

National Bank of Ras Al Khaimah (RAKBANK)

Improving asset quality and strong non-core income boosted profitability

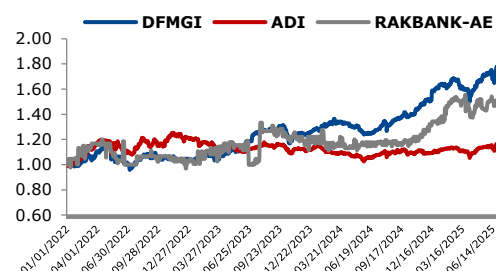
Current Price
AED 7.91

Target Price
AED 8.60

Upside/Downside (%)
+8.7%

Rating
HOLD

- Net advances grew 18.7% YOY and 2.3% QOQ to AED 48.7 Bn during 2Q25, supported by solid performance across all business segments.
- RAKBANK opened more than 11,000 accounts for entrepreneurs and small businesses and disbursed over AED 2.54 Bn in loans during 2Q25.
- Asset quality slightly improved with the NPL ratio declining from 2.1% in 1Q25 to 1.9% in 2Q25.
- CASA deposit base grew 12.2% YOY and 1.6% QOQ to AED 40.4 Bn in 2Q25, accounting for 66.1% in 2Q25.
- RAKBANK delivered strong returns, posting a reported ROE of 21.9% and a reported ROA of 2.9% in 2Q25.



Stock Information

Market Cap (AED, Mn)	15,186.78
Paid Up Capital (Mn)	2,011.00
52 Week High	8.00
52 Week Low	5.11
3M Avg. daily value(AED)	235,718.1

2Q25 Result Review (AED, Mn)

Total Assets	94,961
Total Liabilities	82,620
Total Equity	12,341
Total Deposits	61,079
Net Profit	667

Financial Ratios

Dividend Yield (12m)	6.3
Dividend Pay-out (%)	48.53
Price-Earnings Ratio(x)	5.87
Price-to-Book Ratio (x)	1.03
Book Value (AED)	5.85
Return-on Equity (%)	18.76

Stock Performance

5 Days	3.00%
1 Months	14.22%
3 Months	17.24%
6 Months	23.97%
1 Year	45.19%
Month to Date (MTD%)	7.86%
Quarter to Date (QTD%)	7.86%
Year to Date (YTD%)	24.79%

2Q25 Net Profit higher than our estimate

National Bank of Ras Al-Khaimah (RAKBANK/the Bank) recorded a 29.2% YOY growth in net profit to AED 667 Mn in 2Q25, higher than our estimate of AED 584 Mn. The rise in net profit was primarily driven by a strong growth in non-funded income and lower impairment charges, partially offset by higher operating expenses and tax charges.

P&L Highlights

RAKBANK's interest income from conventional loans and investments grew 4.6% YOY to AED 1,175 Mn in 2Q25, whereas interest expense on conventional deposits and borrowings grew from AED 334 Mn in 2Q24 to AED 399 Mn in 2Q25. Thus, net interest income from conventional loans and advances declined 1.6% YOY to AED 776 Mn in 2Q25. Income from Islamic financing grew 21.0% YOY to AED 197 Mn in 2Q25, while Islamic financing expenses declined 7.6% YOY to AED 64 Mn in 2Q25. As a result, funded income increased 6.7% YOY to AED 1,372 Mn in 2Q25. Funded expenses grew from AED 403 Mn in 2Q24 to AED 463 Mn in 2Q25. Thus, net funded income increased 3.0% YOY to AED 909 Mn in 2Q25. Resultantly, our calculated Net interest margins (NIMs) contracted 56 bps YOY and grew 3 bps QOQ to 4.1% in 2Q25. Net fee and commission income increased strongly 20.3% YOY to AED 211 Mn, while foreign exchange income also rose 9.9% YOY to AED 99 Mn in 2Q25. RAKBANK recorded a lower loss from gross insurance underwriting of AED 0.1 Mn in 2Q25 compared to a loss of AED 15 Mn in 2Q24. Additionally, the Bank recorded substantial growth in investment income from AED 16 Mn in 2Q24 to AED 30 Mn in 2Q25, primarily driven by gains from the disposal of investments. Other operating income declined 12.6% YOY to AED 22 Mn in 2Q25. Consequently, total non-funded income grew 24.0% YOY

