

Bank of Bahrain and Kuwait

Compelling DY, Rising Returns and M&A Upside —
Initiate with BUY; TP BHD 0.64

- Initiate with BUY; TP BHD 0.64. Improving returns, HSBC-led leverage uplift, balance-sheet optimisation, efficiency gains and M&A optionality underpin our positive view.
- Returns inflect higher. We forecast FY26e RoTE at 13.7% vs 12.9% in FY25, driven by the full-year HSBC contribution, supportive rates and higher balance-sheet leverage. We model FY25–30e revenue/EPS/asset CAGRs of 6.9%/8.0%/~6.0%.
- Compelling valuation. BBK trades at 1.6x P/tNAV26e and 11.8x P/E27e for 13.7% RoTE and a 6.4% yield. The return gap versus peers largely reflects lower leverage, providing scope for balance-sheet optimisation and higher payouts.
- NBB merger is a key catalyst. A combination could create Bahrain's dominant banking franchise and unlock meaningful scale, capital and funding synergies.

Initiate with BUY; TP BHD 0.64—standalone RoTE recovery with M&A upside. BBK trades at 1.6x P/tNAV and 11.8x 2027e P/E for a 2026e RoTE of 13.7% and a 6.4% dividend yield. This compares with NBB at 1.9x/12.4x for a 15.5% RoTE and comparable yield, and ASB at 2.6x/7.0x for a 29.8% RoTE and 4.1% yield. We see RoTE normalising towards 16.5%, driven by: i) an asset-sensitive ALM profile; ii) full delivery of HSBC synergies; iii) further efficiency gains; and iv) balance-sheet optimisation. A potential merger with NBB provides additional upside optionality.

Below-peer RoTE is a leverage issue—not an earnings-quality issue. BBK's 2026e RoTE of 13.7% trails the sector's 16.4%, largely due to lower leverage of 8.1x versus 13.7x. Core KPIs compare favourably: NIM stands at 2.7% versus 2.6% for the sector, while non-funded income/assets of 2.1% is well above the 0.8% peer average. OpEx/assets of 1.6% and provisions/assets of 0.3% are broadly in line. Following the HSBC acquisition, leverage increased from 6.6x in FY24 and 7.4x in FY25 to 8.1x, but measured FY19–24 asset/loan/deposit CAGRs of 1.6%/1.0%/2.0% leave ample scope for further balance-sheet deployment.

Bahrain's third-largest bank, anchored by a corporate-led domestic franchise. BBK holds c.18% of system loans, with corporates representing c.60% of its loan book. Bahrain contributed 93% of FY25 operating income, with the remaining 7% generated through its international footprint in Kuwait, India, the UAE and Turkey. The November 2025 HSBC acquisition added BHD54.5m of retail loans and BHD256.5m of deposits, equivalent to 2.6% and 10.1% of Q3 2025 loans and deposits, respectively. Funding remains solid, with CASA at 51% of FY25 deposits versus 53% in FY24.

Asset quality and capital screen well. BBK reported Stage 3 and Stage 2 ratios of 2.9% and 8.4%, respectively, in Q2 2026, with a cost of risk of c.63bps. Our 2026e NPL ratio/coverage estimates of 3.2%/95% compare favourably with NBB's 3.9%/73%, while CET1 of 18.0% exceeds NBB's 17.4%. We nevertheless model a conservative 50bps cost of risk, versus 30bps for NBB, reflecting a more cautious macro overlay.

NBB merger could unlock a strategic premium. A combination would create a dominant Bahraini franchise with a market share above 40%, materially reshaping the sector. BBK's lower leverage and strong capital position provide substantial headroom to optimise the combined balance sheet, enhancing potential funding, scale and capital synergies.

BUY

BHD 0.64

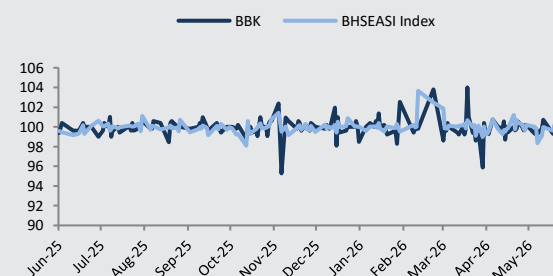
Banks / BAHRAIN

Bloomberg code	BBK BI
Market index	
Target Price	0.64
Upside (%)	15.5

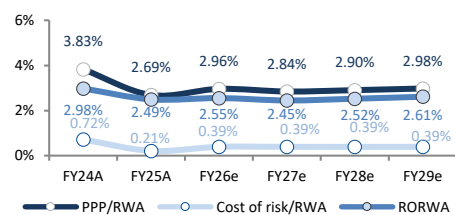
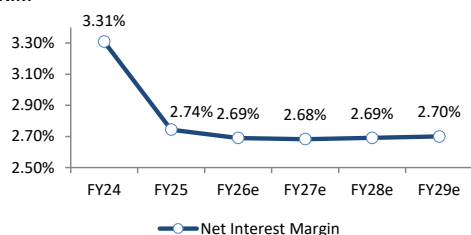
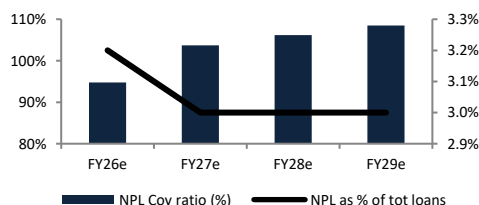
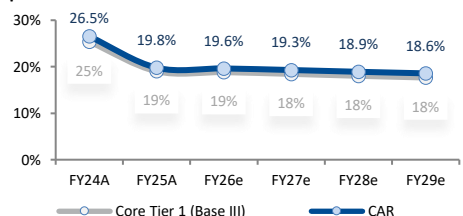
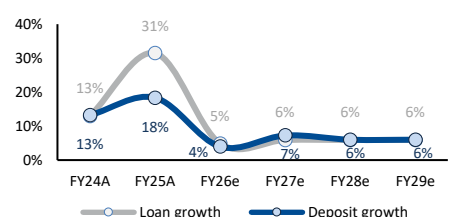
Market data 9/3/2026

Last closing price	0.56
52 Week range	0.5-0.58
Market cap (BHD m)	1,008
Market cap (USD m)	2,674
Average Daily Traded Value (BHD m)	0.00
Average Daily Traded Value (USD m)	0.1
Free float (%)	22%

Year-end (local m)	2024	2025	2026e	2027e
Revenue	164	160	182	187
Pre-provisioning profit	93	86	99	101
EPS	0.04	0.04	0.05	0.05
P/E (x) (mkt price)	14.1	12.7	11.9	11.8
BVPS	0.3	0.4	0.4	0.4
Tangible BVPS	0.3	0.3	0.3	0.4
P/B (x) (mkt price)	1.6	1.5	1.5	1.5
P/TBVPS (x) (mkt price)	1.6	1.6	1.6	1.5
DPS	0.035	0.040	0.035	0.038
Div. yield (%)	6.3	7.2	6.4	6.4
FCFY	1.3	1.5	1.6	1.6
RoAA (%)	1.8	1.7	1.7	1.6
RoRWA (%)	3.0	2.5	2.6	2.4
RoATE (%)	11.7	12.9	13.7	13.5
RoEcC (%)	19.9	18.9	19.5	18.7
RAROC (%)	22.7	18.5	19.7	18.9
Net LtCD ratio (%)	74.4	82.7	83.4	82.4
Risk Weighted Assets (bn)	2,072	2,508	3,056	3,223
Core Equity T1 ratio (%)	25.4	19.0	18.8	18.5
Tier 1 capital ratio (%)	25.4	19.0	18.8	18.5
Total capital ratio (%)	26.5	19.8	19.6	19.3
NPL ratio (%)	4.2	2.9	3.2	3.0
Coverage ratio (%)	96.9	99.3	94.8	103.7
Number of shares (Mn)	1,817	1,817	1,817	1,817



