

Arab National Bank (ARNB)

Strong funded income and lower impairment charges supported earnings

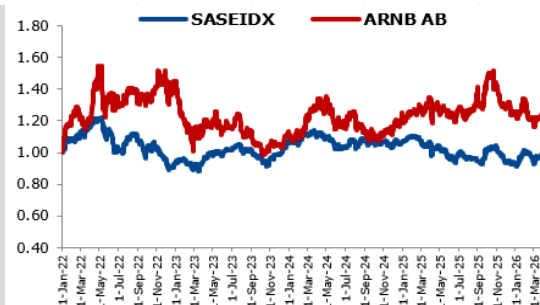
Current Price
SAR 22.08

Target Price
SAR 25.00

Upside/Downside (%)
+13.2%

Rating
ACCUMULATE

- ARNB's funded income grew 12.1% YOY to SAR 3,983 Mn in 1Q26, supported by a 10.9% YOY increase in net loans and advances and a 16.4% YOY expansion in the investment portfolio.
- Customer deposits increased 6.3% YOY to SAR 208.0 Bn in 1Q26, leading to a higher loan-to-deposit ratio of 95.5% in 1Q26.
- In February 2026, Arab National Bank paid an interim dividend of SAR 1.3 Bn for 2H25 at SAR 0.65 per share.
- Total assets increased 7.4% YOY to SAR 284.9 Bn in 1Q26, driven by continued growth in lending and investment portfolios, reflecting ongoing balance sheet expansion.



1Q26 Net Profit higher than our estimate

Arab National Bank ("ARNB", "The Bank") recorded a 4.2% YOY increase in net profit to SAR 1,359 Mn in 1Q26, higher than our estimate of SAR 1,244 Mn. The increase in net profit is primarily driven by higher net special commission income, dividend income, net trading income, net other operating income and net gains/ (losses) on non-trading instruments, coupled with a decline in net allowance charges for ECL and other provisions. This was partially offset by higher costs related to salaries and employee expenses, other general and administrative expenses, depreciation and amortisation, and premises related expenses, along with a decline in net gains/ (losses) on FVSI financial instruments, net fee and commission income and net exchange income.

P&L Highlights

ARNB's funded income rose 12.1% YOY to SAR 3,983 Mn in 1Q26, mainly due to an increase in the net loans and advances portfolio by 10.9% and growth in the net investment's portfolio by 16.4%. However, the Bank's funded expenses grew 16.9% YOY to SAR 1,871 Mn in 1Q26, primarily due to higher cost of funding amid rate environment, alongside deposit growth. Consequently, net funded income increased 8.1% YOY to SAR 2,112 Mn in 1Q26. Non-funded income decreased by 14.5% YOY to SAR 477 Mn in 1Q26. Thus, total operating income increased 3.1% YOY to SAR 2,589 Mn in 1Q26. Impairment charges declined by 34.1% YOY to SAR 135 Mn in 1Q26, due to improving portfolio credit quality. Profit before zakat and income tax rose 4.8% YOY to SAR 1,600 Mn in 1Q26. Net profit growth was primarily driven by higher net special commission income, dividend income, net trading income, net other operating income, and gains/(losses) on non-trading instruments, supported by a decline in net allowance charges for ECL and other provisions.

Stock Information

Market Cap (SAR, Mn)	44,160.00
Paid Up Capital (Mn)	20,000.00
52 Week High	26.26
52 Week Low	19.60
3M Avg. daily value(SAR)	42,340,750

1Q26 Result Review (SAR, Mn)

Total Assets	284,891
Net Advances	198,639
Total Deposits	208,021
Total Equity	49,255
Net Profit	1,359

Financial Ratios

Dividend Yield (12m)	5.89
Dividend Pay-out (%)	50.75
Price-Earnings Ratio(x)	8.86
Price-to-Book Ratio (x)	1.06
Book Value (SAR)	20.91
Return-on Equity (%)	12.43

Stock Performance

5 Days	-2.13%
1 Months	5.70%
3 Months	-0.99%
6 Months	-7.77%
1 Year	-0.90%
Month to Date (MTD%)	2.51%
Quarter to Date (QTD%)	2.51%
Year to Date (YTD%)	2.13%

This was partially offset by higher employee-related costs, other general and administrative expenses, depreciation and amortisation, and premises-related expenses, along with a decline in gains/(losses) on FVSI financial instruments, net fee and commission income, and net exchange income.

