SAUDI BANKING SECTOR REPORT

Audi Capital

FEBRUARY 2025

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Sound activity growth amid adequate capitalization, with strong profitability metrics despite declining margins

KEY TAKEAWAYS

01. The past year has been another good year for the banking sector, with sound activity growth across the board.

02. The stronger growth in banking activity relative to economic activity growth has resulted in a consecutive rise in the banking sector economic dimension over the past seven years.

03. The analysis of Saudi banks' activity composition between 2018 and 2024 suggests a rising share of domestic assets at the detriment of that of foreign assets.

04. Credit conditions to reflect the fast loan growth in the system on the back of stronger-than-average credit demand. Lending growth outpaced that of deposits, pushing banks to look for alternative funding sources.

05. With respect to capitalization, Saudi banks are well-capitalized, which will continue to support their creditworthiness

06. Tight funding conditions somewhat narrowed banks' margins in 2024 but earnings remained strong overall, with sound return ratios.

07. Saudi banks' market background suggests strong valuation ratios currently, in line with global market conditions. In parallel, Saudi banks have been following a generous dividend policy, with a strong average dividend yield.

08. The Vision 2030 plan, along with its gradual implementation, is expected to improve the business environment for banks, because the non-oil economy, where banks do most of their business, benefits from the country's diversification efforts at large.

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01

BANKING SECTOR GROWTH AND ECONOMIC DIMENSION

Buoyant activity growth bolstering the sector's economic dimension

BANKING ACTIVITY REACH

US$ **1,196** billion

AT YEAR-END 2024

- The past year has been another good year for the banking sector, with sound activity growth.
- Measured by the aggregation of bank assets, banking activity grew by 13.6% in 2024 to reach US$ 1,196 billion at year-end.
- The stronger growth in banking activity relative to economic activity growth has resulted in a consecutive rise in the banking sector economic dimension over the past seven years. Bank assets to GDP has risen from 75.5% in 2018 to a record high of 108.9% in 2024.
- In parallel, deposits to GDP rose from 52.7% to 65.2% over the past seven years, while loans to the private sector to GDP increased from 43.8% to 66.7% over the same period.
- In 2024, deposits grew by 8.9%, while loans rose by 12.9% over the year.

BANKING SECTOR ECONOMIC DIMENSION

	2018	2019	2020	2021	2022	2023	2024
Assets/GDP	75.5%	83.7%	108.2%	100.0%	87.1%	98.8%	108.9%
Deposits/GDP	52.7%	57.1%	70.6%	64.2%	55.2%	61.8%	65.2%
Loans to private sector/GDP	43.8%	47.4%	61.9%	59.9%	53.4%	60.9%	66.7%
Loans to public sector/GDP	1.7%	2.0%	2.9%	2.9%	3.1%	3.7%	4.9%

Sources: Saudi Central Bank, Bank Audi's Group Research Department

BANKING SECTOR GROWTH RATES

	2018	2019	2020	2021	2022	2023	2024
Assets	2.0%	9.7%	13.2%	10.0%	10.5%	9.3%	13.6%
Loans to the private sector	2.8%	7.3%	14.3%	15.3%	13.1%	9.7%	12.9%
Investments	8.4%	18.7%	12.7%	6.1%	8.1%	10.4%	15.1%
Deposits	2.5%	7.3%	8.2%	8.3%	9.1%	7.8%	8.9%
Capital and reserves	-4.3%	13.0%	9.9%	11.3%	4.3%	5.9%	7.9%
Profit growth (year-on-year)	9.8%	4.5%	-23.1%	39.2%	28.6%	11.7%	15.1%