to AED 362 Mn in 2Q25. Thus, total operating income grew 8.2% YOY to AED 1,271 Mn in 2Q25. Operating expenses rose 14.0% YOY to AED 456 Mn in 2Q25, driven by continued investments in technology, data, people and customer experience, with the cost-to-income ratio increasing to 35.9% in 2Q25 from 34.1% in 2Q24. Impairment charges declined significantly from AED 208 Mn in 2Q24 to AED 79 Mn in 2Q25, owing to an improvement in the Bank's loan portfolio. Income tax expenses rose from AED 50 Mn in 2Q24 to AED 66 Mn in 2Q25.

Balance Sheet Highlights

RAKBANK's total assets rose 18.1% YOY and 4.6% QOQ to AED 95.0 Bn in 2Q25, primarily attributable to an increase in gross loans and advances, investments portfolio, and cash and bank balance. Net advances grew 18.7% YOY and 2.3% QOQ to AED 48.7 Bn in 2Q25. Customer deposits climbed to 4.5% YOY and marginally 0.1% QOQ to AED 61.1 Bn in 2Q25, supported by growth in CASA deposits. The CASA deposit base grew 12.2% YOY and 1.6% QOQ to AED 40.4 Bn in 2Q25, accounting for 66.1% in 2Q25 compared to 65.1% in 1Q25.

Target Price and Rating

We maintain our HOLD rating with a revised target price of AED 8.60. The Bank's stock price increased 11.9% since our last rating (June 2025). RAKBANK posted a robust growth in profitability, driven by higher non-funded income and lower impairments during 2Q25. The Bank's non-core income as a percentage of total operating income grew from 24.8% in 2Q24 to 28.5% in 2Q25, supported by its initiatives to diversify fee and forex income, along with episodic gains from investment income. RAKBANK's net advances grew 18.7% YOY and 2.3% QOQ to AED 48.7 Bn during 2Q25, supported by solid performance across all business segments. The Bank's Wholesale lending grew 33.2% YOY to AED 17.0 Bn in 2Q25, significantly contributing to balance sheet expansion. Business Banking segment reported 3.9% YOY growth to AED 10.8 Bn in 2Q25, driven by growth across SME and commercial loans. As of 1H25, the Bank added approximately 11,000 new accounts for entrepreneurs and small businesses and extended around AED 2.54 Bn in business loans. Personal Banking loans rose 14.6% YOY to AED 23.5 Bn in 2Q25, driven by strong growth in mortgage and leverage loans. The Bank also continues to expand its Corporate Banking offerings across trade finance, escrow services, and Debt Capital Markets (DCM), which is expected to support growth in fee-based and non-funded income. RAKBANK's customer deposits increased 4.5% YOY and 0.1% QOQ to AED 61.1 Bn in 2Q25, with higher CASA ratios of 66.1% in 2Q25. The Bank's higher CASA ratio is expected to support its performance in a declining interest rate environment, driven by its lower cost of funding. The Bank's calculated NIMs declined 56 bps YOY and grew 3 bps QOQ to 4.1% in 2Q25. RAKBANK's calculated cost of risk declined 129 bps YOY and 12 bps QOQ to 0.6% during 2Q25, mainly due to the improvement in the loan portfolio. The Bank's asset quality continued to improve with the reported NPLs ratio declining from 2.1% in 1Q25 to 1.9% in 2Q25. The calculated provision coverage also grew from 231.8% in 1Q25 to 242.9% in 2Q25, indicating a strong buffer against bad loans going forward. Capitalization also remained strong with a total CAR of 18.8% in 2Q25, compared to 18.0% in 2Q24. RAKBANK also delivered strong returns, posting a reported ROE of 21.9% and a reported ROA of 2.9% in 2Q25. Thus, based on our assumptions, we maintain HOLD rating on the stock.

