أبوظبـي الأول للأوراق المالية
FAB SECURITIES

First Look Note | 2Q26

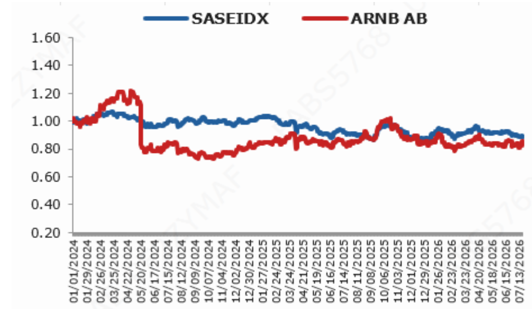
Saudi Equity Research Sector: Banking Market: Tadawul

Arab National Bank (ARNB)

Strong non-funded income and lower impairment charges supported earnings

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 21.73	SAR 25.00	+15.05%	BUY

- ARNB's funded income grew 2.1% YOY to SAR 3,963 Mn in 2Q26, supported by a 10.4% YOY increase in net loans and advances and a 17.7% YOY expansion in the investment portfolio.
- Customer deposits increased 7.9% YOY to SAR 217.8 Bn in 2Q26, leading to a loan-to-deposit ratio of 94.5% in 2Q26.
- In July 2026, Arab National Bank declared an interim dividend of SAR 1.3 Bn for 1H26 equivalent to SAR 0.65 per share to eligible shareholders as of 23 July 2026.
- Total assets increased 9.6% YOY to SAR 295.5 Bn in 2Q26, driven by continued growth in lending and investment portfolios, reflecting ongoing balance sheet expansion.



Stock Information	
Market Cap (SAR, Mn)	43,420.00
Paid Up Capital (Mn)	1,985.00
52 Week High	26.06
52 Week Low	19.77
3M Avg. daily value(SAR)	1,321,045

2Q26 Result Review (SAR, Mn)	
Total Assets	295,516
Net Advances	205,782
Total Deposits	217,751
Total Equity	52,436
Net Profit	1,423

Financial Ratios	
Dividend Yield (12m)	6.00
Dividend Pay-out (%)	52.15
Price-Earnings Ratio(x)	8.67
Price-to-Book Ratio (x)	1.03
Book Value (SAR)	21.02
Return-on Equity (%)	12.25

Stock Performance	
5 Days	5.90%
1 Months	0.23%
3 Months	-1.99%
6 Months	0.28%
1 Year	2.94%
Month to Date (MTD%)	4.68%
Quarter to Date (QTD%)	4.68%
Year to Date (YTD%)	0.42%

2Q26 Net Profit higher than our estimate

Arab National Bank ("ARNB", "The Bank") recorded a 6.5% YOY increase in net profit to SAR 1,423 Mn in 2Q26, higher than our estimate of SAR 1,338 Mn. The increase in net profit is primarily driven by rise in non-funded income, net funded income, coupled with a decline in net allowance charges for ECL and other provisions. This was partially offset by higher operating expenses.

P&L Highlights

ARNB's funded income rose 2.1% YOY to SAR 3,963 Mn in 2Q26, mainly due to an increase in the net loans and advances portfolio by 10.4% and growth in the net investment portfolio by 17.7%, partially offset by a decrease in asset yield. However, the Bank's funded expenses grew 4.1% YOY to SAR 1,798 Mn in 2Q26, primarily due to increase in deposit growth. Consequently, net funded income marginally increased 0.4% YOY to SAR 2,165 Mn in 2Q26. Non-funded income increased 38.0% YOY to SAR 577 Mn in 2Q26. This increase was primarily driven by increase in net gains on FVSI financial instruments, net gains on non-trading instruments, net exchange income and net other operating income, partially offset by a decline in dividend income, net trading income and net fee and commission income. Thus, total operating income increased 6.5% YOY to SAR 2,742 Mn in 2Q26. Operating expenses increased 9.6% YOY to SAR 894 Mn in 2Q26, due to higher costs related to salaries and employee expenses, other general and administrative expenses, depreciation and amortization, and premises related expenses. Impairment charges declined by 16.7% YOY to SAR 180 Mn in 2Q26, due to improving portfolio credit quality. Profit before zakat and income tax rose 8.3% YOY to SAR 1,679 Mn in 2Q26.

