

Improved operating performance to have limited impact on bottom line due to normalization in credit costs; reiterate our "Neutral" rating

We expect Bank Albilad's operating income growth to accelerate over 2025-28 relative to 2022-25, supported by (1) stable NIMs (positive gearing to declining interest rates), (2) double-digit financing growth (loan CAGR of 10.4%), and (3) an improvement in non-funded income generation. However, the translation of stronger operating performance into bottom-line growth is likely to be constrained by a gradual normalization in credit costs, with CoR expected to rise from 15bps in 2025 to 30bps by 2028. As a result, we forecast normalized earnings (post-sukuk) CAGR of 7.5% over 2025-28. We expect ROE to gradually decline to 15.3% in 2028 from 16.7% in 2025, reflecting a normalization in profitability from currently elevated levels. Overall, we revise down earning forecasts by 7.2/9.6% to SAR 2,923/3,104mn for 2026/27 on lower NIMs and non-funded income. Hence, we maintain our "Neutral" recommendation with a revised TP of SAR 28.8 per share.

Albilad reported earnings growth of 5.1% Y/Y in Q1-26; supported by NII growth and stable OPEX: Albilad reported net profit of SAR 736mn up 5.1% Y/Y (-9.9% Q/Q), the net income was 0.4% and 4.0% below AJBC and consensus earnings estimate of SAR 739mn and SAR 766mn, respectively. The EPS post Tier-1 sukuk costs was up 4.3% Y/Y in Q1-26 to SAR 0.49. Though net income aligns with forecast we highlight that provisions and non-funded income had notable deviations of +43% and -17.2% to our estimates, respectively; lower than expected operating expenses, however, offset the bottom-line impact. NSCI grew by 8.3% Y/Y (+3.3% Q/Q) to SAR 1,258mn in Q1-26 (+2.8% deviation to AJBC estimate of SAR 1,223mn). While non-funded income was recorded at SAR 271mn down 10.2% Y/Y (-37.6% Q/Q) and 17.2% below AJBC estimate of SAR 327mn. Total operating income was recorded at SAR 1,529mn up 4.5% Y/Y (-7.5% Q/Q); -1.4% deviation to AJBC estimate. OPEX (ex. debt provisions) totaled SAR 638mn up 1.2% Y/Y (-8.3% Q/Q), -5.9% deviation to AJBC estimate. Cost-to-income ratio declined by 136bps Y/Y (-39bps Q/Q) to 41.7% in Q1-26 (AJBC estimate 43.7%). Provision expenses increased by 35.2% Y/Y to SAR 72mn (+53.2% Q/Q), 43.0% above AJBC estimate of SAR 50mn. Cost-of-risk stood at 22bps in Q1-26 as compared to 19bps in Q1-25. Loan book expanded by 15.5% Y/Y (+6.2% Q/Q) to SAR 129.8bn in Q1-26, 4.2% above our estimate. Meanwhile, deposits grew 13.1% Y/Y (+5.6% Q/Q) to SAR 140.3bn, as compared to our estimate of SAR 136.2bn.

Stable NIMs underpin stronger NII growth; operating income to expand at a CAGR of 8.2% over 2025-28 vs 6.1% over 2022-25: Bank Albilad's asset mix, characterized by a relatively high share of long-duration retail financing (47% of total loans) and fixed-rate investments, weighs on NIMs during rising interest rates. During the latest rate-hiking cycle, the bank's NIM contracted 35bps to 3.18% between 2022 and 2025, reflecting asset repricing lagging funding cost increases. Looking ahead, we expect NIMs to remain broadly stable at around 3.1%, as our base case assumes no change in policy rates until mid-2027, when we forecast the first 25bps rate cut. Against this backdrop, we forecast financing growth to remain the primary earnings driver, with loans expanding at a CAGR of 10.4% over 2025-2028, translating into NII growth of 10.2% CAGR, a notable acceleration from the 6.9% NII CAGR recorded during 2022-2025. On the fee income side, Bank Albilad has historically lagged its major peers. Fee income grew at a CAGR of just 2.6% during 2022-2025, compared with 8.3% and 12.7% for Al Rajhi and Alinma, respectively. We expect the gap to narrow over the forecast period, supported by higher transaction volumes, continued digital adoption, and broader cross-selling opportunities, resulting in a fee income CAGR of 7.0% over 2025-2028. Overall, we expect operating income to expand at a CAGR of 8.2% over 2025-28 vs 6.1% over 2022-25.

