Jaap Meijer, MBA, CFA
jaap.meijer@arqaamcapital.com
+971 4 507 1744

Hussein Safieddine
hussein.safieddine@arqaam
capital.com

Janany Vamadeva
Arqaam Capital Research Offshore s.a.l

National Bank of Bahrain

Strong returns and attractive yield, merger only partly priced in; initiate with a BUY

- **Initiate coverage on NBB with a BUY rating and TP of BHD 0.61, implying 15.5% upside, with the stock trading at c.1.9x tNAV26e and 12.4x EPS27e for RotE of 15.5% in FY26e and 15.2% in FY27e, offering an attractive valuation.**
- **We forecast FY25-30e BS growth CAGR of c.5% underpinning its franchise in Bahrain, driving an EPS CAGR of c.8.2%, still shy of 9%, supported by the rate outlook and positive JAWs, with C/I to reach below 50% by FY30e.**
- **We find valuation supported by its mid-teen returns expanding to structural levels of c.17.5%, BS optimization, strong franchise and an attractive DY of 6.6% in FY26e, supported by FCFY of >7% and high DPO.**
- **We see sizable upside to our valuation from a potential BBK merger, with the pro forma entity to command a dominant c.40% market share in a fragmented Bahrain market, driving significant synergies and strengthening the franchise.**

Initiate coverage with a BUY and TP of BHD 0.61. NBB combines a strong domestic franchise, accelerating regional growth and an attractive dividend yield, delivering mid- to high-teen returns. The stock trades at c.1.9x tNAV26e and 12.4x EPS27e for RotE of 15.5% in FY26e and 15.2% in FY27e. Our rolled-forward TP implies 15.5% upside to the current market price of BHD 0.528, supporting our BUY rating. We initiate coverage on NBB with a BUY underpinning resilient returns, improving operating leverage, BS optimization and upside from a potential merger.

EPS25-30e CAGR of c.8.2%, structural RotE at c.17.5%. We forecast an EPS CAGR of c.8.2% over FY25-30e, supported by mid-single-digit balance-sheet growth, the rate outlook, BS optimization and operating leverage. We find regional diversification offers further support to growth in the MT, with scope to optimize returns as the operations turn around and losses continue to narrow. We forecast RotE of 15.5% for FY26e, expanding to c.17.5% structurally on a standalone basis.

Rate outlook and BS optimisation supportive of the margin trend. NIM expanded by 29bps q/q and 22bps y/y to 2.62% in Q2 26A, as asset yields increased by 17bps and CoF declined by 12bps. We forecast c.11bps of NIM expansion in FY26e and c.6bps in FY27e, supported by balance-sheet optimisation, CASA of c.55% and the rate outlook.

Operating leverage supports the return trajectory. C/I increases from 53.3% in FY25A to 53.7% in FY26e, before improving to 52.4% in FY27e and 48.8% by FY30e. Digitalisation, process automation and operating leverage support the efficiency initiative. We forecast OpEx to assets to improve to 1.7% by FY29e from the current 1.8% level.

Stable asset quality. We forecast CoR of 22bps for FY26e versus c.25bps in FY25A and 14bps in H1 26A, before settling at 30bps from FY27e as the regional portfolio seasons. Asset quality remains stable, with the NPL ratio including POCI improving to 3.5% in Q2 26A, while Stage 2 and Stage 3 loans stood at 2.3% and 3.1%, respectively. Stage 2 and Stage 3 coverage improved to 11.6% and 57.6%, respectively. We find the asset-quality outlook supported by good growth, limited NPL formation and improving coverage levels, with TTC CoR at 30bps.

Attractive dividend yield of >5.5%. We forecast DPS of BHD 0.035 in FY26e and FY27e, in line with last year's dividend and offering a 6.6% dividend yield. FCFY of 7.3% in FY26e and 7.7% in FY27e remains above the dividend yield, supporting the attractive payout outlook.

BBK merger offers significant upside to our standalone estimates. As NBB-BBK merger talks continue, a potential merger offers significant synergies to the combined entity, underpinning a dominant franchise, BS capacity, funding depth and operating efficiency. We see strong merits to the merger, with consolidation of BBK offering sizable upside to our standalone TP of BHD 0.61.

Franchise strength and improving earnings support the valuation. NBB's margin recovery, regional growth, flight-to-quality benefits amid the geopolitical environment and attractive dividend yield provide further support to our BUY rating.

BUY BHD 0.61

Banks / Bahrain

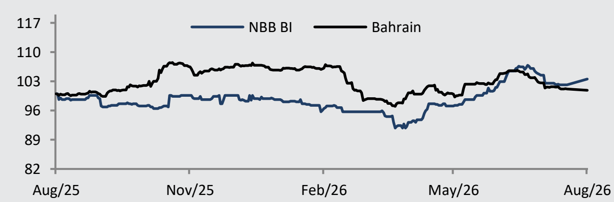
Bloomberg code	NBB BI
Market index	Bahrain
Target Price	0.61
Upside (%)	15.5

Market data 9/06/2026

Last closing price	0.53
52 Week range	0.47-0.55
Market cap (BHD m)	1,197
Average Daily Traded Value (BHD m)	0.00
Free float (%)	54%

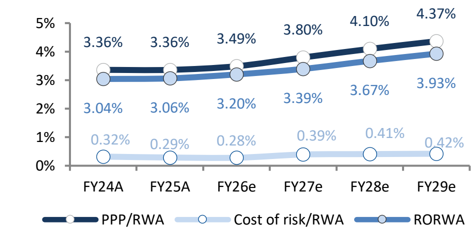
Year-end (local m)	2024	2025	2026e	2027e
Revenue	308	307	338	355
Pre-provisioning profit	91	93	98	108
EPS	0.04	0.04	0.04	0.04
P/E (x) (mkt price)	14.6	14.1	13.3	12.4
BVPS	0.3	0.3	0.3	0.3
Tangible BVPS	0.2	0.2	0.3	0.3
P/B (x) (mkt price)	2.0	2.0	1.8	1.7
P/TBVPS (x) (mkt price)	2.2	2.2	1.9	1.9
DPS	0.03	0.03	0.04	0.04
Div. yield (%)	6.6	6.6	6.6	6.6
FCFY	4.2	6.2	7.3	7.7
RoAA (%)	1.5	1.4	1.4	1.4
RoRWA (%)	3.0	3.1	3.2	3.4
RoATE (%)	15.7	15.9	15.5	15.2
RoEcC (%)	21.0	21.6	21.6	22.9
RAROC (%)	18.5	19.4	19.6	20.0
Net LtD ratio (%)	80.7	80.3	72.9	77.6
Risk Weighted Assets (bn)	2.7	2.8	2.8	2.8
Core Equity T1 ratio (%)	20.4	19.6	19.7	19.9
Tier 1 capital ratio (%)	20.4	19.6	23.2	23.5
Total capital ratio (%)	21.5	20.5	24.1	24.4
NPL ratio (%)	4.5	3.9	3.9	3.8
Coverage ratio (%)	73.3	72.0	73.1	80.3
Number of shares	2,266	2,266	2,266	2,266

