AlRayan Bank Q.P.S.C. QSE:MARK

Q3 2026 Earnings Call Transcript

29 October 2026

Presentation

Operator

Hello, everyone, and thank you for joining us today for the AlRayan Bank Q3 Earnings Call. [Operator Instructions] I will now hand over to your host, Janany Vamadeva with Arqaam Capital to begin. Please go ahead.

Janany Vamadeva
Arqaam Capital Research Offshore S.A.L.

Thank you, Sami. Good morning, good afternoon, everyone, and thank you for joining us today. This is Janany Vamadeva. And on behalf of Arqaam Capital, I'm pleased to welcome you to AlRayan Bank's Q3 2026 Earnings Conference Call. I have with me here today from AlRayan management, Shahnawaz Niazi, the Group Chief Financial Officer; Tahir Pirzada, the Group Treasurer; and Alexis Patrick Neeson, the Group Chief Risk Officer.

Without any further delay, I'll now turn the call over to Shahnawaz. Over to you.

Shahnawaz Niazi
Group Chief Financial Officer

Thank you, Janany. Good afternoon, everyone, and thank you for joining us for AlRayan Bank's 9-month 2026 results. Today is an important day for AlRayan Bank and for you, our investors. As we accelerate the execution of our strategy, we are relaunching our Investor Relations program. The impact on the business of our strategic actions is becoming more explicit in several areas of the business. And we want to give you a clear view of that progress.

You may already have noticed our refreshed investor material. Today, I would like to walk you through our investment case and provide greater transparency on our performance and the changes underway. As a result, the presentation will be slightly longer than usual with formal full year guidance presented in the end. We also welcome your feedback on these enhancements, including any additional disclosures that would help you better understand our business and its prospects. We look forward to working closely with you in the future.

Slide 2. I will begin with a brief overview of the franchise and the legacy portfolio, then discuss our progress under our LEAD strategy. We will then turn to the financial performance and our outlook to the future.

Let's move to **Slide 4**. AlRayan, as you all know, AlRayan is Qatar's second largest Islamic bank with total assets of approximately QAR 184 billion. We have a substantial domestic franchise supported by our international operations and investment management capabilities. At the end of September 2026, financing stood at QAR 116 billion, and our customer deposits were at QAR 123 billion. Government and government-related entities account for more than 46% of financing, reflecting our strong and deep relationships with the Qatari government and the sovereign entities. Our capital adequacy ratio of 25.6% gives us considerable

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capacity to support the business and its growth. The priority is to translate the strength of this franchise into better earnings and return on capital.

Slide 5. The merger of AlRayan Bank and Al Khaliji in December 2021 created one of Qatar's largest banks, bringing together complementary franchises with a broader client base and a stronger capital position. Today, the combined bank has a scale and financial capacity to support larger client relationships and invest in the expansion and development of the business. And alongside these trends, the merger brought about a portfolio of legacy nonperforming financing of approximately QAR 5 billion that needed to be addressed.

Let's move to **Slide 6.** Since then, we have worked through the exposures and progressively strengthened coverage. Stage 3 coverage has increased from 46% in 2022 to 75% at the end of September 2026, while the nonperforming financing ratio stands at 5.1%. We have now addressed most of the issues in the legacy portfolio and have a clear visibility over the provisions required for the remaining exposures. As you can see on the slide, we have full visibility of the legacy NPFs. They are under control and being actively managed. That greater visibility marks an important change for the bank. With much of the legacy cleanup behind us, we can put together a greater emphasis on improving the underlying business and converting the progress under the LEAD strategy into stronger returns.

Slide 8. As a quick recap of our strategy, as you are all aware, LEAD was launched in 2024 to seize the opportunities for a large Islamic bank in Qatar and deepen our relationships with the clients. The 4 pillars of LEAD address the commercial, operational and organizational changes needed to achieve that. Under customer centricity, we aim to become more clients' main operating bank, combining financing with payments, cash management and trade finance to grow fee income and operating balances.

