

Al Rajhi Bank Results Presentation

2Q 2020 Earnings Conference Call and Webcast

Management Summary

2Q 2020 Highlights

Strategy

Strategy implementation is on track delivering strong results despite the current environment

- Improved customer service, digitization and new products all contributed to the bottom line.
- Growth in mortgages, customers loans, and operating income.
- Continued strong growth across all digital channels & payments.

Balance Sheet

Balance sheet healthy growth was driven by financing activities

- Strong growth in Retail financing at (+12% YTD) and current account (+10% YTD).
- Healthy CAR at (19%) and Tier I at (18%).
- Strong liquidity ratios, LDR at (79%) and LCR at (164%).

Asset Quality

Al Rajhi Bank remains well capitalized and maintains high coverage ratio

- Higher net provisions by (+48% YoY) was taken considering the current environment.
- Adequate cost of risk at (0.85%).
- Healthy NPL ratio of (1.02%) and NPL coverage at (253%).

Operating Result

1H 2020 net income before Zakat of SAR 5.4 Billion (-5.4%YoY), mainly driven by

- Slower yield expansion caused by lower SAIBOR, instalments deferrals and fee waiver impact.
- Yield income growth of (+1% YoY) driven by mortgage financing.
- Non-yield income growth of (+13% YoY) driven by digital & payments fees.

Strategy Update

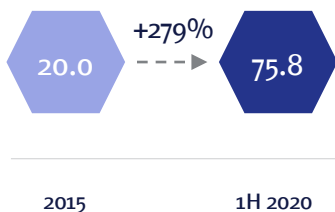
ABCDE 'Back to Basics' strategy delivered strong results in 2Q 2020



Accelerated Growth

+3% YoY operating income growth
+83% YoY growth in mortgages
+10% YoY growth in current accounts
-40bps YoY net profit margin drop to 4.80%

Mortgage Financing (SARbn)



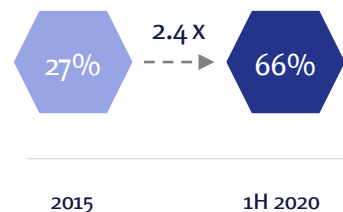
Exceed Industry



Become Employer of Choice

Al Rajhi Bank Academy
School of Banking
Graduate Program
24,630 training days delivered

Employee Engagement Index



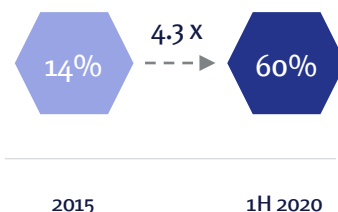
Higher Engagement



Customer Focus

10 new products launched to cater to customers' needs
Enhanced Distribution Network
Highest Rated Banking Mobile app
Maintain high Net Promoter Score in KSA

Net Promoter Score



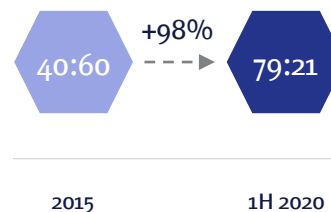
Most Recommended



Digital Leadership

145K POS
5K ATMs 31 ITMs
338 Self Service Kiosks
6.5mn active digital users

Digital : Manual Ratio



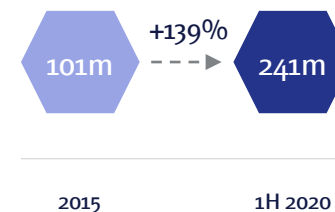
Best-In-Class



Execution Excellence

253 Bots
17.6K transactions per day
Migrated to Tier 4 Data Center
Further enhanced turnaround time

Transactions per month (Avg.)



Deliver

KSA's Macro-Economic Environment

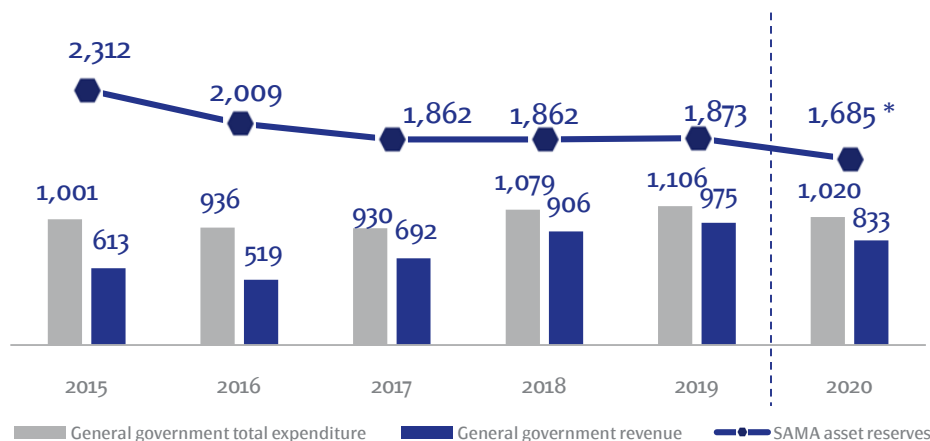
KSA Economic Outlook

Covid-19 outbreak and low oil prices poses unprecedented environment

Highlights

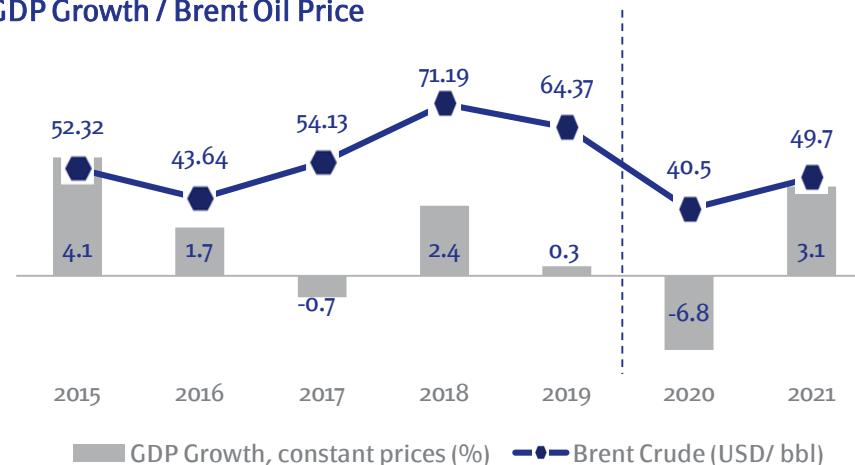
- Saudi Arabia is facing a recession in 2020 and unplanned expenses to deal with the pandemic.
- Contractions in investment, consumption and disrupted business activity drives GDP forecast to (-6.8%).
- Fiscal policy adjustment measures put in place and further stimulus packages been announced.

Expenditures/ Revenue and asset reserves (SARbn)



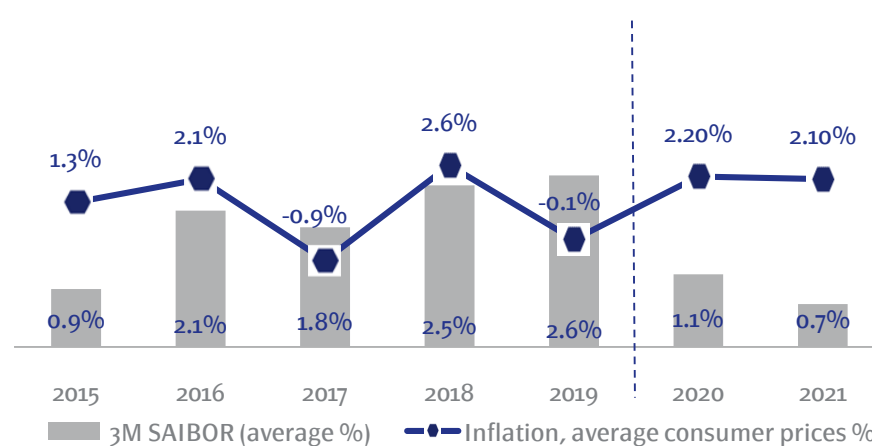
Source: MoF, Rajhi Capital * May 2020 figures

