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

Farida Mardini
farida.mardini@arqaamsecurities.com

Janany Vamadeva
janany.vamadeva@arqaamcapital.com

Al Salam Bank

Strong returns despite regional conflict, maintain BUY

- **Resilient returns underpin our BHD 0.30 TP. Rolling our valuation forward by one year offsets a ~1% reduction in FY27–30e EPS estimates for margin pressure and muted volumes. The return profile remains compelling, with FY27e RotE of 26.5%, RoRWA of 3.02% and structural TRS of 25%.**
- **Strong fees and resilient asset quality support continued earnings growth. Q3 earnings rose 14% y/y, demonstrating the strength of the diversified franchise. Following 20% EPS growth and RotE of 29.5% and RoE of 16.7% in 9M, we forecast FY26e EPS growth of 20% and RotE of 29.5%.**
- **Attractive valuation offers a compelling entry point. At 1.3x FY26e book and 7.5x FY27e earnings, with FY26e RoE of 16.5% and a 4.1% dividend yield, we see attractive risk/reward. Diversification, strong capital and resilient earnings underpin the investment case, while NBB–BBK merger discussions offer potential upside through ASB's associate stake in BBK. Reiterate BUY.**

Strong returns and capital support valuation—reiterate BUY. We maintain our TP of BHD 0.30 on model roll forward, which offsets the negative impact on volumes and margins in the near term from the challenging operating environment. We lift EPS26e by 8%, forecasting earnings growth of 20% and RotE of 29.5% compared with 9M earnings growth of 20% and return of 29.5%. We expect returns to remain around these levels through FY28e, supported by retail and mortgage growth (including Algeria), efficiency gains and rising fee income from ASB Capital. ASB trades at 7.5x FY27e P/E and offers a 4.1% dividend yield, rising to 4.5% in FY27e. The potential NBB-BBK merger remains a key catalyst given ASB's 26.2% BBK stake, while ASB Capital and ASB Algeria provide additional growth avenues. Reiterate BUY.

Underlying trends stable in Q3 despite muted volumes and margin pressure. Q3 earnings rose 14% y/y on strong fee generation, cost efficiency and lower credit costs. ASB sold 10.9% of its stake in Solidarity, reducing its stake to 45%. The 55.9% stake contributed only 3.2% to bottom line during 9M 26. We expect asset quality and efficiency to support earnings into Q4e, but margin compression on a yearly basis to weigh on earnings growth.

Limited NPL formation and stage 2 movement support asset quality outlook. NPL formation increased to 16bps in Q3 from -2bps in Q2 and +4bps in Q3 25 but still remains limited. Stage 3 ratio including POCI inched up to 5.1% from 5.0% in Q2. Stage 2 loans slightly increased to 2.9% from 2.8% in Q2, whilst coverage was broadly stable at 8.3%. Stage 3 coverage improved to 38.9% from 36.4% in Q2 26. The provisioning shortfall against our internal threshold of 1%/12%/60% provisioning for stage 1/2/3 narrowed to 1.1% of loans from 1.2% in Q2. CoR was ahead of NPL formation at 74bps vs 46bps in Q2 and 105bps a year earlier. ASB maintained its macro scenario weights at 60% base and 40% downside, with 0% upside that it updated to in Q1 26. We leave our CoR26e of 70bps unchanged, in line with 9M CoR of 68bps.

Cost discipline continues to support the medium-term efficiency outlook. OpEx declined 14% y/y and 5% q/q as it continues to benefit from efficiencies and BS optimization. C/I improved to 44% in Q3 from 48.3% in Q2 and 49.6% a year earlier. We forecast cost growth of -5% for the FY vs -3% during 9M. We continue to expect further efficiency gains from cost initiatives of the group including merger synergies, the scaling of ASB Capital and stronger fee generation. We forecast C/I to improve to 44% by FY29e and OpEx to asset to reach 1.2% from 1.3% in FY26e.

