

Arab National Bank (BUY, TP: SAR 24.0, 1080.SE) 1Q26 Results Review

Loan growth in 1Q26 led by retail, contrary to expectations; fee and FX income weakness drive NII lower; sequential fall in opex led by one-off staff cost seen in 4Q25.

Arab National Bank (ARNB)'s net income in 1Q26 rose 4% Y/Y to SAR 1.36bn (1Q26 EPS: SAR 0.68). Total income was up 3% at SAR 2.59bn as the fall in NII was more than offset by NSCI growth. Operating expenses, ex provisions, rose 10% Y/Y widening the reported cost-to-income ratio (CIR) by 198bps to 33.29%. Provisions eased 34% to SAR 135mn. Loans grew faster than deposits, leading to a 396bps expansion of headline LDR to 95.5%. Balance sheet leveraging stood at 5.8x vs. 6.3x in 1Q25. Reported RoAE, fell 148bps to 11.29%, while annualized RoA fell 6bps to 1.91%.

- NSCI rose 8% Y/Y and 6% Q/Q to SAR 2.11bn in 1Q26 from higher net investment (+33% Y/Y, +6% Q/Q) and financing (+1% Y/Y, +6% Q/Q) income. Reported NIM fell 23bps Y/Y and 6bps Q/Q to 3.38% driven by pressure on asset yields.
- NII fell 15% Y/Y to SAR 477mn from lower fee, exchange, and FVIS investment income, partly offset by higher trading, dividend, non-trading investment, and other operating income. Q/Q, it rose 11% from higher fee, trading, and dividend income, partly offset by lower exchange, other operating, and FVIS and other investment income.
- Consequently, total operating income was up 3% Y/Y and 7% Q/Q to SAR 2.59bn, in line with street consensus.
- Operating expenses, ex provisions, rose 10% Y/Y to SAR 862mn in 1Q26 led by employee, G&A, D&A, and premise related charges. Q/Q, they were down 7%, from lower employee related expenses, partly offset by higher D&A, G&A, and premise related costs. Consequently, reported CIR widened 2.0ppts Y/Y but eased 0.5ppts Q/Q to 33.3%. The Q/Q slow down indicates slowdown in cost growth as ARNB continued to implement cost-saving initiatives. At the same time, the bank continuing to invest in human capital and operational improvements.
- Total provisions fell 34% Y/Y and 11% Q/Q to SAR 135mn aided by reversals of impairments on credit related commitments and contingencies and other assets. No significant movements were seen on gross financing charge and recoveries.
- NPL balances fell 22% Y/Y but was up 2% Q/Q to SAR 1.90bn. Calculated annualized NPL formation in 1Q26 stood at 0.26% of average gross loans vs 0.33% in FY25. NPL ratio was stable at 0.94% vs. 4Q25, and down from 1.34% in 1Q25. The NPL coverage stood at 174% up 42ppts Y/Y and 5ppts Q/Q.
- Net income was up 4% Y/Y and 18% Q/Q to SAR 1.36bn in 1Q26, beating analyst estimates by 10.0%.
- Assets were up 7% Y/Y (+1% Q/Q) to SAR 284.89bn, mainly attributed to the growth in financing (+11% Y/Y, +2% Q/Q) and investment (+16% Y/Y, +3% Q/Q) assets.
- Estimated interest-earning assets (IEA) rose 9% Y/Y and 2% Q/Q to SAR 418.23bn, accounting for 89.1% of assets in 1Q26, up 144bps Y/Y and 40bps Q/Q. Balance sheet leveraging stood at 5.7x in 1Q26 stable vs. 4Q25 but down from 5.9x in 1Q25.

SAR mln	1Q26	4Q25	1Q25	Q/Q %	Y/Y %
Net income from Financing	1,532	1,445	1,518	6%	1%
Net income from Investments	580	545	436	6%	33%
Net Interest Income	2,112	1,990	1,954	6%	8%
Non-Interest Income	477	429	558	11%	-15%
Total Income	2,589	2,419	2,512	7%	3%
Operating Expenses	862	924	786	-7%	10%
Total provisions	135	152	205	-11%	-34%
Income before Zakat	1,600	1,350	1,526	19%	5%
Net Income	1,359	1,147	1,304	18%	4%
EPS	0.68	0.57	0.65	18%	4%
Assets	284,891	281,383	265,270	1%	7%
Investments	61,637	60,012	52,931	3%	16%
Loans & Advances	198,639	195,299	179,057	2%	11%
Deposits	208,021	209,287	195,619	-1%	6%
Shareholders' Equity	49,255	49,483	42,378	0%	16%
Reported RoAE (%)	11.29	11.60	12.77	-31 bps	-148 bps
Annualized RoAA (%)	1.91	1.63	1.97	28 bps	-06 bps
Simple LDR (%)	95.5	93.3	91.5	217 bps	396 bps
Assets to Equity (x)	5.8	5.7	6.3	2%	-8%
Cost of Risk (%)	0.32	0.37	0.40	-5 bps	-8 bps