GDP Growth / Brent Oil Price



Source: IMF, U.S. Energy Information

3M SAIBOR / Inflation



Source: SAMA, IMF

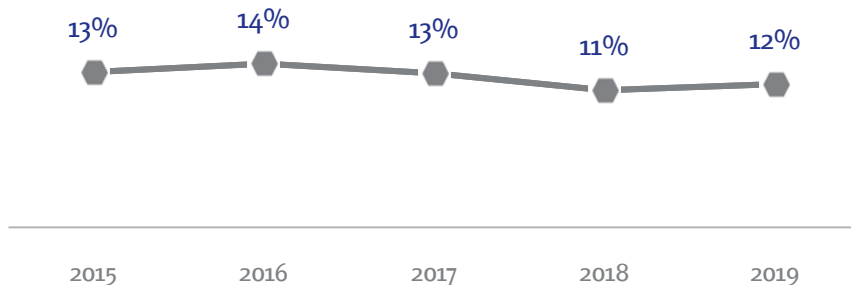
Consumer Spending Highlights

Challenging outlook post the VAT hike and COLA removal

Highlights

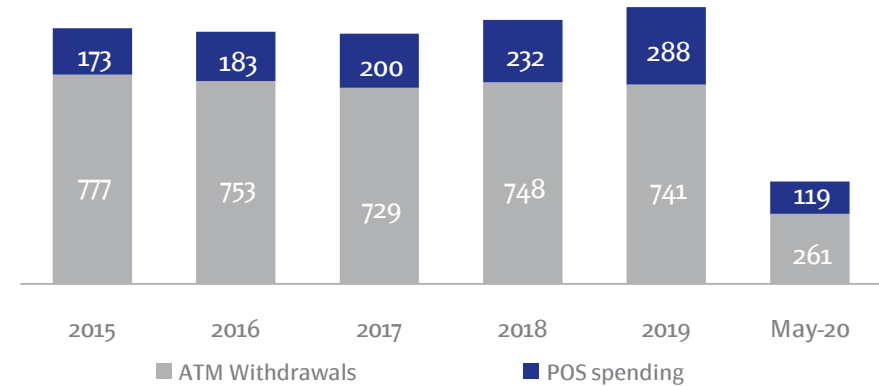
- Shifts in consumer behavior is expected, with more allocation of spending toward essential goods and services.
- We forecast a drop of 11% in consumer purchasing power during 2020 on the back of the VAT hike and removal of Cost-of-Living Allowance.
- Saudi household debt to GDP remain low.

Household debt % of GDP



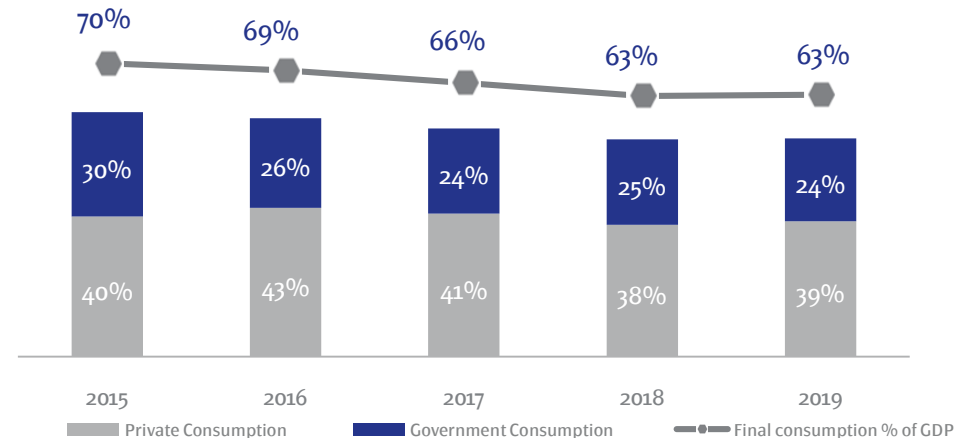
Source: Global Economics

POS Transaction / ATM Withdrawals (SARbn)



Source: SAMA

Consumption expenditure % GDP

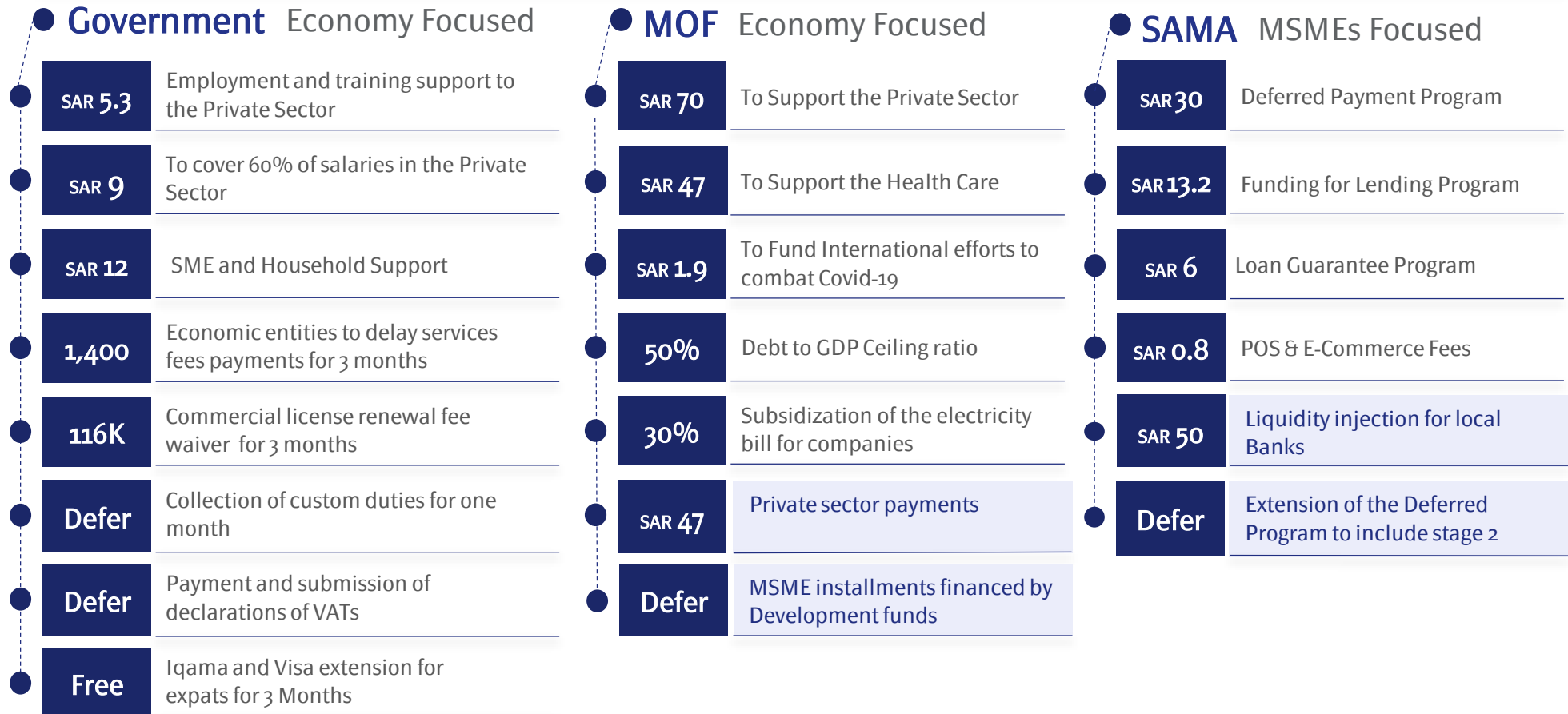


Source: World Bank

Government Stimulus Highlights

SAR +350bn to combat the negative impact of Covid-19 and low oil prices on the economy

In Billions



Introduced in 2Q 2020

Financial Results

Balance Sheet Trends (1)

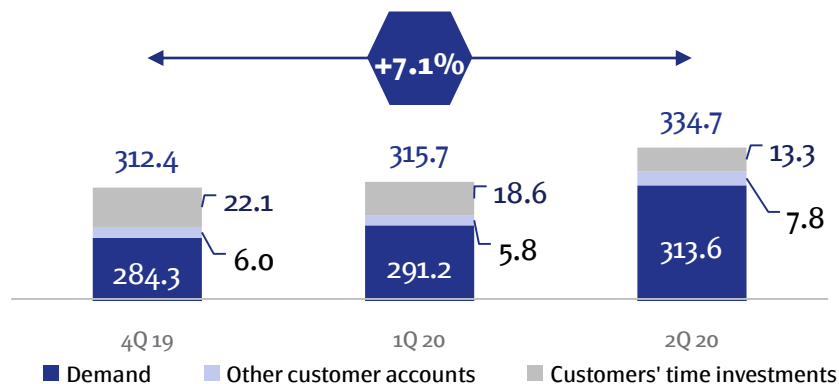
Strong financing growth, mortgage is the main driver

Highlights

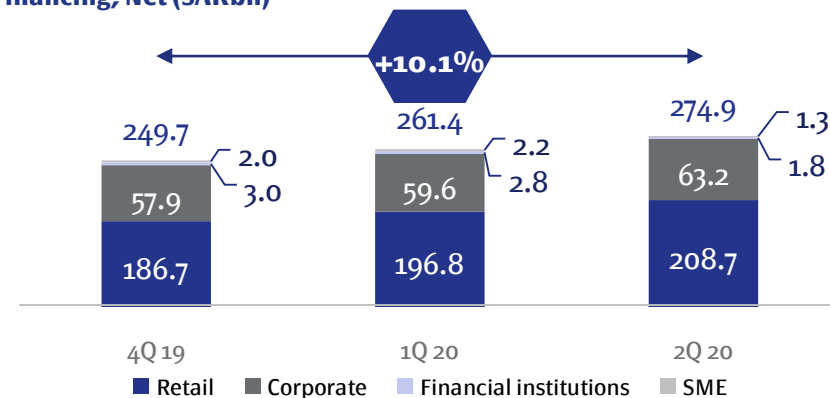
- Total Assets grew by (+9% YTD) driven by strong growth in financing & investment.
- Net financing grew by (+10% YTD) contributed by strong retail performance.
- Customers deposits growth of (+7% YTD) contributed by growth in demand deposits.

