WASATA

FINANCIAL SECURITIES

AL- Rayyan Bank

Investment Summary

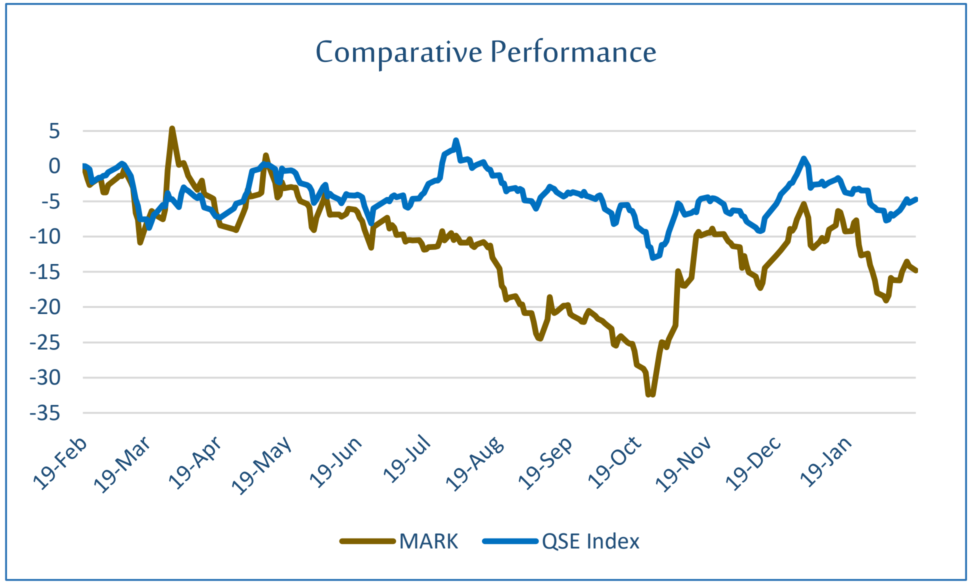
2023 Results

Executive Summary

Fair Value(QAR) : 2.81

- In 2023, Mark reported net profits of approximately QAR 1,406 mn after deducting bondholder returns. This is compared to QAR 1,298 mn in 2022, showing a growth rate of 8%. EPS reached QAR 0.151, up from QAR 0.140 in 2022**.**
- A profit of QAR 214.1 mn was recorded in Q4 of 2023, which represents a significant improvement over a loss of about QAR 15.7 mn in the same period in 2022. In the third quarter of 2023, profits reached QAR 473.0 mn. Typically, banks set aside a large portion of their provisions in the last quarter of the year.
- A sudden drop in the net interest margin was observed during the fourth quarter. It may be due to the repayment of high-cost loans. As well, the bank needs to attract more deposits, which means they have to offer higher interest rates than the market.
- • The current and savings accounts (CASA) decreased to 16% in Q4 from 18% in Q3. This could be because the bank was offering higher interest rates to attract deposits, and thus, CASA declined as depositors shifted their money to higher-yielding accounts.
- Although the bank's revenue was weaker, its cost-to-income ratio improved to 22% from 25% in Q3, on a flat cost basis. The asset quality has stabilized, but the cost of risk has remained high to cover a QAR 951 mn NPL's write-off. As a result, the Stage-3 bad-loan ratio dropped to 5.7% in Q4 from 6.5% in Q3.

Stock Info	
Shares outstanding(M)	9,300,000
Free float ratio	71.9%
52 WK H (2 Apr 23)	3.01
53 WK L (26 Oct 23)	1.89
YTD Chg.%	-9.43%
Weight in DSM	6.42%
Weight in QEAS	5.03%