BUY BHD 0.30

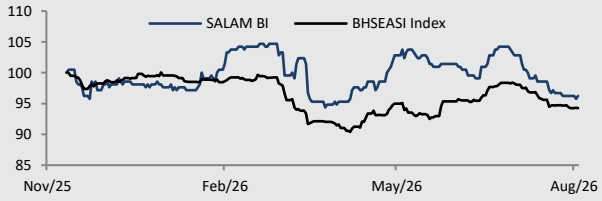
Banks / BAHRAIN

Bloomberg code	SALAM BI
Market index	BHSEASI
Target Price	0.30
Upside (%)	45.0

Market data 11/22/2026

Last closing price	0.21
52 Week range	0.2-0.2
Market cap (BHD m)	664
Market cap (USD m)	1,759
Average Daily Traded Value (BHD m)	0.11
Average Daily Traded Value (USD m)	0.3
Free float (%)	83%

Year-end (BHD m)	2024	2025	2026e	2027e
Revenue	179	223	223	239
Pre-provisioning profit	79	107	113	123
EPS	0.02	0.02	0.02	0.03
P/E (x) (mkt price)	12.1	10.1	8.4	7.5
BVPS	0.1	0.1	0.2	0.2
Tangible BVPS	0.05	0.07	0.10	0.11
P/B (x) (mkt price)	1.8	1.4	1.3	1.2
P/TBVPS (x) (mkt price)	4.3	2.9	2.2	1.9
DPS	0.01	0.01	0.01	0.01
Div. yield (%)	2.8	3.8	4.1	4.5
FCFY	0.7	6.3	8.7	10.7
RoAA (%)	0.9	0.9	1.0	1.0
RoRWA (%)	2.6	2.7	2.9	3.0
RoATE (%)	26.5	34.0	29.5	26.5
RoEcC (%)	13.7	14.3	15.8	16.1
RAROC (%)	8.5	10.3	10.2	10.9
Net LtD ratio (%)	73.9	76.5	71.9	69.5
Risk Weighted Assets (bn)	2.1	2.4	2.7	2.9
Core Equity T1 ratio (%)	14.2	16.5	16.7	17.4
Tier 1 capital ratio (%)	21.8	23.5	23.1	23.2
Total capital ratio (%)	24.8	27.2	26.2	26.3
NPL ratio (%)	4.5	4.1	4.3	4.0
Coverage ratio (%)	40.3	73.1	78.5	82.4
Number of shares	2,968	3,175	3,175	3,175



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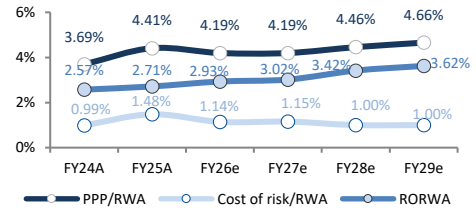
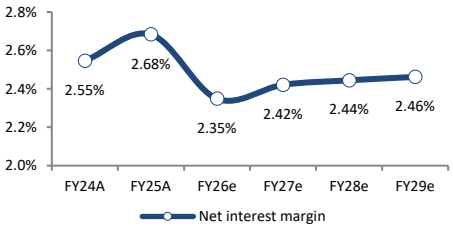
Abacus *Arqaam Capital Fundamental Data*