Price Performance

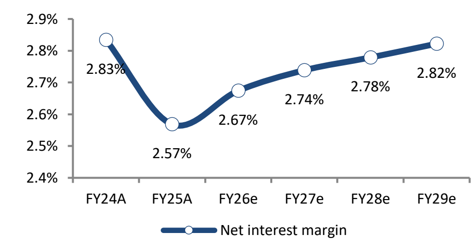


Abacus *Arqaam Capital Fundamental Data*

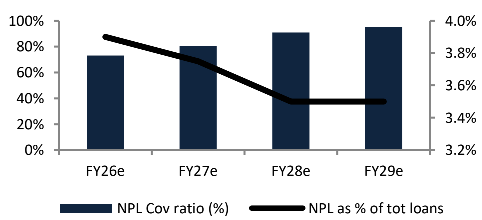
Profitability



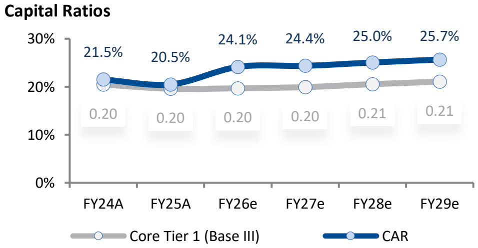
NIM



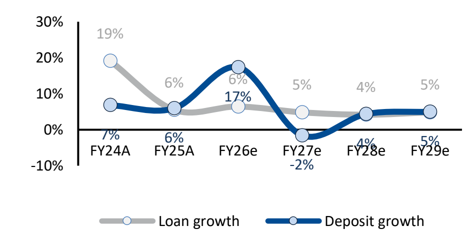
Credit Quality



Capital Ratios



Growth



National Bank of Bahrain

Year-end	2024	2025	2026e	2027e	2028e	2029e
Performance analysis						
Net Interest Margin (%)	2.83	2.57	2.67	2.74	2.78	2.82
Asset yield (%)	6.09	5.59	5.63	5.65	5.69	5.73
Cost of Funds (%)	3.53	3.25	3.17	3.14	3.14	3.14
Risk Adjusted Margins (%)	2.66	2.42	2.55	2.56	2.60	2.65
Cost / Income (%)	52.8	53.3	53.7	52.4	51.3	50.1
Net Interest Income / total income (%)	74.8	70.6	75.8	75.7	75.9	76.1
Fees & Commissions / operating income (%)	8.0	6.9	6.3	6.3	6.2	6.2
Trading gains / operating income (%)	9.4	7.9	7.2	7.5	7.4	7.3
RoATE (%)	15.7	15.9	15.5	15.2	16.1	16.8
Pre-prov. RoATE (%)	17.0	17.4	15.6	16.7	17.5	18.1
RoAA (%)	1.5	1.4	1.4	1.4	1.5	1.6
Revenue / RWA (%)	7.12	7.19	7.54	7.98	8.40	8.76
Costs / RWA (%)	3.76	3.83	4.05	4.18	4.31	4.39
PPP / RWA (%)	3.36	3.36	3.49	3.80	4.10	4.37
Cost of Risk / RWA (%)	0.32	0.29	0.28	0.39	0.41	0.42
RoRWA (%)	3.04	3.06	3.20	3.39	3.67	3.93
RoRWA (%) (adj. for gross-up of associates)	2.52	2.60	2.71	2.85	3.07	3.27
Year-end	**2024**	**2025**	**2026e**	**2027e**	**2028e**	**2029e**
Asset Quality						
Provisions charge / avg. gross loans (%)	0.3	0.2	0.2	0.3	0.3	0.3
Past due not impaired / gross loans (%)	2.4	2.8	0.6	0.6	0.6	0.6
NPL / gross loans (%)	4.5	3.9	3.9	3.8	3.5	3.5
NPL coverage ratio (%)	73.3	72.0	73.1	80.3	90.9	95.0
Provisions / avg. gross loans (%)	3.3	2.8	2.9	3.0	3.2	3.3
Provisions charge / operating income (%)	9.5	8.6	7.9	10.2	9.8	9.5
Year-end	**2024**	**2025**	**2026e**	**2027e**	**2028e**	**2029e**
Funding and Liquidity						
Net Loans / Deposits (%)	80.7	80.3	72.9	77.6	77.5	77.3
Cash and interbank / assets (%)	4.2	0.9	8.2	4.0	3.8	3.6
Deposits / liabilities (%)	76.0	69.9	79.7	74.5	74.5	74.5
Year-end	**2024**	**2025**	**2026e**	**2027e**	**2028e**	**2029e**
Capital and leverage ratios						
Core Tier 1 ratio (Basel III) (%)	20.4	19.6	19.7	19.9	20.5	21.1
Tier 1 ratio (%)	20.4	19.6	23.2	23.5	24.2	24.8
Total capital ratio (%)	21.5	20.5	24.1	24.4	25.0	25.7
Tangible equity / assets (%)	9.6	8.5	9.6	9.4	9.3	9.3
RWA / assets (%)	48.8	44.3	42.9	41.5	40.1	38.9
Year-end	**2024**	**2025**	**2026e**	**2027e**	**2028e**	**2029e**
Growth						
Revenues (%)	4.2	4.2	5.7	7.3	6.2	6.2
Cost (%)	5.4	5.1	6.7	4.7	3.8	3.8
Pre-Provision Operating Profit Growth (%)	2.8	3.2	4.6	10.4	8.7	8.6
Provisions (%)	11.7	(7.0)	(4.0)	43.2	4.4	5.0
Net Profit (%)	3.5	3.9	5.4	7.5	9.1	8.9
Assets (%)	2.8	13.7	4.0	5.0	4.4	5.0
Loans (%)	19.1	5.5	6.5	4.8	4.2	4.8
Deposits (%)	6.8	5.9	17.4	(1.6)	4.4	5.0
Risk Weighted Assets (%)	10.8	3.2	0.8	1.5	0.8	1.9

Abacus *Arqaam Capital Fundamental Data*

Company profile

National Bank of Bahrain BSC (NBB) is a Bahrain-domiciled banking group providing conventional retail, corporate, treasury, and wealth-management services, alongside Sharia-compliant commercial banking through its 80.2%-owned subsidiary, Bahrain Islamic Bank (BisB). Established in 1957 as the Kingdom's first locally incorporated bank, NBB operates an expanding cross-border network across Bahrain, Saudi Arabia (KSA), and the United Arab Emirates (UAE). The Group is listed on the Bahrain Bourse and is anchored by systemic domestic shareholders, including Bahrain Mumtalakat Holding Company (44.1%) and the Social Insurance Organisation (10.9%).