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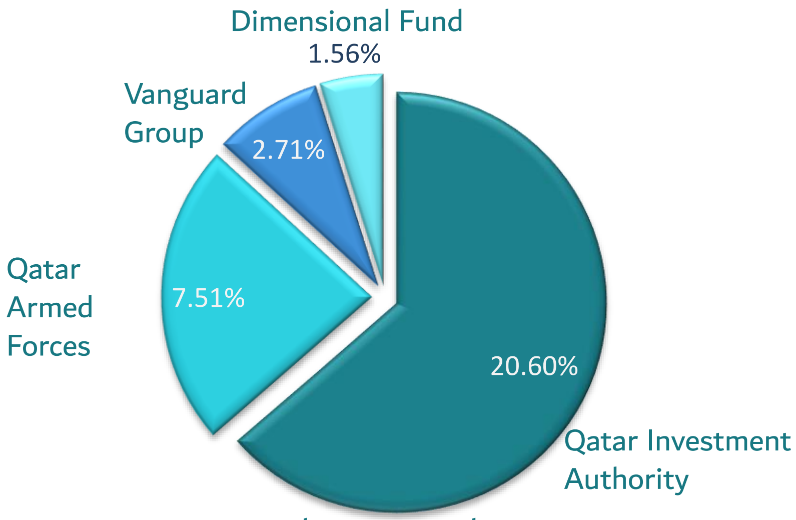
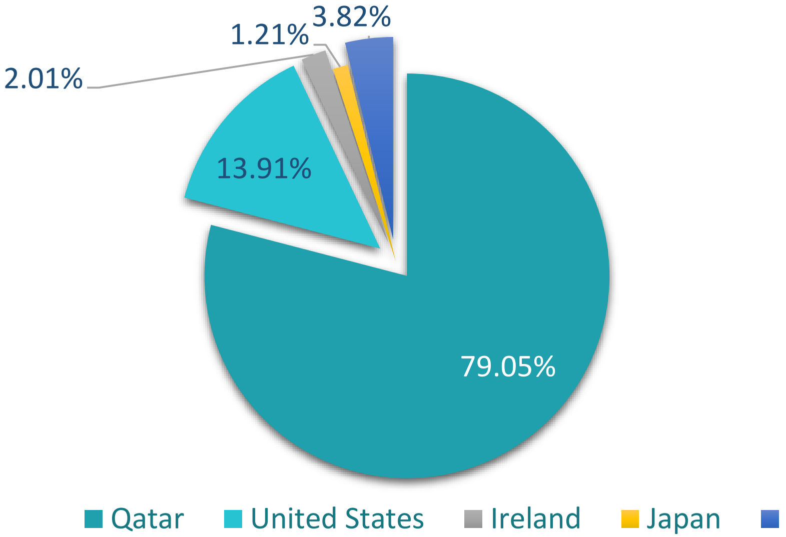
Executive Summary

- Al Rayan Bank is expected to see credit expansion this year following the clean-up process after the merger. However, the growth rate is anticipated to remain modest, ranging between 2-4% as the bank focuses on establishing new business lines that target private banking.
- Refinancing needs may result in higher funding costs, which may adversely affect the net interest margin (NIM), although the bank's guidance suggests that the NIM will improve by 10–15 basis points by 2024.
- In the medium term, the cost of risk is expected to remain at 100–110 basis points until the target coverage ratios for Stage 2 (5%) and Stage 3 loans (70–80%) are reached. It is expected that the cost-to-income ratio will remain stable between 25.5% and 25.5% due to investments in digital technology.
- Based on the latest report, the ratio of NPL's has decreased over the years. At the end of 2023, it stood at 5.73% of the total financing assets, which is a slight improvement compared to 6.02% at the end of 2022 and 6.50% at the end of September 2023. This improvement is a result of Al Rayan writing off about QAR 953 mn, as well as a drop in financing assets. Although the percentage is expected to improve in 2024 slightly.
- Loans plunged by 7.5% on an annual basis, while deposits also decreased by 4.5%. This led to a decline in the net interest margin to 1.83%, which is the lowest among Qatari banks. To cover the financing gap, Al Rayyan may consider issuing more sukuks, as loans / deposits exceed 120%.