Abacus Arqaam Capital Fundamental Data

Profitability

NIM

Credit Quality

Capital Ratios

Growth

Bank of Bahrain and Kuwait

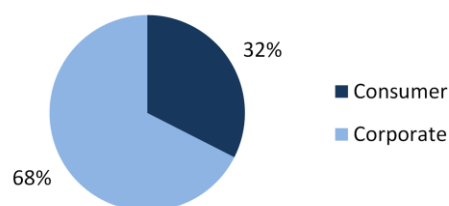
Year-end	2024	2025	2026e	2027e	2028e	2029e
Performance analysis						
Net Interest Margin (%)	3.31	2.74	2.69	2.68	2.69	2.70
Asset yield (%)	6.69	5.84	5.56	5.56	5.56	5.56
Cost of Funds (%)	3.85	3.47	3.18	3.18	3.16	3.14
Risk Adjusted Margins (%)	2.88	2.55	2.42	2.42	2.42	2.43
Cost / Income (%)	43.5	46.2	45.3	46.1	45.1	43.9
Net Interest Income / total income (%)	76.0	73.1	70.7	72.8	72.8	72.9
Fees & Commissions / operating income (%)	11.9	13.8	13.6	14.1	14.2	14.2
Trading gains / operating income (%)	6.5	6.8	9.6	6.8	6.8	6.7
RoATE (%)	11.7	12.9	13.7	13.5	14.3	15.1
Pre-prov. RoATE (%)	14.2	14.2	15.6	15.4	16.1	17.0
RoAA (%)	1.8	1.7	1.7	1.6	1.6	1.7
Revenue / RWA (%)	7.00	5.70	5.54	5.56	5.59	5.58
Costs / RWA (%)	3.04	2.63	2.50	2.49	2.45	2.39
PPP / RWA (%)	3.04	2.63	2.50	2.49	2.45	2.39
Cost of Risk / RWA (%)	0.74	0.24	0.40	0.40	0.40	0.40
RoRWA (%)	2.98	2.49	2.55	2.45	2.52	2.61
RoRWA (%) (adj. for gross-up of associates)	2.41	2.19	2.24	2.15	2.11	2.18
Year-end	2024	2025	2026e	2027e	2028e	2029e
Asset Quality						
Provisions charge / avg. gross loans (%)	0.9	0.4	0.5	0.5	0.5	0.5
Past due not impaired / gross loans (%)	14.5	8.3	9.0	9.0	9.0	9.0
NPL / gross loans (%)	4.2	2.9	3.2	3.0	3.0	3.0
NPL coverage ratio (%)	96.9	99.3	94.8	103.7	106.2	108.5
Provisions / avg. gross loans (%)	3.8	3.1	2.8	2.9	2.9	3.0
Provisions charge / operating income (%)	17.4	9.6	12.8	13.4	13.2	12.8
Year-end	2024	2025	2026e	2027e	2028e	2029e
Funding and Liquidity						
Net Loans / Customer Deposits (%)	74.4	82.7	83.4	82.4	82.3	82.2
Deposits / liabilities (%)	67.6	66.1	64.4	64.9	64.7	64.5
Year-end	2024	2025	2026e	2027e	2028e	2029e
Capital and leverage ratios						
Core Tier 1 ratio (Basel III) (%)	25.4	19.0	18.8	18.5	18.0	17.7
Tier 1 ratio (%)	25.4	19.0	18.8	18.5	18.0	17.7
Total capital ratio (%)	26.5	19.8	19.6	19.3	18.9	18.6
Tangible equity / assets (%)	14.8	12.5	11.9	11.7	11.4	11.2
RWA / assets (%)	57.7	64.5	63.6	63.3	63.3	63.3
Year-end	2024	2025	2026e	2027e	2028e	2029e
Growth						
Revenues (%)	(0.1)	(2.2)	13.3	2.8	6.3	6.3
Cost (%)	3.8	3.9	11.1	4.5	4.0	3.5
Pre-Provision Operating Profit Growth (%)	(2.9)	(6.9)	15.2	1.4	8.2	8.7
Provisions (%)	114.7	(48.4)	53.7	6.0	6.0	6.0
Net Profit (%)	(3.4)	11.1	7.0	1.1	9.3	9.7
Assets (%)	7.5	18.6	6.0	6.0	6.0	6.0
Loans (%)	13.0	31.5	4.9	5.9	5.9	5.9
Customer Deposits (%)	13.2	18.3	4.0	7.2	6.0	6.0
Risk Weighted Assets (%)	6.7	32.6	4.6	5.5	6.0	6.0

Abacus Arqaam Capital Fundamental Data

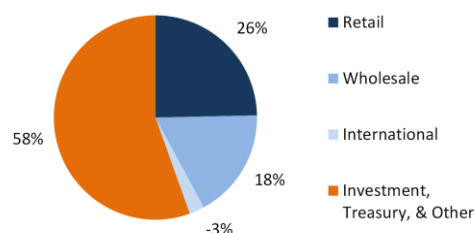
Company Profile

Bank of Bahrain and Kuwait B.S.C. ("BBK" or "the Bank"), a public shareholding company, was incorporated in the Kingdom of Bahrain in March 1971. The Bank operates in the Kingdom of Bahrain under a conventional retail banking license of Volume 1 issued by the Central Bank of Bahrain ("CBB") and its shares are listed at Bahrain Bourse. The Bank is engaged in commercial banking activities through its branches in the Kingdom of Bahrain, State of Kuwait and Republic of India. It also engages in credit card operations and business process outsourcing services through its subsidiaries. It has market share of 17.1% and 11.8% of deposits of aggregated retail banks outstanding loans and deposits, respectively.

Loan Book Mix (Q2 26)



Segment results after tax (H1 26)



Ownership & Management

Major Shareholders	%
Fincorp W.L.L	26.2
Social Insurance Organization	19.3
Kuwait Investment Authority Pension GOSI	19.2
Social Insurance Organization	13.7

Management	
Yaser al Sharifi	CEO

Bank of Bahrain and Kuwait

Year-end	2024	2025	2026e	2027e	2028e	2029e
Income statement (BHD m)						
Interest income	252	249	265	282	298	316
Interest expense	127	132	137	146	154	163
Net Interest Income	125	117	128	136	144	154
Fee income	20	22	25	26	28	30
Net investment income	9	8	12	6	6	6
Other operating income	11	13	17	19	20	21
Total operating income	164	160	182	187	198	211
Total operating expenses	71	74	82	86	89	92
Pre-provision operating profit	93	86	99	101	109	118
Net provisions	16	8	13	14	14	15
Other provisions / impairment	1	(2)	-	-	-	-
Operating profit	75	79	86	87	94	103
Associates	(3)	2	-	1	1	2
Pre-tax profit	73	81	87	88	96	105
Taxation	-	-	-	-	-	-
Net profit	73	81	86	87	96	105
Minorities	1	1	1	1	1	1
ADT1 coupon	-	-	-	-	-	-
Attributable net profit	72	80	86	87	95	104
Diluted EPS	0.04	0.04	0.05	0.05	0.05	0.06
DPS	0.035	0.040	0.038	0.041	0.045	0.04
BVPS	0.34	0.36	0.37	0.38	0.39	0.40
Tangible BVPS	0.34	0.34	0.35	0.36	0.37	0.39

Year-end	2024	2025	2026e	2027e	2028e	2029e
Balance sheet (BHD m)						
Gross loans and advances	1,870	2,430	2,551	2,704	2,866	3,038
Less: loan loss provisions	76	71	77	84	91	99
Net loans and advances	1,794	2,359	2,474	2,620	2,775	2,939
Cash & central bank & T-Bills	1,087	891	871	944	1,002	1,064
Due from banks & FI's	168	291	308	307	326	345
Investments, net	985	1,226	1,408	1,492	1,582	1,677
Fixed Assets	38	40	46	52	58	63
Other assets	121	168	166	174	182	191
Total assets	4,193	4,974	5,273	5,589	5,924	6,280
Customer deposits	2,411	2,854	2,966	3,181	3,372	3,574
Due to banks & FI's	376	513	615	684	794	909
Debt	658	811	861	861	861	861
Other liabilities	124	136	161	171	182	194
Total liabilities	3,569	4,314	4,604	4,898	5,209	5,539
Total equity	624	660	669	691	715	741
Risk Weighted Assets (Mn)	2,072	2,508	3,056	3,223	3,417	3,622
Average Interest-Earning Assets	3,765	4,272	4,774	5,066	5,369	5,690
Average Interest-Bearing Liabilities	3,305	3,811	4,310	4,585	4,877	5,186
Common shareholders	621	624	630	652	675	701
Core Equity Tier 1 (Basel III)	615	610	631	653	677	703
Tier 1 capital	615	610	631	653	677	703

