Saudi Banking Sector

Quarterly Report I Q2-2026

Profit and loan growth in single digits for the second consecutive quarter. BJAZ and AlRajhi delivered the strongest earnings growth

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August 2026

Saudi banking sector's profit grew 8.2% Y/Y in Q2-26 to SAR 24.9bn, led by 8.9% growth in yield income amidst 6bps expansion in NIMs, despite 33.5% increase in provisions. Non-funded income for Q2-26 increased by 6.0% Y/Y. Cumulative earnings for the sector were 4.4% above consensus. Nine out of ten listed banks posted above consensus earnings. Pre-provision profit for the sector recorded an increase of 9.6% Y/Y in Q2-26. Net loans and advances grew by 6.9% Y/Y - marking the second quarter of single digit growth. Overall, monthly run rate for mortgages stood at SAR 5.5bn in Q2-26, down 13.6% Y/Y, compared to SAR 6.3bn in Q2-25. Total deposits for the sector were up 9.7% Y/Y (up 2.7% on a sequential basis) to SAR 3,146bn. Demand deposit share in total deposits declined by 579bps Y/Y (down 310bps Q/Q) to 46.2%. Normal Loan-to-deposit (LDR) ratio decreased by 162bps Y/Y (down 79bps Q/Q) to reach 109.2% in Q2-26; regulatory LDR saw a decrease of 195bps Y/Y (-13bps Q/Q), as it reached 79.7% in Q2-26. Gross NPL ratio of the sector improved by 20bps Y/Y (-5bps Q/Q) to 1.00% in Q2-26, while coverage stood at a healthy 140.3% (up 11.43ppts and 298bps Y/Y and Q/Q). CoR increased by 6bps Y/Y (+14bps Q/Q) to 31bps in Q2-26. The sector experienced an 87bps Y/Y (-145bps Q/Q) improvement in the cost to income ratio to 28.6% in Q2-26, as operating income increased by 8.2% Y/Y, while operating expenses increased by 5.0% Y/Y. Capital adequacy is considerably above regulatory requirement, Bank wise, ALRAJHI leads the sector with total CAR of 23.5%, up 337bps Y/Y. SNB follows with CAR of 21.9% (up 136bps Y/Y). While ALBILAD has the lowest CAR of 17.9% (-283bps); closely followed by SAB with a CAR of 18.7% (down 83bps Y/Y).

Saudi banks' net profit increased 8.2% Y/Y to SAR 24.9bn in Q2-26, supported by 8.9% growth in funded income amidst a 6bps improvement in NIM to 3.02%. Non-funded income also grew 6%, while controlled cost growth improved the cost-to-income ratio. Higher provisions, however, pushed CoR to 31bps. **BJAZ** and **AlRajhi** delivered the strongest earnings growth.

Cumulative earnings for the sector were 4.4% above consensus in Q2-26. Nine out of ten listed banks posted above consensus earnings; leading the group were **SAB** and **ANB**, which beat estimates by 12.2% and 9.2%, respectively. Conversely, **ALINMA** had biggest negative deviation of -5.8%.

Sector loan growth remained subdued at 6.9% Y/Y in Q2-26, marking the second consecutive quarter of single-digit growth. Mortgage issuances declined 13.6% Y/Y, although they recovered sequentially. **BJAZ** and **Albilad** were the fastest-growing lenders, while **AlRajhi** and **SNB** recorded the weakest loan growth.

Sector deposits grew strongly by 9.7% Y/Y as of Jun-26, but the quality of funding deteriorated as demand deposits declined by 579bps to 46.2% of total deposits. **SAIB** and **Albilad** recorded the strongest deposit growth, while **AlRajhi** and **SNB** continued to have the highest proportion of low-cost demand deposits.

The sector's normal LDR declined to 109.2% in Q2-26. as deposit growth outpaced loan growth. Regulated LDR also declined to 79.7%, supported partly by sukuk issuance. **AlRajhi** has the highest LDR, while **Albilad** has the lowest, indicating relatively more balance-sheet capacity for loan growth at the latter.

Asset quality remained healthy, with sector **NPLs** improving to 1.0% and coverage increasing to 140.3% in Q2-26. However, CoR increased to 31bps due to higher provisions. **AlRajhi** continues to have the strongest asset quality, while **SAIB** and **BJAZ** have the highest coverage ratios.

Efficiency also improved, with the cost-to-income ratio falling to 28.6% at the quarter ending Jun-26. as operating income increased by 8.2% Y/Y, while operating expenses increased by 5.0% Y/Y. Operating income growth was driven by 8.9% Y/Y increase in net interest income, and a 6.0% Y/Y increase in non-yield income.