Balance Sheet Highlights

ARNB's total assets rose 7.4% YOY and 1.2% QOQ to SAR 284.9 Bn in 1Q26. Net loans and advances expanded by 10.9% YOY and 1.7% QOQ to SAR 198.6 Bn in 1Q26, while customer deposits grew 6.3% YOY but edged down marginally by 0.6% QOQ to SAR 208.0 Bn in 1Q26. As a result, the Bank's calculated loan-to-deposit ratio increased to 95.5% in 1Q26 from 93.3% in 4Q25. Meanwhile, total equity attributable to shareholders rose 16.2% YOY, although it declined marginally by 0.5% QOQ to SAR 49.3 Bn in 1Q26 after 4 consecutive quarterly increases.

Target Price and Rating

We revised our rating from BUY to ACCUMULATE on Arab National Bank, with an unchanged target price of SAR 25.00. Arab National Bank reported steady profitability in 1Q26, supported by growth in funded income, while asset quality continued to improve with lower ECL charges. This performance was further supported by a decline in net allowance charges for ECL and other provisions, reflecting improving portfolio credit quality and effective risk management practices. Total funded income grew 12.1% YOY, supported by a 10.9% expansion in the net loans and advances portfolio and a 16.4% increase in investments, highlighting continued balance sheet growth. On a QOQ basis, earnings momentum remained strong, with net profit rising 18.5%, driven by higher income across key segments and lower provisioning and employee-related expenses, partially offset by an increase in operating costs and lower gains on FVSI financial and trading instruments. ARNB's balance sheet continued to expand, with total assets rising 7.4% YOY to SAR 284.9 Bn in 1Q26. Net loans and advances increased 10.9% YOY, while customer deposits grew 6.3% YOY, leading to a higher loan-to-deposit ratio of 95.5% compared to 93.3% in 4Q25. The Bank's total equity attributable to shareholders rose 16.2% YOY to SAR 49.3 Bn, supported by retained earnings growth. Overall, ARNB continues to demonstrate stable earnings growth supported by balance sheet expansion, diversified income streams, and improving asset quality. In February 2026, Arab National Bank paid an interim dividend of SAR 1.3 Bn for 2H25 at SAR 0.65 per share, with eligible shareholders as of 4 February 2026. Looking ahead to 2026, ARNB is well-positioned to deliver steady growth, supported by its strong balance sheet, diversified revenue streams, and continued expansion in lending and investment portfolios aligned with Vision 2030. The Bank's focus on digital transformation, disciplined cost management, and strengthening ESG and risk frameworks is expected to support long-term profitability and sustainable value creation. Thus, based on our analysis, we revised our rating to ACCUMULATE on the stock.

ARNB - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	20.67	14.65	11.05	9.06	8.75	8.76
PB	1.48	1.43	1.26	1.16	0.90	0.87
BVPS	15.226	15.754	17.889	19.326	20.962	21.986
EPS	1.088	1.535	2.035	2.483	2.490	2.323
DPS	1.150	1.100	1.350	1.300	1.300	1.271
Dividend yield	5.2%	5.0%	6.1%	5.9%	5.9%	5.8%

FABS Estimates & Co Data

ARNB- P&L

SAR Mn	1Q25	4Q25	1Q26	1Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Funded income	3,554	3,876	3,983	3,946	0.9%	12.1%	2.8%	15,205	16,497	8.5%
Funded expense	-1,600	-1,886	-1,871	-1,891	-1.1%	16.9%	-0.8%	-7,108	-7,727	8.7%
Net funded income	1,954	1,990	2,112	2,055	2.8%	8.1%	6.1%	8,097	8,771	8.3%
Non-funded income	558	429	477	487	-2.0%	-14.5%	11.2%	1,786	1,701	-4.8%
Operating income	2,512	2,419	2,589	2,542	1.9%	3.1%	7.0%	9,883	10,472	6.0%
Impairment	-205	-152	-135	-228	-40.7%	-34.1%	-11.2%	-593	-1,038	75.2%
PBT	1,526	1,350	1,600	1,448	10.5%	4.8%	18.5%	5,981	5,994	0.2%
Net profit attributable	1,304	1,147	1,359	1,244	9.2%	4.2%	18.5%	5,116	5,111	-0.1%

