Company Update
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Al Salam Bank

Strong returns underpin valuation despite Q2 funding-cost pressure; maintain BUY.

- **Maintain TP at BHD0.30 despite lowering our FY26e NIM by 26bps and EPS forecasts by 10% amid geopolitical pressures and temporary CoF pressure. We expect FY26e EPS growth of 11% (vs 24% in H1) and RotE of 29.8%.**
- **Q2 net income rose 23% y/y, supported by non-funded income and lower credit costs. Earnings were broadly flat q/q, as margin and NFI pressure offset the benefit of lower CoR; RotE remained strong at 37.8%.**
- **Valuation remains attractive at 2.4x FY26e P/tNAV and 7.0x FY27e P/E for FY26e RoE of 27.7% and a 4.1% dividend yield. The potential NBB–BBK transaction offers a catalyst through ASB's 26.2% BBK stake, while Algeria strengthens the growth thesis. Reiterate BUY.**

Maintain TP at BHD0.30; superior returns support valuation—reiterate BUY. We maintain our TP at BHD0.30 despite cutting FY26e EPS by 10%, primarily reflecting geopolitical pressure on margins. We forecast FY26e RotE of 29.8% and expect returns to remain structurally around these levels, supported by sustained growth, efficiency gains, normalising credit costs and higher associate income. ASB trades at 2.4x P/tNAV and 7.0x FY27e P/E, offering FY26e RoE of 29.8%, a 4.1% dividend yield and FY30e TRS of 28%—among the highest in our coverage universe. Our TP implies 34% upside. The potential NBB–BBK merger remains a key catalyst, given ASB's 26.2% stake in BBK, while Algeria provides an additional structural growth avenue. Reiterate BUY.

Stable underlying performance; Q2 RotE remained strong at 37.8%. Q2 earnings increased 23% y/y, driven mainly by a sharp decline in provisioning, while revenue was broadly flat. Sequentially, earnings were stable (+0.1%) despite operating profit declining 21.5% and total income falling 14.5%, as a 44.5% reduction in loan-loss provisions offset weaker margins and non-funded income. Balance-sheet momentum moderated following a strong start to the year but remained reasonable against a challenging geopolitical backdrop. Q2 RotE stood at 37.8%, versus 40.8% in Q1 and 42.4% in Q2 25. We forecast FY26e earnings growth of 11%, below the 24% recorded in H1, as credit costs normalise in H2 following recoveries and releases in Q2.

Benign NPL formation; scenario weights normalised but remain conservative. NPL formation was -2bps in Q2, versus +107bps in Q1 and +14bps in Q2 25. However, CoR remained well above formation at 46bps, compared with 83bps in Q1 and 103bps a year earlier. The stage 2 ratio increased to 2.8% from 2.4% in Q1, while the stage 3 ratio edged down to 5.0% from 5.1%. Stage 2 coverage was broadly stable at 8.4%, versus 8.5% in Q1, while stage 3 coverage improved materially to 36.4% from 31.6%, partly rebuilding the buffer depleted by Q1's downgrade. Based on our internal coverage thresholds of 1%/12%/60% for stages 1/2/3, respectively, the provisioning shortfall narrowed to 1.2% of loans from 1.3% in Q1. ASB also revised its macroeconomic scenario weights, reducing the downside-case weighting to 40% from 60% and restoring the base case to 60% from 40%. Nevertheless, the assumptions remain more conservative than the 25%/65% downside/base-case split at YE25. We lower our FY26e CoR forecast by 5bps to 70bps, versus 32bps in H1, reflecting our expectation of normalisation after Q2 recoveries and releases.

Cost discipline supports the medium-term efficiency outlook. OpEx declined 7.0% q/q and 0.9% y/y, coming in 6.4% below our estimate. Nevertheless, the C/I ratio increased to 52.2% from 48.0% in Q1, as the 14.5% q/q decline in total income outweighed the reduction in costs. OpEx-to-assets remains on a gradual improvement path, and we forecast a decline from 1.4% in FY26e to 1.2% by FY30e. From FY27e, we expect further efficiency gains from the realisation of KFH synergies, the scaling of ASB Capital and stronger non-funded income. We forecast the C/I ratio to improve to 42% by FY30e from 52% in FY26e.

