FAB أبوظبي الأول للأوراق المالية SECURITIES

# First Look Note | 2Q26

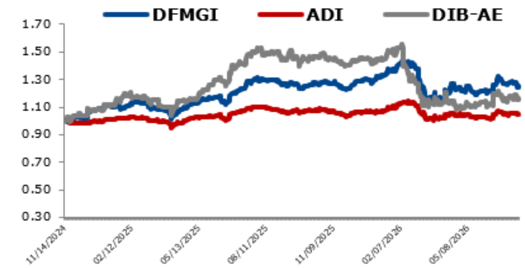
UAE Equity Research    Sector: Banking    Market: DFM

# Dubai Islamic Bank (DIB)

Higher Funded Income and Lower Impairments Supported Stability

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

- DIB's financing book expanded 18.4% YOY and 3.8% QOQ to AED 281.0 Bn in 2Q26, driven by healthy demand across both consumer and wholesale banking.
- The Bank added c. 111,000 new customers during the 1H26, taking its total customer base to 1.82 Mn.
- Total deposits increased 15.3% YOY and 1.5% QOQ to AED 327.0 Bn in 2Q26, underpinned by 34% CASA deposits in 2Q26.
- The Bank reaffirmed 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.




| Stock Information | |
|---|---|
| Market Cap (AED, Mn) | 54,781.50 |
| Paid Up Capital (Mn) | 7,227.11 |
| 52 Week High | 10.20 |
| 52 Week Low | 6.97 |
| 3M Avg. daily value(AED) | 5,574,406 |

| 2Q26 Result Review (AED, Mn) | |
|---|---|
| Total Assets | 423,170 |
| Total Liabilities | 369,280 |
| Total Equity | 43,286 |
| Total Deposits | 326,978 |
| Net Profit | 1,856 |

| Financial Ratios | |
|---|---|
| Dividend Yield (12m) | 4.60 |
| Dividend Pay-out (%) | 35.81 |
| Price-Earnings Ratio(x) | 9.48 |
| Price-to-Book Ratio (x) | 1.57 |
| Book Value (AED) | 5.89 |
| Return-on Equity (%) | 17.17 |

| Stock Performance | |
|---|---|
| 5 Days | 0.53% |
| 1 Months | -2.94% |
| 3 Months | 1.07% |
| 6 Months | -20.04% |
| 1 Year | -18.23% |
| Month to Date (MTD%) | 1.74% |
| Quarter to Date (QTD%) | 1.74% |
| Year to Date (YTD%) | -18.23% |

### 2Q26 Net Profit higher than our estimate

Dubai Islamic Bank ("DIB", "the Bank") reported a marginal 0.1% YOY decline in net profit to AED 1,856 Mn in 2Q26, higher than our estimate of AED 1,451 Mn. The marginal decline in net profit is primarily driven by higher funded expenses, operating expenses, and tax charges, coupled with lower other non-funded income, partially offset by higher funded income and lower impairment charges.

### P&L Highlights

Funded income grew 9.3% YOY to AED 5,187 Mn in 2Q26, due to increase in interest earning assets partially offset by decline in asset yields. Funded expenses increased 10.4% YOY to AED 2,897 Mn in 2Q26, driven by increase in interest earning liabilities partially offset by decline in cost of funds. Consequently, net funded income increased 7.9% YOY to AED 2,291 Mn in 2Q26. The calculated NIMs contracted marginally by 17 bps YOY and 3 bps QOQ to 2.3% in 2Q26. Fee and commission income rose 12.4% YOY to AED 479 Mn in 2Q26. However, other non-funded income declined 28.9% YOY to AED 476 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 and other operating income. As a result, non-funded income declined 12.9% YOY to AED 956 Mn in 2Q26. Consequently, total operating income increased marginally 0.9% YOY to AED 3,246 Mn in 2Q26. Operating expenses rose 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. Furthermore, impairment charges declined 25.8% YOY to AED 69 Mn in 2Q26, as no additional ECL overlay was recorded during the quarter. The Bank's impairment charge on other financial assets declined from AED 30 Mn in 2Q25 to AED 27 Mn in 2Q26. Tax expenses increased 1.0% YOY to AED 270 Mn in 2Q26. Meanwhile, the Bank's share of profit attributable to non-controlling interest holders increased 8.8% YOY to AED 82 Mn in 2Q26.