Sources: Saudi Central Bank, Bank Audi's Group Research Department

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02

BANKING SECTOR CONCENTRATION AND ACTIVITY COMPOSITION

Industry dynamics in terms of broader financial stability remain sound

THE BANKING SECTOR COMPRISES A LIMITED AND STABLE NUMBER OF BANKS

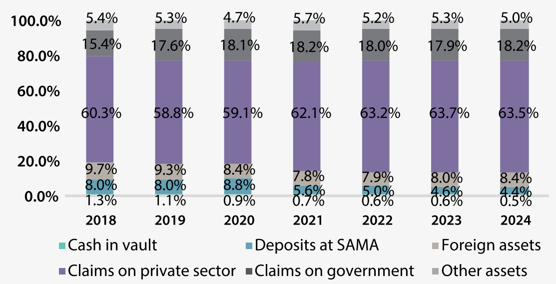
- The banking sector comprises a limited and stable number of banks. It has seen mergers create dominant 'national champions'.

- Although this has resulted in concentration of market share and raised competitive pressure on smaller institutions, overall industry dynamics in terms of broader financial stability remain sound.

- The past seven-year analysis of activity composition suggests a rising share of domestic assets over foreign assets. In fact, the latter's share in total assets decrease from 9.7% in 2018 to 8.4% in 2024.

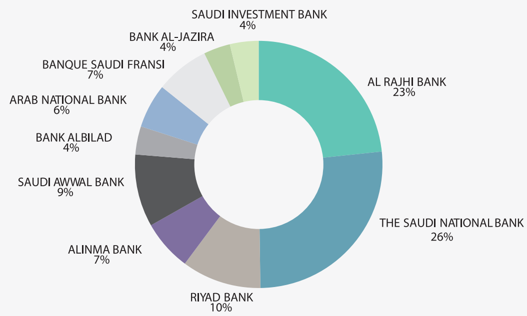
- While the same analysis suggests that the share of deposits at SAMA (Saudi Arabian Monetary Authority) has decreased from 8.0% of total assets in 2018 to 4.4% in 2024, the share of claims on government has increased from 15.4% to 18.2% over the same period, while the share of claims on private sector has risen from 60.3% to 63.5% over the same period.

BANKING SECTOR ACTIVITY COMPOSITION



Sources: Saudi Central Bank, Bank Audi's Group Research Department

MARKET SHARE IN TOTAL ASSETS (END-2024)



Sources: Saudi Central Bank, Bank Audi's Group Research Department

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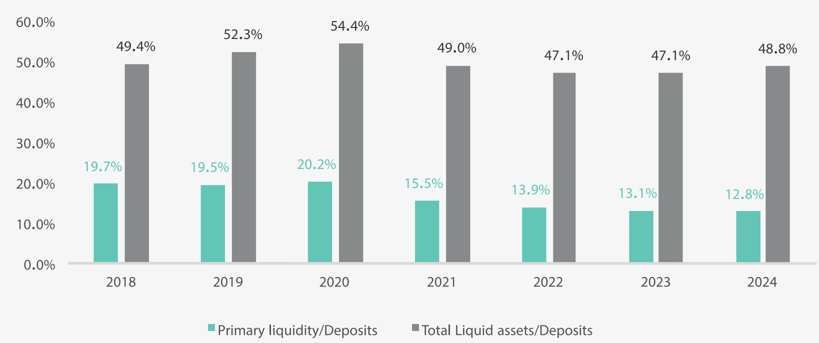
BANKING SECTOR LIQUIDITY

Lending growth outpacing that of deposits

TOTAL LIQUID ASSETS STAND AT
48.8%
OF TOTAL ASSETS

- Concerning banks' liquidity management, primary liquidity stood at 12.8% at end-2024, down from 19.7% at end-2018. Total liquid assets yet stand at 48.8% of total assets currently, with no significant variations over the past seven years.
- As lending growth outpaced that of deposits, this has pushed banks to look for alternative funding sources.
- In the second half of 2024, the banking system shifted to a net external debt position, close to 1% of total loans.
- S&P expects the external debt buildup to continue in the next couple of years, but they expect SAMA would intervene if liquidity tightens.
- Saudi banks' reliance on external funding will continue due to Vision 2030 investment needs, though recent mortgage-backed securities initiatives may help. Saudi Real Estate Refinance Company (SRC) and Hassana's initiatives to issue residential mortgage-backed securities, and SRC's agreement with Blackrock, could help attract local and foreign capital and unlock liquidity to support Vision 2030.