Capital ratios recovered on improved market valuations. CET1 increased to 14.5% in Q2 from 13.6% in Q1, while Tier 1 and total CAR reached 20.8% and 23.6%, respectively. The recovery was driven by a positive FVOCI revaluation: the BHD66.7m loss recorded in Q1 (251bps of RWA) swung to a BHD30.6m gain (113bps of RWA). ASB remains comfortably above the CBB's 10.5% minimum CET1 requirement. Combined with low risk density of 31%, this leaves limited near-term constraints on balance-sheet growth or distributions.

BUY — BHD 0.30

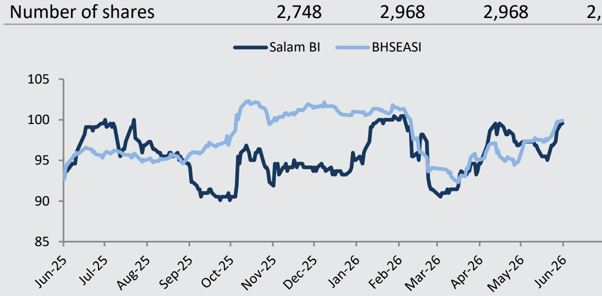
Banks / BAHRAIN

Bloomberg code	SALAM BI
Market index	
Target Price	0.30
Upside (%)	34.4

Market data 8/30/2026

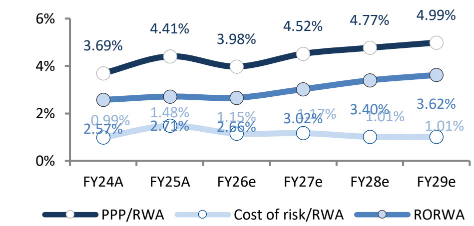
Last closing price	0.22
52 Week range	0.2-0.2
Market cap (BHD m)	702
Market cap (USD m)	1,861
Average Daily Traded Value (BHD m)	0.00
Average Daily Traded Value (USD m)	0.3
Free float (%)	74%

Year-end (BHD m)	2024	2025	2026e	2027e
Revenue	333	380	405	453
Pre-provisioning profit	79	107	109	134
EPS	0.02	0.02	0.02	0.03
P/E (x) (mkt price)	10.5	9.5	8.5	7.0
BVPS	0.1	0.2	0.2	0.2
Tangible BVPS	0.1	0.1	0.1	0.1
P/B (x) (mkt price)	1.6	1.3	1.3	1.1
P/TBVPS (x) (mkt price)	3.7	2.7	2.4	2.0
DPS	0.01	0.01	0.01	0.01
Div. yield (%)	2.7	3.7	4.1	4.9
FCFY	0.8	6.8	7.7	12.1
RoAA (%)	0.9	0.9	0.9	1.0
RoRWA (%)	2.6	2.7	2.7	3.0
RoATE (%)	26.5	34.0	29.8	31.1
RoEcC (%)	13.7	14.3	14.6	16.3
RAROC (%)	8.5	10.3	9.2	11.0
Net LtD ratio (%)	73.9	76.5	70.5	69.6
Risk Weighted Assets (bn)	2.1	2.4	2.7	3.0
Core Equity T1 ratio (%)	14.2	16.5	16.3	17.1
Tier 1 capital ratio (%)	21.8	23.5	22.6	22.9
Total capital ratio (%)	24.8	27.2	26.1	26.5
NPL ratio (%)	4.5	4.1	4.2	4.0
Coverage ratio (%)	40.3	73.1	79.1	80.7
Number of shares	2,748	2,968	2,968	2,968