Credit cost normalization to offset part of operating momentum: Bank Albilad's earnings have benefited meaningfully from a sharp decline in credit costs over the past three years. The bank's cost-of-risk (CoR) fell to just 15bps in 2025, from 60bps in 2022, while total impairment charges declined to SAR 181mn from SAR 551mn over the same period. We believe current provisioning levels are below both the bank's historical through-the-cycle average (54bps) and the prevailing industry average, limiting the scope for further improvement. Accordingly, we forecast CoR to normalize to 22bps/26bps in 2026/27, gradually rising to 39bps by 2030. Notably, Q1 2026 already points to an inflection in provisioning trends, with impairment charges increasing 35% Y/Y to SAR 72mn, equivalent to a CoR of 22bps. We view this as an early indication that credit costs may be marking the beginning of a normalization cycle. As a result, we forecast normalized net profit to grow at a CAGR of 7.5% over 2025-2028, lagging operating income growth of 8.2%, as higher credit costs partially offset underlying business momentum.

Recommendation	Neutral
Target Price (SAR)	28.8
Upside / (Downside)*	14.9%

Source: Tadawul *prices as of 14th June 2026

Key Financials

SARmn (unless specified)	FY24	FY25	FY26E	FY27E
NSCI	4,434	4,752	5,237	5,731
Growth %	7.88%	7.17%	10.23%	9.41%
Oper. Income	5,672	6,192	6,562	7,135
Growth %	6.96%	9.17%	5.97%	8.74%
Net Profit	2,807	2,967	2,923	3,104
Growth %	18.47%	5.73%	-1.50%	6.18%
EPS	1.87	1.98	1.95	2.07
DPS	0.40	1.00	1.00	1.20

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY24	FY25	FY26E	FY27E
NIMs	3.26%	3.18%	3.12%	3.09%
P/E (x)	17.39	12.55	12.86	12.11
P/B (x)	2.25	1.99	1.86	1.73
Dividend Yield	1.66%	3.99%	4.16%	4.67%
ROA	1.88%	1.81%	1.61%	1.54%
ROE	17.7%	16.7%	14.9%	14.8%
Net loan growth	7.1%	11.8%	10.5%	10.4%
Deposit growth	7.9%	9.1%	9.1%	9.1%

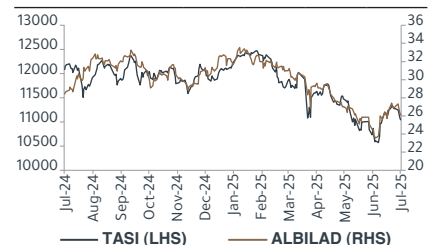
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap(bn)	39.2
YTD%	-18.8%
52 week (High)/(Low)	33.8/23.4
Share Outstanding (mn)	1500

Source: Company reports, Bloomberg, Aljazira Capital Research

Price Performance



Source: tadawul, Aljazira Capital Research

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7.5% normalized income CAGR (2025-28) expected on double digit loan growth, stable NIMs & improving C/I; ROE is expected to drop from 2025 level: Bank Albilad is expected to deliver a normalised (excluding ~SAR 200mn one off from 2025 other operating income) post-sukuk earnings CAGR of 7.5% over 2025-28, driven by: (1) 10.2% NII CAGR, supported by stable NIMs and a 10.4% loan CAGR, (2) 7.0% fee income CAGR, and (3) a 3.8ppt improvement in the cost-to-income ratio. Our forecasts incorporate a gradual normalization in asset quality metrics, with the NPL ratio rising from 0.98% in 2025 to 1.18% by 2030, while NPL coverage moderates from 198% to 147% over the same period. For reference, the bank reported an NPL ratio of 1.19% and a coverage ratio of 157% in Q1 2026, broadly in line with our medium-term trajectory. Against this backdrop, we expect return ratios to gradually normalize, with ROE declining from 16.7% in 2025 to 15.3% in 2028, averaging ~15.5% over 2025-28.

Earnings revised down by 7.2/9.6% in 2026/27 on lower NIMs and non-funded income: We revise our 2026/27 assumptions across key balance sheet lines. Deposit growth is revised by 1.6%/2.1%, implying Y/Y growth of 9.1%/9.1% in 2026/27. Loan growth assumptions are also raised by 5.1%/6.2%, translating into growth of 10.5%/10.4% over the same period. Incorporating the stronger-than-expected 24.3% Y/Y increase in investments in 2025, we revise up investments by 11.4%/11.9% in 2026/27. On asset quality, while 2025 impairment charges came in materially below expectations, we continue to anticipate a step-up in provisioning over the forecast period. However, reflecting a more gradual normalization in asset quality metrics, we reduce our 2026/27 impairment charge estimates by 30.2%/25.8%. We also revise down our NIM assumptions by 34bps/44bps to 3.12%/3.09% for 2026/27, respectively. Overall, these revisions result in a 7.2%/9.6% reduction in our 2026/27 post-sukuk earnings forecasts to SAR 2,932mn and SAR 3,104mn.