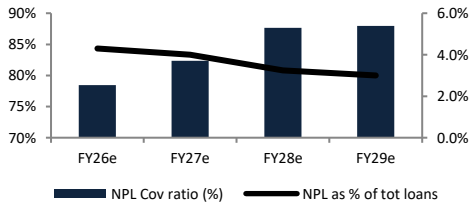
Profitability



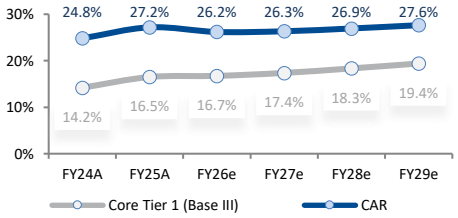
NIM



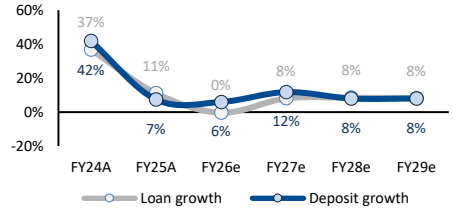
Credit Quality



Capital Ratios



Growth



Al Salam Bank

Year-end	2024	2025	2026e	2027e	2028e	2029e
Performance analysis						
Net Interest Margin (%)	2.55	2.68	2.35	2.42	2.44	2.46
Asset yield (%)	6.20	5.64	5.38	5.68	5.68	5.68
Cost of Funds (%)	3.64	2.99	3.11	3.36	3.36	3.36
Risk Adjusted Margins (%)	2.17	2.15	1.96	2.03	2.11	2.13
Cost / Income (%)	55.8	52.1	49.3	48.5	46.0	44.0
Net Interest Income / total income (%)	76.6	81.0	78.6	81.2	81.1	81.3
Fees & Commissions / operating income (%)	15.2	12.5	14.1	13.6	13.6	13.5
Trading gains / operating income (%)	1.4	(0.7)	(0.5)	0.2	0.4	0.4
RoATE (%)	26.5	34.0	29.5	26.5	27.1	26.1
Pre-prov. RoATE (%)	47.3	42.8	35.1	32.3	31.0	29.5
RoAA (%)	0.9	0.9	1.0	1.0	1.1	1.2
Revenue / RWA (%)	8.37	9.20	8.27	8.14	8.26	8.32
Costs / RWA (%)	4.67	4.79	4.07	3.94	3.80	3.66
PPP / RWA (%)	3.69	4.41	4.19	4.19	4.46	4.66
Cost of Risk / RWA (%)	0.99	1.48	1.14	1.15	1.00	1.00
RoRWA (%)	2.57	2.71	2.93	3.02	3.42	3.62
RoRWA (%) (adj. for gross-up of associates)	1.03	1.11	1.26	1.33	1.52	1.64

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	3.0	3.5	4.0	4.0
NPL / gross loans (%)	4.5	4.1	4.3	4.0	3.3	3.0
NPL coverage ratio (%)	40.3	73.1	78.5	82.4	87.6	88.0
Provisions / avg. gross loans (%)	1.8	2.3	2.7	2.7	2.2	2.1
Provisions charge / operating income (%)	25.8	33.6	25.8	25.6	20.6	19.7

Year-end	2024	2025	2026e	2027e	2028e	2029e
Funding and Liquidity						
Net Loans / Deposits (%)	73.9	76.5	71.9	69.5	69.9	70.0
Cash and interbank / assets (%)	7.7	6.9	8.7	12.2	11.4	10.9
Deposits / liabilities (%)	74.7	70.8	71.2	73.8	74.1	74.3

Year-end	2024	2025	2026e	2027e	2028e	2029e
Capital and leverage ratios						
Core Tier 1 ratio (Basel III) (%)	14.2	16.5	16.7	17.4	18.3	19.4
Tier 1 ratio (%)	21.8	23.5	23.1	23.2	23.7	24.4
Total capital ratio (%)	24.8	27.2	26.2	26.3	26.9	27.6
Tangible equity / assets (%)	2.2	2.9	3.6	4.0	4.4	4.9
RWA / assets (%)	30.3	30.1	31.9	32.2	32.2	32.2

Year-end	2024	2025	2026e	2027e	2028e	2029e
Growth						
Revenues (%)	44.1	24.8	0.0	7.1	9.6	8.9
Cost (%)	43.7	16.4	(5.5)	5.4	4.1	4.1
Pre-Provision Operating Profit Growth (%)	44.6	35.5	5.8	8.8	14.8	12.9
Provisions (%)	12.0	76.9	(18.9)	8.0	(7.4)	8.0
Net Profit (%)	30.3	19.7	20.2	12.1	22.3	14.6
Assets (%)	37.2	14.0	5.0	8.0	8.0	8.0
Net Loans (%)	36.8	11.1	(0.3)	8.1	8.5	8.2
Deposits (%)	41.9	7.4	6.0	11.8	8.0	8.0
Risk Weighted Assets (%)	26.7	13.5	11.2	8.8	8.1	8.1

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Abacus *Arqaam Capital Fundamental Data*

Company Profile

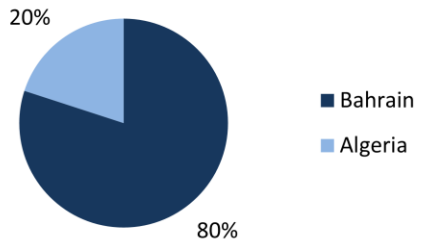
Al Salam Bank B.S.C. is a leading Shari'a-compliant financial institution, incorporated in the Kingdom of Bahrain on 19 January 2006. The Bank's ordinary shares are listed on both the Bahrain Bourse and the Dubai Financial Market.

