FAB أبوظبي الأول للأوراق المالية SECURITIES

First Look Note | 2Q26

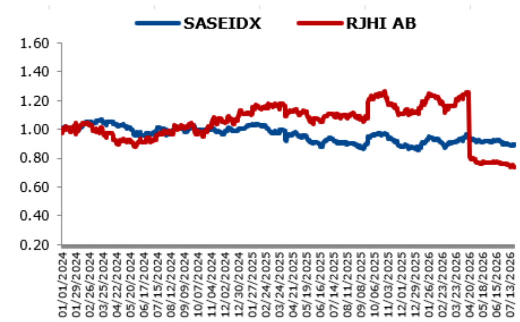
Saudi Equity Research   Sector: Banking   Market: Tadawul

Al Rajhi Bank (RJHI)

Strong Funded & Non-Funded Income Fuel Profit Growth

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 64.25	SAR 78.00	+21.4%	BUY

- Net advances grew 2.7% YOY and 1.1% QOQ to SAR 762.1 Bn in 2Q26, driven by growth in the non-retail book.
- During 2Q26, the Bank completed several securitization transactions, including SAR 4.9 Bn of mortgage loans and SAR 1.6 Bn of consumer loans.
- The Bank maintained a stable funding profile, with CASA deposits accounting for 64.2% of total deposits as of 2Q26.
- ALRAJHI's asset quality remained robust, with an NPL ratio of 0.74% and a strong provision coverage ratio of 153.2% in 2Q26.
- The Bank reported TIER 1 capital ratio of 21.7% and a total CAR of 23.5% during 2Q26.



2Q26 Net Profit in line with our estimates

Al Rajhi Bank's ("ALRAJHI", "The Bank") net profit attributable to equity shareholders grew 14.0% YOY to SAR 7,012 Mn in 2Q26, in line with our estimate of SAR 6,876 Mn. The growth is primarily driven by double-digit growth in net funded income and non-funded income coupled with decline in zakat charges partially offset by an increase in total operating expenses, higher impairments and higher share of profit to NCI holders.

P&L Highlights

ALRAJHI's funded income grew 6.1% YOY to SAR 14,484 Mn in 2Q26. On the other hand, funded expenses decreased 2.6% YOY to SAR 6,177 Mn in 2Q26. Thus, ALRAJHI's net funded income grew 13.7% YOY to SAR 8,307 Mn in 2Q26. The Bank's total non-funded income grew 12.2% YOY to SAR 2,577 Mn in 2Q26, due to an increase in fees from banking services and exchange income partially offset by decline in other operating income. As a result, ALRAJHI's total operating income expanded 13.3% YOY to SAR 10,884 Mn in 2Q26. The Bank's total operating expenses before credit impairment charges increased 11.8% YOY to SAR 2,395 Mn in 2Q26, due to an increase in general and administrative expenses and salaries and employees related benefits, partially offset by a decrease in depreciation expense. Thus, the Bank's calculated cost-to-income ratio declined 31 bps YOY and 133 bps QOQ to 22.0% in 2Q26. Additionally, impairment charges increased from SAR 600 Mn in 2Q25 to SAR 881 Mn in 2Q26, primarily driven by a 27.5% YOY increase in gross impairment charges. This was partially offset by a 21.4% YOY increase in recoveries from written-off financing in 2Q26. Zakat charges declined 16.6% YOY to SAR 583 Mn in 2Q26, while share of profit to NCI holders increased 34.4% YOY to SAR 14 Mn in 2Q26.