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Strong returns, balance-sheet discipline and merger optionality

- **Initiate with BUY; TP BHD 0.64.** BBK trades at 1.6x 2026e P/tNAV and 11.8x 2027e P/E for a 13.7% RoTE and 6.4% dividend yield—an attractive valuation relative to its improving return trajectory.
- **Low leverage understates return potential.** Leverage of 8.1x versus 13.7x for the sector constrains current RoTE. The HSBC acquisition and balance-sheet optimisation provide scope for earnings and payout upside, supported by an 18.0% CET1 ratio at Q2 2026.
- **Positive jaws drive 8% EPS CAGR.** We forecast FY25–30e EPS CAGR of 8%, underpinned by mid-single-digit balance-sheet growth and revenue/cost CAGRs of 7%/5%. Cost-to-income improves from 46.2% in FY25A to 45.2%/44.8% in FY26e/FY27e.
- **Strategy execution and M&A provide catalysts.** The 2025–27 strategy, strong liquidity and robust capital buffers support the standalone case. A potential NBB merger represents unmodelled upside, with deal terms, capital treatment and integration costs the key swing factors.

Initiate with BUY; TP BHD 0.64—attractive entry into an improving return story. BBK combines a strong domestic franchise, an attractive dividend yield and improving earnings quality, yet trades at a discount to NBB. At c.1.6x 2026e P/tNAV and 11.8x 2027e P/E for a mid-teen RoTE, we see compelling risk-reward. Re-rating catalysts include positive operating jaws, a supportive rate outlook, balance-sheet optimisation, manageable credit costs and sector-consolidation optionality.

Exhibit 1: P/tNAV (x) – attractive valuation

	P/tNAV				
	2025	2026e	2027e	2028e	2029e
BBK BI	1.60	1.59	1.53	1.47	1.42
NBB BI	2.24	1.92	1.83	1.73	1.64
SALAM BI	2.82	2.52	2.05	1.67	1.38
GFH BI	2.00	1.92	1.76	1.59	1.45

Source: Arqaam Capital Research, Company Data

Exhibit 3: P/E(x)

	P/E				
	2025	2026e	2027e	2028e	2029e
BBK BI	12.72	11.86	11.10	10.17	9.35
NBB BI	14.11	13.39	12.45	11.41	10.47
SALAM BI	10.37	9.35	7.62	6.28	5.44
GFH BI	14.50	12.60	10.71	8.92	7.77

Source: Arqaam Capital Research, Company Data

Exhibit 2: RoTE – BBK's leverage remains relatively low

	RoTe				
	2025	2026e	2027e	2028e	2029e
BBK BI	13%	14%	14%	15%	16%
NBB BI	16%	15%	15%	16%	17%
SALAM BI	34%	30%	31%	31%	29%
GFH BI	14%	15%	17%	19%	20%

Source: Arqaam Capital Research, Company Data

Exhibit 4: BBK an attractive dividend play on strong capital

	DY				
	2025	2026e	2027e	2028e	2029e
BBK BI	7.2%	6.4%	6.4%	7.0%	7.7%
NBB BI	6.6%	6.6%	6.6%	6.8%	7.2%
SALAM BI	3.4%	3.8%	4.5%	5.3%	6.1%
GFH BI	3.9%	4.5%	5.5%	6.8%	7.7%

Source: Arqaam Capital Research, Company Data

Return understated due to lower leverage. BBK's return is below the sector mainly on lower leverage, whilst the performance indicators are above the sector or in-line. BBK benefits from the strongest margin and higher non-funded income generation in our Bahrain coverage universe. However, the leverage is well below sector, driving the lower return. CET1 was 25.4% YE24 but with organic and inorganic growth in FY25, it has come down to 19.0% YE25.

Exhibit 5: DuPont analysis – RotE

Company	RoE							
	FY 22A	FY 23A	FY 24A	FY 25A	FY 26e	FY 27e	FY 28e	FY 29e
BBK BI	11.3%	12.3%	11.7%	12.9%	13.7%	14.3%	15.0%	15.7%
NBB BI	13.8%	15.4%	15.7%	15.9%	15.5%	15.2%	16.1%	16.8%
SALAM BI	12.1%	16.5%	26.5%	34.0%	29.8%	31.1%	30.7%	29.0%
GFH BI	9.2%	10.4%	12.0%	14.0%	15.5%	17.0%	18.7%	19.5%
Bahrain	11.0%	12.6%	14.0%	15.8%	16.4%	17.5%	18.7%	19.4%

Source: Arqaam Capital Research, Company Data

Exhibit 6: RoA – BBK has the highest RoA

Company	RoA							
	FY 22A	FY 23A	FY 24A	FY 25A	FY 26e	FY 27e	FY 28e	FY 29e
BBK BI	1.7%	1.9%	1.8%	1.7%	1.7%	1.7%	1.7%	1.8%
NBB BI	1.5%	1.6%	1.5%	1.4%	1.4%	1.4%	1.5%	1.6%
SALAM BI	1.0%	0.9%	0.9%	0.9%	0.9%	1.0%	1.1%	1.2%
GFH BI	1.0%	1.3%	1.3%	1.3%	1.4%	1.6%	1.8%	1.9%
Bahrain	1.2%	1.4%	1.3%	1.3%	1.3%	1.4%	1.5%	1.6%

Source: Arqaam Capital Research, Company Data

Exhibit 7: BBK has a low leverage

Company	Equity Multiplier							
	FY 22A	FY 23A	FY 24A	FY 25A	FY 26e	FY 27e	FY 28e	FY 29e
BBK BI	6.5	6.3	6.6	7.4	8.2	8.5	8.7	8.8
NBB BI	9.4	9.9	10.4	11.1	11.0	10.6	10.7	10.7
SALAM BI	12.6	17.7	29.4	39.0	34.5	32.0	28.1	24.9
GFH BI	9.1	10.5	11.2	11.6	12.0	11.8	11.4	10.9
Bahrain	8.9	10.1	11.4	12.6	13.0	12.9	12.6	12.3

Source: Arqaam Capital Research, Company Data

Exhibit 8: Strong NII generation by BBK

Company	NII/AA							
	FY 22A	FY 23A	FY 24A	FY 25A	FY 26e	FY 27e	FY 28e	FY 29e
BBK BI	2.8%	3.5%	3.1%	2.6%	2.5%	2.5%	2.5%	2.5%
NBB BI	2.8%	2.8%	2.6%	2.4%	2.5%	2.6%	2.6%	2.7%
SALAM BI	2.2%	2.0%	2.2%	2.4%	2.1%	2.3%	2.3%	2.3%
GFH BI	-0.3%	0.7%	1.6%	1.7%	1.7%	1.8%	1.8%	1.8%
Bahrain	1.3%	1.8%	2.2%	2.1%	2.1%	2.2%	2.2%	2.2%

Source: Arqaam Capital Research, Company Data

Exhibit 9: Non-funded income generation adds to earnings

Company	Non-NII/AA							
	FY 22A	FY 23A	FY 24A	FY 25A	FY 26e	FY 27e	FY 28e	FY 29e
BBK BI	0.9%	0.8%	1.0%	0.9%	1.0%	1.0%	1.0%	1.0%
NBB BI	0.9%	0.8%	0.9%	1.0%	0.8%	0.8%	0.8%	0.8%
SALAM BI	0.5%	0.8%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%
GFH BI	2.8%	3.9%	4.4%	4.5%	4.6%	4.6%	4.7%	4.8%
Bahrain	1.7%	2.2%	2.3%	2.3%	2.2%	2.2%	2.3%	2.3%

Source: Arqaam Capital Research, Company Data

Exhibit 10: Associate share

Company	Associates/AA							
	FY 22A	FY 23A	FY 24A	FY 25A	FY 26e	FY 27e	FY 28e	FY 29e
BBK BI	0.0%	-0.3%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
NBB BI	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SALAM BI	0.3%	0.5%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
GFH BI	0.3%	0.3%	0.3%	0.1%	0.2%	0.2%	0.2%	0.2%
Bahrain	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%