SAR (mn)	2Q 2020	1Q 2020	QoQ	4Q 2019	YTD
Cash and balances with SAMA	45,022	36,293	+24%	39,294	+15%
Due from banks and other FI	28,215	28,014	+1%	32,058	-12%
Investments, net	52,937	49,658	+7%	46,843	+13%
Financing, net	274,928	261,385	+5%	249,683	+10%
Other Assets	16,582	16,552	+0%	16,209	+2%
Total assets	417,684	391,901	+7%	384,087	+9%
Due to banks and other FI	10,325	5,511	+87%	2,220	+365%
Customers' deposits	334,665	315,661	+6%	312,406	+7%
Other liabilities	20,764	21,143	-2%	18,269	+14%
Total liabilities	365,754	342,315	+7%	332,895	+10%
Total shareholders' equity	51,930	49,587	+5%	51,192	+1%

Total Customers' Deposits (SARbn)



Financing, Net (SARbn)



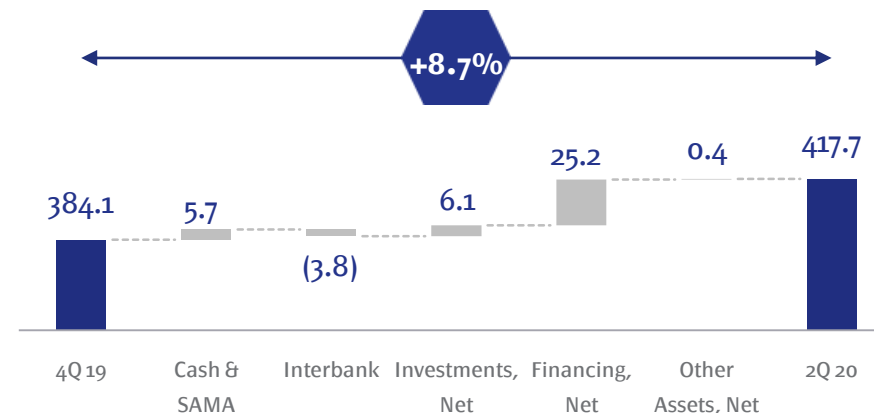
Balance Sheet Trends (2)

Stable growth in customers deposits

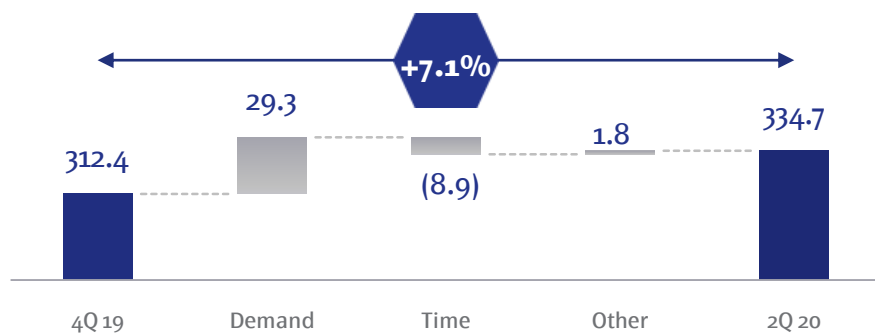
Highlights

- Retail financing growth of (+12% YTD) mainly driven by growth in mortgage financing (+38% YTD).
- Financing is dominated by retail (76%) followed by corporate (23%).
- Current accounts grew by (+10% YTD) a (96%) non-profit bearing deposits.

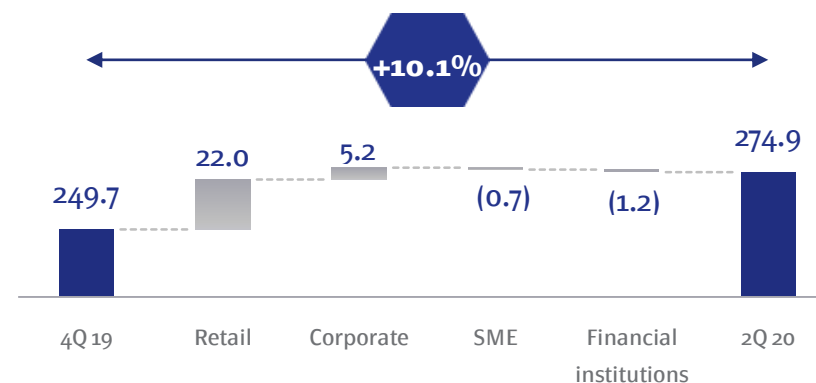
Asset Drivers By Type (SARbn)



Total Customers' Deposits Drivers (SARbn)



Financing, Net Drivers (SARbn)



Net Income Trends

Resilient results despite unprecedented environment

Highlights

- Net Income before Zakat decreased by (-5% YoY) caused by higher operating expenses & provisions.
- Yield income growth of (+1% YoY), and non-yield income growth of (+13% YoY).
- On a segmental basis, Retail Banking growth of (+4% YoY).

SAR (mn)

Net financing and investment income

Fee from banking services, net

Exchange Income, net

Other operating income, net

Fees and other income

Total operating income

Operating expenses

Impairment charge

Total operating expenses

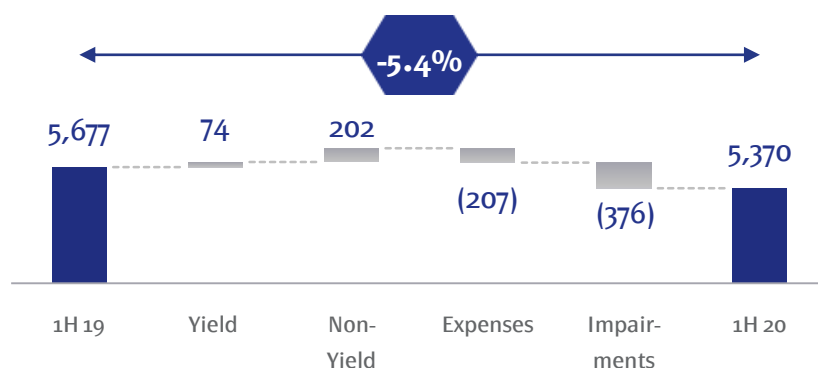
Net income for the period before Zakat

Zakat

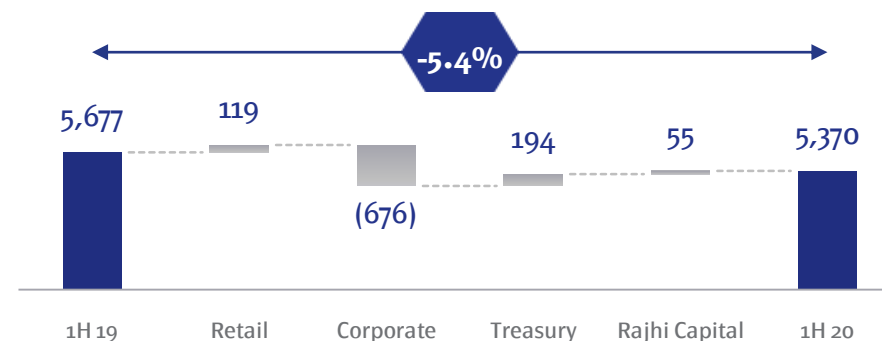
Net income for the period after Zakat

	1H 2020	1H 2019	YoY	2Q 2020	2Q 2019	YoY
Net financing and investment income	8,078	8,005	+1%	3,968	4,061	-2%
Fee from banking services, net	1,147	995	+15%	529	522	+1%
Exchange Income, net	377	371	+2%	170	198	-14%
Other operating income, net	173	129	+34%	141	81	+75%
Fees and other income	1,697	1,495	+13%	840	800	+5%
Total operating income	9,775	9,500	+3%	4,808	4,861	-1%
Operating expenses	(3,255)	(3,048)	+7%	(1,634)	(1,646)	-1%
Impairment charge	(1,151)	(775)	+48%	(458)	(386)	+19%
Total operating expenses	(4,405)	(3,823)	+15%	(2,092)	(2,032)	+3%
Net income for the period before Zakat	5,370	5,677	-5%	2,716	2,829	-4%
Zakat	(554)	(575)	-4%	(280)	(295)	-5%
Net income for the period after Zakat	4,816	5,102	-6%	2,436	2,534	-4%

Net Income Before Zakat Growth Drivers By Type (SARmn)



Net Income Before Zakat Growth Drivers By Segment (SARmn)



