



Al Rayan Bank Financial Results 2025

CURRENT PRICE: **QAR 2.27**

TARGET PRICE: **QAR 2.62**

UPSIDE: **+15.4%**

RECOMMENDATION:

Hold

Executive Summary & Strategic Analysis

Performance Overview & Strategic Context

- Al Rayan Bank reported a Net Profit attributable to shareholders of QAR 1,530 million for the fiscal year that concluded on December 31, 2025. This represents a slight 1.5% YoY increase. Even though this growth seems modest in comparison to the overall average for the banking sector, it represents a significant shift from the 2022 earnings low of QAR 1,263 million. Risk metrics have stabilized as a result of the bank's strategic shift to prioritize asset quality over aggressive loan book expansion. Targeted growth in government-related financing and high-quality investment securities propelled Total Assets to a record high of QAR 181.3 billion (+5.9% YoY).

Asset Quality Normalization

- In 2025, the bank achieved a significant milestone with a notable improvement in asset quality. The Non-Performing Loan (NPL) ratio fell to 5.11%, down from 5.45% in 2024 and recovering from a post-merger peak of 5.99% in 2022. This trend underscores the effectiveness of the bank's remedial management unit and disciplined provisioning policy. Coverage ratios remain robust at 62% for Stage 3 assets, reflecting strong balance sheet protection. Additionally, the transition of loans from Stage 2 to Stage 1—now 74% of the loan portfolio—indicates a strengthened corporate sector, particularly in real estate and contracting. This progress positions the bank for continued growth and stability.

Revenue Dynamics & Margin Pressure

- Top-line performance faced headwinds from the prevailing interest rate environment. Net Interest Income (NII) remained relatively flat at QAR 2.8 billion, constrained by continued compression in Net Interest Margins (NIM), which settled at 1.77% (-2 bps YoY). The repricing of liabilities, coupled with intense competition for term deposits, has elevated the Cost of Funds to 1.80%. While asset yields have adjusted, the lag effect and the fixed-rate nature of significant portions of the sovereign portfolio have dampened spread expansion. However, Non-Interest Income showed resilience (+3.2% YoY), buoyed by fee income from trade finance and wealth management activities.

Operating Efficiency & Cost Control

- The cost-to-income ratio increased to 29.3% (up from 27.1% in 2024) due to inflation and digital transformation investments. While higher than the historical average of ~21%, it remains competitive regionally. The bank's ongoing digital infrastructure investments are expected to provide operational leverage in the medium term, even as near-term opex growth (+3.2%) exceeds revenue growth.

Capital & Liquidity Position

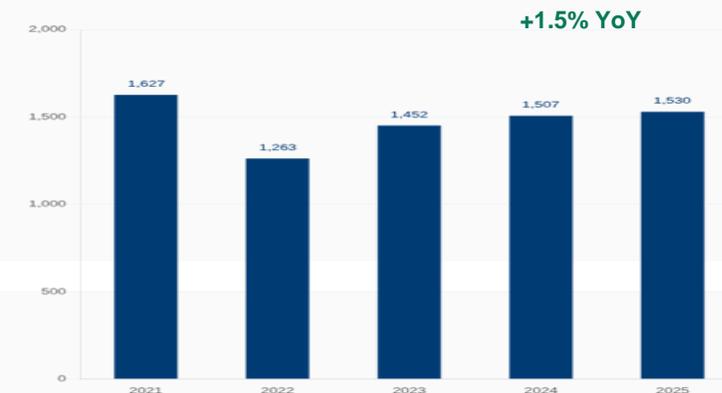
- Al Rayan Bank has a strong balance sheet with a Capital Adequacy Ratio (CAR) of 25.5%, well above the 13.0% requirement, ensuring room for growth and sustainable dividends. Liquidity remains healthy with an LCR above 100%. However, the funding mix is leaning towards pricier wholesale funding (~29.5%) and term deposits, while the CASA ratio has fallen to ~17%, presenting a challenge to maintain margins.

Investment Implications

- At a current P/BV of 0.88x and P/E of 14.2x, MARK trades at a discount to its Tier-1 peers (e.g., QIB at ~1.4x P/BV). This valuation gap reflects the market's pricing of the lower ROE profile (6.5%). We initiate our 2026 outlook with a MARKET PERFORM rating and a Target Price of QAR 2.62, implying ~15% upside. The investment case hinges on the successful execution of the ROE recovery roadmap towards 9-10% by 2027/28.