AJBC view and valuation: We expect Bank Albilad’s operating income growth to strengthen over 2025-28 compared with 2022-25, driven by: (1) stable NIMs, supported by the bank’s positive sensitivity to a declining interest rate environment, (2) double-digit financing growth (2025-28 loan CAGR of 10.4%), and (3) improving non-funded income generation. However, stronger operating momentum is unlikely to fully translate into earnings growth as credit costs normalize from unusually low levels. We forecast CoR to increase from 15bps in 2025 to 30bps by 2028, partially offsetting the benefits of operating income growth. Consequently, we forecast normalized earnings (post-sukuk) CAGR of 7.5% over 2025-28. We also expect ROE to gradually moderate from 16.7% in 2025 to 15.3% in 2028. In this backdrop, we believe all the positives are priced in at 2026e PB of 1.9x.

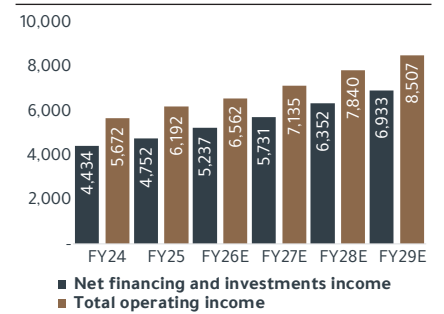
We value the stock based on equal weight to Residual Income and Two staged Gordon growth. Our residual income-based TP assuming the cost of equity of 11.44% is SAR 29.9 per share whereas; through the Two staged Gordon growth model, based on ROE of 15.5%, we arrive at a justified P/B multiple of 2.1x. Hence, the equal weight TP stands at **SAR 28.8 per share** which translates to an upside of 14.9%, hence we maintain our **“Neutral”** recommendation.

Weighted Average TP

Method	Value	Weight	W. Value
RI	29.9	50%	14.9
Justified P/B (2.1x)	27.7	50%	13.8
Price Target			28.8
Upside/Downside			14.9%

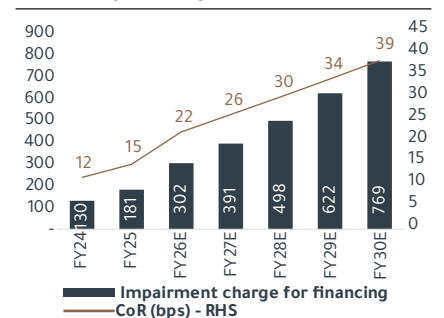
Source: Aljazira capital Research, prices as of 14th June 2026

Fig 2: NSCI and operating income trend (SAR mn)



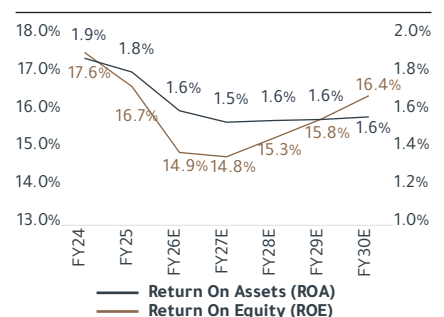
Source: Company accounts, Aljazira Capital Research

Fig 3: Impairment charge to see sizable increase (SAR mn)



