FAB أبوظبي الأول للأوراق المالية SECURITIES

Earnings Call Insight | 2Q26

Saudi Equity Research   Sector: Banking   Market: Tadawul

Al Rajhi Bank (RJHI)

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 62.55	SAR 78.00	+24.7%	BUY

2Q26 Net Profit in line with our estimate

- Al Rajhi Bank (RJHI/the Bank) reported 14.0% YOY increase in net profit to SAR 7,012 Mn in 2Q26, supported 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.
- Net funded income increased 13.7% YOY to SAR 8,307 Mn in 2Q26, supported by a 6.1% YOY increase in funded income to SAR 14,484 Mn and a 2.6% YOY decline in funded expenses to SAR 6,177 Mn.
- 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.
- 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.
- The cost-to-income ratio declined 31 bps YOY and 133 bps QOQ to 22.0% in 2Q26.
- Pre-provision profit increased 13.8% YOY to SAR 8,490 Mn in 2Q26.
- Impairment charges increased from SAR 600 Mn in 2Q25 to SAR 881 Mn in 2Q26, primarily driven by a 27.5% increase in gross impairment charges. This was partially offset by a 21.4% YOY increase in recoveries from written-off financing in 2Q26.
- 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.
- Customer deposits increased 3.6% YOY and 1.4% QOQ to SAR 688.4 Bn in 2Q26.
- The Bank's loan-to-deposit ratio eased 88 bps YOY and 34 bps QOQ to 110.7% in 2Q26, as deposit growth outpaced financing growth over both periods.
- RJHI'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.

Earnings Call Summary

- The Bank stated that growing fee income remains one of the key objectives under its Harmonize the Group strategy and expects fee income growth to continue outpacing financing growth.
- Despite a relatively lower retail financing mix compared with last year, Bank highlighted that ROE improved YOY, reflecting the broader profitability generated from corporate relationships.
- The Bank attributed the higher cost of risk to updates in the ECL model following the IMF's revision of Saudi Arabia's 2026 GDP growth forecast to 1.7% from 4.5%, along with additional overlays for sectors considered potentially affected by the current environment.
- Bank stated that it remains comfortable with the current provisioning levels as of the close of 2Q26, and will continue assessing developments, taking further charges or releases as required.
- The Bank does not expect any further seasonality in operating expenses, with Bank noting that it does not guide on operating expenses and referring investors to its cost-to-income ratio and ROE guidance for directional expectations.
- Growing CASA remains a key Bank priority, with c. SAR 10 Bn of CASA growth achieved YTD despite the outflow of c. SAR 17.5 Bn of seasonal and transitory deposits during 2Q26, as the Bank continues to focus on managing its cost of funds efficiently.
- Bank stated that securitization is not driven by capital or liquidity necessity, with ratios strong enough to require no fire sale, but is used to optimize the funding profile given the liquidity premium since 2022. Bank

indicated recent transactions remain NIM accretive, monitored as new origination rate less the securitized book rate, with none of the deals over the past three to four years producing a negative NIM trend, and expects higher mortgage origination rates with 10-year Treasuries at 4.62% versus a prior c. 4.25%–4.50% range.

- The current Harmonize the Group strategy concludes in 2026, with Bank preparing a new three-year strategy that is expected to be approved by December 2026 and to be presented to investors next year.
- Bank is still evaluating the 1H26 interim dividend and will recommend it after considering the current operating environment, with the decision to be announced in due course. Bank reiterated that its approach weighs dividend distribution against capital preservation to support growth, consistent with last year.
- Bank reaffirmed 2026 guidance across most key metrics, including net profit margin expansion of 30–40 bps, cost-to-income ratio below 23%, Tier 1 capital ratio above 21%, and ROE above 23.5%.
- However, Bank revised financing growth guidance downward to low single-digit growth from low to mid-single digit and widened the cost of risk guidance to 35–45 bps from 30–40 bps.

Al Rajhi Bank - P&L

SAR Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch
Funded Income	13,647	14,507	14,484	15,005	-3.5%	6.1%	-0.2%
Funded Expenses	-6,342	-6,102	-6,177	-6,406	-3.6%	-2.6%	1.2%
Net Funded Income	**7,305**	**8,405**	**8,307**	**8,599**	**-3.4%**	**13.7%**	**-1.2%**
Total non-funded Income	**2,298**	**2,124**	**2,577**	**2,324**	**10.9%**	**12.2%**	**21.4%**
Net Operating Income	**9,603**	**10,528**	**10,884**	**10,923**	**-0.4%**	**13.3%**	**3.4%**
Total operating expenses	**-2,143**	**-2,457**	**-2,395**	**-2,575**	**-7.0%**	**11.8%**	**-2.5%**
Profit before provisions	**7,460**	**8,071**	**8,490**	**8,347**	**1.7%**	**13.8%**	**5.2%**
Impairment charge	-600	-631	-881	-676	30.4%	46.9%	39.7%
Total Op Exp after imp	**-2,743**	**-3,088**	**-3,276**	**-3,251**	**0.8%**	**19.4%**	**6.1%**
Net income before zakat	**6,860**	**7,440**	**7,609**	**7,672**	**-0.8%**	**10.9%**	**2.3%**
Zakat	-699	-677	-583	-790	-26.2%	-16.6%	-13.9%
Non-controlling interest	-10	-11	-14	-6	NM	34.4%	22.2%
Net profit for the year	**6,151**	**6,752**	**7,012**	**6,876**	**2.0%**	**14.0%**	**3.9%**

FABS estimate & Co Data

Management Guidance 2026:

		FY 2026 Guidance	1H 2026 Actual	Guidance Revision
Balance Sheet	Financing	Low to mid single digit	+1.2%	↓ Low single digit
Profitability	Net profit margin	+30 bps to +40 bps	+34 bps	– +30 bps to +40 bps
	Cost to income ratio	Below 23.0%	22.7%	– Below 23.0%
	ROE	Above 23.5%	23.3%	– Above 23.5%
Asset Quality	Cost of risk	0.30% - 0.40%	0.39%	↓ 0.35% - 0.45%
Capital	Tier 1 ratio	Above 21%	21.7%	– Above 21%

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%

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