Key Financial Trends (2021-2025)

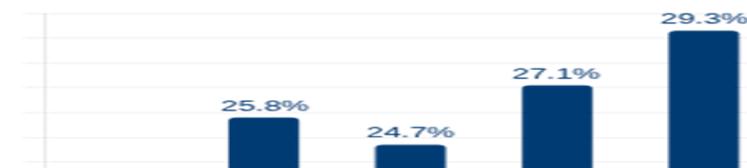
Annual Net Profit (QAR Mn)



Net Interest Margin (%)



Cost-to-Income (%)

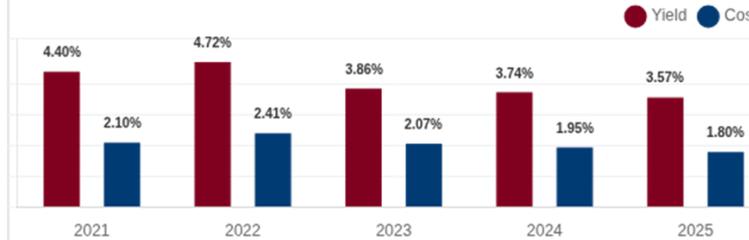




NIM COMPONENTS (5-YEAR)

Metric	2021	2022	2023	2024	2025	Δ 5Y
Yield on Assets	4.40%	4.72%	3.86%	3.74%	3.57%	-83bps
Cost of Funds	2.10%	2.41%	2.07%	1.95%	1.80%	-30bps
Spread	2.30%	2.31%	1.79%	1.79%	1.77%	-53bps
NIM	2.30%	2.31%	1.79%	1.79%	1.77%	-53bps

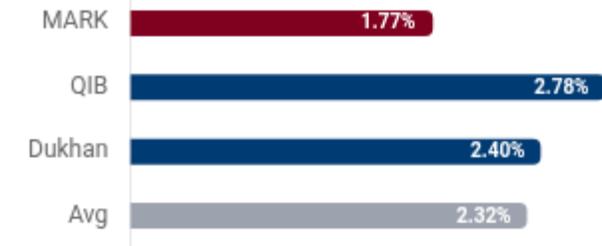
YIELD VS. FUNDING COST TREND



↳ **Asset Yield Compression:** Sovereign debt exposure (88% of investments) repricing slower than liabilities.

↳ **Funding Strategy:** Shift to wholesale funding (~30%) to manage duration gap.

PEER COMPARISON (2025 NIM)



Bank	NIM	YoY	CASA
MARK	1.77%	-2bps	17%
QIB	2.78%	-29bps	30%
Dukhan	2.00%	--	25%

NIM EVOLUTION (2021 → 2025)



*Yield compression (-83bps) outpaced funding cost improvement (-30bps)

FUNDING COST DRIVERS



CASA Ratio (2025)
~17% ▼ from 25% (2021)

Wholesale Funding
29.5% Stable YoY

FORWARD OUTLOOK (2026-2028)

Near-term Stabilization (2026)
NIM expected to bottom out at 1.75-1.80% as liability repricing catches up with asset yields.

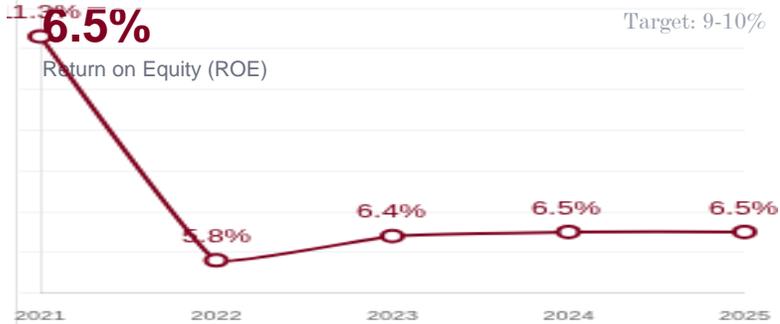
Medium-term Recovery
Targeting 1.90-2.00% by 2028 driven by improved CASA mix and higher yield asset allocation.

Strategic Imperative:

Focus on low-cost deposit gathering to widen spread; reduce reliance on expensive wholesale funding.



