

Al Rayan Bank (MARK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR2.168	Price Target	QR2.414
Implied Upside	11.4%	Old Price Target	QR2.623

Lowering Estimates and PT; Maintain Market Perform Rating

We lower our 2025-30e earnings forecast from a CAGR of 9.3% to 8.7%. Moreover, we lower our 2026e-30e estimates (page 2) on lower revenue (margin contraction & lower non-funded income) and GMT. However, our sustainable /terminal RoE remains unchanged at 13.5%. As such, we lower our PT from QR2.623/sh. to QR2.414/sh. as we raise our CoE due to the ongoing geo-political tensions. However, we still maintain our Market Performing rating. MARK still trades at a discount to its BV (0.8x in 2026e/27e), as the bank is not expected to generate economic profits as per our EVA valuation model in the medium-term with RoE still expected to be below CoE over 2026 to 2030. We believe, for the stock to rerate, investors would like to see further improvement in Stage 3 & 2 loans balanced by an improvement in MARK's earnings growth profile. MARK shares have underperformed its domestic banks' 12-month total return basis (-0.7% vs. +6.5%) given the bank's asset quality issues and RoE erosion.

Highlights

- Al Rayan Bank's (MARK) 1Q2026 earnings missed estimates.** MARK reported 1Q2026 bottom-line of QR361.1mn (4Q2025: QR8.3mn) vs. our estimate of QR380.5mn (variation of -5.1%). Net income dropped by 11.4% YoY. Net income dropped due to margin pressure, weak non-funded income and GMT (which it had not booked in 1Q2025).
- 1Q2026 annualized tangible RoE came in at 6.2% vs. 7.2% in 1Q2025 (FY2024/25: 6.5%/5.5%); RoE is significantly below pre-merger levels and remains well below its CoE of 13.1%.** RoE declined from 11.3% in 2021 to 5.5% in 2025. Pre-merger, MARK's standalone RoEs hovered around the 16% level (2016-2020). It will be a long road to recovery for RoEs to pick up due to the current depressed level. We note that 2026 RoE is estimated at 5.4% and reach 8.0% by 2030, slightly lower than previous estimates. Having said this, we still assume a 13.5% terminal RoE in our valuation, which we believe is attainable.
- NIMs in 1Q2026 significantly compressed to 1.44% as the drop in yield on IEAs dwarfed the drop in CoFs.** We model NIMs at 1.43%/1.45 for 2026e/2027e as business from the public sector is low margin in nature and raising low-cost deposits is currently a challenge.
- C/I ratio has been on the rise from 21.5% in 2021 to 28.4% in 2025 (1Q2026: 29.9%).** The reason behind the increase is due to weak revenue coupled with rising costs as the bank invests in IT infrastructure and digitization. We model an efficiency ratio of 28.7%/27.0% in 2026e/27e. We estimate this ratio to reach 23.3% by 2030. We also forecast positive JAWS from 2027 and onward.
- MARK's asset quality remained stable; the bulk/majority of NPLs is attributed to the construction and real estate segments and are legacy in nature.** NPLs remained flat at QR6.3bn in 1Q2026. However, the NPL ratio increased to 5.36% vs. 5.11% in FY2025 (FY2024: 5.45%); increase is due to a drop in loans. **Furthermore, Stage 2 loans remain on the high side (19% of total loans) with a low coverage of 5.2%.** At the same time, coverage of Stage 3 improved to 70% (FY2025: 68%) excluding eligible collateral.
- CoR to stay on the high side in the near-to-medium term as MARK builds buffers to reach a coverage ratio of 70% to 80% for Stage 3 loans.** We pencil in a CoR of 70bps in 2026e/27e before normalizing to 60bps in 2030e. MARK's 1Q2026 annualized CoR increased from 73bps in 1Q2025 to 91bps in 1Q2026. 1st quarter CoR is not necessarily an indication for annual CoR.
- Loans contracted in 1Q2026 vs. FY2025 as MARK continues to de-risk its loan book (management has adopted a prudent loan underwriting approach where it will focus on quality assets and not chase volume); we pencil in a loan book CAGR of 6.5% in 2025-30e as the bank's lending appetite increases after further cleaning up its books.** Net loans decreased by 5.2% to QR112.0bn in 1Q2026 vs. FY2025. The contraction in loans was attributable to all segments with real estate being the exception. Public sector loans declined by ~11% as some of these loans matured and others were repaid. We believe the rest of the segments decreased due to maturities with no renewals.
- Capitalization remains robust and we still expect management to maintain it at current levels.** MARK ended 1Q2026 with CET1/Tier-1 ratios of 23.7%/24.7%.