Shareholder structure



Geographic Ownership



Balance Sheet Analysis

Balance Sheet Ratios	2023	2022	2021	2020	2019
Cash & Equivalents to Total Assets	3%	3%	3%	6%	3%
Loans to Total Assets	68%	72%	70%	72%	71%
Deposits to Total Assets	56%	58%	61%	57%	62%
Total Debt to Total Equity	1.7x	1.7x	1.5x	2.4x	1.7x

Asset Quality	2023	2022	2021	2020	2019
NPL's	6,425	7,295	1,922	980	759
NPL's to Total Loans (%)	5.7	6.0	1.6	1.1	1.0
Reserves to NPA's (%)	60	46	95	94	82
NPA's to Total Assets (%)	3.9	4.4	1.1	0.8	0.7
Reserves to Loans (%)	3.6	2.9	1.5	1.1	0.8

- Based on the balance sheet, the total assets amounted to QAR 164 bn, showing a 2% decrease from the Q4 of 2022. Meanwhile, customer deposits added up to QAR 93 billion, indicating a 4.7% drop as compared to the Q4 2022 figure. This decline is aligned with the merged bank's plan to streamline its balance sheet during the years 2022 and 2023.
- The NPLs decreased by 11.9% from QAR7.3 bn in 2022 to QAR6.4 bn in 2023. This decrease was mainly due to write-offs. As a result, the NPL ratio went down from 6.0% in 2022 to 5.7% in 2023. This was due to a combination of write-offs and contractions in the loan book.
- According to the latest report, AL-Rayyan has written off a total of QAR953 mn in loans. These write-offs have reduced loans and non-performing loans (NPLs) by 0.8% and 13.1%, respectively. Out of the total write-offs, 53% are related to the real estate segment, 26% to corporates, and 20% to SMEs.
- Despite Al- Rayyan primary exposure being to the public sector (49%), the bulk of NPLs are attributed to the construction and real estate segments, putting asset quality under pressure.
- Pre-merger, the NPL ratio hovered around 1% but has risen to 5.7% at the end of 2023. NPLs surged from QAR1.92bn in 2021 to QAR6.43bn in 2023. However, NPLs have improved vs. 2022.
- The ratio of provisions for non-performing loan coverage improved from 46% at the end of 2022 to 60% at the end of 2023. As of the end of 2021, it was approximately 95%. However, this ratio is still below the industry average of 85%–90%. Al- Rayyan is targeting enhancing this ratio to 70 % - 80%.

Balance Sheet Analysis

Asset Return	2023	2022	2021	2020	2019
Return on Equity (%)	6.0	5.6	8.8	15.4	16.0
Return on Assets (%)	0.9	0.8	1.2	1.9	2.1
Return on Risk Weighted Assets (%)	1.3	1.2	1.9	3.4	3.5
Loan Growth (%)	-7.6	-1.2	41.2	15.2	3.3
Deposit Growth (%)	-4.7	-9.0	55.2	5.0	6.6

	2023	2022	2021	2020	2019
Book Value per Share	2.53	2.48	2.52	1.92	1.86
Tier 1 Capital Ratio	20.2	18.6	19.4	19.6	19.7
Risk Weighted Assets	105,188	111,079	104,741	67,746	62,179
Total Risk-Based Capital Ratio (%)	22.1	20.3	21.2	20.3	20.3
Earning Assets	156,342	159,017	164,616	113,795	102,871