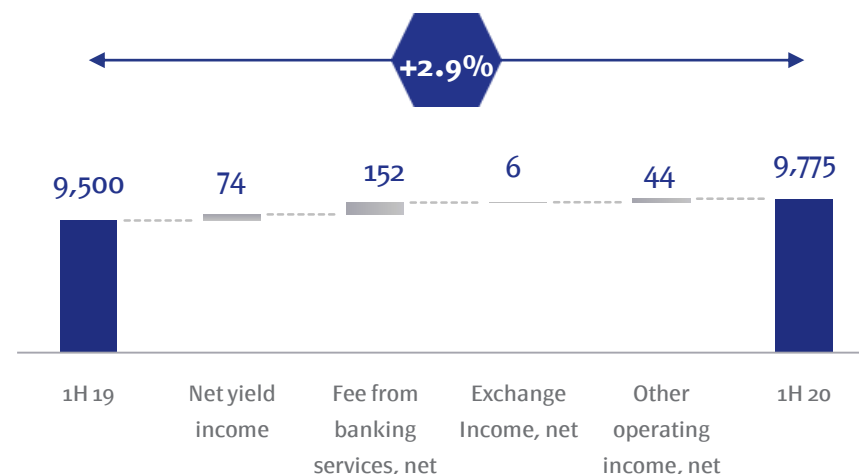
Operating Income Trends

Solid operating income growth, inline with our strategy

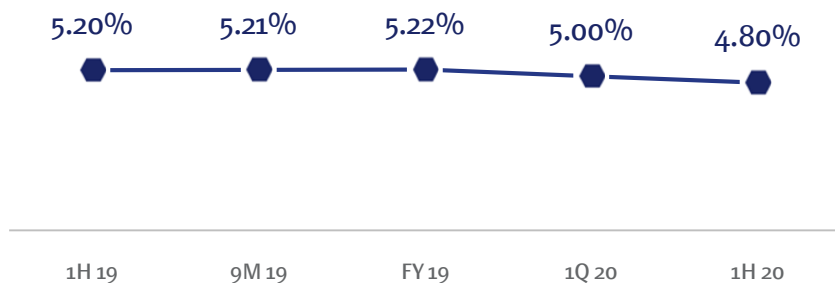
Highlights

- Solid growth of (+3% YoY) driven mainly by growth in fee income.
- Fee income growth of (+15% YoY) mainly from digital & payment.
- Net profit margin contracted by (-40 bps YoY) reaching (4.80%).

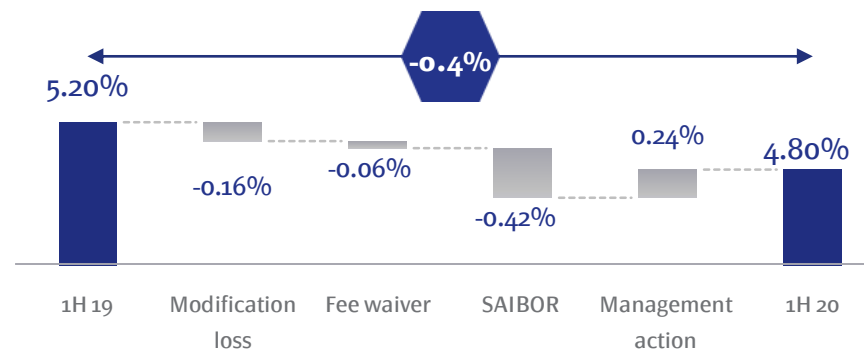
Total Operating Income Growth Drivers By Type (SARmn)



Net Profit Margin (%)



NIM drivers (%)



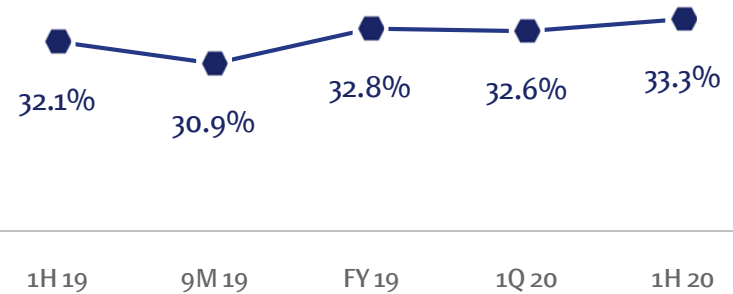
Expenses Trends

Upgrading IT & Digital platform, a long term investment

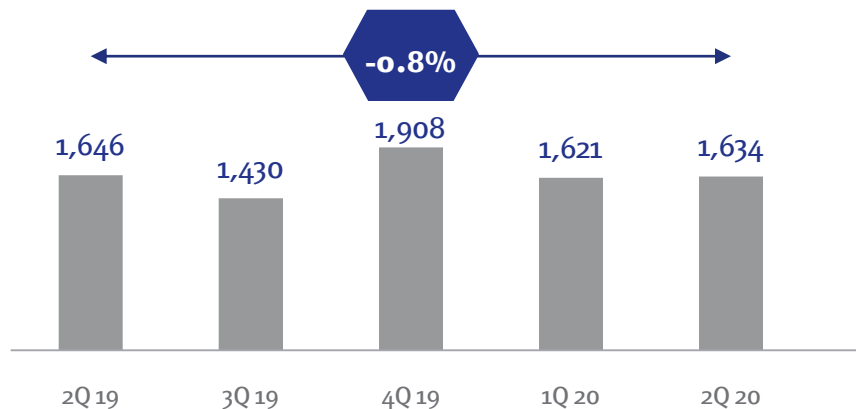
Highlights

- Cost to income ratio at (33.3%) a 120 bps increase YoY.
- Operating expenses grew by (+6.8% YoY).
- Higher IT cost primarily related to acceleration of digital and infrastructure spend to enhance resilience.

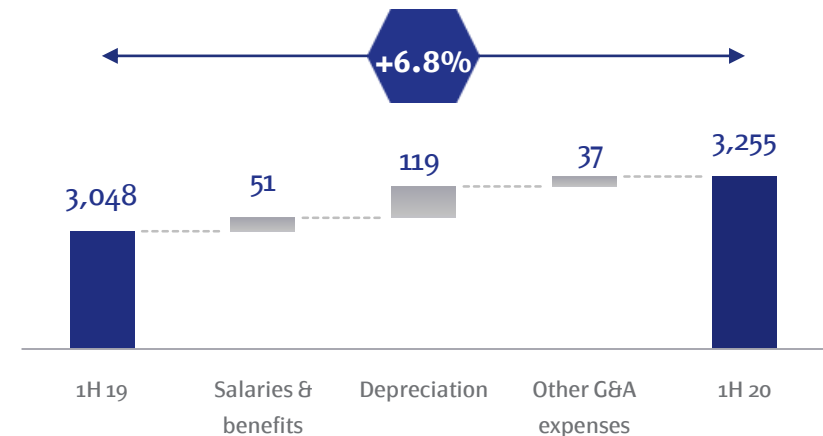
Cost To Income Ratio Trend (%)



Operating Expenses (SARmn)



Operating Expenses Growth Drivers By Type (SARmn)



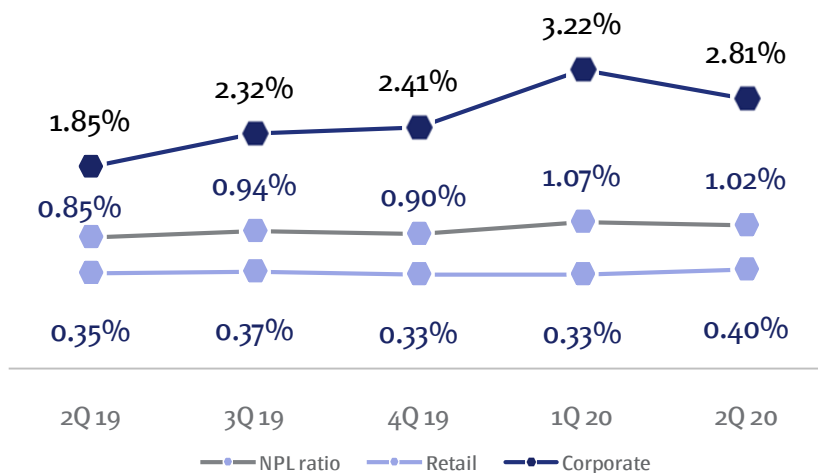
Asset Quality Trends (1)

Asset quality remains healthy and sound NPL coverage

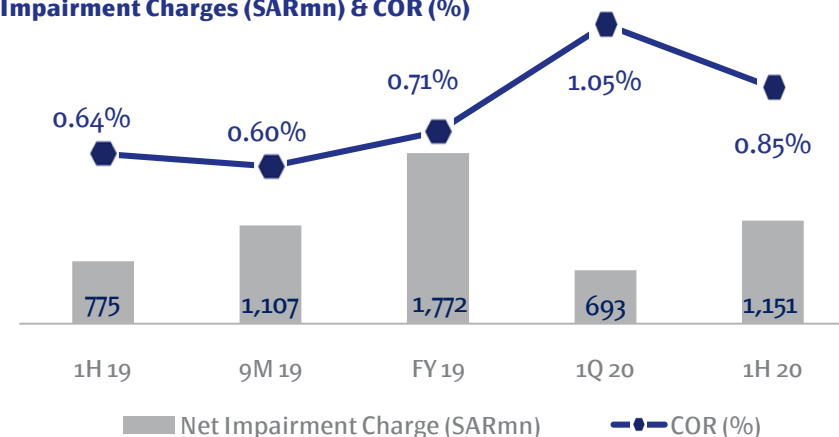
Highlights

- Net Provision increased by (+48% YoY).
- NPL ratio at (1.02%) with an increase in Retail NPL ratio.
- Coverage ratio remains healthy (253%), above industry average.