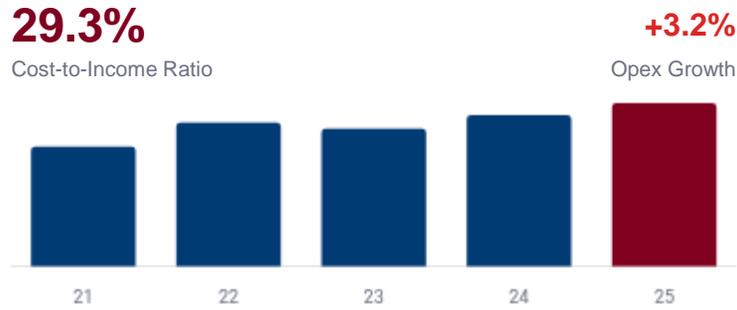
PROFITABILITY



Net Interest Margin (NIM)	1.77%
Return on Assets (ROA)	0.8%
Return on RWA	1.5%

EFFICIENCY

Pressure



Operating Income (QAR)	3,620 mn
Operating Expenses (QAR)	(1,060) mn
Benchmark Avg	25-27%

LIQUIDITY

Stable

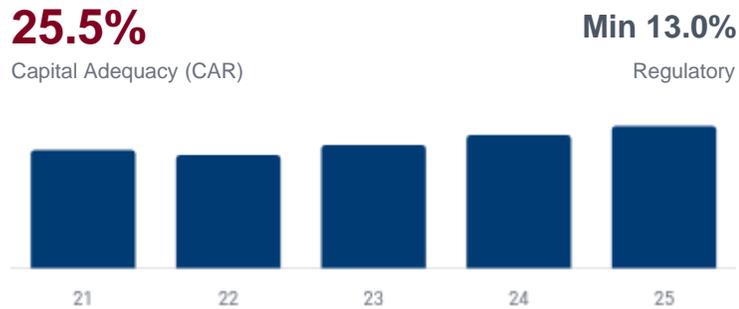


CASA ~17%

Liquid Assets Ratio	22.4%
CASA Ratio Trend	▼ Declining

CAPITAL

Robust



CET1 Ratio	21.7%
Tier 1 Ratio	22.7%
Dividend Payout	~69%

ASSET QUALITY

Improving



Cost of Risk (CoR)	~85 bps
Stage 1 Loans	74%
Stage 2 Loans	18%

FUNDING MIX



Wholesale Funding	29.5%
Term Deposits	~69%
Sukuk Financing	Stable



Trajectory & Strategic Review

A definitive turnaround in asset quality metrics post-merger, marked by rigorous cleanup of legacy exposures and improved underwriting standards.

Post-Merger Correction (2022)