In personal banking, we are strengthening private and premier services and relationships with our salaried customers. On execution excellence, which means better IT infrastructure, simpler processes, better digital journeys and stronger data to understand customer needs and relationship profitability. With regards to disciplined growth, it will bring greater rigor to pricing and capital allocation, considering funding costs, credit risk and capital usage across new business and renewals.

The final pillar focuses on our people to strengthen specialist capabilities and link incentives to delivery. The LEAD strategy operates with stronger governance and ambitious targets. The transformation office tracks progress and reports quarterly to the Board. Together, these changes should improve returns from existing relationships and capital while supporting selective growth.

Let's move to **Slide 9**. Over the past 2 years, we established the governance capabilities and systems needed to deliver our strategy. In 2026, we are building on those foundations and scaling execution across the bank. The corporate account plans and relationship- based pricing are now being applied across our coverage teams with closer monitoring of business opportunities and progress. The Bank@Work has been rolled out to more than 40 employers, helping us extend corporate relationships into personal banking and attract salary flows.

The more this initiative gains traction, the more employers will be attracted to it. Our upgraded digital channels support this activity. Our AlRayan Go app rating has improved from 2.8 to 3.8 and up to 90% of retail banking needs can now be handled digitally. More than 40 initiatives are now tracked through a common scorecard. The focus is on turning this execution into deeper client relationships, a better funding mix and consequently, stronger earnings.

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Slide 10. As we scale our LEAD strategy, we are seeing the first evidence of its impact on the business. The private sector financing now represents 53.6% of the portfolio compared with 50% at year-end. Financing spreads have improved from 48 to 59 basis points, while current and savings accounts have increased from 17% to 20.1% of the overall deposit base. Deeper client relationships are also creating opportunities to grow fee income through trade finance, cash management and foreign exchange services, though this has not yet translated to a higher fee income share.

This year, we are operating in a challenging geopolitical environment, and ROE for the first 9 months of 2026 stands at 5.4%. Now we are aware this is low and well below where we want it to be. External conditions have had some impact, although we recognize that improving returns is our core responsibility. This year's bottom line does not yet meaningfully reflect the changes underway through the LEAD strategy. Our focus is on converting that progress into stronger earnings, and we see significant room to improve returns as the initiatives take effect and legacy provisions reduce.

Let's move to **Slide 11**. As I mentioned earlier, AlRayan is highly capitalized with a capital adequacy ratio of 25.6%. This gives us considerable capacity to support healthy growth while maintaining a strong balance sheet, and this creates gradual flywheel on the center of the slide. Risk-weighted assets represent 54% of total assets, reflecting our significant exposure to government-related financing. This relatively low risk density gives us room to broaden the portfolio and improve profitability through selective risk adjusted financing.

As lower return RWA mature, we can redeploy that capacity into financing and broader client relationships, which can offer us much higher returns mainly in nongovernment financing. And this creates a gradual flywheel in the business model, where maturing assets release capacity, disciplined investment improves earnings and those earnings support further profitable growth. We, therefore, have scope to improve returns through both growth and a more productive use of our existing balance sheet. Our strong capital position allows us to support that growth while sustaining attractive dividend distribution. This is supported by resilient macro conditions in Qatar, which I will take you through on the next slide.

Slide 12. Now the opportunity to deploy our capital also needs to be considered in the context of Qatar's economy and the overall banking sector here. Regional tensions have made this a challenging year with a sharp contraction in GDP projected for 2026, followed by a recovery in '27 and 2028, assuming the geopolitical situation normalizes. Qatar's substantial sovereign wealth, international reserves and natural gas resources provide support throughout this period. The banking sector remains well capitalized with capital adequacy of around 20% and continued balance sheet growth.

