

# Saudi Awwal Bank (BUY, TP: SAR 41.5, 1060.SE) 1Q26 Results Review

*SAB builds liquidity and provisioning reflecting caution; impact on CoR offset by a sizable recovery of SAR 640mn; liquidity buffer hurts NIM, pickup expected in 2H26*

Saudi Awwal Bank (SAB)'s net income in 1Q26 fell 2% Y/Y to SAR 2.09bn (1Q26 EPS: SAR 1.02). Total income was flat at SAR 3.61bn as the fall in NSCI was offset by higher NII. Operating expenses, ex provisions, rose 3% Y/Y taking the reported cost-to-income ratio (CIR) to 30.5% (+90bps Y/Y). Provisions rose 17% to SAR 166mn. Deposits grew faster than loans, leading to a 340bps easing of headline LDR to 92.6%. Balance sheet leveraging stood at 5.7x vs. 5.9x in 1Q25. Reported RoTE, post AT1 payment, fell 1.7ppts to 13.8%, while RoA fell 0.2ppts to 1.9%.

- NSCI was down 1% Y/Y and 4% Q/Q to SAR 2.87bn in 1Q26 as 11% Y/Y and 5% Q/Q increase in net investment income was more than offset by the 2% Y/Y and 4% Q/Q decline in net financing income. Of the c. SAR 100mn of Q/Q fall, SAR 50mn was ascribed to a one-off related to interest reversal seen in 4Q25.
- Reported NIM fell 30bps Y/Y to 2.53% driven by pressure on asset yields (-40bps), only partially offset by lower CoF (-10bps). Sequentially, it fell 6bps Q/Q at in 1Q26 as the slide in asset yields outpaced the decline in CoF.
- NII was up 3% Y/Y to SAR 742mn as the fall in fee income (following the introduction of new regulations) and exchange income was offset by gains on disposal of FVOCI debt instruments. Q/Q, it fell by 2% led by lower other operating, fee (from lower broking revenue), and exchange income, partly offset by gain on disposal of FVOCI debt instruments.
- Consequently, total operating income was flat Y/Y but down 3% Q/Q to SAR 3.61bn.
- Operating expenses, ex provisions, rose 3% Y/Y to SAR 1.10bn in 1Q26 led by D&A (given recent higher software capitalization) and employee expenses, partly offset by lower G&A charges. They were down 8% Q/Q due to a decrease in employees (previous quarter included one off past service cost in indemnity charges) and G&A expenses. Consequently, the cost-to-income ratio (CIR), ex provisions, widened 90bps Y/Y but eased 141bps Q/Q to 30.5% in the quarter.
- Total provisions rose 17% Y/Y to SAR 166mn as the bank elected to increase ECL to reflect the increased uncertainty and volatility caused by the geopolitical situation. In addition, there was a net increase in charges on off-balance sheet exposures. These factors were partly offset by higher recoveries net of write-offs. Q/Q, they decreased by 37% driven by higher recoveries net of write-offs, partly offset by higher charges on both the loan portfolio and off-balance sheet exposures.
- NPL balances fell 17% Y/Y but was up 5% Q/Q to SAR 2.25bn. Calculated NPL formation in 1Q26 stood at 0.3% of average gross loans, vs 1.3% in FY25. NPL ratio came in at 0.93% vs. 0.92% in 4Q25, and 1.27% in 1Q25. The NPL coverage stood at 166.5% up 10ppts Y/Y and 16.2ppts Q/Q.
- Net income was down 2% Y/Y but up 2% Q/Q to SAR 2.09bn in 1Q26.
- Assets were up 8% Y/Y (+1% Q/Q) to SAR 459.74bn, mainly attributed to the growth in financing asset (+10% Y/Y, +3% Q/Q), partly offset by a decline in investments (-5% Y/Y, -8% Q/Q) assets.

