Dubai Islamic Bank (DIB)

Current Price	Target Price	Upside/Downside (%)	Rating
AED 7.58	AED 9.20	+21.4%	BUY

2Q26 Net profit higher than our estimate

- Net funded income increased 7.9% YOY to AED 2,291 Mn in 2Q26, driven by higher funded income, partially offset by an increase in funded expenses.
- Calculated NIMs contracted marginally by 17 bps YOY and 3 bps QOQ to 2.3% in 2Q26.
- Non-funded income declined 12.9% YOY to AED 956 Mn in 2Q26, mainly due to lower income from investments measured at fair value, investment properties, and a lower share of profit from associates, partially offset by higher income from properties under construction, fees and commissions, and other operating income.
- Operating expenses increased 4.8% YOY to AED 969 Mn in 2Q26. Consequently, the calculated cost-to-income ratio increased by 113 bps YOY and 162 bps QOQ to 29.9% in 2Q26.
- Impairment charges declined 25.8% YOY to AED 69 Mn in 2Q26, as no additional ECL overlay was recorded in 2Q26.
- Tax expenses increased 1.0% YOY to AED 270 Mn in 2Q26.
- Profit attributable to non-controlling shareholders increased 8.8% YOY to AED 82 Mn in 2Q26.
- Net profit attributable to equity shareholders declined marginally 0.1% YOY to AED 1,856 Mn in 2Q26, higher than our estimate of AED 1,451 Mn. This decline was primarily due to decrease in non-funded income coupled with increased operating expenses, tax charges and profit attributable to non-controlling shareholders. This was partially offset by increase in net funded income coupled with decline in impairment charges.
- Net financings rose 18.4% YOY and 3.8% QOQ to AED 281.0 Bn in 2Q26, driven by healthy demand across both consumer and wholesale banking segments for new gross financing.
- Customer deposits increased 15.3% YOY and 1.5% QOQ to AED 327.0 Bn in 2Q26, with CASA deposits accounting for 34% of total deposits in 2Q26.
- The headline calculated loan-to-deposit ratio increased to 85.9% in 2Q26 from 84.1% in 1Q26.
- The Bank maintained a healthy capital position, with CET 1 and CAR ratios of 13.0% and 16.1%, respectively, in 2Q26, reflecting its strong capital base.

Earnings Call Summary

- DIB originated more than AED 43 Bn of new financing during the 1H26 across its consumer and corporate banking businesses.
- Consumer Banking remained a key growth driver, with net financing assets increasing 24% YOY to AED 86 Bn in 2Q26, supported by strong growth across personal finance, mortgages, auto finance and credit cards.
- The Bank added c. 111,000 new customers during the 1H26, taking its total customer base to 1.82 Mn, while Consumer Banking deposits increased to AED 91 Bn in 2Q26.
- DIB deliberately adopted a more selective lending strategy during 2Q26 to optimise capital allocation, improve balance sheet efficiency and enhance risk-adjusted returns amid geopolitical uncertainty. The Bank stated that lending activity has strengthened entering 3Q26, supported by a robust pipeline across sovereign, quasi-sovereign, energy, aviation, automobile, utilities and manufacturing sectors. Further, it expects net financing and sukuk to grow 10% in 2026.
- The Bank's 0.6% of its financing portfolio remains under the Central Bank's deferral programme and does not expect any material impact on asset quality or credit costs.

- Dubai's real estate market slowed during 2Q26, the Bank’s residential mortgage demand remained healthy, however weakness mainly affected gains from sales of the bank's own property portfolio.
- The Bank maintained broadly stable NIMs of 2.4% in 1H26 despite higher funding costs, supported by disciplined balance sheet management and stable asset yields. It maintained its full-year NIM guidance of 2.3%, indicating it does not see a need to revise its outlook despite short-term funding cost pressures.
- The funding costs increased during 2Q26 because of temporary liquidity premiums arising from geopolitical uncertainty, however, it expects deposit pricing to ease during the 2H26.
- DIB’s impairment charges were higher during the 1H26 mainly because of the AED 186 Mn ECL overlay recorded in 1Q26, however, impairment charges declined significantly in 2Q26 as under current macroeconomic assumptions, no incremental overlay were required.
- The Bank’s reported cost of risk declined to 28 bps in 2Q26 compared to 45 bps in 1Q26, supported by recoveries across multiple accounts and improving portfolio quality rather than any single large recovery.
- It indicated that the normalized cost of risk is expected to remain within the range of 50-60 bps in 2026, although recoveries may continue to reduce reported credit costs.
- Asset quality continued to improve, with the NPF ratio declining to 2.4% in 2Q26 and expected to be 2.5% in 2026.
- The Bank maintained strong provisioning buffers, with reported cash coverage of 122% and total coverage of 158% in 2Q26, providing adequate protection against potential future credit losses. It further expects total coverage of 160% in FY2026.
- DIB reiterated that it remains an active issuer in the Sukuk market and expects to opportunistically access the senior unsecured Sukuk market in the second half of 2026, subject to favourable market conditions and pricing.
- The Bank reiterated its confidence in achieving its FY2026 guidance and will continue to focus on disciplined loan growth, improving asset quality, capital optimization, digital transformation and sustainable long-term profitability. It expects to deliver ROA of 2.2% and ROE of 21% for FY2026.

DIB - P&L

AED Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch
Net funded income	2,122	2,300	2,291	2,334	-1.9%	7.9%	-0.4%
Non-Funded Income	1,097	1,249	956	771	24.0%	-12.9%	-23.5%
Operating income	**3,219**	**3,548**	**3,246**	**3,105**	**4.5%**	**0.9%**	**-8.5%**
General expenses	-925	-1,002	-969	-975	-0.6%	4.8%	-3.3%
Impairment charges	-93	-420	-69	-348	-80.1%	-25.8%	-83.5%
Profit before tax	**2,201**	**2,126**	**2,208**	**1,781**	**23.9%**	**0.3%**	**3.8%**
Tax	-268	-327	-270	-267	1.1%	1.0%	-17.5%
Profit for the period	**1,858**	**1,716**	**1,856**	**1,451**	**27.9%**	**-0.1%**	**8.1%**

FABS estimate & Co Data

2026 Management Guidance:

Target Metrics	FY 2026 Guidance	H1'26 Actuals
Net Financing and Sukuk growth	10%	4%
Net Profit Margin	2.3%	2.4%
Cost-to-Income Ratio	28.0%	29.0%
Return on Tangible Equity (pre-tax)	21%	20%
Return on Assets (pre-tax)	2.2%	2.1%
NPF Ratio	2.5%	2.4%
Total Coverage	160%	158%

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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