Now for AlRayan, the longer-term opportunity extends across corporate and personal banking. Economic diversification should create demand for financing and transaction services, while Qatar's substantial private wealth supports the development of our private and premier propositions. Our capital strength and the capabilities we are building through LEAD positions us to pursue these opportunities selectively.

Slide 13. Now let me take you through the financial performance and explain how the changes we have discussed are coming through the numbers. The main point I would like to leave you with is that profitability is still below where we want it to be, but the business is moving in the right direction. The management team is confident that the strategy is the right one and that we will see further progress on top of the strong momentum already outlined. We now have a much tighter pricing discipline on the new business that we generate. We have a very clear focus on growing lower cost deposits and more work is underway to increase fee and commission income. And at the same time, sovereign deposits have supported our liquidity and our capital position remains strong, as you would have seen in the financial statements.

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Let me take you through how these developments are reflected in the financial results. **Slide 14**. Now, despite the ongoing geopolitical situation, our 9-month performance has held up well. Financing assets increased 2% year-on-year to QAR 116 billion, and this is supported by strong commercial financing and our U.K. subsidiary. Our investment securities grew 8% to QAR 50 billion, driven by Sukuk purchases in the quarter. Deposits grew 8% to QAR 123 billion, driven largely by government and sovereign liquidity placed with us, together with steady gains in retail current and savings accounts.

Our net operating income was QAR 2.4 billion, down year-on-year on a decline mainly in customer recoveries from written-off accounts and lower fee income from trade and FI business. The net profit margin stayed broadly stable on stronger pricing discipline with further support expected in the fourth quarter from the September Fed rate increases. The cost of risk is running below 2025 levels. The NPF ratio has improved, coverage strengthened and capital adequacy remains strong at 25.6%, supporting future growth. Our return on equity came at around 5.4%.

I will now explain these movements in more detail. Let's move to **Slide 15**. So our total assets stood at QAR 184.4 billion, which is up 5% year-on-year, led by growth in financing assets and investment securities. The growth in investment securities included 2 Ministry of Finance [indiscernible]. Financing growth was more modest following a large government-related repayment earlier in the year. We maintained prudent balance sheet growth, mindful of the ongoing risk environment.

Total liabilities stood at QAR 158.7 billion, up 5% year-on-year, driven by customer deposits, while wholesale funding stayed relatively stable. Deposit growth had a higher contribution from CASA in line with our LEAD strategy, which is coming mainly from government and GRE clients. Additional bilateral funding has been raised since quarter end and a planned Sukuk issuance is the next step in strengthening our funding base. This is planned for Q4. Total equity held stable at QAR 25.8 billion with capital levels strong enough to support growth and absorb any potential shocks.

I will now take you through the trends in financing on the next slide. Let's move to **Slide 16**. Thank you. Financing assets stood at QAR 116 billion, up 2% year-on-year, although remaining below the year-end level. As you can see from the top right chart, the share of government-related financing declined due to a customer repayment of approximately QAR 5 billion in the first quarter, following our strategic decision to exit this relationship due to insufficient risk-adjusted returns.

And at the same time, commercial financing increased year-on-year with new corporate disbursements more than offsetting this repayment, in line with our strategy to grow higher-yielding nongovernment financing. Our U.K. subsidiary also contributed to the growth with financing increasing by QAR 2.4 billion year-on-year. However, our primary focus remains on the domestic market, which accounts for 85% of our financing book.

Looking ahead, despite the ongoing geopolitical challenges, the domestic lending environment is still providing a healthy pipeline of new financing opportunities. However, we remain selective and are carefully managing the pace of new disbursements considering the current environment. Let me now briefly hand over to our Treasurer, Tahir Pirzada, to cover our investment portfolio and funding position. Tahir, over to you.