RAKBANK - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	30.15	20.09	12.97	8.51	7.33	5.73
PB	1.95	1.82	1.69	1.47	1.41	1.07
BVPS (AED)	3.881	4.147	4.471	5.134	5.352	7.070
EPS (AED)	0.250	0.376	0.582	0.887	1.030	1.317
DPS (AED)	0.125	0.188	0.283	0.310	0.500	0.645
Dividend yield	1.6%	2.4%	3.6%	3.9%	6.3%	8.2%

FABS Estimates & Co Data

RAKBANK P&L

AED Mn	2Q24	1Q25	2Q25A	2Q25F	VAR	YOY Ch	QOQ Ch	2024	2025F	Change
Interest Income	1,286	1,301	1,372	1,311	4.6%	6.7%	5.4%	5,234	5,498	5.0%
Interest expense	-403	-434	-463	-414	11.9%	14.8%	6.5%	-1,672	-1,757	5.1%
Net funded income	882	867	909	898	1.3%	3.0%	4.9%	3,562	3,741	5.0%
Net fees and commissions	176	188	211	190	11.4%	20.3%	12.5%	644	863	34.0%
Foreign exchange gain	90	98	99	91	8.9%	9.9%	1.3%	352	401	14.0%
Gross insurance underwriting Profit	-15	-3	0	-3	NM	NM	NM	-45	-18	-60.0%
Investment Income	16	126	30	19	56.5%	NM	NM	88	229	NM
Other operating income	25	24	22	27	-18.8%	-12.6%	-10.7%	112	95	-15.0%
Total non-funded income	292	433	362	323	12.0%	24.0%	-16.5%	1,150	1,570	36.4%
Net operating income	1,174	1,300	1,271	1,221	4.1%	8.2%	-2.3%	4,713	5,310	12.7%
Operating expenses	-400	-434	-456	-425	7.4%	14.0%	5.1%	-1,658	-1,877	13.2%
Pre-provision profit	774	866	814	796	2.3%	5.3%	-5.9%	3,054	3,434	12.4%
Impairment	-208	-94	-79	-153	-48.1%	-61.8%	-15.3%	-776	-520	-33.0%
Profit before tax	566	772	735	643	14.4%	29.9%	-4.8%	2,278	2,914	27.9%
Income tax expense	-50	-68	-66	-58	13.5%	30.1%	-3.0%	-202	-262	29.5%
Profit After Tax & before NCI	515	704	669	585	14.4%	29.8%	-5.0%	2,076	2,651	27.7%
Non-controlling interest	0	-2	-3	-1	NM	NM	19.4%	-3	-3	0.3%
Net profit attributable	516	702	667	584	14.2%	29.2%	-5.1%	2,072	2,648	27.8%

FABS estimate & Co Data

RAKBANK - KPI

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	75.2%	66.7%	71.5%	-363	486	75.6%	70.4%	-515
NIM - Calculated	4.6%	4.0%	4.1%	-56	3	4.8%	4.6%	-25
NIS	4.3%	3.7%	3.7%	-58	2	4.5%	3.8%	-74
Fees & comms/OI	15.0%	14.5%	16.6%	167	218	13.7%	16.2%	258
Foreign exchange gain/OI	7.7%	7.5%	7.8%	12	27	7.5%	7.5%	9
Other operating income/ OI	2.1%	1.9%	1.7%	-41	-16	2.4%	1.8%	-58
Invnt Income/OI	1.3%	9.7%	2.3%	99	-739	1.9%	4.3%	244
Cost to income	34.1%	33.4%	35.9%	181	251	35.2%	35.3%	15
Impairment/PPP	26.8%	10.8%	9.8%	-1,709	-107	25.4%	15.1%	-1,027
NP/OI	43.9%	54.0%	52.5%	852	-155	44.0%	49.9%	589
Cost of risk - Calculated	1.9%	0.7%	0.6%	-129	-12	1.7%	1.0%	-69
Loan-to-deposit	70.1%	78.0%	79.7%	956	170	79.2%	80.0%	83
NPL - Reported	2.4%	2.1%	1.9%	-50	-20	2.1%	2.0%	-10
NPL Coverage - Calculated	240.6%	231.8%	242.9%	233	1,113	253.2%	245.0%	-822
Capital adequacy	18.0%	18.6%	18.8%	86	23	18.1%	19.4%	126
ROAE - Calculated	19.6%	20.2%	20.4%	76	22	18.8%	20.4%	162
ROAA - Calculated	2.6%	2.6%	2.7%	9	8	2.6%	2.8%	27

