First Look Note | 3Q26

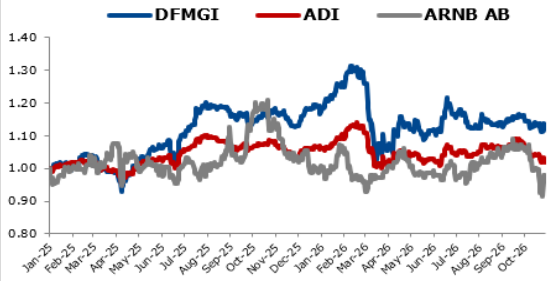
Saudi Equity Research | Sector: Banking | Market: Tadawul

Arab National Bank (ARNB)

Balance sheet expansion and resilient profitability underpin growth

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 20.69	SAR 25.00	+21%	BUY

- Customer deposits grew 3.2% YOY to SAR 217.5 Bn in 3Q26, while the calculated loan-to-deposit ratio increased to 96.2% in 3Q26 from 94.5% in 2Q26.
- ARNB revised its 2026 cost of risk guidance to 30-40 bps from previous guided range of 40-50 bps.
- Well maintained capitalization with CAR of 20.68% and CET1 ratio of 15.74% in 3Q26.
- ARNB completed the issuance of USD 750 Mn in USD-denominated Additional Tier 1 Sukuk offering in September 2026, strengthening its capital position.
- Sound asset quality with cost of risk at 0.30% and NPL ratio at 1.0% in 3Q26.



Stock Information	
Market Cap (SAR, Mn)	40,980.00
Paid Up Capital (Mn)	20,000.00
52 Week High	24.62
52 Week Low	19.42
3M Avg. daily value(SAR)	26,424,530

3Q26 Result Review (SAR, Mn)	
Total Assets	302,522
Net Advances	209,170
Total Deposits	217,533
Total Equity	54, 174
Net Profit	1,351

Financial Ratios	
Dividend Yield (12m)	6.28
Dividend Pay-out (%)	52.68
Price-Earnings Ratio(x)	7.82
Price-to-Book Ratio (x)	0.97
Book Value (SAR)	21.05
Return-on Equity (%)	12.61

Stock Performance	
5 Days	-0.49%
1 Months	-9.38%
3 Months	-6.35%
6 Months	-5.40%
1 Year	-16.02%
Month to Date (MTD%)	-0.97%
Quarter to Date (QTD%)	-10.13%
Year to Date (YTD%)	-5.23%

3Q26 Net Profit in line with our estimate

Arab National Bank ("ARNB", "the Bank") reported a 1.7% YOY increase in net profit attributable to shareholders to SAR 1,351 Mn in 3Q26, in line with our estimate of SAR 1,340 Mn. The growth was primarily driven by higher net funded income, partially offset by higher operating expenses, impairment charges, and zakat charges coupled with lower non-funded income.

P&L Highlights

ARNB's funded income rose 7.7% YOY to SAR 4,187 Mn in 3Q26, mainly supported by a 9.3% increase in net loans and advances and a 13.2% expansion in the investment portfolio. Meanwhile, funded expenses increased 2.6% YOY to SAR 1,946 Mn in 3Q26, primarily reflecting growth in customer deposits. ARNB reported NIMs fell 21bps YOY and 2 bps QOQ to 3.26% in 3Q26. The Bank's net funded income increased 12.6% YOY to SAR 2,241 Mn in 3Q26. Non-funded income declined 19.3% YOY to SAR 313 Mn in 3Q26, primarily due to lower net gains on FVSI financial instruments, net fee and commission income, dividend income, gains on non-trading instruments and other operating income, partially offset by higher net exchange and trading income. As a result, total operating income rose 7.4% YOY to SAR 2,554 Mn in 3Q26. Operating expenses increased 3.7% YOY to SAR 841 Mn in 3Q26, driven by higher salaries and employee-related expenses and general and administrative costs, partially offset by lower depreciation and amortisation and premises-related expenses. Meanwhile reported Cost to income ratio stood at 32.93% in 3Q26. Impairment charges increased to SAR 140 Mn in 3Q26 from SAR 19 Mn in 3Q25, primarily due to portfolio growth, changes in macroeconomic assumptions and the absence of prior-period impairment reversals. Consequently, profit before zakat and income tax increased 1.7% YOY to SAR 1,582 Mn in 3Q26. The Bank's zakat charges increased 2.2% YOY to SAR 231 Mn in 3Q26.