| SAR mln                     | 1Q26         | 4Q25         | 1Q25         | Q/Q %      | Y/Y %      |
|-----------------------------|--------------|--------------|--------------|------------|------------|
| Net income from Financing   | 2,662        | 2,778        | 2,712        | -4%        | -2%        |
| Net income from Investments | 208          | 198          | 188          | 5%         | 11%        |
| <b>Net Interest Income</b>  | <b>2,870</b> | <b>2,976</b> | <b>2,900</b> | <b>-4%</b> | <b>-1%</b> |
| Non-Interest Income         | 742          | 758          | 720          | -2%        | 3%         |
| <b>Total Income</b>         | <b>3,612</b> | <b>3,734</b> | <b>3,620</b> | <b>-3%</b> | <b>0%</b>  |
| Operating Expenses          | 1,101        | 1,191        | 1,071        | -8%        | 3%         |
| Total provisions            | 166          | 264          | 142          | -37%       | 17%        |
| Income before Zakat         | 2,411        | 2,320        | 2,449        | 4%         | -2%        |
| <b>Net Income</b>           | <b>2,086</b> | <b>2,047</b> | <b>2,135</b> | <b>2%</b>  | <b>-2%</b> |
| EPS                         | 1.02         | 1.00         | 1.04         | 2%         | -2%        |
| Assets                      | 459,740      | 454,454      | 426,872      | 1%         | 8%         |
| Investments                 | 99,551       | 107,642      | 104,703      | -8%        | -5%        |
| Loans & Advances            | 306,906      | 298,627      | 278,836      | 3%         | 10%        |
| Deposits                    | 331,411      | 323,274      | 290,440      | 3%         | 14%        |
| Shareholders' Equity        | 81,011       | 79,339       | 72,909       | 2%         | 11%        |
| Reported RoTE (%)           | 13.8         | 13.0         | 15.5         | 80 bps     | -170 bps   |
| Reported RoA (%)            | 1.9          | 1.8          | 2.1          | 10 bps     | -20 bps    |
| Simple LDR (%)              | 92.6         | 92.4         | 96.0         | 23 bps     | -340 bps   |
| Assets to Equity (x)        | 5.7          | 5.7          | 5.9          | -1%        | -3%        |
| Cost of Risk (%)            | 0.21         | 0.35         | 0.21         | -14 bps    | 0 bps      |

## Rating Summary and Forecasts

### Rating Summary

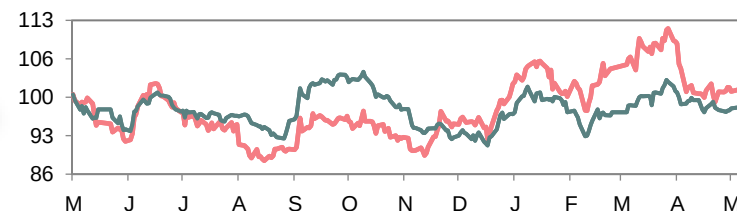
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|-----------------------|-------------|
| Rating                | Buy         |
| Market Price          | 34.4        |
| 12-month Target Price | 41.5        |
| Upside / Downside     | 21%         |
| Mkt Cap (SAR mn)      | 70,685      |
| 52-week High/Low      | 37.92/29.90 |

### Forecasts

|                     | 12/25 A | 12/26 E | 12/27 E | 12/28 E |
|---------------------|---------|---------|---------|---------|
| Net Income (SAR mn) | 8,452   | 9,012   | 9,527   | 10,188  |
| PER (x)             | 8.4     | 7.8     | 7.4     | 6.9     |
| PBV (x)             | 1.1     | 1.0     | 1.0     | 0.9     |
| EPS (SAR)           | 4.11    | 4.39    | 4.64    | 4.96    |
| DPS (SAR)           | 2.00    | 2.20    | 2.35    | 2.50    |
| RoE (%)             | 12.6    | 13.0    | 12.9    | 12.9    |
| Dividend Yield (%)  | 5.8     | 6.4     | 6.8     | 7.3     |

### Price Chart

● SAB ● TASI



# Saudi Awwal Bank (BUY, TP: SAR 41.5, 1060.SE) 1Q26 Results Review

- Estimated interest-earning assets (IEA) rose 8% Y/Y and 1% Q/Q to SAR 418.23bn, accounting for 91.0% of assets in 1Q26, down 11bps Y/Y and 16bps Q/Q. Balance sheet leveraging stood at 5.7x in 1Q26 stable vs. 4Q25 but down from 5.9x in 1Q25.
- Gross financing growth of 3% YTD to SAR 314.7bn in 1Q26 was led by an increase of 3% in corporate and institutional (CIB) lending to SAR 236.3bn, and 2% in wealth and personal banking (WPB) to SAR 78.4bn. By sector, commerce led the book (23%), followed by mortgages (14%), and credit cards and other retail (11%).
- Deposits rose 14% Y/Y and 3% YTD to SAR 331.4bn. Demand deposits rose 7% Y/Y and 4% YTD to SAR 143.5bn. Demand deposit (spot) ratio came in at 42% vs. 43% in 4Q25. On an average basis, the demand deposit ratio stood at 43% stable from 4Q25.
- Regulatory LDR stood at 79%, stable from 4Q25. LCR came in at 138% vs. 142% in 4Q25, well above regulatory requirements.

