

Arab National Bank (ARNB)

Margin pressure due to declining rates impacted the bottom-line performance

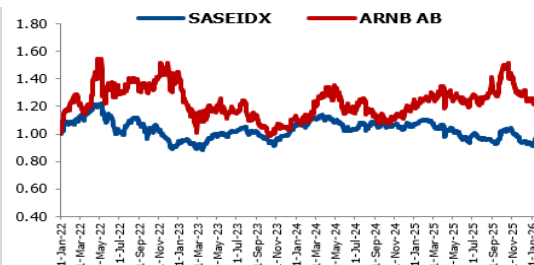
Current Price
SAR 20.76

Target Price
SAR 25.00

Upside/Downside (%)
+20%

Rating
BUY

- ARNB's funded income grew 6.7% YOY to SAR 3,830 Mn in 4Q25, owing to 15.2% YOY rise in net advances, and 13.3% YOY growth in the investment portfolio.
- Customer deposits rose 14.9% YOY and declined 0.7% QOQ to SAR 209.3 Bn in 4Q25, with CASA of 49%.
- Calculated Cost to income ratio increased to 37.2% in 4Q25 compared to 34.2% in 4Q24.
- Capitalization stood strong with a CAR of 20.0% and CET1 ratio of 16.4% as of 4Q25.
- Board approved a cash dividend of SAR 1.3 Bn for 2H25 (SAR 0.65 per share for shareholders), to be paid in February 2026.



Stock Information

Market Cap (SAR, Mn)	41,520.00
Paid Up Capital (Mn)	20,000.00
52 Week High	26.26
52 Week Low	19.50
3M Avg. daily value(SAR)	26,300,420

4Q25 Result Review (SAR, Mn)

Total Assets	281,383
Net Advances	195,299
Total Deposits	209,287
Total Equity	49,513
Net Profit	1,147

Financial Ratios

Dividend Yield (12m)	6.26
Dividend Pay-out (%)	50.75
Price-Earnings Ratio(x)	8.33
Price-to-Book Ratio (x)	0.99
Book Value (SAR)	20.91
Return-on Equity (%)	12.43

Stock Performance

5 Days	-3.44%
1 Months	-3.17%
3 Months	-7.36%
6 Months	-3.71%
1 Year	-2.90%
Month to Date (MTD%)	-8.95%
Quarter to Date (QTD%)	-3.98%
Year to Date (YTD%)	-3.98%

4Q25 Net Profit lower than our estimate

Arab National Bank ("ARNB", "The Bank") recorded 8.7% YOY decline in net profit to SAR 1,147 Mn in 4Q25, lower than our estimate of SAR 1,266 Mn. The decline in net profit is mainly attributed to lower net funded income and decline in share of profit from associates coupled with increase in operating expenses, partially offset by increase in non-funded income and decline in impairments.

P&L Highlights

ARNB's funded income rose 6.7% YOY to SAR 3,830 Mn in 4Q25, owing to strong growth in net advances and investment portfolio. However, the Bank's funded expenses grew 17.0% YOY to SAR 1,883 Mn in 4Q25, primarily due to a rise in customer deposits. Thus, the net funded income declined 1.8% YOY to SAR 1,947 Mn in 4Q25. ARNB's non-funded income expanded by 7.9% YOY to SAR 420 Mn in 4Q25, mainly supported by higher net fee and commission income, improvement in trading income, higher dividend income, gains on sale of non-trading investments and growth in other non-funded income, partially offset by lower net exchange income and lower net gains on FVSI financial instruments. As a result, operating income decreased marginally 0.2% YOY to SAR 2,367 Mn in 4Q25. Furthermore, operating expenses rose 8.5% YOY to SAR 880 Mn in 4Q25, owing to an increase in salaries and employee-related expenses and D&A expenses, partially offset by lower other general and administrative expenses. Thus, calculated cost-to-income ratio increased from 34.2% in 4Q24 to 37.2% in 4Q25. Impairment charges declined substantially from SAR 271 Mn in 4Q24 to SAR 152 Mn in 4Q25, mainly driven by the lower impairment charge on other real estate, while ECL charges remained broadly stable. Share of results of associates declined from SAR 132 Mn in 4Q24 to SAR 7 Mn in 4Q25. Hence, profit before tax declined 5.6% YOY to SAR 1,341 Mn in 4Q25. ARNB recorded a tax expense of SAR 201 Mn in 4Q25 compared to SAR 174 Mn in 4Q24.

Balance Sheet Highlights

ARNB's total assets expanded significantly 13.1% YOY and 0.3% QOQ to SAR 281.4 Bn in 4Q25. The Bank's net loans and advances grew 15.2% YOY and 2.1% QOQ to SAR 195.3 Bn in 4Q25, whereas the customer deposits increased 14.9% YOY and decreased 0.7% QOQ to SAR 209.3 Bn in 4Q25. Thus, the Bank's calculated loan-to-deposit ratio increased to 93.3% in 4Q25 from 90.8% in 3Q25. Total equity attributable to shareholders increased substantially 28.0% YOY and 4.9% QOQ to SAR 49.5 Bn in 4Q25.