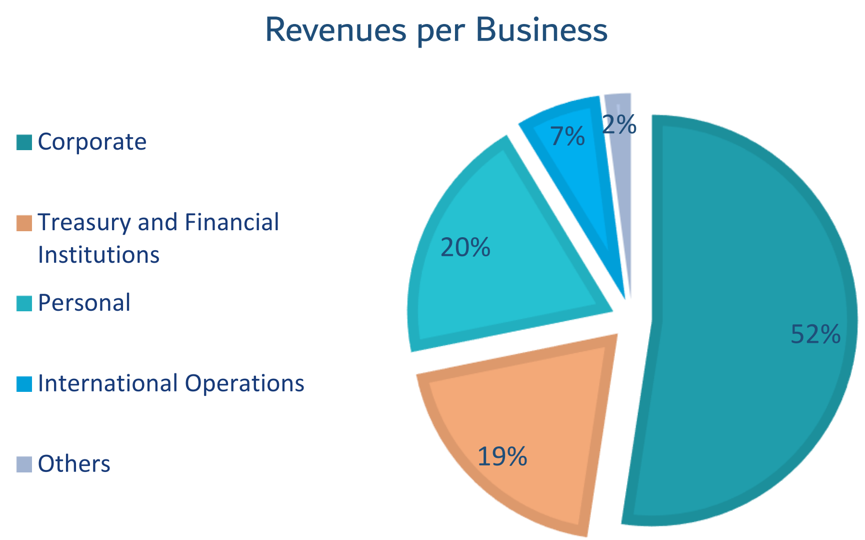
- Loans shrank Sequentially by 2% QOQ and 8% Annually, as the government repaid a part of its debt.
- Deposits reached QAR 92.72 bn by the end of 2023, reflecting a 4.7% decrease compared to the previous year. The decrease was observed in various current and long-term deposits, with the largest drop occurring in accounts with the lowest cost. This resulted in a reduction in the percentage of current and savings accounts (CASA) to 16%, down from 17.6% by the end of 2022.
- In 2023, government deposits accounted for around 44% of the total deposits, which is an increase from 41% in 2022. There was a significant change in the deposits structure, with corporate deposits rising from 17% in 2022 to 37% in 2023.
- The investment in securities increased to QAR 38,599 mn, which represents a significant increase from QAR 31,477 mn recorded in 2022.Sovereign debt makes up 88% of investment securities, while the State of Qatar issues 85% of them.
- Despite a decline in asset quality over the past three years, the bank has been able to maintain a strong capital base., its capital adequacy ratio (CAR) stands at 22.05%, which includes CET1 capital of 20.2%. This ratio is well above the minimum regulatory requirement of 13.50%.