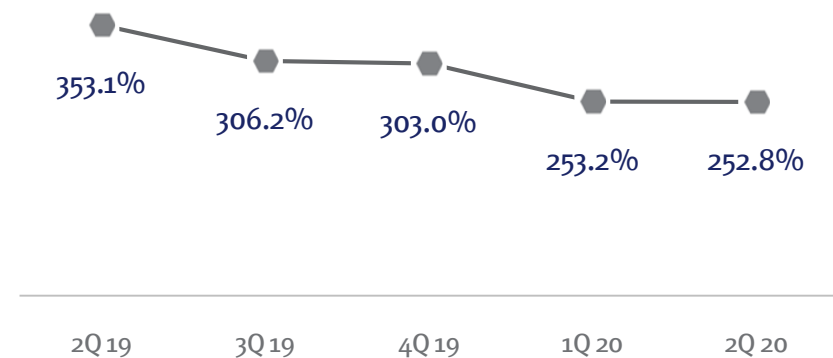
NPL Ratio Trend (%)



Impairment Charges (SARmn) & COR (%)



NPL Coverage Trend (%)



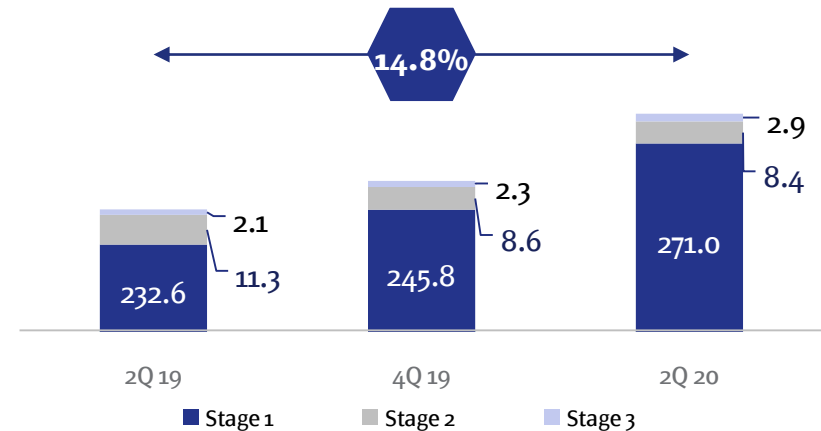
Asset Quality Trends (2)

Healthy stage coverage and prudent risk management

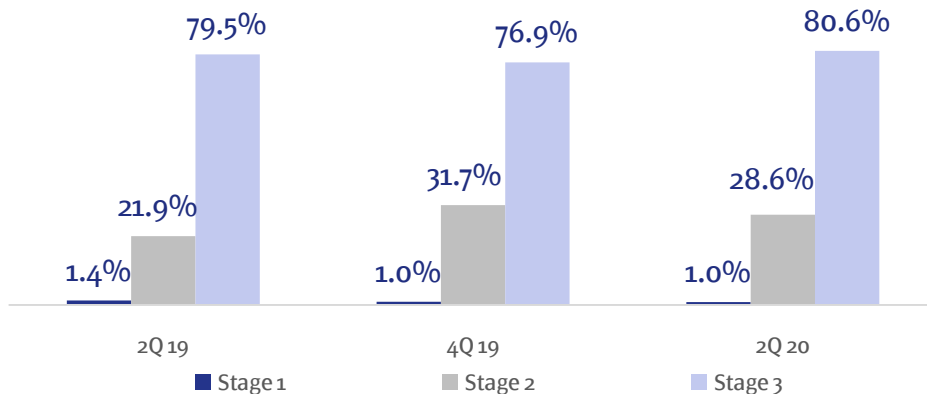
Highlights

- 96% of the portfolio is stage 1, above industry coverage across all the stages.
- Gross charge of SAR 1,732mn has been taken including SAR 423mn of COVID-19 overlay.
- Further assessments of SICR and ECL are has been performed, will review it regularly inline with the current environment.

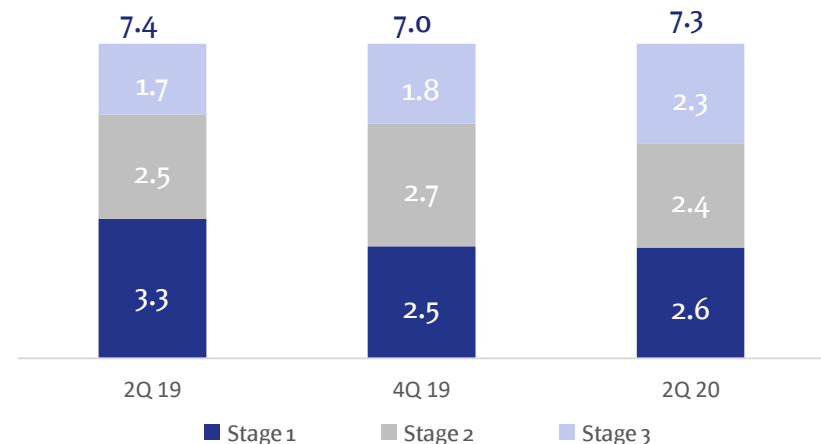
Gross loans by Stage



ECL Coverage (%)



ECL Allowance (SARbn)



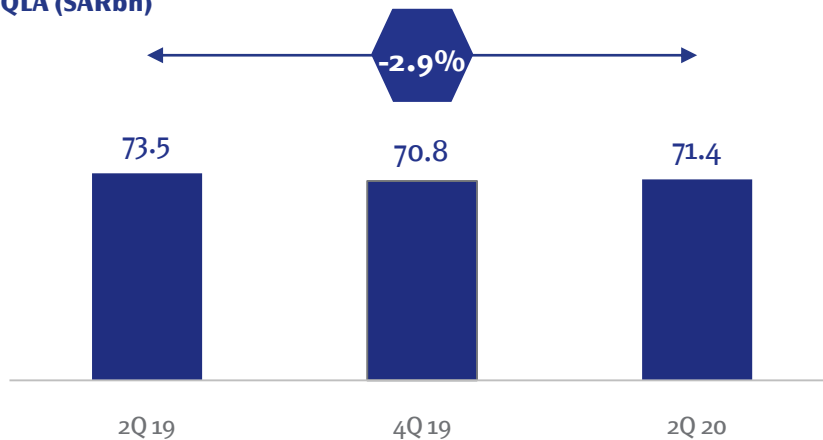
Liquidity Trends

Liquidity remain comfortably within regulatory requirements

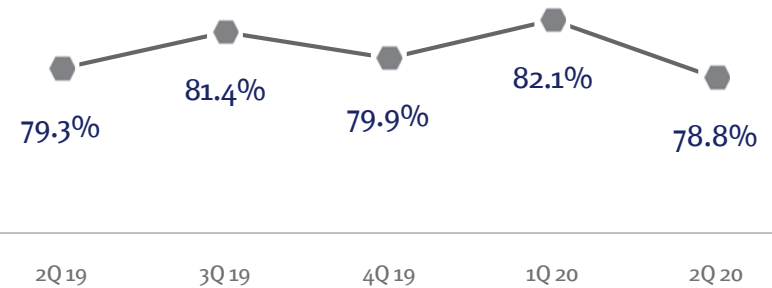
Highlights

- LDR remains stable at (78.8%).
- Liquidity remains healthy, LCR at (164%) and NSFR at (127%).
- HQLA increased by (+0.8% YTD).

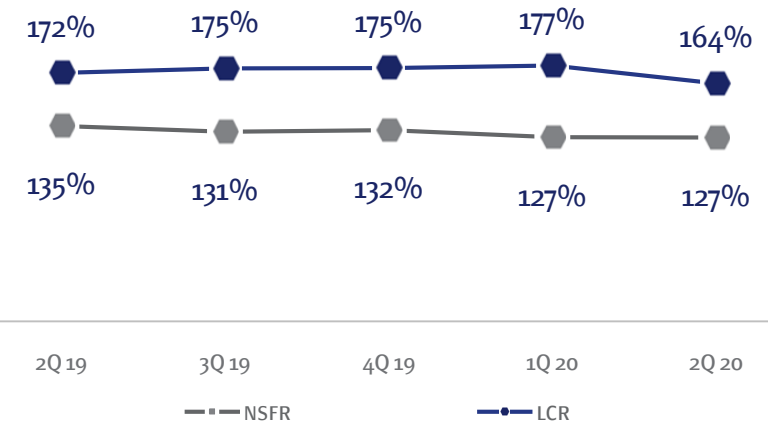
HQLA (SARbn)



Loan to deposit Ratios (%)



Liquidity Ratios (%)