Source: Company accounts, Aljazira Capital Research

Fig 4: ROE to come down in the medium term



Source: Company accounts, Aljazira Capital Research

Key Financial Data

Amount in SARmn, unless otherwise specified	FY24	FY25	FY26E	FY27E	FY28E	FY29E	FY30E
Income statement							
Net financing and investments income	4,434	4,752	5,237	5,731	6,352	6,933	7,600
Fee and commission income, net	701	723	777	830	885	941	999
Exchange income, net	316	296	311	326	343	360	378
Dividend and other operating income	221	421	236	248	260	273	287
Total operating income	5,672	6,192	6,562	7,135	7,840	8,507	9,265
Impairment charge for financing	(130)	(181)	(302)	(391)	(498)	(622)	(769)
Other operating expenses	(2,413)	(2,611)	(2,737)	(2,870)	(3,009)	(3,153)	(3,303)
Operating Profit	3,129	3,400	3,523	3,874	4,333	4,732	5,193
Y/Y	18.5%	8.7%	3.6%	9.9%	11.9%	9.2%	9.7%
Zakat	(322)	(350)	(363)	(399)	(446)	(487)	(535)
Net income	2,807	3,049	3,160	3,475	3,887	4,245	4,658
Y/Y	18.5%	8.7%	3.6%	9.9%	11.9%	9.2%	9.7%
Net income post sukuk	2,807	2,967	2,923	3,104	3,437	3,795	4,208
EPS post sukuk	1.87	1.98	1.95	2.07	2.29	2.53	2.81
DPS	0.40	1.00	1.00	1.20	1.40	1.60	1.80
Balance sheet							
Assets							
Cash and balances with SAMA	11,248	9,617	10,490	11,445	12,480	13,600	14,840
Due from banks and other financial institutions	5,099	5,883	6,418	7,001	7,635	8,320	9,078
Investments, net	25,032	31,123	34,676	38,225	42,115	46,364	51,102
Financing, net	109,304	122,188	135,048	149,100	164,239	180,706	198,990
Property and equipment, net	2,371	2,797	3,076	3,384	3,722	4,095	4,504
Other assets, net	1,910	1,364	1,432	1,504	1,579	1,658	1,741
Total assets	154,965	172,972	191,140	210,659	231,771	254,743	280,255
Liabilities & owners' equity							
Due to SAMA, banks and other financial institutions	5,493	6,983	9,067	11,065	16,059	21,689	28,143
Customers' deposits	121,776	132,879	144,952	158,139	172,446	187,921	205,046
Sukuk	3,147	3,144	3,144	3,144	3,144	3,144	3,144
Other liabilities	7,855	8,610	8,868	9,134	9,408	9,690	9,981
Share capital	12,500	15,000	15,000	15,000	15,000	15,000	15,000
Statutory reserve	2,884	2,646	3,377	4,153	5,012	5,961	7,013
Retained earnings	1,869	1,896	2,480	3,148	3,825	4,461	5,051
AT1 Sukuk	-	2,438	4,875	7,500	7,500	7,500	7,500
Total shareholders' equity	16,693	21,356	25,108	29,177	30,713	32,298	33,940
Total equity & liabilities	154,965	172,972	191,140	210,659	231,771	254,743	280,255
Key fundamental ratios							
Capital Ratios							
Equity/ Total Assets	11%	12%	13%	14%	13%	13%	12%
Tier-1 ratio	15%	17%	18%	19%	18%	17%	16%
CAR	18%	20%	21%	22%	20%	19%	18%
Profitability Ratios							
NIMs	3.3%	3.2%	3.1%	3.1%	3.1%	3.1%	3.1%
CoFs	3.29%	3.21%	2.83%	2.67%	2.50%	2.52%	2.53%
Cost-to-Income	42.6%	42.2%	41.7%	40.2%	38.4%	37.1%	35.7%
Return On Assets (ROA)	1.9%	1.8%	1.6%	1.5%	1.6%	1.6%	1.6%
Return On Equity (ROE)	17.6%	16.7%	14.9%	14.8%	15.3%	15.8%	16.4%
ROE/ROA (Leverage Ratio) (X)	9.3	9.2	9.3	9.6	9.9	10.1	10.4
Asset Quality Ratios							
NPL ratio	1.2%	1.0%	1.1%	1.1%	1.1%	1.2%	1.2%
NPL Coverage	198%	198%	152%	137%	138%	141%	147%
Cost-of-Risk	-12	-15	-22	-26	-30	-34	-39
Funding Ratios							
Loans/ Customer Deposits	89.8%	92.0%	93.2%	94.3%	95.2%	96.2%	97.0%
Liquid Assets / Total Assets	97.2%	97.6%	97.6%	97.7%	97.7%	97.7%	97.8%
Net Loans / Tot Assets	70.5%	70.6%	70.7%	70.8%	70.9%	70.9%	71.0%
Market/valuation ratios							
DPS	0.40	1.00	1.00	1.20	1.40	1.60	1.80
Dividend Yield	1.7%	4.0%	4.2%	4.7%	5.4%	6.3%	7.3%
Book Value Per Share (BVPS)	11.1	12.6	13.5	14.5	15.5	16.5	17.6
Market Price	32.54	24.82	25.06	25.06	25.06	25.06	25.06
PE (x)	17.4	12.7	12.9	12.1	10.9	9.9	8.9
PB (x)	2.3	2.0	1.9	1.7	1.6	1.5	1.4
Growth							
Investments (Y/Y)	13.4%	24.3%	11.4%	10.2%	10.2%	10.1%	10.2%
Financing (Y/Y)	7.1%	11.8%	10.5%	10.4%	10.2%	10.0%	10.1%
Deposits (Y/Y)	7.9%	9.1%	9.1%	9.1%	9.0%	9.0%	9.1%

Source: Company accounts, Aljazeera Capital Research

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2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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