (%)	15.7

Close of 2<sup>nd</sup> Jun, 2026

### VALUATIONS

	2025	2026e	2027f	2028f
EPS (SAR)	2.0	2.0	2.2	2.4
PER (x)	9.9	9.6	8.9	8.1
PBV (x)	1.1	1.1	1.0	1.0
DPS (SAR)	1.1	1.1	1.2	1.3
Div. Yield (%)	5.5	5.7	6.2	6.8
RoAE (%)	11.9	11.6	11.9	12.5
RoAA (%)	1.6	1.6	1.6	1.6

Source: Company financials, anbc research

### FINANCIALS (SAR bn)

	2025	2026e	2027f	2028f
Oper. Income	10.5	11.0	11.8	12.8
Provisions	1.0	1.2	1.4	1.4
Net Income*	4.9	5.1	5.5	6.0
Investments	68.7	71.1	69.5	71.3
Loans	214.9	228.9	253.9	279.0
Deposits	195.2	206.4	225.0	244.4
NIM (%)	3.1	3.1	3.1	3.1

\*After Sukuk cost

Source: Company financials, anbc research

### RELATIVE PRICE PERFORMANCE



Source: Bloomberg, anbc research

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## Investment Thesis

### Steady balance sheet expansion

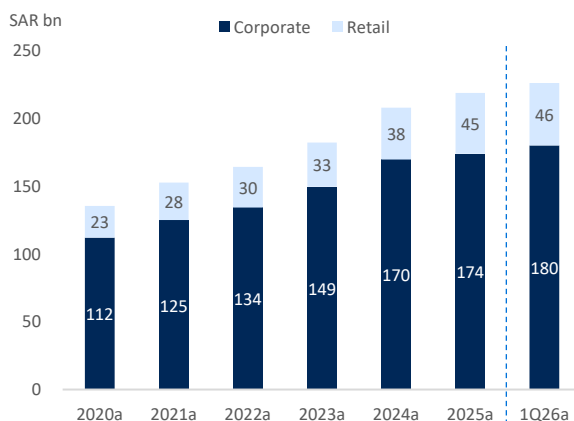
BSF presents a balanced growth profile, supported by disciplined loan expansion, a diversified funding strategy, and a strengthening asset-quality trajectory, with the bank’s NPL ratio declining to 1.0% in 2025 from 2.8% in 2020. The bank has demonstrated steady loan growth over recent years, with a 2020-2025 CAGR of 10.5%, to SAR 214.9 bn by 2025, though growth has remained below the sector CAGR of 13.1%. Loan growth has primarily been underpinned by its growing corporate portfolio, with gross corporate loans increasing at a 5-year CAGR of 9.2% to SAR 173.7 bn, as well as improving focus on the retail segment (5-year CAGR of 14.1% to SAR 45.0 bn). Corporate loans remain a major portion of BSF’s loan book, accounting for an average of 81.4% of the gross loan portfolio over the past 5 years, higher than the sector average share of corporate to total gross loans of 64.7%.

BSF has also proactively diversified its funding base by increasing reliance on capital-market issuances, with the bank having the highest issuance volume of Sukuks (Tier 1 + Tier 2) among Saudi banks in 2025. Additionally, the bank’s investment portfolio is dominated by fixed rate securities (90.5% of the investment portfolio as of 2025), which positions it favorably in the current interest rate environment, once rate cut materializes in 2027f.

### Shifting focus towards retail lending

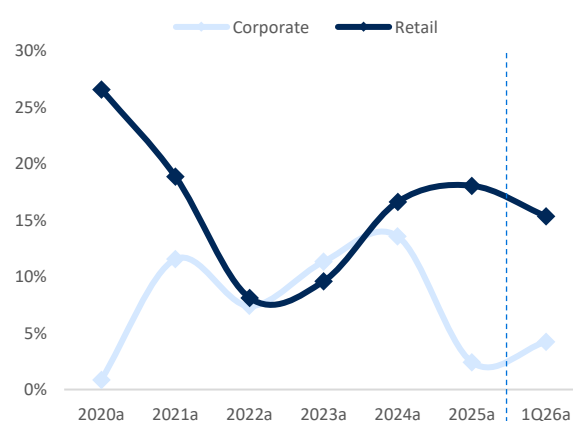
In recent periods, BSF has intensified its focus on retail banking as part of its long-term strategic diversification. Gross retail loans grew by 18.0% YoY during 2025, supported by strong momentum in mortgages (+23.9% YoY) to SAR 22.3 bn and personal loans (+12.3% YoY) to SAR 14.0 bn. Credit card lending also increased by 33.0% YoY to SAR 995.8 mn, aided by targeted marketing initiatives and customer acquisition campaigns. This reflects BSF’s deliberate repricing strategy. The momentum carried over into 1Q26, with the bank recording 15.3% YoY growth in retail lending to SAR 46.0 bn, while the corporate book grew 4.2% YoY to SAR 179.9 bn. With expectations of decline in interest rates during 2027f, fixed rate retail assets offer higher yield durability than floating-rate corporate loans. Hence, this diversification of the loan mix is expected to enhance revenue stability over time. Under its Strategy 2030, BSF’s management expects to expand retail lending to reach approximately 25% of the book by 2030f (compared to 20.4% in 1Q26).

Chart 29: Total gross loan portfolio



Source: Company financials, anbc research

Chart 30: Loan growth (YoY)

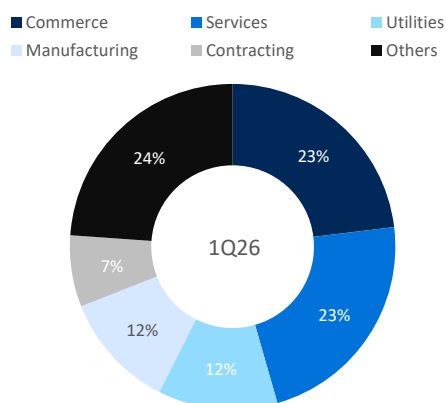


Source: Company financials, anbc research

Looking forward, we expect BSF to sustain balanced loan growth, underpinned by continued demand across both corporate and retail segments. For the full year 2026e, we project loan growth of 6.5% YoY. Our relatively cautious stance reflects (i) the impact of SAMA’s 100bps countercyclical capital buffer leading to focus on selective

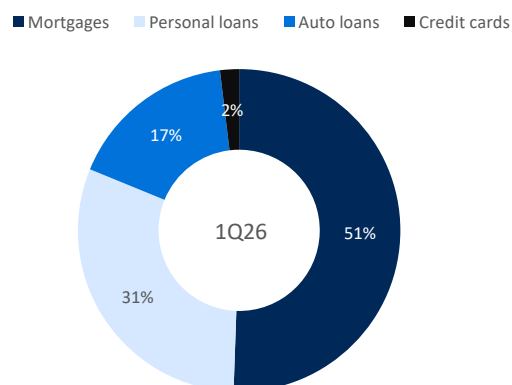
origination, (ii) an intentional tilt toward retail origination, which typically has smaller average ticket sizes, and (iii) the likelihood that elevated LDR constrains the pace of incremental asset expansion. In line with the bank's Strategy 2030, we expect BSF's loan portfolio to grow at a 9.3% CAGR between 2025-2030f. BSF's management expects its loan growth to outpace the industry loan growth, with the incremental loan book expansion tilted towards the retail portfolio.

**Chart 31: Composition of corporate loans - 1Q26a**



Source: Earnings call, anbc research

**Chart 32: Composition of retail loans - 1Q26a**



Source: Earnings call, anbc research

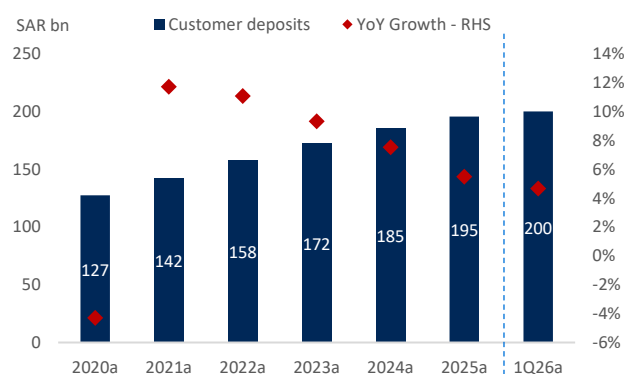
**Funding: Proactive diversification, but liquidity remains key**

BSF's deposit base grew at a 5-year CAGR of 9.0% to SAR 195.2 bn in 2025, slightly ahead of the sector's 8.5% CAGR. However, with loans expanding faster than deposits, the LDR has climbed to 110.1% at the end of 2025, down from a peak of 116.0% in Sep-25 but still among the highest in the Saudi banking sector. We flag this as a material structural risk as an elevated LDR constrains incremental loan growth opportunities and necessitates greater reliance on wholesale funding.

During 1Q26, deposits recorded a 4.6% YoY growth to SAR 199.6 bn, falling behind the loan book expansion of 6.2% YoY. This resulted in a headline LDR of 111.2%, up 163 bps YoY (+112 bps YTD) in 1Q26.

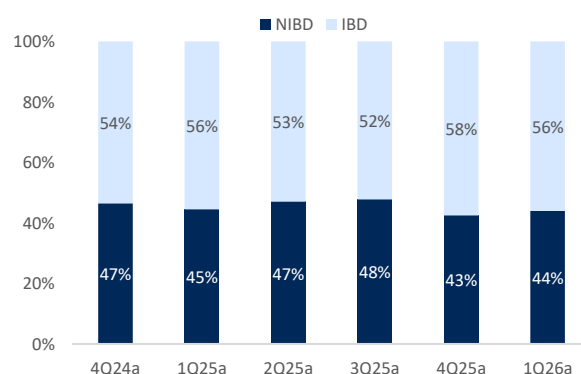
With increasing liquidity pressures in the system, BSF has witnessed meaningful CASA migration in recent periods, in line with broader sector trends. The share of non-interest-bearing deposits (NIBD) in the bank's customer deposits has declined to 43.9% by the end of 1Q26, compared to 67.6% in 2020.

**Chart 33: Customer deposits - trend**



Source: Company financials, anbc research

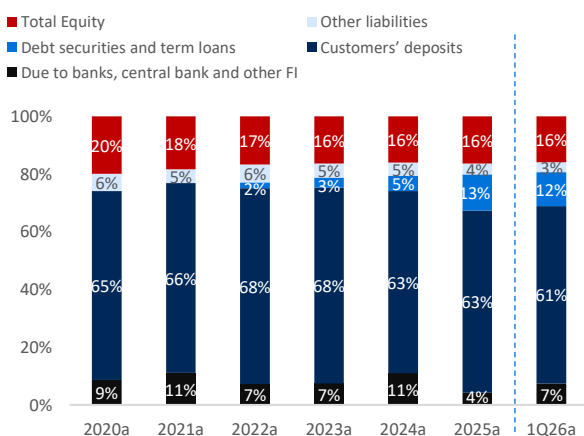
**Chart 34: Customer deposits composition**



Source: Earnings call, anbc research

BSF has responded to the incremental funding needs by increasing its focus on alternate funding sources. Through these alternative funding channels, the bank is making concerted efforts to extend and diversify its maturity profile and enhance its ability to support medium-to-long-term asset growth. This shift toward capital market funding also improves liquidity management flexibility, broadens the investor base, and positions the bank more competitively amid tightening domestic liquidity conditions. Overall, the bank’s proactive approach to funding diversification is expected to support sustainable credit expansion.

Chart 35: Funding mix



Source: Company financials, anbc research

Chart 36: 2025a issuances

Type	Issuance Amount (mn)	Maturity/Call	Pricing
Sukuk	USD 750	Jan-30	5.38%
Bonds	USD 190	Feb'27-Jun'32	Various
Bilateral Loan	SAR 1,500	Mar-28	SAIBOR3m+45bps
Tier 1	USD 650	PerpNC 2030	6.38%
Bilateral Loan	USD 1000	Jul-30	SOFR+0.95%
Tier 2 notes	USD 1000	Sep-30	5.76%
Term loan	USD 750	Oct-28	SOFR+65bps
CoD*	GBP 24	Feb to Jul-26	4.40%-4.41%
CoD*	USD 2,237	Jan to Dec-26	4.30%-4.71%
Sukuk	SAR 1000	Dec-26	5.18%
SAR Tier 1	SAR 2,500	PerpNC 2030	6.38%

CoD = Certificates of Deposit

Source: Investor Presentation, anbc research

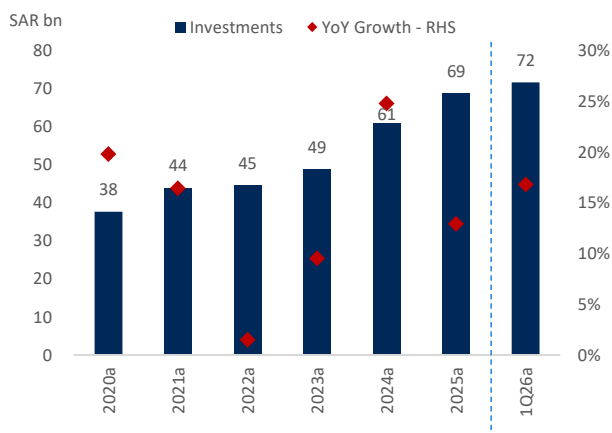
Looking ahead, we expect BSF's funding structure to continue tilting toward interest-bearing deposits, with NIBD migration impacted by elevated SAIBOR-SOFR spreads and intensifying competition for retail deposits. Management targets stabilization of the NIBD ratio at 40.0% of total deposits, maintaining which will likely require meaningful progress in deepening the bank's retail transactions franchise. We project deposits to grow at an 8.2% CAGR between 2025-2030f. Deposit growth is projected to remain slightly below the loan book's projected trajectory, implying the LDR remains structurally elevated and wholesale funding continues to plug the gap.

### Investment portfolio acts as an interest rate hedge

BSF's investment book, which stood at SAR 71.6 bn as of 1Q26, has been more recently repositioned toward fixed rate instruments. The share of fixed rate securities has risen from 77.6% in 2022 to 90.1% in 1Q26 as floating-rate allocations were reduced from 20.3% to 5.8% over the same period.

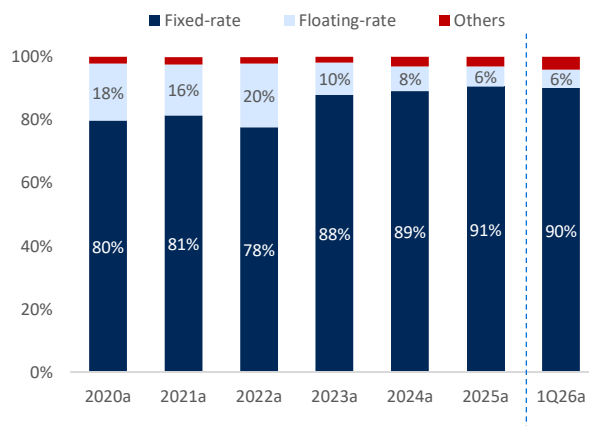
The investment portfolio has grown at a 2020-1Q26 CAGR of 13.0% to SAR 71.6 bn in 1Q26, in line with the sector's CAGR of 13.5% over the same period. The bank's IDR of 35.9% as of 1Q26 stands above the sector IDR of 32.4%. With 67.8% allocated to Saudi government securities (as of 1Q26), the portfolio offers both a yield buffer and strong liquidity underpinning.