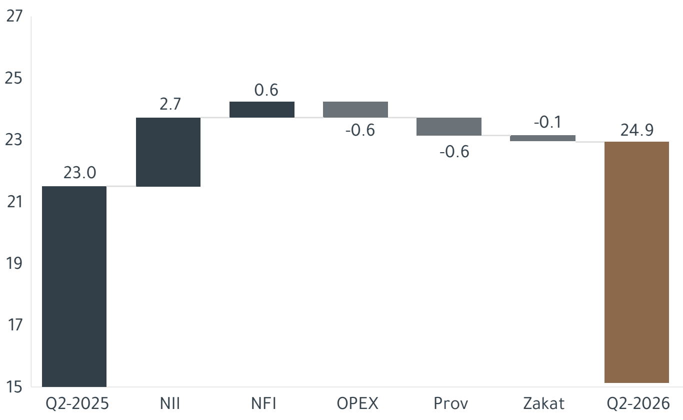
Saudi banks continue to maintain strong capital buffers. **AlRajhi** has the highest CAR at 23.5%, followed by SNB at 21.9%, while Albilad has the lowest at 17.9%. Al Rajhi also leads on Tier-1 capital, whereas Albilad experienced the largest deterioration in capital adequacy.

AlRajhi remains the largest lender with 23.5% loan market share, although its share declined by 94bps Y/Y. **SAB** and **Alinma** recorded the highest increase in market share, while **AlRajhi** and **SNB** experienced the largest declines. Shariah-compliant banks accounted for 38.8% of total sector lending.

SNB remains the largest deposit-taking bank with 22.2% market share, although its share declined by 60bps Y/Y. **SAB** and **SAIB** gained the most deposit market share, while **AlRajhi** and **SNB** lost the most. Overall, the deposit market continues to shift toward conventional banks, with the share of Shariah-compliant banks declining to 38.6%.

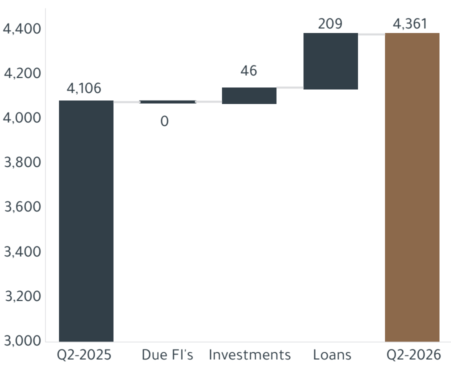
Profit up 8.2% Y/Y in Q2-26, led by 8.9% growth in yield income amidst 6bps increase in NIMs: The Saudi banking sector posted quarterly earnings of SAR 24.9bn in Q2-26, up 8.2% Y/Y (+3.8% Q/Q). Cumulative earnings for the sector were 4.4% above consensus. Nine out of ten listed banks posted above consensus earnings; leading the group were **SAB** and **ANB**, which beat estimates by 12.2% and 9.2%, respectively. Conversely, **ALINMA** had biggest negative deviation of -5.8%. Pre-provision profit for the sector recorded an increase of 9.6% Y/Y in Q2-26. Earnings growth was led by an improvement in Funded Income, up 8.9% Y/Y in Q2-26 to SAR 32.6bn, on the back of 6.9/4.8% increase in loans and investments, amidst 6bps Y/Y improvement in NIMs to 3.02%. Non-funded income increased by 6.0% Y/Y to SAR 9.9bn in Q2-26. Operating expenses increased by 5.0% Y/Y, while the cost-to-income ratio declined by 87bps Y/Y to 28.6%. Debt provisions increased by a massive 33.5% Y/Y to SAR 2.6bn in Q2-26, which translates to cost-of-risk (CoR) of 31bps, as compared to 25bps in the same period last year. The increase is mainly due to 48% Y/Y increase in Alrajhi's debt provisions and SAR 170mn reversals booked by SNB in Q2-25.

Fig 1: Net income growth drivers (SAR bn)



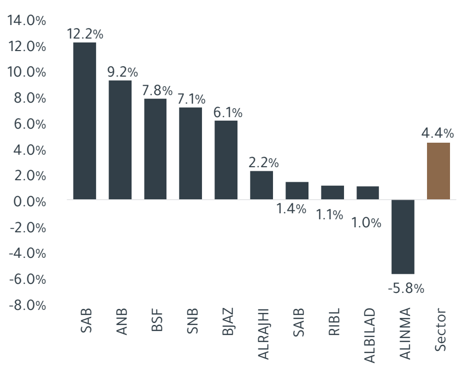
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 2: Earning assets grew by 6.2% Y/Y (SAR mn)



