FAB أبوظبي الأول للأوراق المالية SECURITIES

First Look Note | 2Q26

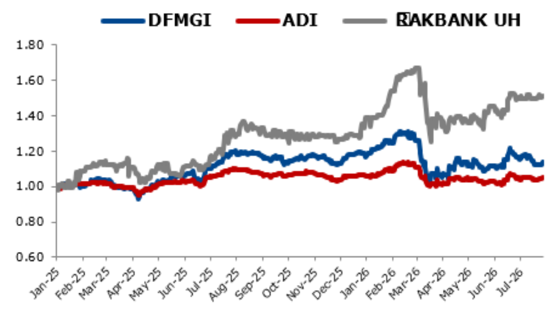
UAE Equity Research   Sector: Banking   Market: ADX

National Bank of Ras Al Khaimah (RAKBANK)

Loan growth and non-funded income growth offset by higher funding costs despite lower opex

Current Price	Target Price	Upside/Downside (%)	Rating
AED 9.10	AED 10.00	+10%	ACCUMULATE

- Advances rose 19.4% YOY and 4.9% Q0Q to AED 58.1 Bn in 2Q26, driven by wholesale and retail loan growth, partly offset by lower business loans QOQ.
- Deposits rose 23.0% YOY & 1.1% QOQ to AED 75.1 Bn, driven by time deposit growth, partly offset by lower CASA deposits.
- Non-funded income rose 6.7% YOY to AED 386 Mn in 2Q26, driven by higher investment income, FX gains, and fee & commission income.
- Calculated net interest margin (NIM) contracted 52 bps YOY and 17 bps QOQ to 3.5% in 2Q26, owing to elevated funding costs.
- Asset quality remained strong, with the calculated NPL ratio improving to 1.8%, while the calculated NPL coverage ratio strengthened to 252.6% in 2Q26.



Stock Information	
Market Cap (AED, Mn)	18,425.29
Paid Up Capital (Mn)	2,011.49
52 Week High	10.10
52 Week Low	7.44
3M Avg. daily value(AED)	1,815,539

2Q26 Result Review (AED, Mn)	
Total Assets	108,611
Total Liabilities	93,593
Total Equity	15,019
Total Deposits	75,147
Net Profit	702

Financial Ratios	
Dividend Yield (12m)	6.88
Dividend Pay-out (%)	38.67
Price-Earnings Ratio(x)	6.27
Price-to-Book Ratio (x)	1.33
Book Value (AED)	6.90
Return-on Equity (%)	22.45

Stock Performance	
5 Days	1.10%
1 Months	1.10%
3 Months	9.70%
6 Months	1.78%
1 Year	15.08%
Month to Date (MTD%)	1.22%
Quarter to Date (QTD%)	1.22%
Year to Date (YTD%)	9.05%

2Q26 Net Profit higher than our estimate

National Bank of Ras Al-Khaimah (RAKBANK/the Bank) reported an increase in net profit of 5.4% YOY to AED 702 Mn in 2Q26, higher than our estimate of AED 552 Mn. The increase in net profit is mainly due to growth in net funded and non-funded income (supported by higher investment income, foreign exchange gain and net fees & commission income), coupled with a decline in operating expenses and profit attributable to non-controlling interest, partially offset by increase in impairment charges and income tax expenses.

P&L Highlights

RAKBANK's interest income increased 6.3% YOY to AED 1,249 Mn in 2Q26, supported by loans and investment growth, with yield on assets remaining stable on QOQ basis. The Bank's interest expense rose by 16.9% YOY to AED 466 Mn in 2Q26, due to higher customer deposits, coupled with increase in the Bank's cost of fund. Thus, net interest income from conventional loans and advances increased marginally by 0.8% YOY to AED 782 Mn in 2Q26. Income from Islamic financing grew 0.8% YOY to AED 199 Mn in 2Q26, while Islamic financing expenses declined 3.4% YOY to AED 62 Mn in 2Q26. Thus, the net Islamic financing income increased 2.8% YOY to AED 137 Mn in 2Q26. As a result, total funded income increased 5.5% YOY to AED 1,447 Mn in 2Q26, while total funded expenses rose 14.1% YOY to AED 528 Mn in 2Q26. Thus, net funded income increased 1.1% YOY to AED 919 Mn in 2Q26. Resultantly, the calculated NIM contracted 52 bps YOY to 3.5% in 2Q26. Net fee and commission income increased marginally 0.6% YOY to AED 213 Mn, while foreign exchange income rose 17.5% YOY to AED 116 Mn in 2Q26. RAKBANK recorded a profit from insurance underwriting of AED 0.03 Mn in 2Q26, compared to AED 0.15 Mn in 2Q25.