Target Price and Rating

We maintain our BUY rating on Arab National Bank, with a target price of SAR 25.00. Arab National Bank reported profitability in 2025 supported by strong growth in non-funded income, while asset quality metrics improved with lower impairment charges. The Bank demonstrated its ability to grow non-interest income despite margin pressure from declining asset yields. Consequently, the Bank continues to focus on expanding its product offering by diversifying its products and services. ARNB also launched a new best-in-class mobile banking app and expanded the range of savings and investment products offered through its digital channels to enhance customer engagement. The Bank's calculated cost-to-income ratio rose to 37.2% in 4Q25 compared to 34.2% in 4Q24. ARNB's net advances rose 15.2% YOY to SAR 195.3 Bn in 4Q25, driving a healthy growth in investment income; however, solid growth in the deposit base and rate cuts pressured margins. Low-cost CASA deposits stood at SAR 103.0 Bn (49% of total deposits) during 4Q25. Thus, the loan-to-deposit ratio increased from 90.8% in 3Q25 to 93.3% in 4Q25. ARNB's asset quality also improved through 2025, with reported NPLs declining from 1.20% in 4Q24 to 0.94% in 4Q25. Consequently, the coverage ratio increased from 148.5% in 4Q24 to 168.7% in 4Q25, providing a substantial buffer. The Bank's capitalization remained strong with a CAR of 20.0% and a CET1 ratio of 16.4% as of 4Q25. Moreover, ARNB issued an Additional Tier 1 sustainable Sukuk. As of 31 December 2025, the outstanding value of issued Sukuk stood at USD 750 Mn (SAR 2.81 Bn equivalent), classified as equity and forming part of the Bank's capital base. The Bank further strengthened its risk management framework through enhanced credit portfolio monitoring and early risk detection systems, supporting long-term asset quality sustainability. Total assets expanded to SAR 281.4 Bn in 4Q25 compared to SAR 248.8 Bn in 4Q24, reflecting continued balance sheet scale expansion and market positioning. The board also approved dividend of SAR 1.3 Bn for 2H25 (SAR 0.65 per share), taking total dividend to SAR 2.6 Bn (SAR 1.30 per share) for the period of 2025. Further, ARNB provides guidance for 2026 with loans & advances growth in mid-high single digit, NIM above 3%, Cost to income ratio below 33%, costs growth YOY in single-digit, ROAE above 12%, Cost of risk between 40-50 bps and total CAR of >19%. Thus, based on our analysis, we maintain our BUY rating on the stock.

ARNB - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	19.51	13.83	10.43	8.55	8.26	8.09
PB	1.39	1.35	1.19	1.10	0.85	0.82
DPS	1.150	1.100	1.350	1.300	1.300	1.300
EPS	1.088	1.535	2.035	2.483	2.490	2.380
BVPS	15.226	15.754	17.889	19.374	20.962	22.043
Dividend yield	5.5%	5.3%	6.5%	6.3%	6.3%	6.3%

FABS Estimates & Co Data

ARNB- P&L

SAR Mn	4Q24	3Q25	4Q25	4Q25F	Var	YOY Ch	QOQ Ch	2024	2025	Change
Funded income	3,591	3,905	3,830	4,144	-7.6%	6.7%	-1.9%	14,406	15,205	5.5%
Funded expense	-1,608	-1,897	-1,883	-2,000	-5.9%	17.0%	-0.8%	-6,480	-7,108	9.7%
Net funded income	1,982	2,008	1,947	2,144	-9.2%	-1.8%	-3.0%	7,927	8,097	2.2%
Non-funded income	389	384	420	429	-2.2%	7.9%	9.4%	1,498	1,786	19.2%
Operating income	2,371	2,392	2,367	2,573	-8.0%	-0.2%	-1.0%	9,425	9,883	4.9%
Operating expenses	-811	-825	-880	-838	5.1%	8.5%	6.7%	-3,067	-3,337	8.8%
Pre-provision profit	1,560	1,567	1,486	1,736	-14.4%	-4.7%	-5.1%	6,358	6,546	3.0%
Impairment	-271	-19	-152	-286	-46.9%	-44.0%	NM	-764	-593	-22.4%
Share of result in Associate	132	7	7	16	-58.9%	-94.9%	NM	145	27	-81.1%
PBT	1,421	1,554	1,341	1,466	-8.5%	-5.6%	-13.7%	5,739	5,981	4.2%
Zakat & Tax	-174	-225	-201	-197	1.6%	15.1%	-10.9%	-782	-870	11.2%
NCI	-1	0	0	-2	-98.6%	NM	NM	-1	-1	-43.7%
Net profit attributable	1,256	1,329	1,147	1,266	-9.4%	-8.7%	-13.8%	4,966	5,116	3.0%

