Initiation of Coverage
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Al Salam Bank

High RoE, RoRWA and growth, attractive P/E multiple and upside from BBK-NBB merger.

- **We initiate coverage on Al Salam Bank (ASB or the Bank) with a TP of BHD 0.26 and a BUY rating underpinned by strong growth from i) retail banking particularly mortgage financing, ii) recent KFH Bahrain acquisition, iii) asset management in Dubai AUMs set to 2x to USD 10bn by 2027) iv) upside from the high growth/return Al Salam Bank Algeria (ASBA), v) economic diversification in Bahrain, adopting best in practice policies elsewhere in the GCC, vi) potential BBK-NBB deal given its 26.19% stake in BBK (at a likely premium for BBK), vii) improved efficiency (with a costs/assets of 1.3%) and viii) improving asset quality.**
- **RotE is among the highest in the GCC, on the back of its Islamic franchise, strong non-funded income, income from associates, and low risk-weighted asset intensity. High operating earnings should improve its relatively high leverage ratios (excluding ADT1 Capital), with payout set to rise, but only in the medium term.**
- **Stock is trading at P/B of 1.4x (P/tNAV25e of 2.8x) and P/E26e of 7.6x while offering a strong RoE of 17.2% (RotE25e of 35.6%), return on risk-weighted assets (RoRWA) of 2.8%, and DY of 3.1%. Catalyst: materialization of the BBK-NBB deal, MSCI/FTSE EM upgrade of Bahrain in the medium term, and more prudent fiscal policy in Bahrain.**

Strong return profile underpinning its organic and inorganic strategy, strong capital generation to address low tangible equity base (excluding ADT1 Capital); initiate with a BUY. We initiate coverage on Al Salam Bank with a BUY rating and a TP of BHD 0.26, offering a total return of c.21%. We find its return profile supported by the highest growth profile in Bahrain while offering a far superior return profile, allowing for a substantial improvement in capital ratios. We forecast RotE to expand to 32% by FY26e from 26.5% in FY24 as i) the Bank continues to record organic growth, ii) asset management boosts fee generation capacity, iii) consolidation of KFH Bahrain fully feeds into the books, iv) growth of its ASBA book, v) the non-oil expansion related spending comes through driving credit demand, and vi) improving asset quality. RoE is also bolstered by the high asset/equity (excluding ADT1 Capital) and strong non-funded income arising from the group's insurance operations, ASBA trade finance activities and various fee income streams in Bahrain.

Non-oil expansion spending and a reduced rate environment are supportive of the medium-term growth story. Al Salam Bank is the largest Islamic bank in Bahrain with a market share of 24.2% in loans. We find ASB well placed to benefit from the growth in the retail segment, particularly the subsidized mortgage financing Mazaya, amid a reducing rate environment – Bahrain mirrors the Fed cycle, given its significant retail tilt in its lending portfolio, mainly to locals. On the corporate front, the continued spend on strategic investments worth > USD 30bn as part of the government recovery plan to boost non-oil growth should support the growth outlook.

Asset management arm to diversify revenue stream and geography. The recently launched ASB Capital, its asset management arm in DIFC, with AUM of USD 4.5bn (which subsequently increased to USD 5.7bn) should accelerate fee generation for the group, with management targeting to reach USD 10bn AUM by 2027, offering significant upside to our fee forecasts.

Significant boost from M&A. Inorganic growth has resulted in a substantial step up in market share with the acquisition of Ithmaar consumer banking in 2022 and KFH Bahrain in 2024, increasing its market share to 24.2% by the end of 2024 from 12.8% at the start of 2022. Following the consolidation of ASBA, it contributes close to 20% to the group loan portfolio, a significant growth driver, mainly focusing on corporate banking and trade finance. The ASBA deal, though outside Bahrain, is a significant underlying driver for the group as it focuses on improving the return profile.

A potential BBK-NBB deal is a catalyst for the stock (Please refer to our earlier note: Bank of Bahrain and Kuwait MA Update). Materialization of the ongoing BBK-NBB deal should create a new national champion, with Al Salam holding 26.19% of BBK and 13% of the combined entity, with synergies to increase the RoE by 1%.

BUY | **BHD 0.26**

Banks / BAHRAIN

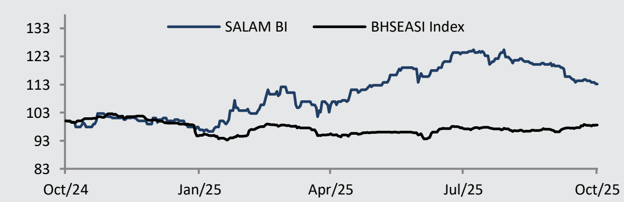
Bloomberg code	SALAM BI
Market index	BHSEASI Index
Target Price	0.26
Upside (%)	c.21

Market data 10/22/2025

Last closing price	0.21
52 Week range	0.2-0.2
Market cap (BHD m)	635
Market cap (USD m)	1,685
Average Daily Traded Value (BHD m)	0.00
Average Daily Traded Value (USD m)	0.5
Free float (%)	83%

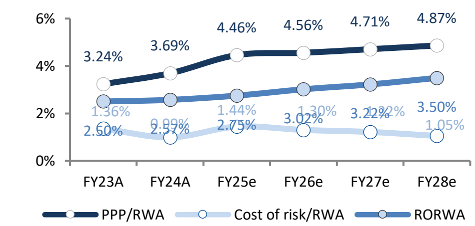
Year-end (BHD m)	2023	2024	2025e	2026e
Revenue	124	179	217	235
Pre-provisioning profit	55	79	110	124
EPS	0.01	0.02	0.02	0.03
P/E (x) (mkt price)	14.8	11.3	9.2	7.6
BVPS	0.1	0.1	0.1	0.2
Tangible BVPS	0.1	0.1	0.1	0.1
P/B (x) (mkt price)	1.8	1.7	1.4	1.3
P/TBVPS (x) (mkt price)	2.4	4.0	2.8	2.2
DPS	0.01	0.01	0.01	0.01
Div. yield (%)	2.9	2.5	3.1	3.7
EPPS	-	-	0.01	0.01
RoAA (%)	0.9	0.9	0.9	1.0
RoRWA (%)	2.5	2.6	2.8	3.0
RoATE (%)	16.5	26.5	35.6	32.0
RoEcC (%)	11.5	13.7	14.9	16.4
RAROC (%)	7.5	8.5	10.1	11.1
Net LtD ratio (%)	76.7	73.9	74.2	72.2
Risk Weighted Assets (bn)	1.7	2.1	2.5	2.7
Core Equity T1 ratio (%)	17.0	14.2	14.2	15.2
Tier 1 capital ratio (%)	17.3	21.8	20.9	21.2
Total capital ratio (%)	20.3	24.8	23.7	24.0
NPL ratio (%)	3.8	4.5	4.5	4.3
Coverage ratio (%)	47.2	40.3	45.7	53.7
Number of shares	2,617	2,748	2,968	2,968

Price Performance

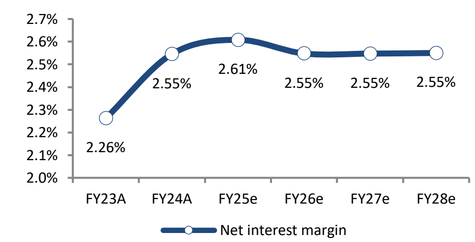


Abacus *Arqaam Capital Fundamental Data*

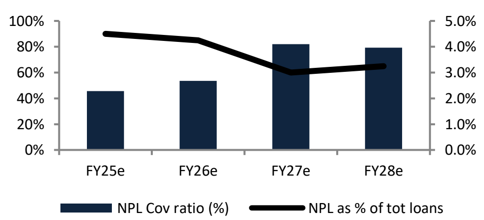
Profitability



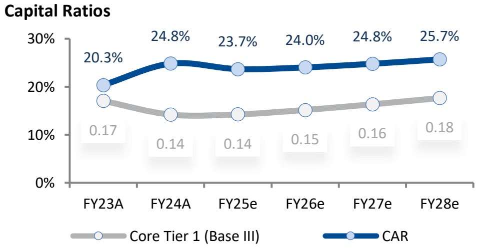
NIM



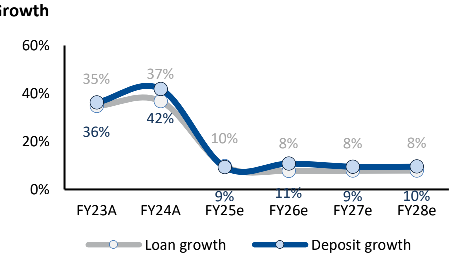
Credit Quality



Capital Ratios



Growth



Al Salam Bank

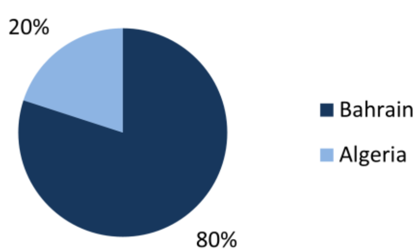
Year-end	2023	2024	2025e	2026e	2027e	2028e
Performance analysis						
Net Interest Margin (%)	2.26	2.55	2.61	2.55	2.55	2.55
Asset yield (%)	5.68	6.20	5.71	5.28	4.93	4.91
Cost of Funds (%)	3.39	3.64	3.12	2.78	2.45	2.45
Risk Adjusted Margins (%)	1.80	2.17	2.12	2.10	2.13	2.20
Cost / Income (%)	56.0	55.8	49.1	47.5	45.9	44.3
Net Interest Income / total income (%)	71.4	76.6	80.5	80.7	80.9	81.0
Fees & Commissions / operating income (%)	13.2	15.2	13.4	13.3	13.3	13.2
Trading gains / operating income (%)	6.2	1.4	0.9	0.9	0.8	0.8
RoATE (%)	16.5	26.5	35.6	32.0	29.6	28.2
Pre-prov. RoATE (%)	22.7	47.3	43.4	39.4	35.4	32.1
RoAA (%)	0.9	0.9	0.9	1.0	1.1	1.1
Revenue / RWA (%)	7.36	8.37	8.76	8.67	8.70	8.74
Costs / RWA (%)	4.12	4.67	4.30	4.12	3.99	3.87
PPP / RWA (%)	3.24	3.69	4.46	4.56	4.71	4.87
Cost of Risk / RWA (%)	1.36	0.99	1.44	1.30	1.22	1.05
RoRWA (%)	2.50	2.57	2.75	3.02	3.22	3.50
RoRWA (%) (adj. for gross-up of associates)	0.92	1.03	1.19	1.36	1.50	1.67
Year-end	**2023**	**2024**	**2025e**	**2026e**	**2027e**	**2028e**
Asset Quality						
Provisions charge / avg. gross loans (%)	0.8	0.6	0.8	0.8	0.7	0.6
Past due not impaired / gross loans (%)	3.3	4.7	5.0	5.0	5.0	5.0
NPL / gross loans (%)	3.8	4.5	4.5	4.3	3.0	3.3
NPL coverage ratio (%)	47.2	40.3	45.7	53.7	82.0	79.4
Provisions / avg. gross loans (%)	1.8	1.3	1.7	1.9	2.1	2.3
Provisions charge / operating income (%)	33.2	25.8	29.8	26.9	24.3	20.1
Year-end	**2023**	**2024**	**2025e**	**2026e**	**2027e**	**2028e**
Funding and Liquidity						
Net Loans / Deposits (%)	76.7	73.9	74.2	72.2	71.1	70.0
Cash and interbank / assets (%)	6.1	7.7	7.1	9.0	10.0	11.1
Deposits / liabilities (%)	73.7	74.7	72.5	74.6	75.8	77.2
Year-end	**2023**	**2024**	**2025e**	**2026e**	**2027e**	**2028e**
Capital and leverage ratios						
Core Tier 1 ratio (Basel III) (%)	17.0	14.2	14.2	15.2	16.3	17.6
Tier 1 ratio (%)	17.3	21.8	20.9	21.2	21.9	22.8
Total capital ratio (%)	20.3	24.8	23.7	24.0	24.8	25.7
Tangible equity / assets (%)	5.0	2.2	2.8	3.3	3.8	4.3
RWA / assets (%)	32.8	30.3	31.0	31.5	31.6	31.6
Year-end	**2023**	**2024**	**2025e**	**2026e**	**2027e**	**2028e**
Growth						
Revenues (%)	42.6	44.1	21.1	8.6	8.6	8.7
Cost (%)	37.3	43.7	6.4	5.0	5.0	5.0
Pre-Provision Operating Profit Growth (%)	50.0	44.6	39.7	12.0	11.9	11.9
Provisions (%)	29.8	12.0	61.6	1.3	0.8	(7.4)
Net Profit (%)	33.7	30.3	23.7	20.3	15.6	17.5
Assets (%)	32.0	37.2	13.0	8.0	8.0	8.0
Loans (%)	34.7	36.8	9.7	7.8	7.8	7.9
Deposits (%)	36.2	41.9	9.3	10.8	9.5	9.5
Risk Weighted Assets (%)	20.8	26.7	15.7	9.6	8.3	8.3

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. Al Salam Bank's ordinary shares are listed on both the Bahrain Bourse and the Dubai Financial Market. The Bank and its principal banking subsidiaries operate through 21 branches (2024: 24 branches) in the Kingdom of Bahrain, 26 branches in Algeria (2024: 25 branches) and 1 branch (2024: 1 branch) in Seychelles and offer a full range of Shari'a-compliant banking services and products.