## Investment thesis

- SAB surprised in its 1Q26 call adopting the most cautious tone in the sector, a change from its market beating and optimistic outlook that the street is used to. It raised gross ECL additions to SAR 735mn in the quarter, already exceeding half of FY25's SAR 1.4bn charge. However, this was largely offset by a sizeable one-off recovery, taking total recoveries to c.SAR 640mn in 1Q26, close to the full FY25 level. Besides SAB, only Alinma raised ECL additions factoring geopolitical uncertainties. For other banks, higher oil prices countered geopolitical risks on their ECL models, eliminating overlays. SAB, which had factored lower oil prices in the model in 1Q26, stated that it will plug higher prices into the model in 2Q26 as the bank now believes oil prices are likely to remain elevated. This should result in reversals from 2Q26. Besides ECL, the bank also built a significant liquidity buffer (cash and equivalents increased by SAR 6.7bn from 1Q25 to SAR 13.4bn) to be able to serve clients that need additional funding to get through the tough global environment. As liquid funds are deployed over risk-free short tenure instruments, the yield is lower than traditional deployments such as loans and long tenured investments, hurting NIM. Coincidentally, it had pre-planned for this in 4Q25, given the situation with low oil prices before the conflict, implying that its NIM guidance factored for this. While SAB said that it hopes to reverse these conservative measures once the situation in the region improves, the conservative tone contrasted other bank managements' business as usual outlook. We are comforted by the fact that SAB is focusing on conservatism over quarterly results. Having said that, 1Q26 numbers did benefit from SAR 212mn gain from the sale of FVOCI debt instruments. The booking of gains on fixed rated investments served a dual purpose of helping build up liquidity and increasing NIM sensitivity to rate hikes. SAB is the first bank to start talking about rate increases. However, we do not see rate hikes on the horizon, and expect rates to be stable through 2026. Ex investment income, NII would have fallen by 32% Y/Y. Much of this weakness came from regulatory changes in fees, especially on cards, in which SAB holds a leading market position. The trade business, constituting 20% of gross fee income, and almost entirety of net fee income, did not register growth, given geopolitical strain on trade volumes. The bank has managed to offset some of the regulatory impact through higher transaction volumes and continues to invest in building up volumes. This was reflected in elevated expenses seen in credit card and merchant acquiring businesses in 1Q26.
- With NIM expected to recover in 2H26 through repricing and expected sequential NII growth after taking a bulk of the hit from fee regulations in 1Q26, the outlook on revenue and consequently the CIR remains positive. SAB is a market beating asset growth story. It trades with a 1.0x PBV (on shareholders equity) with a 5-year forward RoAE (post-AT1 cost) of 12.5%. The stock trades at a 10% discount to its 2-year average of 1.1x. Compared to the sector, it is trading with a 30% discount to the sector average of 1.5x (vs. a 2-year average sector discount of 32%). At the potential end of the rate cut cycle, the discount vs. the sector makes the story compelling. Maintain Buy.

## Rating and Risks

We are BUY rated on SAB and our 12-month price target is SAR 41.5. Upside risks include material pick up in credit demand, robust recoveries, easing of liquidity, and interest rate hikes. Primary downside risk is geopolitical; prolonged US-Israel-Iran conflict and damage to energy infrastructure. Operational risks include CASA dilution, material dip in system credit quality, and slowdown in economic activity.

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## Rating Framework

### Buy

Shares of the companies under coverage in this report are expected to outperform relative to the sector or the broader market.

### Hold

Shares of the companies under coverage in this report are expected to perform in line with the sector or the broader market.

### Sell

Shares of the companies under coverage in this report are expected to underperform relative to the sector or the broader market.

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