BANKING SECTOR LIQUIDITY RATIOS



Sources: Saudi Central Bank, Bank Audi's Group Research Department

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BANKING SECTOR ASSET QUALITY

NPL ratio at a satisfactory low level

NON-PERFORMING LOANS STOOD AT

1.3%

OF TOTAL LOANS IN SEPTEMBER 2024

- For the first time ever, the year 2024 has seen bank loans to the private sector exceeding deposits, with a loans to the private sector to deposit ratio reaching 102.2% at end-2024 (against 83.0% in 2018).
- As a percentage of total loans, non-performing loans stood at 1.3% in September 2024, a satisfactory level by regional and international standards. It actually went down gradually from 2.0% at end-2018.
- S&P expects NPL formation to be slow given lower interest rates. It anticipates an increase in NPLs to about 1.7% of systemwide loans by the end of 2025 as they do not foresee significant write-offs.
- Credit losses will likely reach 50-60 bps in the next 12-24 months enabled by banks' comfortable provisioning cushions.
- Nonetheless, Moody's adjusted its assessment of credit conditions in the banking sector to reflect structural weaknesses, such as high single-borrower concentration. They also adjust the credit conditions to reflect the fast credit growth in the system on the back of stronger-than-average credit demand.

BANKING SECTOR ASSET QUALITY

	2018	2019	2020	2021	2022	2023	2024
NPLs/Total loans*	2.0%	1.9%	2.2%	1.9%	1.8%	1.5%	1.3%
Loans to the private sector/Deposits	83.0%	83.0%	87.7%	93.3%	96.8%	98.5%	102.2%
Loans to the public sector/Deposits	3.2%	3.4%	4.1%	4.5%	5.6%	5.9%	7.5%
Total loans/Deposits	86.2%	86.4%	91.7%	97.9%	102.3%	104.5%	109.8%

**2024 figures are for end-September*

Sources: Saudi Central Bank, Bank Audi's Group Research Department

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BANKING SECTOR CAPITALIZATION

Well capitalized Saudi banks supporting their creditworthiness

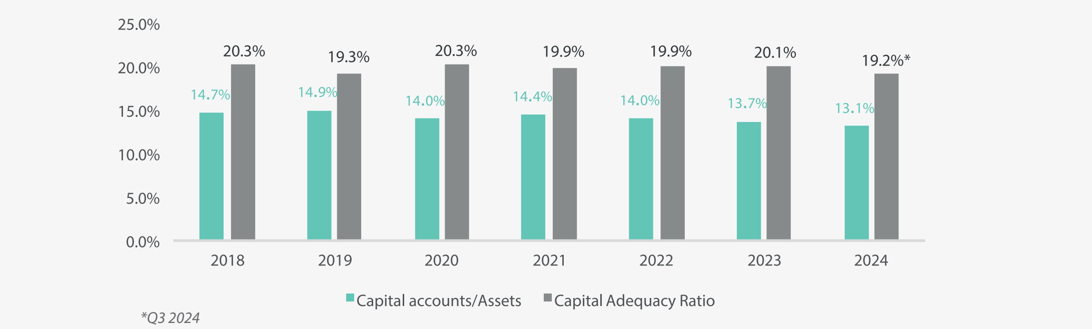
SAUDI BANKS REPORTED A CAPITAL ADEQUACY RATIO OF

19.2%

IN SEPTEMBER 2024

- With respect to capital adequacy, Saudi banks are well-capitalized, which will continue to support their creditworthiness.
- Capitalization remained adequate, with shareholders' equity at US$ 133 billion at year-end 2004, the equivalent of 13.1% of total assets.
- Saudi banks reported a capital adequacy ratio of 19.2% at Sept. 30, 2024, well above the minimum capital adequacy requirement of 10.5%.
- Banks are profitable and their earnings generation is sufficient to cater for asset growth.
- S&P expects Saudi banks' dividend payout ratio will hover at an average of 50%.