National Bank of Bahrain

Year-end	2024	2025	2026e	2027e	2028e	2029e
Income statement (BHDm)						
Interest income	308	307	338	355	374	395
Interest expense	165	166	177	183	192	201
Net Interest Income	**143**	**141**	**160**	**172**	**183**	**195**
Fee income	15	14	13	14	15	16
Net investment income	15	13	13	14	15	15
Other operating income	18	32	25	27	28	30
Total operating income	**192**	**200**	**211**	**227**	**241**	**256**
Total operating expenses	101	106	114	119	123	128
Finance expense						
Pre-provision operating profit	91	93	98	108	117	127
Net provisions	9	8	8	11	11	12
Other provisions / impairment	-	-	-	-	-	-
Operating profit	82	85	90	97	106	115
Associates	**1**	**2**	**2**	**3**	**3**	**3**
Pre-tax profit	83	88	92	99	108	118
Taxation	-	-	-	-	-	**1**
Net profit	83	87	92	99	108	117
Minorities	1	2	2	2	3	3
ADT1 coupon	-	-	-	-	-	-
Attributable net profit	82	85	90	96	105	115
Diluted EPS	0.04	0.04	0.04	0.04	0.05	0.05
DPS	0.03	0.03	0.04	0.04	0.04	0.04
BVPS	0.26	0.26	0.30	0.31	0.32	0.33
Tangible BVPS	0.24	0.24	0.28	0.28	0.29	0.31

Year-end	2024	2025	2026e	2027e	2028e	2029e
Balance sheet (BHDm)						
Gross loans and advances	**3,123**	**3,278**	**3,491**	**3,666**	**3,825**	**4,017**
Less: loan loss provisions	103	92	100	110	122	134
Net loans and advances	3,020	3,186	3,392	3,556	3,704	3,883
Cash and central bank	381	209	191	218	245	275
Due from banks	626	801	833	874	912	958
Investments, net	1,212	1,791	1,820	1,911	1,994	2,093
Fixed Assets	74	72	66	61	55	48
Other assets	209	219	226	235	243	252
Total assets	**5,522**	**6,277**	**6,528**	**6,854**	**7,152**	**7,510**
Customer deposits	3,744	3,966	4,655	4,582	4,782	5,021
Due to banks	580	941	421	794	858	934
Debt	385	609	599	599	599	599
Other liabilities	217	160	164	173	181	190
Total liabilities	**4,925**	**5,676**	**5,840**	**6,148**	**6,420**	**6,744**
Total equity	**597**	**600**	**688**	**706**	**732**	**766**
Risk Weighted Assets (bn)	3	3	3	3	3	3
Average Interest-Earning Assets	5,059	5,490	5,991	6,272	6,576	6,895
Average Interest-Bearing Liabilities	4,672	5,112	5,596	5,825	6,107	6,397
Common shareholders	533	535	624	642	668	701
Core Equity Tier 1 (Basel III)	551	544	551	566	588	615
Tier 1 capital	551	544	651	667	692	724

Jaap Meijer, MBA, CFA
jaap.meijer@arqaamcapital.com
+971 4 507 1744

Janany Vamadeva
Arqaam Capital Research Offshore s.a.l

Contents

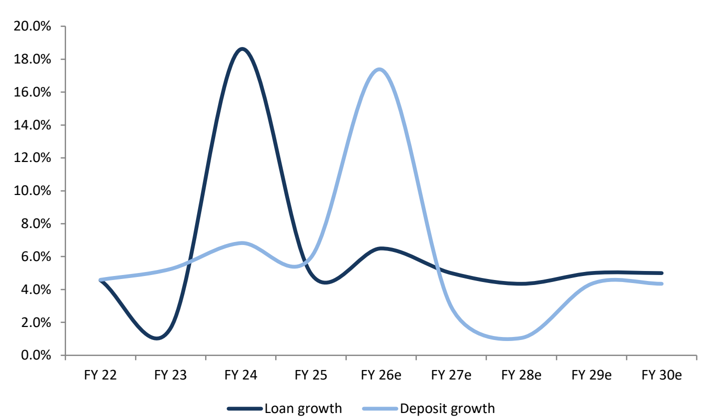
Investment thesis: Improving earnings quality, with risk-reward now attractive

- **We initiate coverage on NBB with a BUY rating and TP of BHD 0.61, implying 15.5% upside to the current market price of BHD 0.528. NBB trades at c.1.9x tNAV26e and 12.4x EPS27e for RotE of 15.5% in FY26e and 15.2% in FY27e.**
- **We forecast loan growth of c.6.5% in FY26e and c.5% in FY27e, supported by corporate growth across Bahrain, KSA and the UAE. Together with c.11bps and c.6bps of NIM expansion, respectively, this drives NII growth of c.14% in FY26e and c.7% in FY27e and an EPS CAGR of c.8.2% over FY25-30e.**
- **Positive operating jaws should emerge from FY27e, with C/I improving from 53.7% in FY26e to 52.4% in FY27e and 48.8% by FY30e. This lifts RotE towards c.17.5% by FY30e despite CoR normalizing to 30bps from FY27e.**
- **We forecast DPS of 35 fils in FY26e and FY27e, offering a 6.6% yield, with upside risk. FCFY of 7.3% in FY26e and 7.7% in FY27e remains above the dividend yield, supporting improving coverage as payout normalizes from c.88% to c.82%.**

Initiate coverage with a BUY and TP of BHD 0.61. NBB combines a strong domestic funding franchise, accelerating regional growth and an attractive dividend yield, with Q2 margin recovery improving the earnings outlook. The stock trades at c.1.9x tNAV26e and 12.4x EPS27e for RotE of 15.5% in FY26e and 15.2% in FY27e. Our rolled-forward TP implies 15.5% upside to the current market price of BHD 0.528, supporting our BUY rating.

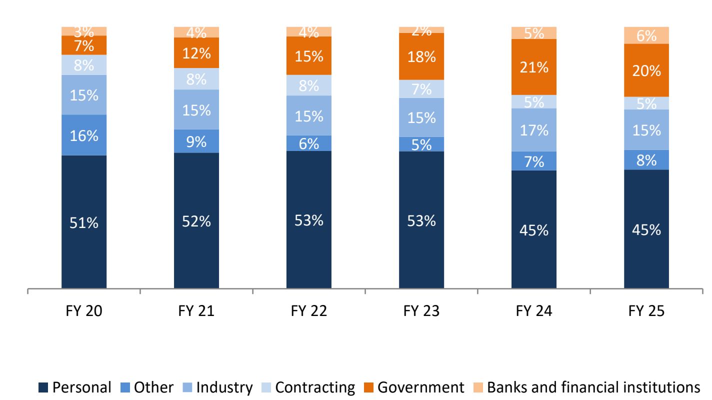
Regional expansion is reshaping the growth profile. We forecast loan growth of 6.5% in FY26e and 5% in FY27e, before moderating to c.4.4% in FY28e and returning to c.5% in FY29-30e. This follows gross loan growth of 14.9% y/y and 5.9% YTD in Q2 26A, while overseas operating income increased by 43.8% y/y in H1 26A and the segment loss narrowed to BHD 1.0m from BHD 1.9m. Regional operations are therefore becoming more meaningful contributors to growth, although maintaining pricing and underwriting discipline remains important as the portfolio matures.