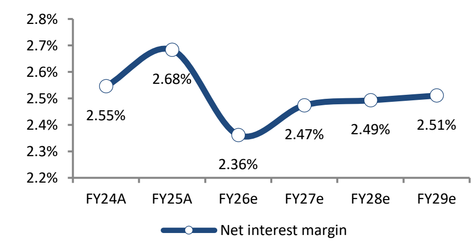


Abacus *Arqaam Capital Fundamental Data*

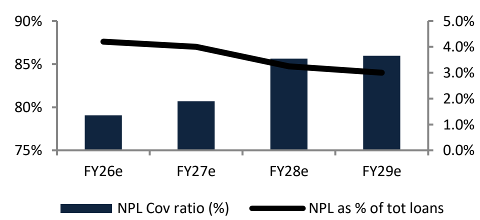
Profitability



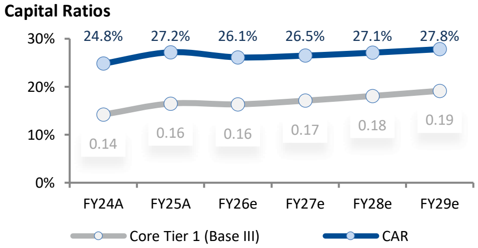
NIM



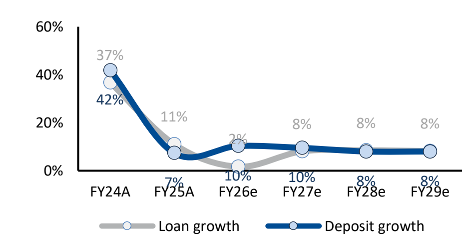
Credit Quality



Capital Ratios



Growth



Al Salam Bank

Year-end	2024	2025	2026e	2027e	2028e	2029e
Performance analysis						
Net Interest Margin (%)	2.55	2.68	2.36	2.47	2.49	2.51
Asset yield (%)	6.20	5.64	5.30	5.40	5.40	5.40
Cost of Funds (%)	3.64	2.99	3.01	3.01	3.01	3.01
Risk Adjusted Margins (%)	2.17	2.15	1.97	2.09	2.17	2.18
Cost / Income (%)	55.8	52.1	52.4	48.3	46.0	44.0
Net Interest Income / total income (%)	76.6	81.0	78.8	80.1	80.2	80.4
Fees & Commissions / operating income (%)	15.2	12.5	13.2	12.2	12.3	12.2
Trading gains / operating income (%)	1.4	(0.7)	0.4	0.5	0.4	0.4
RoATE (%)	26.5	34.0	29.8	31.1	30.7	29.0
Pre-prov. RoATE (%)	47.3	42.8	38.9	37.5	34.8	32.6
RoAA (%)	0.9	0.9	0.9	1.0	1.1	1.2
Revenue / RWA (%)	8.37	9.20	8.36	8.73	8.83	8.90
Costs / RWA (%)	4.67	4.79	4.38	4.22	4.06	3.91
PPP / RWA (%)	3.69	4.41	3.98	4.52	4.77	4.99
Cost of Risk / RWA (%)	0.99	1.48	1.15	1.17	1.01	1.01
RoRWA (%)	2.57	2.71	2.66	3.02	3.40	3.62
RoRWA (%) (adj. for gross-up of associates)	1.03	1.11	1.15	1.35	1.56	1.71
Year-end	**2024**	**2025**	**2026e**	**2027e**	**2028e**	**2029e**
Asset Quality						
Provisions charge / avg. gross loans (%)	0.6	0.9	0.7	0.7	0.6	0.6
Past due not impaired / gross loans (%)	4.7	3.6	5.0	5.0	5.0	5.0
NPL / gross loans (%)	4.5	4.1	4.2	4.0	3.3	3.0
NPL coverage ratio (%)	40.3	73.1	79.1	80.7	85.6	86.0
Provisions / avg. gross loans (%)	1.3	1.6	2.3	2.5	2.4	2.0
Provisions charge / operating income (%)	25.8	33.6	27.3	24.0	19.5	18.6
Year-end	**2024**	**2025**	**2026e**	**2027e**	**2028e**	**2029e**
Funding and Liquidity						
Net Loans / Deposits (%)	73.9	76.5	70.5	69.6	69.9	70.0
Cash and interbank / assets (%)	7.7	6.9	9.3	12.1	11.3	10.8
Deposits / liabilities (%)	74.7	70.8	70.8	72.0	72.2	72.4
Year-end	**2024**	**2025**	**2026e**	**2027e**	**2028e**	**2029e**
Capital and leverage ratios						
Core Tier 1 ratio (Basel III) (%)	14.2	16.5	16.3	17.1	18.1	19.1
Tier 1 ratio (%)	21.8	23.5	22.6	22.9	23.4	24.1
Total capital ratio (%)	24.8	27.2	26.1	26.5	27.1	27.8
Tangible equity / assets (%)	2.2	2.9	2.9	3.3	3.8	4.2
RWA / assets (%)	30.3	30.1	30.9	31.0	31.0	31.0
Year-end	**2024**	**2025**	**2026e**	**2027e**	**2028e**	**2029e**
Growth						
Revenues (%)	44.1	24.8	2.6	12.9	9.2	9.0
Cost (%)	43.7	16.4	3.2	4.0	4.1	4.1
Pre-Provision Operating Profit Growth (%)	44.6	35.5	1.9	22.8	14.0	13.1
Provisions (%)	12.0	76.9	(17.3)	8.0	(7.4)	8.0
Net Profit (%)	30.3	19.7	10.9	22.8	21.3	15.3
Assets (%)	37.2	14.0	10.0	8.0	8.0	8.0
Loans (%)	36.8	11.1	1.7	8.1	8.5	8.2
Deposits (%)	41.9	7.4	10.3	9.5	8.0	8.0
Risk Weighted Assets (%)	26.7	13.5	13.0	8.1	8.1	8.1