**Balance Sheet Highlights**

The Bank's total assets increased 13.3% YOY and marginally 0.8% QOQ to AED 423.2 Bn in 2Q26, supported by sustained business momentum across its franchise. Net advances grew 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. In addition, sukuk investments declined 4.6% YOY and 8.6% QOQ to AED 85.2 Bn in 2Q26. Total deposits grew 15.3% YOY and 1.5% QOQ to AED 327.0 Bn in 2Q26, driven by continued customer acquisition and growth in CASA balances. The Bank's CASA deposits accounted for 34% of total deposits in 2Q26.

**Target Price and Rating**

We maintain our BUY rating on DIB with a revised target price of AED 9.20. DIB reported broadly stable profitability in 2Q26, with net profit declining marginally by 0.1% YOY, while continuing to deliver solid balance sheet growth. Net financing increased 18.4% YOY and 3.8% QOQ to AED 281.0 Bn in 2Q26, reflecting sustained financing momentum across the Bank's core business segments. During 1H26, DIB originated more than AED 43 Bn of new financing across its consumer and corporate banking businesses. Consumer Banking remained the primary growth driver, with net financing assets increasing 24% YOY to AED 86 Bn in 2Q26, supported by strong demand across personal finance, mortgages, auto finance and credit cards. The Bank adopted a more selective lending strategy during 2Q26 to optimise capital allocation, improve balance sheet efficiency and enhance risk-adjusted returns amid geopolitical uncertainty. It indicated that lending activity has strengthened entering 3Q26, supported by a robust financing pipeline across sovereign, quasi-sovereign, energy, aviation, automobile, utilities and manufacturing sectors. Consequently, the Bank reiterated its expectation for net financing and sukuk growth of around 10% in FY2026. In addition, DIB added c. 111K new customers during 1H26, taking its total customer base to 1.82 Mn in 2Q26. Despite higher funding costs during the quarter, the reported Net Profit Margin (NPM) remained at 2.4%, slightly above the Bank's FY2026 target of 2.3%. It maintained its FY2026 NPM guidance of 2.3%, indicating that temporary funding cost pressures have not altered its outlook. The increase in funding costs during 2Q26 was primarily due to temporary liquidity premiums arising from geopolitical uncertainty, although the Bank expects deposit pricing to ease during 2H26. DIB also reaffirmed its confidence in achieving its FY2026 cost-to-income ratio target of 28%. On asset quality, impairment charges remained elevated during 1H26 primarily due to the AED 186 Mn ECL overlay recognised in 1Q26. However, impairment charges declined significantly in 2Q26, as the Bank determined that no additional management overlay was required under the current macroeconomic assumptions. Consequently, cumulative cost of risk improved 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. The Bank expects the normalised cost of risk to remain within 50-60 bps during FY2026, although continued recoveries could keep reported credit costs below this range. Asset quality continued to improve, with the reported non-performing financing (NPF) ratio declining to 2.4% in 2Q26 from 2.5% in 1Q26. Despite the improvement, the Bank maintained its FY2026 guidance of around 2.5% for the NPF ratio. DIB continued to strengthen its digital franchise, with registered digital users increasing 15% YOY to c. 1.8 Mn. Digital engagement remained high, with 98% of registered users actively using digital channels and more than 95% of total transactions processed digitally. Liquidity and capital positions remained strong during the quarter. The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) stood at 140% and 105%, respectively in 2Q26, comfortably above regulatory requirements. The Bank also maintained a healthy capital position, with a CET1 ratio of 13.0% and a Capital Adequacy Ratio (CAR) of 16.1% in 2Q26, providing sufficient capacity to support future growth. On funding, DIB reiterated that it remains an active issuer in the sukuk market and expects to opportunistically access the senior unsecured sukuk market during 2H26, subject to favourable market conditions and pricing. Looking ahead, it reaffirmed 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. Thus, considering all these factors, we maintain our BUY rating on the stock.