Through its banking subsidiaries, Al Salam operates a diversified regional footprint, with 20 branches in Bahrain (2024: 24), 27 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.

Invest recommendation

Reiterate BUY on Al Salam Bank with a BHD 0.30 target price. At 1.3x FY26e book and 7.5x FY27e earnings, valuation looks attractive given resilient profitability, strong capital and a 4.1% dividend yield (FY26e). We forecast 20% EPS growth in FY26e, while the diversified franchise supports sustainable returns and potential NBB–BBK merger benefits offer additional upside through ASB's financing-linked exposure to BBK.

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	402	456	494	535
Interest expense	196	199	227	261	281	303
Net Interest Income	**137**	**181**	**176**	**194**	**213**	**232**
Fee income	27	28	32	33	36	39
Net investment income	1	(2)	(1)	-	1	1
Other operating income	13	16	17	12	13	13
Total operating income	**179**	**223**	**223**	**239**	**262**	**285**
Total operating expenses	100	116	110	116	121	126
Pre-provision operating profit	**79**	**107**	**113**	**123**	**141**	**160**
Net provisions	20	36	29	32	29	32
Other provisions / impairment	1	-	2	2	3	3
Operating profit	**58**	**71**	**82**	**89**	**110**	**125**
Associates	18	21	24	32	36	39
Pre-tax profit	**76**	**93**	**106**	**122**	**145**	**164**
Taxation	6	7	4	10	12	14
Net profit	**70**	**85**	**102**	**111**	**133**	**150**
Minorities	10	9	10	10	12	14
ADT1 coupon	4	11	13	13	13	13
Attributable net profit	**55**	**66**	**79**	**89**	**108**	**124**
Diluted EPS	0.02	0.02	0.02	0.03	0.03	0.04
DPS	0.01	0.01	0.01	0.01	0.01	0.01
BVPS	0.11	0.15	0.16	0.17	0.20	0.22
Tangible BVPS (BHD)	0.05	0.07	0.10	0.11	0.14	0.16

Year-end	2024	2025	2026e	2027e	2028e	2029e
Balance sheet (BHD m)						
Gross loans and advances	**3,730**	**4,164**	**4,166**	**4,500**	**4,860**	**5,249**
Less: loan loss provisions	68	97	113	120	108	108
Net loans and advances	3,662	4,067	4,053	4,380	4,752	5,141
Cash and central bank	634	776	813	1,038	1,136	1,253
Due from banks	476	457	509	550	594	641
Investments, net	1,930	2,393	2,775	2,839	3,046	3,269
Fixed Assets	-	-	-	-	-	-
Other assets	361	361	307	326	337	349
Total assets	**7,063**	**8,054**	**8,457**	**9,133**	**9,864**	**10,653**
Customer deposits	4,952	5,317	5,635	6,298	6,802	7,346
Due to banks	563	675	588	478	606	739
Debt	910	1,285	1,455	1,455	1,455	1,455
Other liabilities	203	236	237	299	321	346
Total liabilities	**6,628**	**7,513**	**7,916**	**8,531**	**9,185**	**9,887**
Total equity	**434**	**541**	**541**	**603**	**679**	**766**
Risk Weighted Assets (bn)	2	2	3	3	3	3
Average Interest-Earning Assets	5,381	6,742	7,473	8,022	8,694	9,426
Average Interest-Bearing Liabilities	5,392	6,667	7,288	7,784	8,377	9,031
Common shareholders	156	232	305	363	436	519
Core Equity Tier 1 (Basel III)	304	400	452	510	582	666
Tier 1 capital	467	571	623	681	753	837