Balance Sheet Highlights

ARNB's total assets rose 9.6% YOY and 3.7% QOQ to SAR 295.5 Bn in 2Q26. Net loans and advances expanded by 10.4% YOY and 3.6% QOQ to SAR 205.8 Bn in 2Q26, while customer deposits grew 7.9% YOY and 4.7% QOQ to SAR 217.8 Bn in 2Q26. As a result, the Bank's calculated loan-to-deposit ratio declined to 94.5% in 2Q26 from 95.5% in 1Q26. Meanwhile, total equity attributable to shareholders rose 20.3% YOY and 6.5% QOQ to SAR 52.4 Bn in 2Q26, resuming its upward trajectory after a marginal dip in the prior quarter.

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 steady profitability in 2Q26, supported by a marginal growth in net funded income, while asset quality continued to improve. This performance was further supported by a decline in net allowance charges for ECL and other provisions, which fell 16.7% YOY, reflecting improving portfolio credit quality and effective risk management practices. Net funded income grew marginally by 0.4% YOY, supported by a 10.4% expansion in the net loans and advances portfolio and a 17.7% increase in investments, while non-funded income rose a robust 38.0% YOY, highlighting continued balance sheet growth and income diversification. On a QOQ basis, earnings momentum was maintained, with net profit rising 4.7%, driven by higher operating income across both funded and non-funded segments, partially offset by an increase in operating expenses and higher impairment charges. ARNB's balance sheet continued to expand, with total assets rising 9.6% YOY to SAR 295.5 Bn in 2Q26. Net loans and advances increased 10.4% YOY, while customer deposits grew 7.9% YOY, leading to a loan-to-deposit ratio of 94.5%, down from 95.5% in 1Q26. The Bank's total equity attributable to shareholders rose 20.3% YOY to SAR 52.4 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 July 2026, Arab National Bank decided to distribute interim dividend of SAR 1.3 Bn for 1H26 equivalent to SAR 0.65 per share to eligible shareholders as of 23 July 2026. Looking ahead to the remainder of 2026, ARNB is well-positioned to deliver steady growth, supported by its strong balance sheet, diversified revenue streams, and continued expansion in its lending and investment portfolios aligned with Vision 2030. The Bank's growing contribution from non-funded income, disciplined cost management, and improving asset quality are expected to support long-term profitability and sustainable value creation, while its robust capital position, underpinned by 20.3% YOY equity growth, provides ample headroom to fund further balance sheet expansion and shareholder returns. However, the Bank is expected to experience NIM compression due to higher funding costs, while rising operating expenses are also expected to weigh on net profit growth. Meanwhile, ARNB offers a higher dividend yield of 6.0% compared to the peer average of 5.1% for 2026. Thus, based on our analysis, we assign BUY rating on the stock.

ARNB - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	19.94	14.13	10.66	8.74	8.44	8.10
PB	1.43	1.38	1.21	1.12	0.87	0.83
BVPS	15.226	15.754	17.889	19.326	20.962	22.206
EPS	1.088	1.535	2.035	2.483	2.490	2.433
DPS	1.150	1.100	1.350	1.300	1.300	1.300
Dividend yield	5.3%	5.1%	6.2%	6.0%	6.0%	6.0%

FABS Estimates & Co Data

ARNB- P&L

SAR Mn	2Q25	1Q26	2Q26	2Q26F	Var.	YOY Ch	QOQ Ch	2025	2026F	Change
Funded income	3,883	3,983	3,963	4,073	-2.7%	2.1%	-0.5%	15,205	16,520	8.6%
Funded expense	-1,727	-1,871	-1,798	-1,908	-5.8%	4.1%	-3.9%	-7,108	-7,866	10.7%
Net funded income	**2,156**	**2,112**	**2,165**	**2,165**	**0.0%**	**0.4%**	**2.5%**	**8,097**	**8,654**	**6.9%**
Non-funded income	**418**	**476**	**577**	**434**	**32.8%**	**38.0%**	**21.1%**	**1,786**	**2,027**	**13.5%**
Operating income	**2,574**	**2,589**	**2,742**	**2,599**	**5.5%**	**6.5%**	**5.9%**	**9,883**	**10,681**	**8.1%**
Operating expenses	-816	-862	-894	-862	3.7%	9.6%	3.7%	-3,337	-3,584	7.4%
Pre-provision profit	**1,758**	**1,727**	**1,848**	**1,738**	**6.4%**	**5.1%**	**7.0%**	**6,546**	**7,097**	**8.4%**
Impairment	-216	-135	-180	-181	-0.6%	-16.7%	33.1%	-593	-830	40.0%
Net Profit before Tax	**1,550**	**1,600**	**1,679**	**1,563**	**7.4%**	**8.3%**	**4.9%**	**5,981**	**6,295**	**5.3%**
Net profit attributable	**1,336**	**1,359**	**1,423**	**1,338**	**6.3%**	**6.5%**	**4.7%**	**5,116**	**5,367**	**4.9%**