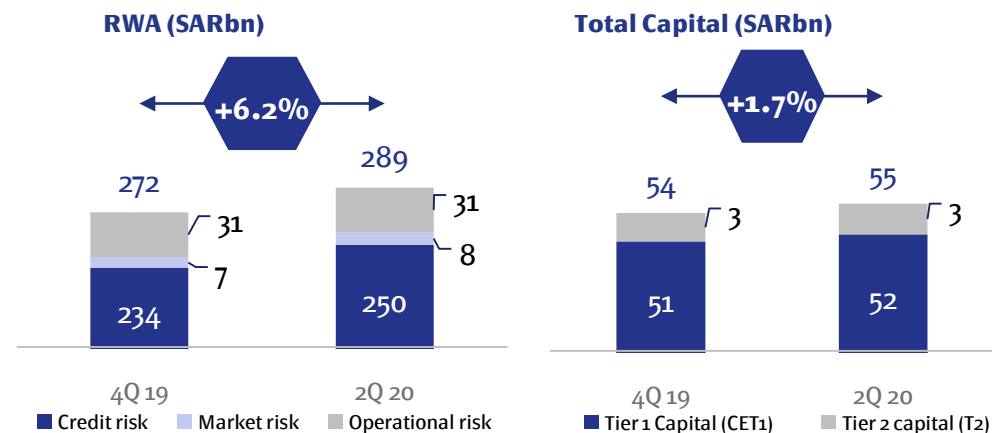


Capitalisation Trends

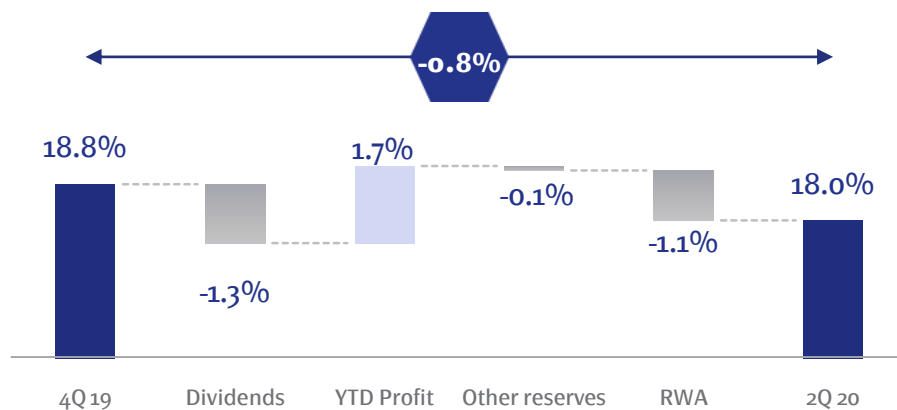
Capital position well above regulatory minima

Highlights

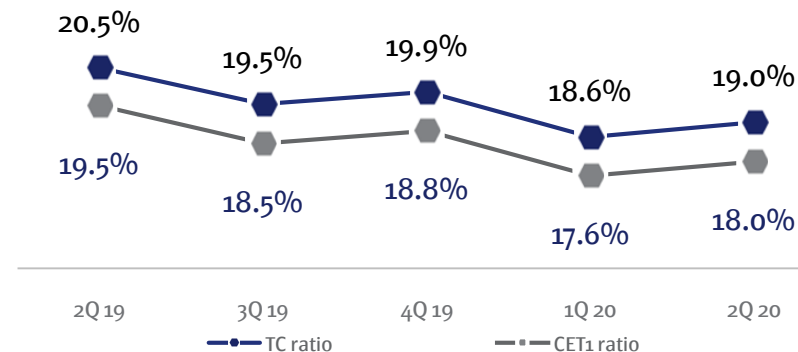
- Total Capital increased by (+1.7% YTD).
- Risk weighted assets increased by (+6.2% YTD) mainly driven by growth in credit risk.
- Improved CAR at (19.0%), and CET1 at (18.0%) driven by growth in total capital.



CET1 Movment (%)



Capital Ratios (%)



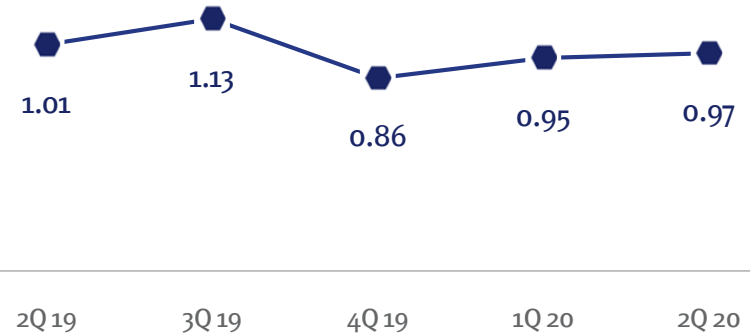
Return Metrics

Returns remain well above industry average

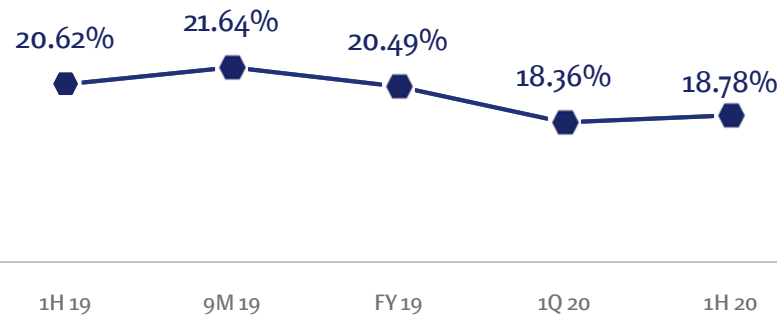
Highlights

- Stable growth in EPS of (SAR 0.97).
- Market-leading ROE at (18.78%), well above peers.
- Solid ROA at (2.46%) given the growth in total assets.

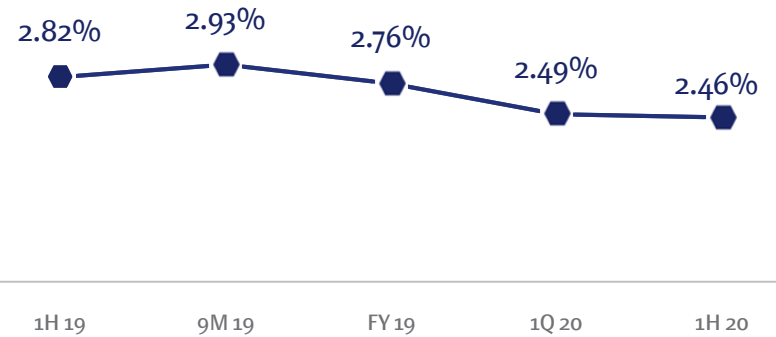
Earnings Per Share (SAR)



Return on Equity (%)



Return on Assets (%)



Macro environment impact

Focused in managing the current challenges & beyond

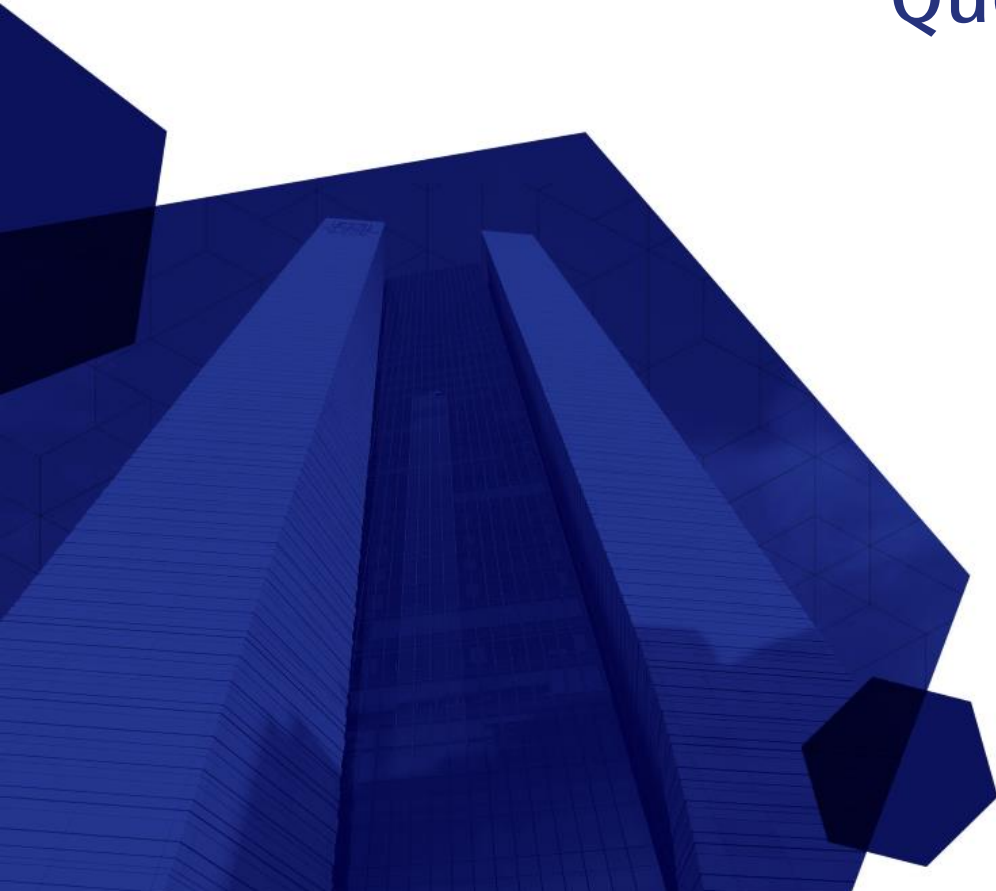
Key Challenges	COVID-19	RATE ENVIRONMENT	OIL PRICES	
Impact	Growth Forecast	Asset Quality	Liquidity	Profitability
Focus Areas to Mitigate Downside	<ol style="list-style-type: none"> Consumer lending, mainly Mortgage financing SMEs & Corporate structured products & stimulating Kafalah program Grow Credit Cards & Trade Finance market Share 	<ol style="list-style-type: none"> Core Portfolio is low risk, salary assigned Retail portfolio Small portfolio in MSME supported by Government Stimulus Packages Close monitoring and prudent provisioning measures 	<ol style="list-style-type: none"> Strict and prudent liquidity management, and monitoring Expand funding client base and product mix SAMA Continues to support Liquidity in USD & SAR 	<ol style="list-style-type: none"> Yield income focus through mix change Digital & Payments leadership Rationalizing our Opex & Capex spend
Management Delivery	10.1% Financing Growth	0.85% COR	78.8% LDR	-5.6% YoY Net Income
Long Term	Preparing for the " Next Normal "			