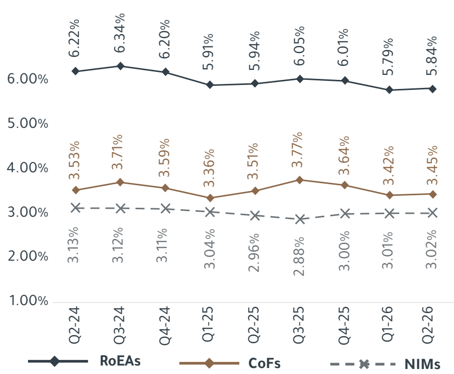
Source: Company financials, Aljazira Capital Research

Fig 3: Q2-26 earnings actual vs estimates



Source: Company financials, Aljazira Capital Research

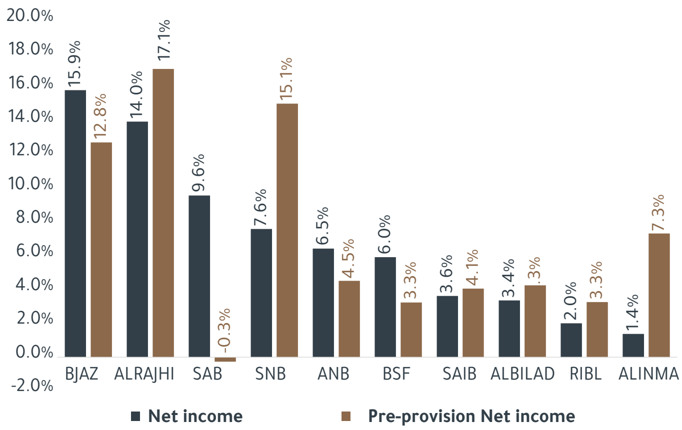
Fig 4: NIMs have expanded by 6bps Y/Y



Source: Company financials, Aljazira Capital Research

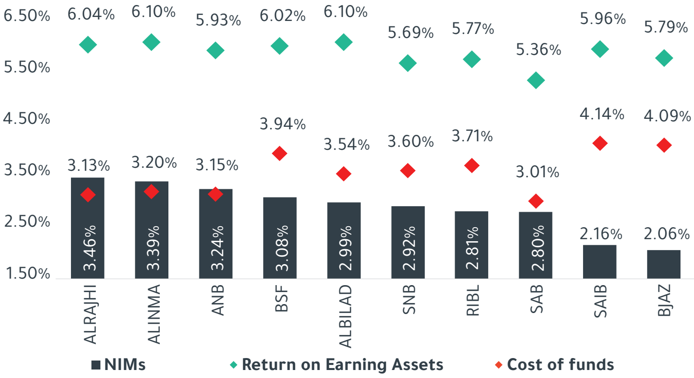
Bank wise, **BJAZ** posted the highest net income growth of 15.9% Y/Y in Q2-26, driven primarily by 10.5% Y/Y increase in funded income. **ALRAJHI** stood out as the second best with Q2-26 net income growth of 14.0% Y/Y, mainly owed to 14% Y/Y increase in funded income and a lower effective zakat/tax rate of 7.7% (10.2% in Q2-25). On the other hand, **ALINMA** and **RIBL** saw only 1.4% and 2.0% growth in earnings due to 42% and 14% Y/Y increase in debt provisions respectively. On a Pre-provision basis (Net profit adjusted for provisions) **ALRAJHI** posted strongest increase of 17.1% Y/Y) followed by **SNB** which saw a pre-provision income grow by 15.1% Y/Y. **SAB** and **BSF** stood out as major laggards on Pre-provision net income basis, with profits down 0.3% Y/Y and +3.3% Y/Y, respectively.

Fig 5: Banks wise Q2-26 earning performance (Y/Y)



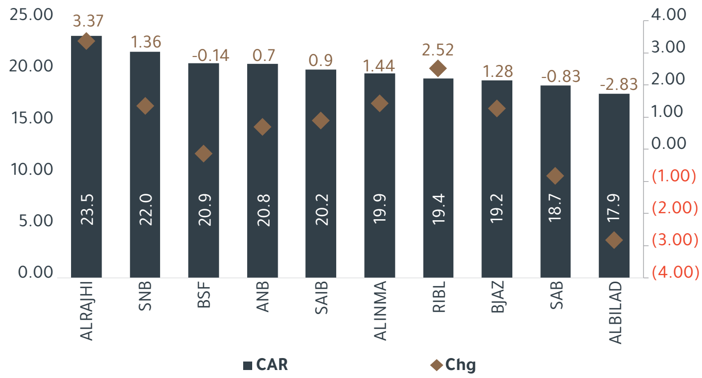
Source: Company financials, Aljazira research