Tahir Pirzada
General Manager of Group Treasurer & Financial Institutions

Thank you, Shahnawaz. Good afternoon to everyone on the call. I'll walk you through **Slide 17** that talks about investment securities. Investment securities growth was driven by 2 sovereign Sukuk, mainly

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denominated in Qatari riyal, where the obligor Ministry of Finance, partially offset by an exit from a large government-related investment. This did not materially alter our portfolio composition with sovereign debt continuing to account for the majority of our investment book.

Overall, the investment portfolio reached QAR 50 billion, up 8% year-on-year. The book itself is high quality, mostly fixed rate investment-grade securities denominated in Qatari riyal, most of them and held to maturity, which gives us good buffer and cash flow stability.

The **next slide** talks about customer funding. As you can see on the screen, deposits have grown steadily and now stand at QAR 123 billion, which is up 8% year-on-year and 10% year-to-date. System liquidity is a bit under pressure given the ongoing geopolitical situation and sovereign clients have been supporting in placing liquidity with us and with the system during the geopolitical situation. This support explains a significant part of this year's deposit growth. This is also visible on the top right chart, which shows growth in deposits from government and GRE sector.

Resident deposits are relatively low. We continue to manage the maturity and concentration of the deposit base closely. On CASA specifically, we have made progress with the ratio now standing above 20% of total deposits, as shown in the chart on the bottom left. Most of that improvement has come through government call accounts. We have also started to see some steady growth in retail current and saving accounts followed strategic move to attract salary accounts.

I will now take you through to wholesale funding. **Slide 19**. Wholesale funding declined year-on-year slightly, but remains diversified across maturities and products. By type, it is driven mainly by Wakala payable and repurchase agreements with foreign currency borrowing and Sukuk making up the rest. We raised bilateral funding in October and a plan for further Sukuk issuance soon, depending on certain market conditions, which will diversify the maturity profile. Wholesale funding represented around 19% of total liabilities compared with around 22% a year earlier, mainly driven by the increase in customer deposits against lower wholesale funding balances.

With this, we conclude our balance sheet discussion. I now hand over to you to, Shahnawaz, to go through the income statement now.

Shahnawaz Niazi
Group Chief Financial Officer

Thank you, Tahir. Janany, let's move to **Slide 20**. So starting with our overall income statement and returns on this slide. Net profit came in at about QAR 978 million, down 26% year-on-year and 11% quarter-on-quarter. And the main pressures were the lower fee and other income, including recoveries and QAR 116 million of global minimum tax expense. The fee and other income decline was largely due to lower recoveries during the period, and these lower recoveries are from legacy written-off customers.

Over the past few years, we have been pursuing an identified pool of written-off exposures and most of these recoveries have now been realized, creating a high base effect. The impact of lower recoveries on fee and other income is illustrated in the top right waterfall chart with the blue shaded bar highlighting the decline primarily driven by lower recoveries. This resulted in a 10% year- on-year decline in net operating income despite modest growth in net financing and investment income. Operating expenses grew in line with inflation with the bigger impact on net income coming from the introduction of new global minimum tax. ROE came at 5.4% compared with 5.3% a year earlier. Our full year guidance on ROE is around 5%.

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Next slide separates these effects to provide a clear view of the underlying business. **Slide 21**. Thank you. To give you a clear comparison, this slide separates legacy ECL, recoveries and global minimum tax from the rest of the earnings performance. On the adjusted basis shown here, core net profit was approximately QAR 1.36 billion for the 9-month period compared with QAR 1.44 billion a year ago. This represents a relatively resilient 5% year-on-year drop compared to the 26% headline decline. We expect the impact of these nonrecurring items to decrease over time, narrowing the gap between reported and core performance, which we believe better reflects the value we create for our shareholders.

Slide 22. Yield reflects the income earned on both our financing assets and our investment book. Looking at the trend, yield declined from 5.24% to 4.79%, largely due to the Fed rate cut impacts of the third and the fourth quarter of last year, combined with full 9- month impact of some customer repricing conducted in June 2025. And since then, yield has turned up sequentially, driven by tighter pricing discipline on new deals across all our businesses and supported by the repayment of a large government-related exposure in the first quarter, which was later replaced by corporate and private banking deals at much better margins.