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	2023	2024	2025e	2026e	2027e	2028e
Income statement (BHD m)						
Interest income	223	333	382	394	400	433
Interest expense	134	196	208	204	193	208
Net Interest Income	**89**	**137**	**174**	**190**	**207**	**225**
Fee income	16	27	29	31	34	37
Net investment income	6	1	1	1	1	1
Other operating income	13	13	12	13	14	15
Total operating income	**124**	**179**	**217**	**235**	**256**	**278**
Total operating expenses	70	100	106	112	117	123
Pre-provision operating profit	**55**	**79**	**110**	**124**	**138**	**155**
Net provisions	18	20	33	33	34	31
Other provisions / impairment	5	1	3	2	2	2
Operating profit	**32**	**58**	**75**	**88**	**103**	**121**
Associates	21	18	20	23	24	25
Pre-tax profit	**53**	**76**	**94**	**111**	**127**	**147**
Taxation	5	6	8	9	11	12
Net profit	**48**	**70**	**86**	**102**	**116**	**134**
Minorities	6	10	9	10	12	13
ADT1 coupon	**-**	**4**	**10**	**10**	**10**	**10**
Attributable net profit	42	55	68	82	95	111
Diluted EPS	0.01	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	0.12	0.15	0.17	0.19	0.22
Tangible BVPS	0.09	0.05	0.08	0.10	0.12	0.15

Year-end	2023	2024	2025e	2026e	2027e	2028e
Balance sheet (BHD m)						
Gross loans and advances	**2,725**	**3,730**	**4,103**	**4,431**	**4,786**	**5,169**
Less: loan loss provisions	49	68	85	101	118	133
Net loans and advances	2,676	3,662	4,018	4,330	4,668	5,036
Cash and central bank	538	634	661	790	928	1,073
Due from banks	294	476	538	581	628	678
Investments, net	1,412	1,930	2,399	2,540	2,694	2,861
of which: Sukuks	1,003	1,448	1,799	1,906	2,021	2,146
Other assets	227	361	364	377	391	406
Total assets	**5,147**	**7,063**	**7,981**	**8,619**	**9,309**	**10,054**
Customer deposits	3,491	4,952	5,414	5,997	6,565	7,189
Due to banks	516	563	630	600	624	633
Debt	511	910	1,165	1,165	1,165	1,165
Other liabilities	221	203	261	282	303	326
Total liabilities	**4,738**	**6,628**	**7,470**	**8,043**	**8,657**	**9,313**
Total equity	**409**	**434**	**511**	**576**	**652**	**740**
Risk Weighted Assets (bn)	2	2	2	3	3	3
Average Interest-Earning Assets	3,921	5,381	6,686	7,452	8,114	8,829
Average Interest-Bearing Liabilities	3,955	5,392	6,655	7,321	7,894	8,507
Common shareholders	259	156	226	285	354	435
Core Equity Tier 1 (Basel III)	288	304	352	411	480	561
Tier 1 capital	291	467	516	575	644	725

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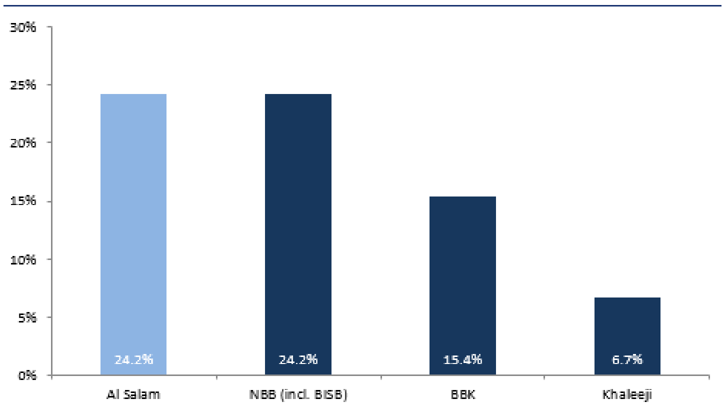
Investment thesis: High RoRWA/RoE should improve the tangible capital base, upside from BBK-NBB M&A and low P/E multiple.

- **We are initiating coverage on Al Salam Bank with a target price of BHD 0.26 and a BUY rating, supported by several growth drivers: i) retail operations, particularly in mortgage financing, ii) the recent acquisition of KFH Bahrain, iii) asset management in Dubai (with assets under management projected to double to USD 10bn by 2027), iv) growth/return potential from Al Salam Bank Algeria, v) Bahrain's economic diversification, adopting best practices from across the GCC, vi) a potential deal involving BBK and NBB, considering ASB's 26.19% stake in BBK, likely at a premium, vii) enhanced efficiency with a cost-to-assets ratio of 1.3%, and viii) improving asset quality.**
- **The return on tangible equity (RotE) is among the highest in the GCC, driven by its Islamic banking model, robust non-funded income (takaful activity through Solidarity), income from associates, and low risk-weighted asset intensity. Strong operating earnings should bolster its relatively high leverage ratios (excluding ADT1 Capital), with an anticipated increase in payout in the medium term.**
- **The stock is currently trading at a price-to-book of 1.4x (price-to-tangible net asset value of 2.8x) and a price-to-earnings (P/E) ratio for 2026 of 7.6x, while offering a strong RoE of 17.2% (RotE of 35.6%), a RoRWA of 2.8%, and a dividend yield (DY) of 3.1%. Key catalysts include the completion of the BBK-NBB deal, potential MSCI/FTSE Emerging Market upgrades for Bahrain in the medium term, and more prudent fiscal policy in the region.**

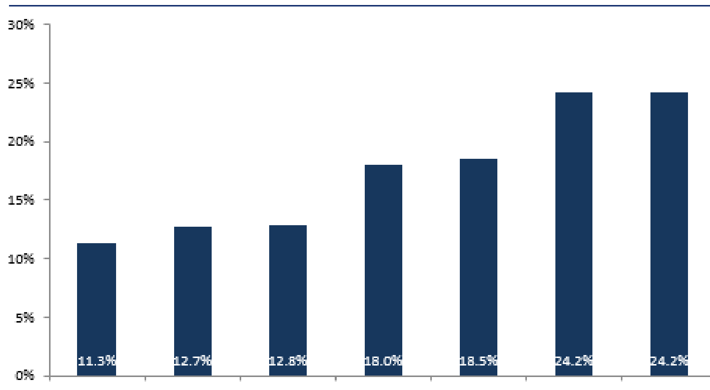
An Islamic bank with a solid franchise underpinning its organic and inorganic growth. Al Salam Bank is the largest Islamic bank in Bahrain with a market share of c.24% in loans and c.20% in deposits at the end of Q2 25, increasing from c.12.8% and c.9.7%, respectively, at the start of 2022, before the Ithmaar consumer business acquisition in 2022. ASB has gained market share both organically and inorganically, with organic growth of 10-12% during 2024, compared to total loan growth of 37%. It acquired KFH Bahrain with a loan portfolio of BHD 978m, representing 37% of the year-end 2023 loans. We believe the Bank's expanded market share, driven by both organic and inorganic growth, supports its positive growth outlook and strengthens its overall franchise, particularly within the retail segment.

Exhibit 1: Loan Market Share – Retail Banks



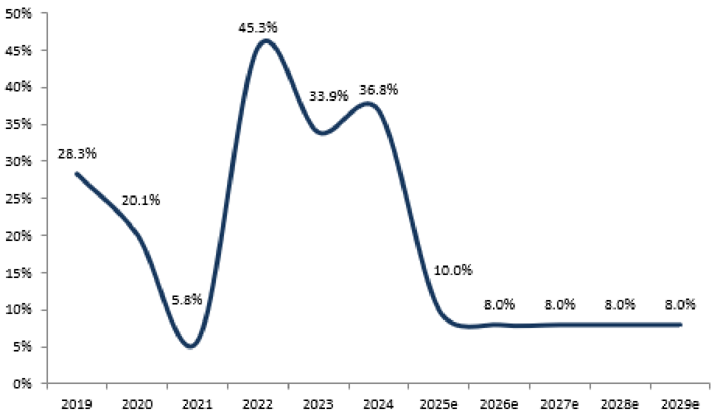
Source: Arqaam Capital Research, Company Data

Exhibit 2: Market share evolution



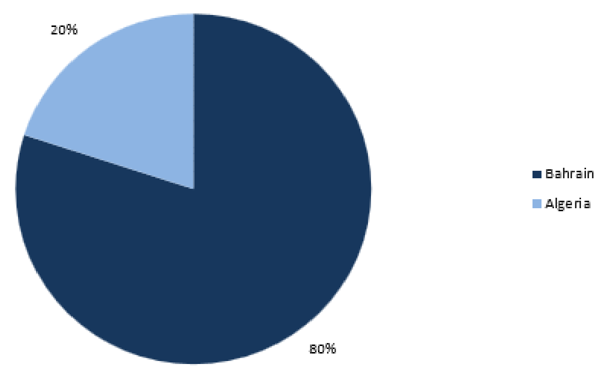
Source: Arqaam Capital Research, Company Data

Exhibit 3: Loan growth y/y



Source: Arqaam Capital Research, Company Data

Exhibit 4: Loan Book Mix

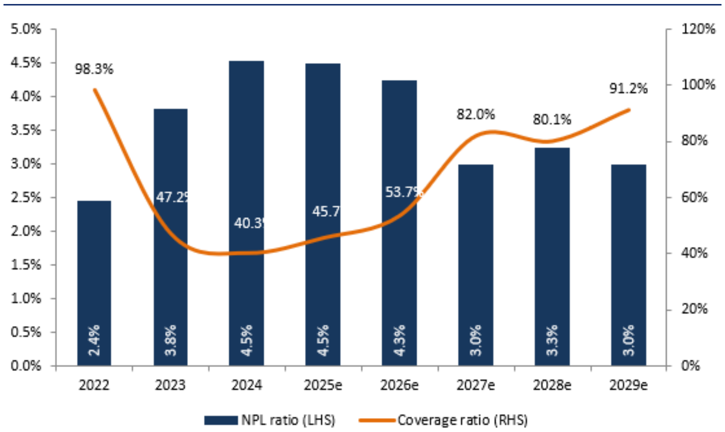


Source: Arqaam Capital Research, Company Data

Strong EPS CAGR of c.18% during 2024-29e. We see ASB delivering a strong EPS CAGR of c.18% and DPS CAGR of c.14% during FY24-29e underpinned by its transformation strategy that started in 2018. We expect earnings to be driven by i) strong growth in Bahrain and Algeria, supported by macro drivers, rate environment and its franchise, ii) strong fee generation capacity as it expands ASB Capital, iii) improving cost efficiencies as it optimizes group structure and continues with digitisation drive and iv) normalized credit costs with legacy book behind us.

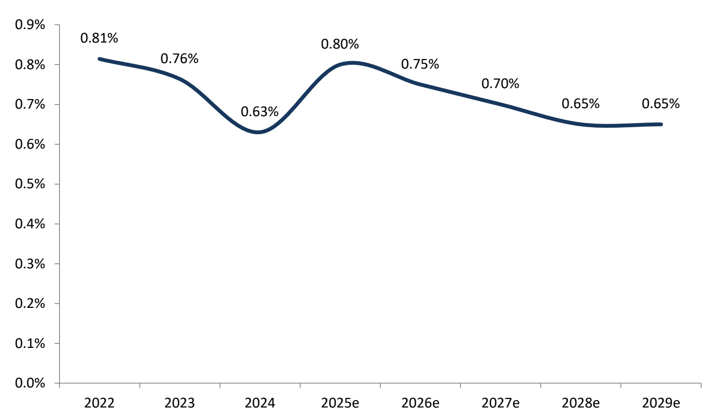
Non-oil expansion and a reducing rate environment are supportive of the growth outlook in Bahrain. With a reducing rate environment, ASB should benefit from the expected pick up in Mazaya underpinning its significant retail tilt post the M&A transactions in Bahrain. The Islamic finance industry in Bahrain is expected to exceed USD 100bn in the next 3-5 years from the current USD 80bn, placing ASB in a favourable position to benefit from lending and fixed income expansion, supported by its bigger balance sheet. The ongoing strategic investments by the government for non-oil growth to the tune of USD 30bn offer strong support to the growth outlook for the medium term.

Exhibit 5: NPL ratio (incl. POCI) and coverage evolution



Source: Arqaam Capital Research, Company Data

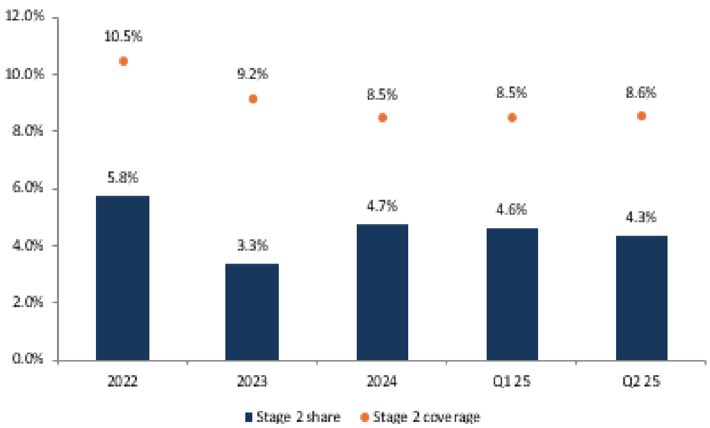
Exhibit 6: CoR Evolution



Source: Arqaam Capital Research, Company Data

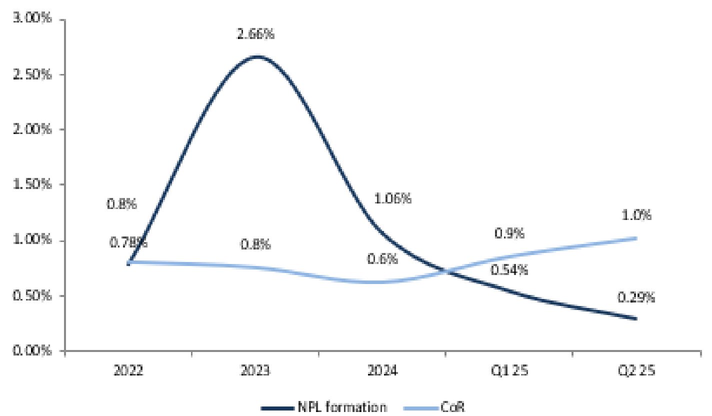
We find its fundamentals i) CET1 of 14.7% as of Q2 25 (although benefiting from only partial deduction of intangibles), ii) improving asset quality with stage 3 loans at 4.7% and stage 3 coverage at 35.5% (130.2% including collateral), whilst stage 2 represents 4.3% of loan portfolio and carries a coverage of 8.6%, and iii) Islamic franchise supporting the growth outlook.