Source: Arqaam Capital Research, Company Data

Exhibit 11: Improving efficiencies

Company	OpEx/AA							
	FY 22A	FY 23A	FY 24A	FY 25A	FY 26e	FY 27e	FY 28e	FY 29e
BBK BI	1.7%	1.8%	1.8%	1.6%	1.6%	1.6%	1.5%	1.5%
NBB BI	1.8%	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%	1.7%
SALAM BI	1.5%	1.5%	1.6%	1.5%	1.4%	1.4%	1.3%	1.3%
GFH BI	1.7%	3.4%	4.7%	4.7%	4.5%	4.5%	4.4%	4.4%
Bahrain	1.7%	2.5%	3.0%	2.8%	2.7%	2.7%	2.6%	2.6%

Source: Arqaam Capital Research, Company Data

Exhibit 12: Normalized credit costs

Company	Provisions/AA							
	FY 22A	FY 23A	FY 24A	FY 25A	FY 26e	FY 27e	FY 28e	FY 29e
BBK BI	0.2%	0.3%	0.4%	0.1%	0.3%	0.3%	0.3%	0.3%
NBB BI	0.4%	0.2%	0.2%	0.1%	0.1%	0.2%	0.2%	0.2%
SALAM BI	0.4%	0.5%	0.3%	0.5%	0.4%	0.4%	0.3%	0.3%
GFH BI	0.0%	0.2%	0.2%	0.2%	0.4%	0.3%	0.3%	0.3%
Bahrain	0.2%	0.3%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%

Source: Arqaam Capital Research, Company Data

Exhibit 13: Above average IEA

Company	AIEA/AA							
	FY 22A	FY 23A	FY 24A	FY 25A	FY 26e	FY 27e	FY 28e	FY 29e
BBK BI	92.2%	92.0%	93.0%	93.2%	93.2%	93.3%	93.3%	93.3%
NBB BI	92.7%	93.0%	92.9%	93.1%	93.6%	93.7%	93.9%	94.0%
SALAM BI	87.5%	86.7%	88.1%	89.2%	90.4%	91.0%	91.4%	91.8%
GFH BI	65.2%	64.9%	65.1%	66.5%	65.8%	65.7%	66.0%	66.3%
Bahrain	79.9%	79.3%	80.3%	81.7%	82.0%	82.2%	82.5%	82.8%

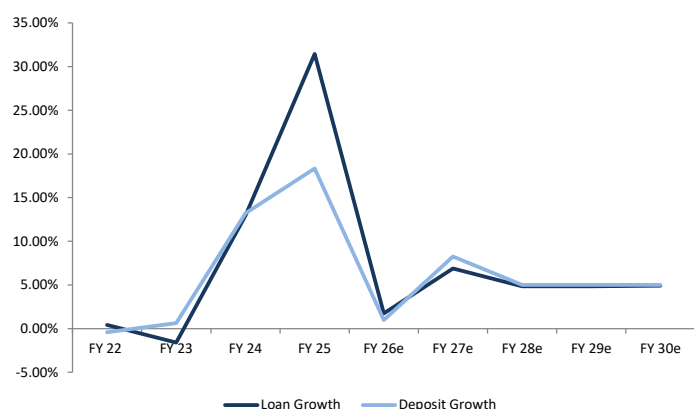
Source: Arqaam Capital Research, Company Data

Exhibit 14: Strong margins with strong CASA of ~50%

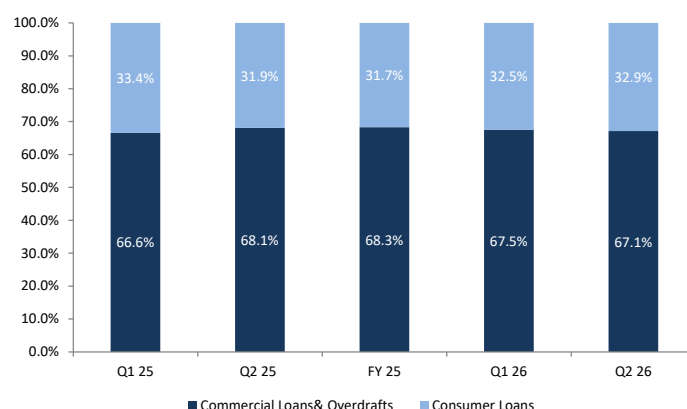
Company	NII/AIEA							
	FY 22A	FY 23A	FY 24A	FY 25A	FY 26e	FY 27e	FY 28e	FY 29e
BBK BI	3.0%	3.8%	3.3%	2.7%	2.7%	2.7%	2.7%	2.7%
NBB BI	3.1%	3.0%	2.8%	2.6%	2.7%	2.7%	2.8%	2.8%
SALAM BI	2.5%	2.3%	2.5%	2.7%	2.4%	2.5%	2.5%	2.5%
GFH BI	-0.5%	1.1%	2.4%	2.5%	2.6%	2.7%	2.7%	2.7%
Bahrain	1.7%	2.3%	2.7%	2.6%	2.6%	2.6%	2.6%	2.7%

Source: Arqaam Capital Research, Company Data

Balance-sheet growth is more disciplined than aggressive. The FY25 balance sheet was lifted by the HSBC Bahrain retail acquisition and organic growth, with net loans up 31.5% and deposits up 18.3%. In November 2025, it acquired the retail operations of HSBC, adding BHD 54.5m (2.6% of Q3 25 gross loans) and BHD 256.5m in customer deposits (10.1%). In Q2 26A, loans increased 2.0% q/q with management continuing to prioritise margins, profitability and funding optimisation alongside the pickup in headline growth. We forecast a c.5% loan growth in FY26e, followed by c.6% in FY27e as growth normalizes from the acquisition-led base.

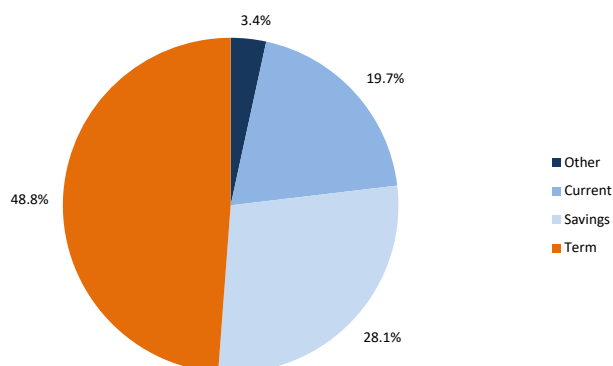
Exhibit 15: Strong growth in FY25, we pencil in mid single-digit


Source: Arqaam Capital Research, Company Data

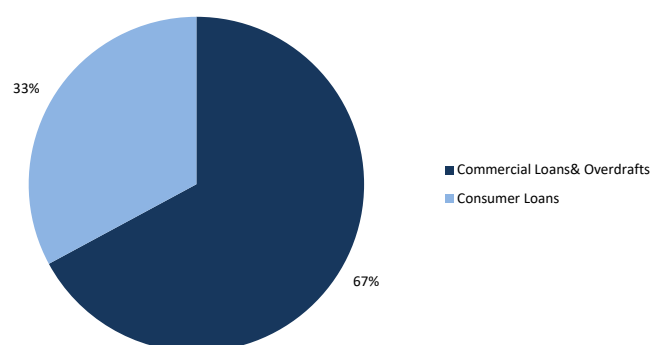
Exhibit 16: Loan mix – predominantly corporate


Source: Arqaam Capital Research, Company Data

Margin resilience is the main earnings support. BBK is positioned better than peers for a rate upcycle because of its CASA base, positive ALM and selective allocation to higher-yielding markets. NIM fell sharply in FY24-25 but is expected to stabilize around 2.8% as funding costs reset and the loan mix improves. A 25bps rate hike to enhance NIMs by 3bps based on sensitivity disclosure. The 12M ALM gap is a positive 10% of total assets whilst > 1-YR is 22%. We forecast cumulative margin expansion of 3bps during FY26-30e after 104bps compression during FY24-25 on rate cuts and strong growth in FY25.