Therefore, on a year-on-year basis, yield is still showing a moderate decline since the repricing benefit from the September rate increase has only partly come through so far with a fuller impact expected to show in the fourth quarter. And as a result, financing income for 9 months 2026 came down, largely reflecting the impact of the earlier Fed cuts working through our loan book. Investment income grew alongside the 8% increase in our investment book, as explained earlier. Most of our book is held to maturity. Most of the investment book is held to maturity, so it does not get revalued, and it is invested in fixed rate, which supports stable and predictable investment income.

With this, I will now take you through the cost of funding. **Slide 23,** please. Our cost of funds has come down year-on-year, reflecting the lag in repricing our time deposits, and this is the same thing that I have been explaining to our investors in our earlier interactions. When rates fell last year, our financing book repriced quickly, while our deposits book, which mostly comprised of term deposits, continued at their old rates into the second quarter of this year. On a quarterly basis, cost of funds nevertheless increased as funding market conditions continue to remain tight.

The higher CASA ratio has not meaningfully translated into an equivalent reduction in funding costs as much of the increase came from government call accounts that are competitively priced. On our wholesale funding, costs have ticked up more recently due to higher reliance on interbank and Central Bank repo borrowing, though this remains a smaller part of our overall funding base. The customer deposits are growing at a healthy pace, while wholesale funding has declined, keeping our overall expense-bearing liabilities relatively stable. We expect funding costs to remain under pressure as we raise long-term funding in the current market and liquidity conditions are likely to remain challenged over the coming months.

Slide 24. Our net profit margin stood at 1.48% year-to-date, down from last year, while the quarterly margin was 1.47%, slightly declined quarter-on-quarter. The margin trend reflects a similar pattern during periods of declining interest rates. And this is again on the back of the same discussions that we've been having in the past as well, which is the impact of Fed rate cuts on our NIMs. Our financing book reprices relatively quickly, while deposit costs adjust more gradually, initially putting pressure on margins.

And as deposit costs catch up, the margins typically recover in subsequent quarters. And we've seen this dynamic play out. The same thing happened in 2024 and again in 2025 and ultimately, with margins

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stabilizing and improving slightly over the past 3 quarters. As shown on the right, our yield has stayed above the QCB deposit rate and our cost of funds has mostly stayed below it, which has helped keep margins reasonably stable through the cycle. Our net financing investment income came in at QAR 628 million for the quarter and QAR 1,866 million year-to-date, which is up 1% from same period last year.

Within that, financing income was down 8%, reflecting the impact of last year's Fed rate cuts, while investment income grew 6% on the back of the larger investment book. The funding expense also improved, contributing positively to the overall movement. Now looking ahead, we expect to see some further benefit in the fourth quarter from the September rate increases as our financing book reprices faster than our deposit book. And as a reference point, a 25 basis point increase translates into a roughly circa QAR 20 million to QAR 25 million of positive impact to our annualized profits.

Having said that, we remain mindful that new business, particularly on the corporate side, is being priced at tighter margins than our current book. And this is the overall market phenomenon. Over time, this means continued growth in low-cost CASA will be important to protect our margins at these levels.

I will now take you through the fee and income slides on the next slide. **Slide 25**, Janany. Thank you. On fee and other income, which has declined by 33% over the first 9 months, primarily driven by lower recoveries from legacy written-off customers. The geopolitical environment has affected our trade finance and financial institutions business as well. We would expect activity to improve as conditions stabilize, while we continue working to win more transaction business from our clients. The net fee and commission income improved to QAR 96 million in the third quarter from QAR 57 million in the second quarter, although it remained 39% below the same quarter last year.