Fig 6: NIMs, RoEAs, CoFs



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

Fig 7: Capital adequacy ratio %

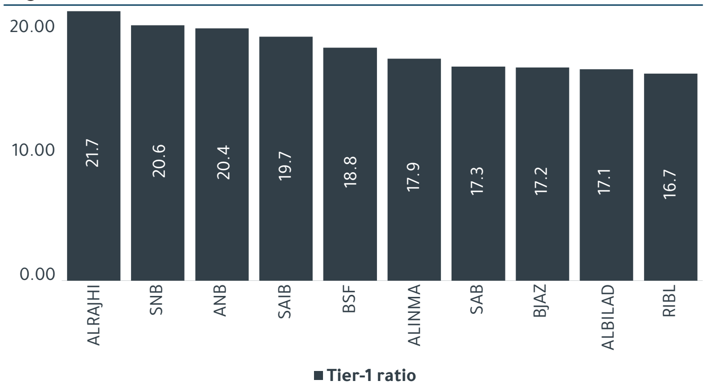


Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Capital adequacy is considerably above regulatory requirement: Bank wise, **ALRAJHI** leads the sector with total CAR of 23.5%, up 337bps Y/Y. **SNB** follows with CAR of 22.0% (up 136bps Y/Y). While **ALBILAD** has the lowest CAR of 17.9% (-283bps); closely followed by **SAB** with a CAR of 18.7% (down 83bps Y/Y). **ALRAJHI** saw strongest increase in CAR of 337bps, while ALBILAD saw the largest attrition in CAR of 283bps. **ALRAJHI** and **SNB** lead on Tier-1 capital, with Tier-1 ratios of 21.7% and 20.6%, respectively. **RIBL** and ALBILAD have the lowest Tier-1 ratios of 16.7% and 17.1%, respectively.

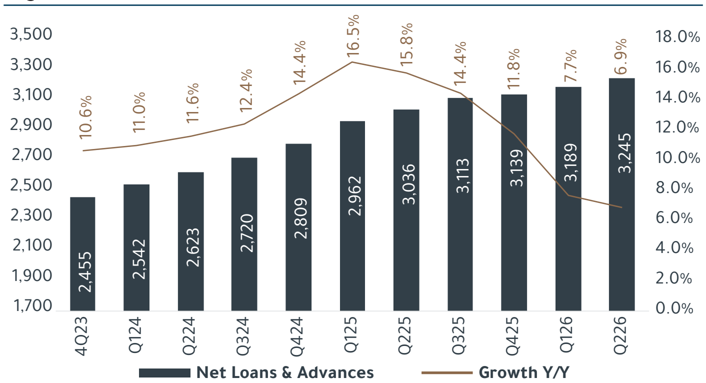
Loan growth in single digits for the second consecutive quarter, mortgage issuances were down 13.6% Y/Y in Q2-26: Net loans and advances grew by 6.9% Y/Y - remaining in single digits for the second time. Overall, monthly run rate for mortgages stood at SAR 5.5bn in Q2-26, down 13.6% Y/Y, compared to SAR 6.3bn in Q2-25. On a sequential basis, monthly average mortgages grew by 4.2% Q/Q in Q2-26. Bank's claims on public sector were up 15.7% Y/Y in June-26. Bank wise, **BJAZ** and **ALBILAD** led the sector posting loan growth of 16.6% Y/Y and 15.3% Y/Y, respectively in Q2-26. On the other hand, **ALRAJHI** and **SNB** recorded the smallest loan growths of 2.7% Y/Y and 3.5% Y/Y, respectively.

Fig 8: Tier 1 ratio (%)



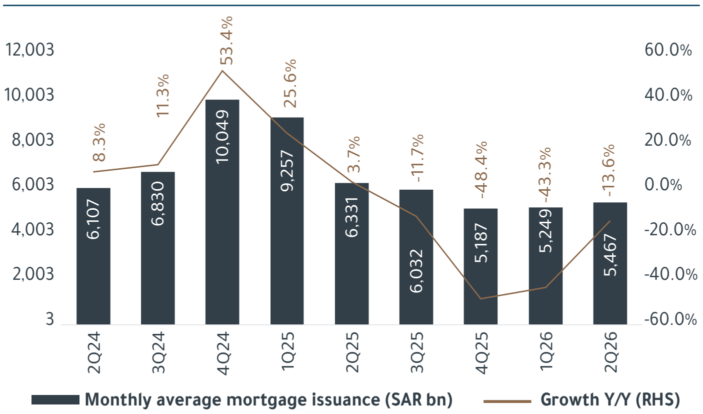
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 9: Loan and advances (SAR bn)