**DIB - Relative valuation**

| (at CMP) | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F |
|---|---|---|---|---|---|---|
| PE | 14.28 | 9.27 | 8.54 | 7.24 | 7.69 | 8.47 |
| PB | 1.78 | 1.65 | 1.50 | 1.37 | 1.28 | 1.17 |
| BVPS | 4.226 | 4.563 | 5.012 | 5.486 | 5.878 | 6.418 |
| EPS | 0.526 | 0.697 | 0.880 | 1.039 | 0.977 | 0.888 |
| DPS | 0.250 | 0.300 | 0.450 | 0.450 | 0.350 | 0.350 |
| Dividend yield | 3.3% | 4.0% | 5.9% | 5.9% | 4.6% | 4.6% |

*FABS Estimates & Co Data*

**DIB – P&L**

| AED Mn | 2Q25 | 1Q26 | 2Q26 | 2Q26F | Var | YOY Ch | QOQ Ch | 2025 | 2026F | Change |
|---|---|---|---|---|---|---|---|---|---|---|
| Funded income | 4,745 | 5,047 | 5,187 | 5,086 | 2.0% | 9.3% | 2.8% | 19,548 | 20,907 | 7.0% |
| Funded expense | -2,623 | -2,748 | -2,897 | -2,751 | 5.3% | 10.4% | 5.4% | -10,576 | -11,498 | 8.7% |
| **Net funded income** | **2,122** | **2,300** | **2,291** | **2,334** | **-1.9%** | **7.9%** | **-0.4%** | **8,972** | **9,409** | **4.9%** |
| Fees & commissions | 426 | 427 | 479 | 423 | 13.4% | 12.4% | 12.3% | 1,874 | 1,911 | 2.0% |
| Other non-funded income | 670 | 822 | 476 | 348 | 36.9% | -28.9% | -42.0% | 2,405 | 2,119 | -11.9% |
| **Non-funded Income** | **1,097** | **1,249** | **956** | **771** | **24.0%** | **-12.9%** | **-23.5%** | **4,279** | **4,030** | **-5.8%** |
| **Operating income** | **3,219** | **3,548** | **3,246** | **3,105** | **4.5%** | **0.9%** | **-8.5%** | **13,251** | **13,439** | **1.4%** |
| Operating expenses | -925 | -1,002 | -969 | -975 | -0.6% | 4.8% | -3.3% | -3,763 | -3,913 | 4.0% |
| **Pre-provisioning profit** | **2,294** | **2,546** | **2,277** | **2,130** | **6.9%** | **-0.7%** | **-10.6%** | **9,488** | **9,526** | **0.4%** |
| Impairment charges | -93 | -420 | -69 | -348 | -80.1% | -25.8% | -83.5% | -485 | -1,276 | NM |
| **Profit before tax** | **2,201** | **2,126** | **2,208** | **1,781** | **23.9%** | **0.3%** | **3.8%** | **9,003** | **8,250** | **-8.4%** |
| Tax | -268 | -327 | -270 | -267 | 1.1% | 1.0% | -17.5% | -1,195 | -1,237 | 3.5% |
| **Profit before NCI** | **1,933** | **1,799** | **1,938** | **1,514** | **28.0%** | **0.2%** | **7.7%** | **7,808** | **7,012** | **-10.2%** |
| Non-controlling interests | -75 | -83 | -82 | -64 | 28.4% | 8.8% | -1.2% | -307 | -328 | 6.8% |
| **Profit for the period** | **1,858** | **1,716** | **1,856** | **1,451** | **27.9%** | **-0.1%** | **8.1%** | **7,500** | **6,684** | **-10.9%** |