Balance Sheet Highlights

ARNB's total assets increased 7.9% YOY and 2.4% QOQ to SAR 302.5 Bn in 3Q26. Net loans and advances grew 9.3% YOY and 1.6% QOQ to SAR 209.2 Bn in 3Q26, while customer deposits increased 3.2% YOY but marginally declined 0.1% QOQ to SAR 217.5 Bn in 3Q26. Consequently, the Bank's calculated loan-to-deposit ratio rose to 96.2% in 3Q26 from 94.5% in 2Q26. Meanwhile, total equity attributable to shareholders increased 15.1% YOY and 3.3% QOQ to SAR 54.2 Bn in 3Q26. During the quarter, ARNB also completed an offering of USD 750 Mn in USD-denominated Additional Tier 1 Capital Sukuk under its international issuance programme.

Target Price and Rating

We revise our rating on Arab National Bank from HOLD to BUY, with an unchanged target price of SAR 25.00. Arab National Bank (ARNB) reported steady growth of 1.7% YOY in 3Q26, supported by strong growth in net funded income and continued balance sheet expansion. The bottom-line increase was due to increase in Net funded income by 12.6% YOY to SAR 2,241 Mn in 3Q26, supported by a 9.3% expansion in net loans and advances and a 13.2% increase in investments, this was partially offset by a 19.3% YOY decline in non-funded income and higher net allowance charges for ECL and other provisions, which increased to SAR 140 Mn in 3Q26 from SAR 19 Mn in 3Q25, reflecting portfolio growth, changes in macroeconomic assumptions and the non-recurrence of prior-period impairment reversals. On a QOQ basis, net profit declined 5.1%, primarily due to lower non-funded income, partially offset by higher net funded income, lower operating expenses, reduced impairment charges and zakat charges. ARNB's balance sheet continued to expand, with total assets increasing 7.9% YOY to SAR 302.5 Bn in 3Q26. Net loans and advances grew 9.3% YOY, while customer deposits increased 3.2% YOY, resulting in a calculated loan-to-deposit ratio of 96.2% in 3Q26, compared to 94.5% in 2Q26. Meanwhile, total equity attributable to shareholders rose 15.1% YOY to SAR 54.2 Bn in 3Q26. The Bank completed the issuance of USD 750 Mn in US dollar-denominated Additional Tier 1 capital sukuk at an annual return of 6.5% in September 2026 under its international issuance programme. Robust Capital with Total CAR of 20.68%, CET1 ratio of 15.74% as of 3Q26. ARNB maintained robust liquidity with LCR at 143.1% and NSFR at 112.7% in 3Q26. ARNB revised its 2026 cost of risk guidance to 30-40 bps from previous guided range of 40-50 bps. Overall, ARNB continues to demonstrate stable earnings growth, supported by balance sheet expansion and higher net funded income. Looking ahead to the remainder of 2026, the Bank is well-positioned to maintain growth, supported by continued expansion in its lending and investment portfolios. Disciplined cost management and resilient asset quality are expected to support long-term profitability, while its capital position provides capacity for further balance sheet expansion. However, volatility in non-funded income, deposit growth lagging loan growth and potential funding cost pressures remain key risks to profitability. Meanwhile, ARNB offers an estimated dividend yield of 6.3%, compared to the peer average of 5.3% for 2026.Thus, based on our analysis, we revise our rating to BUY on the stock.

ARNB - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	18.85	13.36	10.08	8.26	7.98	7.52
PB	1.35	1.30	1.15	1.06	0.82	0.77
BVPS	15.226	15.754	17.889	19.326	20.962	22.119
EPS	1.088	1.535	2.035	2.483	2.490	2.434
DPS	1.150	1.100	1.350	1.300	1.300	1.300
Dividend yield	5.6%	5.3%	6.5%	6.3%	6.3%	6.3%

FABS Estimates & Co Data

ARNB- P&L

SAR Mn	3Q25	2Q26	3Q26	3Q26F	Var.	YOY Ch	QOQ Ch	2025	2026F	Change
Funded income	3,886	3,963	4,187	3,944	6.2%	7.7%	5.7%	15,205	16,460	8.3%
Funded expense	-1,896	-1,797	-1,946	-1,715	13.5%	2.6%	8.3%	-7,108	-7,584	6.7%
Net funded income	**1,990**	**2,165**	**2,241**	**2,229**	**0.5%**	**12.6%**	**3.5%**	**8,097**	**8,876**	**9.6%**
Non-funded income	388	577	313	458	-31.6%	-19.3%	-45.7%	1,786	1,961	9.8%
Operating income	**2,378**	**2,742**	**2,554**	**2,687**	**-4.9%**	**7.4%**	**-6.9%**	**9,883**	**10,837**	**9.7%**
Operating expenses	-811	-894	-841	-888	-5.3%	3.7%	-5.9%	-3,337	-3,605	8.0%
Pre-provision profit	**1,567**	**1,848**	**1,713**	**1,798**	**-4.8%**	**9.3%**	**-7.3%**	**6,546**	**7,232**	**10.5%**
Impairment	-19	-180	-140	-222	-37.0%	NM	-22.1%	-593	-857	44.6%
Profit before tax	**1,555**	**1,679**	**1,582**	**1,581**	**0.1%**	**1.7%**	**-5.8%**	**5,981**	**6,402**	**7.1%**
Zakat charges	-226	-253	-231	-239	-3.2%	2.2%	-8.7%	-870	-967	11.2%
Net profit attributable to shareholders	**1,329**	**1,423**	**1,351**	**1,340**	**0.8%**	**1.7%**	**-5.1%**	**5,116**	**5,425**	**6.0%**