Catalysts

- Normalizing CoR & strong earnings momentum, which results in stronger RoE generation ahead of our expectations.

Recommendation, Valuation and Risks

- Recommendation and valuation:** MARK is trading at 2026e/27e P/TB of 0.8x.
- Risks:** 1) Geopolitical factors & 2) Greater-than-expected increase in credit costs.

Key Data

Current Market Price (QR)	2.168
Dividend Yield (%)	5.1
Bloomberg Ticker	MARK QD
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	2.560/2.151
3-m Average Volume (mn)	9.4
Mkt. Cap. (\$ bn/QR bn)	5.5/20.2
Shares Outstanding (mn)	9,300
FO Limit* (%)	100.0
Current FO* (%)	15.1
1-Year Total Return (%)	(0.7)
Fiscal Year End	December 31

Source: Bloomberg (as of May 12, 2026), *Qatar Exchange (as of May 12, 2026); Note: FO is foreign institutional ownership

Key Financial Data and Estimates

	2025	2026e	2027e	2028e
EPS Attributable (QR)	0.134	0.137	0.154	0.168
EPS Growth (%)	-12.2	1.7	12.7	9.3
P/E (x)	16.1	15.9	14.1	12.9
Tangible BVPS (QR)	2.51	2.55	2.61	2.66
P/TBV (x)	0.9	0.8	0.8	0.8
RoE (%)	5.5	5.4	6.0	6.4
DPS (QR)	0.110	0.110	0.125	0.150
Dividend Yield (%)	5.1	5.1	5.8	6.9

Source: Company data, QNB FS Research; Note: All data based on current number of shares

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Change in Estimates

In QR mn	2026e			2027e			2028e			2028		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,696	2,449	-9.2	2,892	2,660	-8.0	3,229	2,886	-10.6	3,229	2,886	-10.6
Non Interest Income	867	953	9.9	883	1,071	21.3	862	1,082	25.5	862	1,082	25.5
Revenue	3,563	3,402	-4.5	3,775	3,731	-1.2	4,091	3,967	-3.0	4,091	3,967	-3.0
Opex	(976)	(976)	0.0	(1,008)	(1,007)	-0.1	(1,054)	(1,053)	-0.1	(1,054)	(1,053)	-0.1
Net Operating Income	2,587	2,426	-6.2	2,767	2,724	-1.5	3,037	2,915	-4.0	3,037	2,915	-4.0
Net Income (Reported)	1,696	1,350	-20.4	1,825	1,515	-17.0	2,014	1,652	-18.0	2,014	1,652	-18.0
Net Income (Attributab	1,607	1,270	-21.0	1,733	1,431	-17.4	1,917	1,564	-18.4	1,917	1,564	-18.4

Source: QNB FS Research

Valuation

We value MARK using the Residual Income Model (RI) based on a fundamental P/B:

We derive MARK's fair value by employing the RI valuation technique (*based on a fundamental P/B*), which is calculated based on the sum of its beginning book value, present value of interim residuals (net income minus equity charge) and the present value of the terminal value (we apply a fundamental P/B multiple based on the Gordon Growth Model to the ending book value at the end of our forecast horizon). We derive the P/B from the Gordon Growth Model: $P/B = (RoE-g)/(Ke-g)$. This model uses sustainable return on equity (RoE) based on the median over our forecast period, cost of equity (Ke) and expected long-term growth in earnings (g) to arrive at fundamental/justified P/B. **Based on this method, we arrive at a fundamental P/B of 1.5x.**

We add Qatar's 10-year CDS rate of 69bps to the 10-year US government bond yield (4.3%) to arrive at a risk-free rate of 5.1%. We factor in an adjusted beta of 1.14x. Finally, we add a local equity risk premium of 7.0% to arrive at a Ke of 13.06%. However, we assume a terminal CoE of 10.5%