FABS estimate & Co Data

ARNB - KPI

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Net FI/OI	83.8%	81.6%	79.0%	-480	-265	81.9%	81.0%	-90
Impairment/PPP	12.3%	7.8%	9.7%	-255	191	9.1%	11.7%	263
Cost to income	31.70%	33.29%	32.60%	90	-69	33.8%	33.6%	-22
NP/OI	51.9%	52.5%	51.9%	-1	-61	51.8%	50.2%	-152
Loan-to deposit	92.4%	95.5%	94.5%	206	-99	93.3%	91.5%	-180
ROA	2.0%	1.9%	1.7%	-32	-16	1.9%	1.8%	-12

FABS estimate & Co data

ARNB - Key B/S items

SAR Mn	2Q25	3Q25	4Q25	1Q26	2Q26	YOY Ch
Net advances	186,476	191,356	195,299	198,639	205,782	10.4%
QOQ change	4.1%	2.6%	2.1%	1.7%	3.6%	
Total assets	269,618	280,486	281,383	284,891	295,516	9.6%
QOQ change	1.6%	4.0%	0.3%	1.2%	3.7%	
Customer deposits	201,723	210,697	209,287	208,021	217,751	7.9%
QOQ change	3.1%	4.4%	-0.7%	-0.6%	4.7%	
Shareholder equity	43,591	47,152	49,483	49,255	52,436	20.3%
QOQ change	2.9%	8.2%	4.9%	-0.5%	6.5%	

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 the RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	25.27	70%	17.69
Relative Valuation (RV)	24.35	30%	7.31
Weighted Average Valuation (SAR)			**25.00**
Current market price (SAR)			21.73
Upside/Downside (%)			+15.05%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.6%. Cost of equity is calculated by using a 10-year government bond yield of 5.4%, beta of 1.0 and equity risk premium of 4.2%. 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)	2,619
Terminal value (SAR, Mn)	6,186
Book Value of Equity (as of Mar 2026)	41,488
FV to Common shareholders (SAR, Mn)	**50,292**
No. of share (Mn)	1,990
Current Market Price (SAR)	21.73
Fair Value per share (SAR)	**25.27**

Residual Income Method

(All Figures in SAR Mn)	2026F	2027F	2028F	2029F	2030F
Net Profit	4,842	5,016	5,161	5,535	5,785
(-) Equity Charge	-3,996	-4,233	-4,513	-4,790	-5,097
Excess Equity	**846**	**783**	**648**	**745**	**689**
Discounting Factor	0.96	0.88	0.80	0.73	0.67
Present Value of Excess Equity	**407**	**688**	**519**	**545**	**460**

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 1.1x.

Company	Market (USD Mn)	P/B (x) 2026F	P/B (x) 2027F	P/E (x) 2026F	P/E (x) 2027F	Dividend Yield (%) 2026F	Dividend Yield (%) 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%
Banque Saudi Fransi	12,513	1.0	1.0	9.4	8.6	5.9%	6.3%
Saudi National Bank	58,968	1.1	1.1	9.1	8.5	5.9%	6.5%
Bank Albilad	9,580	1.5	NA	11.4	10.9	4.2%	4.4%
Saudi Investment Bank	4,443	0.9	0.9	9.8	10.1	5.6%	6.0%
Average		**1.2x**	**1.1x**	**9.9x**	**9.4x**	**5.1%**	**5.5%**
Median		**1.1x**	**1.0x**	**9.6x**	**9.3x**	**5.6%**	**6.0%**
Max		**1.4x**	**1.1x**	**11.0x**	**10.6x**	**5.8%**	**6.2%**
Min		**1.0x**	**1.0x**	**9.2x**	**8.5x**	**4.5%**	**4.8%**

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

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