Exhibit 7: Stage 2 share and coverage evolution



Source: Arqaam Capital Research, Company Data

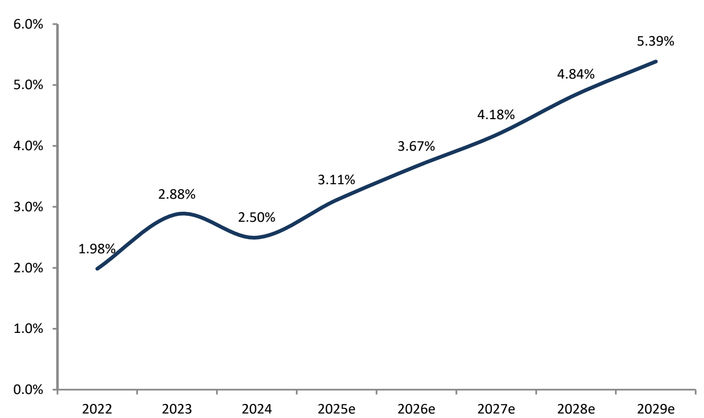
Exhibit 8: NPL formation and CoR evolution



Source: Arqaam Capital Research, Company Data

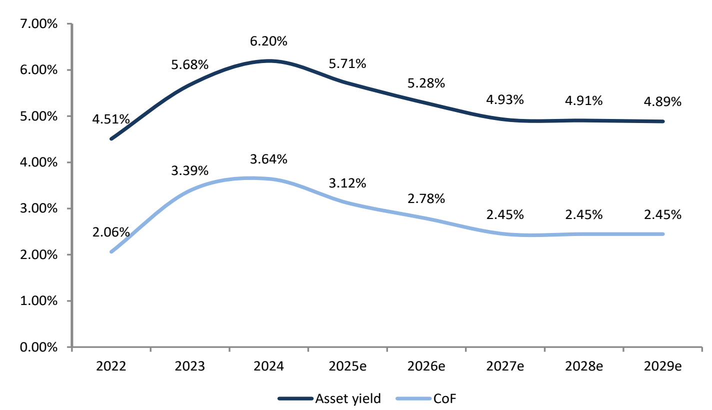
Favorably positioned for reducing rate cycle. The asymmetrical pass-through of rate movement to the asset versus liability side in Bahrain supports the margin outlook. Liabilities re-price in tandem with the Fed rate cycle, whilst there is a lag on the asset side, with the mortgage portfolio fixed. ASB has one of the highest margins in the industry at 2.55%, aided by its retail tilt and significant fixed income portfolio.

Exhibit 9: NIM evolution



Source: Arqaam Capital Research, Company Data

Exhibit 10: Asset yield & CoF



Source: Arqaam Capital Research, Company Data

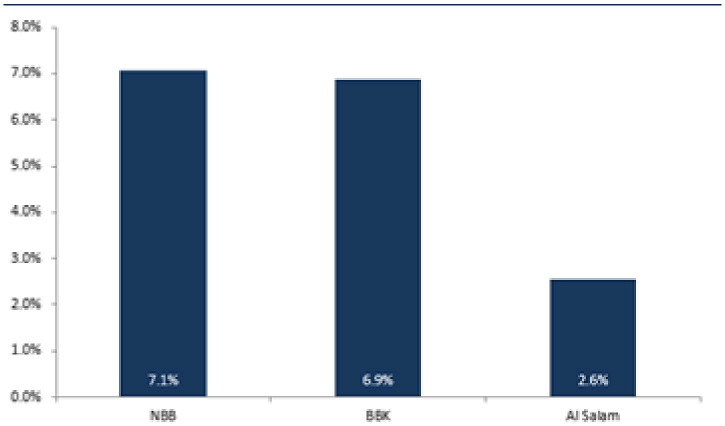
Diversification benefits from Asset Management and ASBA deal. The Asset Management arm, launched in DIFC with AUM of USD 4.5bn, which subsequently increased to USD 5.7bn, offers further diversification benefits, enabling it to tap the regional markets. Bahrain has a good relationship with the GCC countries, and we expect ASB Capital to offer a strong recurring stream of fee revenue to the group, with management expecting the AUM to reach USD 10bn and 10% of the bottom line. ASBA was consolidated in 2023, which diversifies ASB's growth beyond the

Bahraini economy. ASBA currently constitutes 20% of its loan portfolio, a key growth driver, given the expected strong growth in trade finance-related lending.

Takaful segment, mainly via its 55.9% ownership in Solidarity Group Holding, contributed 11.3% (7.7% excl. bargain purchase gain at Solidarity Bahrain level) and 7% to group earnings (pre-NCI) in FY24A and H1 25A, respectively. Al Salam Bank has a partnership with Solidarity Bahrain to offer "Al Salam Takaful," a suite of Shari'a-compliant insurance products which includes products like motor, personal accident, travel, and home insurance. The Bank launched a multi-year motor takaful insurance product with Solidarity Bahrain in July 2024 and offers various promotions to its customers, including discounts on takaful policies when using an Al Salam Bank card. Solidarity Bahrain significantly expanded following the acquisition of Bahrain National Insurance (BNI) and Bahrain National Life (BNL) in April 2025, contributing 30% to the y/y growth in Solidarity Bahrain's earnings in Q3 in 2025. That said, this should further support the non-NII outlook for the group.

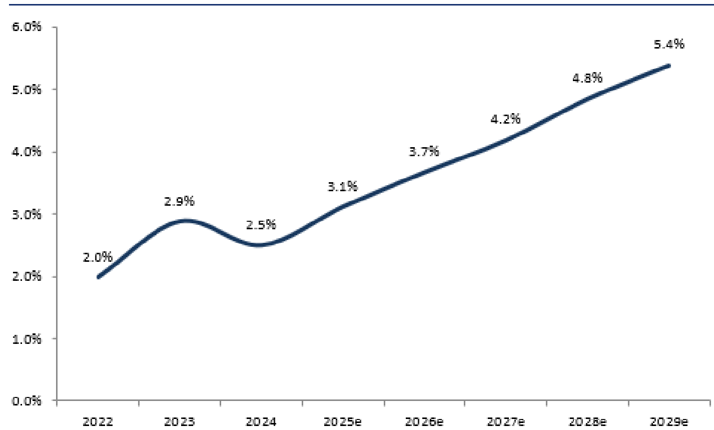
A mix of cash and bonus shares to continue as strong operating earnings bolster the tangible capital base. We expect ASB to continue paying out 26-27% of earnings as cash dividends, supplemented by distributions in bonus shares. In the medium term, we see upside risk to the cash payout once leverage ratios have improved closer to the GCC's average.

Exhibit 11: Dividend yield FY24A



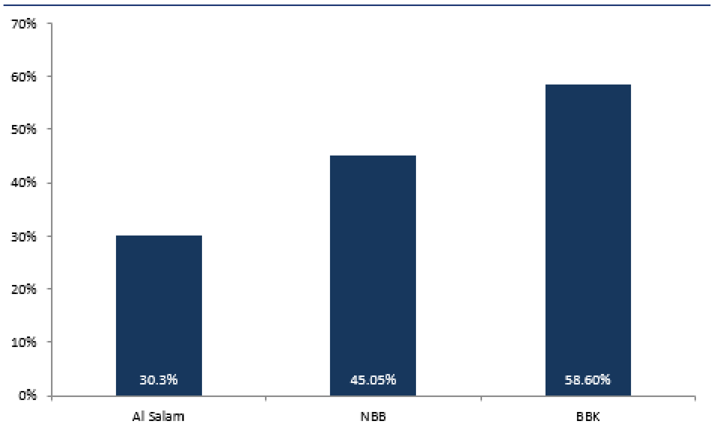
Source: Arqaam Capital Research, Company Data

Exhibit 12: Cash DY



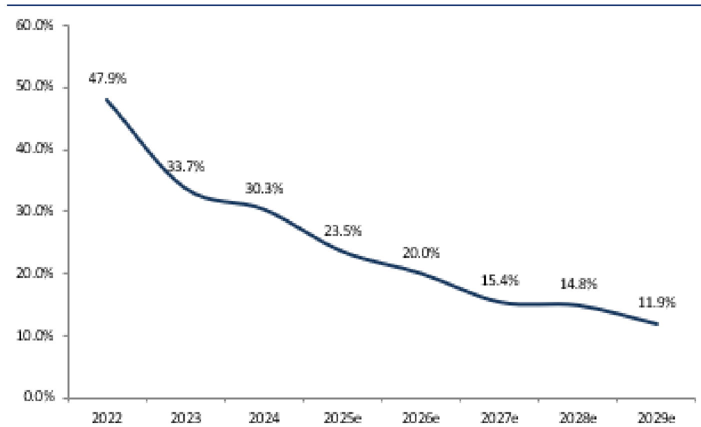
Source: Arqaam Capital Research, Company Data

Exhibit 13: RWA Density



Source: Arqaam Capital Research, Company Data

Exhibit 14: EPS growth



Source: Arqaam Capital Research, Company Data

P/B and P/tNAV premium justified given strong return and growth, P/E discounted. Stock is trading at 1.4x P/B 25e (P/tNAV25e of 2.8x) and P/E26e of 7.6x, trading at comparable levels to BBK at 1.4x (similar to P/tNAV given negligible intangibles) and 12.2x but lower than NBB 2x (PtNAV of 2.2x) and 14.1x. ASB valuation is fully justified by its strong return profile of RoE of 16.8% (RotE25e of 39.6%, RoE pre-ADT1 coupon: 13.3%) vs NBB 13.9% (15.3% excl. one off RE gain) and BBK 12.5% in H1 25 (annualized) and Cash DY of 7.1% for NBB, 6.9% for BBK and 3.1% for ASB (FY25e).

We see the premium justified by high RoE/RoRWA, strong growth outlook, Islamic franchise, diversification benefit from Asset Management, Takaful, and ASBA, strong associate income, non-funded income, improved asset quality, low risk-weighted asset intensity, and comparatively stronger NIM.

Upside risks:

BBK and NBB continue to engage in merger talks (Please refer to our earlier note: Bank of Bahrain and Kuwait MA Update), which could create a dominant franchise with a loan market share of c.40% for the combined entity in a fragmented Bahrain market, supporting synergies and strengthening their franchises. We expect a share swap ratio of 1 NBB share for 0.802 BBK share, valuing BBK at 1.76x tangible book, offering up to 22% upside to CMP, given the significant synergies, strong capital buffer at BBK (higher equity base than NBB, despite lower asset base), and lower valuation multiple, with NBB making up 50% of the combined value. We run a standalone valuation for BBK as well and arrive at a TP of BHD 0.53, 4% upside to CMP, as the valuation does not fully price in the HSBC M&A deal, bolstering its retail position in Bahrain.

The authorities plan to continue fiscal reforms to reduce debt and enhance the financial regulatory framework while also diversifying the economy and improving labor force participation. While the fiscal position of Bahrain remains concerning, with an overall fiscal balance at -8.5% of GDP and gross government debt rising to 123% of GDP, the ratio of nonhydrocarbon revenues to primary expenditures slightly exceeded the 40% Fiscal Balance Program target, while the current account surplus remains positive at 5.9% of GDP.

Bahrain is working on a plan to be elevated to Emerging Market status by both MSCI and FTSE, marking a significant step forward for its financial landscape. This upgrade is expected to attract a broader audience of international investors, providing them with increased opportunities for investment in the region. As Bahrain enhances its market classification, it aims to improve liquidity in its financial markets, fostering a more dynamic and robust trading environment. The move is anticipated to bolster investor confidence, as it aligns Bahrain with countries recognized for their growth potential and stable economic frameworks. Additionally, the upgrade could lead to increased portfolio inflows, as investment funds that track these indices are likely to allocate more resources to Bahrain's markets. Overall, this transition to Emerging Market status reflects Bahrain's ongoing efforts to modernize its financial sector and promote long-term sustainable growth.

Key downside risks. We see the following as key downside risks to our forecasts: i) oil prices remain depressed for a prolonged period, given that most of the government revenue still comes from oil despite the non-oil economy making up close to 90% of GDP, and ii) a significant pick up in NPL formation due to any potential adverse economic conditions.