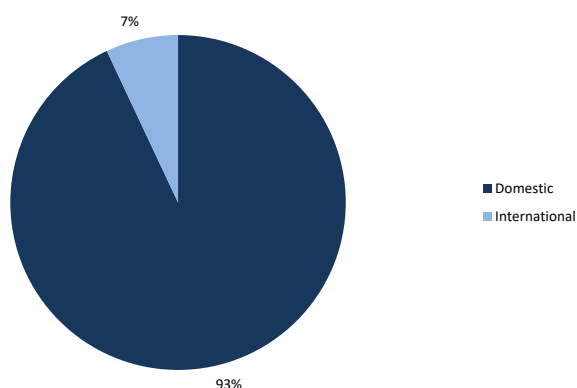
Exhibit 17: Deposit mix – strong CASA (FY25A)


Source: Arqaam Capital Research, Company Data

Exhibit 18: Loan mix (Q2 26A)


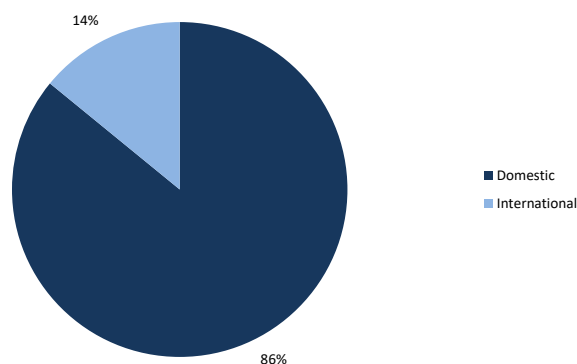
Source: Arqaam Capital Research, Company Data

Exhibit 19: Geographic breakdown of operating income (FY25A) – domestic focused bank



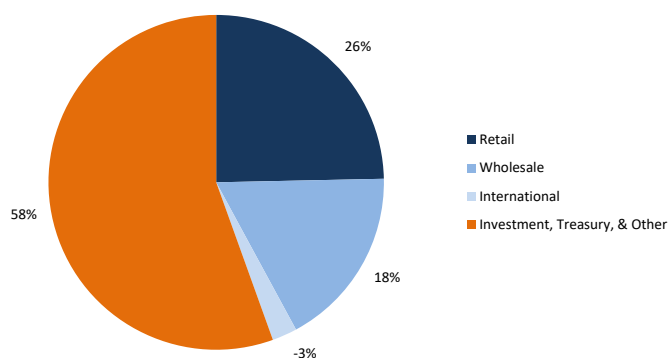
Source: Arqaam Capital Research, Company Data

Exhibit 20: Geographic breakdown of assets (FY25A) – Bahrain is the key driver



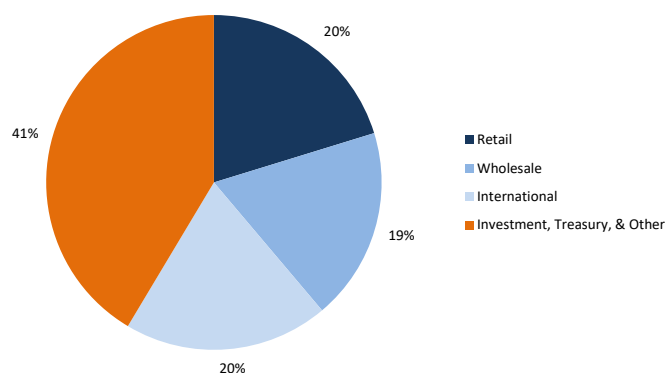
Source: Arqaam Capital Research, Company Data

Exhibit 21: Segmental breakdown of PAT (Q2 26)



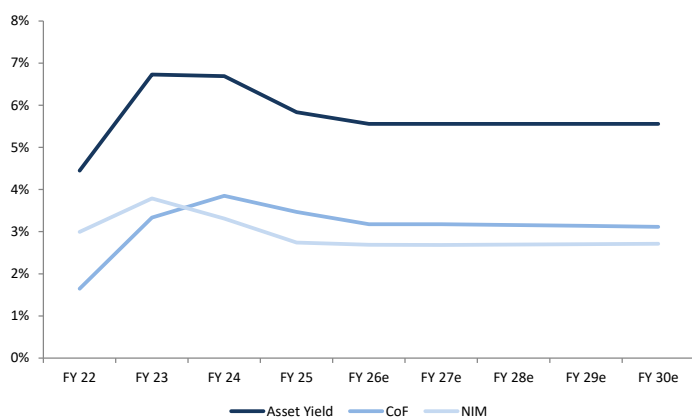
Source: Arqaam Capital Research, Company Data

Exhibit 22: Segmental breakdown of assets (Q2 26)



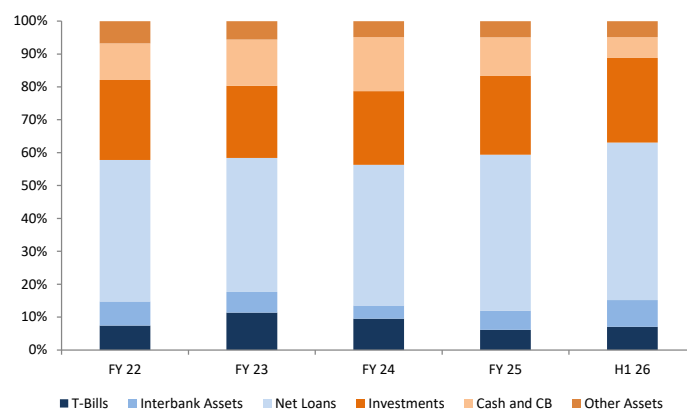
Source: Arqaam Capital Research, Company Data

Exhibit 23: Yield Compression easing Into FY26-29e



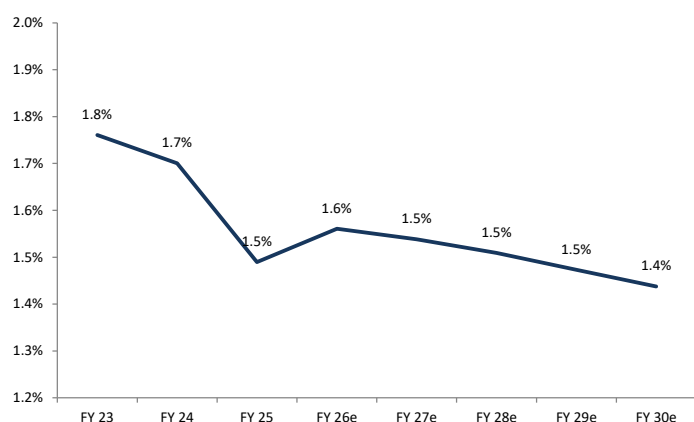
Source: Arqaam Capital Research, Company Data

Exhibit 24: Asset mix evolution – loan share has increased

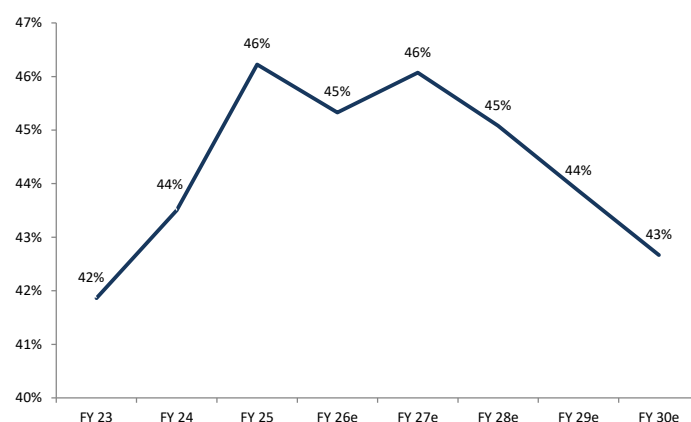


Source: Arqaam Capital Research, Company Data

Positive jaws drive the improvement in earnings and returns. We forecast the C/I ratio to improve from 46.2% in FY25A to 45.3% in FY26e, 44.8% in FY27e. This reflects better revenue generation, operating leverage and the gradual absorption of HSBC integration and merger-related costs. OpEx/assets should continue to edge down from 1.5% in FY25A to c.1.4% by FY29e after improving from 1.7% in FY24.