Chart 37: Investment book - trend



Source: Company financials, anbc research

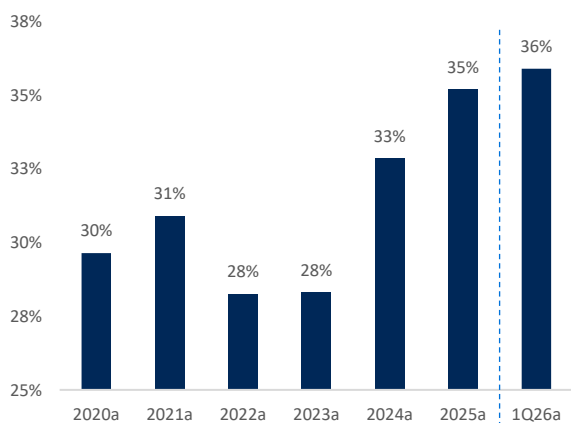
Chart 38: Investments composition - trend



Source: Earnings call, company financials, anbc research

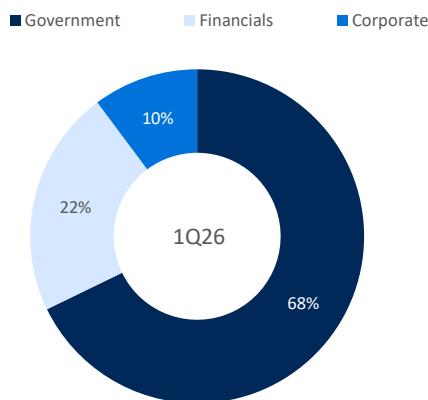
In a potentially gradual and delayed easing cycle, fixed-rate securities are expected to preserve the yields for longer periods, providing a buffer against the faster repricing of floating-rate loan assets once rates begin to decline. This offers support to overall asset yields and helps mitigate medium-term pressure on NIM. Additionally, the predominance of government and investment-grade securities strengthens the bank’s liquidity profile, ensures low credit risk within the investment portfolio. This investment stance is expected to contribute to earnings stability amid shifts in the broader interest rate cycle.

Chart 39: Investment to deposit ratio



Source: Company financials, anbc research

Chart 40: Investment book breakdown - 1Q26a



Source: Investor presentation, anbc research

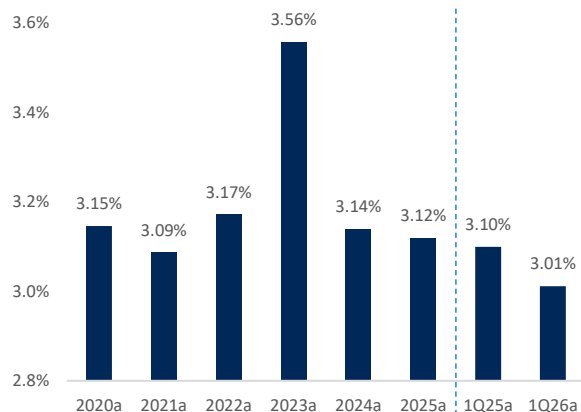
### NIM compression from asset repricing and evolving funding mix

With 79.6% of BSF’s gross loan portfolio comprising corporate loans as of 1Q26, the bank’s NIM remains structurally exposed to downward repricing risk once the monetary easing cycle resumes. However, near-term margin compression is expected to remain relatively contained for two key reasons.

Firstly, elevated SAIBOR-SOFR spreads continue to provide meaningful support to domestic asset yields, limiting the pass-through impact of lower benchmark rates on loan pricing. The 6M SAIBOR-SOFR spread averaged 137 bps in 2025, compared to a two-year average of 127 bps. This dynamic helped cushion the impact of rate cuts, with BSF’s asset yields declining by only 22 bps to 6.30% in 2025 despite a cumulative 75 bps reduction in Fed rates.

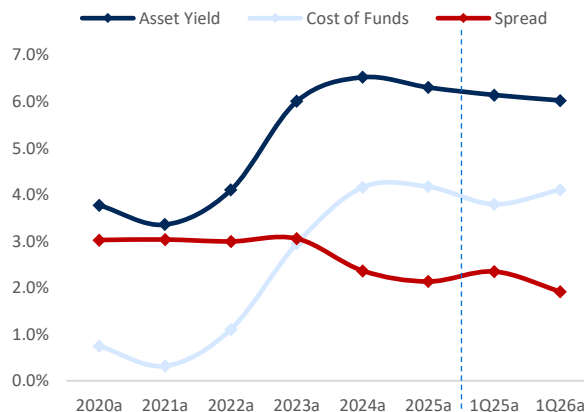
Secondly, the investment portfolio's fixed rate bias and the growing retail loan book together provide a meaningful portion of the asset base that does not reprice with benchmark rates. As retail portfolio grows toward 25% of loans over the medium term, this hedge is expected to strengthen over time.

**Chart 41: Net interest margins**



Source: Company financials, anbc research

**Chart 42: Net spreads decline 23 bps YoY in 2025a**

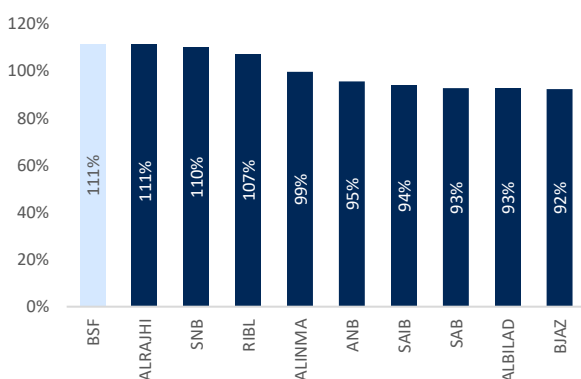


Source: Company financials, anbc research

On the funding side, cost of funds was broadly stable in 2025, rising just 1 bp YoY to 4.2%, a notable outcome given the structural NIBD migration underway. The shift toward time deposits (57.0% of the deposit base in 2025 vs. 31.8% in 2020) has enhanced maturity predictability, though it introduces costing pressures that will persist even as interest rates eventually decline.

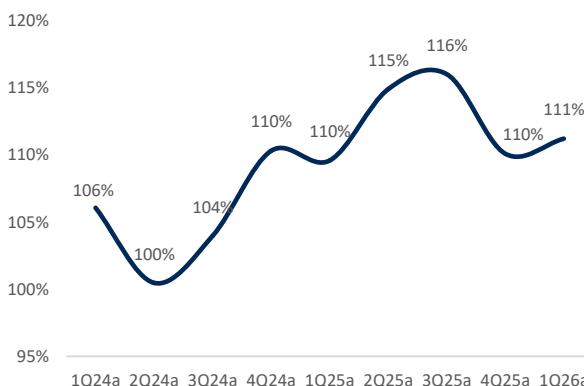
Looking ahead, elevated LDR levels indicate tighter liquidity conditions and suggest that the bank may need to rely more heavily on higher-cost wholesale sources to fund incremental loan growth. Competition for deposits is also expected to intensify, which could further pressure the bank's profitability. Reflecting this, the bank's NIM declined to 3.01% in 1Q26 due to an 11 bps YoY decrease in asset yields to 6.02%, and 31 bps YoY increase in cost of funds to 4.10%. Assuming no rate cuts in 2026e, we project BSF's NIM to reach 3.09% during the year.

**Chart 43: BSF has the highest LDR as of 1Q26a**



Source: Company financials, anbc research

**Chart 44: BSF's loan to deposit ratio**



Source: Company financials, anbc research

**Non-interest income: the structural weakness that Strategy 2030 aims to solve**

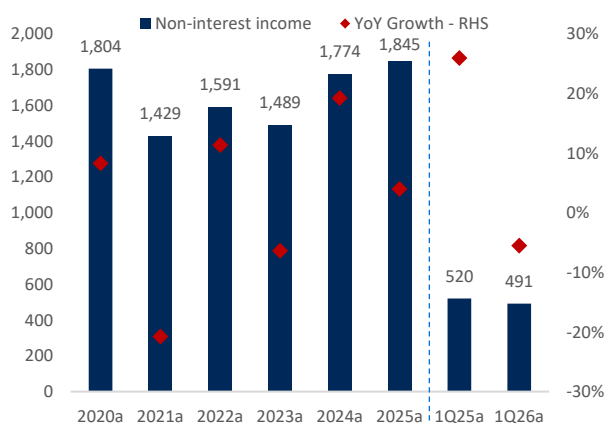
BSF's non-interest income growth has lagged peers, with the bank recording a 5-year CAGR of just 0.4% versus the sector average of 13.7% between 2020-2025. While the non-interest income to total income ratio exceeded the sector average in 2020, it has consistently underperformed since 2021. The ratio declined from 25.6% in 2020 to a low of 16.0% in 2023, before posting a modest recovery to 17.5% in 2025.

During 2025, non-interest income amounted to SAR 1.8 bn, up 4.0% YoY, compared to the sector non-interest income growth of 19.4% YoY. This highlights a continued reliance on core interest income and underscores the need for broader diversification within BSF’s revenue streams.

Looking ahead, we expect the bank’s increasing focus on retail lending to support non-interest income growth. Under its Strategy 2030 framework, BSF aims to scale up cross-selling initiatives into its expanding retail base and deepen Global Transaction Services (GTS) penetration to accelerate the expansion of fee-based revenues. This strategy is intended to enhance revenue diversification and strengthen the bank’s non-interest income profile.

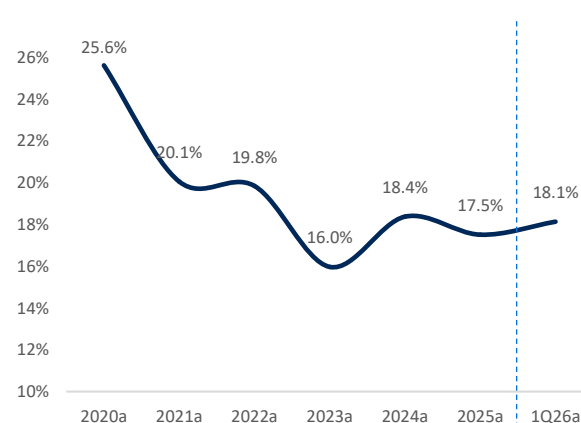
However, fee and commission income may face potential headwinds from the implementation of SAMA’s Guide to Financial Institutions Services Fees, which took effect from 1Q26. The material constraints on service charges are expected to slow the non-interest income growth trajectory. During 1Q26 the bank’s non-interest income declined by 5.5% to SAR 491 mn, most likely impacted by lower fee income as a result of SAMA’s regulation.

**Chart 45: Non-interest income - trend**



Source: Company financials, anbc research

**Chart 46: Non-interest income to total income ratio**



Source: Company financials, anbc research

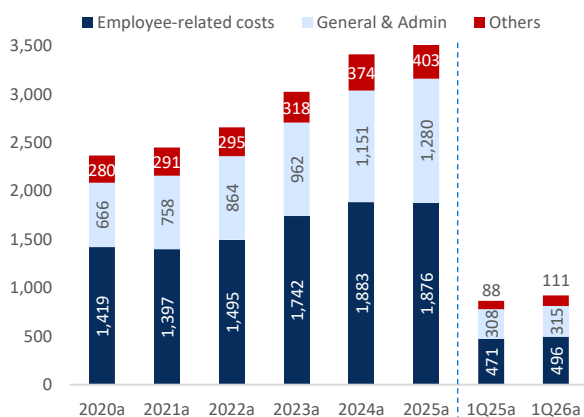
### Cost efficiency: investment phase elevated CIR, expected to normalize

BSF’s operating costs increased at a 5-year CAGR of 8.5% to SAR 3.6 bn in 2025, exceeding the sector CAGR of 7.2% over the same period. However, opex growth has remained broadly in line with the expansion in operating income, which recorded a CAGR of 8.4% to SAR 10.5 bn over the same period. The rise in operating expenses has been driven primarily by higher general and administrative costs (5-year CAGR of 14.0%), as well as continued investments in technological infrastructure to support the bank’s broader strategic transformation and digitalization initiatives.

Historically, BSF has maintained a cost-to-income ratio (CIR) in line with the sector average. Between 2020 and 2023, the bank’s average CIR stood at 33.3%, compared with the sector average of 33.7%. However, in recent periods, the bank’s CIR has outpaced the sector, with CIR of 33.8% in 2025, versus the sector’s 29.0%. During 1Q26, the bank’s CIR arrived at 34.0%, recording a 120 bps YoY increase. However, the CIR divergence is not evidence of structural inefficiency. Instead, it reflects the bank’s multi-year investment cycle in digital infrastructure and operational transformation. The bank’s management has highlighted a CIR target of 27.0% by 2030f. However, achieving this target would require: (i) successful implementation of digital capabilities through non-interest income growth, (ii) operating leverage from retail loan book expansion, and (iii) normalization of technology and G&A spending post the investment peak.

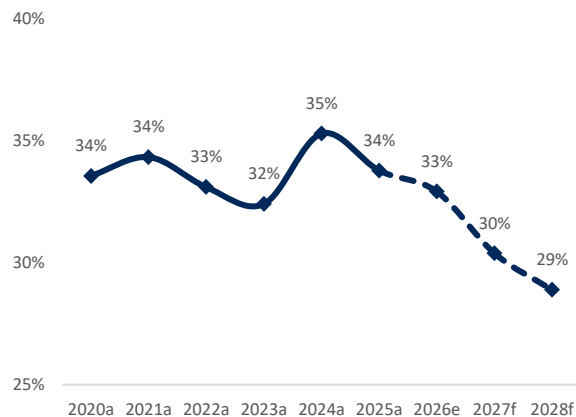
We model a gradual decline in CIR, from 33.8% in 2025 to 30.4% by 2027f and down to the management’s guided 27.0% by 2030f.

Chart 47: Operating cost – trend



Source: Company financials, anbc research

Chart 48: Cost-to-income ratio - trend



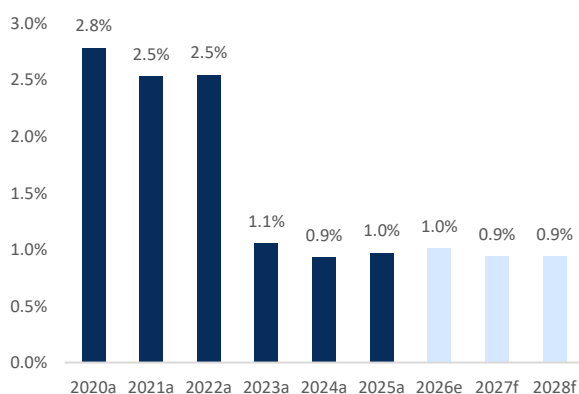
Source: Company financials, anbc research

### Improving asset quality measures to support profitability

BSF's asset quality has improved substantially over the past five years. The NPL ratio declined to 1.0% in 1Q26, below the bank's 5-year historical average of 1.7%. Coverage ratio has been maintained at adequate levels, with NPL coverage arriving at 175.8% in 1Q26.

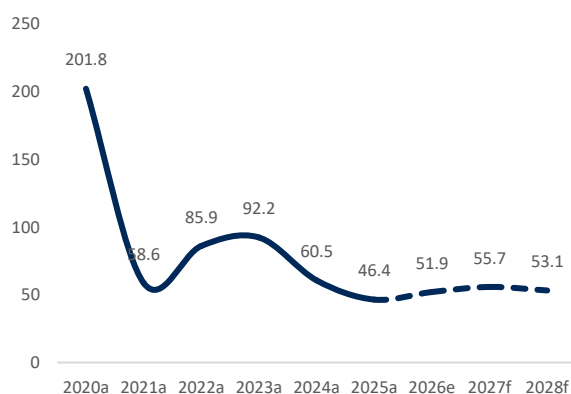
The key concern going forward remains whether the pivot towards retail lending creates asset quality headwinds. Consumer credit, particularly unsecured personal loans and credit cards, carries higher expected loss than BSF's historically dominant corporate book. We model cost of risk rising to 52 bps in 2026e, driven by (i) the increasing share of retail lending, and (ii) expectations of increase in credit stress across corporates driven by the regional conflict.