FABS estimate & Co Data

ARNB - KPI

	3Q25	2Q26	3Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Net FI/OI	83.7%	79.0%	87.7%	406	877	81.9%	81.9%	-2
Impairment/PPP	1.2%	9.7%	8.2%	NM	-155	9.1%	11.9%	280
Cost to income	34.1%	32.6%	32.9%	-118	34	33.8%	33.3%	-50
NP/OI	55.9%	51.9%	52.9%	-299	100	51.8%	50.1%	-171
Loan-to deposit	90.8%	94.5%	96.2%	534	165	93.3%	93.0%	-33

FABS estimate & Co data

ARNB - Key B/S items

SAR Mn	3Q25	4Q25	1Q26	2Q26	3Q26	YOY Ch
Net advances	191,356	195,299	198,639	205,782	209,170	9.3%
QOQ change	2.6%	2.1%	1.7%	3.6%	1.6%	
Total assets	280,486	281,383	284,891	295,516	302,522	7.9%
QOQ change	4.0%	0.3%	1.2%	3.7%	2.4%	
Customer deposits	210,697	209,287	208,021	217,751	217,533	3.2%
QOQ change	4.4%	-0.7%	-0.6%	4.7%	-0.1%	
Shareholder equity	47,080	49,483	49,255	52,436	54,174	15.1%
QOQ change	8.0%	5.1%	-0.5%	6.5%	3.3%	

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	25.38	70%	17.77
Relative Valuation (RV)	24.12	30%	7.23
Weighted Average Valuation (SAR)			**25.00**
Current market price (SAR)			20.69
Upside/Downside (%)			+21%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.5%. Cost of equity is calculated by using a 10-year government bond yield of 4.8%, beta of 1.0 and equity risk premium of 3.8%. Government bond yield is calculated after adding KSA 10-year CDS spread over a 10-year US risk-free rate. We have also assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	2,656
Terminal value (SAR, Mn)	4,683
Book Value of Equity (as of June 2026)	43,168
FV to Common shareholders (SAR, Mn)	**50,507**
No. of share (Mn)	1,990
Current Market Price (SAR)	20.69
Fair Value per share (SAR)	**25.38**

Residual Income Method

(All Figures in SAR Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E
Net Profit	4,844	4,932	5,025	5,250	5,401	5,612
(-) Equity Charge	-3,942	-4,160	-4,382	-4,596	-4,827	-5,062
Excess Equity	**901**	**772**	**643**	**654**	**574**	**550**
Discounting Factor	0.98	0.89	0.82	0.75	0.68	0.62
Present Value of Excess Equity	**220[1]**	**690**	**525**	**488**	**391**	**342**

FAB Securities, [1]Adjusted for partial year

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 2027 P/B multiple of 1.0x, in line with the peer median.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2026F	2027F	2026F	2027F	2026F	2027F
Riyad Bank	20,272	1.1	1.0	7.7	7.4	6.0%	6.4%
Alinma Bank	18,507	1.8	1.6	11.3	10.4	3.4%	3.6%
Banque Saudi Fransi	12,710	1.1	1.0	8.9	8.3	5.9%	6.4%
Saudi National Bank	58,448	1.1	1.1	8.7	8.2	6.3%	6.7%
Bank Albilad	8,586	1.4	1.4	10.3	10.2	4.8%	5.0%
Saudi Investment Bank	4,575	0.9	0.9	9.6	8.9	5.2%	5.5%
Average		**1.2x**	**1.2x**	**9.4x**	**8.9x**	**5.3%**	**5.6%**
Median		**1.1x**	**1.0x**	**9.3x**	**8.6x**	**5.6%**	**5.9%**
Max		**1.3x**	**1.3x**	**10.1x**	**9.9x**	**6.0%**	**6.4%**
Min		**1.1x**	**1.0x**	**8.7x**	**8.2x**	**4.9%**	**5.1%**

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%

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