Valuation: high RoE and capital generation

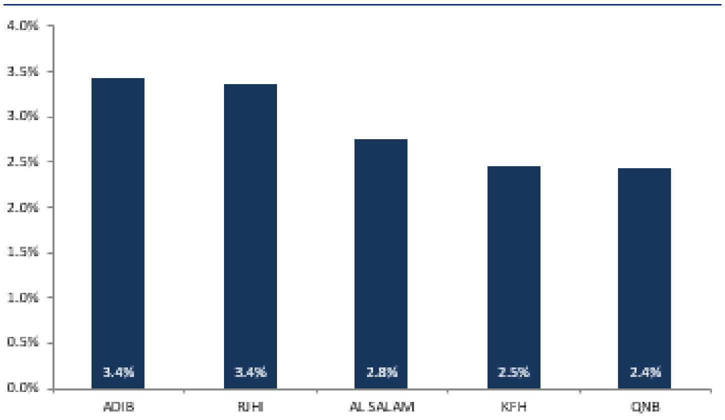
- **We forecast RotE to expand to 32% by FY26e from 26.5% in FY24 on organic and inorganic growth, with the three-year strategy driving profit optimization with the full benefits of the recent deals to fully feed into the books.**
- **We expect the increased earnings capacity to significantly boost dividends, offering a yield of 4.2% in FY27e vs 3.1% in FY25e, while also catering for significantly improved capital buffers.**
- **We set a TP of BHD 0.26 using our EVA model, offering a total return of c.21%, despite a modest provisioning deficit vs our acid test. We anticipate the capital position to improve due to strong organic capital generation, with distributions mainly through bonus shares.**

We set a TP of BHD 0.26 using our EVA model. We initiate with a BUY rating and arrive at a TP of BHD 0.26 using our EVA method, with banking operations driving the valuation. We compute a provisioning deficit of 2% of our FV based on our acid test (standardized for GCC banks, and set at 1% coverage for stage 1 loans, and 12% for stage 2, but we apply no haircut for stage 3 as coverage is already > 100% on a net basis after collateral). We anticipate the capital position to improve due to strong organic capital generation, with distributions mainly through bonus shares, with cash dividends at 26-27% of EPS on our forecasts.

Valuation remains attractive on a superior return profile. We find our valuation supported by:

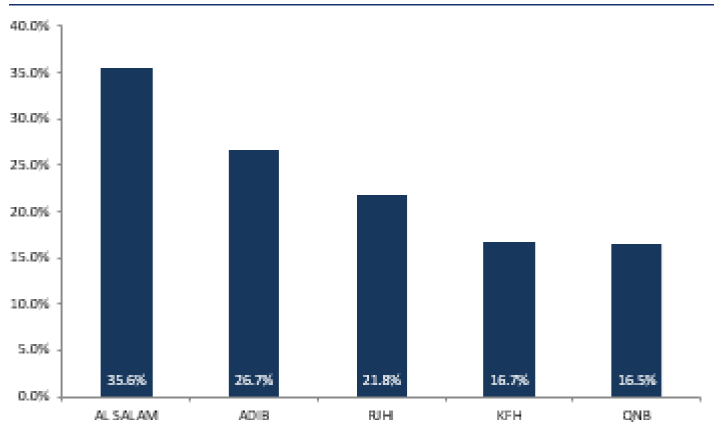
- Robust return profile with RotE at >30% vs 15.3% for NBB and c.12% BBK. It is backed by strong non-funded income (insurance), high margins reflecting its Islamic franchise, and a high contribution of associates.
- EPS24-29e CAGR of c.18%, aided by lower policy rates, lower CoR, and higher JAWs.
- Strong pick up in fee generation as it expands its asset management portfolio outside Bahrain
- Consolidation of ASBA offering a strong growth outlook
- Upside from BBK-NBB merger (holding an ultimate stake of 26.19% in BBK)

Exhibit 15: RoRWA – in line with GCC's best in class



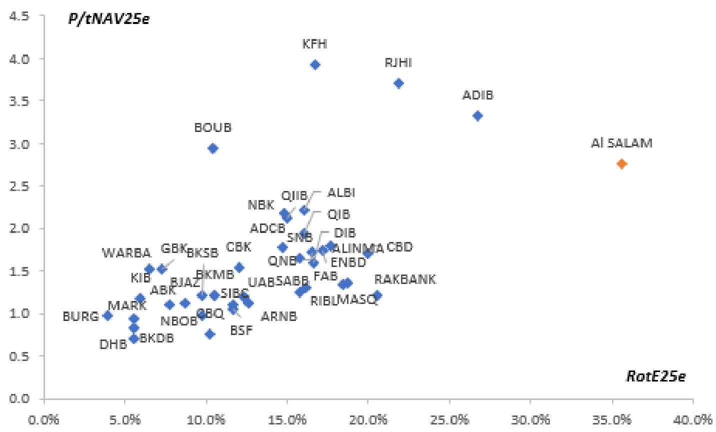
Source: Arqaam Capital Research, Company Data

Exhibit 16: RotE – highest in GCC



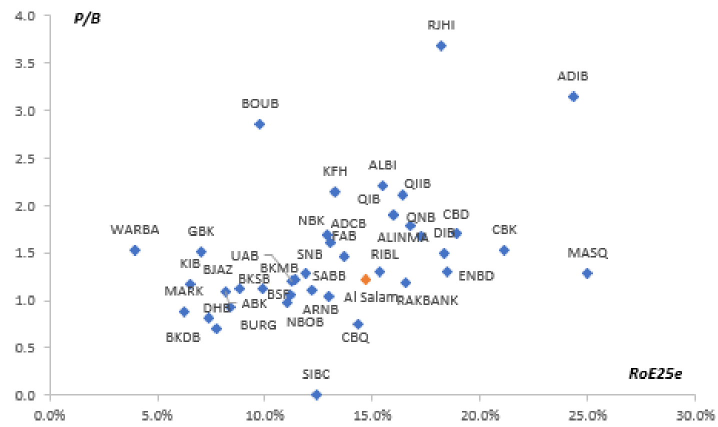
Source: Arqaam Capital Research, Company Data

Exhibit 17: PtNAV vs. RotE25e



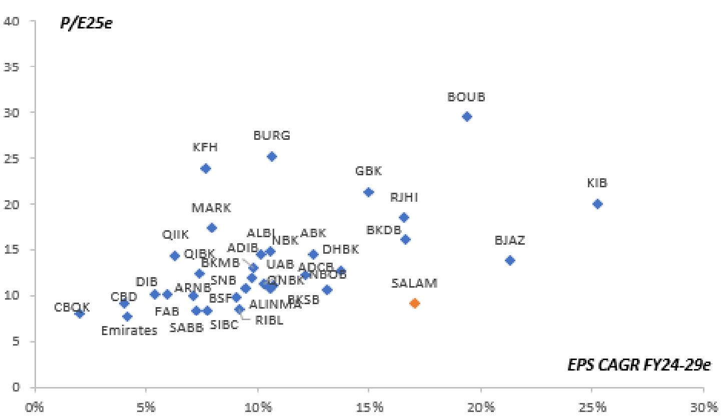
Source: Arqaam Capital Research, Company Data

Exhibit 18: P/B vs. RoE25e



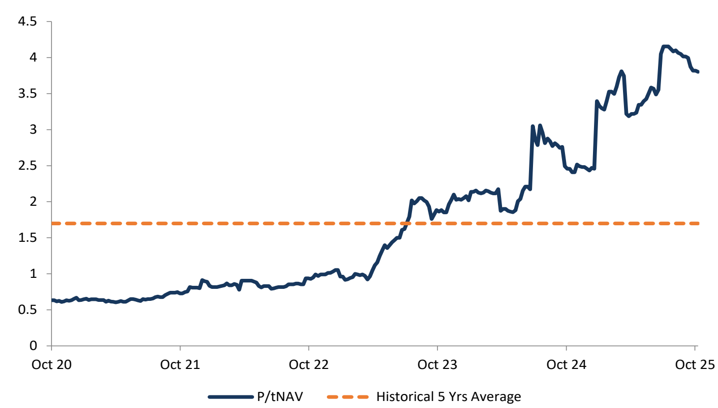
Source: Arqaam Capital Research, Company Data

Exhibit 19: P/E vs. EPS CAGR FY24-29e



Source: Arqaam Capital Research, Company Data

Exhibit 20: Historical P/tNAV (reflecting intangibles for M&A)



Source: Arqaam Capital Research, Company Data

Exhibit 21: Historical P/B

Source: Arqaam Capital Research, Company Data

Exhibit 22: Historical P/E

Source: Arqaam Capital Research, Company Data

Exhibit 23: Al Salam Bank EVA

Year-end	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e	2029e	perp	subtotal	% of total
1. DCF																							
Net profit	7	0	10	12	16	12	16	18	18	21	9	21	32	42	59	78	91	104	121	134	139		
Other adjustments (comprehensive income, social levies)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	4	10	10	10	10	10	10		
Minus: excess return excess capital	6	7	6	7	7	6	7	6	6	6	7	7	(6)	(4)	(12)	(11)	(9)	(7)	(5)	(2)	(2)		
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%		
Tax shelter	--	--	--	--	--	--	--	--	--	--	--	--	--	8.6%	8.5%	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	79	91	102	116	126	131		
Capital requirements	73	64	71	90	150	162	151	154	158	154	117	116	394	403	490	528	556	582	609	638	661		
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%	14.9%	16.4%	17.5%	19.0%	19.8%	19.8%		
Cost of capital	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%		
Capital charge	9	8	9	11	18	20	18	19	19	19	14	14	48	49	59	64	67	70	74	77	80		
Economic profit	(8)	(14)	(5)	(6)	(10)	(13)	(9)	(6)	(6)	(4)	(12)	0	(10)	(3)	8	15	24	31	42	49	51		
Discount factor	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	1.00	0.89	0.80	0.71	0.63	0.56		
NPV of Economic Profit	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	15	21	25	30	31	29		
DCF EVA Forecast period																						122	16.0%
Perpetual growth rate (GDP)																					3.8%		
Terminal Value																					610		
Terminal value discounted																						344	45.2%
Required Capital																						490	64.3%
Value of the bank operations																						**957**	**125.5%**
2. Capital surplus/deficit																							
Available capital:																							
Shareholders equity	202	201	208	246	329	320	325	304	305	320	281	297	337	409	434	511	576	652	740	840			
Less Goodwill & intangibles	--	--	--	--	(26)	(26)	(26)	(26)	(26)	(26)	(26)	(26)	(52)	(78)	(205)	(205)	(205)	(205)	(205)	(205)			
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)	(19)	(23)	(26)	(30)	(34)			
Tangible equity	202	201	201	239	292	283	288	267	271	286	255	262	273	313	214	287	349	421	505	601			
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	2,474	2,712	2,938	3,180	3,442			
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	2,474	2,712	2,938	3,180	3,442			
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%			
Financial stakes (after 10% corridor)	(13)	(20)	(12)	(15)	(19)	(18)	(18)	(10)	(11)	(18)	(13)	(12)	227	200	234	231	231	230	227	224			
Capital Requirements	73	64	71	90	150	162	151	154	158	154	117	116	394	403	490	528	556	582	609	638			
Surplus capital	**129**	**137**	**129**	**149**	**142**	**122**	**138**	**113**	**114**	**131**	**138**	**145**	**(121)**	**(90)**	**(276)**	**(241)**	**(207)**	**(161)**	**(104)**	**(36)**		**(276)**	**(36.2%)**
3. Other adjustments																							
Provisioning surplus																						(15)	
ADTI issuance 50% credit																						86	
Level 3 assets																						(4)	
Total adjustments																						66	8.7%
4. Dividends																						**16**	**2.0%**
Total Fair Value																						**763**	**100.0%**
Fully diluted number of shares																						2,968	38.33
Fair value per share																						**0.26**	1.3%
Current share price																						0.21	
Upside																						**22.4%**	
Implied P/E (x)													24.1	18.1	13.9	11.2	9.3						
Implied P/tNAV (x)													3.0	2.9	4.9	3.4	2.7						