Rating Summary and Forecasts

Rating Summary

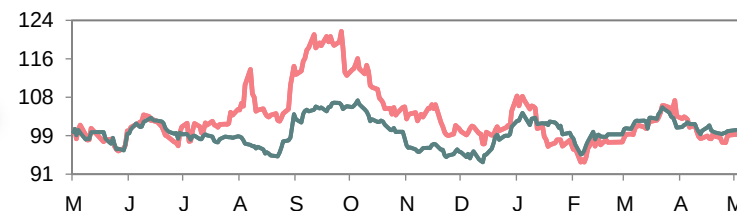
Rating	Buy
Market Price	21.0
12-month Target Price	24.0
Upside / Downside	14%
Mkt Cap (SAR mn)	41,940
52-week High/Low	26.26/19.60

Forecasts

	12/25 A	12/26 E	12/27 E	12/28 E
Net Income (SAR mn)	5,116	5,278	5,504	5,696
PER (x)	8.2	7.9	7.6	7.4
PBV (x)	1.0	1.0	0.9	0.9
EPS (SAR)	2.56	2.64	2.75	2.85
DPS (SAR)	1.30	1.35	1.40	1.45
RoE (%)	12.3	12.6	12.3	12.0
Dividend Yield (%)	6.2	6.4	6.7	6.9

Price Chart

● ARNB ● TASI



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- Gross financing growth of 2% YTD to SAR 201.94bn in 1Q26 was led by an increase of 3% in retail lending and 1% in corporates. 74% of the lending book is corporate book. Y/Y too, retail growth (+14%) outpaced wholesale (+10%). Within corporates, services and real estate activities lead sectoral lending, making up 19% each. The retail book was dominated by mortgages (54%) and personal loans (40%).
- Deposits rose 1% YTD to SAR 208.02bn led by CASA deposits, up 2%, while time deposits fell 3%. CASA ratio came in at 50.4% vs. 49.2% in 4Q25 and 54.7% in 1Q25.
- Regulatory LDR stood at 81.96%, up 3.1ppts Y/Y and 1.4ppts Q/Q. LCR and NSFR came in at 141.6% and 110.8%, at comfortable levels.

Investment thesis

- *ARNB delivered steady topline growth, in line with street estimates, as analysts had factored a mild decline in NIM, to be offset by volume increase, along with lower NII. The impact of lower than anticipated loan growth on revenues, was offset by the decline in NII coming in milder vs. our expectations. The big surprise for the street was on expenses, which slipped 7% Q/Q. While we knew 4Q25 was impacted by one-off staff cost, 11% decline Q/Q on this line was higher than factored by us and the street. However, the CIR still came above the bank's guidance due to the lower NII. The bank stated in 4Q25 that the cost base is likely to increase in mid-single digit in 2026. Pairing this with expected sequential recovery in NII as growth in fee income should now normalize on a sequential basis as most of the regulatory impact was seen in 1Q26. 2Q26 will absorb the remaining (fee regulations were enforced in 1st week of Feb. Over a month of pre-regulation fees is likely to have been collected by the bank in 1Q26). We are conservatively factoring a positive jaws ratio of 1.2% due to prevailing downside risks on NII (bank may invest in building volumes to offset the impact, creating short term pain in net fee income) and NSCI forecasts.*
- *The bank is moving in the right direction and investing in spaces that will drive revenue and improve efficiencies in the future. It continues to operate with segment leading NIM. ARNB management is looking to add on value accretive loans with a healthy spread or ancillary business opportunities, especially in corporate, led by SMEs and mid-corporates. Secondly, it has started repricing some of its floating loans. As a result, the bank stated in its earnings call that it could upgrade the NIM guidance if liquidity situation improves, which it has in 1Q26. These measures should at very least mitigate some of the downside for NIM. The other half of the revenue mix, which is non-yield income, has become a core strategy point for all banks, not just ARNB. The market is large enough for all banks to be able to see healthy growth in this space, and we are optimistic that ARNB will be able to resume growth. Having said that, we are slightly concerned with funding mix in 1Q26. With deposit growth lagging loan growth both Y/Y and Q/Q, much of it came from money market deposits from banks and other financial institutions, which typically is more expensive. ARNB banks with more than half the fintechs in the country which helps it raise liabilities. Over the medium term, there are serious discussions on converting to a fully Shariah compliant bank, if this materializes, the bank may get access to more sticky and sizable deposits, and increase ability to build retail assets market share.*

ARNB trades with a 1.0x PBV (on shareholders equity) with a 5-year forward RoAE (post-AT1 cost) of 11.3%. The stock trades at a 9% discount to its 2-year average of 1.1x. It is trading at a 31% discount to the sector average of 1.5x (vs. a 2-year average sector discount of 33%). An FY26F dividend yield of 6.4%, is attractive and provides downside protection to the stock. Maintain Buy.

Rating and Risks

We are BUY rated on ARNB and our 12-month price target is SAR 24.0. Upside risks include material pick up in credit demand, robust recoveries, easing of liquidity, and migration to Sharia complaint banking. 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.

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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