Progress against guidance and outlook

Revised guidance to reflect current macro environment

		FY 2019 Actual	FY 2020 Latest Guidance	2Q 2020 Actual	FY 2020 Revised Guidance	
Balance Sheet	Financing, Net (SAR bn)	249.7	High single digit growth	274.9 (10.1%)	Low teens digit growth	↑
	Net Profit Margin	5.22%	-45 bps to -25 bps	4.80% (-42 bps)	-55 bps to -35 bps	↓
Profitability	Cost to Income Ratio	32.8%	Below 33%	33.3%	Below 33%	=
	Cost of Risk	0.71%	0.80% - 1.00%	0.85%	0.80% - 1.00%	=
Capital & Liquidity	CET1 Ratio	18.8%	17% - 19%	18.0%	17% - 19%	=
	ROE after Zakat	20.49%	18% - 20%	18.78%	18% - 20%	=

Questions & Answers



Appendix

Our Response to Covid-19

Actions taken to support stakeholders

Business Continuity

- Activate **Work from Home** for c.60% of our staff.
- Open c.50% of **branches network**.
- Accelerate **IT & Digital** Infrastructure upgrade.
- Enhance **Information security & fraud** systems.

Employee

- Expand employee **awareness programs**.
- Continue **sanitizations** to our premises.
- Limit **physical meetings**.
- Protect employees **working in our offices**.

Customers

- Participate in the **government relief measures**
- Offer **payment deferral** for impacted customers.
- Waive all **digital & financing procession** fees.
- Provide **advice, support** to all customers.

Community

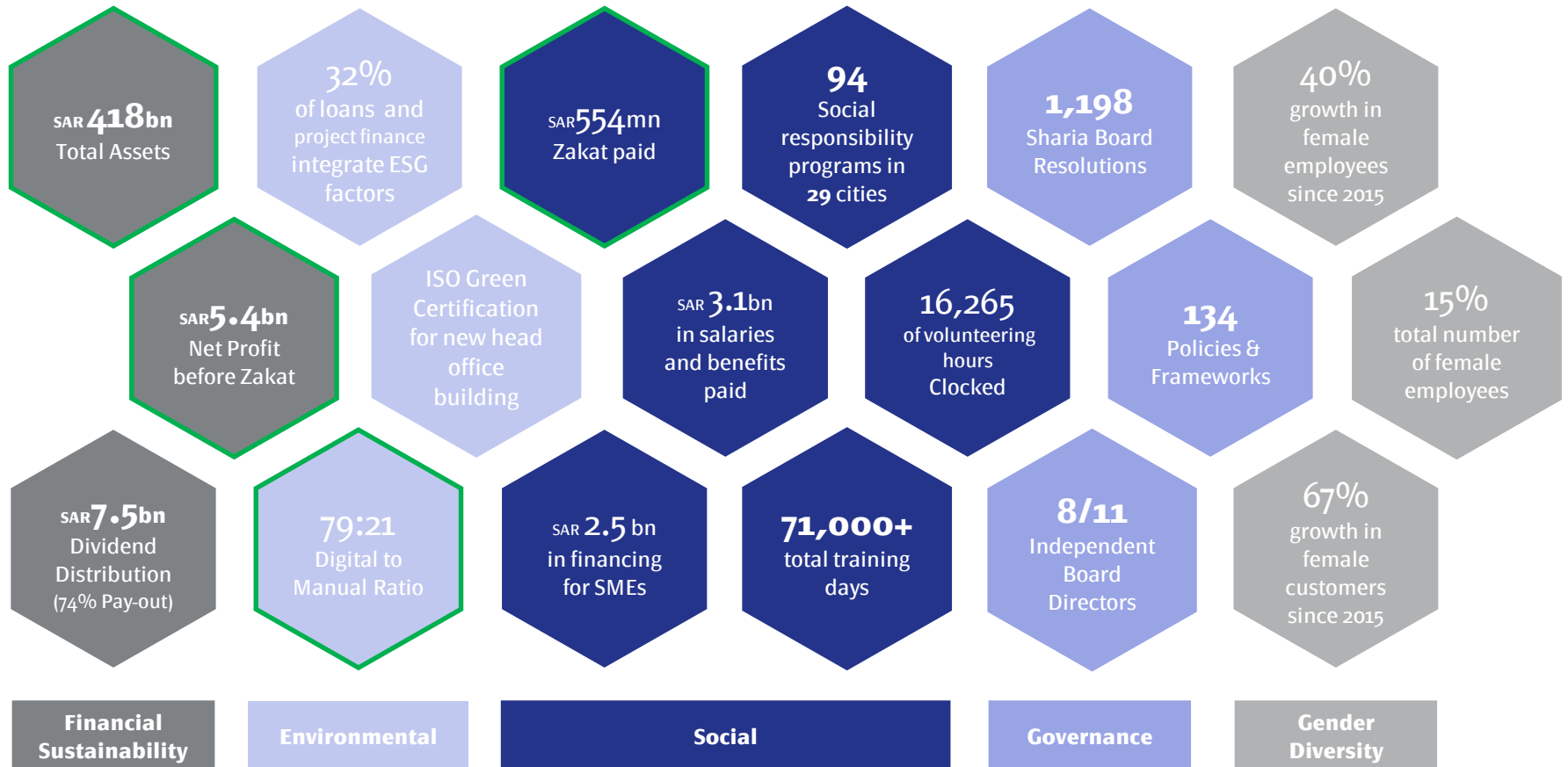
- Donate SAR 25Mn– **Health Endowment Fund**
- Donate SAR 15Mn– **Community Fund**
- Donate SAR 9Mn– **Food & Drug Charity**
- Conduct **virtual AGM**

We are reflecting our core values in supporting our customers, employees and community during the current challenging environment.