Exhibit 1: Loan growth vs. deposits growth



Source: Arqaam Capital Research, Company Data

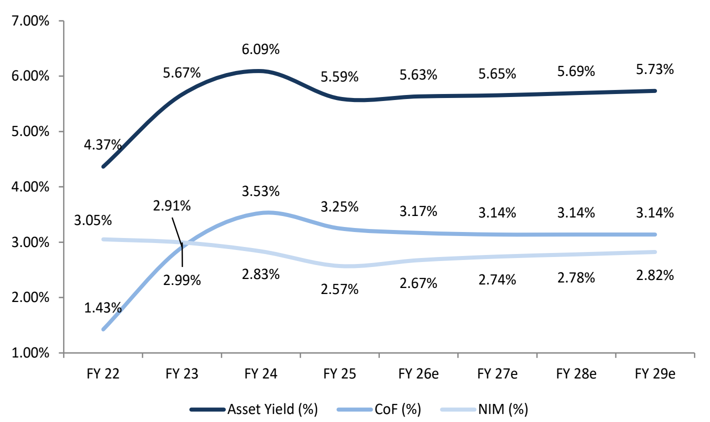
Exhibit 2: Loan mix evolution



Source: Arqaam Capital Research, Company Data

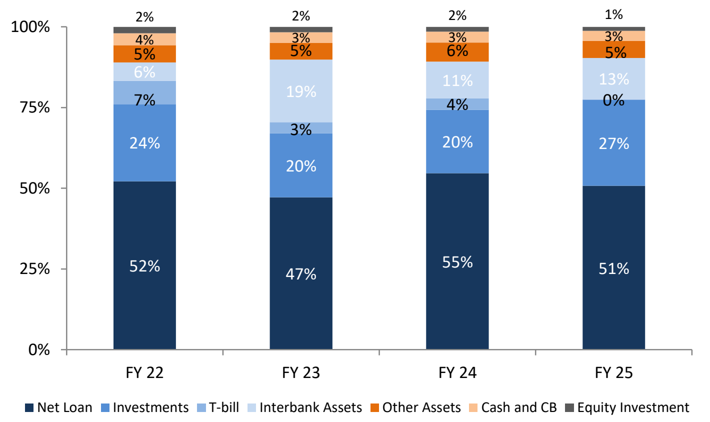
Margin recovery reinforces the volume-led growth outlook. NIM expanded by 29bps q/q and 22bps y/y to 2.62% in Q2 26A, as asset yields increased by 17bps and CoF declined by 12bps, amid a flight to quality. We forecast c.11bps of NIM expansion in FY26e and c.6bps in FY27e, supported by deposit growth, lower reliance on wholesale funding and continued asset-mix optimisation. Expansion in loans and other earning assets supports NII growth of c.14% in FY26e and c.7% in FY27e, with earnings now benefiting from both balance-sheet growth and improved margins.

Exhibit 3: Yield compression easing into FY26–29e



Source: Arqaam Capital Research, Company Data

Exhibit 4: Asset mix evolution



Source: Arqaam Capital Research, Company Data

Operating leverage supports the return trajectory. We forecast an EPS CAGR of c.8.2% over FY25-30e, supported by balance-sheet growth, margin recovery and operating leverage, albeit ahead of the bank's more conservative plans. C/I increases from 53.3% in FY25A to 53.7% in FY26e, before improving to 52.4% in FY27e and 48.8% by FY30e. This leaves RotE at 15.5% in FY26e and 15.2% in FY27e, before increasing to c.17.5% by FY30e. Digitalization, process automation and operating leverage support the efficiency assumptions, although technology investment and regional expansion could keep cost growth elevated in the near term.

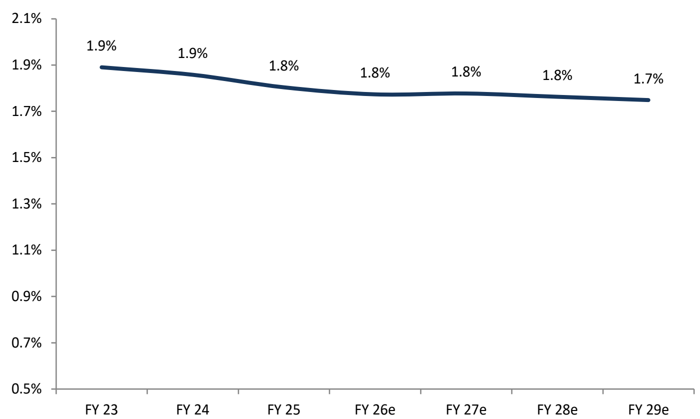
Provisioning should normalize, with asset quality still contained. We forecast CoR of 22bps in FY26e versus c.25bps in FY25A and 14bps in H1 26A, before settling at 30bps from FY27e as the regional portfolio seasons. Asset quality remains contained, with the NPL ratio including POCI improving to 3.5% in Q2 26A, while Stage 2 and Stage 3 loans stood at 2.3% and 3.1%, respectively. Stage 2 and Stage 3 coverage improved to 11.6% and 57.6%, respectively. This supports our view that credit costs can normalize without signaling a sharp deterioration in asset quality.

Attractive dividend yield is supported by improving earnings coverage. We forecast DPS of 35 fils in FY26e and FY27e, offering a 6.6% dividend yield. The payout ratio declines from c.88% in FY26e to c.82% in FY27e as earnings increase. FCFY of 7.3% in FY26e and 7.7% in FY27e remains above the dividend yield, indicating improving organic coverage. We therefore see the dividend as sustainable while retaining capacity to fund regional lending.

BBK talks add optionality, but not yet to estimates. NBB remains in discussions with BBK on the potential merger following its proposal on 26 April 2026 and BBK's response on 6 May 2026. A merger could strengthen domestic scale, funding depth and operating efficiency over time. However, visibility remains limited and we exclude the transaction from our estimates and TP pending further disclosures and regulatory clarity.

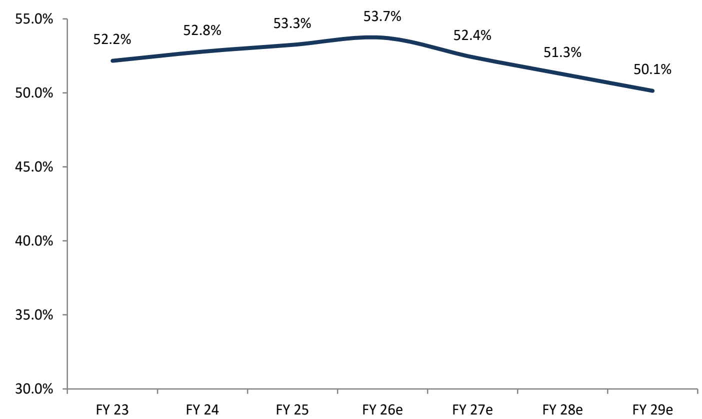
The valuation leaves sufficient upside for a BUY. NBB's franchise strength, margin recovery, regional growth and 6.6% dividend yield support its valuation. At c.1.9x tNAV26e and 12.4x EPS27e, the stock already reflects part of the improvement in earnings delivery. Nevertheless, our rolled-forward TP of BHD 0.61 implies 15.5% upside, supporting our BUY rating.