Stock Information	
Market Cap (SAR, Mn)	385,500.00
Paid Up Capital (Mn)	6,000.00
52 Week High	75.33
52 Week Low	60.10
3M Avg. daily value(SAR)	5,111,153

2Q26 Result Review (SAR, Mn)	
Total Assets	1,054,772
Net Loans	762,096
Total Equity	152,566
Total Deposits	688,359
Net Profit	7,012

Financial Ratios	
Dividend Yield (12m)	3.10
Dividend Pay-out (%)	42.71
Price-Earnings Ratio(x)	16.66
Price-to-Book Ratio (x)	3.40
Book Value (SAR)	19.14
Return-on Equity (%)	21.85

Stock Performance	
5 Days	-0.31%
1 Months	-4.10%
3 Months	-8.54%
6 Months	-8.99%
1 Year	1.45%
Month to Date (MTD%)	-2.50%
Quarter to Date (QTD%)	-2.50%
Year to Date (YTD%)	-1.15%

FAB أبوظبـي الأول للأوراق المالية SECURITIES

Balance Sheet Highlights

ALRAJHI's total assets increased 1.8% YOY and 0.3% QOQ to SAR 1,054.8 Bn in 2Q26, driven by growth in overall financing. Net investments declined 3.4% YOY and increased 1.1% QOQ to SAR 176.3 Bn in 2Q26. The Bank's net loans and advances portfolio rose 2.7% YOY and 1.1% QOQ to SAR 762.1 Bn in 2Q26, supported by growth in the non-retail book, where large corporate and SME increased 5.9% and 46.7% YOY, respectively. Similarly, customer deposits increased 3.6% YOY and 1.4% QOQ to SAR 688.4 Bn in 2Q26. The Bank's total equity grew 13.8% YOY and declined marginally 0.1% QOQ to SAR 152.6 Bn in 2Q26.

Target Price and Rating

We maintain our rating to BUY on ALRAJHI with a target price of SAR 78.00. ALRAJHI delivered a strong earnings performance in 2Q26, supported by rise in both funded and non-funded income. Fee income grew 17.1% YOY in 1H26, supported by the continued implementation of the Bank's "Harmonize the Group" strategy and initiatives to strengthen fee generation across cards, payments, bancassurance, and brokerage businesses. Meanwhile, exchange income increased by 21.4% YOY in 1H26, contributing to robust non-funded income growth. Additionally, ALRAJHI's net advances grew 2.7% YOY to SAR 762.1 Bn in 2Q26, driven by growth in the non-retail book, while retail financing declined slightly. Non-retail lending growth was led by strong momentum in large corporate and SME portfolios, which grew 5.9% YOY and 46.7% YOY, respectively, in 2Q26. While retail financing declined slightly by 2.6% YOY in 2Q26. During 2Q26, the Bank completed several securitization transactions, including SAR 4.9 Bn of mortgage loans and SAR 1.6 Bn of consumer loans. This follows the securitization of an additional SAR 1.3 Bn of consumer loans completed in 1Q26. The Bank's customer deposits grew 3.6% YOY and 1.4% QOQ to SAR 688.4 Bn in 2Q26. However, the Bank maintained a stable funding profile, with CASA deposits accounting for 64.2% of total deposits as of 2Q26. ALRAJHI's asset quality remained robust, with an NPL ratio of 0.74% and a strong provision coverage ratio of 153.2% in 2Q26, providing a solid buffer against potential credit losses. Moreover, the Bank's liquidity coverage ratio improved from 152.9% in 2Q25 to 169.1% in 2Q26, indicating a strengthened liquidity position. ALRAJHI's capitalization remained healthy with a TIER 1 capital ratio of 21.7% and a total CAR of 23.5% during 2Q26. The Bank also recorded strong shareholder returns, with a reported ROA and ROE of 2.6% and 23.3%, respectively, during 2Q26. Thus, based on our analysis, we maintain our rating to BUY on the stock.