Additionally, investment income rose 47.6% YOY to AED 44 Mn in 2Q26. The other operating income declined 39.8% YOY to AED 13 Mn in 2Q26. Consequently, total non-funded income grew 6.7% YOY to AED 386 Mn in 2Q26. Thus, total operating income rose 2.7% YOY to AED 1,305 Mn in 2Q26. However, the operating expenses declined 3.6% YOY to AED 440 Mn in 2Q26, despite continued investment in improving customer experience and technological capabilities. Thus, the Bank's cost-to-income ratio declined 219 bps YOY to 33.7% in 2Q26. Impairment charges increased 15.2% YOY to AED 92 Mn in 2Q26. Income tax expenses increased 4.6% YOY to AED 69 Mn in 2Q26. Profits attributable to non-controlling interest holders decreased 8.9% YOY to AED 2 Mn in 2Q26.

Balance Sheet Highlights

RAKBANK's total assets increased 14.4% YOY and 1.2% QOQ to AED 108.6 Bn in 2Q26, primarily driven by growth in Islamic financing assets, gross loans and advances, the investment portfolio, and balances due from banks. Net advances rose 19.4% YOY and 4.9% QOQ to AED 58.1 Bn in 2Q26, supported by growth in wholesale and retail loans, partly offset by lower business loans QOQ. Customer deposits increased 23.0% YOY and 1.1% QOQ to AED 75.1 Bn in 2Q26, driven by time deposit growth, partly offset by lower CASA deposits QOQ. CASA deposit base rose 19.7% YOY but declined marginally 0.9% QOQ to AED 48.3 Bn in 2Q26, resulting in a CASA ratio of 64.3%. The calculated loan-to-deposits increased from 74.5% in 1Q26 to 77.3% in 2Q26.

Target Price and Rating

We maintain our ACCUMULATE rating on RAKBANK with a target price of AED 10.0. The Bank's share price rose marginally since our last rating. RAKBANK reported resilient profitability growth in 2Q26, primarily driven by higher net funded and non-funded income, supported by continued loan and investment growth, stronger foreign exchange income and higher investment income, despite higher funding costs, impairment charges and disciplined cost management, with continued investments in technology and customer experience. RAKBANK's net advances increased 19.4% YOY and 4.9% QOQ to AED 58.1 Bn in 2Q26, supported by continued growth across its lending portfolio. Retail Banking loans and advances increased 10.0% YOY and 1.6% QOQ to AED 25.9 Bn in 2Q26, driven by continued growth in credit card facilities and mortgages. Wholesale Banking loans and advances rose 39.0% YOY and 11.1% QOQ to AED 23.6 Bn, supported by higher lending across corporate and financial institution clients. Business Banking loans and advances increased 5.8% YOY but moderately declined 1.0% QOQ to AED 11.4 Bn in 2Q26. The broad-based growth in the lending portfolio reflects the strength of the Bank's diversified franchise and disciplined execution, supporting continued expansion in earning assets. RAKBANK's customer deposits increased 23.0% YOY and 1.1% QOQ to AED 75.1 Bn in 2Q26. CASA deposits remained resilient at AED 48.3 Bn in 2Q26 despite a marginal decline of 0.9% QOQ, accounting for a healthy 64.3% of total customer deposits and continuing to support RAKBANK's low-cost funding profile. We expect the Bank's NIMs to remain under pressure in 2026 owing to slower growth in change in loan mix, slow growth in CASA deposits, and negative interest rate sensitivity gap. Thus, we expect the NIMs to decline 26 bps YOY to 3.7% in 2026. Asset quality remained robust during 2Q26, with the calculated NPL ratio improving to 1.8% in 2Q26 from 1.9% in 1Q26, while the stage 3 asset NPL coverage ratio amounted to 85.9% in 2Q26 compared to 89.8% in 1Q26. Total provision coverage ratio remained steady at 252.6% in 2Q26 compared to 1Q26, reflecting the Bank's conservative provisioning approach. Notably, Stage 2 loans declined to AED 1.83 Bn from AED 1.92 Bn in 1Q26, with the Stage 2 loan ratio improving to 3.0% in 2Q26, indicating a stronger credit profile for the loan book and reducing the risk of future migration into Stage 3 assets. Capitalization remained robust during 2Q26, with a CAR of 19.3% comfortably above the regulatory minimum requirements and thereby providing adequate capacity to support future loan growth while maintaining a prudent capital buffer. Calculated ROAE moderated to 22.5% in 2Q26 from 23.6% in 1Q26, while calculated ROAA remained stable at 2.9%, highlighting the Bank's ability to sustain healthy profitability despite a moderating interest rate environment. The combination of strong capital ratios and resilient profitability positions the Bank to pursue balance sheet growth while preserving capital strength. With a resilient balance sheet, strong capital buffers and improving asset quality, RAKBANK remains well positioned to deliver sustainable profit in 2026. Accordingly, we maintain our ACCUMULATE rating on the Bank.