Exhibit 5: OpEX to Assets Evolution (%)



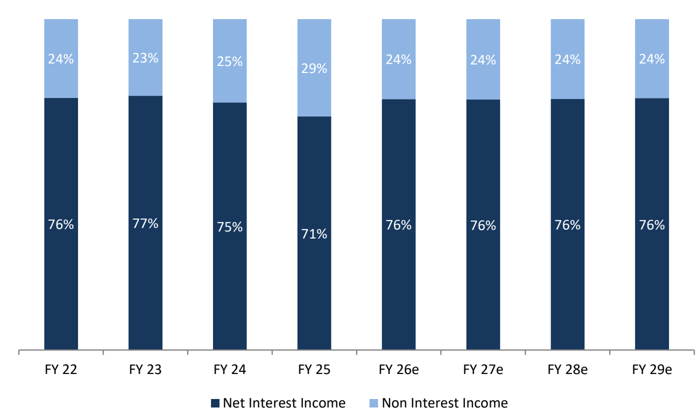
Source: Arqaam Capital Research, Company Data

Exhibit 6: C/I evolution



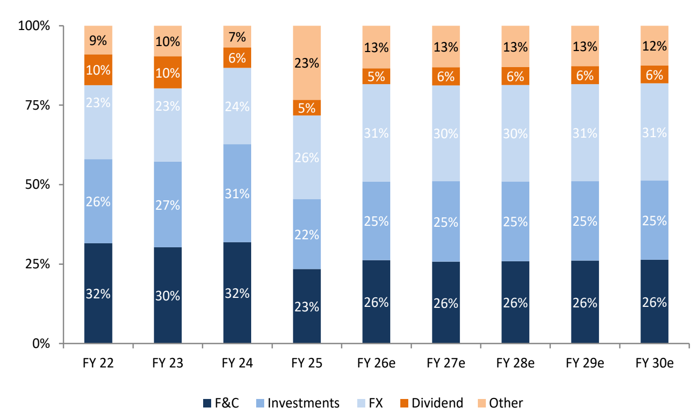
Source: Arqaam Capital Research, Company Data

Exhibit 7: Revenue mix evolution



Source: Arqaam Capital Research, Company Data

Exhibit 8: Non- funded income mix



Source: Arqaam Capital Research, Company Data

Exhibit 9: EVA

Year-end	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	47	51	53	55	58	61	70	74	53	54	68	79	82	85	90	96	105	115	126	132		
Other adjustments (comprehensive income)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--		
Minus: excess return excess capital	8	7	9	9	11	12	11	13	6	6	7	7	5	5	8	8	9	10	12	12		
Risk free rate	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%		
Tax shelter	--	0.4%	--	--	--	--	--	--	--	--	--	--	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%		
Adjusted net profit	39	44	45	46	48	49	59	61	48	48	61	72	77	80	82	88	96	104	115	120		
Capital requirements	130	140	142	155	167	169	220	224	318	318	317	318	367	373	377	384	389	398	407	425		
RoEcC	30.4%	31.8%	31.6%	30.0%	28.6%	29.1%	27.0%	27.4%	15.0%	15.0%	19.1%	22.8%	21.0%	21.6%	21.6%	22.9%	24.6%	26.2%	28.2%	28.2%		
Cost of capital	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%		
Capital charge	15	17	17	18	20	20	26	26	37	37	37	37	43	44	44	45	45	47	48	50		
Economic profit	24	28	28	28	28	29	33	35	10	11	24	35	34	37	38	43	50	58	67	70		
Discount factor	--	--	--	--	--	--	--	--	--	--	--	--	--	--	1.00	0.89	0.80	0.72	0.64	0.57		
NPV of Economic Profit	--	--	--	--	--	--	--	--	--	--	--	--	--	--	38	38	40	41	43	40		
DCF EVA Forecast period																					201	15.3%
Perpetual growth rate (GDP)																				4.5%		
Terminal Value																				972		
Terminal value discounted																					557	42.6%
Required Capital																					373	28.5%
Value of the bank operations																					**1,131**	**86.5%**
2. Capital surplus/deficit																						
Available capital:																						
Shareholders equity	319	363	378	365	415	448	476	532	526	535	576	577	597	600	688	706	732	766	807			
Less Goodwill & intangibles	--	--	--	--	--	--	--	--	(54)	(54)	(53)	(52)	(51)	(50)	(50)	(50)	(50)	(50)	(50)			
Less non equity elements reported shareholders equity															(13)	(14)	(14)	(15)	(16)			
Less Dividends (if included in reported equity)	(21)	(79)	(57)	(26)	(29)	(32)	(35)	(38)	(34)	(37)	(51)	(68)	(79)	(79)	(79)	(79)	(82)	(86)	(91)			
Tangible equity	298	284	321	339	386	416	441	494	438	444	472	457	467	471	545	562	586	615	650			
Capital needs																						
RWAs (Basel II)	1,055	975	975	975	975	975	1,407	1,416	2,343	2,424	2,422	2,432	2,693	2,779	2,802	2,843	2,864	2,919	2,973			
RWAs (Basel III)	1,055	975	975	975	975	975	1,407	1,416	2,343	2,424	2,422	2,432	2,693	2,779	2,802	2,843	2,864	2,919	2,973			
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%			
Financial stakes	3	23	25	38	50	52	52	54	37	27	27	26	44	40	41	43	45	47	50			
Capital Requirements	130	140	142	155	167	169	220	224	318	318	317	318	367	373	377	384	389	398	407			
Surplus capital	**168**	**144**	**180**	**184**	**219**	**248**	**221**	**270**	**120**	**126**	**155**	**139**	**99**	**98**	**168**	**178**	**197**	**217**	**244**		**98**	**7.5%**
3. Other adjustments																						
Real estate losses																						
Corporate bond fair value losses																						
Equity investment losses																						
Under/overprovisioning not covered in forecast period																						
Level 3 assets																						
Total adjustments																					--	--
4. Dividends																					**79**	**6.0%**
Total Fair Value																					**1,307**	**100.0%**
Fully diluted number of shares																					2,266	
Fair value per share (year end 2026)																					**0.58**	
6 month roll forward (mid 2027)																					**0.61**	
Current share price																					**0.53**	
Upside																					**15.5%**	
Implied P/E (x)	27.5	25.5	24.5	23.7	22.4	21.4	18.7	17.6	24.5	24.3	19.2	16.5	16.0	15.4	14.6	13.5	12.4	11.4	10.4			
Implied P/tNAV (x)	4.1	3.6	3.5	3.6	3.2	2.9	2.7	2.5	2.8	2.8	2.5	2.5	2.5	2.4	2.1	2.0	2.0	1.9	1.8			