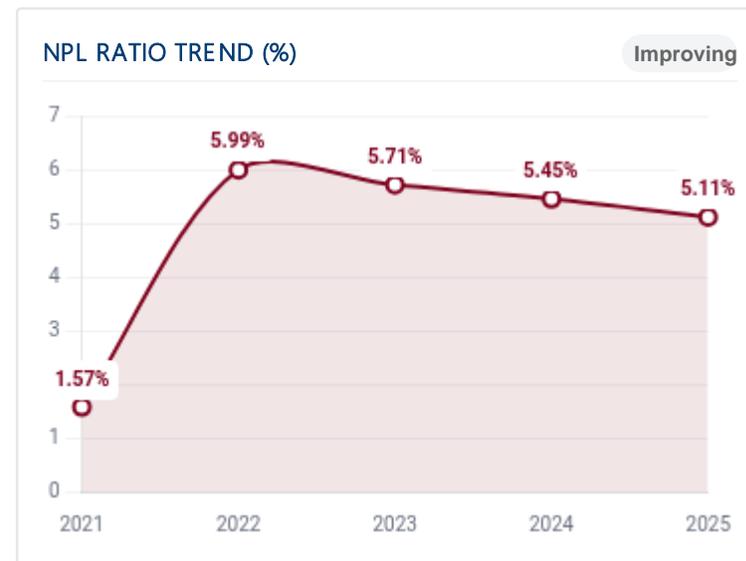
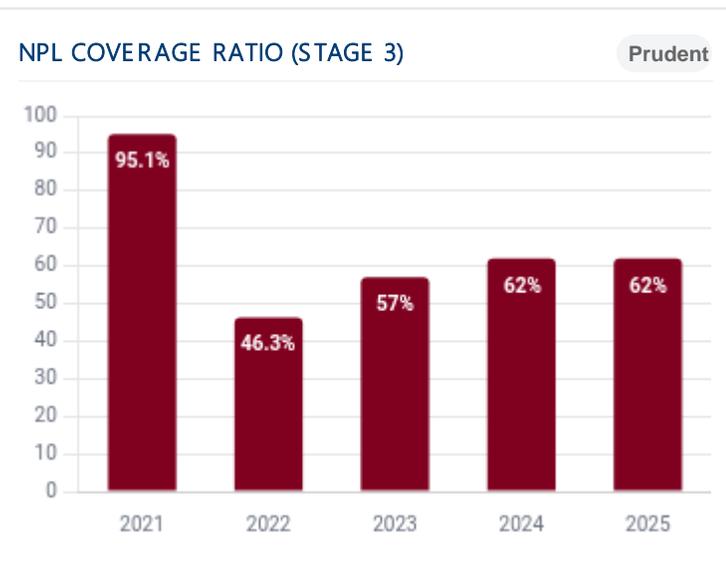
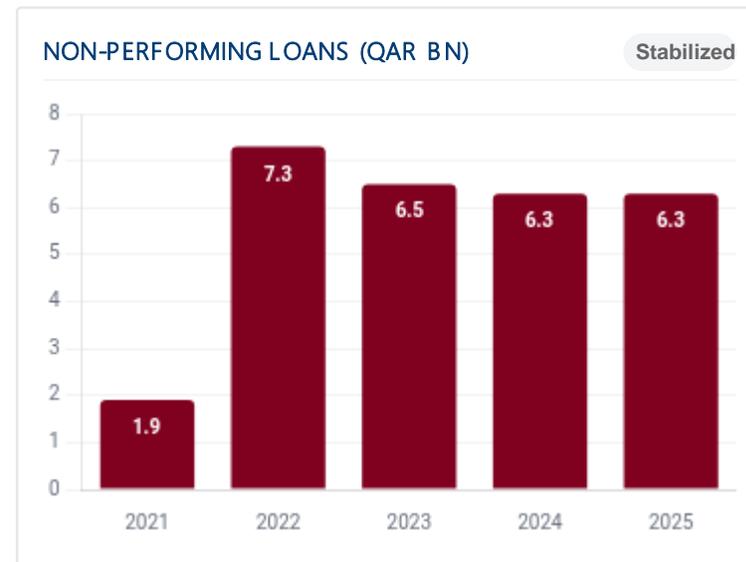
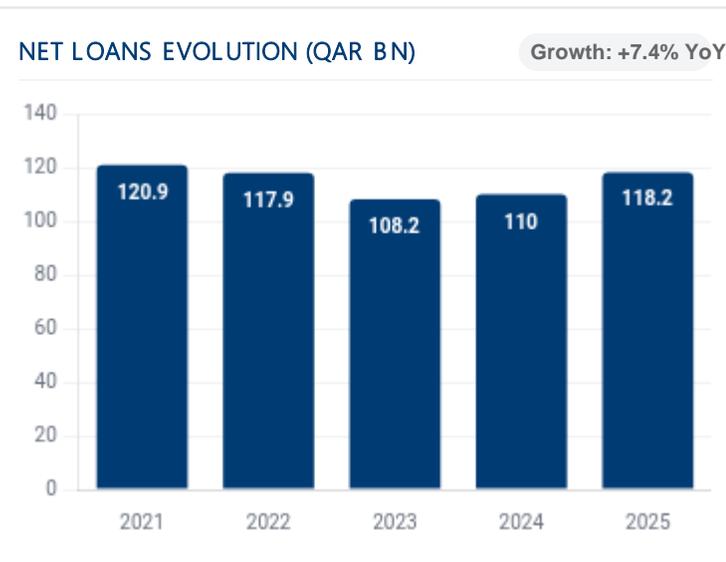
After the merger with Al Khaliji in 2021, the bank initiated an extensive reclassification process in 2022. This led to a significant increase in non-performing loans (NPL) to QAR 7.3 billion, representing a ratio of 5.99%. The rise was mainly attributed to legacy exposures in the contracting and real estate industries. This "kitchen sinking" strategy created a clear foundation for future recovery.

Stabilization & Improvement (2023-2025)

Despite an increase in the loan book, strategic remedial management efforts have stabilized the absolute NPL volume around QAR 6.3 billion. After three years of continuous improvement, the NPL ratio reached 5.11% in 2025. The effectiveness of the bank's resolution strategies and disciplined collection mechanics is demonstrated by this 88bps improvement from the peak.

Portfolio Migration & Coverage

Underlying health has strengthened significantly with Stage 1 loans now constituting 74% of the portfolio (up from 65% in 2023). While Stage 3 coverage sits at 62%, management maintains a prudent provisioning buffer with Cost of Risk normalized at ~85bps.



Key Risk Monitor

Real estate exposure remains a key sensitivity. However, recent reclassifications suggest the bulk of stress has been recognized. Continued focus on reducing the NPL ratio below 4.0% remains a medium-term strategic priority.