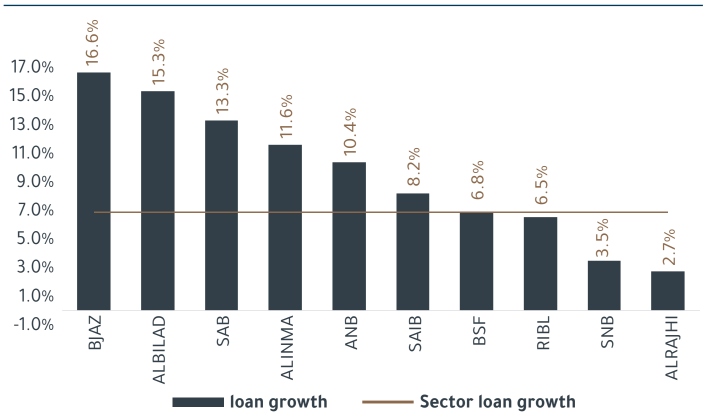
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 10: Mortgage issuances have slowed down (SAR mn)



Source: SAMA, Company financials, Aljazira Capital Research

Fig 11: Banks wise Q2-26 loan growth (Y/Y)



Source: SAMA, Company financials, Aljazira Capital Research

Share of demand deposits is down 579bps Y/Y in Q2-26: Total deposits for the sector were up 9.7% Y/Y (up 2.7% on a sequential basis) to SAR 3,146bn. Demand deposit share in total deposits declined by 579bps Y/Y (down 310bps Q/Q) to 46.2%.

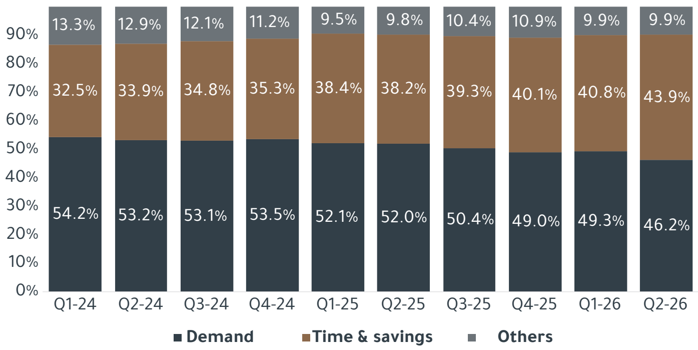
Banks wise, **SAIB** logged in the highest growth in deposits of 21.3% Y/Y in Q2-26, followed by **ALBILAD** which saw deposits grow by 18.8% Y/Y. On the other end, **ALRAJHI** and **SNB** lagged the sector with growth of 3.6% Y/Y and 6.0% Y/Y in Q2-26, respectively. In terms of deposit quality, **SNB** and **ALRAJHI** maintained their lead in Q2-26, with the highest demand deposit weight of 67.3% and 62.7%, respectively. **SAIB** and **BJAZ** have lowest demand deposit ratios of 18.8% and 24.2% in the sector.

In terms of change in deposit mix, **ALRAJHI** saw the smallest decline in share of demand deposits down 1.6ppts Y/Y in Q2-26 to 62.7%, followed by **RIBL** which saw share of non-remunerative deposits decrease by 3.3ppts Y/Y to 40.3%. **SAIB** and **SNB** stood at the other end of the spectrum with 9.1ppts and 8.4ppts decrease in demand deposits share.

Normal LDR records decline of 162bps Y/Y, while regulated LDR declined by 195bps Y/Y: Normal Loan-to-deposit (LDR) ratio decreased by 162bps Y/Y (down 79bps Q/Q) to reach 109.2% in Q2-26; regulatory LDR saw a decrease of 195bps Y/Y (-13bps Q/Q), as it reached 79.7% in Q2-26. The aforementioned decrease in normal LDR ratios is owed to the 9.7% Y/Y increase in deposits in Q2-26 and a smaller 6.9% Y/Y increase in loans. We highlight that regulated LDR decreased due to sukuk issuances and is comfortably below the regulatory limit. The 12M Saudi riyal - SOFR interest rate differential declined to 0.95%, due to slight improvement in liquidity in the banking system on account of normalization of loan growth.

