

## Abu Dhabi Islamic Bank (ADIB)

Current Price	Target Price	Upside/Downside (%)	Rating
AED 23.80	AED 25.00	+5.0%	HOLD

### 2Q25 Net Profit higher than our estimate

- Net funded income grew 13.8% YOY to AED 1.9 Bn in 2Q25, primarily driven by strong growth from Islamic Financings, partially offset by an increase in funded expense.
- ADIB continued to expand its customer base, with 145,000 new customers joining in 1H25, bringing its total customer base to 2 Mn with 75% acquired through digital channels.
- Calculated NIMs fell 27 bps YOY to 3.1% in 2Q25, primarily due to lower asset yield.
- Non-funded income rose marginally 0.5% YOY to AED 1.2 Bn in 2Q25, primarily driven by higher fee and commission income, and strong revenue diversification across fee & commission.
- The calculated Cost-to-income ratio increased 55 bps YOY to 27.5% during 2Q25, supported by continued investments in talent, digital initiatives, and technological upgrades, as well as broader strategic initiatives.
- Impairments fell 31.8% YOY to AED 199 Mn in 2Q25, with calculated cost of risk at 0.5% in 2Q25 compared to 0.9% during 2Q24.
- Total assets grew 22.0% YOY and 6.9% QOQ to AED 260.4 Bn in 2Q25, mainly driven by growth in net financing, coupled with an increase in the investment portfolio.
- Asset quality continues to improve, with an NPA ratio of 3.5%, the lowest since 4Q16, accompanied by a coverage ratio of 85.3% as of 2Q25.
- Net advances grew 23.2% YOY and 8.4% QOQ to AED 162.8 Bn in 2Q25, attributable to strong growth in retail banking, GRE, and closure of some landmark deals in corporate banking.
- Deposits grew 23.6% YOY and 6.4% QOQ to AED 212.8 Bn in 2Q25, due to a strong funding mix with CASA deposits accounting for 66% of total deposits.

### Earnings Call Summary

- ADIB witnessed strong revenue growth in 2Q25, supported by expansion in core business volumes and continued customer acquisition.
- Expects two rate cuts between September and December 2025, reaching to a 50-bps cut and updated the 2025 NIM guidance to 4% – 4.25%.
- ADIB anticipates its effective tax rate c. 11.5% for medium term in line with the previously published guidance.
- Interest rate sensitivity remains unchanged, with a 50-basis point movement in interest rates expected to result in AED 120 Mn change in net income.
- The Bank's capital optimization measures proved effective, with risk-weighted assets growing at a slower pace compared to the expansion in advances. Additionally, management remained confident that digital-first growth will continue into 2025–26.
- ADIB focuses on capital-efficient growth, prioritizing low RWA assets like home finance, with RWA utilization improving to 67.6% in 2Q25, down from 69.4% in 1Q25. Thus, ADIB is doing more business without proportionately increasing risk exposure.
- The Bank does not anticipate the need for capital issuance in 2025, however AT1 issuance remains a potential option to support legal lending limits, if required.
- ADIB revised its loan growth guidance for 2025 from 12%-14% to 18%-20%, mainly due to solid growth achieved in 1H25.
- The bank reported 55% YOY growth in public sector lending, driven by strategic national projects across multiple emirates, with low-risk, near-zero RWA exposures.






- The home finance portfolio grew 44% YOY, with limited risk to the existing loans due to a healthy 70%-75% average LTV and strict underwriting standards.
- ADIB maintained strong pricing discipline on sovereign and large corporate exposures, which have lower yields due to lower risk, and focuses on total relationship returns using EVA and internal hurdle rates to protect NIMs and RoE despite rate cuts.
- ADIB targeted non-funded income to comprise c. 41% of total revenue over the next 12-18 months, and cautiously rising to 45% in the long-term, while maintaining a balance to avoid earnings volatility and preserve funded income stability.

#### ADIB – P&L

AED Mn	2Q24	1Q25	2Q25	2Q25F	Var.	YOY Ch	QOQ Ch
Net funded income	1,631	1,752	1,856	1,699	9.2%	13.8%	6.0%
Non-Funded Inc	1,201	1,120	1,206	1,148	5.0%	0.5%	7.7%
<b>Operating income</b>	<b>2,832</b>	<b>2,871</b>	<b>3,062</b>	<b>2,847</b>	<b>7.6%</b>	<b>8.1%</b>	<b>6.6%</b>
Operating expenses	-763	-830	-842	-826	2.0%	10.3%	1.5%
<b>Pre-provision inc.</b>	<b>2,069</b>	<b>2,042</b>	<b>2,220</b>	<b>2,022</b>	<b>9.8%</b>	<b>7.3%</b>	<b>8.7%</b>
Financing impairment	-293	-106	-199	-153	30.7%	-31.8%	88.9%
<b>Profit before NCI</b>	<b>1,777</b>	<b>1,936</b>	<b>2,021</b>	<b>1,869</b>	<b>8.1%</b>	<b>13.8%</b>	<b>4.4%</b>
NIC. & zakat	-283	-320	-344	-297	16.0%	21.5%	7.6%
<b>Net Profit</b>	<b>1,493</b>	<b>1,616</b>	<b>1,676</b>	<b>1,572</b>	<b>6.6%</b>	<b>12.3%</b>	<b>3.7%</b>

FABS estimate & Co Data

#### Guidance

= Management Guidance	1H 2025 Actual	FY 2025 Guidance
<b>Gross Financing Growth</b> Customer financing momentum in both retail and corporate expected to remain robust, supported by a resilient economic backdrop	22% YoY 14% YTD 	18% to 20% (Updated guidance)
<b>Net Profit Margin</b> NPM to stabilise in 4% to 4.25% range for FY 2025	4.27% 	4% to 4.25%
<b>Cost of Risk</b> CoR to remain at healthy level due to better asset quality and effective risk management supported by continuous build-up of provisioning	0.44% 	0.40% to 0.60%
<b>Cost to Income Ratio</b> Opex growth to support business expansion moderated by disciplined management and digital efficiencies with overall positive "jaws"	28.2% 	< 30%
<b>Return on Equity</b> Solid expected profit growth and focus on capital-efficient income growth expected to drive continued superior returns	29.8% 	> 25%

## 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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