Source: Arqaam Capital Research, Company Data

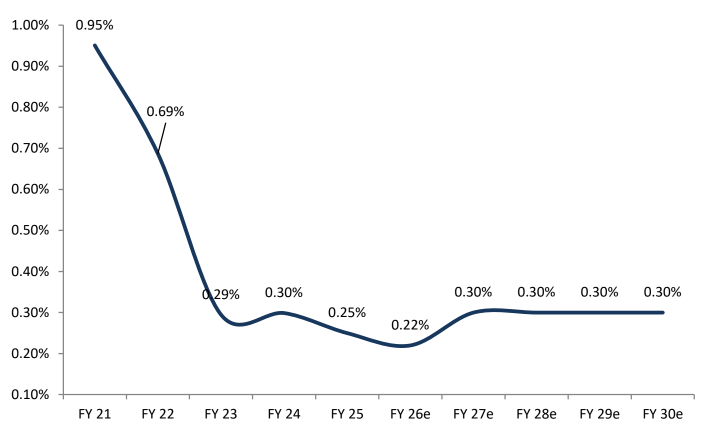
Credit costs to normalize as the regional book seasons

- **We forecast CoR of 22bps in FY26e versus c.25bps in FY25A and 14bps in H1 26A, before normalizing at 30bps over FY27-30e as the regional portfolio seasons.**
- **Asset quality remains contained, with NPLs including POCI improving to 3.5% from 3.6% in Q1 26A, while Stage 2/3 loans stood at 2.3%/3.1%.**
- **Stage 2/3 coverage improved to 11.6%/57.6% in Q2 26A, although it remains slightly below our internal acid-test thresholds.**

Asset quality remains comfortable, but coverage is slightly light on our acid test. NPLs including POCI improved to 3.5% in Q2 26A, while Stage 2/3 loans remained contained at 2.3%/3.1%. Stage 2/3 coverage improved to 11.6%/57.6%. Applying our internal acid-test thresholds of 1%/12%/60% for Stage 1/2/3 loans implies a provisioning deficit of c.BHD 39m, equivalent to c.1.1% of gross loans. We view the deficit as manageable relative to earnings and capital, but see limited scope for provision releases.

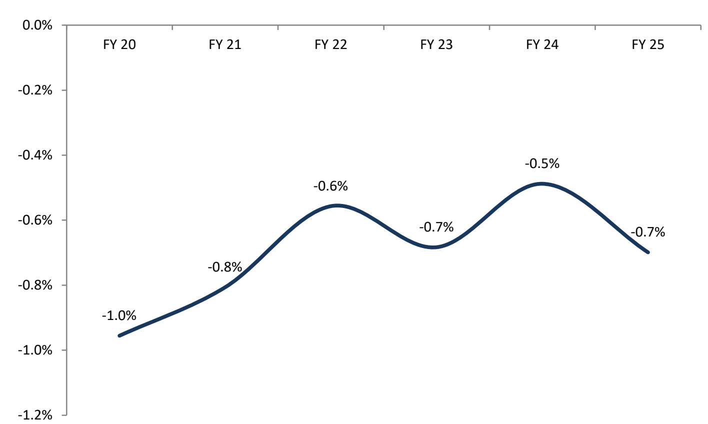
CoR should normalise from a low H1 base, without signalling stress. Q2 CoR increased to 27bps from 1bp in Q1, while annualised NPL formation rose to c.41bps from c.12bps. However, H1 CoR remained low at 14bps, the Stage 2 ratio improved and BHD 4m of write-offs kept the Stage 3 balance broadly stable. We forecast CoR of 22bps in FY26e and 30bps over FY27-30e, reflecting regional growth and portfolio seasoning rather than a sharp deterioration in asset quality.

Exhibit 10: CoR (%) evolution



Source: Arqaam Capital Research, Company Data

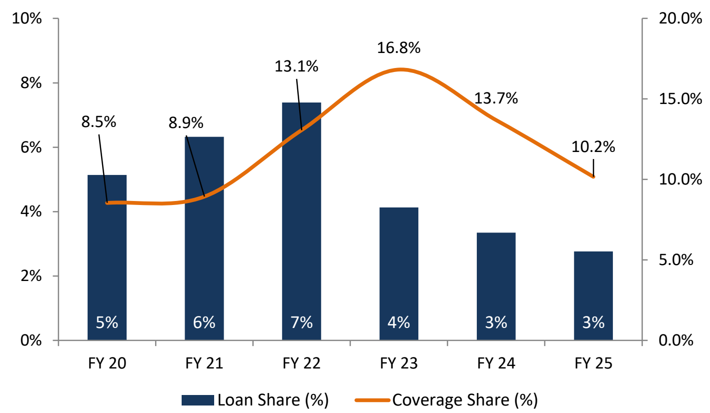
Exhibit 11: Provision deficit (%)



Source: Arqaam Capital Research, Company Data

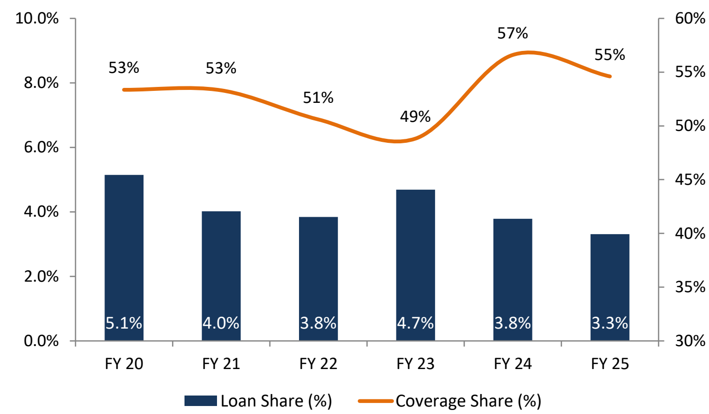
Internal Acidity Test: ECL Coverage by Loan Stage (1% stage 1, 12% stage 2, 60% stage 3)