Source: Company Data, Arqaam Capital Research

October 27 2025

Exhibit 24: MENA Banks Valuation Table

Company	AC Rating	Mkt. Cap. (USDm)	CCY	Mkt Cap. (m)	ADTV (USDm)	Share price	Target price	Upside (%)	P/E (x)				P/tNAV (x)				RoE (%)				Dividend yield (%)				EPS Growth (%)				NAV Growth (%)			
									23A	24A	25e	26e	23A	24A	25e	26e	23A	24A	25e	26e	23A	24A	25e	26e	23A	24A	25e	26e	23A	24A	25e	26e
ADCB	BUY	29,336	AED	107,750	19.58	14.72	17.18	17%	8.6	12.3	12.3	10.3	1.2	1.8	1.7	1.5	15.1	15.2	14.7	15.5	3.8	4.0	4.3	4.6	25.0	11.8	0.5	19.1	14.9	6.7	9.1	8.5
ADIB	HOLD	22,486	AED	82,592	20.05	22.74	23.43	3%	7.9	15.3	13.0	12.2	1.9	3.7	3.3	2.9	25.3	25.8	26.7	25.3	3.1	3.7	4.1	4.3	40.6	16.4	17.1	6.8	16.5	12.4	13.4	12.6
CBD	BUY	7,973	AED	29,285	0.04	9.81	9.66	-1%	6.1	10.2	9.1	9.1	1.1	1.9	1.7	1.6	19.8	20.0	20.0	18.3	4.5	5.2	5.3	5.5	49.1	15.2	11.5	0.7	16.3	12.1	10.9	9.6
DIB	BUY	18,984	AED	69,728	15.68	9.63	10.77	12%	6.5	10.0	10.1	10.0	1.1	1.8	1.6	1.5	17.0	18.2	16.6	15.4	4.7	4.7	4.7	4.7	27.3	17.8	-0.4	1.2	9.8	9.5	9.2	8.6
ENBD	BUY	46,347	AED	170,232	14.55	26.95	30.04	11%	5.2	7.6	7.6	7.8	1.2	1.5	1.3	1.2	24.1	21.7	18.8	16.2	4.5	3.7	4.1	4.1	68.5	7.2	-0.5	-2.5	21.3	17.1	13.8	11.7
FAB	BUY	49,629	AED	182,286	22.57	16.5	20.51	24%	9.8	11.2	10.1	10.8	1.6	1.8	1.7	1.5	17.7	16.8	17.2	14.7	4.3	4.5	4.5	4.5	20.8	3.6	10.9	-7.0	12.5	6.0	9.8	7.8
Mashreq	BUY	13,081	AED	48,046	0.09	239.5	285.77	19%	3.6	5.4	7.6	7.9	1.1	1.4	1.3	1.3	33.2	28.3	18.4	16.6	7.7	8.8	8.4	8.4	127.8	3.9	-27.9	-4.0	29.7	15.7	7.0	5.9
Rakbank	BUY	4,304	AED	15,810	0.32	7.86	7.90	1%	6.0	7.6	6.4	7.6	1.1	1.4	1.2	1.2	19.2	19.4	20.5	15.7	3.9	6.4	7.9	6.6	52.4	16.2	20.1	-15.9	15.7	14.2	13.0	6.6
UAB	HOLD	1,019	AED	3,744	0.08	1.21	1.22	1%	11.3	9.7	11.3	11.9	1.6	1.2	1.1	1.0	13.7	13.7	12.3	9.0	0.0	0.0	0.0	2.5	43.5	15.6	-14.2	-4.4	16.0	15.1	12.0	9.4
UAE banks		**193,159**		**709,473**	**93**			**14%**	**7.2**	**9.9**	**9.7**	**9.7**	**1.3**	**1.8**	**1.7**	**1.5**	**20.6**	**19.9**	**18.4**	**16.3**	**4.1**	**4.5**	**4.8**	**5.0**								
RAJHI	BUY	115,288	SAR	432,400	88.64	108.1	107.93	0%	21.9	23.1	18.5	15.7	3.9	4.4	3.7	3.3	18.5	20.0	21.8	22.1	2.1	2.5	2.5	2.8	-6.8	18.3	25.3	17.8	7.6	10.5	18.7	14.1
ALINMA	BUY	17,704	SAR	66,400	43.79	26.56	32.19	21%	15.9	12.1	10.8	10.3	2.6	2.0	1.8	1.6	16.5	17.8	17.6	16.6	3.2	3.0	3.8	4.5	34.5	-5.0	11.2	4.8	9.1	-10.8	12.6	10.7
ANB	BUY	13,651	SAR	51,200	9.58	25.6	28.35	11%	9.3	10.3	10.0	9.6	1.1	1.3	1.2	1.1	11.8	13.4	12.6	12.0	4.0	5.1	5.3	5.5	32.6	22.0	3.6	3.6	8.3	6.5	13.5	6.1
ALBI	HOLD	11,630	SAR	43,620	12.68	29.08	32.70	12%	19.1	15.5	14.6	13.1	3.0	2.6	2.2	2.0	16.5	17.6	16.1	15.2	1.4	1.7	2.1	2.4	13.8	18.5	6.7	10.9	13.9	9.4	17.5	11.5
BJAZ	HOLD	4,451	SAR	16,695	10.18	13.03	13.77	6%	15.0	16.1	13.8	12.0	1.2	1.3	1.1	1.1	7.3	8.0	8.7	9.3	0.0	0.0	3.1	3.1	-14.5	17.3	17.0	14.7	6.9	6.3	9.1	6.0
BSF	BUY	10,538	SAR	39,596	9.98	18.76	20.19	8%	11.4	11.0	9.8	9.5	1.3	1.2	1.1	1.0	11.4	11.4	11.7	11.1	5.0	5.2	5.7	5.7	19.3	6.6	11.9	3.6	7.9	6.1	11.0	6.8
SNB	BUY	62,070	SAR	232,920	44.68	35.55	44.88	26%	12.0	10.4	9.9	9.2	1.9	1.6	1.5	1.4	16.8	16.2	15.8	15.7	4.9	5.3	6.0	6.5	-20.3	6.2	5.6	7.0	-17.8	9.6	7.7	7.2
RIYAD	BUY	22,172	SAR	83,160	15.44	27.72	36.90	33%	10.6	9.2	8.4	8.0	1.6	1.4	1.3	1.2	15.0	16.0	16.2	15.8	5.1	6.1	6.5	6.9	11.1	16.5	9.3	5.3	8.3	9.1	8.1	7.8
SABB	BUY	17,904	SAR	67,151	16.79	35.5	43.63	23%	11.1	9.4	9.0	8.7	1.6	1.5	1.4	1.3	15.4	16.0	15.7	15.2	5.2	5.7	6.1	6.3	45.0	10.9	4.3	3.9	8.0	4.9	7.3	7.1
SAIB	HOLD	4,686	SAR	17,575	2.1	14.06	13.70	-3%	10.0	9.0	8.4	8.0	1.1	1.2	1.1	1.1	11.7	12.4	11.6	11.7	4.8	5.4	5.7	6.4	16.8	11.1	7.3	4.9	6.8	5.3	5.6	5.1
KSA banks		**280,094**		**1,050,717**	**254**			**13%**	**13.6**	**12.6**	**11.3**	**10.4**	**1.9**	**1.9**	**1.6**	**1.5**	**14.1**	**14.9**	**14.8**	**14.5**	**3.6**	**4.0**	**4.7**	**5.0**								
QNB	BUY	46,167	QAR	168,288	10.47	18.22	21.70	19%	10.6	11.0	10.7	9.2	1.8	1.9	1.7	1.5	16.7	17.3	16.5	17.6	3.6	3.8	3.9	4.7	8.2	8.6	2.5	17.3	5.6	4.7	9.8	10.5
QIB	BUY	15,285	QAR	55,718	7.02	23.58	27.29	16%	12.4	13.0	12.3	11.6	2.0	2.1	1.9	1.8	16.5	16.3	16.0	15.7	3.1	3.4	4.2	4.6	7.0	7.4	5.9	6.1	9.3	7.9	8.1	7.6
CBQ	BUY	4,732	QAR	17,249	2.39	4.26	5.29	24%	8.8	6.5	8.0	7.4	1.4	0.8	0.8	0.8	14.3	13.7	10.3	10.6	5.9	7.0	7.0	7.0	7.9	0.8	-19.3	8.3	0.0	11.1	4.6	5.2
Doha	BUY	2,132	QAR	7,773	2.6	2.51	3.14	25%	7.3	12.2	12.8	9.0	0.5	0.7	0.7	0.6	5.5	6.0	5.5	7.4	3.0	4.0	4.0	4.8	0.7	14.3	-5.0	41.7	3.6	3.6	2.8	8.6
MARK	HOLD	6,019	QAR	21,939	7.07	2.36	2.30	-2%	17.6	15.0	17.4	13.9	1.1	1.0	1.0	0.9	6.3	6.5	5.5	6.8	4.2	4.2	4.7	6.4	8.5	6.7	-13.6	25.2	2.8	2.8	1.7	1.5
QIIK	HOLD	4,539	QAR	16,545	2.84	10.93	10.71	-2%	15.3	14.6	14.4	13.7	2.2	2.2	2.1	2.0	14.5	15.3	15.0	15.0	4.1	4.6	4.6	5.0	10.2	9.4	1.3	5.0	6.3	1.1	5.2	4.8
Qatar banks		**78,874**		**287,512**	**32**			**16%**	**12.0**	**12.0**	**12.6**	**10.8**	**1.5**	**1.4**	**1.4**	**1.3**	**12.3**	**12.5**	**11.5**	**12.2**	**4.0**	**4.5**	**4.7**	**5.4**								
NBK	BUY	30,048	KWD	9,189	15,792	1.051	1.183	13%	13.1	15.1	14.8	14.0	2.1	2.4	2.2	2.0	16.0	16.1	14.9	14.5	3.2	3.2	3.3	3.5	10.5	7.3	2.3	5.8	9.3	6.7	10.7	8.4
KFH	BUY	46,180	KWD	14,122	32,728	0.787	0.942	20%	18.9	25.0	24.0	21.8	3.6	4.1	3.9	3.7	17.6	17.1	16.7	17.3	2.2	2.7	2.9	3.2	58.3	2.3	4.3	9.6	0.8	9.4	5.1	6.0
Gulf Bank	BUY	4,546	KWD	1,390	8,200	0.349	0.357	2%	13.4	22.0	21.3	18.3	1.2	1.6	1.5	1.5	9.3	7.3	7.3	8.1	3.3	2.9	3.0	3.6	2.0	-15.5	3.3	16.7	0.4	2.1	5.2	3.7
KIB	HOLD	1,457	KWD	446	12,221	0.269	0.196	-27%	14.6	24.4	20.1	13.4	0.7	1.2	1.2	1.1	4.7	5.1	6.0	8.5	1.8	1.9	2.2	2.6	15.5	25.6	21.4	49.4	-8.3	4.4	3.4	5.7
Burgan	HOLD	2,953	KWD	903	4,354	0.239	0.178	-25%	17.2	23.2	25.2	17.4	0.7	1.0	1.0	1.0	4.4	4.4	4.0	5.6	2.4	2.5	2.5	2.7	-16.7	7.9	-7.8	44.9	16.1	1.4	1.5	3.0
Boubyan	BUY	10,167	KWD	3,109	5,563	0.705	0.785	11%	32.0	32.6	29.5	25.9	2.8	3.2	2.9	2.7	9.0	10.3	10.4	10.9	1.1	1.4	1.6	1.7	43.8	22.0	10.5	13.8	7.0	6.8	11.0	6.7
CBK	HOLD	4,117	KWD	1,259	140	0.638	0.648	2%	32.0	7.3	12.9	12.3	2.8	1.5	1.5	1.5	16.9	22.5	12.0	12.3	3.9	8.1	4.7	5.0	51.0	41.4	-43.4	4.9	0.0	13.0	-0.4	5.3
WARBA	HOLD	4,104	KWD	1,260	17,524	0.280	0.206	-27%	23.1	31.6	33.4	24.8	1.2	1.8	1.5	1.4	5.4	5.9	6.5	6.0	0.0	0.0	0.0	0.0	12.4	16.5	-5.2	34.5	5.8	6.5	18.5	6.2
ABK	HOLD	2,458	KWD	752	3,093	0.289	0.304	5%	12.3	13.7	14.5	12.7	0.9	1.1	1.1	1.1	7.0	8.5	7.8	8.5	3.0	3.5	3.3	3.8	21.7	36.3	-5.9	14.7	0.3	2.0	4.1	4.5
Kuwait banks		**106,030**		**32,430**	**99,615**			**11.4%**	**19.6**	**21.7**	**21.7**	**17.8**	**1.8**	**2.0**	**1.9**	**1.8**	**10.0**	**10.8**	**9.5**	**10.2**	**2.3**	**2.9**	**2.6**	**2.9**								
Muscat	BUY	6,532	OMR	2,515	8.72	0.34	0.39	14%	10.5	12.6	11.9	10.6	1.1	1.3	1.3	1.2	10.2	10.4	10.5	11.2	4.6	4.9	5.0	5.6	-12.5	6.7	5.9	12.4	7.1	4.9	4.6	5.6
BKDB	HOLD	1,303	OMR	502	0.18	0.17	0.13	-21%	17.8	15.7	16.1	11.5	0.8	0.9	0.9	0.9	5.0	5.8	5.5	7.5	4.6	3.9	3.6	4.7	12.8	18.0	-2.8	40.0	2.9	1.3	2.4	3.5
NBOB	BUY	1,499	OMR	577	1	0.36	0.37	2%	10.0	11.6	10.6	9.0	0.9	1.1	1.0	0.9	9.2	9.6	9.7	10.4	2.4	2.6	3.3	3.3	16.3	11.1	10.2	17.0	7.1	7.0	10.2	7.6
Oman banks		**9,334**		**3,594**	**9.9**			**7%**	**12.8**	**13.3**	**12.9**	**10.4**	**0.9**	**1.1**	**1.0**	**1.0**	**8.2**	**8.6**	**8.6**	**9.7**	**3.8**	**3.8**	**4.0**	**4.6**								
Al Salam	BUY	1,685	OMR	635	0.49	0.21	0.26	23%	10.0	11.3	9.2	7.6	0.9	4.0	2.9	2.4	16.5	26.5	36.6	34.2	2.9	2.6	4.8	5.8	33.7	30.3	23.5	20.0	3.2	-39.9	38.6	20.9

Source: Company Data, Arqaam Capital Research

Exhibit 25: NII to AA

Company	NII/AA				
	FY 21A	FY 22A	FY 23A	FY 24A	H1 25*
NBB	2.7%	2.8%	2.8%	2.6%	2.3%
BBK	2.2%	2.8%	3.5%	3.1%	2.8%
Al Salam	2.3%	2.2%	2.0%	2.2%	4.2%

Source: Company Data, Arqaam Capital Research
**H1 25 annualized*

Exhibit 26: Non-NII to AA

Company	Non-NII/AA				
	FY 21A	FY 22A	FY 23A	FY 24A	H1 25*
NBB	0.7%	0.9%	0.8%	0.9%	1.1%
BBK	0.9%	0.9%	0.8%	1.0%	1.0%
Al Salam	0.3%	0.5%	0.8%	0.7%	0.5%

Source: Company Data, Arqaam Capital Research
**H1 25 annualized*
***NBB H1 25 figure excludes one off RE gain*

Exhibit 27: OpEx to AA

Company	OpEx/AA				
	FY 21A	FY 22A	FY 23A	FY 24A	H1 25*
NBB	1.7%	1.8%	1.9%	1.9%	1.8%
BBK	1.6%	1.7%	1.8%	1.8%	1.7%
Al Salam	1.3%	1.5%	1.5%	1.6%	1.4%

Source: Company Data, Arqaam Capital Research
**H1 25 annualized*

Exhibit 28: Operating profit to AA

Company	Operating profit/AA				
	FY 21A	FY 22A	FY 23A	FY 24A	H1 25*
NBB	1.2%	1.5%	1.6%	1.5%	1.6%
BBK	1.4%	1.7%	2.2%	1.9%	2.1%
Al Salam	0.7%	0.7%	0.7%	0.9%	3.3%

Source: Company Data, Arqaam Capital Research
**H1 25 annualized*
***NBB H1 25 figure excludes one off RE gain*