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

Janany Vamadeva
janany.vamadeva@arqaamcapital.com

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Capital and liquidity remain strong on internal capital generation. CET1 increased to 15.7% in Q3 from 14.5% in Q2, on sequential RWA decline of 1.5% and internal capital generation. Risk density slightly increased to 33% from 31% in Q2. Capital remains comfortably above the CBB's 10.5% CET1 minimum and 14% for CAR, while liquidity remains ample with LCR of 269% and NSFR of 124%. The reported regulatory minimums were temporarily reduced to 80% during the period. We forecast a DPS26e of BHD 0.009, on a stable cash payout of 30%, offering a yield of 4.1%. Further, we pencil in a stock dividend of 30%, in line with FY25.

Strong fee generation supports revenue generation. Fee income rose 35% q/q and 22% y/y, despite muted volumes. ASB Capital remains a key growth driver for fee generation with its DIFC presence diversifying the revenue stream and the geography.

Stable balance sheet footing amid a challenging operating environment. Customer deposits declined 3.4% q/q, with YtD growth at 1.5%, as we believe ASB focused on optimizing its funding mix and margins in the current environment. Loan declined 1.0% q/q and increased just 0.7% YtD due to the current operating environment. The net LtD ratio therefore increased to 74.4% from 72.8% in Q2. Balance-sheet growth has increasingly been driven by the sukuk portfolio, which rose 8% YtD, supporting the risk profile. We lower loan growth to 1% from 3% for 2026e, deposit growth to 6% from 10% and asset growth to 5% from 10% as it focuses on margins and credit costs to improve returns rather than chasing growth. We forecast sukuk portfolio to grow 19% in FY26e, with the share to total assets increasing to 27.5% from 24.2% in FY25, supporting earnings outlook with limited RWA growth and credit consequences.

Sequential margin trend positive. NIM expanded 9bps q/q as it optimised its funding mix with CoF increasing only by 2bps during the quarter. However, margin compressed 42bps y/y on rate cuts. Sukuk share continues to increase reaching 27% of total assets from 24% YE, whilst loans reaching 49.6% from 50.5%. We lower NIM26e by only 1bp for the liquidity pressure we are seeing in the region, forecasting compression of 33bps for the FY.

Strong RoRWA and RoE supports valuation despite the tough environment, with upside from the ongoing BBK-NBB merger discussions. ASB's sector-leading returns and strong internal capital generation support both organic growth and M&A optionality, with RotE sustained at ~25% levels. High earnings retention at c.70% should further strengthen capital buffers and support RoE accretion through the cycle. The potential NBB-BBK transaction continues to represent a meaningful catalyst for value realization, while ASB Algeria and ASB Capital provide additional structural growth opportunities.

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Exhibit 1: Q3 26A Al Salam Bank results