Chart 49: NPL ratio – trend



Source: Company financials, anbc research

Chart 50: Cost of risk (bps) - trend



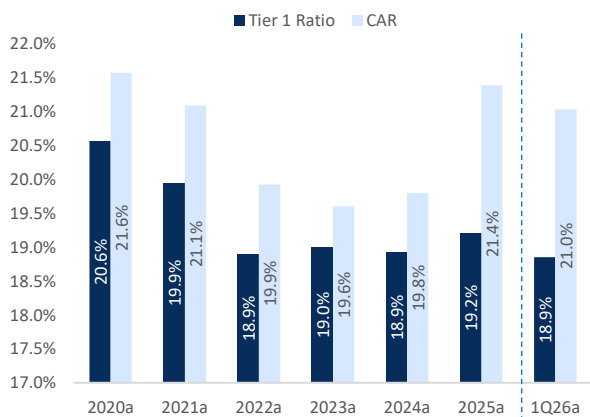
Source: Company financials, anbc research

### Strong capital adequacy provides strategic headroom

BSF's capital position stands out as one of the strongest in the Saudi banking sector. The bank's Tier 1 ratio stood at 18.9% in 1Q26, and its total CAR (Tier 1 + 2) arrived at 21.0%, one of the highest in the sector. The strategic implication of BSF's strong capital position is twofold. First, a CAR of 21.0% provides meaningful headroom above SAMA's minimum requirements, giving BSF flexibility to absorb the 100-bps countercyclical capital buffer without

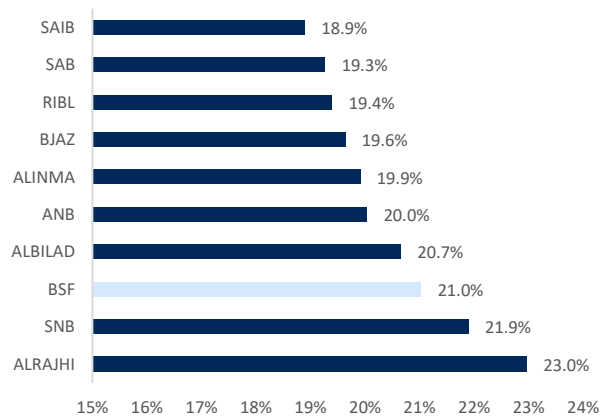
materially constraining loan growth. BSF's capital strength supports dividend sustainability and the bank's ability to execute its Strategy 2030 retail expansion without being capital constrained.

**Chart 51: Tier 1 and capital adequacy ratios - trend**



Source: Company financials, anbc research

**Chart 52: BSF's CAR among the highest - 1Q26a**



Source: Company financials, anbc research

## Valuation

We have an ‘Overweight’ stance on BSF, with sustainable RoAE of 13.5%, a payout ratio of 55.0%, and an implied long-term growth rate of 6.1%. Using a cost of equity of 11.6%, our valuation yields a justified P/B of 1.3x and a Dec-31f BVPS of SAR 23.8, resulting in a 2026e target price of SAR 23.5/share. This represents an upside potential of 21.1% from the current market price of SAR 19.4/share. At current levels, BSF trades at a 2026e P/E of 9.6x and a 2026e P/B of 1.1x.

### Valuation table:

SAR mn	2026e	2027f	2028f	2029f	2030f	2031f
Shareholders' Equity	44,561	47,022	49,735	52,761	56,120	59,576
Net Profit	5,063	5,468	6,030	6,724	7,464	7,680
RoAE	12%	12%	12%	13%	14%	13%
Payout Ratio	55%	55%	55%	55%	55%	55%
EPS	2.03	2.19	2.41	2.69	2.99	3.07
DPS	1.11	1.20	1.33	1.48	1.64	1.69
BVPS	17.8	18.8	19.9	21.1	22.4	23.8
<b>Discounted Value</b>						
DPS (discounted)	1.11	1.08	1.06	1.06	1.06	0.97
Sustainable RoAE	13.5%					
Payout Ratio	55.0%					
Implied Growth	6.1%					
Cost of Equity	11.6%					
<b>Justified P/B</b>	<b>1.3</b>					
<b>BVPS Dec-31</b>	<b>23.8</b>					
Discounted BVPS	18.3					
PV of Dividends	5.2					
<b>Target Price</b>	<b>23.5</b>					

### TP sensitivity:

Cost of equity	Growth rate					
	4.1%	5.1%	6.1%	7.1%	8.1%	
9.6%	31.0	33.2	36.8	43.1	57.5	
10.6%	26.0	27.1	28.7	31.2	35.7	
11.6%	22.3	22.8	23.5	24.5	26.1	
12.6%	19.5	19.7	19.9	20.2	20.7	
13.6%	17.3	17.3	17.3	17.3	17.2	

Source: anbc research

## Financial Summary

SAR mn								CAGR
Income Statement	2024a	2025a	2026e	2027f	2028f	2029f	2030f	2025-2030f
Interest Income	16,372	17,559	18,146	18,534	19,650	21,314	23,353	6%
Interest Expense	(8,489)	(8,867)	(8,998)	(8,641)	(9,038)	(9,623)	(10,495)	3%
<b>NSCI</b>	<b>7,883</b>	<b>8,692</b>	<b>9,148</b>	<b>9,892</b>	<b>10,613</b>	<b>11,691</b>	<b>12,858</b>	<b>8%</b>
Non-interest income	1,774	1,845	1,851	1,943	2,188	2,467	2,786	9%
<b>Operating Income</b>	<b>9,658</b>	<b>10,537</b>	<b>10,999</b>	<b>11,836</b>	<b>12,801</b>	<b>14,158</b>	<b>15,644</b>	<b>8%</b>
Operating expenses	(3,409)	(3,559)	(3,620)	(3,596)	(3,698)	(3,930)	(4,229)	4%
Provisions	(1,180)	(989)	(1,173)	(1,367)	(1,436)	(1,697)	(1,958)	15%
<b>Total Expenses</b>	<b>(4,588)</b>	<b>(4,548)</b>	<b>(4,793)</b>	<b>(4,963)</b>	<b>(5,133)</b>	<b>(5,627)</b>	<b>(6,187)</b>	<b>6%</b>
NPBT	5,069	5,989	6,205	6,873	7,668	8,531	9,456	10%
<b>Net Income*</b>	<b>4,261</b>	<b>4,886</b>	<b>5,063</b>	<b>5,468</b>	<b>6,030</b>	<b>6,724</b>	<b>7,464</b>	<b>9%</b>
Shares Outstanding (mn)	2,500	2,500	2,500	2,500	2,500	2,500	2,500	
EPS (SAR)	1.7	2.0	2.0	2.2	2.4	2.7	3.0	
DPS (SAR)	1.0	1.1	1.1	1.2	1.3	1.5	1.6	
								CAGR
<b>Balance Sheet</b>	<b>2024a</b>	<b>2025a</b>	<b>2026e</b>	<b>2027f</b>	<b>2028f</b>	<b>2029f</b>	<b>2030f</b>	<b>2025-2030f</b>
Cash and balances	10,921	10,931	11,558	12,600	13,683	12,275	13,343	4%
Due from other FI	5,016	3,817	4,036	4,400	3,556	3,884	4,221	2%
Investments, net	60,820	68,682	71,103	69,501	71,298	74,534	77,779	3%
Financing, net	204,168	214,891	228,867	253,876	279,021	305,758	334,511	9%
Other	12,382	10,685	11,589	12,877	11,841	13,258	14,818	7%
<b>Total Assets</b>	<b>293,307</b>	<b>309,006</b>	<b>327,153</b>	<b>353,254</b>	<b>379,399</b>	<b>409,709</b>	<b>444,672</b>	<b>8%</b>
Due to other FI	32,307	12,885	13,623	14,852	16,129	14,946	16,245	5%
Customers' deposits	185,118	195,219	206,408	225,029	244,369	266,886	290,089	8%
Other liabilities	28,744	50,243	53,122	53,414	53,728	58,679	63,781	5%
<b>Total Liabilities</b>	<b>246,169</b>	<b>258,346</b>	<b>273,154</b>	<b>293,295</b>	<b>314,226</b>	<b>340,511</b>	<b>370,115</b>	<b>7%</b>
<b>Total Equity**</b>	<b>47,138</b>	<b>50,659</b>	<b>53,999</b>	<b>59,959</b>	<b>65,173</b>	<b>69,198</b>	<b>74,557</b>	<b>8%</b>
<b>Total liabilities and equity</b>	<b>293,307</b>	<b>309,006</b>	<b>327,153</b>	<b>353,254</b>	<b>379,399</b>	<b>409,709</b>	<b>444,672</b>	<b>8%</b>

\*After Sukuk cost

\*\*Including Tier 1 Sukuk

Source: Company financials, anbc research

<b>Growth (YoY)</b>	<b>2024a</b>	<b>2025a</b>	<b>2026e</b>	<b>2027f</b>	<b>2028f</b>	<b>2029f</b>	<b>2030f</b>
NSCI	0.6%	10.3%	5.2%	8.1%	7.3%	10.2%	10.0%
Non-interest income	19.2%	4.0%	0.3%	5.0%	12.6%	12.8%	12.9%
Total operating income	3.6%	9.1%	4.4%	7.6%	8.2%	10.6%	10.5%
Net income	6.6%	14.7%	3.6%	8.0%	10.3%	11.5%	11.0%
Financing	13.8%	5.3%	6.5%	10.9%	9.9%	9.6%	9.4%
Deposits	7.5%	5.5%	5.7%	9.0%	8.6%	9.2%	8.7%
<b>Ratios</b>	<b>2024a</b>	<b>2025a</b>	<b>2026e</b>	<b>2027f</b>	<b>2028f</b>	<b>2029f</b>	<b>2030f</b>
NIM	3.14%	3.12%	3.09%	3.13%	3.11%	3.17%	3.21%
Operating cost to income	35.3%	33.8%	32.9%	30.4%	28.9%	27.8%	27.0%
Cost of risk (bps)	60.5	46.4	51.9	55.7	53.1	57.2	60.3
NPL coverage	181.7%	178.4%	170.8%	163.7%	144.7%	148.6%	152.4%
NPL ratio	0.9%	1.0%	1.0%	0.9%	0.9%	0.9%	0.9%
Simple LDR	110.3%	110.1%	110.9%	112.8%	114.2%	114.6%	115.3%
RoAA	1.6%	1.6%	1.6%	1.6%	1.6%	1.7%	1.7%
RoAE	11.3%	11.9%	11.6%	11.9%	12.5%	13.1%	13.7%
Assets to Equity (x)	7.5	7.2	7.3	7.5	7.6	7.8	7.9
<b>Valuation</b>	<b>2024a</b>	<b>2025a</b>	<b>2026e</b>	<b>2027f</b>	<b>2028f</b>	<b>2029f</b>	<b>2030f</b>
BVPS	15.7	17.1	17.8	18.8	19.9	21.1	22.4
P/B (x)	1.2	1.1	1.1	1.0	1.0	0.9	0.9
P/E (x)	11.4	9.9	9.6	8.9	8.1	7.2	6.5
Dividend yield	5.0%	5.5%	5.7%	6.2%	6.8%	7.6%	8.5%

Source: Company financials, anbc research

3 June 2026

## Saudi Investment Bank

We initiate coverage on Saudi Investment Bank (SAIB) with an 'Overweight' rating, with a 2026e target price of SAR 15.7/share, providing an upside of 15.5% from current levels. Our investment thesis is supported by the bank's strong loan growth momentum (5-year CAGR of 15.3% during 2020-2025), improving asset quality, and a gradually improving non-interest income base. SAIB has consistently outperformed the sector on credit growth in recent years, driven by its corporate-focused franchise. While elevated funding costs (4.4% vs sector's 3.7% during 2025) and CASA erosion are expected to weigh on margins in the current interest rate environment, the bank's largely fixed rate investment portfolio, improving credit metrics, and expanding fee-based income provide partial offsets.

**Loan growth momentum to support earnings.** SAIB has delivered one of the strongest lending performances in the Saudi banking sector in recent years, with a 5-year loan CAGR of 15.3% vs sector CAGR of 13.1%, driven primarily by its corporate-focused loan book (gross corporate loans have grown at a 5-year CAGR of 17.5%). The bank's participation in financing infrastructure and development projects continues to support robust credit expansion, positioning SAIB as a key beneficiary of sustained corporate credit demand. While this wholesale-heavy loan mix structurally exposes the bank to faster asset repricing once the easing cycle resumes in 2027f, elevated SAIBOR-SOFR spreads are expected to partially cushion the impact by slowing transmission of lower rates into asset yields.

**Above average asset yields.** The bank's asset yields have consistently remained above the sector average. During 2025, asset yields were recorded at 6.41%, above the sector average of 6.08%. Additionally, the fixed rate investment portfolio provides a secondary layer of yield support. With 96.1% of the investment book allocated to fixed rate securities as of 2025, the bank has effectively locked in yields ahead of any future easing cycle (now expected in 2027f). As corporate loan book gradually reprices downward once rates begin to decline, the fixed investment portfolio is expected to act as a partial hedge, helping moderate the pace of asset yield compression and supporting overall margin resilience.

**Improved asset quality to support growth.** The bank's asset quality remains a key strength. SAIB has demonstrated sustained improvement in credit metrics, with NPL ratios declining to 0.9% in 2025, in line with sector averages, and cost of risk remaining healthy at 33 bps broadly in line with sector's 30 bps during 2025. Strong provisioning coverage of 184.1% as of Dec-25, and increasing to 194.1% in 1Q26, further enhanced balance sheet resilience, supporting earnings stability even as loan growth remains elevated.

**Margins are expected to remain under pressure.** On the margin front, SAIB faces structural pressure from its funding profile. Significant CASA migration, with CASA ratio of 28.6% in 2025, vs sector's 57.7%, has resulted in elevated reliance on time deposits, leading to cost of funds significantly high at 4.42%, exceeding sector average of 3.67%. Sticky funding costs are expected to weigh on NIM over the near to medium term. We forecast NIM to compress further to 2.27% in 2026e, though meaningful upside exists if SAIB can accelerate CASA recovery leading to lower funding pressures.

**Valuation:** We have an 'Overweight' stance on SAIB, with a 2026e target price of SAR 15.7/share, implying an upside of 15.5% from current levels. Based on our assumptions of sustainable RoAE of 10.8%, a payout ratio of 55.0%, and long-term growth of 4.9%, we derive a justified P/B of 1.1x. At current valuations, SAIB trades at a discount to its intrinsic value despite its balanced growth profile and improving fundamentals.

**Risk:** If time deposit rates remain elevated, CASA recovery will lag, leading to further pressure on cost of funds. Furthermore, constraints on lending growth could temper balance sheet expansion, potentially weighing on earnings momentum.