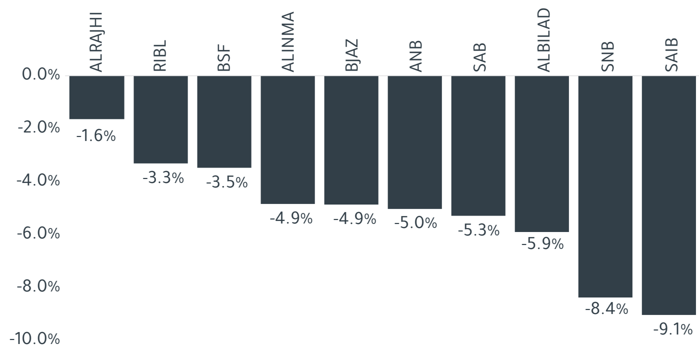
Bank wise, **ALRAJHI** has the highest LDR ratio of 110.7%, while **ALBILAD** has the lowest ratio of 90.6%. In terms of change, **ALINMA** and **ANB** saw the largest increases in LDR ratios of 4.4ppts Y/Y and 2.1ppts Y/Y to 99.5% and 94.5%, respectively. While **SAIB** saw the largest decline in LDR ratio of 11.7ppts to 96.5%.

Fig 12: Share of demand deposits is down 579bps Y/Y



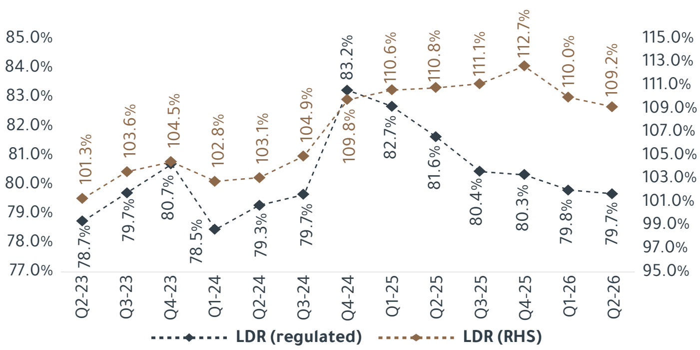
Source: SAMA Monthly Bulletin, Company financials, Aljazira research

Fig 13: Chg in demand deposits Y/Y



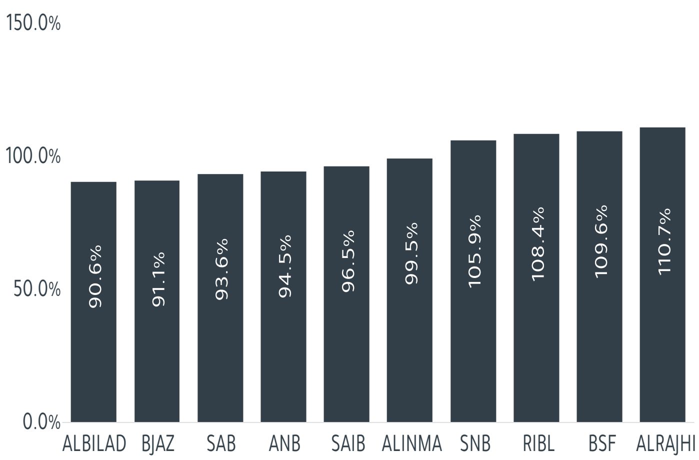
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 14: LDR is down from recent highs



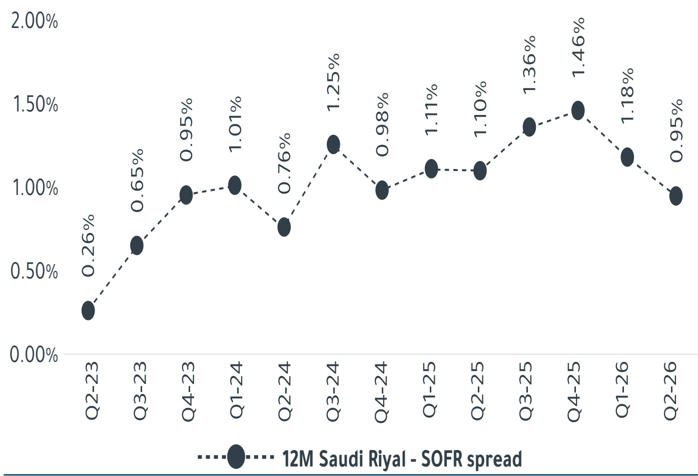
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 15: Bank wise LDR ratio (%)