FABS estimate & Co data

RAKBANK - Key B/S items

AED Mn	2Q24	3Q24	4Q24	1Q25	2Q25	YOY Ch
Net advances	40,994	46,198	47,224	47,590	48,662	18.7%
QOQ change	1.0%	12.7%	2.2%	0.8%	2.3%	
Total assets	80,408	83,891	88,325	90,804	94,961	18.1%
QOQ change	2.3%	4.3%	5.3%	2.8%	4.6%	
Customer deposits	58,472	57,266	59,650	61,038	61,079	4.5%
QOQ change	5.6%	-2.1%	4.2%	2.3%	0.1%	
Total Equity	10,794	11,561	11,797	11,579	12,341	14.3%
QOQ change	4.7%	7.1%	2.0%	-1.8%	6.6%	

FABS estimate & Co data

Valuation:

We use Residual Income and Relative Valuation (RV) method to value RAKBANK. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	7.85	70.0%	5.50
Relative Valuation (RV)	10.34	30.0%	3.10
Weighted Average Valuation (AED)			8.60
Current market price (AED)			7.91
Upside/Downside (%)			+8.7%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.5%. Cost of equity is calculated by using the 10-year government bond yield of 5.1%, a beta of 1.0 and equity risk premium of 4.2%. Government bond yield is calculated after adding Abu Dhabi 10-year CDS spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	2,543
Terminal value (AED, Mn)	952
Book Value of Equity (as of June 2025)	12,304
FV to Common shareholders (AED, Mn)	15,799
No. of share (Mn)	2,011
Current Market Price (AED)	7.91
Fair Value per share (AED)	7.85

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	2,648	2,517	2,370	2,087	1,875
(-) Equity Charge	-1,350	-1,469	-1,581	-1,680	-1,769
Excess Equity	649¹	1,048	788	407	105
Discounting Factor	0.96	0.88	0.80	0.73	0.67
Present Value of Excess Equity	624	920	632	298	70

Source: FAB Securities, ¹Adjusted for partial year

2) Relative Valuation:

We have used local peers to value RAKBANK, and it is valued using the PB multiple. It is valued at a 2025 PB multiple of 1.5x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
Sharjah Islamic Bank	2,458	NA	1.1	NA	9.1	0.1%	NA
Commercial Bank of Dubai	7,152	1.6	1.5	8.7	9.6	6.3%	4.5%
Emirates NBD	41,615	1.2	1.0	7.1	7.4	4.3%	4.5%
Mashreq Bank	13,214	1.3	1.2	7.0	6.8	7.2%	8.3%
Abu Dhabi Commercial Bank	28,251	1.5	1.3	11.3	10.4	4.3%	4.6%
Dubai Islamic Bank	18,082	1.5	1.4	10.0	10.1	4.9%	5.0%
Average		1.4x	1.3x	8.8x	8.9x	4.5%	5.4%
Median		1.5x	1.3x	8.7x	9.3x	4.6%	4.6%
Max		1.5x	1.4x	10.0x	10.0x	5.9%	5.0%
Min		1.3x	1.1x	7.1x	7.8x	4.3%	4.5%

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
+971-2-6161777

Institutional Desk +971-4-4245765

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