### RATING SUMMARY

Target Price (SAR)	15.7
Upside/Downside (%)	15.5
Div. Yield (%)	5.1
Total Exp. Return (%)	20.6

Source: Company financials, anbc research

### ISSUER INFORMATION

Bloomberg Code	SIBC AB
Last Price (SAR)	13.6
No of Shares (mn)	1,250
Market Cap bn (SAR/USD)	17.0/4.5
52-week High / Low (SAR)	14.8/12.3
12-month ADTV (mn) (SAR/USD)	7.2/1.9
Free Float (%)	69.8
Foreign Holdings (%)	10.7

Close of 2<sup>nd</sup> Jun, 2026

### VALUATIONS

	2025	2026e	2027f	2028f
EPS (SAR)	1.7	1.4	1.4	1.5
PER (x)	8.1	9.8	9.6	9.2
PBV (x)	1.0	0.9	0.9	0.8
DPS (SAR)	0.7	0.7	0.8	0.8
Div. Yield (%)	5.1	5.1	5.7	6.0
RoAE (%)	12.7	9.8	9.5	9.4
RoAA (%)	1.3	1.0	0.9	0.9

Source: Company financials, anbc research

### FINANCIALS (SAR bn)

	2025	2026e	2027f	2028f
Oper. Income	4.8	4.5	4.7	5.0
Provisions	0.4	0.4	0.4	0.5
Net Income*	2.1	1.7	1.8	1.9
Investments	47.2	50.9	53.2	55.5
Loans	112.1	120.5	134.5	148.7
Deposits	109.6	117.3	129.4	141.1
NIM (%)	2.3	2.3	2.2	2.1

\*After Sukuk cost

Source: Company financials, anbc research

### RELATIVE PRICE PERFORMANCE



Source: Bloomberg, anbc research

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## Investment Thesis

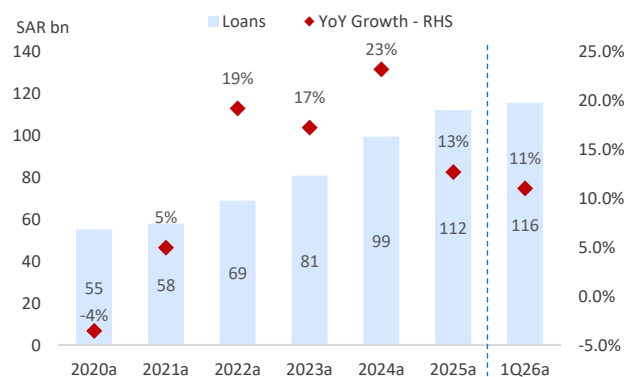
### Loan growth outpacing sector average in recent periods

SAIB's loan book reached SAR 112.1 bn in 2025, expanding at a 5-year CAGR of 15.3% versus the sector CAGR of 13.1% over the same period. Over the longer horizon (2015-2025), the bank's loan CAGR of 6.4% trailed the sector's 9.1%, reflecting a period of balance sheet consolidation that has since given way to accelerating growth. The 3-year loan CAGR of 19.8% (2022-2025), against the sector's 12.8%, confirms that loan growth has picked up pace in recent years.

The corporate portfolio is the key driver of this growth. Gross commercial loans expanded at a 5-year CAGR of 17.5% to SAR 101.9 bn in 2025, representing 89.4% of total gross loans, the highest commercial loans concentration among listed Saudi banks. The retail portfolio, by contrast, grew modestly at a 5-year CAGR of 1.3% to SAR 12.1 bn in 2025, reflecting SAIB's deliberate strategic positioning as a wholesale-focused franchise.

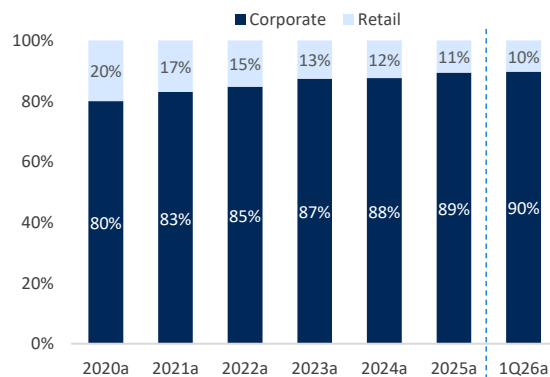
During 1Q26, the bank's loan book expanded to SAR 115.6 bn, up 11.0% YoY, against a sector average growth of 8.2% YoY during the quarter. SAIB's lending growth has been supported by its active involvement in financing large-scale infrastructure and development projects, complemented by robust demand from the building & construction, utilities, and services sectors. As of 1Q26, 89.7% of SAIB's gross loan portfolio comprised of corporate loans (SAR 105.6 bn). Continued momentum in Vision 2030-related investments is expected to provide sustained support to SAIB's loan growth trajectory.

Chart 53: Loan book - trend



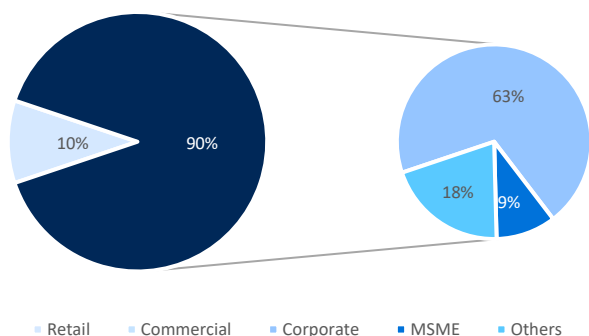
Source: Company financials, anbc research

Chart 54: Gross loan book mix



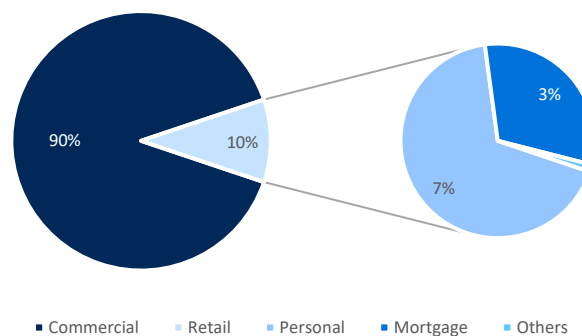
Source: Company financials, anbc research

Chart 55: Commercial loan portfolio - 1Q26a



Source: Company financials, anbc research

Chart 56: Retail loan portfolio - 1Q26a



Source: Company financials, anbc research

Looking ahead, we expect SAIB’s loan growth to continue being supported by corporate lending, though momentum is expected to moderate over the medium-term, amid tightening system wide liquidity conditions and evolving regulatory constraints. The 100-bps countercyclical buffer by SAMA has increased capital requirements, prompting banks to adopt a more measured approach to balance sheet growth.

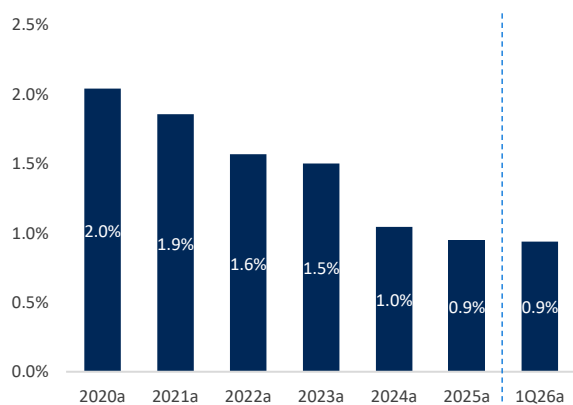
Against this backdrop, we forecast loan growth of 7.5% YoY in 2026e, as preserving asset yields through selected loan growth is expected to take precedence over volume-led expansion. We expect management to prioritize risk-adjusted returns and liquidity preservation, to account for SAMA’s regulatory buffer, implying a shift toward selective lending and pricing discipline rather than aggressive balance sheet growth.

### Asset quality: sector-average NPLs despite rapid corporate growth

Despite having one of the fastest corporate loan growth rates in the sector in recent periods, SAIB has maintained strong credit discipline. The NPL ratio declined from 2.0% in 2020 to 0.9% in 2025, below the sector’s NPL ratio of 1.0%. This trend underscores a sustained improvement in credit performance across the loan book, despite the backdrop of strong loan growth.

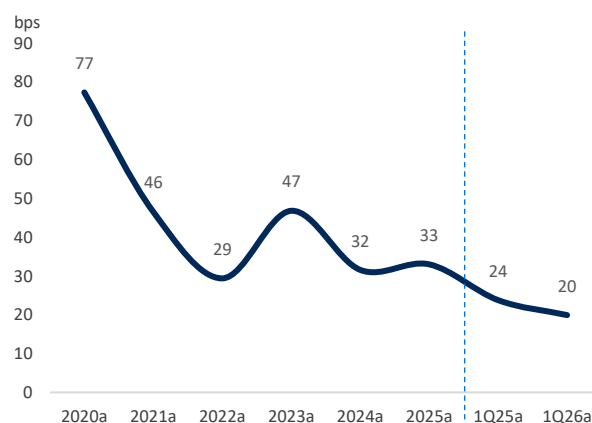
Provisioning levels remain adequate, with NPL coverage standing at 184.1% as of Dec-25, and up further to 194.1% in 1Q26, providing a meaningful buffer against future credit deterioration. Consistent with the improvement in asset quality, cost of risk has declined meaningfully, falling from 47 bps in 2023 to 33 bps in 2025. Overall, the sustained decline in both NPLs and credit costs supports earnings stability and positions the bank favorably as it continues to expand its loan portfolio in a more measured manner. For 1Q26, NPL ratio remained stable at 0.9%, with cost of risk of 20 bps, down from 24 bps in the same period of last year.

Chart 57: NPL ratio



Source: Company financials, anbc research

Chart 58: Cost of risk



Source: Company financials, anbc research

### Investment book tilted towards fixed rate portfolio

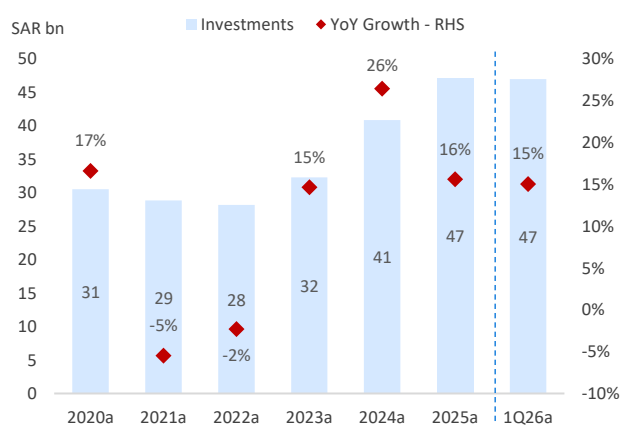
SAIB’s investment book has exhibited steady expansion over recent years, increasing from SAR 30.5 bn in 2020 to SAR 47.2 bn in 2025, representing a 2020-2025 CAGR of 9.1%. While growth has lagged the sector CAGR of 14.0% over the same period, this trajectory reflects the bank’s gradual scaling of its investment activities alongside balance sheet growth. In recent periods, investments expansion has picked up pace, with the portfolio expanding at a CAGR of 17.0% between 2022-1Q26 to SAR 46.9 bn, against the sector growth of 11.0% over the same period.

The investment book represents 28.5% of total earning assets as of 1Q26, above the sector average of 23.2%, and SAIB's investment to deposit ratio (IDR) of 38.2% exceeds the sector’s IDR of 32.4%, reflecting the portfolio’s

significance to the earnings profile. This elevated allocation provides a predictable, stable income stream that complements the more volatile repricing profile of the corporate loan portfolio.

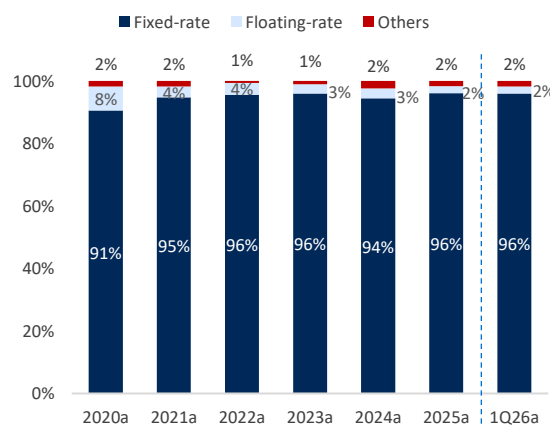
The composition of the investment book has shifted meaningfully in recent years, with a tilt toward fixed rate instruments. The share of fixed rate investments rose from 90.5% of total investments in 2020 to 96.0% in 1Q26. In contrast, the proportion of floating rate securities has steadily declined, falling from 7.7% in 2020 to 2.2% in 1Q26. This evolution highlights a deliberate shift toward yield stability and reduced exposure to short-term rate volatility.

**Chart 59: Investment book - trend**



Source: Company financials, anbc research

**Chart 60: Investments composition**



Source: Company financials, anbc research

The elevated allocation to fixed rate securities is expected to provide a degree of insulation once interest rate easing resumes, as yields on these assets are locked in at higher levels for longer durations. This positioning should help moderate the pace of asset yield compression and support earnings stability.

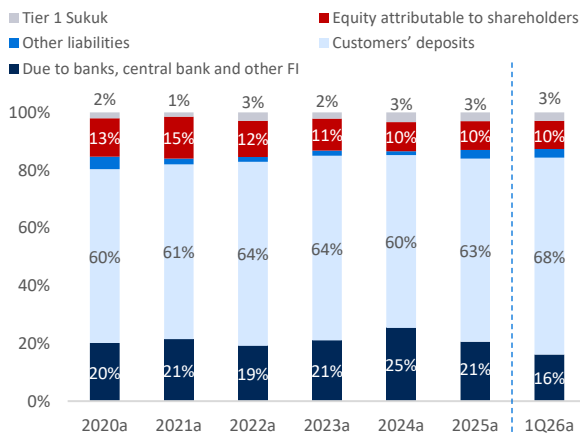
### Deposits growth has caught up in recent quarters

On the funding side, deposits constitute the primary source of financing for the bank, accounting for 63.5% of total capital as of Dec-25. After a sharp 12.9% YoY contraction in deposits in 2020 and below sector average growth over the subsequent medium term (5-year CAGR of 6.4% between 2019-2024 versus sector’s 8.4%), SAIB’s deposit trajectory reversed sharply in 2025. Deposits grew 16.6% YoY to SAR 109.6 bn, nearly double the industry growth rate of 8.7%, reducing the headline LDR from 105.8% in 2024 to 102.2% in 2025. This places the bank comfortably below the sector LDR of 112.7% at end-2025.

The trend continued in 1Q26 with SAIB reporting a 20.9% YoY deposit growth to SAR 122.9 bn, against the sector’s deposit growth of 8.8%. The stronger deposit accretion has translated into a meaningful improvement in liquidity metrics, with headline LDR declining by 839 bps YoY to 94.0% in 1Q26, compared to the sector’s headline LDR of 110.0%.

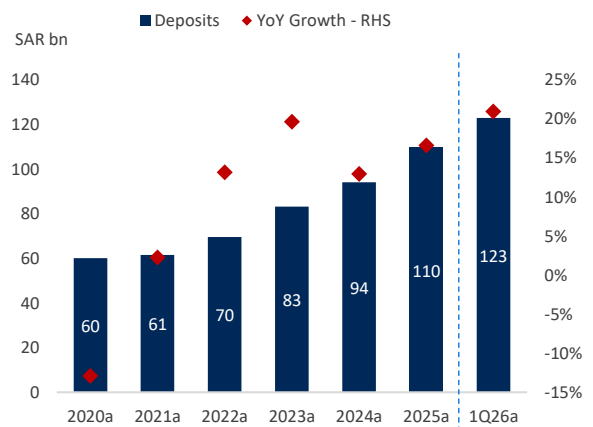
SAIB has also diversified its funding base through access to alternative instruments, including a USD 750 mn AT1 Sukuk issued in Nov-24 and a USD 750 mn Asian Syndicated Loan completed in Sep-25. During 2Q26, the bank also completed SAR 1.85 bn Tier 1 Sukuk issuance under its SAR 5 bn program. These issuances enhance the bank’s funding flexibility and support balance sheet growth amid tightening liquidity conditions in the domestic market.