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

Fig 16: 12M Saudi Riyal - SOFR spread



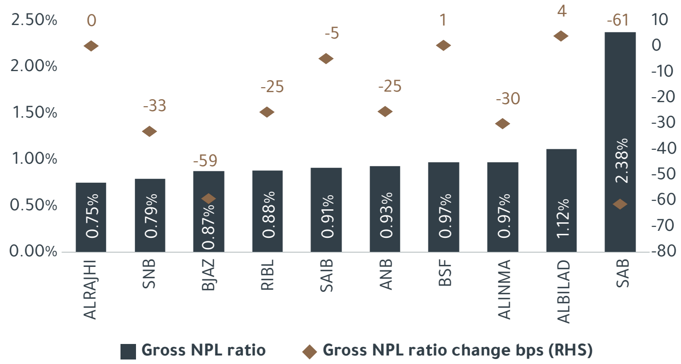
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Sector's credit asset quality and operating efficiency remains topnotch: Gross NPL ratio of the sector improved by 20bps Y/Y (-5bps Q/Q) to 1.00% in Q2-26, while coverage stood at a healthy 140.3% (up 11.43ppts and 298bps Y/Y and Q/Q). CoR increased by 6bps Y/Y (+14bps Q/Q) to 31bps in Q2-26. Amongst listed banks, **ALRAJHI** retained its top position on asset quality front, with NPL ratio of 0.75% (unchanged Y/Y), while **SAB** despite undergoing a sizable NPL improvement (down 61bps Y/Y) had the industry's highest NPL ratio of 2.38% in Q2-26.

In terms of bad loan coverage **SAIB** and **BJAZ** lead the sector with coverage of 201.8% and 177.4%, respectively. **SAB** and **SNB** have the lowest coverage of 94.5% and 127.2% respectively. **SAIB** and **ANB** have experienced the biggest improvement in coverage of 36ppts and 34ppts on an Y/Y basis, on the other hand **ALBILAD** and **BSF** saw the biggest declines of 30ppts and 24ppts Y/Y, respectively.

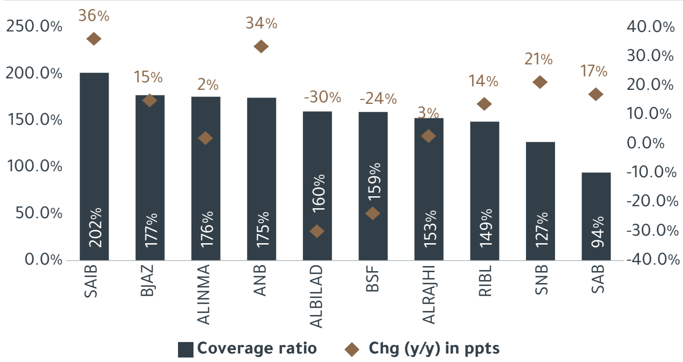
The sector experienced an 87bps Y/Y (-145bps Q/Q) improvement in the cost to income ratio to 28.6% in Q2-26, as operating income increased by 8.2% Y/Y, while operating expenses increased by 5.0% Y/Y. Operating income growth was driven by 8.9% Y/Y increase in net interest income, and a 6.0% Y/Y increase in non-yield income.

Fig 17: Alrajhi & SNB lead on asset quality



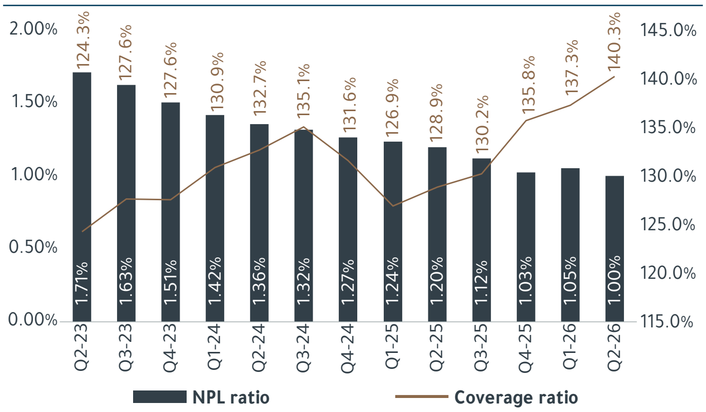
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 18: Coverage ratio



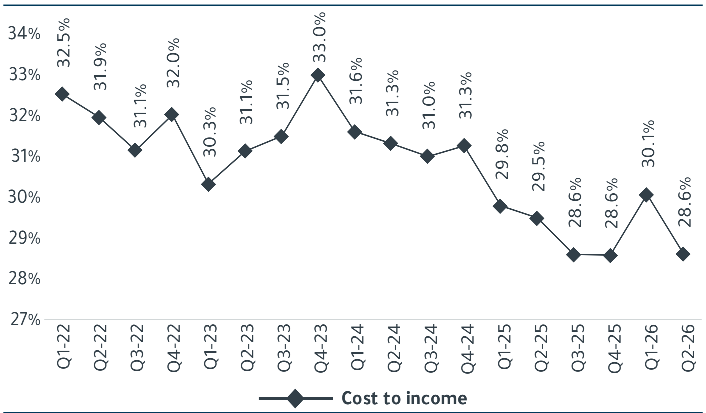
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig19 : Asset quality improves further