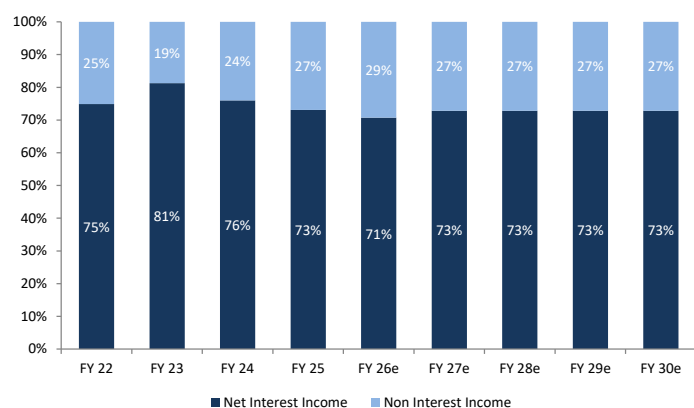
Exhibit 25: OpEx to Assets evolution – improving efficiencies


Source: Arqaam Capital Research, Company Data

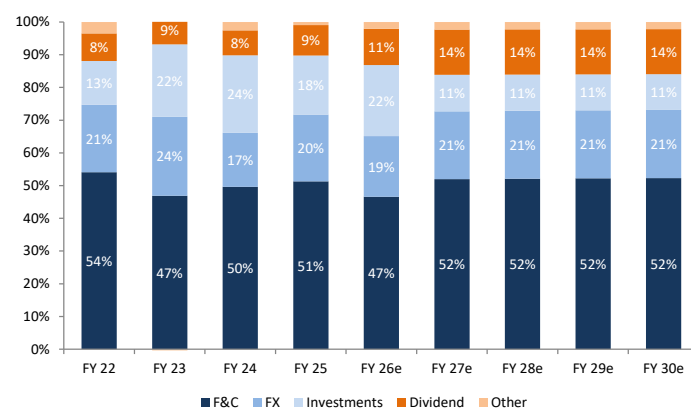
Exhibit 26: C/I evolution


Source: Arqaam Capital Research, Company Data

Non-funded income remains an important stabilizer. Non-funded income represented 26.9% of total income in FY25A and is forecast to rise to c.30% in FY26e, reflecting stronger fees, dividend income and investment gains. We do not extrapolate the Q2 26 investment-gain run-rate, but the broader mix remains supportive of earnings diversity and lowers reliance on NII as the rate cycle normalizes.

Exhibit 27: Revenue Mix – Increasing non-funded income


Source: Arqaam Capital Research, Company Data

Exhibit 28: Non-Funded Income Mix


Source: Arqaam Capital Research, Company Data

Merger optionality remains a material catalyst. NBB and BBK remain in discussions following NBB's submission of key terms in April and BBK's response in May. A combination would create a dominant domestic franchise with a loan market share above 40%, unlocking meaningful funding, revenue and cost synergies in Bahrain's fragmented banking market. BBK's strong capital position and low leverage would also provide the combined entity with significant balance-sheet capacity to grow and optimise returns. However, accretion will depend on the

exchange ratio, integration costs, goodwill and capital treatment; we therefore exclude the transaction from our base case. We view the merger as material unmodelled upside, reinforcing our BUY thesis.

Credit costs to normalize, but asset-quality indicators remain manageable

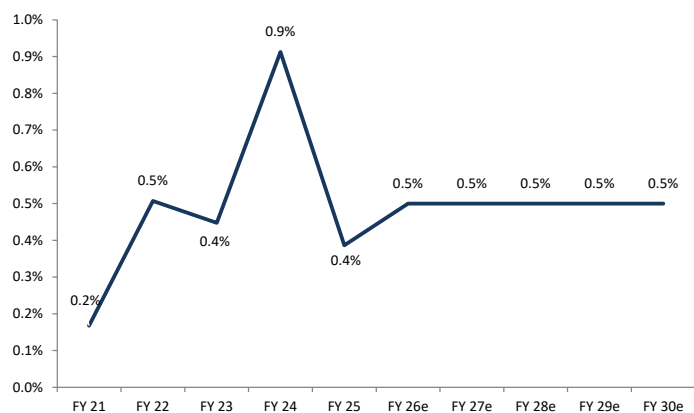
- We forecast CoR of 50bps during FY26-29e versus 39bps in FY25A. FY30e CoR normalizes to a TTC level of 50bps.
- Stage 2 and Stage 3 loans stood at 8.4% and 2.9% of gross loans in Q2 26A, with coverage of 10.1% and 54.8%, respectively. Stage 3 coverage is above our 60% acid-test level, while Stage 2 coverage remains below the 12% benchmark.
- Based on our IFRS 9 acid test of 1%/12%/60% coverage for Stage 1/2/3 loans, we calculate a provisioning deficit of c.1% of gross loans in Q2 26A. This is manageable relative to earnings and capital but supports a conservative CoR path.

Asset quality remains stable despite a cautious macro overlay. NPL formation accelerated to 0.55% in Q2 26A from 0.10% in Q1, though this reflects a more conservative ECL stance amid regional disruption rather than evidence of material deterioration, with CoR rising only modestly to 63bps from 62bps in Q1. We therefore expect provisions to normalise rather than spike, with management flagging scope for releases as conditions stabilize.

Provisioning looks less comfortable at Stage 3, while Stage 2 remains the watch item. Stage 3 coverage fell to 54.8% in Q2 26A from 65.5% in Q1, moving below our 60% acid-test threshold and reducing the buffer against existing impaired exposures. Stage 2 coverage of 10.1% remains below our 12% benchmark, though the Stage 2 share eased slightly to 8.4% from 8.7% in Q1. We therefore keep CoR above the FY25A level in our forecasts.

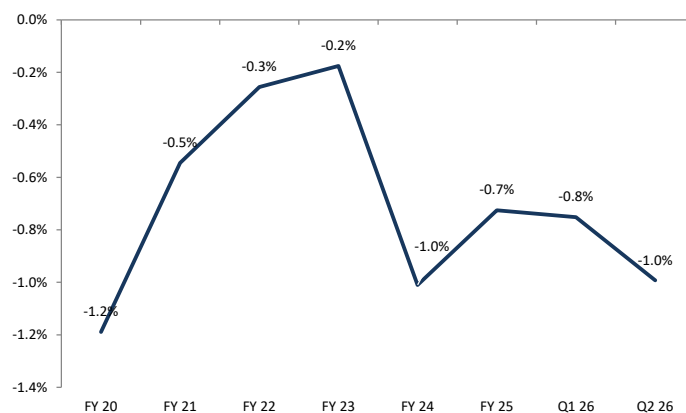
We forecast a gradual return to through-the-cycle credit costs. CoR sits at 50bps in our FY26-29e forecasts, in line with the more cautious scenario mix and the seasoning of the enlarged portfolio, and continues to normalize at same levels by FY30e. This level is consistent with BBK's longer-run loss experience and still allows RotE to trend towards the high teens by FY30e.

Exhibit 29: CoR (%) Evolution



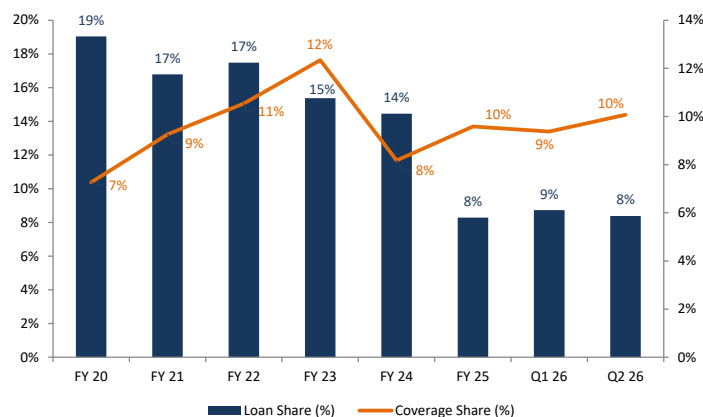
Source: Arqaam Capital Research, Company Data

Exhibit 30: Provision Deficit



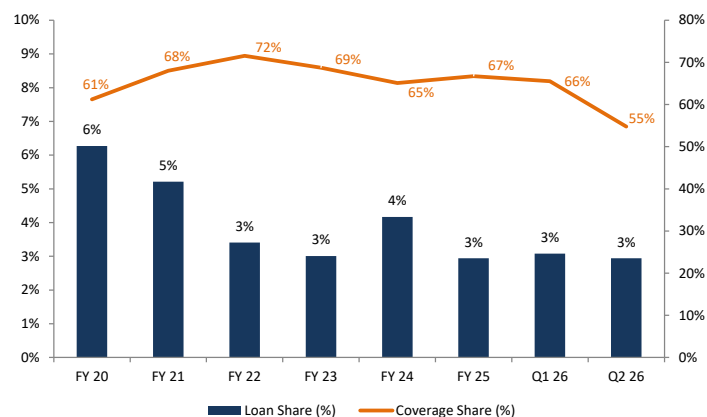
Source: Arqaam Capital Research, Company Data