FABS estimate & Co Data

ARNB - KPI

	4Q24	3Q25	4Q25	YOY Ch	QOQ Ch	2024	2025	Change
Net FI/OI	83.6%	84.0%	82.3%	-132	-169	84.1%	81.9%	-217
NIMs - Trailing 12M	3.75%	3.47%	3.41%	-33	-6	3.75%	3.41%	-33
NIMs Annualized	3.80%	3.40%	3.33%	-47	-7	3.75%	3.41%	-33
NIS	3.1%	2.7%	2.5%	-59	-20	3.2%	2.8%	-37
Fees & comms/OI	4.4%	9.4%	5.2%	80	-418	7.5%	8.9%	137
Impairment/PPP	17.4%	1.2%	10.2%	-717	898	12.0%	9.1%	-296
Cost to income	34.2%	34.5%	37.2%	298	270	32.5%	33.8%	123
NP/OI	53.0%	55.6%	48.4%	-454	-714	52.7%	51.8%	-92
Cost of risk - Calculated	0.9%	0.2%	0.3%	-55	5	0.5%	0.37%	-15
Loan-to deposit	93.0%	90.8%	93.3%	30	250	93.0%	93.3%	30
NPL	1.20%	0.93%	0.94%	-26	1	1.2%	0.9%	-26
NPL Coverage	148.5%	163.9%	168.7%	NM	479	148.5%	168.7%	NM
Tier 1	17.3%	18.9%	19.5%	217	64	17.3%	19.5%	217
Capital adequacy	19.1%	20.6%	20.0%	94	-53	19.1%	20.0%	94
ROAE	13.3%	13.4%	12.7%	-61	-62	13.3%	12.7%	-61
Net FI/OI	2.1%	2.0%	1.9%	-18	-7	2.1%	1.9%	-18

FABS estimate & Co data

ARNB - Key B/S items

SAR Mn	4Q24	1Q25	2Q25	3Q25	4Q25	YOY Ch
Net advances	1,69,495	1,79,057	1,86,476	1,91,356	1,95,299	15.2%
QOQ change	1.9%	5.6%	4.1%	2.6%	2.1%	
Total assets	2,48,840	2,64,651	2,68,983	2,80,486	2,81,383	13.1%
QOQ change	2.7%	6.4%	1.6%	4.3%	0.3%	
Customer deposits	1,82,224	1,95,619	2,01,739	2,10,697	2,09,287	14.9%
QOQ change	0.8%	7.4%	3.1%	4.4%	-0.7%	
Shareholder equity	38,652	38,480	39,678	40,590	41,715	7.9%
QOQ change	2.6%	-0.4%	3.1%	2.3%	2.8%	

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	24.74	70%	17.32
Relative Valuation (RV)	25.62	30%	7.68
Weighted Average Valuation (SAR)			25.00
Current market price (SAR)			20.76
Upside/Downside (%)			+20%

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 5.5%, beta of 1.0 and equity risk premium of 3.9%. 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 2.0%.

Sum of PV (SAR, Mn)	2,634
Terminal value (SAR, Mn)	4,418
Book Value of Equity (as of Dec 2025)	41,715
FV to Common shareholders (SAR, Mn)	49,235
No. of share (Mn)	1,990
Current Market Price (SAR)	20.76
Fair Value per share (SAR)	24.74

Residual Income Method

(All Figures in SAR Mn)	2026F	2027F	2028F	2029F	2030F
Net Profit	4,737	4,815	4,980	5,190	5,336
(-) Equity Charge	-3,917	-4,119	-4,328	-4,547	-4,777
Excess Equity	820	696	651	643	558
Discounting Factor	0.91	0.84	0.76	0.70	0.64
Present Value of Excess Equity	749	582	498	449	357

Source: FAB Securities

2) Relative Valuation:

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

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2026F	2027F	2026F	2027F	2026F	2027F
Riyad Bank	21,574	1.2	1.1	8.2	7.7	6.3%	6.7%
Alinma Bank	17,800	1.7	1.5	10.7	9.9	4.3%	4.9%
Banque Saudi Fransi	11,648	1.0	1.0	9.1	8.7	6.3%	6.5%
Saudi National Bank	61,017	1.2	1.2	10.2	9.5	5.4%	5.8%
Bank Albilad	11,648	1.0	1.0	9.1	8.7	6.3%	6.5%
Saudi Investment Bank	4,636	1.1	0.9	9.2	8.7	5.7%	6.1%
Average		1.2x	1.1x	9.4x	8.9x	5.7%	6.1%
Median		1.2x	1.0x	9.1x	8.7x	6.0%	6.3%
Max		1.2x	1.2x	10.0x	9.3x	6.3%	6.5%
Min		1.1x	1.0x	9.1x	8.7x	5.5%	5.9%

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%

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