BANKING SECTOR CAPITALIZATION



Sources: Saudi Central Bank, Bank Audi's Group Research Department

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BANKING SECTOR PROFITABILITY

Tight funding conditions narrowing margins but earnings remaining strong

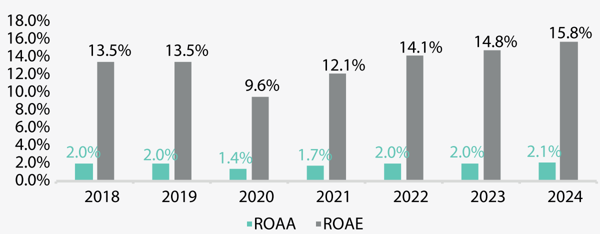
YEAR-ON-YEAR PROFIT GROWTH OF

15.1%

IN 2024

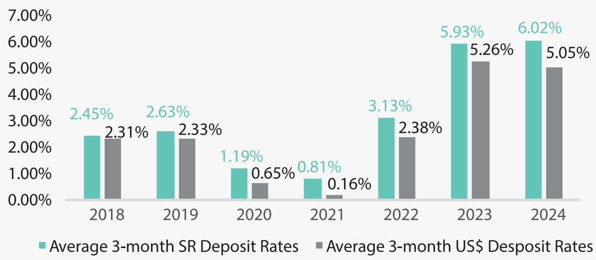
- Tight funding conditions somewhat narrowed banks' margins in 2024 but earnings remained strong overall, with a year-on-year profit growth of 15.1% over the year to reach US$ 23.7 billion.
- While 3-month US$ deposit rates have reached a high of 5.26% in 2023 (up from 0.16% in 2021 and 2.38% in 2022), they ended the year at a small decline at 5.05%, in tandem with the Central Bank policy. In parallel, average 3-month SR deposit rate reported a high of 6.02% at end-December 2024.
- Credit growth will bolster banks' profitability, stabilizing RoA at 2.2%-2.1% in 2025, consistent with 2024 estimates.
- Net Interest Margin is expected to drop by 20 -30 bps by the end of 2025 relative to 2023 as SAMA follows the Fed's rate cuts to maintain its currency peg.
- Largely floating corporate lending (50% of total loans) will reprice quickly leading to lower interest income, partly offset by fixed-rate and long-term mortgages (25% of the total).
- While lower interest rates will cut funding costs, a sharper decline could shift consumer preferences toward demand deposits, impacting overall bank funding.