Exhibit 31: Stage 2 Loan Share (%) vs. Stage 2 Coverage



Source: Arqaam Capital Research, Company Data

Exhibit 32: Stage 3 Loan Share (%) vs. Stage 3 Coverage



Source: Arqaam Capital Research, Company Data

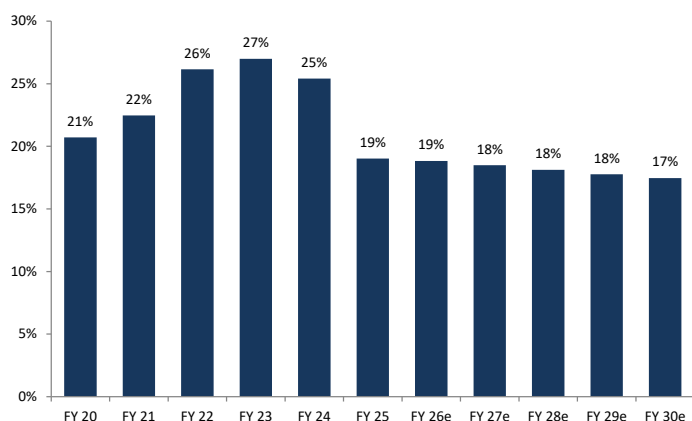
Capital remains strong, supportive of the payout outlook

- Q2 26A CET1, Tier 1 and CAR stood at 18.0%, 18.0% and 18.9%, respectively, recovering from 16.8%, 16.8% and 17.6% in Q1 26A as the FVOCI losses that weighed on capital in Q1 partly reversed. These ratios remain comfortably above regulatory requirements.
- We forecast internal capital generation to remain healthy as RoE improves from 12.9% in FY25A to c.13.7% in FY26e, c.14.3% in FY27e and c.16.5% by FY30e, supporting continued capital build even as balance sheet growth picks up.
- DPS is forecast at 40 fils in FY26e, implying a c.6.4% dividend yield and a payout of c.75%. The payout profile is attractive but future capital retention could be affected by merger terms and integration costs.

Capital recovered in Q2 as FVOCI losses reversed. CET1 rose to 18.0% in Q2 26A from 16.8% in Q1, aided by broadly flat RWA and a rebound in the market value of BBK's debt securities. The FVOCI gain of BHD24.0m in Q2 26 added c.75bps to CET1, offsetting the c.142bps drag from the BHD45.1m loss booked in Q1. This confirms the Q1 move as a temporary capital headwind rather than any deterioration in the banks' earnings profile.

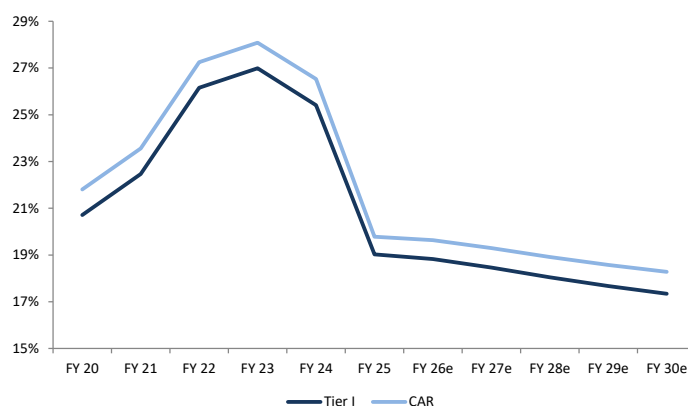
Liquidity remains a differentiating strength. BBK reported an NSFR of 134% in Q2 26A and an LCR of c.342%, both improving from 129.1% and c.302% in Q1, supported by a stable deposit base and a sizeable stock of liquid assets. This provides capacity to absorb volatility, manage deposit pricing and support measured loan growth without compromising the dividend outlook.

Exhibit 33: CET1 Ratio (%)



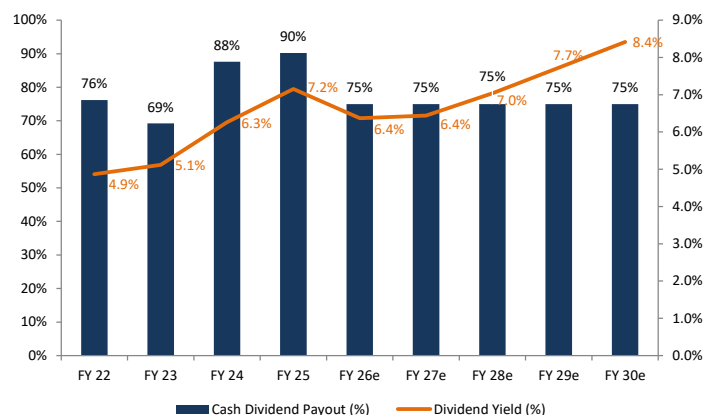
Source: Arqaam Capital Research, Company Data

Exhibit 34: Tier 1 Capital Ratio & CAR



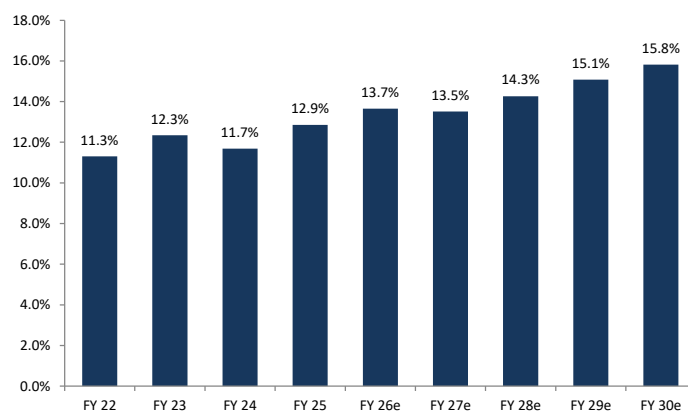
Source: Arqaam Capital Research, Company Data

Exhibit 35: Dividend Payout and Dividend Yield (%)



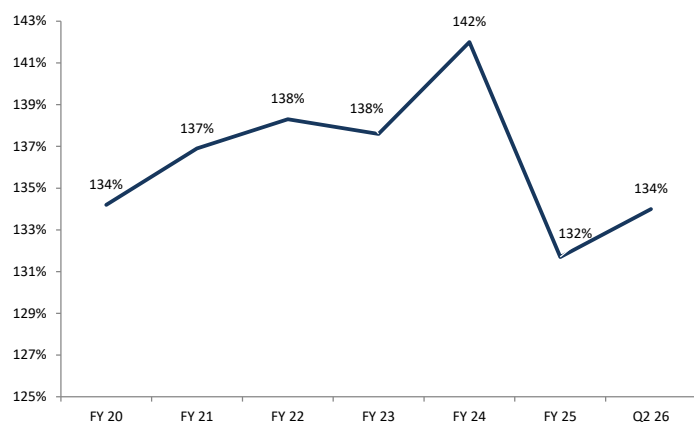
Source: Arqaam Capital Research, Company Data

Exhibit 36: BBK RotE – Internal Capital Generation Supportive



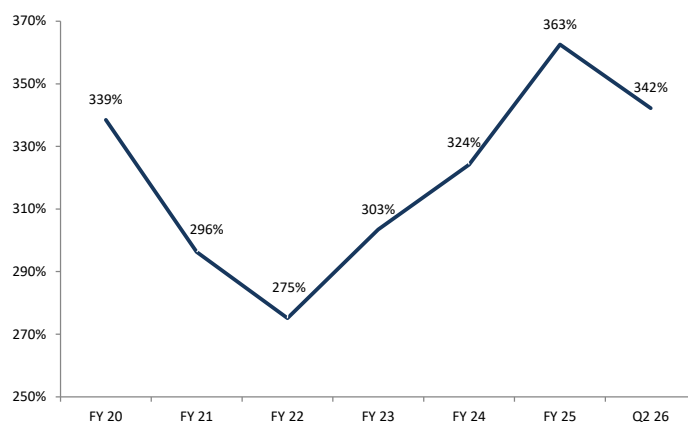
Source: Arqaam Capital Research, Company Data

