FXD Capital

Al Rayan Bank PLC

Financial Strength Score:	**54**
Bank:	Al Rayan Bank PLC
Parent:	Masraf Al Rayan QPSC ('MAR')
Entity Being Assessed:	Bank
Country of Domicile:	UK
Sovereign Rating (Moody's):	Aa3 Stable

Financial Information Source: Annual Financial Statements as at 31 December 2020
Last Updated: 30/09/2021

(A) Institution Information:

Al Rayan Bank PLC ('the Bank') was formerly known as the "Islamic Bank of Britain" and is the UK-based commercial banking subsidiary of Masraf Al Rayan QPSC or MAR (‘the Ultimate Parent' or 'Group’) which is one of the largest Islamic banking groups in the world. The Bank was acquired by the Ultimate Parent in 2014 and is indirectly owned via Al Rayan UK Limited, a non-operating holding company ('the Parent'). The Ultimate Parent is a Qatar-based Islamic banking group that is engaged in the provision of banking, financial, investment and brokerage services with operations in the UK, Europe, the Middle East and Asia. The Government of Qatar and the Qatar Investment Authority maintain a combined 21.2% strategic stake in the Group. The Bank was originally established in August 2004 and offers a range of Sharia compliant banking solutions for both individual and business customers. These are delivered through the Bank’s branch network which also includes Internet, telephone and postal banking channels. In November 2017 the Bank became the only UK Islamic bank to receive an official rating when Moody's assigned a strong double-A deposit rating but with a "Negative" outlook to equalise the latter with that of the Ultimate Parent in recognition of the ongoing political tensions between Qatar and a regional peer group of countries.

(B) Credit Indicators:

(B) Credit Indicators:		Benchmark	Actual	RAG Status
S&P Long-Term Rating Outlook:		A Stable	N/A	
Moody's Long-Term Rating Outlook:		A2 Stable	A1 Stable	GREEN
Fitch Long-Term Rating Outlook:		A Stable	N/A	
5-Year CDS Spread:	(Sector Average)	<100bps	43bps	GREEN
Monthly Share Price Movement:	(Ultimate Parent)	>PAR	-1.54%	AMBER

(C) Financial Analysis:

(C) Financial Analysis:	Benchmark	Actual	RAG Status	Trend
Balance Sheet Strength:				
Total Shareholder Funds:		£150m	N/A	↑
CET1 Capital Ratio:	>10.0%	13.4%	GREEN	↓
Tier 1 Capital Ratio:	>12.0%	13.7%	GREEN	↓
Total Capital Ratio:	>15.0%	16.2%	GREEN	↓
Leverage Ratio: (Shareholder Funds / Total Assets)	>5.0%	6.4%	GREEN	↓
Regulated Leverage Ratio:	>3.5%	5.9%	GREEN	↓
Operational Performance:				
Core Pre-Tax Profit / Net Operating Income:	>20%	11%	RED	↓
Core Net Operating Cost / Income:	<60%	85%	RED	↑
Liquidity:				
High-Quality Liquidity Assets / Total Assets:	>10%	7%	RED	↓
Liquidity Coverage Ratio (LCR):	>100%	288%	GREEN	↓
Funding:				
Total Customer Deposits / Total Liabilities:	>50%	90%	GREEN	↑
Total Customer Loans / Deposits:	<100%	89%	GREEN	↓
Net Stable Funding Ratio (NSFR):	>100%	145%	GREEN	↓
Asset Quality:				
Expected Credit Loss Ratio:	<-0.50%	-0.09%	GREEN	↑
RWAs / Total Assets:	<40%	43%	AMBER	↓

Entity Being Assessed: **Al Rayan Bank PLC**

(D) Financial Commentary:

Capital Strength:

Despite a rise of £4.2 million (3%) in Shareholder Funds (from a lower Retained Deficit and higher Net Other Reserves), the Bank reported a slight reduction in its capital adequacy ratios at the year-end. This was mainly due to growth of £92.5 million (4%) in the overall balance sheet size that contributed to a rise of £28.9 million (3%) in the risk-weighted asset (RWA) total. As a consequence the Tier 1 Capital ratio fell slightly to a still acceptable 13.7% (2019 Y/E = 13.8%) while the Total Capital ratio also fell slightly to a respectable 16.2% (2019 Y/E = 16.3%). The unadjusted leverage ratio also fell slightly to a still respectable 6.4% (2019 Y/E = 6.5%), due to the overall balance sheet growth that was partly offset by the higher Shareholder Funds, while the Bank reported a slightly lower regulated Leverage Ratio of a still respectable 5.9% (2019 Y/E = 6.0%).

Operating Performance:

The Bank generated a net Pre-Tax Profit figure of £4.198 million for the full-year which was down by £2.289 million compared with the figure for the previous year. This equates to a modest 11% of Total Operating Income. The downturn in net profit was mainly due to a fall of £3.444 million (8%) in Total Operating Income (primarily from significantly lower Net Islamic Finance Income and lower Net Fee Income, partly mitigated by higher Net 'Fair-Value' Gains) and a sharp rise of £0.805 million (109%) in the Expected Credit Loss figure (due to the adverse impact of the pandemic) that was partly offset by savings of £1.960 million (6%) in Total Operating Expenses. Although higher the Expected Credit Loss equates to only 0.09% of the quality Customer Loan book. However the cost/income ratio rose to a relatively high 85%, up from 83% for the previous year, due to the lower net revenues that was mostly offset by the operating cost savings.

Funding and Liquidity:

The Bank was soundly funded at the year-end. The Customer Deposit book grew by £124.2 million (7%) over the period and provided a prudent 90% of the overall funding base with Sukuk Funding, Subordinated Liabilities and Bank Deposits making up the majority of the remainder. Meanwhile the Customer Loan book grew by £100.9 million (6%) over the same period. As a consequence the customer loan to deposit ratio fell slightly to a prudent 89% (2019 Y/E = 90%). The Bank maintained a buffer stock of high-quality liquid assets consisting of cash and financial investments that equates to only 7% of Total Assets. In addition the Bank reported a lower regulated Liquidity Coverage Ratio (LCR) of a still very prudent 288% (2019 Y/E = 517%) as well as a lower regulated Net Stable Funding Ratio (NSFR) of a prudent 145% (2019 Y/E = 158%). The Bank is likely to receive further financial support from its Ultimate Parent, if needed.

Key Risks:

The main risk to the business would come from any deterioration in the quality of the Customer Loan book caused by the global coronavirus pandemic that results in significant impairment losses and/or any financial problems at Parent or Ultimate Parent level that result in a run on wholesale interbank deposits placed with the Bank. However the strong capital adequacy position and the potential financial support of the major shareholders - as well as the potential ability to raise additional funding via the Bank of England's latest Term Funding Scheme (TFSME) - should help mitigate these risks. There has been a slight fall of -2% in the Ultimate Parent's month-on-month share price.

(E) Recent News:

18 May 2020 - Moody's has downgraded the Bank's long-term deposit rating with a "Stable" outlook to reflect the liability structure shift towards retail deposit funding with wholesale deposits from institutions and larger companies making up only 10% of the bank's total deposit book which increases the possibility of loss-given-failure.

29 May 2020 - The Bank reported a net pre-tax profit figure of £6.5 million for the 2019 full-year - which represents a modest 15% of Total Operating Income - while the Tier 1 Capital ratio was lower at a modest 13.8% (2018 Y/E = 13.6%).

10 June 2021 - The Bank reported a net pre-tax profit figure of £4.2 million for the 2020 full-year - which represents a modest 11% of Total Operating Income - while the Tier 1 Capital ratio was slightly lower at a modest 13.7% (2018 Y/E = 13.8%).