FABS estimate & Co Data

ARNB - KPI

	1Q25	4Q25	1Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Net FI/OI	77.8%	82.3%	81.6%	379	-170	81.9%	83.8%	183
NP/OI	51.9%	47.4%	52.5%	58	-817	51.8%	48.8%	-296
Loan-to deposit	91.5%	93.3%	95.5%	NM	250	93.3%	91.5%	-180

FABS estimate & Co data

ARNB - Key B/S items

SAR Mn	1Q25	2Q25	3Q25	4Q25	1Q26	YOY Ch
Net advances	1,79,057	1,86,476	1,91,356	1,95,299	1,98,639	10.9%
QOQ change	5.6%	4.1%	2.6%	2.1%	1.7%	
Total assets	2,65,270	2,68,983	2,80,486	2,81,383	2,84,891	7.4%
QOQ change	6.6%	1.4%	4.3%	0.3%	1.2%	
Customer deposits	1,95,619	2,01,739	2,10,697	2,09,287	2,08,021	6.3%
QOQ change	7.4%	3.1%	4.4%	-0.7%	-0.6%	
Shareholder equity	42,378	43,028	47,152	49,483	49,255	16.2%
QOQ change	9.6%	1.5%	9.6%	4.9%	-0.5%	

FABS estimate & Co data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	24.06	70%	16.84
Relative Valuation (RV)	27.22	30%	8.16
Weighted Average Valuation (SAR)			25.00
Current market price (SAR)			22.08
Upside/Downside (%)			+13.2%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.4%. Cost of equity is calculated by using a 10-year government bond yield of 5.3%, beta of 1.0 and equity risk premium of 4.1%. Government bond yield is calculated after adding KSA 10-year CDS spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.00%.

Sum of PV (SAR, Mn)	2,177
Terminal value (SAR, Mn)	3,978
Book Value of Equity (as of Dec 2025)	41,715
FV to Common shareholders (SAR, Mn)	47,871
No. of share (Mn)	1,990
Current Market Price (SAR)	22.53
Fair Value per share (SAR)	24.06

Residual Income Method

(All Figures in SAR Mn)	2026F	2027F	2028F	2029F	2030F
Net Profit	4,624	4,824	4,894	5,100	5,228
(-) Equity Charge	-3,940	-4,132	-4,344	-4,555	-4,783
Excess Equity	684	691	550	545	446
Discounting Factor	0.93	0.85	0.78	0.71	0.65
Present Value of Excess Equity	479	590	429	388	290

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value ARNB and it is valued using the P/B multiple. It is valued at a 2026 P/B multiple of 1.2x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2026F	2027F	2026F	2027F	2026F	2027F
Riyad Bank	23,055	1.2	1.1	8.6	8.0	4.9%	5.7%
Alinma Bank	19,768	1.8	1.7	11.8	10.8	3.2%	3.6%
Banque Saudi Fransi	13,464	1.1	1.1	9.9	9.3	5.5%	5.8%
Saudi National Bank	65,936	1.2	1.2	9.9	9.1	5.6%	6.1%
Bank Albilad	10,749	1.6	1.7	12.7	11.6	3.8%	3.6%
Saudi Investment Bank	4,506	0.9	0.9	9.9	9.0	6.0%	6.3%
Average		1.3x	1.3x	10.5x	9.6x	4.8%	5.2%
Median		1.2x	1.2x	9.9x	9.2x	5.2%	5.8%
Max		1.5x	1.5x	11.3x	10.4x	5.6%	6.0%
Min		1.1x	1.1x	9.9x	9.0x	4.1%	4.1%

Source: FAB Securities

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 +971-2-6161777	Online Trading Link
Institutional Desk	+971-4-4245765	

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