**Chart 61: Funding mix - trend**



Source: Company financials, anbc research

**Chart 62: Deposits - trend**

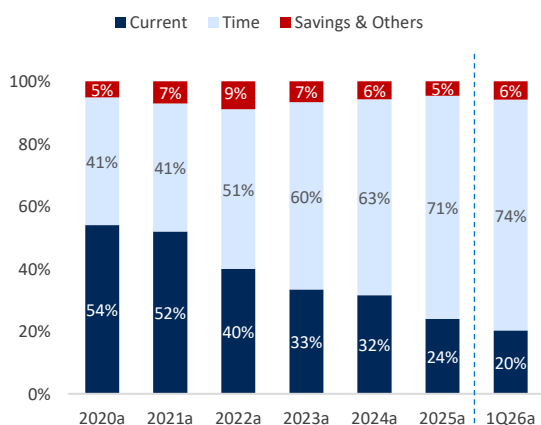


Source: Company financials, anbc research

The structural challenge within the deposit base is the decline of the CASA ratio from 59.2% in 2020 to 26.1% in 1Q26, the lowest level among Saudi banking peers. Time deposits now constitute 73.9% of total deposits. This shift was driven by the elevated interest rate environment of 2022-2024, during which customers migrated from zero or low-cost current and savings accounts to higher-yielding time deposits. The result is a structurally elevated cost of funds that has consistently exceeded sector averages (SAIB CoF: 4.07% in 1Q26 versus sector 3.40%), neutralizing the bank's asset yield advantage.

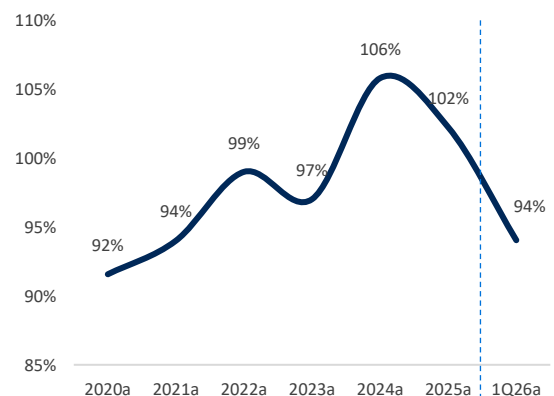
The prevailing sticky rate environment is likely to delay a meaningful recovery in CASA mix. Elevated deposit rates continue to incentivize customers to allocate funds toward higher yielding time deposits rather than demand deposits. However, as rates gradually normalize over the medium to long term, this pressure is expected to ease. Accordingly, we expect the eventual moderation in rates to gradually support CASA recovery over the medium term.

**Chart 63: Deposits mix skewed towards time deposits**



Source: Company financials, anbc research

**Chart 64: Headline LDR- 820 bps YTD decline in 1Q26a**



Source: Company financials, anbc research

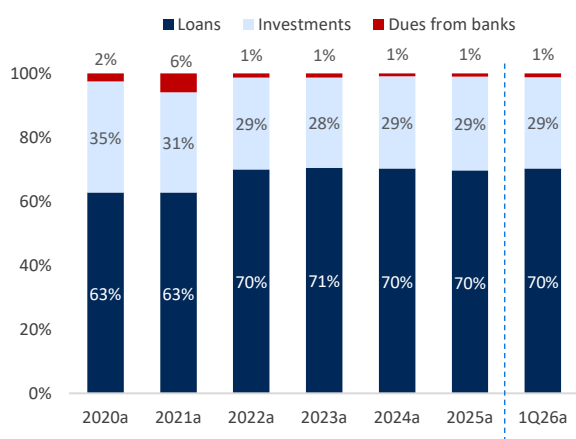
**Highest asset yields in the sector: a key positive**

One of SAIB's most competitive characteristics is its asset yield profile. In 2024, the bank recorded asset yields of 6.92% against the sector average of 6.22%, a 70 bps premium. In 2025, the bank retained its sector-leading position at 6.41% despite a 51 bps YoY decline as interest rates eased. Additionally, the fixed rate investment portfolio,

comprising 96.1% of a SAR 47.2 bn investment book as of 2025, provides a secondary layer of yield support by locking in returns at current elevated levels for longer durations.

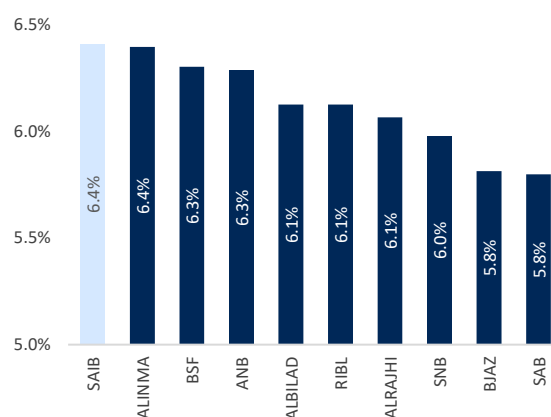
The key risk to asset yields is repricing frequency. With 56.9% of the loan portfolio maturing within one year, as of Dec-25, asset yields are sensitive to SAIBOR movements, and the predominantly floating-rate nature of corporate lending means the book will reprice downward as interest rates decline in 2027f. However, we expect this repricing to be more gradual than in prior low-rate cycles due to elevated SAIBOR-SOFR spreads and recent expectations of the FED stance to be more stable, with no rate cuts expected in 2026e.

Chart 65: Interest-earning assets - trend



Source: Company financials, anbc research

Chart 66: SAIB's asset yield is highest in the sector - 2025a



Source: Company financials, anbc research

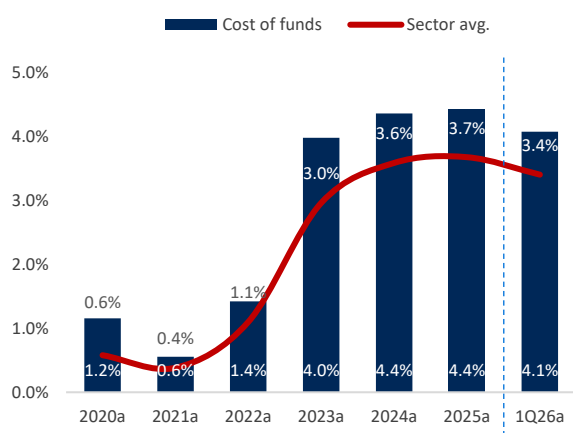
### NIM: the gap between asset yield leadership and margin performance

Despite leading the sector on asset yields, SAIB's NIM of 2.33% in 2025 was 69 bps below the sector average of 3.02%. The reason lies in SAIB's elevated cost of funds of 4.42% in 2025, which exceeded the sector average of 3.67% by 74 bps. The high cost of funds comes as a direct consequence of the CASA erosion experienced by the bank, with CASA ratio declining sharply from 59.2% in 2020 to 28.6% in 2025. During 1Q26, asset yields declined to 5.94%, while cost of funds pressure eased to 4.07%, leading to an improvement in spread to 1.87%, from 1.79% in 4Q25.

The bank's relatively strong asset yield profile implies meaningful improvement to NIM can be achieved if the bank is able to lower its funding pressures. If SAIB succeeds in rebalancing its deposit mix toward lower-cost CASA and improving funding efficiency, it could unlock substantial upside to margins.

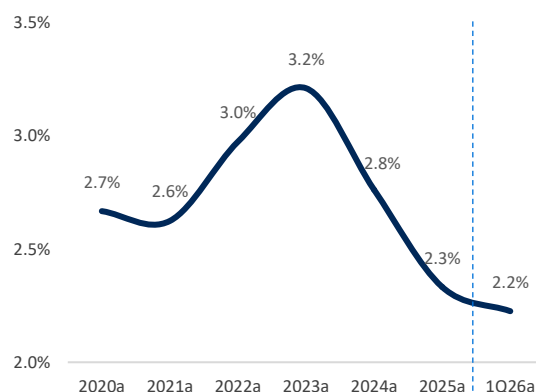
Looking ahead, the bank's ability to sustain improvements in its funding mix will remain a key driver of margin resilience. While an eventual easing cycle is expected to place downward pressure on asset yields, continued strength in low-cost deposit growth could help cushion the impact. Elevated SAIBOR-SOFR spreads are also expected to slow the pace of asset repricing, providing additional near term support to yields. Although funding costs are likely to remain relatively sticky given the bank's liability profile and the protracted rate easing cycle, maintaining the current momentum in deposit mix optimization could help limit downside risks. Accordingly, we expect NIM to moderate to 2.27% in 2026e.

Chart 67: Cost of funds - trend



Source: Company financials, anbc research

Chart 68: Net interest margins - trend



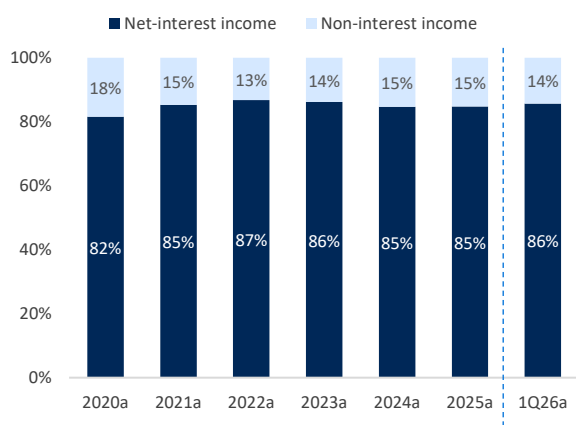
Source: Company financials, anbc research

Limited non-interest income contribution constrains revenue diversification

SAIB's non-interest income grew from SAR 524.5 mn in 2020 to SAR 731.4 mn in 2025, excluding one-off gains, representing a CAGR of 6.9%. This is below the sector average CAGR of 13.7% over the same period. Non-interest income as a share of total operating income was 15.3% in 2025 versus the sector average of 23.9%, an 863 bps gap. However, non-interest income contribution to total income has recovered from a low of 13.2% in 2022 to 15.3% in 2025. The uptick has been driven by growth in fee and commission income at a CAGR 8.2% between 2022-25 and a 9.4% CAGR for exchange income during the period. As interest rate uncertainty increasingly weighs on net interest income, accelerating the growth of fee-based revenues will become more important in supporting overall income stability. In this context, SAIB is likely to benefit from placing greater emphasis on improving cross-selling and overall non-interest income growth.

During 1Q26, SAIB's non-interest income declined 5.1% YoY to SAR 151.5 mn, reflecting the broader trend across the sector, which reported a 3.3% YoY decline during the quarter. We model non-interest income growing at a CAGR of approximately 6.4% over 2025-2030f (excluding one-off gain in 2025). We note the new SAMA regulations reducing certain fee categories act as a headwind, and we reflect a degree of caution in our estimates.

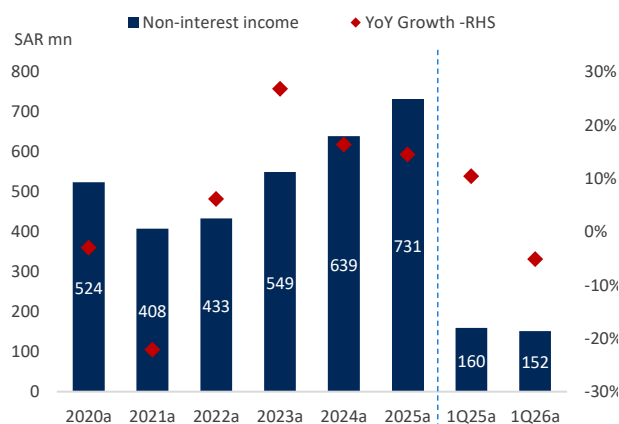
Chart 69: Operating income composition\*



Source: Company financials, anbc research

\*excludes one-off gain during 2025

Chart 70: Non-interest income\*



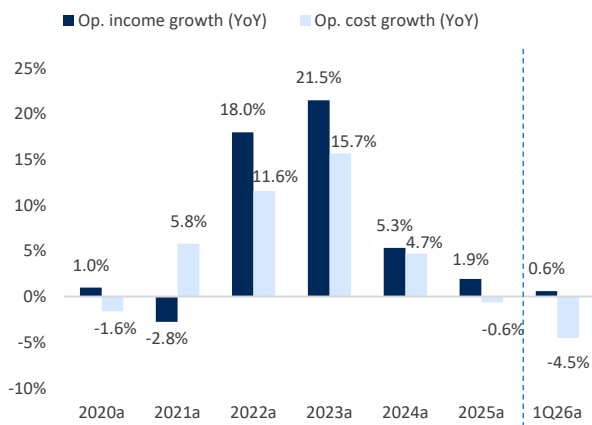
Source: Company financials, anbc research

### Positive operating jaws

SAIB's cost-to-income ratio (excluding one-off) of 40.5% in 2025 stood at a significantly higher rate than the sector average of 29.0%, reflecting a 1,145 bps gap. However, the bank's operating costs increased at a CAGR of 7.3% between 2020 and 2025, to SAR 1,723.5 mn. Over the same period, operating income expanded at a faster pace, recording a 2020-2025 CAGR of 11.0%. This divergence indicates improving cost discipline and operating leverage, with revenue growth outpacing the increase in expenses. As a result, the bank has been able to gradually enhance its cost efficiency, reflected in an improving cost to income ratio, down from the peak of 46.1% in 2021.

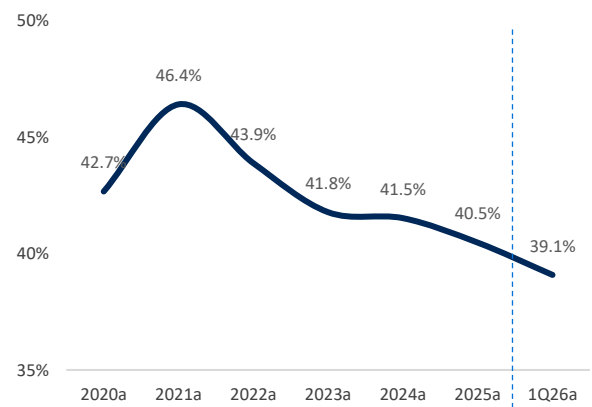
Looking ahead, the bank will have to continue its focus on cost discipline. With a major portion of SAIB's strategy-related investments now completed, the bank has transitioned into a phase of active cost optimization. This is expected to improve efficiency, resulting in a structurally stronger cost base and positioning the bank to narrow the gap with sector-average efficiency levels. Reflecting this, during 1Q26, operating costs reported a 4.5% YoY decline to SAR 412.9 mn. Resultantly, cost to income ratio for the quarter declined to 39.1%, against the sector's CIR of 30.1%. Going forward, a combination of sustained revenue momentum, ongoing cost rationalization, and further operational efficiency gains should continue to reinforce profitability and support a more competitive cost profile over the medium term. We expect a gradual decline in CIR to 35.9% by 2030f.

Chart 71: Positive operating jaws\*



Source: Company financials, anbc research  
\*excludes one-off gain during 2025

Chart 72: Cost to income ratio\*



Source: Company financials, anbc research

## Valuation

We have an ‘Overweight’ stance on SAIB, with sustainable RoAE of 10.8%, a payout ratio of 55.0%, and an implied long-term growth rate of 4.9%. Using a cost of equity of 10.3%, our valuation yields a justified P/B of 1.1x and a Dec-31f BVPS of SAR 18.6, resulting in a 2026e target price of SAR 15.7/share. This represents an upside potential of 15.5% from the current market price of SAR 13.6/share. At current levels, SAIB trades at a 2026e P/E of 9.8x and a 2026e P/B of 0.9x.