Exhibit 37: NSFR (%) Evolution



Source: Arqaam Capital Research, Company Data

Exhibit 38: LCR (%) Evolution



Source: Arqaam Capital Research, Company Data

Exhibit 39: BBK Valuation (BHD Mn)

Year-end	2019	2020	2021	2022	2023	2024	2025	2026e	2027e	2028e	2029e	2030e	perp	subtotal	% of total
1. DCF															
Net profit	75	52	53	64	75	72	80	86	92	100	109	118	124		
Other adjustments (comprehensive income, social levies)	--	--	--	--	--	--	--	--	--	--	--	--	--		
Minus: excess return excess capital	9	9	12	15	17	16	11	11	11	9	9	8	9		
Risk free rate	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%		
Tax shelter	0.3%	(0.6%)	0.2%	1.1%	0.3%	(0.1%)	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%		
Adjusted net profit	66	43	41	49	57	56	69	75	81	91	100	110	115		
Capital requirements	333	321	308	284	267	279	364	382	405	448	477	507	530		
RoEcC	19.8%	13.4%	13.3%	17.3%	21.5%	19.9%	18.9%	19.6%	20.0%	20.2%	21.0%	21.7%	21.7%		
Cost of capital	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	39	38	36	33	31	33	43	45	47	52	56	59	62		
Economic profit	27	5	5	16	26	23	26	30	34	38	44	51	53		
Discount factor	--	--	--	--	--	--	--	1.00	0.89	0.79	0.70	0.62	0.55		
NPV of Economic Profit	--	--	--	--	--	--	--	30	30	30	31	31	29		
DCF EVA Forecast period														152	13.2%
Perpetual growth rate (GDP)														4.5%	
Terminal Value														736	
Terminal value discounted														403	34.9%
Required Capital														364	31.6%
Value of the bank operations														919	79.6%
2. Capital surplus/deficit															
Available capital:															
Shareholders equity	547	515	545	599	614	624	660	669	692	718	745	775			
Less Goodwill & intangibles	--	--	--	--	--	--	(34)	(34)	(34)	(34)	(34)	(34)			
Less non equity elements reported shareholders equity															
Less Dividends (if included in reported equity)	(51)	(40)	(30)	(49)	(52)	(63)	(72)	(64)	(69)	(75)	(82)	(89)			
Tangible equity	496	474	515	550	562	561	554	571	590	609	630	653			
Capital needs															
RWAs (Basel II)	2,598	2,528	2,458	2,307	2,265	2,418	3,207	3,354	3,538	3,751	3,976	4,215			
RWAs (Basel III)	2,598	2,528	2,458	2,307	2,265	2,418	3,207	3,354	3,538	3,751	3,976	4,215			
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%			
Financial stakes (after 10% corridor)	21	18	13	7	(5)	(11)	(20)	(20)	(20)	(2)	(0)	1			
Capital Requirements	333	321	308	284	267	279	364	382	405	448	477	507			
Surplus capital	163	153	207	266	296	281	190	189	185	160	153	146		190	16.4%
3. Other adjustments															
Provisioning surplus														(18)	
ADTI issuance 50% credit															
Total adjustments														(18)	(1.6%)
4. Dividends														63	5.5%
Total Fair Value														1,154	100.0%
Fully diluted number of shares														1,817	38.33
Fair value per share														0.64	2.1%
Current share price														0.56	
Upside														14.5%	
Implied P/E (x)				17.9	15.5	16.0	14.4	13.5							
Implied P/tNAV (x)				1.9	1.9	1.9	1.9	1.8							

Source: Arqaam Capital Research, Company Data

Q2 26 Earnings Review: Revenue generation offset by higher credit costs and OpEx, delivers RotE of ~14%

- Earnings fell 6.3% y/y in Q2 26A as higher provisioning and OpEx outpaced revenue growth; sequentially, earnings fell 37.6%, largely reflecting the non-recurrence of a Q1 gain on a legacy investment.
- NIM contracted 5bps q/q and 22bps y/y on continued funding-cost pressure, though non-interest income remained supportive, up 18.5% y/y on 17.0% fee growth.
- CoR rose to 63bps from 62bps in Q1 and 47bps in Q2 25A on more conservative ECL assumptions amid regional uncertainty; balance sheet growth stayed measured, with loans up 0.2% YTD and deposits up 1.0%.
- Balance sheet growth remains muted, with loans up 0.2% YTD and deposits up 1.0% on geopolitics.

Resilient revenue generation, but credit costs and OpEx weigh on earnings in Q2. Net income declined 6.3% y/y in Q2 26A, as loan-loss provisions rose 52.0% y/y and OpEx increased 12.6% y/y, outpacing total income growth of 8.2% and limiting operating-profit growth to just 4.0%. Sequentially, earnings fell 37.6% q/q, largely reflecting the non-recurrence of a Q1 gain on a legacy investment book, with investment income down 86% q/q as a result. BBK delivered Q2 26A RotE of 13.8%, down from 17.8% in Q1 26A on the base effect of the one-off gain.

Funding costs continued to weigh on margins. NIM contracted 5bps q/q and 22bps y/y, reversing the sharp expansion seen in Q1, as continued funding-cost pressure offset management's ongoing efforts to selectively redeploy assets into higher-return exposures across Bahrain and its international markets, including KSA, Egypt and Türkiye.

Fee supportive of non-funded income generation. Non-interest income rose 18.5% y/y, supported by 10.0% fee-income growth, despite a 30.8% y/y decline in investment income; on a sequential basis, investment income benefited from a BHD1.8m securities-provision writeback following charges taken in Q1.

Continued investment spend and merger related costs drove the rise in costs. OpEx growth of 3.4% q/q and 12.6% y/y reflected ongoing spending on infrastructure, AI and technology, alongside transaction-related costs that management expects to be non-recurring. This pushed the cost/income ratio up to 50.7% in Q2 26A from 41.1% in Q1, while we forecast opex-to-assets rising modestly to 1.6% in FY26e from 1.5% in FY25A.

CoR driven by precautionary provisioning, pick up in NPL formation. CoR increased to 63bps from 62bps in Q1 and 47bps in Q2 25A, reflecting more conservative ECL assumptions amid regional uncertainty, with management flagging scope for releases as conditions normalise. NPL formation accelerated sharply to 0.55% in Q2 from just 0.10% in Q1, though the Stage 3 share actually eased slightly to 2.9% of total loans from 3.1% in Q1 26A, in line with the 2.9% share at FY25 and below the 3.9% seen in Q2 25A. Stage 2 loans also declined modestly to 8.4% of the book from 8.7% in Q1, while coverage improved to 10.1% from 9.4%, suggesting more conservative provisioning against early-warning exposures. The more notable move was on Stage 3 coverage, which fell to 54.8% from 65.5% in Q1 and 66.7% at FY25, widening BBK's provision buffer deficit against our internal threshold to 1.0% of loans from 0.8% in Q1, consistent with the pickup in NPL formation and the broader step-up in ECL conservatism flagged this quarter

Balance sheet growth remained muted, albeit pipeline remains healthy. Loans grew by just 0.2% YTD and deposits 1.0% YTD, though it has a healthy pipeline exceeding BHD500m across corporates, GREs, SMEs and retail, though geopolitical conditions remain the key driver.

CET1 improved in Q2 as FVOCI losses reversed. CET1 improved to 18.0% in Q2 26A from 16.8% in Q1, helped by limited RWA growth during the quarter and improved market valuations. FVOCI gains were BHD24.0m, equating to c.75bps of RWA, versus losses of BHD45.1m, dragging CET1 by c.142bps in Q1. BBK paid an interim DPS of BHD 0.0075 for H1 26 vs BHD 0.0125 for H1 25 (31.25% of FY25 DPS). We forecast DPS26e of 40 fils at a payout of 75%, offering a yield of 6.1%. Payout outlook remains supported by its healthy returns of 13.7% RoE, risk density of 64%, and already robust CET1.

Important Notice

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