RAKBANK - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	24.42	15.77	10.35	8.91	7.10	6.24
PB	2.21	2.05	1.79	1.72	1.25	1.15
BVPS	4.147	4.471	5.134	5.352	7.315	8.011
EPS	0.376	0.582	0.887	1.030	1.293	1.471
DPS	0.188	0.283	0.310	0.500	0.630	0.733
Dividend yield	2.1%	3.1%	3.4%	5.5%	6.9%	8.1%

FABS Estimates & Co Data

RAKBANK P&L

AED Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Interest Income	1,372	1,429	1,447	1,399	3.4%	5.5%	1.3%	5,527	5,880	6.4%
Interest expense	-463	-482	-528	-467	13.0%	14.1%	9.5%	-1,842	-2,018	9.5%
Net funded income	**909**	**947**	**919**	**932**	-1.3%	**1.1%**	**-2.9%**	**3,686**	**3,862**	**4.8%**
Net fees and commissions	211	206	213	208	2.5%	0.6%	3.5%	774	836	8.0%
Foreign exchange gain	99	114	116	109	7.0%	17.5%	1.7%	390	441	13.0%
Gross insurance underwriting Profit	0	4	0	-9	NM	NM	NM	-13	-20	50.0%
Investment Income	30	54	44	60	-26.4%	47.6%	-18.3%	231	197	-15.0%
Other operating income	22	496	13	30	-56.2%	-39.8%	-97.4%	100	578	NM
Total non-funded income	**362**	**873**	**386**	**397**	-2.8%	**6.7%**	**-55.8%**	**1,482**	**2,032**	**37.1%**
Net operating income	**1,271**	**1,820**	**1,305**	**1,329**	-1.8%	**2.7%**	**-28.3%**	**5,168**	**5,894**	**14.0%**
Operating expenses	-456	-476	-440	-485	-9.2%	-3.6%	-7.6%	-1,852	-1,980	6.9%
Pre-provision profit	**814**	**1,344**	**865**	**844**	2.5%	**6.2%**	**-35.6%**	**3,316**	**3,914**	**18.0%**
Impairment	-79	-238	-92	-235	-61.0%	15.2%	-61.6%	-451	-652	44.8%
Profit before tax	**735**	**1,106**	**774**	**609**	27.1%	**5.2%**	**-30.0%**	**2,865**	**3,261**	**13.8%**
Income tax expense	-66	-98	-69	-54	27.2%	4.6%	-29.9%	-256	-294	14.7%
Profit before NCI	**669**	**1,008**	**705**	**555**	27.0%	**5.3%**	**-30.1%**	**2,609**	**2,968**	**13.7%**
Non-controlling interest	-3	-3	-2	-3	-4.6%	-8.9%	-28.4%	-9	-9	0.2%
Net profit attributable	**667**	**1,004**	**702**	**552**	**27.2%**	**5.4%**	**-30.1%**	**2,600**	**2,959**	**13.8%**