*FABS estimate & Co Data*

**DIB - KPI**

| | 2Q25 | 1Q26 | 2Q26 | YOY Ch | QOQ Ch | 2025 | 2026F | Change |
|---|---|---|---|---|---|---|---|---|
| Net FI/OI | 65.9% | 64.8% | 70.6% | 463 | 575 | 67.7% | 70.0% | 231 |
| NIMs | 2.5% | 2.3% | 2.3% | -17 | -3 | 2.5% | 2.3% | -18 |
| NIS | 2.0% | 1.9% | 1.9% | -13 | -6 | 2.0% | 1.9% | -10 |
| Fees & commissions/OI | 13.2% | 12.0% | 14.8% | 152 | 273 | 14.1% | 14.2% | 8 |
| Other non-funded/OI | 20.8% | 23.2% | 14.7% | -615 | -848 | 18.2% | 15.8% | -239 |
| Cost to income | 28.7% | 28.2% | 29.9% | 113 | 162 | 28.4% | 29.1% | 72 |
| Impairment/PPP | 4.1% | 16.5% | 3.0% | -102 | NM | 5.1% | 13.4% | 828 |
| NCI/PBT | 3.9% | 4.6% | 4.2% | 33 | -38 | 3.9% | 4.7% | 74 |
| NP/OI | 57.7% | 48.4% | 57.2% | -56 | 881 | 56.6% | 49.7% | -686 |
| Cost of risk | 0.2% | 0.6% | 0.1% | -6 | -52 | 0.2% | 0.5% | 27 |
| Loan-to-deposit (calculated) | 83.7% | 84.1% | 85.9% | 225 | 188 | 81.8% | 83.0% | 115 |
| NPL | 3.4% | 2.5% | 2.4% | -99 | -13 | 2.7% | 2.4% | -28 |
| Coverage - Calculated | 86.9% | 86.5% | 87.7% | 83 | 125 | 85.4% | 87.7% | 232 |
| CET 1 | 13.0% | 12.6% | 13.0% | 0 | 35 | 12.3% | 12.5% | 13 |
| Capital adequacy | 16.7% | 15.8% | 16.1% | -60 | 31 | 15.5% | 15.5% | -3 |
| ROAA | 2.4% | 1.9% | 1.9% | -50 | -5 | 2.0% | 1.6% | -42 |
| ROAE | 20.6% | 17.3% | 17.4% | -320 | 4 | 17.2% | 14.4% | -275 |

*FABS estimate & Co Data*

**DIB - Key B/S items**

| AED Mn | 2Q25 | 3Q25 | 4Q25 | 1Q26 | 2Q26 | YOY Ch |
|---|---|---|---|---|---|---|
| Net financings | 237,376 | 248,301 | 262,055 | 270,662 | 280,995 | 18.4% |
| *QOQ change* | 6.7% | 4.6% | 5.5% | 3.3% | 3.8% | |
| Total assets | 373,479 | 392,953 | 415,948 | 419,916 | 423,170 | 13.3% |
| *QOQ change* | 5.1% | 5.2% | 5.9% | 1.0% | 0.8% | |
| Customer deposits | 283,663 | 301,932 | 320,184 | 322,000 | 326,978 | 15.3% |
| *QOQ change* | 7.1% | 6.4% | 6.0% | 0.6% | 1.5% | |
| Shareholders' fund | 39,768 | 41,360 | 42,562 | 44,186 | 43,286 | 8.8% |
| *QOQ change* | 4.4% | 4.0% | 2.9% | 3.8% | -2.0% | |

*FABS estimate & Co Data*

FAB أبوظبي الأول للأوراق المالية SECURITIES

# Valuation:

We use Residual Income and Relative Valuation (RV) method to value DIB. We have assigned 70% weight to Residual Income, and 30% to RV method.

| Valuation Method | Target | Weight | Weighted Value |
|---|---|---|---|
| Residual Income | 9.08 | 70.0% | 6.35 |
| Relative Valuation (RV) | 9.50 | 30.0% | 2.85 |
| **Weighted Average Valuation (AED)** | | | **9.20** |
| Current market price (AED) | | | 7.58 |
| Upside/Downside (%) | | | **+21.4%** |