Valuation Methodologies

Fundamental P/B	RI Based on Fundamental P/B	
Sustainable RoE (%)	13.5	
Cost of Equity (%)	10.5	
Terminal Growth Rate (%)	5.0	
Fundamental P/B (x)	1.5	
	Beginning BVPS (2025) (QR)	2.657
	Present Value of Interim Residuals (QR)	-0.801
	Present Value of Terminal Value (QR)	0.653
	Current Market Price (QR)	2.168
	12-Month Target Price (QR)	2.414
	Upside/(Downside) Potential (%)	+11.4

Source: QNB FS Research

Forecast

	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	Terminal
Beginning BVPS	2.66	2.68	2.73	2.77	2.81	2.84	2.88	2.91	2.95	3.02
Attributable EPS	0.137	0.154	0.168	0.187	0.204	0.241	0.281	0.320	0.362	0.408
DPS	0.110	0.110	0.125	0.150	0.175	0.200	0.250	0.275	0.295	0.300
Adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ending BVPS	2.68	2.73	2.77	2.81	2.84	2.88	2.91	2.95	3.02	3.13
Equity Charge	0.35	0.35	0.36	0.36	0.37	0.37	0.38	0.38	0.39	0.32
Residual Income	-0.21	-0.20	-0.19	-0.17	-0.16	-0.13	-0.10	-0.06	-0.02	0.09
Terminal Value (Based on Fundamental P/B)										1.71
Discounted Interim Residuals	-0.19	-0.16	-0.14	-0.11	-0.09	-0.06	-0.04	-0.02	-0.01	0.03
Discounted Terminal Value										0.65
Growth		12.7%	9.3%	11.4%	8.7%	18.4%	16.4%	14.0%	13.1%	27.4%
RoE		5.1%	5.7%	6.2%	6.8%	7.3%	8.5%	9.8%	11.0%	12.3%
Implied P/B		0.9x	0.9x	0.9x	0.9x	0.9x	0.8x	0.8x	0.8x	0.8x

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2023	2024	2025	2026e	2027e	2028e
Net Interest Income	2,727	2,738	2,255	2,449	2,660	2,886
Fees & Commissions	319	299	428	411	460	494
FX Income	197	190	158	202	222	229
Other Income	295	306	509	340	388	359
Non-Interest Income	810	794	1,095	953	1,071	1,082
Total Revenue	3,537	3,532	3,350	3,402	3,731	3,967
Operating Expenses	(874)	(920)	(951)	(976)	(1,007)	(1,053)
Net Operating Income	2,663	2,612	2,400	2,426	2,724	2,915
Net Provisions & Impairments	(1,165)	(1,041)	(818)	(818)	(920)	(986)
Net Profit Before Taxes & Minority Interest	1,498	1,571	1,582	1,608	1,804	1,928
Tax	(35)	(33)	(231)	(235)	(264)	(250)
Net Profit Before Minority Interest	1,463	1,537	1,351	1,372	1,540	1,679
Minority Interest	(28)	(20)	(22)	(22)	(25)	(27)
Non-Recurring Items	17	(11)	-	-	-	-
Net Profit (Reported/Headline)	1,452	1,507	1,329	1,350	1,515	1,652
Interest Expense on AT1 Bond	(46)	(46)	(46)	(46)	(46)	(46)
Social & Sports Contribution Fund	(36)	(38)	(33)	(34)	(38)	(41)
Net Profit (Attributable)	1,369	1,423	1,249	1,270	1,431	1,564
EPS	0.147	0.153	0.134	0.137	0.154	0.168