Exhibit 29: RoA

Company	RoA				
	FY 21A	FY 22A	FY 23A	FY 24A	H1 25*
NBB	1.3%	1.7%	1.8%	1.7%	1.7%
BBK	1.7%	1.9%	1.8%	1.4%	1.3%
Al Salam	0.9%	1.0%	1.1%	1.1%	1.1%

Source: Company Data, Arqaam Capital Research
**H1 25 annualized*
***NBB H1 25 figure excludes one off RE gain*

Exhibit 30: Asset to equity (excluding ADT1)

Company	Asset/equity				
	FY 21A	FY 22A	FY 23A	FY 24A	H1 25*
NBB	8.4x	8.4x	8.8x	9.3x	9.8x
BBK	7.0x	6.5x	6.3x	6.5x	6.9x
Al Salam	8.6x	10.4x	12.1x	14.5x	16.2x

Source: Company Data, Arqaam Capital Research
**Equity includes NCI*

Exhibit 31: Asset to equity including ADT1 & NCI

Company	Asset/Equity (Incl. ADT1 & NCI)				
	FY 21A	FY 22A	FY 23A	FY 24A	H1 25*
NBB	8.4x	8.4x	8.8x	9.3x	9.8x
BBK	7.0x	6.5x	6.3x	6.5x	6.9x
Al Salam	8.6x	10.4x	12.1x	12.2x	11.6x

Source: Company Data, Arqaam Capital Research

Exhibit 32: Asset to tangible equity (shareholder equity)

Company	Asset/tangible equity				
	FY 21A	FY 22A	FY 23A	FY 24A	H1 25*
NBB	9.5x	9.4x	9.9x	10.4x	11.0x
BBK	7.0x	6.5x	6.3x	6.6x	6.9x
Al Salam	9.4x	12.6x	17.7x	29.4x	46.0x

Source: Company Data, Arqaam Capital Research

Exhibit 33: Asset to tangible equity (incl. NCI)

Company	Asset/tangible equity				
	FY 21A	FY 22A	FY 23A	FY 24A	H1 25*
NBB	9.3x	9.3x	9.7x	10.2x	10.7x
BBK	7.0x	6.5x	6.3x	6.5x	6.9x
Al Salam	9.4x	11.8x	14.7x	21.8x	31.0x

Source: Company Data, Arqaam Capital Research

Exhibit 34: Asset to regulatory capital base

Company	Asset/capital base				
	FY 21A	FY 22A	FY 23A	FY 24A	H1 25*
NBB	8.4x	8.4x	8.9x	9.5x	10.1x
BBK	6.6x	6.1x	6.1x	6.3x	6.7x
Al Salam	8.4x	10.8x	13.9x	14.0x	13.2x

Source: Company Data, Arqaam Capital Research

Exhibit 35: RotE

Company	RotE				
	FY 21A	FY 22A	FY 23A	FY 24A	H1 25*
NBB	11.5%	13.8%	15.4%	15.7%	15.3%
BBK	10.1%	11.3%	12.3%	11.7%	12.5%
Al Salam	8.1%	12.1%	16.5%	26.5%	39.6%

Source: Company Data, Arqaam Capital Research
**H1 25 annualized*
***NBB H1 25 figure excludes one off RE gain*

Exhibit 36: RoE (pre-ADT1 coupon)

Company	RoE (pre- ADT1 coupon)				
	FY 21A	FY 22A	FY 23A	FY 24A	H1 25*
NBB	10.3%	12.5%	14.0%	14.3%	13.9%
BBK	10.1%	11.3%	12.3%	11.7%	12.5%
Al Salam	7.4%	10.5%	13.2%	13.8%	13.3%

Source: Company Data, Arqaam Capital Research
**H1 25 annualized*
***NBB H1 25 figure excludes one off RE gain*

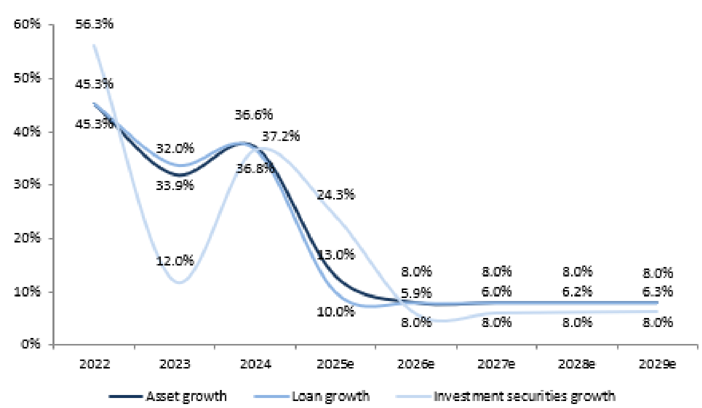
Well placed to deliver robust earnings and dividend growth.

- **We forecast ASB delivering a robust earnings CAGR (FY24A-29e) of c.18% and DPS of c.14% underpinned by its expansive strategy, asset-liability management (ALM), and improved asset quality (normalizing CoR), yielding one of the highest RotE of > 30% in the region.**
- **Credit cost should remain at TTC levels as asset quality continues to improve, with a reducing rate environment further supporting earnings outlook.**
- **We see upside risks to our payout assumption given no cap on payout and strong internal capital generation, while catering for improved capital ratios.**

We see ASB delivering EPS CAGR of c.18% and DPS of c.14%. We forecast EPS CAGR of c.18% during FY24A-29e on i) positive margin trend on reducing rate cycle and optimization of asset mix, ii) acceleration in fee generation as it expands its AUM, iii) credit costs remain stable, iv) sustained balance sheet growth momentum as it gains market share in Bahrain and strong growth in ASBA and iv) improving cost efficiencies (given merger benefits). We expect the strong internal capital generation to translate into higher handouts once leverage ratios (Asset /tangible equity) converge to the GCC bank average.

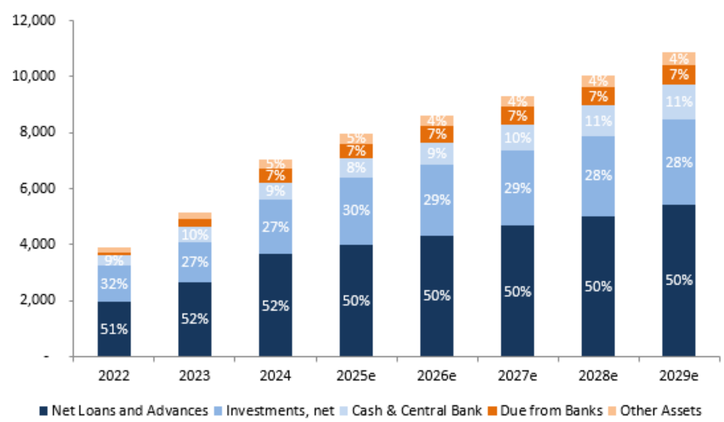
Double-digit asset growth driven by loan and FI. We expect balance sheet growth to normalize to an asset CAGR of 9% during FY24A-29e after a strong CAGR of 38% during FY21-24A, driven by the Ithmaar, KFH, and ASBA deals. Likewise, we forecast loan growth CAGR of 8.4% during FY24A-29e vs 38.7% during FY21-24. We expect part of the asset growth to be deployed in fixed income securities, driving a CAGR of c.12% during FY24-29e vs 31.9% during 2021-24.

Exhibit 37: 8% BS growth going forward



Source: Arqaam Capital Research, Company Data

Exhibit 38: Asset mix

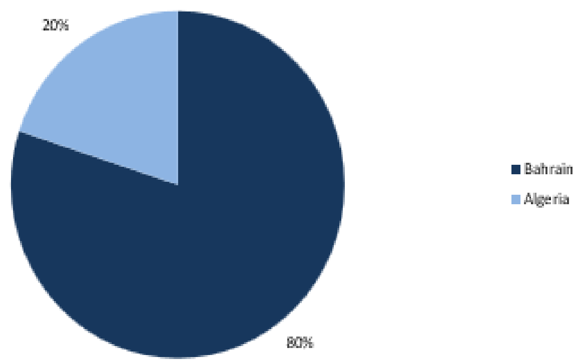


Source: Arqaam Capital Research, Company Data

Loan growth outlook supported by Bahrain and Algeria. We expect organic growth in Bahrain and Algeria to drive the loan growth during our forecast period. We see ASB continuing to gain market share with a strengthened franchise post the acquisition of KFH Bahrain. We find market share gains supported by its healthy deposit growth, which has outpaced loan growth. Deposits grew at a CAGR of 39.9% during FY21-24, and we expect a CAGR of 9.7% during FY24-29e.

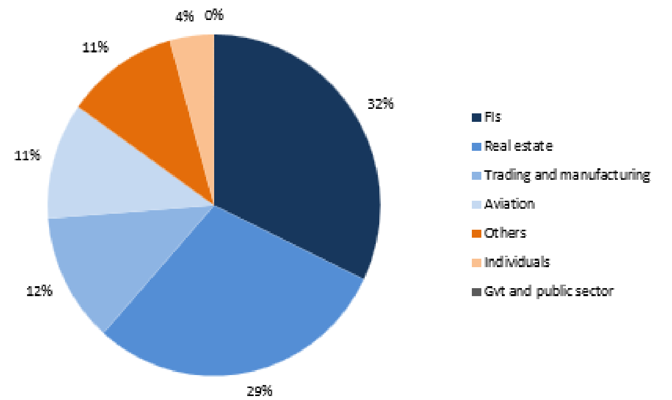
In a fragmented market with a loan market share of c.24%, we find ASB well placed to benefit from the reducing rate environment, given its strong retail franchise. We expect retail demand to pick up, particularly, mortgage financing, as rates come down. With a significant tilt to retail and a strengthened franchise post the KFH deal last year, we expect retail to be a key growth driver for ASB. We expect corporate demand to come from the government's non-oil expansion initiatives, which should drive growth in the MT.

Exhibit 39: Loan mix by geography



Source: Arqaam Capital Research, Company Data

Exhibit 40: Asset mix by sector



Source: Arqaam Capital Research, Company Data

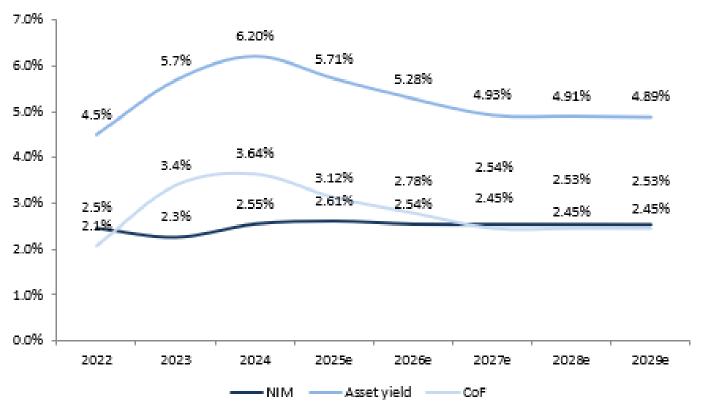
ASB holds a 68% stake in Al Salam Bank Algeria after consolidating the books starting in 2023. Algeria remains a strong growth market with returns to the north of 18%. ASBA constitutes 20% of its books, and we expect this to be another growth driver for the group as it focuses on trade finance.

Margin trend positive on rate cycle. Re-pricing lag on the asset side for Islamic banks is supportive for the margin outlook in a reducing rate environment. Rate hikes tend to be a bit asymmetrical, with a higher pass-through to the funding side compared with the asset side. We forecast margin to remain resilient despite the lower rate environment, forecasting stable NIMs of 2.5% levels during our forecast period.

The asset mix has changed over the last few years, with ASB deploying its excess liquidity in investments (primarily sukuks). Cash and equivalents have reduced to 9% of total assets YE24 compared with 13% YE20. Meanwhile, sukuk contribution has increased to 20.5% from 17.4% and interbank to 7% from 2%. Loan assets have come down to 52% of assets from 57%. We expect ASB to continue to enhance its investment book (primarily comprised of Sukuk) given the significant issuances in the sovereign space, with the recent Bahrain issue offering a yield of 5.5%, an attractive proposition in terms of rate cycle, asset quality, capital, and liquidity. We expect the margin to be supported by the increasing exposure to fixed income.

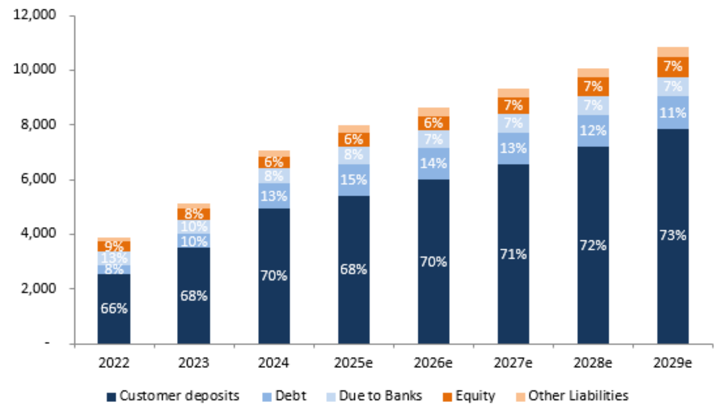
On the funding side, current accounts make up 28% of total deposits and savings at 23%. With pass-through of funding costs in line with the GCC, we expect the CoF pressure to ease as rate cuts come through. Deposits remain a key source of funding for ASB, given its strong retail franchise, with retail and private banking together making up a considerable portion of its deposit base. We believe the retail acquisitions have strengthened its retail franchise, with deposits now making up 75% of its non-equity funding base compared with 67% YE20. It has reduced its dependence on interbank funding, with the share reaching 8% YE24 from 19% YE20.