Exhibit 12: Stage 2 loan share (%) vs. Stage 2 coverage



Source: Arqaam Capital Research, Company Data

Exhibit 13: Stage 3 loan share (%) vs. Stage 3 coverage

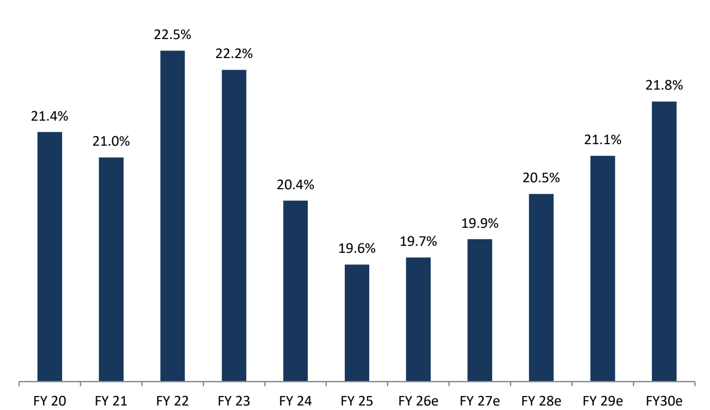


Source: Arqaam Capital Research, Company Data

Strong capital supports growth and dividends, with payout normalizing

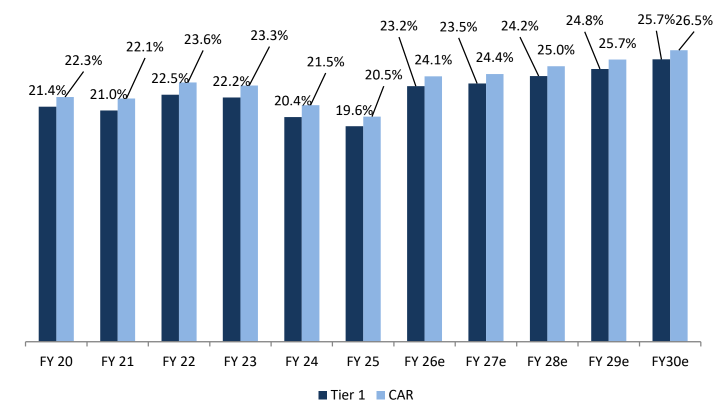
- **NBB maintains comfortable capital and liquidity buffers, with CET1 and CAR at 19.0% and 19.8%, respectively, in Q2 26A, while LCR and NSFR stood at 324% and 139%. These buffers provide capacity to fund regional balance-sheet growth and absorb credit-cost normalization.**
- **We forecast CET1 at c.19.7% in FY26e and c.19.9% in FY27e, comfortably above our 12% operating threshold, as internal capital generation more than offsets modest RWA growth. This retains ample headroom to fund regional expansion.**
- **We forecast DPS of 35 fils in FY26e and FY27e, offering a dividend yield of 6.6%. Payout normalizes to c.88% and c.82%, respectively, while FCFY of 7.3% and 7.7% supports improving organic dividend coverage. The dividend therefore remains sustainable without constraining balance-sheet growth.**

Exhibit 14: CET 1 Ratio (%)



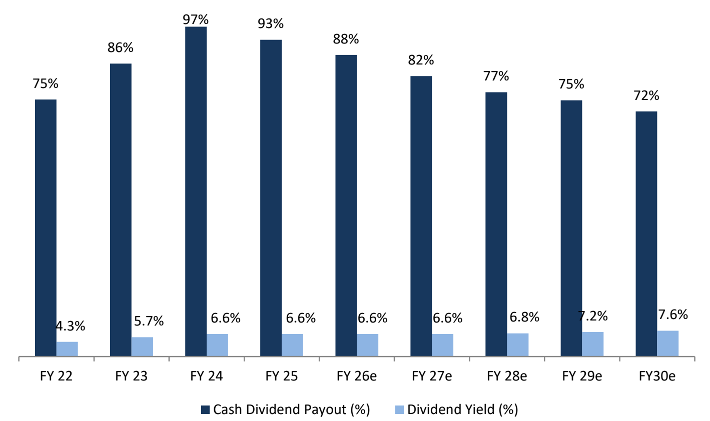
Source: Company Data, Arqaam Capital Research

Exhibit 15: Tier 1 capital ratio & CAR



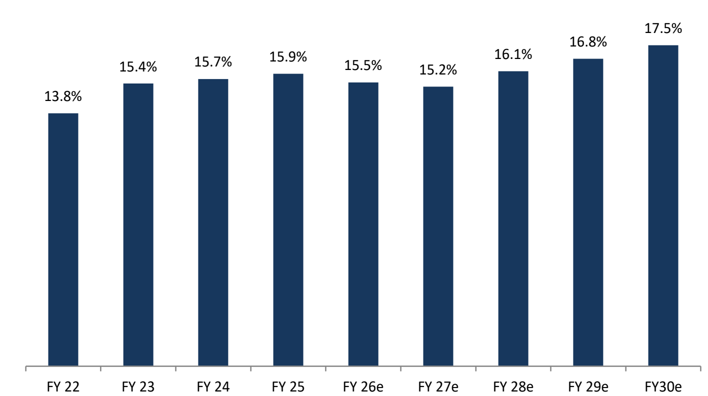
Source: Company Data, Arqaam Capital Research

Exhibit 16: Dividend Payout and Dividend Yield (%)



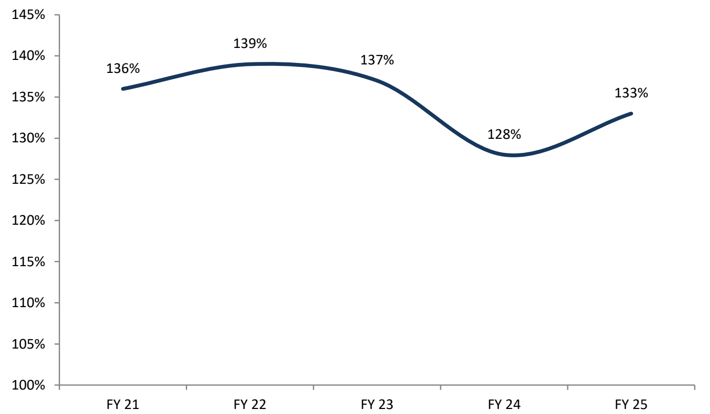
Source: Company Data, Arqaam Capital Research

Exhibit 17: NBB RotE – internal capital generation supportive



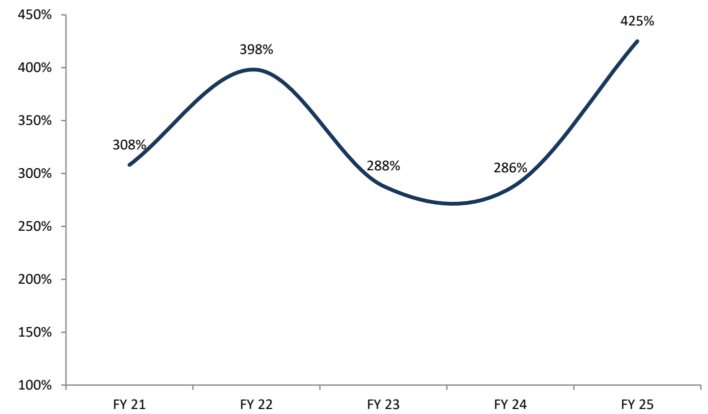
Source: Company Data, Arqaam Capital Research

Exhibit 18: NSFR (%) evolution



Source: Arqaam Capital Research, Company Data

Exhibit 19: LCR (%) evolution



Source: Arqaam Capital Research, Company Data

Q1 26A review – Strong balance-sheet growth, margin pressure and benign credit costs

- **Earnings declined 26.7% y/y but increased c.2% on a normalized basis, after adjusting Q1 25A for the BisB property-sale gain and higher merger-related expenses in Q1 26A.**
- **NII increased 5.7% y/y, supported by loan and deposit growth, but reported operating income declined as Treasury/non-funded income normalized. OpEx increased c.7%, while CoR was near zero.**
- **Loans increased 4.8% q/q and 10.5% y/y, supported by corporate growth across Bahrain, KSA and the UAE. Deposits increased c.8% q/q and 10.7% y/y, keeping liquidity comfortable and reducing LtD.**

Earnings distorted by the BisB one-off; underlying profit increased modestly. Attributable profit declined 27% y/y as Q1 25A included a one-off gain from BisB's sale of an investment property. Normalized profit, which excludes the BHD 7.5m attributable gain and adjusts the comparator for higher merger-related expenses in Q1 26A, increased 2% y/y. BisB's underlying profitability improved approximately sixfold excluding the property sale, indicating a meaningful improvement in its core performance.

