

Dubai Islamic Bank (DIB)

Margin pressure persists despite balance sheet growth

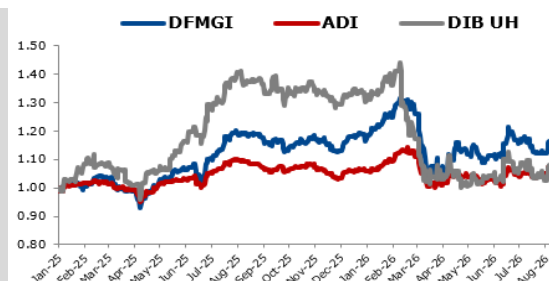
Current Price
AED 7.01

Target Price
AED 9.20

Upside/Downside (%)
+31%

Rating
BUY

- DIB's financing and sukuk portfolio expanded 8.4% YOY and 5.5% YTD to AED 372.1 Bn in 3Q26, financing growth was driven by healthy demand across all business segments.
- DIB's Consumer Banking added AED 31 Bn in gross new financing, while Corporate Banking recorded over AED 28 Bn during 9M26.
- The Bank added c. 160,000 new customers during 9M26, taking its total customer base to 1.9 Mn.
- Total deposits increased 7.1% YOY and 1.0% YTD to AED 323.5 Bn in 3Q26. However, the deposits declined 1.1% QOQ due to decline in deposits from consumer and corporate segments.
- Management maintained the guidance, a net profit margin of 2.3% and ROA pre-tax of 2.2% and NPL of 2.5% for 2026.



Stock Information

Market Cap (AED, Mn)	50,974.84
Paid Up Capital (Mn)	7,240.74
52 Week High	10.20
52 Week Low	6.97
3M Avg. daily value (AED)	23,148,390

3Q26 Result Review (AED, Mn)

Total Assets	427,007
Total Liabilities	371,297
Total Equity	45,047
Total Deposits	323,493
Net Profit	1,800

Financial Ratios

Dividend Yield (12m)	4.97
Dividend Pay-out (%)	35.70
Price-Earnings Ratio(x)	7.02
Price-to-Book Ratio (x)	1.13
Book Value (AED)	6.23
Return-on Equity (%)	16.59

Stock Performance

5 Days	-0.14%
1 Months	-3.43%
3 Months	-6.13%
6 Months	-2.49%
1 Year	-27.79%
Month to Date (MTD%)	-3.04%
Quarter to Date (QTD%)	-2.76%
Year to Date (YTD%)	-24.27%

3Q26 Net Profit in line with our estimate

Dubai Islamic Bank ("DIB", "the Bank") reported a 3.4% YOY decline in net profit to AED 1,800 Mn in 3Q26, in line with our estimate of AED 1,788 Mn. The decline in net profit is primarily driven by lower net funded income, fee and commission income, and other non-funded income, coupled with higher impairment charges, partially offset by lower operating expenses, tax expenses, and profit attributable to non-controlling interest.

P&L Highlights

Funded income grew 4.2% YOY to AED 5,263 Mn in 3Q26, driven by an increase in interest-earning assets and a marginal increase in yield. Funded expenses increased 10.7% YOY to AED 3,006 Mn in 3Q26, driven by an increase in interest-earning liabilities supported by a rise in the cost of deposit mobilization. Consequently, net funded income decreased 3.3% YOY to AED 2,256 Mn in 3Q26. The calculated NIMs contracted 34 bps YOY and 6 bps QOQ to 2.2% in 3Q26. Fee and commission income declined 14.1% YOY to AED 434 Mn in 3Q26, primarily due to lower fee-generating activity amid weak financing growth in wholesale segment, coupled with lower arrangement fees and contributions from consumer banking activities. The Bank's other non-funded income declined 3.8% YOY to AED 447 Mn in 3Q26, mainly due to lower income from investments measured at fair value, investment properties, income from properties under construction and other operating income, partially offset by a higher share of profit from associates supported by contributions from Bank of Khartoum, Panin Bank and other investments. As a result, non-funded income declined 9.2% YOY to AED 882 Mn in 3Q26. Consequently, total operating income declined 5.0% YOY to AED 3,138 Mn in 3Q26. Operating expenses declined 15.6% YOY to AED 816 Mn in 3Q26 due to lower staff costs, driven by capitalization of expenses associated

with digital transformation and technology investments. Consequently, the calculated cost-to-income ratio declined to 26.0% in 3Q26 from 29.3% in 3Q25. Furthermore, impairment charges increased sharply from 36 Mn in 3Q25 to AED 121Mn in 3Q26. Tax expenses declined 5.8% YOY to AED 330 Mn in 3Q26. Meanwhile, the Bank's profit attributable to non-controlling interest holders declined 18.4% YOY to AED 72 Mn in 3Q26.