Peer Comparison Analysis

Competitive Positioning vs. Tier-1 Peers (Dec 2025)

Annual Results 2025

Al Rayan Bank

Metric	Al Rayan (Mark)	Qatar Islamic (QIB)	Dukhan Bank	Industry Avg
Scale & Financials				
Market Cap (QAR bn)	21.1	61.4	21.8	--
Total Assets (QAR bn)	181.3	221.1	123.8	--
Net Profit (QAR mn)	1,530	4,835	1,411	--
Profitability & Efficiency				
Return on Equity (ROE)	6.5%	17.5%	9.4%	11.1%
Return on Assets (ROA)	0.8%	2.2%	1.1%	1.4%
Net Interest Margin	1.77%	2.78%	2.40%	2.32%
Cost-to-Income Ratio	29.3%	16.5%	27.0%	24.3%
Risk Profile & Capital				
NPL Ratio	5.11%	1.65%	4.20%	3.65%
Capital Adequacy (CAR)	25.5%	22.2%	18.4%	22.0%
Valuation & Ratios				
EPS (QAR)	0.160	1.95	0.257	--
Price / Book Value	0.88x	1.40x	0.95x	1.08x



Recommendation

MARKET PERFORM

Risk Rating: Moderate (R-3)

Current Price **QAR 2.27**

Target Price **QAR 2.62**

Upside Potential **+15.4%**

Dividend Yield **4.8%**

FAIR VALUE RANGE

QAR 2.50 - 2.75



Valuation based on Residual Income Model (70%) and P/BV Peer Multiples (30%).

VALUATION MODEL INPUTS

RIM Assumptions

Risk Free Rate	3.50%
Equity Risk Premium	6.00%
Beta (Adj)	1.05
Cost of Equity (CoE)	9.80%
Terminal Growth	2.50%

Current Multiples

Price / Book

0.88x

Peer Avg: 1.08x

Price / Earnings

14.2x

Fwd EPS: 0.16

Fair Value Sensitivity (Coe Vs Growth)

Cost of Equity		Terminal Growth		
		2.0%	2.5%	3.0%
9.3%	2.65	2.75	2.88	
	2.54	2.62	2.71	
9.8%	2.42	2.50	2.58	

CATALYSTS



ROE Expansion

Normalization of Cost of Risk driving ROE towards 9-10% by 2027.



Asset Quality

NPL ratio sustaining downward trend below 4.0% enhances book value quality.



CASA Recovery

Success in low-cost deposit gathering would arrest NIM compression.

KEY INVESTMENT RISKS

Real Estate Exposure

High concentration in contracting/real estate remains a source of volatility.

NIM Compression

Persistent high cost of funds or aggressive rate cuts squeezing margins.

Quality of Assets

Asset quality remains the biggest challenge facing the bank and its future profitability.



Historical Financial Performance

5-Year Summary (2021-2025)

Annual Results 2025

AI Rayan Bank

Metric (QAR Mn)	2021	2022	2023	2024	2025	CAGR (4Y)	Trend
📈 INCOME STATEMENT							
Net Interest Income	3,113	3,607	2,727	2,738	2,800	-2.6%	↘
Non-Interest Income	516	748	810	794	820	+12.3%	↗
Total Revenue	3,629	4,355	3,537	3,532	3,620	-0.1%	—
Operating Expenses	(780)	(1,126)	(874)	(920)	(1,060)	+8.0%	↗
Net Operating Income	2,849	3,229	2,663	2,612	2,560	-2.6%	↘
Net Provisions	(1,097)	(1,710)	(1,165)	(1,041)	(950)	-3.5%	↘
Net Profit (Attributable)	1,627	1,263	1,452	1,507	1,530	-1.5%	↗
🏦 BALANCE SHEET							
Total Assets	174,155	167,533	164,200	171,094	181,258	+1.0%	↗
Net Loans	120,880	117,859	108,228	110,040	118,188	-0.6%	—
Customer Deposits	106,956	97,292	92,724	107,610	111,138	+1.0%	↗
Total Equity	23,467	23,084	23,569	24,078	26,001	+2.6%	↗
📊 KEY PERFORMANCE INDICATORS							
Return on Equity (ROE)	11.3%	5.8%	6.4%	6.5%	6.5%	-	—
Net Interest Margin (NIM)	2.30%	2.31%	1.79%	1.79%	1.77%	-	↘
Profitability Analysis: Net profit has recovered to QAR 1.53bn in 2025 (+1.5% YoY), driven by reduced impairment charges despite NIM compression. Revenue diversification remains a priority as non-interest income grew at a 12.3% CAGR.				Balance Sheet Strength: Total assets reached a record QAR 181.3bn (+5.9% YoY). Capital position has strengthened significantly to 25.5% CAR, providing ample headroom for future growth and sustained dividend payouts.			
EPS (QAR)	0.175	0.136	0.156	0.162	0.160	-2.2%	—

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