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2023	2024	2025	2026e	2027e	2028e
Assets						
Cash & Balances with Central Bank	4,993	5,672	5,879	5,890	6,303	6,047
Interbank Loans	5,663	5,165	4,816	4,846	5,837	5,305
Net Investments	38,599	43,767	45,920	50,905	56,545	54,051
Net Loans	108,228	110,040	118,188	121,150	129,701	139,608
Investment In Associates	349	348	359	379	402	428
Other Assets	3,835	3,640	3,699	3,842	3,606	3,725
Net PP&E	969	1,011	1,059	1,088	1,119	1,152
Goodwill & Intangibles	1,565	1,451	1,337	1,223	1,110	996
Total Assets	164,200	171,094	181,258	189,323	204,621	211,312
Liabilities						
Interbank Deposits	32,204	23,757	28,383	30,107	34,947	30,103
Customer Deposits	92,724	107,610	111,138	117,807	126,053	134,373
Sukuks & Borrowings	9,821	9,672	11,089	10,867	12,497	15,621
Other Liabilities	4,644	4,724	4,647	4,271	4,419	4,082
AT1 Notes	1,000	1,000	1,000	1,000	1,000	1,000
Total Liabilities	140,393	146,763	156,257	164,051	178,916	185,179
Minority Interest	237	252	293	315	340	368
Total Shareholders' Equity	23,569	24,078	24,709	24,956	25,364	25,766
Total Liabilities & Shareholders' Equity	164,200	171,094	181,258	189,323	204,621	211,312
BVPS	2.53	2.59	2.66	2.68	2.73	2.77
TBVPS	2.37	2.43	2.51	2.55	2.61	2.66
RWAs	105,187	100,406	96,659	98,448	102,310	105,656
RWAs/Total Assets	64%	59%	53%	52%	50%	50%
Average IEAs	151,921	154,441	162,781	171,719	183,227	194,217
Average IEAs/Total Assets	93%	90%	90%	91%	90%	92%
Average IBLs	127,552	129,906	137,884	133,506	143,727	165,729
Average IBLs/Average Liabilities	91%	89%	88%	81%	80%	89%

Source: Company data, QNB FS Research

Ratios/KPIs	2023	2024	2025	2026e	2027e	2028e
Profitability (%)						
RoE	6.4	6.5	5.5	5.4	6.0	6.4
RoAA	0.8	0.8	0.7	0.7	0.7	0.8
RoRWA	1.3	1.4	1.3	1.3	1.4	1.5
NIM (% of IEAs)	1.79	1.77	1.39	1.43	1.45	1.49
NIM (% of RWAs)	2.52	2.66	2.29	2.51	2.65	2.78
NIM (% of AAs)	1.64	1.63	1.28	1.32	1.35	1.39
Spread	1.0	1.0	0.7	0.5	0.7	1.0
Efficiency (%)						
Cost-to-Income (Headline)	24.7	26.1	28.4	28.7	27.0	26.5
Cost-to-Income (Core)	26.3	27.7	29.7	30.1	28.5	27.9
Liquidity (%)						
LDR (Loans to Stable Sources of Funds)	106	94	97	94	94	93
Loans/Assets	65.9	64.3	65.2	64.0	63.4	66.1
Cash & Interbank Loans-to-Total Assets	6.5	6.3	5.9	5.7	5.9	5.4
Deposits to Assets	56.5	62.9	61.3	62.2	61.6	63.6
Wholesale Funding to Loans	38.8	30.4	33.4	33.8	36.6	32.8
IEAs to IBLs	119.6	118.2	117.9	140.9	117.2	117.1
Asset Quality (%)						
NPL Ratio	5.71	5.45	5.11	5.00	4.52	4.00
NPL to Shareholders' Equity	27.26	25.97	25.58	25.46	24.19	22.67
NPL to Tier 1 Capital	28.86	27.35	26.85	26.71	25.50	24.11
Coverage Ratio	66.6	76.0	86.1	86.6	90.7	101.2
ALL/Average Loans	3.0	3.6	3.9	4.0	3.9	3.9
Cost of Risk (bps)	108	92	69	69	70	70
Capitalization (%)						
CET1 Ratio	20.2	21.7	23.3	23.1	22.5	21.9
Tier-1 Ratio	21.2	22.8	24.4	24.2	23.5	22.9
CAR	22.1	23.9	25.5	25.3	24.7	24.1
Leverage (x)	7.0	7.1	7.3	7.6	8.1	8.2
Growth (%)						
Net Interest Income	-24.4	0.4	-17.6	8.6	8.6	8.5
Non-Interest Income	25.7	-2.0	37.9	-13.0	12.3	1.0
Opex	-14.5	5.2	3.3	2.7	3.1	4.6
Net Operating Income	-17.5	-1.9	-8.1	1.1	12.3	7.0
Net Provisions & Impairments	-31.9	-10.6	-21.5	0.0	12.5	7.2
Net Income (Reported)	8.0	3.8	-11.8	1.6	12.2	9.0
Net Income (Attributable)						
Loans	-8.2	1.7	7.4	2.5	7.1	7.6
Deposits	-4.7	16.1	3.3	6.0	7.0	6.6
Assets	-2.0	4.2	5.9	4.4	8.1	3.3
RWAs	-5.3	-4.5	-3.7	1.9	3.9	3.3

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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