Exhibit 41: NIM, asset yield, and CoF evolution



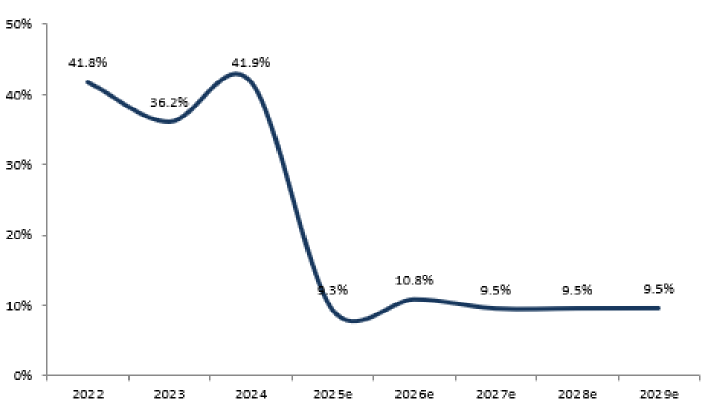
Source: Arqaam Capital Research, Company Data

Exhibit 42: Funding mix



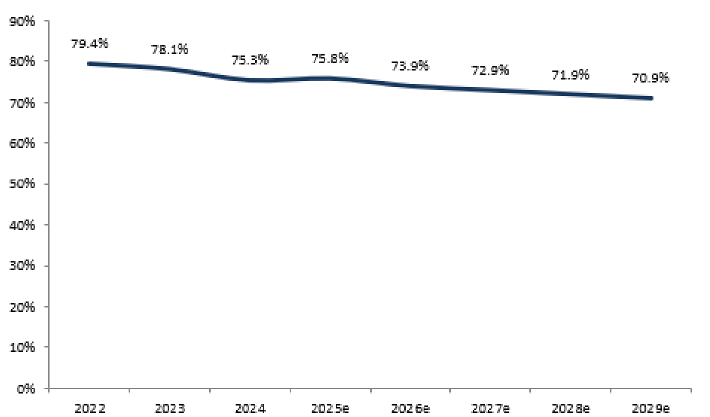
Source: Arqaam Capital Research, Company Data

Exhibit 43: Deposits growth y/y



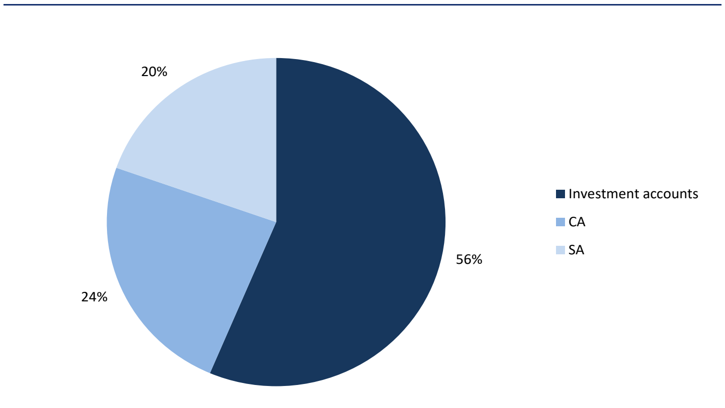
Source: Arqaam Capital Research, Company Data

Exhibit 44: Loans to deposits ratio



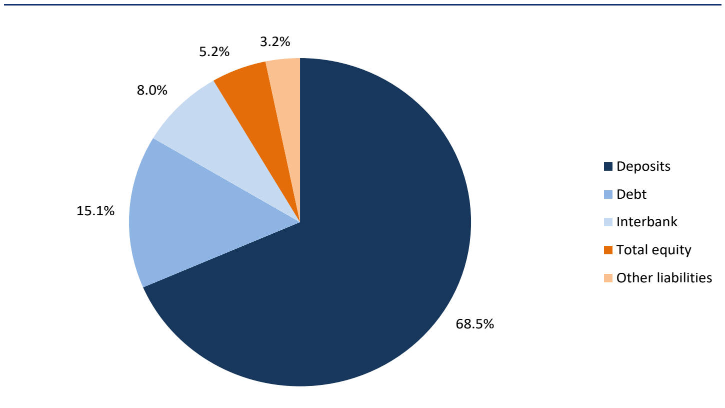
Source: Arqaam Capital Research, Company Data

Exhibit 45: Deposits mix as of YE 24



Source: Arqaam Capital Research, Company Data
**Quasi-equity (SA & Investment accounts) includes wakala from FIs*

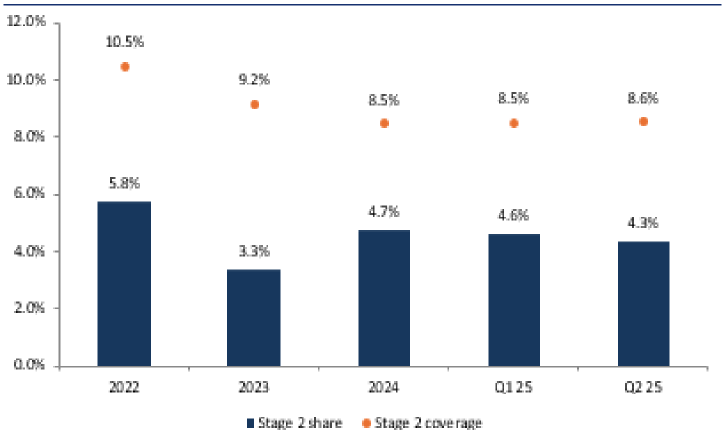
Exhibit 46: Funding mix as of Q2 25



Source: Arqaam Capital Research, Company Data

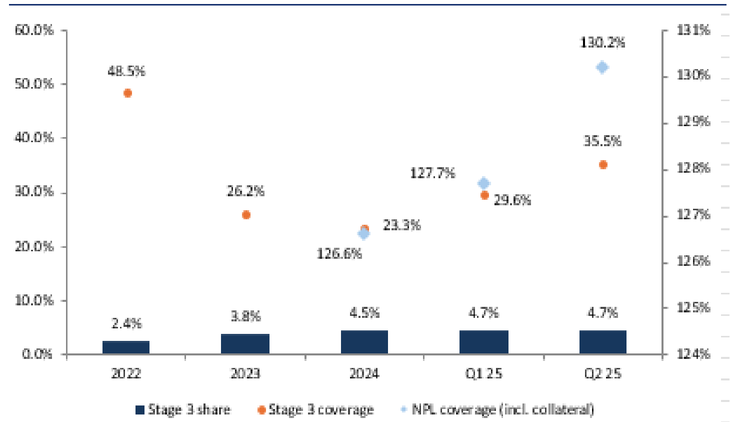
Credit costs are expected to remain at TTC levels of 40–50bps due to strong collateral. We estimate a modest provision shortfall of BHD 15.8m (0.4% of loans, 2% of our Fair Value Estimate "FVE"), reflecting stage 1 and stage 2 coverage ratios of 0.7% (vs. our acid test of 1%) and 8.6% (vs. 12%), respectively. Stage 3 loans represent 4.7% of total loans, with coverage of 35.5%, rising to 130.2% when including collateral. NPL formation stood at 1% in FY24 against a cost of risk of 0.6%, further underscoring the Bank's strong collateral position.

Exhibit 47: Stage 2 share and coverage evolution



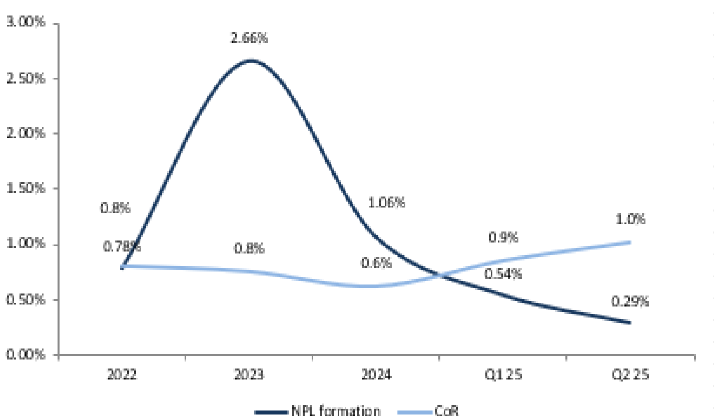
Source: Arqaam Capital Research, Company Data

Exhibit 48: Stage 3 share and coverage evolution



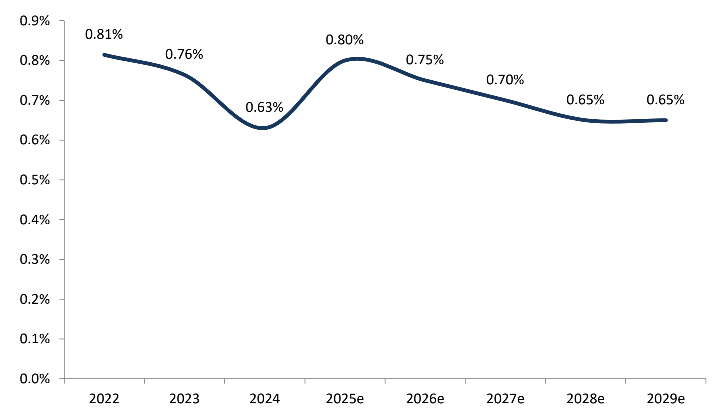
Source: Arqaam Capital Research, Company Data

Exhibit 49: NPL formation and CoR



Source: Arqaam Capital Research, Company Data

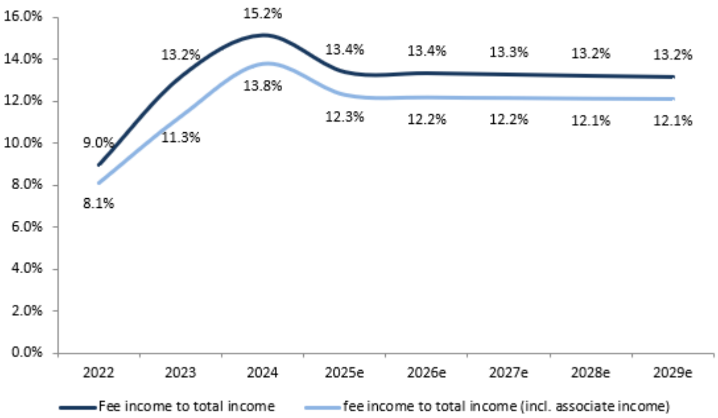
Exhibit 50: CoR forecast



Source: Arqaam Capital Research, Company Data

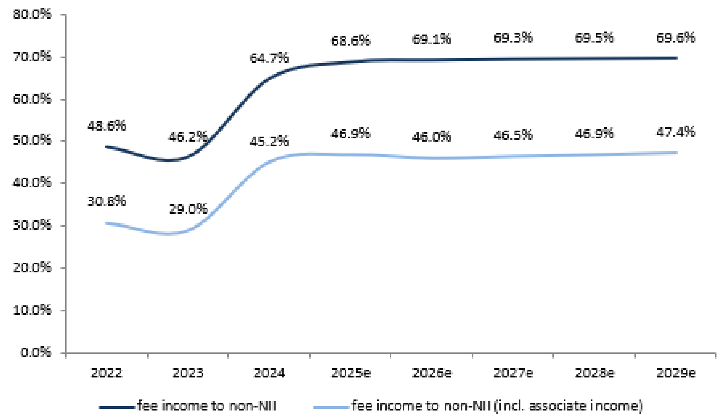
Significant pick up in fee-generating capacity from asset management. We forecast F&C to rise at a CAGR of c.8% over FY25-29e, supported by i) the recent launch of ASB Capital in DIFC and ii) continued growth in fee-based trade finance activities in ASBA. The platform, which currently manages USD 5.7bn in AUM, will offer a strong recurring stream of fee revenue to the group, thereby enhancing earnings diversification. Management targets AUM to double to USD 10bn over the medium term, with the business contributing 10% to group earnings.