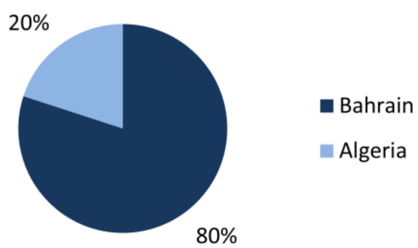
Abacus *Arqaam Capital Fundamental Data*

Company Profile

Al Salam Bank B.S.C. is a leading Shari'a-compliant financial institution, incorporated in the Kingdom of Bahrain on 19 January 2006. The Bank's ordinary shares are listed on both the Bahrain Bourse and the Dubai Financial Market.

Through its banking subsidiaries, Al Salam operates a diversified regional footprint, with 20 branches in Bahrain (2024: 24), 26 branches in Algeria (2024: 25), and one branch in Seychelles. The Group offers a comprehensive suite of Shari'a-compliant banking products and services across retail, corporate, and investment banking segments.

Loan mix



Ownership & Management

Major Shareholders	%
Bank Muscat (S.A.O.G)	14.74
Muscat Overseas Company LLC	8.43
Sayacorp B.S.C Closed	6.28

Management	
Chairman	H. E. Shaikh Khalid bin Mustahail Al Mashanii
CEO	Rafik Nayed
CFO	Yousif Ahmed Ebrahim

Al Salam Bank

Year-end	2024	2025	2026e	2027e	2028e	2029e
Income statement (BHD m)						
Interest income	333	380	405	453	491	533
Interest expense	196	199	225	245	264	285
Net Interest Income	**137**	**181**	**180**	**207**	**227**	**248**
Fee income	27	28	30	32	35	38
Net investment income	1	(2)	1	1	1	1
Other operating income	13	16	18	19	20	21
Total operating income	**179**	**223**	**229**	**259**	**283**	**308**
Total operating expenses	100	116	120	125	130	135
Pre-provision operating profit	**79**	**107**	**109**	**134**	**153**	**173**
Net provisions	20	36	30	32	30	32
Other provisions / impairment	1	-	2	2	3	3
Operating profit	**58**	**71**	**77**	**99**	**120**	**138**
Associates	18	21	26	25	27	30
Pre-tax profit	**76**	**93**	**103**	**124**	**147**	**168**
Taxation	6	7	7	11	13	14
Net profit	**70**	**85**	**96**	**114**	**135**	**153**
Minorities	10	9	11	11	13	15
ADT1 coupon	4	11	13	13	13	13
Attributable net profit	**55**	**66**	**73**	**90**	**109**	**125**
Diluted EPS	0.02	0.02	0.02	0.03	0.04	0.04
DPS	0.01	0.01	0.01	0.01	0.01	0.01
BVPS	0.13	0.16	0.17	0.18	0.21	0.24
Tangible BVPS (BHD)	0.06	0.08	0.09	0.11	0.13	0.16