BHD m	Q3 26A	Q3 26e	vs. AC	Q2 26A	q/q 26	Q3 25A	Q2 25A	q/q 25	y/y Q3	y/y Q2	9M 26A	9M 26e	vs. AC	9M 25A	y/y 9M
Interest Income	99.9	102.0	(2.1%)	99.8	0.1%	98.4	96.4	2.0%	1.6%	3.5%	300	302	(0.7%)	284	5.3%
Interest expense	57.7	56.0	3.0%	58.6	(1.5%)	51.0	51.9	(1.7%)	13.1%	12.9%	169	168	1.0%	151	12.2%
Net interest income	**42.2**	**46.0**	**(8.2%)**	**41.3**	**2.3%**	**47.3**	**44.5**	**6.3%**	**(10.8%)**	**(7.4%)**	**130**	134	**(2.8%)**	**133**	**(2.4%)**
Fee Income	9.0	7.5	18.9%	6.6	35.1%	7.4	6.9	5.8%	22.0%	(4.5%)	24	22	6.4%	21	14.4%
Other Income	6.1	5.7	7.2%	6.9	(10.5%)	4.1	3.7	11.9%	50.3%	88.0%	10	10	4.2%	8	25.1%
Non-Interest income	15.1	14.7	2.4%	13.5	11.9%	11.4	10.6	7.9%	32.1%	27.4%	34	34	1.1%	29	17.4%
Total income	**57.3**	**60.7**	**(5.6%)**	**54.8**	**4.7%**	**58.8**	**55.1**	**6.6%**	**(2.5%)**	**(0.7%)**	**164**	168	**(2.0%)**	**163**	**1.2%**
Operating expenses	25.2	30.7	(18.0%)	26.4	(4.7%)	29.2	26.2	11.3%	(13.6%)	0.9%	80	86	(6.5%)	82	(2.6%)
Operating profit	**32.1**	**30.0**	**7.0%**	**28.3**	**13.4%**	**29.6**	**28.9**	**2.3%**	**8.5%**	**(2.1%)**	**84**	82	**2.6%**	**80**	**5.0%**
Loan loss provisions	7.7	7.4	3.3%	4.8	59.4%	10.7	10.3	4.0%	(28.4%)	(53.3%)	21	21	1.2%	29	(28.1%)
Other provisions	(0.1)	0.5	nm	(0.1)	(14.5%)	(0.7)	(0.9)	(22.0%)	(82.3%)	(83.8%)	1	1	(51.2%)	(1)	nm
Total provisions	7.6	7.9	(4.8%)	4.7	61.7%	10.0	9.4	6.5%	(24.6%)	(50.4%)	22	22	(1.7%)	29	(24.4%)
Profit before tax	**26.1**	**25.1**	**4.3%**	**27.1**	**(3.6%)**	**25.1**	**21.3**	**18.0%**	**4.2%**	**27.5%**	**81**	80	**1.3%**	**68**	**20.0%**
Group net income	25.9	23.3	11.5%	25.8	0.4%	23.3	19.8	18.0%	11.3%	30.7%	78	75	3.5%	63	23.7%
Attributable NI	**23.8**	**20.7**	**14.8%**	**23.2**	**2.7%**	**20.8**	**18.8**	**10.9%**	**14.2%**	**23.3%**	**70**	67	**4.6%**	**58**	**20.4%**
Adjusted net income after TI coupon	19.6	17.6	11.6%	20.3	(3.3%)	17.3	15.9	8.6%	13.7%	27.7%	60	58	3.5%	49	22.1%
Cost/income ratio	44.0%	50.6%		48.3%		49.6%	47.5%				48.7%	51.0%		50.5%	
Net loans/deposit ratio	74.4%	72.2%		72.8%		73.9%	74.8%				74.4%	72.2%		72.8%	
Annualized LLP	0.74%	0.71%		0.46%		1.05%	1.03%				0.68%	0.66%		0.94%	
NPL ratio	4.33%			4.17%		3.61%	3.63%				4.33%			3.61%	
Coverage	63.0%			61.4%		71.1%	64.0%				63.0%			71.1%	
Annualized NIM	2.21%			2.11%		2.62%	2.60%				2.27%			2.47%	
Gross Loans	**4,157**	**4,214**	**(1.3%)**	**4,201**	**(1.0%)**	**4,092**	**4,023**	**1.7%**	**1.6%**	**4.4%**	**4,157**	**4,214**	**(1.3%)**	**4,201**	**(1.0%)**
Net Loans	**4,014**	**4,084**	**(1.7%)**	**4,066**	**(1.3%)**	**4,024**	**3,965**	**1.5%**	**(0.2%)**	**2.6%**	**4,014**	**4,084**	**(1.7%)**	**4,066**	**(1.3%)**
Customer deposits	**5,395**	**5,656**	**(4.6%)**	**5,587**	**(3.4%)**	**5,443**	**5,300**	**2.7%**	**(0.9%)**	**5.4%**	**5,395**	**5,656**	**(4.6%)**	**5,587**	**(3.4%)**