Exhibit 51: Fee income share of total income



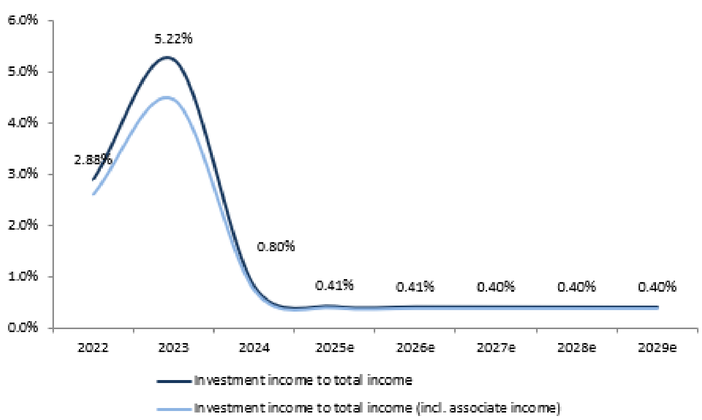
Source: Arqaam Capital Research, Company Data

Exhibit 52: Fee income share of non-NII



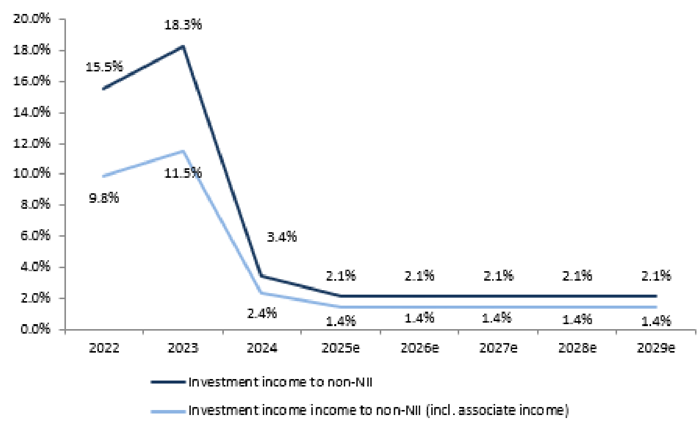
Source: Arqaam Capital Research, Company Data

Exhibit 53: Investment income to total income



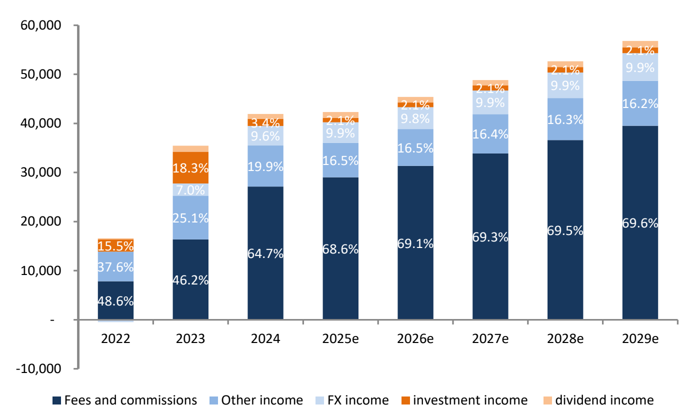
Source: Arqaam Capital Research, Company Data

Exhibit 54: Investment income to non-NII



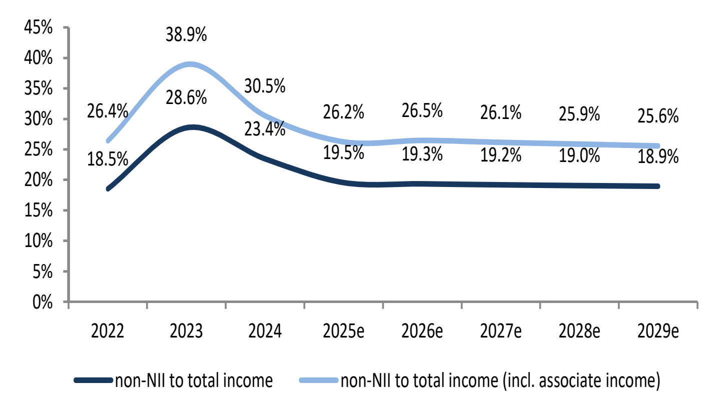
Source: Arqaam Capital Research, Company Data

Exhibit 55: Breakdown of non-NII (excl. associate income)



Source: Arqaam Capital Research, Company Data

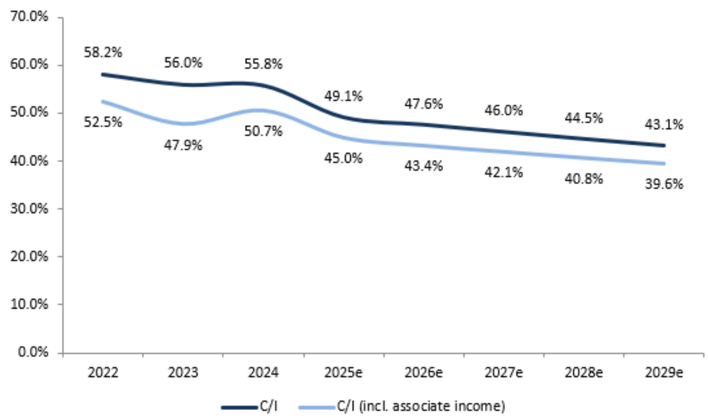
Exhibit 56: Breakdown of non-NII



Source: Arqaam Capital Research, Company Data

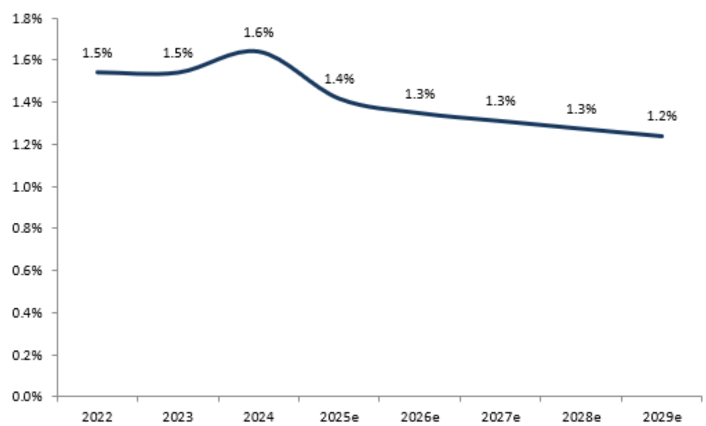
Digitization and optimizing group structure to improve cost efficiency. We expect OpEx growth to be contained, mid-single digits, as the Bank continues to streamline its structure post acquisitions and leverage digital transformation to enhance efficiency. This should translate into an improvement in the cost-to-income ratio to c.43% by FY29e from 55.8% in FY24A. Including associate income in the topline, C/I would improve further to 39.6% from 50.7%.

Exhibit 57: Cost to income ratio



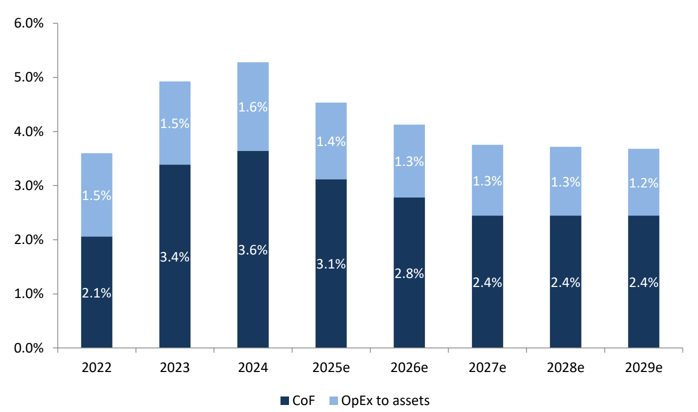
Source: Arqaam Capital Research, Company Data

Exhibit 58: OpEx to assets



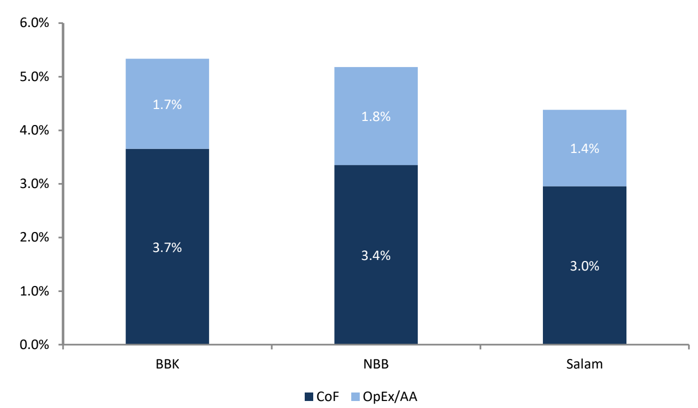
Source: Arqaam Capital Research, Company Data

Exhibit 59: CoF + OpEx to assets evolution



Source: Arqaam Capital Research, Company Data

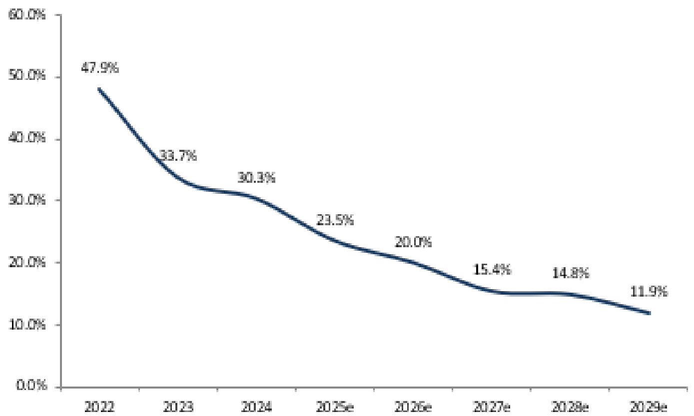
Exhibit 60: CoF + OpEx vs. peers



Source: Arqaam Capital Research, Company Data

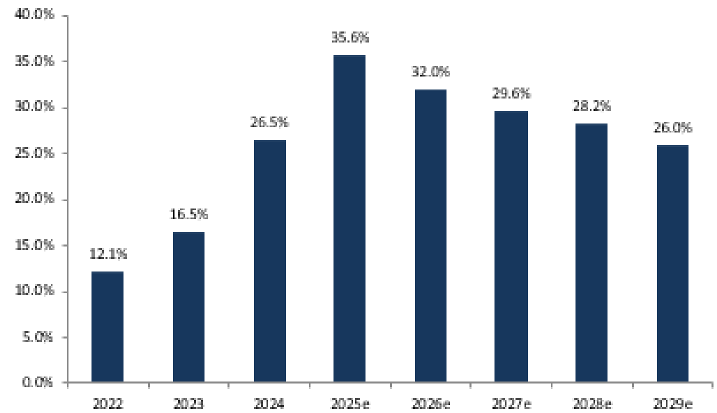
A mix of cash and bonus shares to continue as strong earnings bolster capital. The Bank is likely to sustain a 26-27% cash payout ratio over FY25–29e, supplemented by bonus share distributions. Historically, Al Salam has maintained an average cash dividend payout of around 40% since FY18A (in addition to stock dividend of 5% of paid-up capital on average), having resumed cash distributions in FY21A following a temporary suspension in FY20A, during which the Bank issued bonus shares equivalent to 5 Fils per share. The lower 27% payout in FY24A reflected capital deployed toward the acquisition of KFH Bahrain.

Exhibit 61: EPS growth



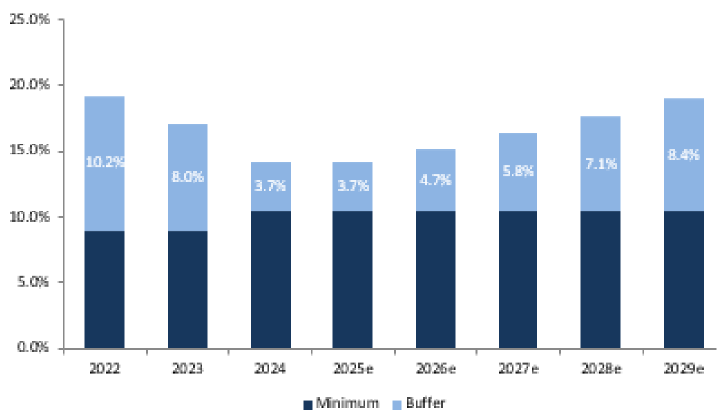
Source: Arqaam Capital Research, Company Data

Exhibit 62: RotE evolution



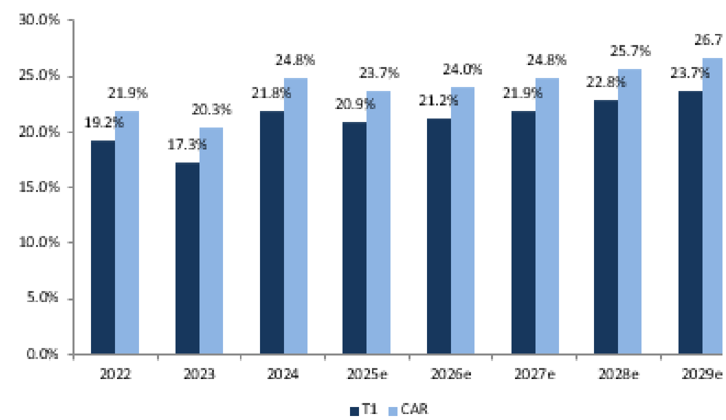
Source: Arqaam Capital Research, Company Data

Exhibit 63: CET1



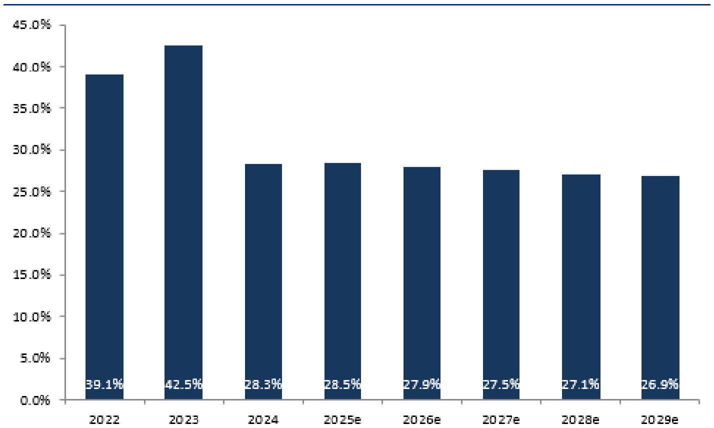
Source: Arqaam Capital Research, Company Data

Exhibit 64: T1 & CAR



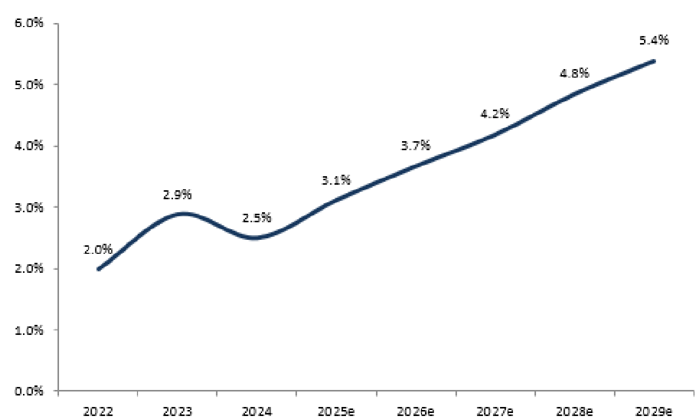
Source: Arqaam Capital Research, Company Data

Exhibit 65: DPO



Source: Arqaam Capital Research, Company Data

Exhibit 66: DY



Source: Arqaam Capital Research, Company Data

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