

Saudi National Bank (BUY, TP: SAR 47.0, 1180.SE) 1Q26 Results Review

0.5% YTD loan growth lags sector; 1Q26 sees net provision reversals led by recoveries; 1Q opex seasonality raises CIR, to normalize in rest of the year

Saudi National Bank (SNB)'s net income in 1Q26 rose 7% Y/Y to SAR 6.42bn (1Q26 EPS: SAR 1.07). Total income was flat at SAR 9.65bn as the NSCI growth was offset by lower NII. Operating expenses, excluding provisions, rose 3% Y/Y, leading to the reported cost-to-income ratio (CIR) widening 67bps to 26.9%. SNB saw a net provision reversal of SAR 578mn vs. a charge of SAR 31mn in 1Q25. Deposits grew faster than loans, leading to a 268bps narrowing of headline LDR to 110.1%. Balance sheet leveraging stood at 5.7x vs. 6.1x in 1Q25. Reported RoTE and RoA stood at 16.7% (-75bps Y/Y) and 2.2% (flat Y/Y).

- NSCI was up 3% Y/Y at SAR 7.5bn in 1Q26, driven by an 8% Y/Y increase in income from financing, which offset the 45% Y/Y decline in income from investments. Sequentially, NSCI was flat as income from financing was marginally lower, while income from investments advanced 4%.
- Reported NIM fell 19bps Y/Y but was flat Q/Q at 2.85 % in 1Q26. The Y/Y fall was led by domestic NIM (-23bps), partly offset by higher contribution from the international business (+4bps). The NIM decline came from mainly lower asset yields, falling 25bps Y/Y to 5.26%, while the CoF only fell by 12bps to 2.67%
- NII declined 9% Y/Y and 11% Q/Q to SAR 2.2bn in 1Q26 from lower investment related income and higher other operating expenses, partly offset by higher fee and exchange income.
- Consequently, total operating income was 1% higher Y/Y but down 80% Q/Q, in line with street estimates.
- Operating expenses, excluding provisions, increased 3% Y/Y and 48% Q/Q to SAR 2.8bn in 1Q26. Y/Y rise was led by higher staff and other G&A costs, partly offset by lower premises related and D&A charges. Q/Q surge was led by a normalized G&A compared to a net reversal seen in 4Q25 due to a one-off gain. Other than that, employee expense also recorded and increase, which was partly offset by lower premises related and D&A charges. Resultantly, the reported CIR widened 67bps Y/Y and 994bps Q/Q to 26.9%.
- The bank saw net impairment reversals of SAR 578mn in 1Q26 vs. a net charge of SAR 31mn in 1Q25 and SAR 942mn in 4Q25. Resultantly, the CoR fell 34bps Y/Y and 84bps Q/Q to -0.32%.
- Net income was up 7% Y/Y and 1% Q/Q at SAR 6.4bn in 1Q26, in line with analysts' consensus. Including AT1 capital cost, it came in at SAR 6.2bn, up 8% Y/Y but down 1% Q/Q.
- NPL balances fell 24% Y/Y and 1% Q/Q to SAR 4.9bn. Calculated annualized NPL formation in 1Q26 stood at 0.32% of average gross loans vs 0.49% in FY25. NPL ratio came in at 0.67% vs.0.68% in 4Q25, and 0.91% in 1Q25. The NPL coverage stood at 149.3% up 3.7ppts Y/Y and 2.2ppts Q/Q.
- Assets were up 5% Y/Y (+2% Q/Q) to SAR 1.2tn, mainly attributed to the growth in financing (+4% Y/Y, flat Q/Q) and investment (+4% Y/Y, +1% Q/Q) assets.

SAR mln	1Q26	4Q25	1Q25	Q/Q %	Y/Y %
Net income from Financing	7,138	7,162	6,599	0%	8%
Net income from Investments	358	344	652	4%	-45%
Net Interest Income	7,496	7,506	7,251	0%	3%
Non-Interest Income	2,154	2,421	2,361	-11%	-9%
Total Income	9,650	9,927	9,612	-3%	0%
Operating Expenses	2,801	1,889	2,727	48%	3%
Total provisions	-578	942	31	NM	NM
Income before Zakat	7,289	7,036	6,719	4%	8%
Net Income	6,423	6,385	6,022	1%	7%
EPS	1.07	1.06	1.00	1%	7%
Assets	1,228,496	1,210,032	1,171,079	2%	5%
Investments	323,201	320,004	310,274	1%	4%
Loans & Advances	732,658	729,311	706,430	0%	4%
Deposits	665,462	636,094	626,394	5%	6%
Shareholders' Equity	214,117	203,279	193,479	5%	11%
Reported RoTE (%)	16.7	17.1	17.5	-40 bps	-80 bps
Annualized RoA (%)	2.2	2.2	2.2	00 bps	00 bps
Simple LDR (%)	110.1	114.7	112.8	-456 bps	-268 bps
Assets to Equity (x)	5.7	6.0	6.1	-4%	-5%
Cost of Risk (%)	(0.32)	0.52	0.02	-84 bps	-34 bps

Rating Summary and Forecasts

Rating Summary

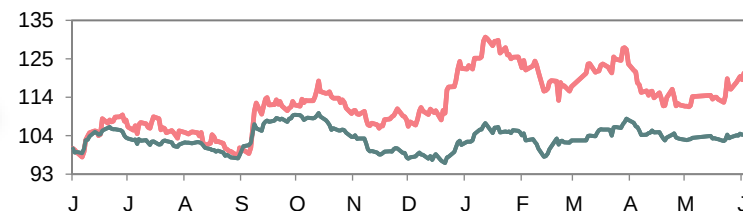
Rating	Buy
Market Price	41.3
12-month Target Price	47.0
Upside / Downside	14%
Mkt Cap (SAR mn)	248,040
52-week High/Low	45.24/33.30