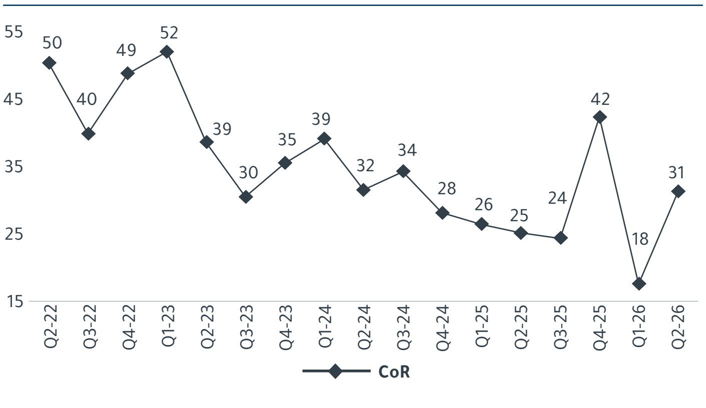
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 20: Cost to income



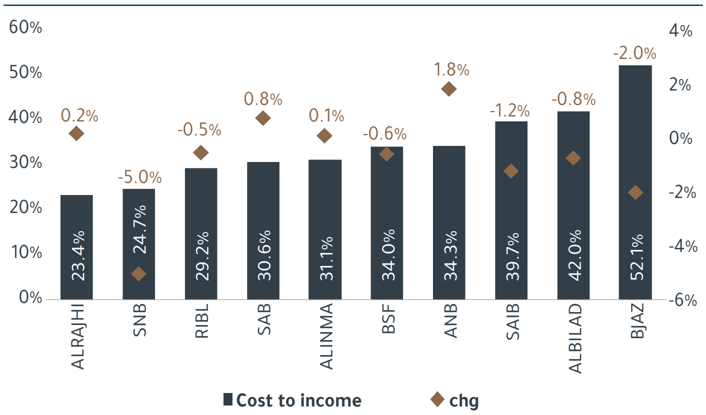
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 21: Cost of risk increased to 31bps in Q2-26



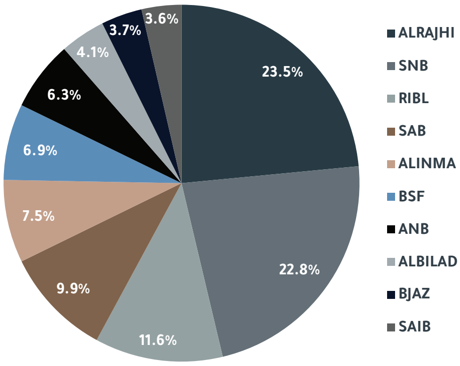
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 22: Bank wise cost to income



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

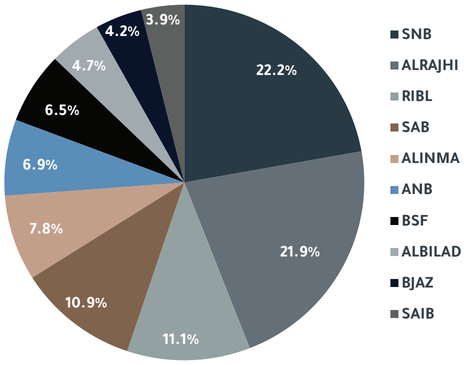
Fig 23: Loans market share



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

Loans market share: **ALRAJHI** leads with Q2-26 loan market share of 23.5%, down 94bps Y/Y. On a Y/Y basis, **SAB** and **ALINMA** saw the biggest increases in Q2-26 credit market share of 56bps Y/Y and 32bps Y/Y, to 9.9% and 7.5%, respectively. While **ALRAJHI** and **SNB** experienced biggest declines in loan market share of 94bps Y/Y and 75bps Y/Y to 23.5% and 22.8%. The share of shariah compliant banks in total lending stood at 38.8% in Q2-26 down 1bps Y/Y, with **ALRAJHI** having the largest share of 60.5%.

Fig 24: Deposits market share



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

Deposits market share: **SNB** leads with deposit market share of 22.2% in Q2-26, down 60bps Y/Y. **SAB** and **SAIB** saw the largest increases in Q2-26 deposit market share of 60bps Y/Y and 40bps Y/Y respectively, while **ALRAJHI** and **SNB** saw largest declines in market share of 112bps and 60bps Y/Y, respectively. Share of shariah compliant banks in total deposits decreased by 62bps Y/Y in Q2-26 to 38.6%, with **ALRAJHI** leading with a market share of 56.7%.

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RESEARCH DIVISION

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RATING TERMINOLOGY

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

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