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	176	180	(2.8%)	194	207	(6.3%)	213	227	(6.3%)	232	248	(6.3%)	253	271	(6.4%)
Fee income	32	30	4.6%	33	32	2.6%	36	35	2.6%	39	38	2.6%	42	41	2.6%
Investment income	(1)	1	(218.1%)	0	1	(58.3%)	1	1	(4.5%)	1	1	(4.5%)	1	1	(4.5%)
Non-interest income	48	49	(1.9%)	45	51	(12.7%)	50	56	(11.5%)	53	60	(11.7%)	57	65	(11.9%)
Total income	**223**	**229**	**(2.6%)**	**239**	**259**	**(7.6%)**	**262**	**283**	**(7.3%)**	**285**	**308**	**(7.4%)**	**311**	**336**	**(7.4%)**
OpEx	110	120	(8.4%)	116	125	(7.2%)	121	130	(7.2%)	126	135	(7.2%)	131	141	(7.2%)
Operating income	**113**	**109**	**3.9%**	**123**	**134**	**(7.9%)**	**141**	**153**	**(7.3%)**	**160**	**173**	**(7.5%)**	**180**	**195**	**(7.6%)**
Loan loss provision	29	30	(1.9%)	32	32	(1.9%)	29	30	(1.9%)	32	32	(1.9%)	34	35	(1.9%)
Other provision	2	2	(7.9%)	2	2	(4.5%)	3	3	(4.5%)	3	3	(4.5%)	3	3	(4.5%)
Tax	4	7	(41.3%)	10	11	(2.0%)	12	13	(1.3%)	14	14	(1.9%)	16	16	(2.3%)
Net income (reported)	**79**	**73**	**8.4%**	**89**	**90**	**(1.1%)**	**108**	**109**	**(0.3%)**	**124**	**125**	**(0.9%)**	**142**	**144**	**(1.4%)**
Ratios															
NIM	2.35%	2.36%	-0.01%	2.42%	2.47%	-0.05%	2.44%	2.49%	-0.05%	2.46%	2.51%	-0.05%	2.48%	2.53%	-0.05%
Cost/income	49.3%	52.4%	(3.2%)	48.5%	48.3%	0.2%	46.0%	46.0%	0.0%	44.0%	44.0%	0.1%	42.1%	42.0%	0.1%
LLP	0.70%	0.70%	0.00%	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	4.3%	4.2%	0.1%	4.0%	4.0%	–	3.3%	3.3%	–	3.0%	3.0%	–	3.0%	3.0%	–
Coverage	78.5%	79.1%	(0.6%)	82.4%	80.7%	1.7%	87.6%	85.6%	2.0%	88.0%	86.0%	2.0%	89.9%	88.0%	1.8%
Growth															
Assets	5%	10%	(5.0%)	8%	8%	–	8%	8%	–	8%	8%	–	8%	8%	–
Loan	1%	3%	(2.0%)	8%	8%	–	8%	8%	–	8%	8%	–	8%	8%	–
Deposit	6%	10%	(4.3%)	12%	10%	2.3%	8%	8%	–	8%	8%	–	8%	8%	–
BHD															
EPS	0.02	0.03	(13.5%)	0.03	0.03	(18.9%)	0.03	0.04	(16.4%)	0.04	0.05	(15.8%)	0.04	0.05	(15.2%)
TP	**0.30**	**0.30**	**0.0%**												

Source: Company Data, Arqaam Capital Research

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Bank of Bahrain and Kuwait Q3/9M earnings recap

BBK delivered resilient 9M earnings growth despite funding-cost pressure and elevated provisioning. 9M net income increased 9% y/y, supported by strong fee growth, higher non-funded income and continued balance-sheet expansion, offsetting margin pressure and higher operating expenses. Q3 earnings rose 6.1% y/y and 15.9% q/q, delivering RoTE of 12.3%, helped by stronger fees, benign asset quality and a one-off BHD2.5mn gain on the disposal of Invita.

Margins remained under pressure, although management expects stabilisation in Q4e. NIM declined 17bps y/y and 5bps q/q to 2.61%, reflecting funding-cost pressure and tighter system liquidity, partially offset by asset repricing and BBK's asset-sensitive balance sheet. Non-interest income increased 33% y/y in Q3, supported by fee growth of 5.6% and the Invita disposal gain, while operating expenses rose 17% y/y due to M&A-related costs, retention-related compensation adjustments and continued investment in technology and digital infrastructure.