Year-end	2024	2025	2026e	2027e	2028e	2029e
Balance sheet (BHD m)						
Gross loans and advances	**3,730**	**4,164**	**4,249**	**4,589**	**4,956**	**5,353**
Less: loan loss provisions	68	97	114	120	108	108
Net loans and advances	3,662	4,067	4,135	4,469	4,848	5,244
Cash and central bank	634	776	801	1,145	1,259	1,395
Due from banks	476	457	576	622	672	725
Investments, net	1,930	2,393	2,983	2,958	3,169	3,397
Fixed Assets	-	-	-	-	-	-
Other assets	361	361	364	374	386	398
Total assets	**7,063**	**8,054**	**8,859**	**9,568**	**10,333**	**11,160**
Customer deposits	4,952	5,317	5,865	6,423	6,937	7,492
Due to banks	563	675	557	613	760	914
Debt	910	1,285	1,575	1,575	1,575	1,575
Other liabilities	203	236	290	312	336	362
Total liabilities	**6,628**	**7,513**	**8,288**	**8,924**	**9,609**	**10,343**
Total equity	**434**	**541**	**571**	**644**	**724**	**817**
Risk Weighted Assets (bn)	2	2	3	3	3	3
Average Interest-Earning Assets	5,381	6,742	7,641	8,380	9,095	9,866
Average Interest-Bearing Liabilities	5,392	6,667	7,448	8,134	8,771	9,456
Common shareholders	156	232	259	318	390	474
Core Equity Tier 1 (Basel III)	304	400	448	507	579	663
Tier 1 capital	467	571	619	678	750	834

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Cut FY26e NIM by 26bps on funding-cost pressure. NIM declined 38bps q/q and 48bps y/y to 2.11% in Q2, reflecting higher funding costs and asset-yield repricing. We now forecast 32bps of NIM compression in FY26e, implying a modest recovery in H2 from Q2 levels.

Strong internal capital generation supports growth and M&A optionality. We expect ASB's RotE to remain in the high-20s, underpinned by retail and mortgage growth and rising fee income from ASB Capital. Continued capital accumulation should support organic growth and distributions, while the potential BBK–NBB merger remains a key catalyst for value realisation.

Exhibit 1: Q2 26A Al Salam Bank results

BHD m	Q2 26A	Q2 26e	vs. AC	Q1 26A	q/q 26	Q2 25A	Q1 25A	q/q 25	y/y Q2	y/y Q1	H1 26A	H1 26e	vs. AC	H1 25A	y/y 6M
Interest Income	99.8	100.2	(0.4%)	99.9	(0.1%)	96.4	89.6	7.6%	3.5%	11.5%	200	200	(0.2%)	186	7.3%
Interest expense	58.6	49.8	17.5%	53.1	10.4%	51.9	48.0	8.1%	12.9%	10.5%	112	103	8.5%	100	11.7%
Net interest income	**41.3**	**50.3**	**(18.1%)**	**46.8**	**(11.9%)**	**44.5**	**41.6**	**7.0%**	**(7.4%)**	**12.5%**	**88**	97	**(9.4%)**	**86**	**2.2%**
Fee Income	6.6	7.5	(12.0%)	8.2	(19.3%)	6.9	6.5	6.4%	(4.5%)	25.8%	15	16	(5.8%)	13	10.2%