ESG Highlights

ESG Highlights

As of FY 2019 unless stated otherwise

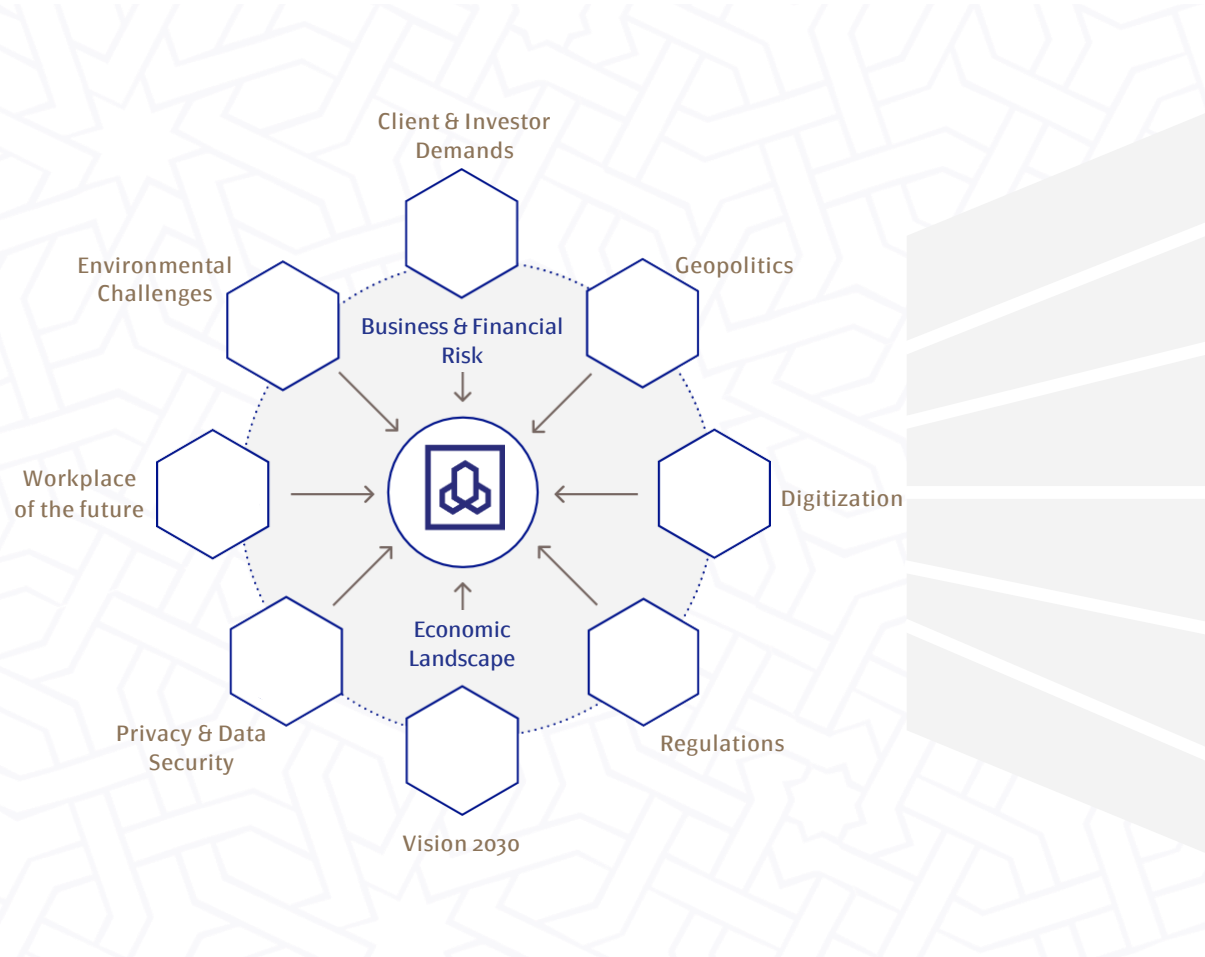


 1H 2020

Developments impacting Al Rajhi Bank's operating environment

Major factors integrated into our approach to ESG and our value creation model

Major Factors



'ABCDE' Strategy



Accelerate growth
Improve portfolios in key customer segments



Become Employer of choice
Create a performance-driven culture where the customer comes first



Customer focus
Provide greater convenience and security in customer offering



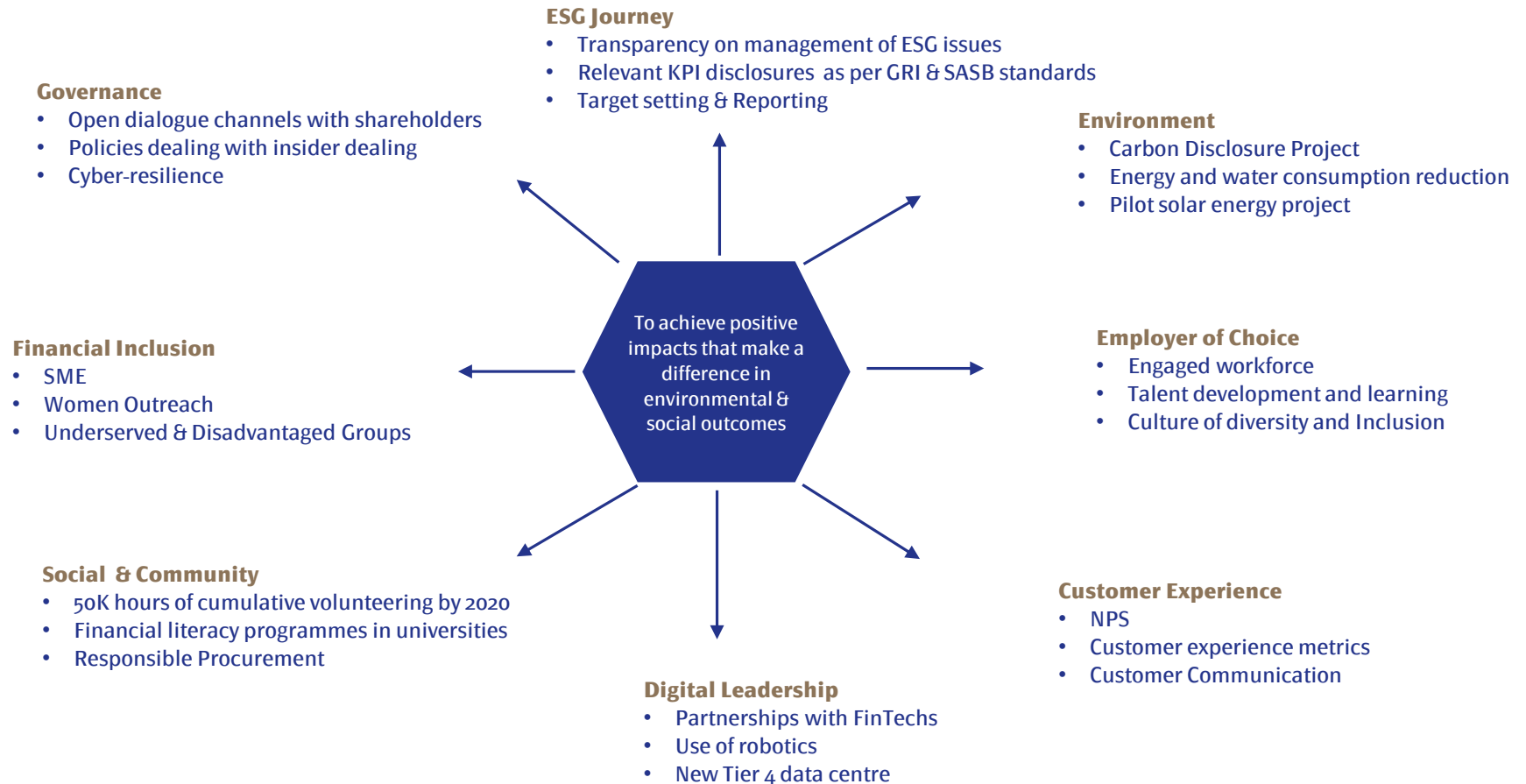
Digital leadership
Expand digital channels and migrate customers to self-service banking



Execution excellence
Explore and execute measures to improve operations

Conclusion and the way forward

We believe our future success is interlinked with the well-being of our stakeholders



Additional Information

Contact investor relations for more information

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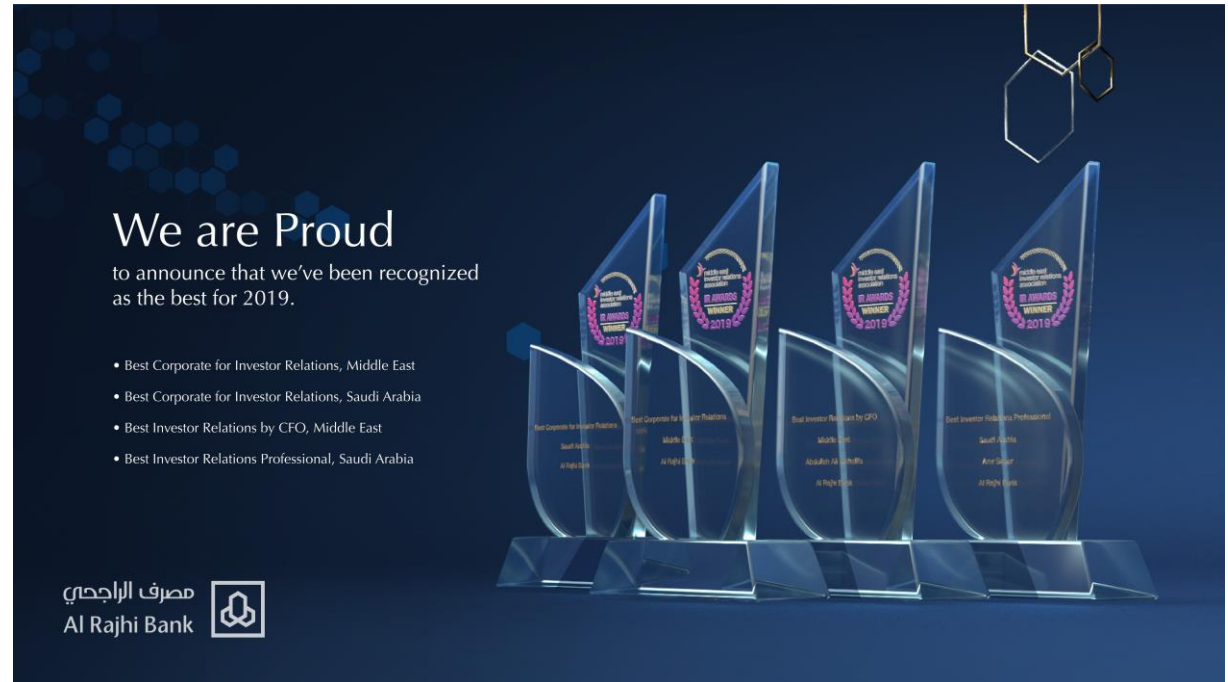
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