While we continue to monitor the recovery asset pool and pursue recoveries as far as possible, these will naturally decline over time. We, therefore, remain primarily focused on growing our recurring fee business, including trade finance opportunities with clients where we have historically done less transaction business.

Next slide, please, **Slide 26**. Our operating expenses have increased by 3% to QAR 748 million. The cost-to-income ratio reached -- the cost-to-income ratio reached 30.7%, driven more by lower income rather than rising costs. Operating expenses are being driven by both our continued hiring under the strategy implementation and the depreciation from our technology investments, including new mobile banking platforms. More of this investment will come through in future periods as our new core banking system is implemented and we see the full year cost of additional staff. We will remain disciplined on cost while building the capabilities needed to deliver our LEAD strategy.

With that, I will let our group CRO, Alexis Neeson, take over the cost of risk and credit quality discussion. Alexis, over to you.

Alexis Patrick Neeson
Group Chief Risk Officer

Thank you, Shahnawaz, and good afternoon to all. On **Slide 27**, the cost of risk increased quarter-on-quarter on higher BAU provisions. Cost of risk came in at 60 basis points for the first 9 months compared with 73 basis points a year ago. Our financing impairment charges were QAR 521 million, including QAR 409 million relating to the legacy portfolio. The quarterly cost of risk increased to 73 basis points, with the majority still arising from the legacy book despite an uptick in BAU provisions quarter-on- quarter.

This increase in our BAU cost of risk reflects the phasing decision rather than a change in underlying credit quality. We have also included the impact of the current geopolitical environment in our models. But given

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our concentration in government and high net worth client exposures, the impact has been limited. Our full year provisioning expectation remains approximately QAR 800 million, broadly in line with last year.

O**n Slide 28**, our coverage is gradually improving as the legacy cleanup progresses. The NPF ratio was 5.1%, while Stage 3 coverage increased to approximately 75%, reflecting the continued provisioning against the legacy portfolio. As mentioned earlier, we have good visibility on the remaining provisioning requirements for the legacy book with approximately QAR 125 million expected in Q4 and QAR 550 million in 2027. NPF balances have remained relatively stable across both BAU and legacy categories with little impact of migration or write-offs.

The Stage 2 balances have remained relatively stable over recent years, but provision coverage has gradually improved. Most exposures relate to corporate entities and high net worth individuals with strong underlying credit quality, where payment delays are often driven by established payment practices rather than financial distress. I should also add that under regulatory rules, once an account moves to Stage 2, it must demonstrate a full year of consistent repayment before it can move back to Stage 1. Some of these exposures remain in Stage 2 longer than the underlying credit quality would suggest.

I will now hand back to Tahir to cover capitalization and liquidity. Thank you.

Tahir Pirzada
General Manager of Group Treasurer & Financial Institutions
Thank you, Alexis. So **Slide 29**, please. Our capital position remains strong as illustrated in the top left chart with a capital adequacy ratio of 25.6% and CET1 ratio of 23.4%, reflecting sustained capital strength over time. Total regulatory capital stood at QAR 25.5 billion, broadly flat year-on-year with CET1 at QAR 23.3 billion, making up the large majority supported by additional Tier 1 and Tier 2 capital. We are retaining this capital to support future growth. As the financing book expands and we deploy capital into business offering appropriate returns, we expect to use this headroom over time. For now, the strong capital base also gives us capacity to absorb any potential losses in the current environment.

Next slide, please. Our liquidity ratios remain comfortable with an LCR of 157% and an NSFR of 110%. The regulatory financing to deposit ratio stands at 90.3%, well within the regulatory thresholds. Wider market liquidity remains tight, and we expect pressure on the availability of cost of funding to continue. We remain better positioned than most of peers given our low reliance on nonresident deposits and strong government and related sponsorships.

With that, I will pass back to Shahnawaz to conclude the presentation. Thank you.