## 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.9%. Cost of equity is calculated by using the 10-year government bond yield of 5.3%, beta of 0.87 and equity risk premium of 4.2%. Government bond yield is calculated after adding Dubai's 10-year CDS spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

| | |
|---|---|
| Sum of PV (AED, Mn) | 7,725 |
| Terminal value (AED, Mn) | **14,723** |
| Book Value of Equity (as of June 2026) | 43,286 |
| **FV to Common shareholders (AED, Mn)** | **65,733** |
| No. of share (Mn) | 7,241 |
| Current Market Price (AED) | 7.58 |
| **Fair Value per share (AED)** | **9.08** |

**Residual Income Method**

| (All Figures in AED Mn) | FY 2026E | FY 2027E | FY 2028E | FY 2029E | FY 2030E |
|---|---|---|---|---|---|
| Net Profit | 6,442 | 6,713 | 6,743 | 6,781 | 6,763 |
| (-) Equity Charge | -3,804 | -4,154 | -4,528 | -4,904 | -5,284 |
| **Excess Equity** | **2,638** | **2,559** | **2,215** | **1,876** | **1,478** |
| Discounting Factor | 0.96 | 0.88 | 0.81 | 0.74 | 0.68 |
| **Present Value of Excess Equity** | **1,268[1]** | **2,258** | **1,794** | **1,395** | **1,009** |

*Source: FAB Securities,[1]Partial year adjustment*

### 2) Relative Valuation:

We have used local and regional peers to value DIB, which is valued using the PB multiple. It is valued at a 2026 PB multiple of 1.5x, in line with peers.

| Company | Market Cap | P/B (x) | | P/E (x) | | Dividend Yield (x) | |
|---|---|---|---|---|---|---|---|
| | (USD Mn) | 2026F | 2027F | 2026F | 2027F | 2026F | 2027F |
| Commercial Bank of Dubai | 7,680 | 1.5 | 1.4 | 8.6 | 9.5 | 6.1% | NA |
| Abu Dhabi Islamic Bank | 21,557 | 2.7 | 2.4 | 12.0 | 10.9 | 4.3% | 4.7% |
| Emirates NBD | 52,727 | 1.3 | 1.1 | 8.5 | 7.7 | 3.3% | 3.7% |
| Abu Dhabi Commercial Bank | 30,953 | 1.3 | 1.2 | 10.0 | 8.9 | 4.5% | 4.8% |
| Alinma Bank | 19,184 | 1.8 | 1.7 | 11.6 | 10.8 | 3.5% | 3.6% |
| First Abu Dhabi Bank | 54,140 | 1.4 | 1.3 | 10.1 | 9.3 | 4.5% | 4.8% |
| **Average** | | **1.7x** | **1.5x** | **10.1x** | **9.5x** | **4.0%** | **4.3%** |
| **Median** | | **1.5x** | **1.4x** | **10.1x** | **9.4x** | **4.3%** | **4.3%** |
| **Max** | | **1.7x** | **1.6x** | **11.2x** | **10.4x** | **3.7%** | **4.3%** |
| **Min** | | **1.4x** | **1.2x** | **8.9x** | **9.0x** | **3.7%** | **4.4%** |

*Source: FAB Securities*

## 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% |

## FAB Securities Contacts:


| | | |
|---|---|---|
| **Research Analyst** | | |
| Ahmad Banihani | +971-2-6161629 | ahmad.banihani@Bankfab.com |
| Shahrukh Nawaz | +971-2-6161612 | Shahrukh.Nawaz@bankfab.com |
| | | |
| **Sales & Execution** | | |
| Abu Dhabi Head Office | | |
| Trading Desk | +971-2-6161700/1 | Online Trading Link |
| | +971-2-6161777 | |
| Institutional Desk | +971-4-4245765 | |


## DISCLAIMER