Asset quality remained resilient and capital adequate despite OCI volatility. NPL formation was benign at -18bps in Q3, while the Stage 3 ratio improved to 2.7% from 2.9% and Stage 3 coverage increased to 58.8% from 54.8%. CoR rose to 50bps as BBK maintained precautionary provisioning amid geopolitical uncertainty, although management expects moderation in Q4e. Loans and deposits grew 2.2% and 1.7% q/q, respectively, while CET1 declined to 16.7% following FVOCI losses. BBK remains a key earnings contributor for ASB through its 26.2% stake, while the proposed NBB merger continues to represent a significant catalyst for value realisation.

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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	2031e	perp	subtotal	% of total
1. DCF																									
Net profit	7	0	10	12	16	12	16	18	18	21	9	21	32	42	59	77	92	101	121	137	154	171	179		
Other adjustments (comprehensive income, social levies)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	4	11	13	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)	(9)	(7)	(4)	(2)	(5)		
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%	4.9%		
Tax shelter	--	--	--	--	--	--	--	--	--	--	--	--	--	8.6%	8.5%	7.6%	4.0%	8.5%	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	91	99	117	131	146	160	167		
Capital requirements	73	64	71	90	150	162	151	154	158	154	117	116	394	403	490	542	577	614	651	690	732	775	812		
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%	15.8%	16.1%	18.0%	19.0%	20.0%	20.6%	20.0%		
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%	12.6%		
Capital charge	9	8	9	11	19	20	19	19	20	19	15	15	50	51	62	68	73	77	82	87	92	98	102		
Economic profit	(8)	(14)	(5)	(6)	(10)	(14)	(10)	(7)	(7)	(5)	(12)	(0)	(12)	(4)	6	9	18	22	35	44	54	62	65		
Discount factor	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--		1.00	0.89	0.79	0.70	0.62	0.55		
NPV of Economic Profit	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	22	31	35	38	39	36		
DCF EVA Forecast period																								126	13.0%
Perpetual growth rate (GDP)																							4.8%		
Terminal Value																							834		
Terminal value discounted																								461	47.7%
Required Capital																								542	56.0%
Value of the bank operations																								**1,128**	**116.7%**
2. Capital surplus/deficit																									
Available capital:																									
Shareholders equity	202	201	208	246	329	320	325	304	305	320	281	297	337	409	434	541	541	603	679	766	867	979			
Less Goodwill & intangibles	--	--	--	--	(26)	(26)	(26)	(26)	(26)	(26)	(26)	(26)	(52)	(78)	(205)	(231)	(189)	(189)	(189)	(189)	(189)	(189)			
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)	(25)	(27)	(30)	(36)	(41)	(46)	(51)			
Tangible equity	202	201	201	239	292	283	288	267	271	286	255	262	273	313	214	284	324	383	454	536	631	738			
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	2,700	2,937	3,174	3,431	3,710	4,011			
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	2,700	2,937	3,174	3,431	3,710	4,011			
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%	12.0%			
Financial stakes (after 10% corridor)	(13)	(20)	(12)	(15)	(19)	(18)	(18)	(10)	(11)	(18)	(13)	(12)	227	200	234	251	253	262	270	278	286	294			
Capital Requirements	73	64	71	90	150	162	151	154	158	154	117	116	394	403	490	542	577	614	651	690	732	775			
Surplus capital	**129**	**137**	**129**	**149**	**142**	**122**	**138**	**113**	**114**	**131**	**138**	**145**	**(121)**	**(90)**	**(276)**	**(258)**	**(253)**	**(231)**	**(197)**	**(153)**	**(100)**	**(37)**		**(253)**	**(26.2%)**
3. Other adjustments																									
Provisioning surplus																								(15)	
ADTi issuance 50% credit																								86	
Level 3 assets																								(4)	
Total adjustments																								66	6.9%
4. Dividends																								**25**	**2.6%**
Total Fair Value																								**967**	**100.0%**
Fully diluted number of shares																								3,175	
Fair value per share																								**0.30**	
Current share price																								0.21	
Upside																								**45.0%**	
Implied P/E (x)													30.6	22.9	17.6	14.7	12.2								
Implied P/tNAV (x)													3.8	3.7	6.2	4.2	3.2								

Source: Company Data, Arqaam Capital Research

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