### Valuation table:

SAR mn	2026e	2027f	2028f	2029f	2030f	2031f
Shareholders' Equity	18,339	19,223	20,068	21,001	22,103	23,310
Net Profit	1,744	1,776	1,850	1,988	2,248	2,532
RoAE	10%	9%	9%	10%	10%	11%
Payout Ratio	50%	55%	55%	55%	55%	55%
EPS	1.40	1.42	1.48	1.59	1.80	2.03
DPS	0.70	0.78	0.81	0.87	0.99	1.11
BVPS	14.7	15.4	16.1	16.8	17.7	18.6
<b>Discounted Value</b>						
DPS (discounted)	0.70	0.71	0.67	0.65	0.67	0.68
Sustainable RoAE	10.8%					
Payout Ratio	55.0%					
Implied Growth	4.9%					
Cost of Equity	10.3%					
<b>Justified P/B</b>	<b>1.1</b>					
<b>BVPS Dec-31</b>	<b>18.6</b>					
Discounted BVPS	12.3					
PV of Dividends	3.4					
<b>Target Price</b>	<b>15.7</b>					

### TP Sensitivity:

Cost of equity	Growth rate					
	2.9%	3.9%	4.9%	5.9%	6.9%	
8.3%	21.6	22.9	24.9	28.4	36.7	
9.3%	18.1	18.6	19.3	20.4	22.4	
10.3%	15.5	15.6	15.7	15.9	16.3	
11.3%	13.5	13.4	13.3	13.1	12.9	
12.3%	11.9	11.7	11.5	11.1	10.7	

Source: anbc research

## Financial Summary

SAR mn								CAGR
Income Statement	2024a	2025a	2026e	2027f	2028f	2029f	2030f	2025-2030f
Interest Income	8,864	9,692	9,905	10,077	10,646	11,392	12,478	5%
Interest Expense	(5,327)	(6,164)	(6,114)	(6,154)	(6,469)	(6,903)	(7,545)	4%
<b>NSCI</b>	<b>3,537</b>	<b>3,528</b>	<b>3,791</b>	<b>3,923</b>	<b>4,177</b>	<b>4,489</b>	<b>4,933</b>	<b>7%</b>
Non-interest income***	641	1,266	756	810	868	914	961	-5%
<b>Operating Income</b>	<b>4,178</b>	<b>4,794</b>	<b>4,547</b>	<b>4,733</b>	<b>5,045</b>	<b>5,403</b>	<b>5,894</b>	<b>4%</b>
Operating expenses	(1,735)	(1,723)	(1,796)	(1,840)	(1,911)	(1,980)	(2,115)	4%
Provisions	(290)	(355)	(423)	(447)	(479)	(495)	(511)	8%
<b>Total Expenses</b>	<b>(2,024)</b>	<b>(2,078)</b>	<b>(2,220)</b>	<b>(2,287)</b>	<b>(2,390)</b>	<b>(2,474)</b>	<b>(2,625)</b>	<b>5%</b>
NPBT	2,270	2,841	2,436	2,562	2,780	3,062	3,415	4%
<b>Net Income*</b>	<b>1,787</b>	<b>2,097</b>	<b>1,744</b>	<b>1,776</b>	<b>1,850</b>	<b>1,988</b>	<b>2,248</b>	<b>1%</b>
Shares Outstanding (mn)	1,250	1,250	1,250	1,250	1,250	1,250	1,250	
EPS (SAR)	1.4	1.7	1.4	1.4	1.5	1.6	1.8	
DPS (SAR)	0.8	0.7	0.7	0.8	0.8	0.9	1.0	
								CAGR
<b>Balance Sheet</b>	<b>2024a</b>	<b>2025a</b>	<b>2026e</b>	<b>2027f</b>	<b>2028f</b>	<b>2029f</b>	<b>2030f</b>	<b>2025-2030f</b>
Cash and balances	9,919	6,131	6,562	7,239	7,889	8,563	9,351	9%
Due from other FI	1,314	1,621	1,735	1,914	2,086	2,264	2,472	9%
Investments, net	40,834	47,197	50,926	53,174	55,527	58,802	62,540	6%
Financing, net	99,466	112,070	120,480	134,534	148,658	163,233	178,571	10%
Other	5,536	5,702	6,126	6,717	7,312	7,938	8,652	9%
<b>Total Assets</b>	<b>157,069</b>	<b>172,720</b>	<b>185,830</b>	<b>203,577</b>	<b>221,473</b>	<b>240,801</b>	<b>261,585</b>	<b>9%</b>
Due to other FI	39,901	35,559	38,064	40,691	44,350	48,135	52,564	8%
Customers' deposits	94,013	109,619	117,340	129,430	141,068	153,108	167,195	9%
Other liabilities	2,024	5,109	6,274	6,920	6,674	7,244	7,910	9%
<b>Total Liabilities</b>	<b>135,938</b>	<b>150,287</b>	<b>161,678</b>	<b>177,042</b>	<b>192,093</b>	<b>208,487</b>	<b>227,670</b>	<b>9%</b>
<b>Total Equity**</b>	<b>21,131</b>	<b>22,433</b>	<b>24,152</b>	<b>26,535</b>	<b>29,381</b>	<b>32,314</b>	<b>33,915</b>	<b>9%</b>
<b>Total liabilities and equity</b>	<b>157,069</b>	<b>172,720</b>	<b>185,830</b>	<b>203,577</b>	<b>221,473</b>	<b>240,801</b>	<b>261,585</b>	<b>9%</b>

\*After Sukuk cost

\*\*Including Tier 1 Sukuk

\*\*\*Includes one-off gain during 2025

Source: Company financials, anbc research

<b>Growth (YoY)</b>	<b>2024a</b>	<b>2025a</b>	<b>2026e</b>	<b>2027f</b>	<b>2028f</b>	<b>2029f</b>	<b>2030f</b>
NSCI	3.5%	-0.3%	7.5%	3.5%	6.5%	7.5%	9.9%
Non-interest income	16.7%	97.5%	-40.3%	7.2%	7.2%	5.3%	5.1%
Total operating income	5.3%	14.7%	-5.2%	4.1%	6.6%	7.1%	9.1%
Net income	12.1%	17.3%	-16.8%	1.8%	4.2%	7.5%	13.1%
Financing	23.2%	12.7%	7.5%	11.7%	10.5%	9.8%	9.4%
Deposits	13.0%	16.6%	7.0%	10.3%	9.0%	8.5%	9.2%
<b>Ratios</b>	<b>2024a</b>	<b>2025a</b>	<b>2026e</b>	<b>2027f</b>	<b>2028f</b>	<b>2029f</b>	<b>2030f</b>
NIM	2.76%	2.33%	2.27%	2.16%	2.11%	2.09%	2.11%
Operating cost to income	41.5%	40.5%	39.5%	38.9%	37.9%	36.6%	35.9%
Cost of risk (bps)	31.6	33.0	35.8	34.4	33.3	31.2	29.3
NPL coverage	156.7%	184.1%	184.8%	177.1%	180.7%	194.7%	207.2%
NPL ratio	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Simple LDR	105.8%	102.2%	102.7%	103.9%	105.4%	106.6%	106.8%
RoAA	1.2%	1.3%	1.0%	0.9%	0.9%	0.9%	0.9%
RoAE	11.8%	12.7%	9.8%	9.5%	9.4%	9.7%	10.4%
Assets to Equity (x)	9.9	10.1	10.1	10.6	11.0	11.5	11.8
<b>Valuation</b>	<b>2024a</b>	<b>2025a</b>	<b>2026e</b>	<b>2027f</b>	<b>2028f</b>	<b>2029f</b>	<b>2030f</b>
BVPS	12.7	13.7	14.7	15.4	16.1	16.8	17.7
P/B (x)	1.1	1.0	0.9	0.9	0.8	0.8	0.8
P/E (x)	9.5	8.1	9.8	9.6	9.2	8.6	7.6
Dividend yield	5.6%	5.1%	5.1%	5.7%	6.0%	6.4%	7.3%

Source: Company financials, anbc research

3 June 2026

## Bank AlJazira

We initiate coverage on Bank AlJazira (BJAZ) with a Neutral stance, with a 2026e target price of SAR 12.2/share, reflecting an upside of 6.9% from current levels. The bank benefits from solid corporate-led financing growth (5-year net loan CAGR of 15.5%), ample liquidity headroom (LDR of 96.1% as of Dec-25), and a diversified earnings profile. These positives are balanced by ongoing margin pressure, a weak deposit mix, and a cost to income ratio of 52.4% for 2025, which remains the highest in the sector.

**Strong loan growth, led by corporate portfolio.** BJAZ has delivered healthy loan growth in line with, and recently above, sector trends, supported by strong demand for corporate financing. The financing portfolio expanded at a 5-year CAGR of 15.5% (2020-2025), outperforming sector CAGR of 13.1% over the same period. Growth has been predominantly corporate driven, with the corporate book expanding at a 5-year CAGR of 20.7%. While this reinforces BJAZ's positioning within the corporate segment, it also increases exposure to pricing competition and downward repricing risk once the easing cycle resumes, given the relatively higher sensitivity of corporate loans to benchmark rates.

**Liquidity remains a key strength.** The bank's liquidity position remains a key strength, with LDR levels consistently below sector averages. As of 1Q26, the bank's headline LDR stood at 92.2%, the lowest in the sector (sector LDR: 110.0%), providing flexibility to support incremental loan growth. However, this advantage is increasingly constrained by a deteriorating funding mix, as the CASA ratio declined to 41.3% in 1Q26 from 58.0% in 2020, raising reliance on higher-cost time deposits and exerting sustained pressure on funding costs.

**Margin outlook remains challenged.** Asset yields continue to trail sector averages despite a corporate-heavy book, reflecting competitive pricing and the bank's focus on volumetric loan growth. For 2025, BJAZ recorded an asset yield of 5.81%, 27 bps lower than the sector's yield of 6.08%. Notably, the bank's shift to fixed rate investments (82.0% of the portfolio as of Dec-25) offers some protection against yield compression but is unlikely to fully offset pressure on yields. Additionally, cost of funds has historically remained materially above sector average (4.13% in 2025 vs sector's 3.67% in 2025), reflecting increasing reliance of time deposits. This has led to BJAZ's NIM trailing sector averages. During 2025, NIM arrived at 2.03%, 99 bps below the sector's margins of 3.02%.

**High contribution from non-interest income.** BJAZ's contribution from non-interest income to total operating income remains one of the highest in the sector. Non-interest income accounted for 32.8% of operating income in 2025, well above the sector's average contribution of 23.9%, supporting earnings diversification. While the bank's 5-year non-interest income growth CAGR of 10.3% lags the sector's 13.7% growth, the bank has recently witnessed an improvement in non-interest income growth driven by recovery in fee and exchange-related income. Notably, during 2025, BJAZ reported a 27.9% YoY increase in non-interest income, compared to the sector's 19.4% YoY growth.

**Valuation:** We issue a 'Neutral' stance on Bank AlJazira, based on 2026e target price of SAR 12.2/share. Based on our assumptions of sustainable RoAE of 11.1%, a payout ratio of 50.0%, and implied growth of 5.5%, we derive a justified P/B of 1.0x. At current valuations, we find BJAZ to be fairly valued, with an upside of 6.9% from the current price of SAR 11.5/share.

**Risk:** A softening in corporate credit demand could temper BJAZ's above-sector loan growth. Additionally, the bank continues to operate with the highest cost-to-income ratio in the sector.

RATING SUMMARY	NEUTRAL
Target Price (SAR)	12.2
Upside/Downside (%)	6.9
Div. Yield (%)	4.4
Total Exp. Return (%)	11.3

Source: Company financials, anbc research

ISSUER INFORMATION	
Bloomberg Code	BJAZ AB
Last Price (SAR)	11.5
No of Shares (mn)	1,281
Market Cap bn (SAR/USD)	14.7/3.9
52-week High / Low (SAR)	13.3/10.8
12-month ADTV (mn) (SAR/USD)	38.6/10.3
Free Float (%)	88.8
Foreign Holdings (%)	12.4

Close of 2<sup>nd</sup> Jun, 2026

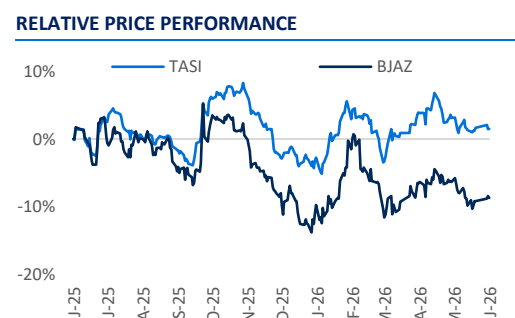
VALUATIONS	2025	2026e	2027f	2028f
EPS (SAR)	1.0	1.0	1.2	1.4
PER (x)	11.5	11.3	9.6	8.5
PBV (x)	1.0	0.9	0.9	0.9
DPS (SAR)	0.5	0.5	0.6	0.7
Div. Yield (%)	4.3	4.4	5.2	5.9
RoAE (%)	8.9	8.5	9.6	10.3
RoAA (%)	0.8	0.8	0.8	0.9

Source: Company financials, anbc research

FINANCIALS (SAR bn)	2025	2026e	2027f	2028f
Oper. Income	4.5	4.9	5.3	5.7
Provisions	0.4	0.4	0.4	0.4
Net Income*	1.3	1.3	1.5	1.7
Investments	39.0	40.5	42.4	44.6
Loans	110.9	120.3	133.1	146.9
Deposits	115.4	123.2	135.1	148.0
NIM (%)	2.0	2.0	2.1	2.1

\*After Sukuk cost

Source: Company financials, anbc research



Source: Bloomberg, anbc research

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## Investment Thesis

### Healthy loan growth underpinned by corporate momentum

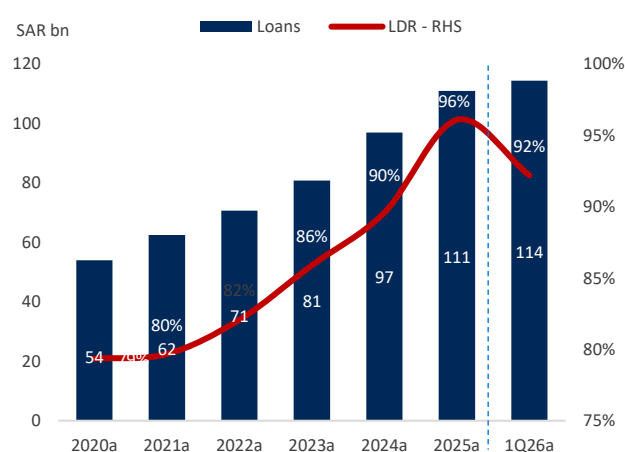
BJAZ's loan book has demonstrated solid expansion in recent years, broadly mirroring the strong credit growth observed across the Saudi banking sector. This momentum has been underpinned by sustained demand for corporate financing, consistent with efforts under Vision 2030 to increase the contribution of non-oil activities to overall GDP. The bank's financing portfolio grew at a 2020-2025 CAGR of 15.5% to SAR 110.9 bn, outperforming the industry's loan growth CAGR of 13.1% over the same period.

This strong trajectory has been driven primarily by the expansion of the gross corporate loan book, which grew at a 5-year CAGR of 20.7% to SAR 73.4 bn in 2025, well above the sector average CAGR of 16.9% over the same period. The bank has strategically increased its emphasis on corporate lending, with the share of gross corporate loans rising from 51.1% of total financing in 2020 to 64.9% in 2025.

The bank's liquidity position has historically remained strong, with LDR levels averaging 86.7% between 2021 and 2025, below the sector average of 105.4% during the same period. LDR rose to 96.1% in 2025, signaling an acceleration in credit deployment as liquidity buffers are drawn down to fund growth. However, it is still below the sector LDR of 112.7% at the end of 2025. This relatively conservative LDR profile positions the bank favorably, enabling it to capture incremental loan growth with fewer liquidity constraints compared to peers.

