Earnings Call Insight | 3Q26

UAE Equity Research | Sector: Banking | Market: ADX

Abu Dhabi Islamic Bank (ADIB)

Current Price	Target Price	Upside/Downside (%)	Rating
AED 20.80	AED 26.00	+25%	BUY

3Q26 Net Profit slightly lower than our estimate

- Net funded income increased 4.9% YOY to AED 2,017 Mn in 3Q26, supported by strong customer financing growth and higher business volumes, partially offset by higher funded expenses.
- ADIB continued to expand its customer base, adding 202K new customers during 9M26, supporting franchise expansion and business growth.
- Calculated NIMs contracted 33 bps YOY and 19 bps QOQ to 2.7% in 3Q26.
- Non-funded income declined 6.7% YOY to AED 1,206 Mn in 3Q26, reflecting lower sukuk income, foreign exchange and other income along with higher investment losses, partially offset by higher net fee and commission income and income from investment properties.
- The calculated cost-to-income ratio deteriorated 106 bps YOY and 115 bps QOQ to 29.5% in 3Q26, as operating expenses increased 4.0% YOY to AED 950 Mn in 3Q26, while operating income grew marginally 0.3% YOY to AED 3,223 Mn in 3Q26.
- Financing impairment charges declined 27.3% YOY to AED 150 Mn in 3Q26, with the calculated cost of risk declining to 0.27% in 3Q26 from 0.47% in 3Q25, reflecting continued healthy asset quality.
- Net profit attributable to equity shareholders increased marginally 0.2% YOY to AED 1,729 Mn in 3Q26, supported by higher net funded income and lower impairment charges, partially offset by lower non-funded income coupled with higher operating expenses and higher profit attributable to non-controlling interests.
- Net advances increased 25.6% YOY and 4.1% QOQ to AED 214.5 Bn in 3Q26, supported by continued financing growth across retail and wholesale banking.
- Customer deposits grew 16.7% YOY and 5.3% QOQ to AED 258.7 Bn in 3Q26, while CASA deposits accounted for 60% of total deposits in 3Q26, supporting the Bank's funding profile.
- Investment securities increased 2.9% YOY and 2.4% QOQ to AED 36.8 Bn in 3Q26.
- ADIB's total assets rose 17.8% YOY and 4.5% QOQ to AED 317.6 Bn in 3Q26.

Earnings Call Summary

- The Bank attributed margin compression to higher funding costs amid tighter liquidity conditions and continued competition for deposits. The Bank noted that funding costs rose faster than financing assets could be repriced, while management avoided immediately passing higher rates to customers.
- ADIB expects margin pressure to moderate in 4Q26, with margins potentially normalising by 2Q27.
- ADIB's entire wholesale book is floating-rate and reprices within three months, so it should capture the first- and second-rate hikes by year-end. It added that the wholesale book is broadly matched in size to its profit-paying deposit base.
- Management indicated that every 50-bps increase in rates could generate c. AED 120–130 Mn in additional income once repricing normalises.
- The retail financing margin fell 16 bps YOY as personal finance booked at higher rates matured and was rebooked at current rates. This book reprices every c. 2–3 years in practice, compared with c. 6–7 years for home finance.
- The Bank reiterated that the proposed AED 1.75 Bn rights issue will first support 4Q26 financing growth, with any surplus potentially allowing the Bank to reduce its reliance on expensive institutional deposits. It also indicated that the rights issue had already been incorporated into capital planning and did not expect a change in the Bank's historical dividend payout approach.

- Management stated that the Bank did not turn away any financing it wanted because of liquidity constraints; the issue was cost, not availability. ADIB chose to keep originating assets that meet its thresholds rather than shrink to protect margins.
- Retail CASA grew c. AED 5-6 Bn YOY despite elevated market rates, with CASA outflows concentrated in institutional and wholesale banking. To fund financing growth, the Bank tapped institutional and GRE deposits at a higher cost.
- ADIB expects monthly salary transfers, particularly from government entities, to continue supporting CASA growth in 2027. It views a financing-to-deposit ratio of 80-85% as a comfort level rather than a ceiling, in line with its approach to "fund before we finance".
- ADIB recorded an unrealized mark-to-market loss on its trading book in 3Q26 as long-term rates rose significantly, with a YOY impact on net profit of c. AED 70 Mn. It expects rates to eventually moderate and some of these losses to reverse in due course, and plans to reposition the portfolio accordingly, describing the position as more of an opportunity than a loss.
- Management described its cost of risk guidance as conservative and indicated the outcome could surprise on the upside, subject to 4Q26 performance. It said the year had stress-tested the financing book, with retail ECLs performing well, while the wholesale mix provides margin from corporates and ECL protection from GREs. The lower 9M26 cost of risk also reflected recoveries, which are handled by a separate unit once loans move to Stage 3.
- ADIB raised its 2026 financing growth guidance to 20–22% from 18–20% and revised its net profit margin guidance to 3.5%–3.6% from 3.7%–3.8%. Cost of risk guidance was narrowed to 0.40%–0.50% from 0.40%–0.60%. The Bank maintained its cost-to-income ratio guidance below 30% and its ROE guidance above 25%.

ADIB – P&L

AED Mn	3Q25	2Q26	3Q26	3Q26F	Var	YOY Ch	QOQ Ch
Net funded income	1,922	2,054	2,017	2,111	-4.5%	4.9%	-1.8%
Non-Funded Inc	1,292	1,234	1,206	1,306	-7.7%	-6.7%	-2.3%
Operating income	**3,215**	**3,288**	**3,223**	**3,418**	**-5.7%**	**0.3%**	**-2.0%**
Operating expenses	-914	-931	-950	-962	-1.2%	4.0%	2.0%
Pre-provision inc.	**2,301**	**2,356**	**2,273**	**2,456**	**-7.4%**	**-1.2%**	**-3.5%**
Financing impairment	-206	-143	-150	-260	-42.4%	-27.3%	5.1%
Profit before NCI	**2,095**	**2,214**	**2,123**	**2,196**	**-3.3%**	**1.3%**	**-4.1%**
NCI & zakat	-370	-400	-394	-379	4.2%	6.4%	-1.5%
Net Profit	**1,724**	**1,814**	**1,729**	**1,817**	**-4.9%**	**0.2%**	**-4.7%**

FABS estimate & Co Data

Management Guidance:

Management Guidance	9M 2026 Actual	FY 2026 Guidance
Gross financing growth Customer financing momentum in both retail and corporate was strong in 9M 2026 driving assets to AED 318bn	25% YoY ✓ 18% YTD	20% to 22% Upgraded from 18% to 20%
Net Profit Margin NPM remained resilient reflecting disciplined pricing and effective balance sheet management	3.6% –	3.5% to 3.6% Revised from 3.7% to 3.8%
Cost of Risk CoR remaining in line with the Bank's risk appetite and reflecting disciplined underwriting, prudent risk management and a high-quality financing portfolio	0.30% ✓	0.40% to 0.50% Revised from 0.40% to 0.60%
Cost to Income Ratio Maintained a healthy cost-to-income ratio through disciplined cost management and productivity gains, while continuing to invest in strategic growth initiatives	29% ✓	< 30%
Return on Equity Maintained an industry-leading ROE of 28%, supported by strong profitability, balance sheet growth and disciplined execution	28% ✓	> 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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