Al Rajhi Bank - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	26.53	15.38	24.76	20.94	16.71	15.09
PB	5.81	4.97	4.33	4.17	4.12	3.13
BVPS	11.214	13.121	15.043	15.646	15.838	20.843
EPS	2.458	4.240	2.633	3.114	3.902	4.320
DPS (Pre Bonus shares)	0.875	1.250	2.300	2.710	2.500	2.981
DPS (Post Bonus shares)	0.583	0.833	1.533	1.807	1.667	1.987
Dividend yield (Post Bonus shares)	0.9%	1.3%	2.4%	2.8%	2.6%	3.1%

FABS Estimates & Co Data

Al Rajhi Bank - P&L

SAR Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Funded Income	13,647	14,507	14,484	15,005	-3.5%	6.1%	-0.2%	55,850	59,829	7.1%
Funded Expenses	-6,342	-6,102	-6,177	-6,406	-3.6%	-2.6%	1.2%	-26,004	-25,756	-1.0%
Net Funded Income	**7,305**	**8,405**	**8,307**	**8,599**	**-3.4%**	**13.7%**	**-1.2%**	**29,846**	**34,073**	**14.2%**
Total non-funded Income	**2,298**	**2,124**	**2,577**	**2,324**	**10.9%**	**12.2%**	**21.4%**	**9,248**	**9,526**	**3.0%**
Net Operating Income	**9,603**	**10,528**	**10,884**	**10,923**	**-0.4%**	**13.3%**	**3.4%**	**39,094**	**43,599**	**11.5%**
Total operating expenses	**-2,143**	**-2,457**	**-2,395**	**-2,575**	**-7.0%**	**11.8%**	**-2.5%**	**-9,127**	**-10,140**	**11.1%**
Profit before provisions	**7,460**	**8,071**	**8,490**	**8,347**	**1.7%**	**13.8%**	**5.2%**	**29,967**	**33,459**	**11.7%**
Impairment charge	-600	-631	-881	-676	30.4%	46.9%	39.7%	-2,320	-2,732	17.7%
Total Op Exp after imp	**-2,743**	**-3,088**	**-3,276**	**-3,251**	**0.8%**	**19.4%**	**6.1%**	**-11,447**	**-12,872**	**12.4%**
Net income before zakat	**6,860**	**7,440**	**7,609**	**7,672**	**-0.8%**	**10.9%**	**2.3%**	**27,646**	**30,727**	**11.1%**
Zakat	-699	-677	-583	-790	-26.2%	-16.6%	-13.9%	-2,822	-3,165	12.2%
Non-controlling interest	-10	-11	-14	-6	NM	34.4%	22.2%	-33	-28	-15.9%
Net profit for the year	**6,151**	**6,752**	**7,012**	**6,876**	**2.0%**	**14.0%**	**3.9%**	**24,792**	**27,535**	**11.1%**

FABS estimate & Co Data

Al Rajhi Bank – KPI

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Net FI/OI	76.1%	79.8%	76.3%	25	-351	76.3%	78.2%	181
Cost to income - (calculated)	22.3%	23.3%	22.0%	-31	-133	23.3%	23.3%	-9
Impairment/PPP	-8.0%	-7.8%	-10.4%	-234	-256	-7.7%	-8.2%	-42
NP/OI	64.1%	64.1%	64.4%	37	30	63.4%	63.2%	-26
Cost of risk – (reported)	0.32%	0.33%	0.46%	14	13	0.31%	0.35%	4
Loan-to-deposit – (calculated)	111.6%	111.0%	110.7%	-88	-34	112.8%	114.0%	119
NPL - (reported)	0.7%	0.8%	0.7%	NM	-3	0.75%	0.80%	5
Coverage - (reported)	150.5%	150.3%	153.2%	270	290	152.5%	150.0%	-250
Tier 1	19.4%	21.6%	21.7%	230	10	20.5%	21.3%	85
Capital adequacy	20.2%	23.0%	23.5%	330	50	21.9%	22.6%	78

FABS estimate & Co Data

Al Rajhi Bank - Key B/S items

SAR Mn	2Q25	3Q25	4Q25	1Q26	2Q26	Change
Net advances	741,715	755,985	752,760	753,730	762,096	2.7%
QOQ change	*2.6%*	*1.9%*	*-0.4%*	*0.1%*	*1.1%*	
Total assets	1,035,852	1,059,240	1,043,268	1,051,268	1,054,772	1.8%
QOQ change	*1.5%*	*2.3%*	*-1.5%*	*0.8%*	*0.3%*	
Customer deposits	664,687	693,905	667,288	678,734	688,359	3.6%
QOQ change	*1.1%*	*4.4%*	*-3.8%*	*1.7%*	*1.4%*	
Total equity	134,049	137,515	142,912	152,644	152,566	13.8%
QOQ change	*0.0%*	*2.6%*	*3.9%*	*6.8%*	*-0.1%*	