FABS estimate & Co Data

RAKBANK - KPI

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Net FI/OI	71.5%	52.0%	70.4%	-110	1,842	71.3%	65.5%	-579
NIM	4.1%	3.7%	3.5%	-52	-17	4.0%	3.7%	-26
NIS	3.7%	3.7%	3.5%	-22	-18	3.6%	3.4%	-25
Fees & comms/OI	16.6%	11.3%	16.3%	-33	501	15.0%	14.2%	-79
Foreign exchange gain/OI	7.8%	6.3%	8.9%	112	262	7.6%	7.5%	-7
Other operating income/OI	1.7%	27.2%	1.0%	-71	-2,624	1.9%	9.8%	787
Invt Income/OI	2.3%	2.9%	3.4%	102	41	4.5%	3.3%	-114
Cost to income	35.9%	26.2%	33.7%	-219	756	35.8%	33.6%	-224
Impairment/PPP	9.8%	17.7%	10.6%	83	-713	13.6%	16.7%	308
NP/OI	52.5%	55.2%	53.8%	136	-137	0.0%	0.0%	0
Cost of risk	0.6%	1.7%	0.6%	-1	-105	0.8%	1.1%	25
Loan-to-deposit	79.7%	74.5%	77.3%	-238	276	75.6%	74.0%	-157
NPL - calculated	2.1%	1.9%	1.8%	-29	-12	1.9%	1.8%	-6
NPL Coverage - calculated	242.9%	252.2%	252.6%	966	37	258.8%	264.0%	524
Capital adequacy	18.8%	18.7%	19.3%	53	60	14.5%	14.5%	-7
ROAE	20.4%	23.6%	22.5%	206	-115	18.1%	17.6%	-45
ROAA	2.7%	2.9%	2.9%	20	-4	19.6%	19.2%	-44

FABS estimate & Co data

RAKBANK - Key B/S items

AED Mn	2Q25	3Q25	4Q25	1Q26	2Q26	YOY Ch
Net advances	48,662	51,228	53,246	55,381	58,082	19.4%
QOQ change	2.3%	5.3%	3.9%	4.0%	4.9%	
Total assets	94,961	99,459	105,018	107,323	108,611	14.4%
QOQ change	4.6%	4.7%	5.6%	2.2%	1.2%	
Customer deposits	61,079	65,621	70,460	74,308	75,147	23.0%
QOQ change	0.1%	7.4%	7.4%	5.5%	1.1%	
Total Equity	12,341	14,202	14,756	14,199	15,019	21.7%
QOQ change	6.6%	15.1%	3.9%	-3.8%	5.8%	

FABS estimate & Co data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	10.18	70.0%	7.12
Relative Valuation (RV)	9.58	30.0%	2.87
Weighted Average Valuation (AED)			**10.00**
Current market price (AED)			9.10
Upside/Downside (%)			+10%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.6%. Cost of equity is calculated by using the 10-year government bond yield of 5.2%, 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)	2,841
Terminal value (AED, Mn)	3,758
Book Value of Equity (as of June 2026)	13,870
FV to Common shareholders (AED, Mn)	**20,469**
No. of share (Mn)	2,011
Current Market Price (AED)	9.10
Fair Value per share (AED)	**10.18**

Residual Income Method

(All Figures in AED Mn)	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F
Net Profit	2,886	2,320	2,257	2,221	2,131
(-) Equity Charge	-1,309	-1,444	-1,518	-1,613	-1,707
Excess Equity	**1,577**	**876**	**739**	**608**	**423**
Discounting Factor	0.96	0.88	0.80	0.73	0.67
Present Value of Excess Equity	**757**[1]	**768**	**591**	**443**	**282**

Source: FAB Securities, [1]Adjusted 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 2026 PB multiple of 1.3x in line with peers.

Company	Market	P/B (x)		P/E (x)		Dividend Yield (%)	
	(USD Mn)	2026F	2027F	2026F	2027F	2026F	2027F
Sharjah Islamic Bank	2,564	1.1	NA	8.6	NA	7.6%	NA
Commercial Bank of Dubai	7,680	1.5	1.4	8.6	9.5	6.1%	NA
Emirates NBD	52,727	1.3	1.1	8.5	7.7	3.3%	3.7%
Mashreq Bank	14,146	1.3	1.2	7.6	7.0	4.0%	NA
Abu Dhabi Commercial Bank	30,953	1.3	1.2	10.0	8.9	4.5%	4.8%
Dubai Islamic Bank	15,131	1.2	1.1	8.7	8.4	4.7%	4.9%
Average		**1.3x**	**1.2x**	**8.7x**	**8.3x**	**5.0%**	**4.5%**
Median		**1.3x**	**1.2x**	**8.6x**	**8.4x**	**4.6%**	**4.8%**
Max		**1.3x**	**1.2x**	**8.6x**	**8.9x**	**5.7%**	**4.9%**
Min		**1.2x**	**1.1x**	**8.5x**	**7.7x**	**4.1%**	**4.3%**

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%

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