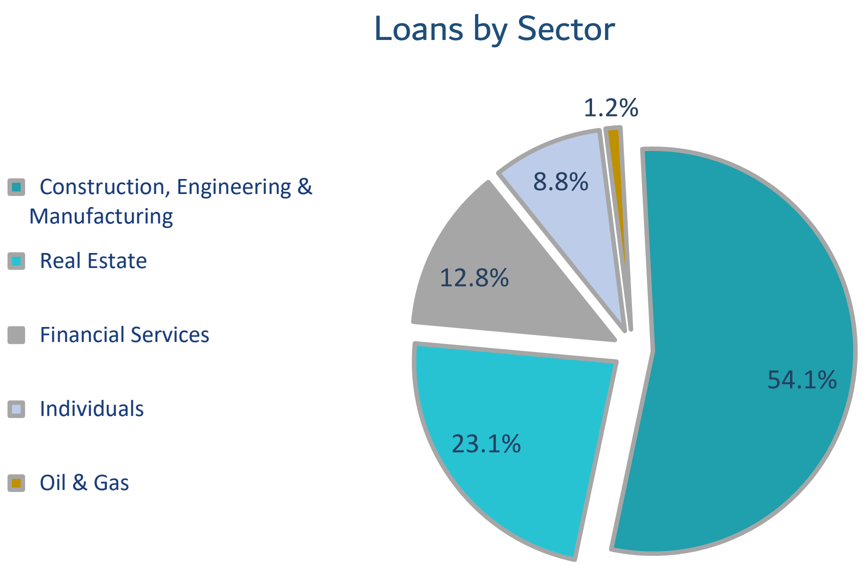
Income Statement Analysis

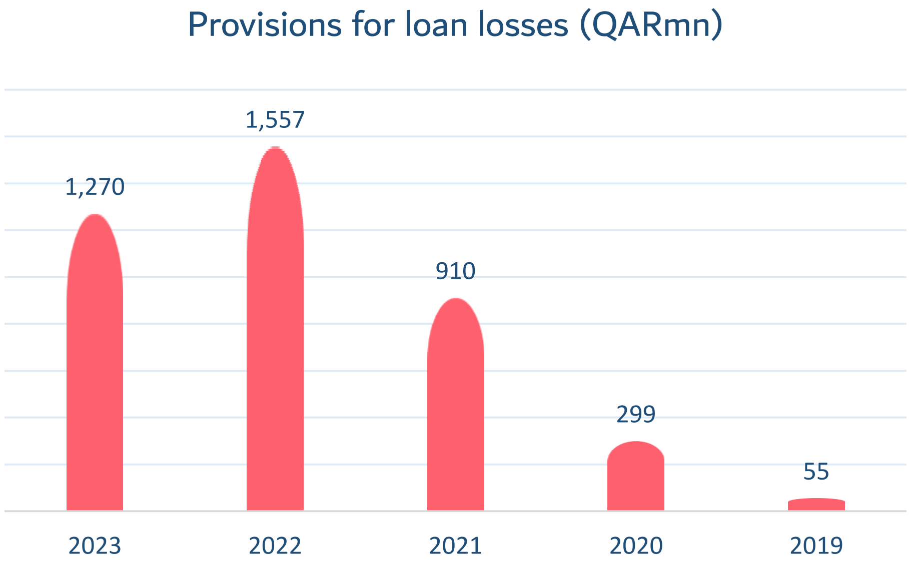
In Millions of QAR	2025 F	2024 F	2023 A	2022 A	2021 A	2020 A	2019 A
Net Revenue	3,936.50	3,527.00	3,486.40	4,345.69	3,619.27	3,227.65	2,889.65
Net Interest Margin %	1.94	1.88	1.83	2.23	2.24	2.57	2.35
Net Interest Income	2,896.36	2,862.00	2,883.79	3,609.70	3,117.26	2,788.36	2,312.18
Non-Interest Income	644.53	635.00	602.60	614.24	497.63	422.85	560.17
Operating Expenses	938.00	890.11	874.28	1,156.04	796.43	694.46	658.64
Provision for Loan Losses	1,050.00	1,100.00	1,270.19	1,556.46	910.34	298.76	54.83
Net Income	1,580.00	1,475.00	1,405.70	1,298.30	1,669.70	2,175.43	2,178.40
EPS	0.17	0.16	0.15	0.14	0.18	0.29	0.29
Dividend Per Share	0.13	0.11	0.10	0.10	0.17	0.17	0.23
Efficiency %	23.00	27.70	25.08	27.37	22.03	21.63	22.80

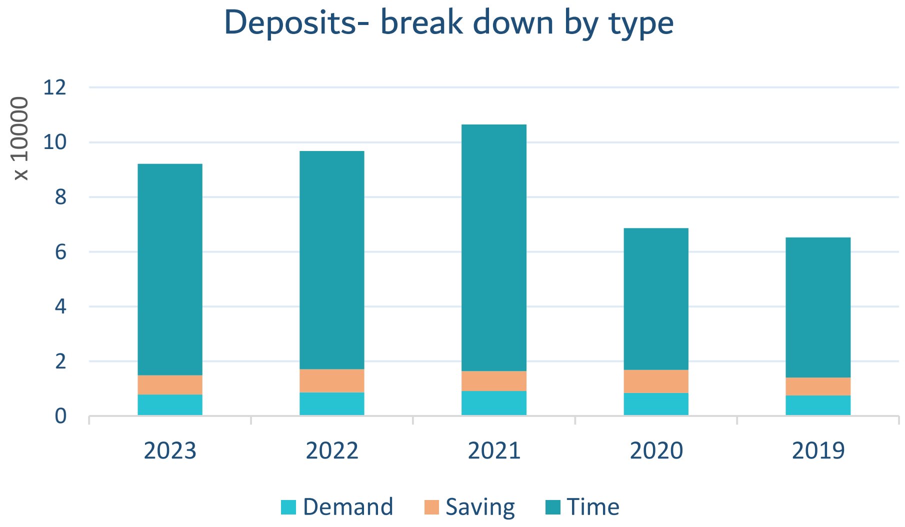
- As a result of seeking more deposits, Al- Rayyan paid higher interest than the industry, thereby reducing the net interest margin from 2.23% in 2022 to 1.83% in 2023.
- Although the bank's top line was weak, its cost-to-income ratio (CIR) improved from 27.4% to 25% in 2023 on a flat cost base. However, the cost- income ratio may come under pressure in 2024 as a result of strategic investment flows.
- It is expected that the bank will continue to devote a significant portion of its profits to improving the coverage ratios for NPL's.
- To maintain capital adequacy ratios and improve asset quality percentages, we expect that the pay-out ratio will remain around 70% in the next three years.
- • Al Rayan's profits are expected to grow by approximately 5% YOY, however, recovering or reclassifying some of its non-performing loans will positively affect its profits.

Main Indicators









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Prepared by Financial Advisory Department +974 44498880 ramzi.qasmieh@Wasata.qa