NII growth was offset by weaker Treasury income and higher costs. NII increased 6% y/y, mainly reflecting expansion in loans and other earning assets. However, normalized non-funded income declined 21%, primarily due to lower Treasury-related gains during the geopolitical disruption. Management views the Treasury weakness as largely timing related, with performance already improving during Q2. Normalized operating income consequently declined 3% y/y, while OpEx increased 6%, leading to a 13% decline in normalized pre-provision profit. The Q1 C/I ratio remained above our FY26e forecast, making revenue recovery and cost control important for positive jaws during the remainder of the year.

Q1 margin pressure was the key near-term earnings headwind. NIM compressed 33bps q/q and 16bps y/y, reflecting benchmark-rate normalization, asset repricing and competitive loan pricing. Management is seeking to protect margins through higher asset yields, investment-portfolio optimisation and disciplined deposit pricing. We forecast c.11bps of NIM expansion in FY26e and c.6bps in FY27e, followed by more gradual expansion during FY28-30e. Balance-sheet growth and margin recovery should support continued NII growth.

Strong (albeit selective) loan growth supports our forecasts, with regional operations becoming more meaningful. Loans increased 4.8% q/q and 10.5% y/y, with corporate lending across Bahrain, KSA and the UAE driving growth. KSA loans increased 135% y/y and UAE loans grew 7%, lifting overseas loans from 10% to 14% of the Group book. Deposits increased c.8% q/q and 10.7% y/y, outpacing loans and reducing LtD to c.80% from c.83% at FY25A. The strong opening quarter supports our loan-growth forecasts of c.6.5% in FY26e and c.5% in FY27e, although maintaining pricing and underwriting discipline remains the main execution risk.

Asset quality remained benign, but Q1 CoR should not be extrapolated. CoR was near zero, while the NPL ratio including POCI improved by 30bps q/q to 3.6%. Stage 2 loans declined to 2.6% from 3.1% at FY25A, while Stage 3 loans improved to 3.1% from 3.3%. Stage 2 and Stage 3 coverage stood at 10.3% and 55.6%, respectively. Based on our acid-test thresholds, we calculate a provisioning deficit equivalent to c.0.7% of gross loans. We forecast CoR normalising to 22bps in FY26e and 30bps over FY27-30e as repayment relief unwinds and the regional portfolio seasons.

Capital and liquidity remain comfortable despite dividend and market-value effects. Attributable equity declined 12% q/q, mainly due to the FY25 final dividend declaration and negative mark-to-market movements on the bond portfolio. CET1 and CAR declined by 2.6ppts and 2.8ppts q/q to 16.8% and 17.7%, respectively, but remain comfortably above regulatory requirements. LCR and NSFR remained strong. Despite the Q1 decline, capital and liquidity remained comfortable, supporting the Group's growth and dividend capacity and our BUY rating.

Q2 26A review – Margin expansion and positive jaws drive a record quarter

- **Earnings increased 16.0% y/y and 9.2% q/q to BHD 22.5m, lifting RotE to 18.7%. H1 earnings declined 9.3% y/y on a reported basis but increased c.10% after normalizing for the prior-year property-sale gain and merger-related expenses.**
- **NII increased 19.6% y/y and 14.2% q/q, supported by 29bps of sequential NIM expansion. Total income increased 17.2% y/y versus 7.5% OpEx growth, driving PPOP growth of 30.6%.**
- **Deposits increased 4.8% q/q and 13.6% y/y, funding gross loan growth of 1.0% q/q and 14.9% y/y and reducing LtD to 77.5%.**

Record Q2 was driven by underlying operating momentum. Attributable earnings increased 16.0% y/y and 9.2% q/q to BHD 22.5m, lifting RotE to 18.7% from 16.5% in Q1 26A and 15.5% in Q2 25A. H1 attributable earnings of BHD 43.1m declined 9.3% y/y on a reported basis, as H1 25A included a BHD 7.7m attributable property-sale gain and lower merger-related expenses. On a normalised basis, we calculate H1 earnings growth of c.10%.

Strong NII and NFI delivered positive JAWs. NII increased 19.6% y/y and 14.2% q/q to BHD 40.3m, supported by stronger volumes and margin expansion. NFI increased 10.6% y/y and was flat q/q at BHD 13.6m, as improved market valuations and other income offset fee income that remained 25.0% below the prior year. Total income increased 17.2% y/y versus 7.5% OpEx growth, lifting PPOP by 30.6% and reducing C/I by 4.8ppts y/y and 3.4ppts q/q to 53.2%.

BS optimisation drove a sharp margin rebound. NIM expanded 29bps q/q and 22bps y/y to 2.62%, with asset yields increasing 17bps q/q to 5.35% and CoF declining 12bps to 2.92%. Strong deposit inflows were deployed into earning assets, while reliance on interbank and wholesale funding declined. We forecast c.11bps of NIM expansion in FY26e and c.6bps in FY27e, supporting NII growth of c.14% and c.7%, respectively.

Strong deposit flows improved the funding mix. Customer deposits increased 4.8% q/q and 13.6% y/y to BHD 4.481bn, funding gross loan growth of 1.0% q/q and 14.9% y/y to BHD 3.472bn. Gross LtD declined to 77.5% from 80.4% in Q1 and 81.6% at FY25A, while Treasury bills increased 215% q/q and combined interbank and repo funding declined 26.6%. Overseas operating income increased 43.8% y/y in H1 26A, while the segment loss narrowed to BHD 1.0m from BHD 1.9m. We forecast loan growth of c.6.5% in FY26e and c.5% in FY27e.

Asset quality remained stable despite higher NPL formation. Q2 CoR increased to 27bps from 1bp in Q1, while annualised NPL formation rose to c.41bps from c.12bps. Nevertheless, the NPL ratio including POCI improved to 3.5%, Stage 2 declined to 2.3% and Stage 3 remained at 3.1%. Stage 2/3 coverage improved sequentially to 11.6%/57.6%, while H1 CoR remained contained at 14bps. We forecast CoR of 22bps in FY26e and 30bps over FY27-30e as the regional portfolio seasons.

Capital rebuilt, reinforcing our BUY case. CET1 and CAR recovered to 19.0% and 19.8%, respectively, supported by internal capital generation, a 4.7% q/q decline in RWA and the reversal of Q1 OCI losses. The bond portfolio recorded a BHD 17.8m FVOCI gain in Q2 after a BHD 29.8m loss in Q1, while LCR and NSFR remained strong at 324% and 139%. NBB proposed an interim DPS of 10 fils, in line with last year. We forecast CET1 at c.19.7% in FY26e and c.19.9% in FY27e and DPS of 35 fils in both years, offering a 6.6% dividend yield. Payout normalises from c.88% in FY26e to c.82% in FY27e, with FCFY of 7.3% and 7.7%, respectively. At c.1.9x tNAV26e and 12.4x EPS27e, our BHD 0.61 TP implies 15.5% upside to the current market price of BHD 0.528, supporting our BUY rating.

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