Net Trading Income	–	1.5	nm	–	nm	–	–	nm	nm	nm	–	1	(100.0%)	–	nm
Other Income	2.7	3.6	(25.2%)	4.2	(34.7%)	(0.5)	4.1	(111.9%)	(649.9%)	0.2%	7	8	(11.7%)	4	88.0%
Non-Interest income	9.3	12.7	(26.1%)	12.4	(24.5%)	6.5	10.7	(39.5%)	44.8%	15.9%	22	25	(13.2%)	17	26.8%
Total income	**50.6**	**63.0**	**(19.7%)**	**59.2**	**(14.5%)**	**51.0**	**52.3**	**(2.5%)**	**(0.8%)**	**13.2%**	**110**	122	**(10.1%)**	**103**	**6.3%**
Operating expenses	26.4	28.2	(6.4%)	28.4	(7.0%)	26.2	26.8	(2.2%)	0.9%	6.0%	55	57	(3.2%)	53	3.5%
Operating profit	**24.2**	**34.8**	**(30.5%)**	**30.8**	**(21.5%)**	**24.8**	**25.5**	**(2.7%)**	**(2.5%)**	**20.8%**	**55**	66	**(16.2%)**	**50**	**9.3%**
Loan loss provisions	4.8	8.4	(42.3%)	8.7	(44.5%)	10.3	8.4	22.6%	(53.3%)	3.2%	14	17	(20.7%)	19	(27.9%)
Other provisions	(0.1)	0.6	(124.7%)	0.9	(116.8%)	(0.9)	1.0	(192.3%)	(83.8%)	(11.1%)	1	1	(50.5%)	0	nm
Total provisions	4.7	8.9	(47.7%)	9.5	(51.0%)	9.4	9.4	0.4%	(50.4%)	1.7%	14	18	(23.1%)	19	(24.4%)
Profit before tax	**27.1**	**31.5**	**(14.0%)**	**28.1**	**(3.4%)**	**21.3**	**21.4**	**(0.8%)**	**27.5%**	**31.0%**	**55**	60	**(7.4%)**	**43**	**29.3%**
Group net income	25.8	29.2	(11.5%)	26.2	(1.3%)	19.8	19.9	(0.8%)	30.7%	31.3%	52	55	(6.1%)	40	31.0%
Attributable NI	**23.2**	**26.3**	**(11.8%)**	**23.1**	**0.1%**	**18.8**	**18.6**	**1.0%**	**23.3%**	**24.4%**	**46**	49	**(6.3%)**	**37**	**23.8%**
Adjusted net income after TI coupon	20.3	23.1	(12.2%)	20.3	0.1%	15.9	16.1	(1.4%)	27.7%	25.8%	41	43	(6.5%)	32	26.7%
Cost/income ratio	52.2%	42.7%		48.0%		51.4%	51.3%				49.9%	46.3%		51.3%	
Net loans/deposit ratio	72.8%	76.5%		73.3%		74.8%	74.2%				72.8%	76.5%		73.3%	
Annualized LLP	0.46%	0.81%		0.83%		1.03%	0.86%				0.32%	0.41%		0.45%	
NPL ratio	4.17%			4.19%		3.63%	3.59%				4.17%			3.63%	
Coverage	61.4%			58.6%		64.0%	58.8%				61.4%			64.0%	
Annualized NIM	2.11%			2.49%		2.60%	2.58%				2.25%			2.51%	
Gross Loans	**4,201**	**4,128**	**1.8%**	**4,209**	**(0.2%)**	**4,023**	**3,912**	**2.8%**	**4.4%**	**7.6%**	**4,201**	**4,128**	**1.8%**	**4,209**	**(0.2%)**
Net Loans	**4,066**	**4,067**	**(0.0%)**	**4,083**	**(0.4%)**	**3,965**	**3,840**	**3.2%**	**2.6%**	**6.3%**	**4,066**	**4,067**	**(0.0%)**	**4,083**	**(0.4%)**
Customer deposits	**5,587**	**5,317**	**5.1%**	**5,568**	**0.3%**	**5,300**	**5,178**	**2.3%**	**5.4%**	**7.5%**	**5,587**	**5,317**	**5.1%**	**5,568**	**0.3%**