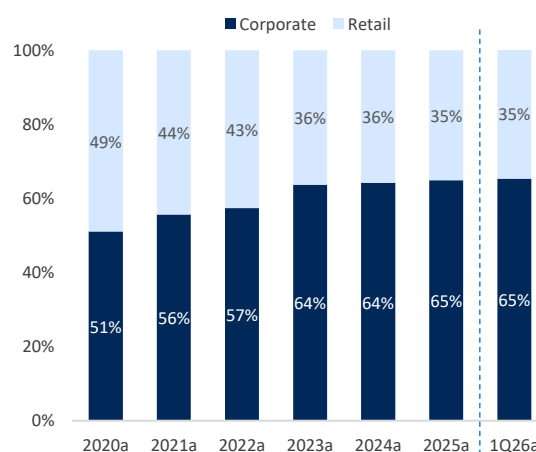
Given the bank's healthy liquidity position, BJAZ was able to continue posting double digit loan growth in 1Q26, amid a slowdown across the sector. The bank's loan book arrived at SAR 114.3 bn, up 13.6% YoY, compared to the sector loan growth of 8.2% YoY during the quarter. LDR for the quarter arrived at 92.2%, reflecting a 389 bps YTD decline.

Chart 73: Loan book and LDR



Source: Company financials, anbc research

Chart 74: Gross loan book mix



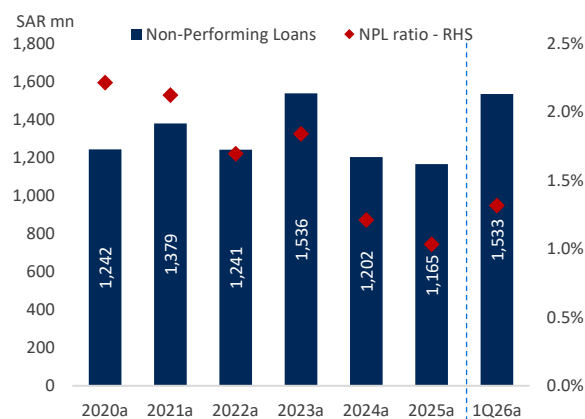
Source: Company financials, anbc research

The bank's asset quality has remained broadly in line with the sector average. The NPL ratio averaged 2.2% in 2020-2021, above the sector average of 2.0%, before declining to 1.2% in 2024 and 1.0% in 2025, in line with sector's ratio of 1.2% and 1.0% during 2024 and 2025, respectively.

NPL coverage remains robust, averaging 197.7% between 2021 and 2025, compared with the sector average of 169.1% during the same period. This higher level of provisioning provides a meaningful buffer against potential credit deterioration.

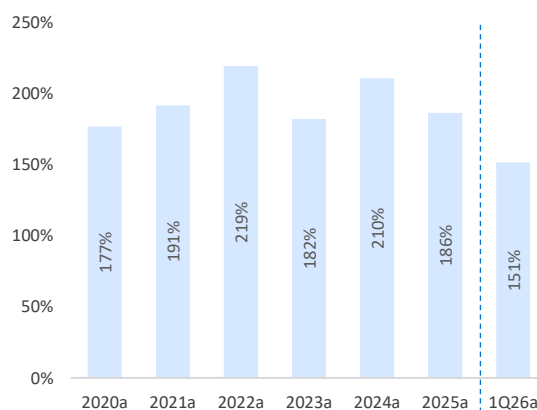
However, during 1Q26 NPL ratio rose to 1.3%, with NPL coverage declining to 151.2%. Although coverage remains adequate, the sequential decline in NPL coverage may indicate a slower pace of incremental provisioning relative to NPL growth. In the context of a moderating macro backdrop and a more cautious sector wide credit environment, the trajectory of impaired financing and provisioning adequacy will remain key areas to monitor going forward.

Chart 75: Non-performing loans - trend



Source: Company financials, anbc research

Chart 76: NPL coverage - trend



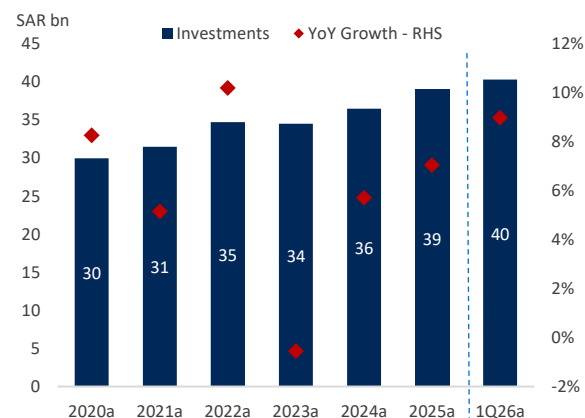
Source: Company financials, anbc research

### Investment portfolio growth remains constrained

BJAZ's investment book has expanded at a 5-year CAGR of 5.4% to reach SAR 39.0 bn in 2025, well below the industry average CAGR of 14.0% over the same period. While investment growth continues to lag sector peers, the bank's investment portfolio reflects a low-risk composition, with 77.8% allocated to government and quasi-government instruments as of Dec-25. Corporate securities and exposures to banks & financial institutions account for 22.2% of the portfolio as of 2025. The under-allocation to investments relative to peers may reflect a strategic preference for loan book growth.

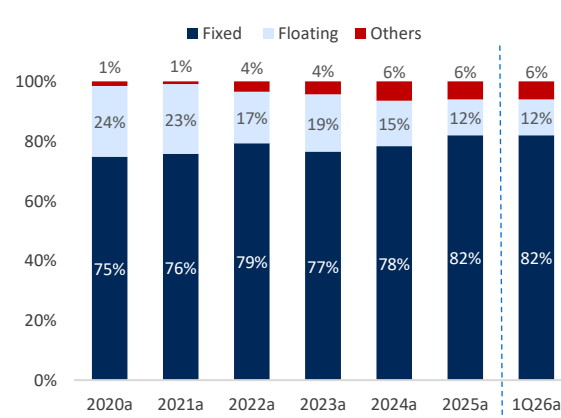
Against this backdrop of historically moderate growth, the investment portfolio witnessed a relative acceleration in 1Q26, expanding by 9.0% YoY to SAR 40.2 bn, outpacing sector growth of 6.5% YoY. This pickup suggests a more balanced asset allocation approach to preserve income stability.

Chart 77: Investments – trend



Source: Company financials, anbc research

Chart 78: Investment composition - trend



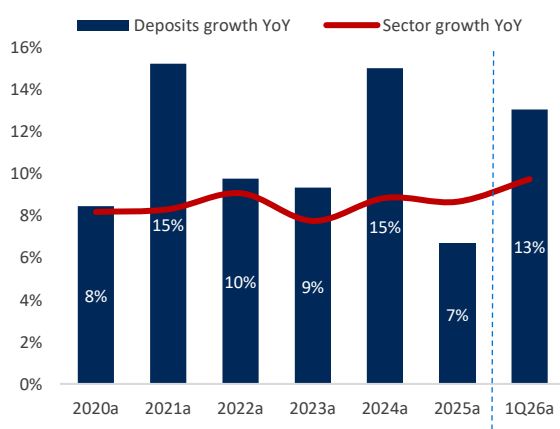
Source: Company financials, Earnings call, anbc research

### A shift toward time deposits underpinning deposit growth

While BJAZ has demonstrated the ability to deliver periods of strong deposit expansion, its growth trajectory has been more volatile than the sector trend. Between 2019 and 2024, deposits expanded at a CAGR of 11.5%, materially above the industry CAGR of 8.4%. More recently, the bank's deposit growth fell to 6.7% YoY in 2025, with deposits amounting to SAR 115.4 bn (vs. the industry's deposit growth of 8.7% YoY). During 1Q26, deposits posted a 13.1% YoY growth to SAR 124.0 bn, against the sector's 8.8% YoY growth, suggesting a recovery in deposit momentum.

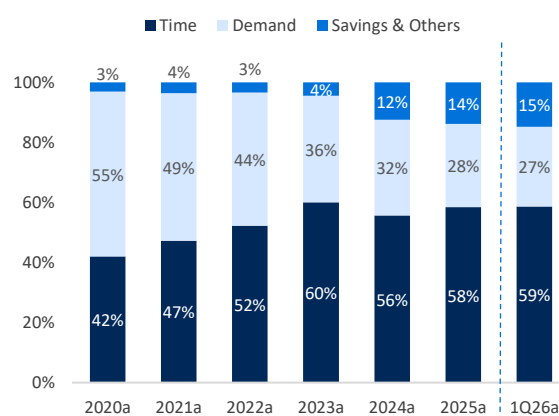
BJAZ's CASA ratio is significantly below the sector average and has trended lower in recent years. CASA levels declined from 58.0% in 2020 to 41.3% in 1Q26. This shift has been accompanied by a marked increase in time deposits, which rose from 42.0% of total deposits in 2020 to 58.7% in 1Q26. This compositional shift meaningfully raises the bank's funding costs and increases its sensitivity to competitive deposit pricing. Crucially, while the interest rates have eased in recent periods, CASA ratio has not recovered, posing a structural headwind to cost of funds normalization.

Chart 79: Deposit growth - trend



Source: Company financials, anbc research

Chart 80: Deposits composition - trend



Source: Company financials, anbc research

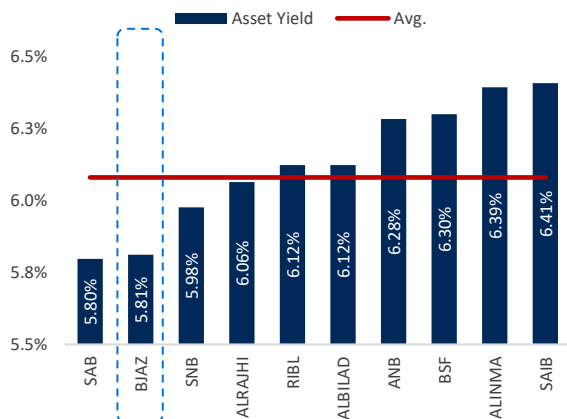
### Asset yields below industry average despite corporate-heavy loan book

Despite BJAZ's loan book being predominantly concentrated in corporate lending, accounting for 64.9% of gross loans in 2025, the bank's asset yields have consistently trailed those of peers with similar portfolio compositions. Asset yields stood at 5.81% in 2025, below the sector average of 6.08%, and this underperformance is consistent with the bank's historical trend of generating yields marginally lower than the broader industry. Looking ahead, pressure on asset yields is expected to persist once the easing rate cycle resumes, as a sizable portion of the bank's corporate portfolio is likely to reprice relatively quickly due to its predominantly floating-rate structure.

The bank's increasing fixed rate investment allocation provides a partial offset. With 82.0% of the investment book in fixed rate instruments as of 1Q26 (up from 74.8% in 2020), a meaningful portion of earning assets is insulated from near-term rate uncertainty. Given the high-quality composition of the portfolio, predominantly sovereign and quasi-sovereign, income from this segment should remain stable and predictable. Nonetheless, with the investment book making up 25.2% as of 1Q26 of the interest earning assets (vs loan portfolio's share of 71.6%), this buffer is unlikely to fully offset loan yield compression.

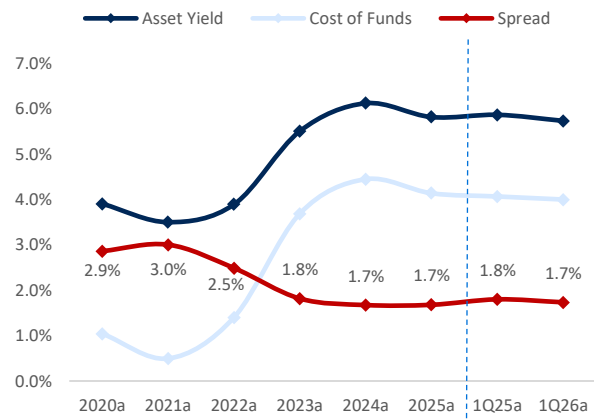
Overall, BJAZ's asset yield trajectory will remain sensitive to rate movements and competitive dynamics within the corporate lending market. The bank's ability to optimize loan pricing, enhance portfolio mix, and selectively expand higher-margin retail exposures will be key determinants of yield resilience over the medium term.

**Chart 81: 2025a asset yield below sector average**



Source: Company financials, anbc research

**Chart 82: Spreads normalize as interest rates decline**

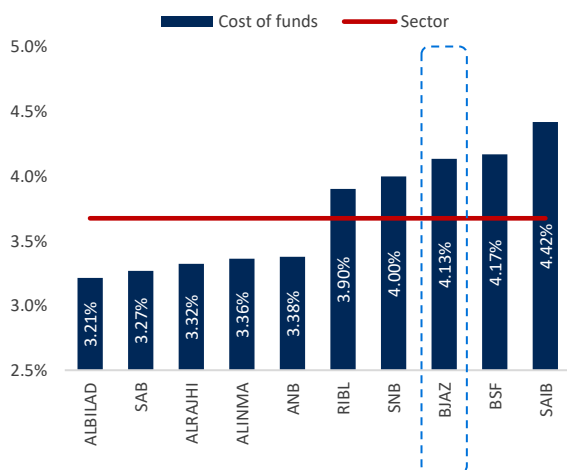


Source: Company financials, anbc research

**Funding cost pressures persist**

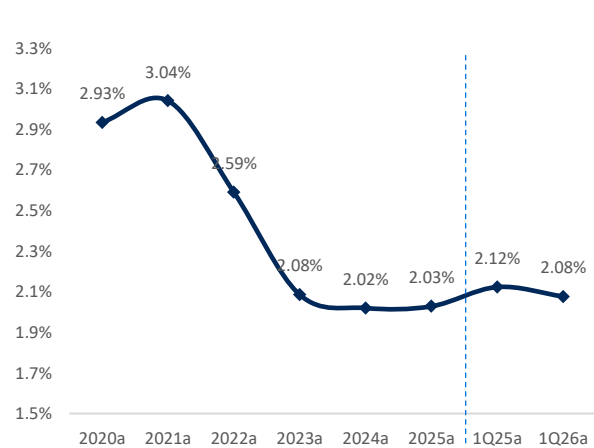
BJAZ's cost of funds continues to face pressures, driven largely by the rising share of time deposits within its funding base. The bank has experienced significant CASA migration in recent years, with deposit growth increasingly supported by higher cost time deposits. Time deposits grew at a CAGR of 18.7% between 2020 and 2025 to SAR 67.4 bn, substantially outpacing growth in CASA deposits (5-year CAGR of 4.0% to SAR 48.0 bn in 2025). This shift in deposit composition has had a direct impact on funding costs, contributing to a steady compression in spreads. The bank's spreads declined to 1.7% in 2025, down from 2.9% in 2020, reflecting the increased reliance on costlier term funding in addition to the high-interest rate environment. Notably, although the rate cycle has begun to shift, the outlook for further monetary easing remains uncertain, with markets increasingly pricing in a prolonged higher for longer rate environment. As a result, cost of funds is unlikely to normalize quickly, particularly as time deposits typically reprice with a lag and competitive pressure for retail deposits in the Saudi market remains intense.

**Chart 83: 2025a CoF above sector average**



Source: Company financials, anbc research

**Chart 84: Net interest margins - trend**



Source: Company financials, anbc research

Looking ahead, while the combination of a downward repricing floating-rate loan book, a structurally elevated cost of funds, and below-peer asset yields creates a persistently negative spread dynamic, the bank is strategically shifting focus towards selective loan expansion into higher-margin segments. This is expected to provide some relief to margins. The ability of the bank to strengthen CASA mobilization, diversify funding sources, and diversify its lending base will be critical to mitigating continued pressure on funding costs over the medium term.