Forecasts

	12/25 A	12/26 E	12/27 E	12/28 E
Net Income (SAR mn)	25,013	25,574	28,594	29,983
PER (x)	9.9	9.7	8.7	8.3
PBV (x)	1.3	1.3	1.2	1.1
EPS (SAR)	4.17	4.26	4.77	5.00
DPS (SAR)	2.15	2.20	2.45	2.55
RoTE (%)	16.4	16.2	16.2	16.0
Dividend Yield (%)	5.2	5.3	5.9	6.2

Price Chart

● SNB ● TASI



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- Estimated interest-earning assets (IEA) rose 4% Y/Y but were flat Q/Q at SAR 1.0tn, accounting for 84.1% of assets in 1Q26, down 94bps Y/Y and 92bps Q/Q. Balance sheet leveraging was 5.7x in 1Q26 vs. 6.0x in 4Q25 and 6.1x in 1Q25.
- Financing and advances increased 0.5% YTD to SAR 732.7bn, supported by 0.4% growth in domestic financing and 3% growth in international operations. Domestic growth was driven by retail financing, up 2% on higher mortgages (+1%) and other retail financing (+2%). Meanwhile, wholesale financing declined 0.6%, reflecting lower financial institutions (-20%), corporate (-0.7%), and other financing (-15%), partially offset by higher MSME lending (+9%). Fall in financial institutions reflected reduced opportunistic exposures, diverted to higher yielding segments. Retail loans dominate the financing book, constituting 48.7%, followed by corporate at 32.1%, MSME at 11.9%, FI at 4.1%, International at 2.8%, and other loans at 0.4%.
- Deposits growth of 5% YTD to SAR 665.5bn was led by domestic deposits (+4%) driven by an increase of 10% in time and other deposits and 2% in CASA deposits. International deposits were higher by 14% Y/Y. International deposits only account for 4.3% of total deposits. CASA ratio stood at 71.5% from 73.0% in 4Q25 and 74.5% in 1Q25.
- Regulatory LDR was within required levels at 80.1%, down 2.5ppts Y/Y and 2.4ppts Q/Q. LCR and NSFR came in at 311.8% and 116.0%, much above the 100% minimum.

Investment thesis

- *SNB's 1Q26 numbers marginally missed our revenue estimates, driven by weaker-than-anticipated NII performance. On NSCI, while loan growth was softer than expected, the impact was largely offset by stronger NIMs. Management attributed the sequential resilience to its repricing initiatives but also acknowledged that, with easing liquidity and slower loan growth, repricing has become more challenging than previously anticipated. Nevertheless, the bank retained its NSCI growth guidance, expecting stronger loan growth to offset this impact. We view the 0.5% sequential growth as evidence of SNB's selective growth strategy. A similar trend was evident in RJHI's loan growth. The financing growth has shifted towards SME and smaller-ticket segments where profitability and ancillary revenue generation are more attractive, albeit with a lower contribution to volume growth. Mortgage growth has also moderated due to lower ticket sizes amid improving housing supply and ongoing sector reforms. Nevertheless, like most of its peers, SNB expects a stronger 2H26. We saw encouragement data on government project awards, exceeding SAR 30bn in May, the highest monthly level in 2026.*
- *On the flip side, management's expectation of robust retail growth in 2027 following rate cuts may need to be tempered as the interest rate outlook remains uncertain. Following the Iran-US agreement, Brent has eased to around USD 76/bbl from recent highs. This is close to the USD 72/bbl on Feb. 27, one day before the strikes. If these prices sustain, rate hike expectations could subside. We do not anticipate a rate hike; however, the market is currently pricing it in. 9/18 voting federal committee members expect at least 1 rate hike in 2026, while the other 9 expect a hold or cut. While SNB's balanced mix of retail and wholesale lending provides a relatively neutral interest rate profile, rate hikes could further dampen retail credit demand. On fee income, as one of the largest banks, SNB was naturally exposed to the revised fee regulations. With 1Q26 likely absorbing most of the impact, we expect FY26 fee income growth to remain in the high single digits before returning to low double-digit growth from FY27. Management also noted improving underlying momentum in non-yield income entering 2Q26. While opex will be elevated due to the reversal of G&A expenses booked in 4Q25, we expect full-year 2026 costs to land near FY24 levels. Given that 1Q typically carries a seasonally higher cost base, the higher-than-expected CIR of 26.9% (vs. <25% guidance) should normalize over the remainder of the year. We are factoring in a recovery in NII and stable NIMs through 2026.*

SNB trades at 1.3x P/BV (on shareholders' equity) with a three-year forward RoTE (post-AT1 cost) of 16.2%. Compared with the sector, it trades at a 15% discount to the average multiple of 1.5x (vs. a 2-year average discount of 24%). Given its defensive NIM positioning, improving cost efficiency, recurring strong recoveries, and a higher RoTE outlook vs. the sector average, in our opinion the discount is unwarranted. Maintain Buy.

Rating and Risks

We are BUY rated on SNB and our 12-month price target is SAR 47.0. Upside risks include stronger than anticipated credit growth, recoveries from written off accounts, and expansion of operating leverage. Leading downside risk is geopolitical flareup, which has seen substantial easing. Operational risks include faster than anticipated rate hikes amounting to CASA dilution and slowdown in credit demand, material dip in system credit quality, high international costs, 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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Head Office
8092 King Fahd Road | Riyadh 12313-3735 | Kingdom of Saudi Arabia

Mailing Address
P.O. Box 23454 Riyadh 11426 | Kingdom of Saudi Arabia

Tel: +966 11 282 6828 | 800 125 9999
www.bsfcapital.sa

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