Shahnawaz Niazi
Group Chief Financial Officer

Thank you, Tahir. Moving to **Slide 31**. Touching briefly on the segmental performance. The growth in total assets has been driven mainly by our treasury and investment activity as well as expansion in our international business. The liability growth was driven mainly by the corporate segment, further supported by international. Corporate remains our largest segment by contribution to total assets and net operating income.

And the operating income and profit before tax decline in both corporate and retail is largely reflecting lower financing income tied to the rate repricing discussions earlier, pressure on net fee and commission income and the lower corporate recoveries. Partly offsetting these were positive trends in our asset management and international businesses, further supported by unallocated associate and other

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income. With this, we wrap up the financial performance of the current quarter, and I will now take you through our guidance for full year 2026.

Slide 33, please. For the full year, we continue to expect low single-digit financing growth, supported by careful deployment of our pipeline given our focus on profitable, selective growth in the current environment. Our net profit margin is expected to see a slight increase from full year '25 base of 1.45%, which is currently at 1.48%, supported by the timing benefit from the September rate increase.

We expect to see a slight increase in cost-to-income ratio as well from '25 level of 28.4%, reflecting income pressure and the continuing investment in people and technology. Cost of risk is expected to increase from current levels of 60 basis points to approximately 65 to 75 basis points, taking our full year provision charge towards the QAR 800 million number, in line with how we were last year. In combination, these will take our full year return on equity to around circa 5%. And finally, the capital adequacy is expected to remain above 25%.

So to conclude, overall, profitability is not yet at the level our shareholders would like to see. However, our strategy implementation is picking up. The pricing discipline is much stronger, and we are focused on growing lower cost deposits and a strong focus on fee income. Sovereign relationships continue to support our liquidity, and our capital position remains strong. Our priority is to turn these changes into better earnings and returns for our shareholders.

Thank you all for joining and for your time today.

We will now open the floor for questions. Janany, over to you.

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Question and Answer

Janany Vamadeva
Arqaam Capital Research Offshore S.A.L.

So I think I'll kick off the Q&A session with a couple of questions, if I may. My first question is around the legacy book exposure that you have disclosed in the presentation. It's about QAR 4.8 billion now, which is like 3.9% of your loan portfolio. It has come down from QAR 5.4 billion in 2023 when you started the cleanup.

So I'm just wondering when you expect this to be fully out of the equation and will not be reflected in your cost of risk? Because in the presentation, you have just 2027 when you're seeing the legacy provisioning. So when -- so does that mean it's fully out of the equation by end of next year? And after that, where do you see like Stage 2 and Stage 3? And what do you consider your normalized cost of risk levels?

Shahnawaz Niazi
Group Chief Financial Officer
Alexis, would you like to answer that question?

Alexis Patrick Neeson
Group Chief Risk Officer

Yes. Yes, I'll take those ones. Thanks for the question. In terms of the legacy NPF book, as you can imagine, it proves stubborn to resolve. We have made some progress in terms of recoveries and our discussions do continue with clients in terms of potential settlements. But we're not in a position to give time lines right now, but we do expect it to decrease once we get to the kind of 2028 area. But we do remain very focused on trying to resolve that.

In terms of Stage 2, we have a significant number of clients already classed there, as you can see from the percentage. So I don't expect to see notable migrations from Stage 1 to Stage 2 in the near future. I think that's as big as it's going to get. So that's to cover the legacy book, the Stage 2. In terms of normalized cost of risk, I would expect it to be down at the 40 to 50 basis points mark, which is where we see a lot of the market. Obviously, it depends on how the economy develops and the geopolitical situation, but that's where I would see a normalized cost of risk once we have finalized cleaning the legacy book.

Janany Vamadeva
Arqaam Capital Research Offshore S.A.L.

Thank you, Alexis. Just along the same lines, the presentation states like a lost revenue in terms of NII of QAR 270 million on an annual basis. Do you think some of that would come back to your books like [indiscernible] or redeployment from 2028?