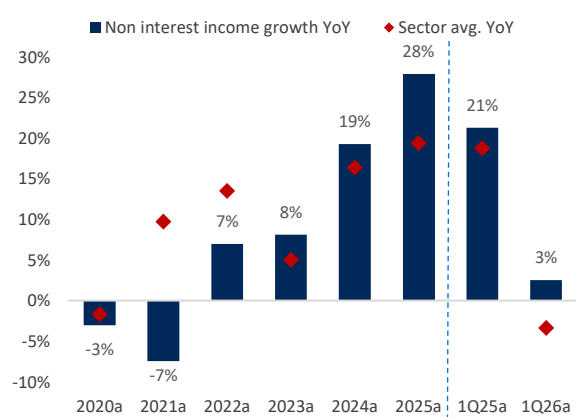
### Strong non-interest income contribution supported by improving growth momentum

BJAZ's non-interest income growth has historically been more measured than that of industry peers, increasing at a 5-year CAGR of 10.3% to SAR 1.5 bn in 2025, compared with the sector CAGR of 13.7%. However, the bank has demonstrated an acceleration in non-interest income growth in recent years. BJAZ outperformed the sector in both 2023 and 2024, supported by a rebound in banking fees and stronger investment income. This positive trend extended into 2025, with non-interest income rising 27.9% YoY, above the industry's 19.4% YoY growth over the same period. The improvement was driven primarily by higher fee income from banking services, alongside a notable increase in exchange-related income.

During 1Q26, the bank's non-interest income rose 2.5% YoY to SAR 333.5 mn, outperforming the overall sector's decline in non-interest income of 3.3% YoY. The sector wide pressure on non-interest income during the quarter mainly reflected the impact of lower fee income due to implementation of SAMA's fee regulations and geopolitical tensions leading to lower regional trading activity.

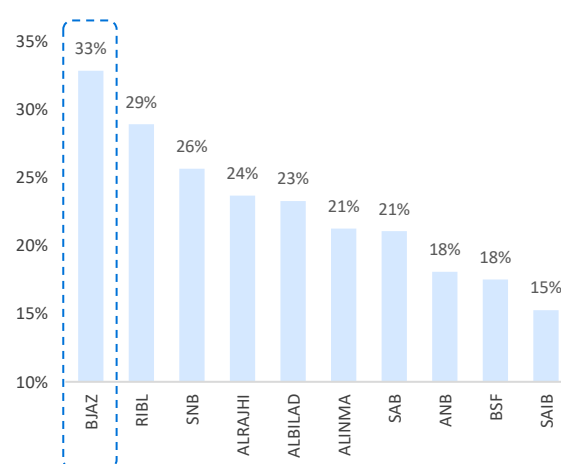
Additionally, BJAZ maintains one of the highest non-interest income contributions to total operating income across the sector. In 2025, non-interest income accounted for 32.8% of total operating income, significantly exceeding the sector average of 23.9%. This trend continued in 1Q26, with non-interest income contributing 28.9% to total operating income versus the industry's 21.0%.

Chart 85: Non-interest income growth



Source: Company financials, anbc research

Chart 86: Non-int. to total op. income – 2025a



Source: Company financials, anbc research

A high reliance on non-interest income provides BJAZ with a degree of earnings diversification. Sustaining non-interest income momentum will require continued expansion in fee generating activities and deeper penetration in retail and corporate transaction banking. Strengthening these areas will be key for the bank to enhance revenue stability and improve competitiveness relative to peers with stronger scale-driven fee income streams.

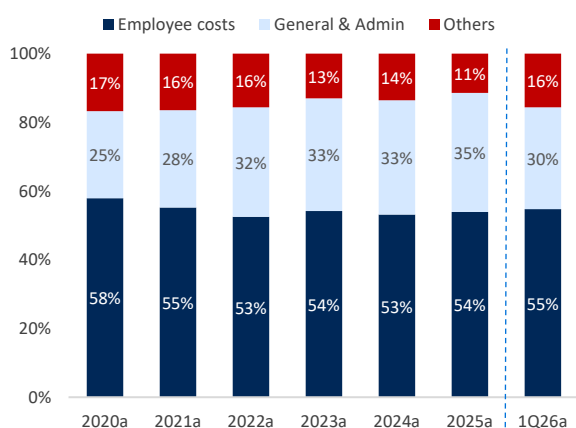
### Persistent cost pressures weigh on efficiency

BJAZ has continued to face challenges in managing its operating costs, with its cost-to-income ratio (CIR) consistently the highest in the sector. Over the past five years, the bank's CIR has remained elevated in the 50%-60% range. In

2024, the CIR stood at 56.0%, substantially higher than the sector average of 35.6%, reflecting the bank’s ongoing difficulty in aligning its cost base with revenue generation. During 2025, the CIR improved to 52.4%, however, the ratio continues to lag materially behind the sector average of 29.0%. Cost to income rose slightly in 1Q26 to 52.8%, against the sector’s ratio of 30.1% during the period.

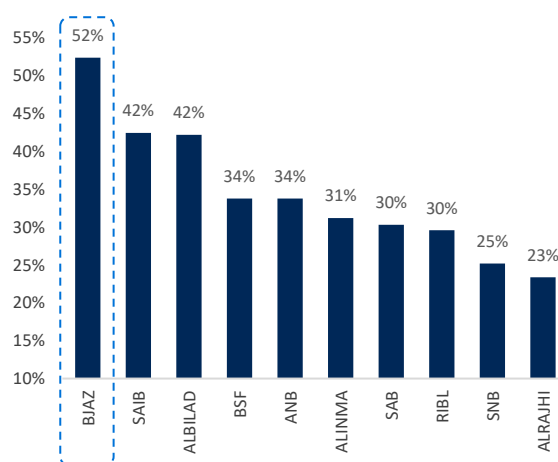
Given the bank’s relatively modest operating income growth, achieving a competitive efficiency profile is likely to remain a key challenge. Sustained improvement in the cost to income ratio will depend on the bank’s ability to streamline operations, accelerate digital adoption, and enhance productivity across its core business segments.

**Chart 87: Operating cost composition - trend**



Source: Company financials, anbc research

**Chart 88: Cost to income ratio comparison - 2025a**



Source: Company financials, anbc research

### Dividend resumption signals improved capital confidence

After two consecutive years of no dividend distributions in 2023 and 2024, a period during which earnings were retained to support capital buffers, BIAZ reinstated its dividend in 2025 with a DPS of SAR 0.50. This translates to a total payout of SAR 638.1 mn, representing a payout ratio of 50%, a material step-up from the 32% ratio for 2022. The resumption reflects the board’s increased confidence in the earnings trajectory and the sufficiency of the bank’s capital position to sustain shareholder distributions without constraining growth capacity.

We expect the 50% payout ratio to be sustained over our forecast horizon. At current levels, this implies a dividend yield of approximately 4.4% for 2026e. That said, the payout assumption carries some sensitivity to earnings delivery. Given the bank’s elevated CIR and the expected pressure on NIM, any shortfall in bottom-line growth could prompt a moderation in the dividend payout in order to preserve capital headroom.

## Valuation

We have a 'Neutral' stance on BJAZ, with sustainable RoAE of 11.1%, a payout ratio of 50.0%, and an implied long-term growth rate of 5.5%. Using a cost of equity of 11.1%, our valuation yields a justified P/B of 1.0x and a Dec-31f BVPS of SAR 16.0, resulting in a target price of SAR 12.2/share. This represents an upside potential of 6.9% from the current market price of SAR 11.5/share. At current levels, BJAZ trades at a 2026e P/E of 11.3x and a 2026e P/B of 0.9x.

### Valuation table:

SAR mn	2026e	2027f	2028f	2029f	2030f	2031f
Shareholders' Equity	15,513	16,318	17,248	18,245	19,294	20,477
Net Profit	1,303	1,523	1,731	1,903	2,029	2,258
RoAE	9%	10%	10%	11%	11%	11%
Payout Ratio	50%	50%	50%	50%	50%	50%
EPS	1.02	1.19	1.35	1.49	1.58	1.76
DPS	0.51	0.59	0.68	0.74	0.79	0.88
BVPS	12.1	12.7	13.5	14.2	15.1	16.0
<b>Discounted Value</b>						
DPS (discounted)	0.51	0.54	0.55	0.54	0.52	0.52
Sustainable RoAE	11.1%					
Payout Ratio	50.0%					
Implied Growth	5.5%					
Cost of Equity	11.0%					
<b>Justified P/B</b>	<b>1.0</b>					
<b>BVPS Dec-31</b>	<b>16.0</b>					
Discounted BVPS	9.6					
PV of Dividends	2.7					
<b>Target Price</b>	<b>12.2</b>					

### TP sensitivity:

Cost of equity	Growth rate					
	3.5%	4.5%	5.5%	6.5%	7.5%	
9.0%	17.1	18.0	19.3	21.8	27.6	
10.0%	14.3	14.6	15.0	15.7	16.9	
11.0%	12.2	12.2	12.2	12.3	12.3	
12.0%	10.7	10.5	10.3	10.1	9.8	
13.0%	9.4	9.2	8.9	8.6	8.1	

Source: anbc research

## Financial Summary

SAR mn								CAGR
Income Statement	2024a	2025a	2026e	2027f	2028f	2029f	2030f	2025-2030f
Interest Income	7,979	8,597	8,990	8,998	9,432	10,085	10,949	5%
Interest Expense	(5,344)	(5,598)	(5,688)	(5,401)	(5,513)	(5,820)	(6,413)	3%
<b>NSCI</b>	<b>2,634</b>	<b>3,000</b>	<b>3,302</b>	<b>3,597</b>	<b>3,919</b>	<b>4,265</b>	<b>4,536</b>	<b>9%</b>
Non-interest income	1,145	1,465	1,550	1,696	1,822	1,912	2,007	7%
<b>Operating Income</b>	<b>3,779</b>	<b>4,464</b>	<b>4,852</b>	<b>5,293</b>	<b>5,741</b>	<b>6,177</b>	<b>6,543</b>	<b>8%</b>
Operating expenses	(2,117)	(2,338)	(2,527)	(2,656)	(2,853)	(3,055)	(3,236)	7%
Provisions	(275)	(354)	(425)	(418)	(422)	(444)	(484)	6%
<b>Total Expenses</b>	<b>(2,392)</b>	<b>(2,691)</b>	<b>(2,951)</b>	<b>(3,074)</b>	<b>(3,275)</b>	<b>(3,499)</b>	<b>(3,720)</b>	<b>7%</b>
NPBT	1,405	1,786	1,913	2,232	2,481	2,694	2,840	10%
<b>Net Income*</b>	<b>1,027</b>	<b>1,278</b>	<b>1,303</b>	<b>1,523</b>	<b>1,731</b>	<b>1,903</b>	<b>2,029</b>	<b>10%</b>
Shares Outstanding (mn)	1,281	1,281	1,281	1,281	1,281	1,281	1,281	
EPS (SAR)	0.80	1.00	1.02	1.19	1.35	1.49	1.58	
DPS (SAR)	-	0.50	0.51	0.59	0.68	0.74	0.79	
								CAGR
<b>Balance Sheet</b>	<b>2024a</b>	<b>2025a</b>	<b>2026e</b>	<b>2027f</b>	<b>2028f</b>	<b>2029f</b>	<b>2030f</b>	<b>2025-2030f</b>
Cash and balances	6,584	7,059	7,537	8,267	9,057	9,937	10,859	9%
Due from other FI	6,697	6,026	6,434	7,057	7,731	8,482	9,269	9%
Investments, net	36,406	38,968	40,469	42,435	44,575	46,960	49,484	5%
Financing, net	96,912	110,862	120,326	133,094	146,864	161,044	175,843	10%
Other	2,519	3,009	3,266	3,677	4,141	4,665	5,250	12%
<b>Total Assets</b>	<b>149,119</b>	<b>165,924</b>	<b>178,031</b>	<b>194,529</b>	<b>212,368</b>	<b>231,088</b>	<b>250,706</b>	<b>9%</b>
Due to other FI	19,309	23,912	25,531	28,003	30,679	33,660	36,784	9%
Customers' deposits	108,187	115,395	123,205	135,134	148,049	162,437	177,512	9%
Other liabilities	4,209	4,842	5,068	5,861	6,678	7,031	7,402	9%
<b>Total Liabilities</b>	<b>131,704</b>	<b>144,149</b>	<b>153,804</b>	<b>168,998</b>	<b>185,405</b>	<b>203,129</b>	<b>221,698</b>	<b>9%</b>
<b>Total Equity**</b>	<b>17,414</b>	<b>21,775</b>	<b>24,227</b>	<b>25,532</b>	<b>26,962</b>	<b>27,959</b>	<b>29,008</b>	<b>6%</b>
<b>Total liabilities and equity</b>	<b>149,119</b>	<b>165,924</b>	<b>178,031</b>	<b>194,529</b>	<b>212,368</b>	<b>231,088</b>	<b>250,706</b>	<b>9%</b>

\*After Sukuk cost

\*\*Including Tier 1 Sukuk

Source: Company financials, anbc research

<b>Growth (YoY)</b>	<b>2024a</b>	<b>2025a</b>	<b>2026e</b>	<b>2027f</b>	<b>2028f</b>	<b>2029f</b>	<b>2030f</b>
NSCI	10.9%	13.9%	10.1%	8.9%	9.0%	8.8%	6.4%
Non-interest income	19.3%	27.9%	5.8%	9.4%	7.4%	5.0%	5.0%
Total operating income	13.3%	18.1%	8.7%	9.1%	8.5%	7.6%	5.9%
Net income	16.5%	24.4%	1.9%	16.9%	13.7%	9.9%	6.6%
Financing	20.0%	14.4%	8.5%	10.6%	10.3%	9.7%	9.2%
Deposits	15.0%	6.7%	6.8%	9.7%	9.6%	9.7%	9.3%
<b>Ratios</b>	<b>2024a</b>	<b>2025a</b>	<b>2026e</b>	<b>2027f</b>	<b>2028f</b>	<b>2029f</b>	<b>2030f</b>
NIM	2.02%	2.03%	2.04%	2.06%	2.05%	2.05%	2.01%
Operating cost to income	56.0%	52.4%	52.1%	50.2%	49.7%	49.5%	49.5%
Cost of risk (bps)	27.6	31.3	34.6	30.9	28.2	27.1	27.0
NPL coverage	210.4%	186.1%	169.0%	167.1%	171.0%	180.2%	188.4%
NPL ratio	1.2%	1.0%	1.1%	1.1%	1.0%	1.0%	1.0%
Simple LDR	89.6%	96.1%	97.7%	98.5%	99.2%	99.1%	99.1%
RoAA	0.7%	0.8%	0.8%	0.8%	0.9%	0.9%	0.8%
RoAE	7.9%	8.9%	8.5%	9.6%	10.3%	10.7%	10.8%
Assets to Equity (x)	11.0	11.0	11.5	11.9	12.3	12.7	13.0
<b>Valuation</b>	<b>2024a</b>	<b>2025a</b>	<b>2026e</b>	<b>2027f</b>	<b>2028f</b>	<b>2029f</b>	<b>2030f</b>
BVPS	10.6	11.7	12.1	12.7	13.5	14.2	15.1
P/B (x)	1.1	1.0	0.9	0.9	0.9	0.8	0.8
P/E (x)	14.3	11.5	11.3	9.6	8.5	7.7	7.2
Dividend yield	-	4.3%	4.4%	5.2%	5.9%	6.5%	6.9%

Source: Company financials, anbc research

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