FABS estimate & Co Data

FAB SECURITIES أبوظبي الأول للأوراق المالية

Valuation:

We use the Residual Income and Relative Valuation (RV) method to value Al Rajhi. We have assigned 70% weight to Residual Income, and 30% to the RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	80.91	70%	56.64
Relative Valuation (RV)	71.20	30%	21.36
Weighted Average Valuation (SAR)			**78.00**
Current market price (SAR)			64.25
Upside/Downside (%)			+21.4%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.0%. Cost of equity is calculated by using the 10-year government bond yield of 5.5%, the beta of 0.88 and the equity risk premium of 4.0%. The government bond yield is calculated by adding the KSA 10-year CDS spread to the 10-year US risk-free rate. Also, assumed a terminal growth rate of 3.0%.

Sum of PV (SAR, Mn)	72,142
Terminal value (SAR, Mn)	**288,719**
Book Value of Equity (as of March 2026)	124,599
FV to Common shareholders (SAR, Mn)	**485,459**
No. of shares (Mn)	6,000
Current Market Price (SAR)	64.25
Fair Value per share (SAR)	**80.91**

Residual Income Method

(All Figures in SAR Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net Profit	25,920	29,442	32,342	35,873	40,110
(-) Equity Charge	-10,303	-11,205	-12,631	-14,076	-15,687
Excess Equity	**15,617**	**18,237**	**19,711**	**21,797**	**24,422**
Discounting Factor	0.96	0.88	0.81	0.74	0.68
Present Value of Excess Equity	**7,480[1]**	**16,032**	**15,902**	**16,136**	**16,592**

[1]*Adjusted for partial year*

FAB أبوظبي الأول للأوراق المالية SECURITIES

2) Relative Valuation:

We have used local as well as international peers to value Al Rajhi, and it is valued using the P/B multiple. We have applied a premium as ALRAJHI trades at a premium to its peers and is valued at a 2026 P/B multiple of 1.5x. The premium in valuation stems from a high composition of retail loan book, and it generates superior return on assets as compared to its peers.

Bank	Market	P/B (x)		P/E (x)		Dividend Yield (%)	
	(USD Mn)	2026F	2027F	2026F	2027F	2026F	2027F
Riyad Bank	21,294	1.1	1.0	8.0	7.5	5.5%	6.0%
Alinma Bank	19,184	1.8	1.7	11.6	10.8	3.5%	3.6%
Abu Dhabi Islamic Bank	21,557	2.7	2.4	12.0	10.9	4.3%	4.7%
Arab National Bank	10,915	0.9	0.9	8.4	8.1	6.0%	6.1%
Bank Albilad	9,580	1.5	NA	11.4	10.9	4.2%	4.4%
Average		**1.6x**	**1.5x**	**10.3x**	**9.6x**	**4.7%**	**5.0%**
Median		**1.5x**	**1.4x**	**11.4x**	**10.8x**	**4.3%**	**4.7%**
Max		**1.8x**	**1.8x**	**11.6x**	**10.9x**	**5.5%**	**6.0%**
Min		**1.1x**	**1.0x**	**8.4x**	**8.1x**	**4.2%**	**4.4%**

Source: FAB Securities

FAB SECURITIES أبوظبي الأول للأوراق المالية

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani	+971-2-6161629	ahmad.banihani@Bankfab.com
Shahrukh Nawaz	+971-2 -6161612	Shahrukh.Nawaz@bankfab.com

Sales & Execution

Abu Dhabi Head Office		
Trading Desk	+971-2-6161700/1	Online Trading Link
	+971-2-6161777	
Institutional Desk	+971-4-4245765	

DISCLAIMER