Shahnawaz Niazi
Group Chief Financial Officer

Alexis, that question...

Alexis Patrick Neeson
Group Chief Risk Officer

The question was on NII, wasn't it? What was the question?

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Janany Vamadeva
Arqaam Capital Research Offshore S.A.L.

Yes. On net interest income or net financing income, that is a lost revenue on an annual basis of QAR 270 million. Do you expect any of that to come back starting 2028? Or it's just a historical number?

Alexis Patrick Neeson
Group Chief Risk Officer

I guess you, Shahnawaz, is on the net interest...

Shahnawaz Niazi
Group Chief Financial Officer
Sure, sure. So Janany, answer to your question is we do not expect that revenue to come back from the legacy book. Legacy book for all practical purposes is a nonperforming book. And at that point -- and at this point in time, my guidance to everyone is, I do not expect any recovery from the lost interest or lost profit, as we call it in the Islamic banking world, to come back to our P&L.

Janany Vamadeva
Arqaam Capital Research Offshore S.A.L.

Thank you, Shahnawaz. We can open the floor to Q&A.

Operator

[Operator Instructions]

Janany Vamadeva
Arqaam Capital Research Offshore S.A.L.

As we wait for like audio question, there is a question in the chatbox. Let me read that out. Non-legacy cost of risk has been quite low in last few years versus other banks. How is this trend shaping up given there is an increase in non-legacy cost of risk?

Shahnawaz Niazi
Group Chief Financial Officer

Let me take that question. So as I explained earlier, while explaining the portfolio, we are -- we still have approximately 50% of our portfolio with the government. That means, by definition, our NPL, of course, excluding the legacy portfolio, our NPL and our cost of risk should be the lowest in the market. Other banks in the market have their government portfolio ranging from 15% to 20%. We are 50%. So that is one reason why our non-legacy cost of risk is much lower compared to the rest of the market. So I hope that answers this question.

And the next text question that I see on the dashboard is, given the new CEO is yet to join and we haven't seen much financing growth, what will be his mandate? So let me just address the point on the financing growth. Yes, overall year-to-year basis, you see a modest financing growth, which is 2%, a couple of billion riyals. But this is despite a big QAR 5 billion repayment that we have consciously decided to execute or decided to get the client to repay us. It's a QAR 5 billion repayment. So my request is to look at the financing growth along with this repayment of QAR 5 billion. So effectively, we have grown the book by QAR 7 billion. So that was the point on the financing growth.

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The mandate of the new CEO. So that's a very general question. The CEO will have the full mandate, full authority to execute the strategy, which the bank is working towards. And of course, he comes with full authority as the CEO to execute whatever is best for the bank. And clearly, the strategic initiatives, the various strategic initiatives under the LEAD umbrella that we are executing, he would want to come and fast track those.

Operator

[Operator Instructions]

Janany Vamadeva
Arqaam Capital Research Offshore S.A.L.

As we wait for more questions, I have one follow-up question on asset quality, if I may. How much of your book was under deferral as part of the Central Bank support program? And I believe it ended in September. Should we expect an impact on NPL formation or cost of risk coming from that?

Shahnawaz Niazi
Group Chief Financial Officer

Immaterial, Janany. The answer immaterial.

Operator

We currently have no further questions. So I'd like to hand back to the management team for some closing remarks.

Shahnawaz Niazi
Group Chief Financial Officer
I would like to thank all the investors for joining the call. In case you have any questions, please feel free to send us e-mail. My colleague has already -- and the e-mail address, you will be able to find in the e-mail that my colleague has sent you along with the invitation, and we will be more than happy to answer them for you. Once again, thank you all, and I would like to then conclude the meeting today. Thank you.

Alexis Patrick Neeson
Group Chief Risk Officer

Thank you.

Operator
This concludes today's call. We thank everyone for joining. You may now disconnect your lines.

Classification: Public