Source: Company Data, Arqaam Capital Research

Exhibit 2: Earnings revisions

		FY 26e			FY 27e			FY 28e			FY 29e			FY 30e	
BHD m	**New**	**Old**	**Δ**	**New**	**Old**	**Δ**	**New**	**Old**	**Δ**	**New**	**Old**	**Δ**	**New**	**Old**	**Δ**
Net interest income	180	199	(9.2%)	207	207	0.2%	227	225	0.8%	248	256	(3.2%)	271	277	(2.3%)
Fee income	30	30	–	32	31	2.2%	35	37	(5.8%)	38	38	–	41	41	–
Investment income	1	1	(0.6%)	1	1	12.6%	1	1	7.8%	1	1	(0.9%)	1	1	(0.9%)
Non-interest income	49	50	(3.6%)	51	49	4.9%	56	53	5.6%	60	63	(4.4%)	65	68	(4.4%)
Total income	**229**	**249**	**(8.1%)**	**259**	**256**	**1.1%**	**283**	**278**	**1.7%**	**308**	**319**	**(3.4%)**	**336**	**345**	**(2.7%)**
OpEx	120	123	(2.1%)	125	117	6.7%	130	123	5.7%	135	139	(2.6%)	141	146	(3.4%)
Operating income	**109**	**127**	**(13.9%)**	**134**	**138**	**(3.0%)**	**153**	**155**	**(1.5%)**	**173**	**180**	**(4.1%)**	**195**	**199**	**(2.2%)**
Loan loss provision	30	33	(11.0%)	32	34	(4.6%)	30	31	(4.6%)	32	33	(1.9%)	35	35	(1.9%)
Other provision	2	2	(15.3%)	2	2	10.3%	3	2	10.3%	3	3	(0.9%)	3	3	(0.9%)
Tax	7	10	(25.2%)	11	12	(12.4%)	13	14	(10.1%)	14	15	(2.0%)	16	16	1.5%
Net income (reported)	**73**	**81**	**(10.1%)**	**90**	**95**	**(5.7%)**	**109**	**111**	**(2.0%)**	**125**	**128**	**(2.2%)**	**144**	**141**	**1.6%**
Ratios															
NIM	2.36%	2.62%	-0.26%	2.47%	2.61%	-0.14%	2.49%	2.62%	-0.13%	2.51%	2.57%	-0.06%	2.53%	2.56%	-0.03%
Cost/income	52.4%	49.2%	3.2%	48.3%	45.7%	2.6%	46.0%	44.2%	1.8%	44.0%	43.6%	0.4%	42.0%	42.3%	(0.3%)
LLP	0.70%	0.75%	-0.05%	0.70%	0.70%	0.00%	0.60%	0.60%	0.00%	0.60%	0.60%	0.00%	0.60%	0.60%	0.00%
NPL	4.2%	4.0%	0.2%	4.0%	3.0%	1.0%	3.3%	3.3%	–	3.0%	3.0%	–	3.0%	3.0%	–
Coverage	79.1%	79.4%	(0.4%)	80.7%	90.5%	(9.8%)	85.6%	86.6%	(1.0%)	86.0%	88.7%	(2.8%)	88.0%	90.5%	(2.5%)
Growth															
Assets	10%	8%	2.0%	8%	8%	–	8%	8%	–	8%	8%	–	8%	8%	–
Loan	3%	8%	(5.0%)	8%	8%	–	8%	8%	–	8%	8%	–	8%	8%	–
Deposit	10%	7%	2.8%	10%	10%	0.0%	8%	10%	(1.5%)	8%	8%	–	8%	8%	–
BHD															
EPS	0.03	0.03	(10.8%)	0.03	0.04	(12.4%)	0.04	0.05	(10.1%)	0.05	0.05	(2.0%)	0.05	0.05	1.5%
TP	**0.30**	**0.30**	**0.8%**												

Source: Company Data, Arqaam Capital Research

BBK Q2 recap

BBK earnings fell 6% y/y in Q2 as higher credit costs and OpEx offset revenue growth. Net income declined 6.3% y/y, as loan-loss provisions rose 52.0% and OpEx increased 12.6%, outpacing total income growth of 8.2% and limiting operating-profit growth to 4.0%. Sequentially, earnings fell 37.6%, largely reflecting the non-recurrence of a Q1 gain on a legacy investment; investment income declined 86% q/q. BBK delivered Q2 26 RotE of 13.8%.

Funding costs weighed on margins, while fees remained supportive. NIM contracted 5bps q/q and 22bps y/y. Management continues to selectively redeploy assets into higher-return exposures across Bahrain and international markets, including KSA, Egypt and Türkiye. Non-interest income rose 18.5% y/y, supported by 17.0% fee-income growth, despite a 30.8% decline in investment income. On a sequential basis, investment income benefited from a BHD1.8m securities-provision writeback following charges booked in Q1.

Investment and conservative provisioning drove higher costs. OpEx growth reflected continued spending on infrastructure, AI and technology, alongside transaction-related costs that management expects to be non-recurring. CoR increased to 63bps from 62bps in Q1 and 47bps in Q2 25, reflecting more conservative ECL assumptions amid regional uncertainty. BBK expects scope for releases as conditions normalise.

Growth remained measured, but the pipeline is healthy. Loans increased 0.2% YtD and deposits grew 1.0%, while management highlighted a pipeline exceeding BHD500m across corporates, GREs, SMEs and retail. Capital and liquidity remain robust, with CAR at 18.9%, LCR at 342% and NSFR at 134%. BBK remains an important earnings contributor for ASB through its 26.2% stake, while merger discussions with NBB continue following the exchange of indicative terms.