BANKING SECTOR PROFITABILITY



Sources: Saudi Central Bank, Bank Audi's Group Research Department

BANKING SECTOR DEPOSIT RATES



Sources: Saudi Central Bank, Bank Audi's Group Research Department

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MARKET BACKGROUND

Strong valuation ratios and generous dividend policy for listed banks

PRICE TO EARNINGS AT

12.48x

PRICE TO BOOK AT

1.82x

- Saudi banks' market background suggests market capitalization of US$ 270 billion for listed banks, the equivalent of 24% of their total assets base. It also suggests strong valuation ratio currently, in line with global market conditions.
- By the time of the finalization of this report on February 7th, 2025, the average Price to Earnings of listed banks stood at 12.48 times, while the average Price to Book value ratio stood at 1.82 times.
- The individual analysis of listed banks suggests a variation of valuation ratios across the Saudi banks' universe. P/E varies from a low of 9.18 for Banque Saudi Fransi to a high of 21.38 for Al Rajhi Bank. P/BV varies from a low of 1.07 for Banque Saudi Fransi to a high of 4.02 for Al Rajhi Bank.
- In parallel, Saudi banks have been following a generous dividend policy, with an average dividend yield of 4.42%.
- As the Saudi market is a mirror image of global markets and in particular US markets, it is worth saying that the capital market in the US has almost never looked like this in the recent contemporary history.
- The S&P 500 stock market index has increased by more than 20% a year for two consecutive years, for the first time since 1997-1998. This has led to current high valuation ratios for the S&P 500, with P/E of 21.5 today, standing at well above the 10-year average of 18.2.
- Whether this stock market optimism will continue in 2025 will depend on how much interest rates are likely to be cut in 2025 and provide a support to the equity market. Latest market expectations, as portrayed by Bloomberg futures pricing, suggest only one rate cut for 2025, expected in the September meeting, down from previous expectations of four then three then two rate cuts.

MARKET BACKGROUND (FEBRUARY 7TH, 2025)

Name	Market Cap (US$ Millions)	P/E (x)	P/B (x)	Dvd 12M Yld
AL RAJHI BANK	106,573	21.38	4.02	2.40
THE SAUDI NATIONAL BANK	54,967	10.00	1.19	5.24
RIYAD BANK	23,363	9.39	1.55	5.31
ALINMA BANK	20,503	13.87	2.35	2.60
SAUDI AWWAL BANK	19,372	9.27	1.21	5.60
BANK ALBILAD	12,668	16.84	2.94	2.63
ARAB NATIONAL BANK	11,425	8.63	1.17	5.49
BANQUE SAUDI FRANSI	11,148	9.18	1.07	5.77
BANK AL-JAZIRA	5,145	15.67	1.43	N/A
SAUDI INVESTMENT BANK	5,027	10.53	1.22	4.77
Total	**270,192**	**12.48**	**1.82**	**4.42**

Sources: Bloomberg, Bank Audi's Group Research Department

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CONCLUDING REMARKS

Vision 2030 plan expected to improve the business environment for banks

STABLE PROFITABILITY AS VOLUME EFFECT COMPENSATES FOR LOWER MARGINS

- Saudi Central Bank is considered, by international reference institutions, a strong and prudent banking regulator, which supports banks' operating environment.
- Saudi Arabia's banking sector is performing noticeably well, whether in terms of activity growth and economic dimension, or in terms of financial soundness including liquidity, asset quality, capital adequacy and profitability.
- The Kingdom's banks were reporting a healthy low double digits system loans CAGR (10-12% specified by one bank), backed mainly by their 4-5% non-oil GDP growth expectation for the medium term (MT).
- Looking forward, solid real GDP growth is expected as Saudi Arabia diversifies its economy beyond oil, with non-oil sectors gaining prominence. Growth will be increasingly driven by construction and the services sector as Vision 2030 projects ramp up.
- The Kingdom's commitments to host multiple large scale events like AFC Asian Games in 2027, Asian Winter Games 2029, Expo 2030 and FIFA 2034 have improved sustainability of credit demand in the medium term.
- Corporate lending is set to drive credit growth, supported by a strong project pipeline, while lower rates could boost mortgage lending. Cost of risk is expected to normalize owing to the supportive economic environment and declining interest rates. That said, higher private sector leverage may have adverse implications for asset quality over the longer term.
- Banks are poised for stable profitability in 2025 as the volume effect compensates for lower margins. Banks are likely to see positive income growth in the next few years, despite NIM shrinkage, helped by faster asset growth - and this is key from an ROE perspective. Declining rates offer them greater potential to demand better spreads on new originations in select segments and / or charge higher fees which helps mitigate NIM pressure on EPS.
- The Vision 2030 plan, along with its gradual implementation, is expected to improve the business environment for banks, because the non-oil economy, where banks do most of their business, benefits from the country's diversification efforts at large.