Company Valuation: strong operating earnings

Exhibit 3: ASB Valuation (BHD m)

Year-end	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026e	2027e	2028e	2029e	2030e	perp	subtotal	% of total
1. DCF																								
Net profit	7	0	10	12	16	12	16	18	18	21	9	21	32	42	59	77	86	102	121	138	156	163		
Other adjustments (comprehensive income, social levies)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	4	11	13	13	13	13	13	13		
Minus: excess return excess capital	6	7	6	7	7	6	7	6	6	6	7	7	(6)	(4)	(12)	(12)	(12)	(10)	(8)	(6)	(3)	(3)		
Risk free rate	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%		
Tax shelter	--	--	--	--	--	--	--	--	--	--	--	--	--	8.6%	8.5%	7.6%	7.0%	8.5%	8.5%	8.5%	8.5%	8.5%		
Adjusted net profit	1	(6)	4	5	9	6	9	13	13	15	2	14	38	46	67	77	85	100	117	131	146	153		
Capital requirements	73	64	71	90	150	162	151	154	158	154	117	116	394	403	490	542	585	612	640	670	702	732		
RoEcC	1.2%	(10.0%)	5.5%	5.7%	5.7%	4.0%	6.3%	8.2%	8.2%	9.5%	2.0%	12.3%	9.5%	11.5%	13.7%	14.3%	14.6%	16.3%	18.3%	19.6%	20.8%	20.8%		
Cost of capital	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%		
Capital charge	9	8	9	11	19	20	19	19	20	19	15	15	50	51	62	68	74	77	81	84	88	92		
Economic profit	(8)	(14)	(5)	(6)	(10)	(14)	(10)	(7)	(7)	(5)	(12)	(0)	(12)	(4)	6	9	12	23	36	47	58	60		
Discount factor	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	1.00	0.89	0.79	0.70	0.62	0.55		
NPV of Economic Profit	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	12	20	29	33	36	33		
DCF EVA Forecast period																							129	14.3%
Perpetual growth rate (GDP)																						4.3%		
Terminal Value																						723		
Terminal value discounted																							399	44.1%
Required Capital																							542	59.9%
Value of the bank operations																							**1,070**	**118.3%**
2. Capital surplus/deficit																								
Available capital:																								
Shareholders equity	202	201	208	246	329	320	325	304	305	320	281	297	337	409	434	541	571	644	724	817	922			
Less Goodwill & intangibles	--	--	--	--	(26)	(26)	(26)	(26)	(26)	(26)	(26)	(26)	(52)	(78)	(205)	(231)	(231)	(231)	(231)	(231)	(231)			
Less non equity elements reported shareholders equity																								
Less Dividends (if included in reported equity)	--	--	(7)	(7)	(11)	(11)	(11)	(11)	(7)	(9)	--	(9)	(12)	(18)	(16)	(23)	(26)	(31)	(36)	(41)	(47)			
Tangible equity	202	201	201	239	292	283	288	267	271	286	255	262	273	313	214	286	315	383	457	544	645			
Capital needs																								
RWAs (Basel II)	700	694	699	875	1,407	1,501	1,408	1,369	1,408	1,434	1,086	1,065	1,396	1,687	2,139	2,427	2,741	2,963	3,202	3,462	3,744			
RWAs (Basel III)	714	699	699	875	1,407	1,501	1,408	1,369	1,408	1,434	1,086	1,065	1,396	1,687	2,139	2,427	2,741	2,963	3,202	3,462	3,744			
Equity as % RWA	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%			
Financial stakes (after 10% corridor)	(13)	(20)	(12)	(15)	(19)	(18)	(18)	(10)	(11)	(18)	(13)	(12)	227	200	234	250	257	256	256	255	253			
Capital Requirements	73	64	71	90	150	162	151	154	158	154	117	116	394	403	490	542	585	612	640	670	702			
Surplus capital	**129**	**137**	**129**	**149**	**142**	**122**	**138**	**113**	**114**	**131**	**138**	**145**	**(121)**	**(90)**	**(276)**	**(255)**	**(271)**	**(229)**	**(183)**	**(126)**	**(58)**		**(255)**	**(28.2%)**
3. Other adjustments																								
Provisioning surplus																							(15)	
ADTI issuance 50% credit																							86	
Level 3 assets																							(4)	
Total adjustments																							66	7.3%
4. Dividends																							**23**	**2.6%**
Total Fair Value																							**904**	**100.0%**
Fully diluted number of shares																							2,968	38.33
Fair value per share																							**0.30**	1.3%
Current share price																							0.21	
Upside																							**34.4%**	
Implied P/E (x)													28.6	21.4	15.2	13.7	12.4							
Implied P/tNAV (x)													3.6	3.5	5.4	3.9	3.5							

Source: Company Data, Arqaam Capital Research

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