Balance Sheet Highlights

The Bank's total assets increased 8.7% YOY and marginally 0.9% QOQ to AED 427.0 Bn in 3Q26, supported by growth in customer financing. Net advances grew 15.6% YOY and 2.2% QOQ to AED 287.1 Bn in 3Q26. However, sukuk investments declined 10.6% YOY and 0.2% QOQ to AED 85.0 Bn in 3Q26, as the Bank rebalanced the portfolio to prioritize financing opportunities offering more attractive risk-adjusted returns. Total deposits grew 7.1% YOY but declined 1.1% QOQ to AED 323.5 Bn in 3Q26, the QOQ decline was due to decline in deposits from consumer and corporate segment. The Bank's CASA deposits accounted for 34% of total deposits in 3Q26.

Target Price and Rating

We maintain our BUY rating on DIB with a target price of AED 9.20. DIB reported a decline in net profit of 3.4% YOY to AED 1,800 Mn, while continuing to deliver balance sheet growth. The decline was largely due to pressure on net funded income amid increasing funding costs alongside softness in fee and commission income. Net financing assets increased 15.6% YOY and 2.2% QOQ to AED 287.1 Bn in 3Q26, supported by continued financing momentum across the Bank's core business segments. Consumer Banking remained a key growth driver, with net financing assets increasing 25% YOY to AED 91 Bn in 3Q26, supported by AED 31 Bn in gross new financing across personal, home and auto financing products on a YTD basis. Corporate Banking net financing assets increased 11% YOY to AED 187 Bn in 3Q26, supported by more than AED 28 Bn in gross new financing across diversified economic sectors on a YTD basis. Commercial Banking net financing assets grew 29% YOY to AED 9 Bn in 3Q26, supported by over AED 2 Bn in new underwriting across SME and mid-corporate customers on YTD basis with financing yields of around 6%. DIB maintained a disciplined lending strategy while prioritizing capital efficiency and risk-adjusted returns over aggressive expansion. Net financing and Sukuk growth reached 5.5% YTD and 8.4% YOY in 3Q26, with the Bank reallocating capital from Sukuk investments towards customer financing opportunities. The strategy also reflects geopolitical considerations and a focus on maintaining balanced growth, profitability and asset quality. In addition, DIB added c. 160K new customers during 9M26, taking its total customer base to 1.9 Mn in 3Q26. Customer deposits grew 7.1% YOY but declined 1.1% QOQ to AED 323.5 Bn in 3Q26. The Bank remains cautious about mobilizing additional deposits, as higher deposit rates could increase funding costs and further pressure profitability. DIB continued to report an improvement in asset quality, with the NPL ratio declining to 2.4% in 3Q26, down 24 bps YTD, while the reported cost of risk remained stable at 25 bps in 3Q26 compared to 0.28% in 2Q26. Despite the improvement, the Bank maintained its NPL 2026 guidance of c. 2.5%. The improvement was supported by prudent underwriting, proactive portfolio management and recoveries. However, Stage 2 exposures increased to 3.7% in 3Q26 from 3.3% in 2Q26, indicating that a higher proportion of financing accounts showed signs of increased credit risk. This remains a key monitorable, as any further deterioration could lead to higher impairment charges. The calculated coverage ratio increased to 88.7% in 3Q26 from 85.9% in 2Q26. DIB's liquidity position weakened in 3Q26 compared with 2Q26, with the liquidity coverage ratio declining to 126% from 140%, while the net stable funding ratio remained stable at 105%. Despite the decline, both ratios remained above the regulatory minimum of 100%. DIB's capital position remains strong in 3Q26, with the Common Equity Tier 1 ratio at 13.4% in 3Q26 compared to 13.0% in 2Q26, while the capital adequacy ratio at 16.5% in 3Q26 compared to 16.1% in 2Q26. Both ratios remained comfortably above regulatory requirements, providing the Bank with sufficient capital headroom to support financing growth. The improvement reflects continued capital generation and disciplined balance-sheet management, including the reallocation of capital from Sukuk investments towards customer financing opportunities offering better risk-adjusted returns. DIB continued to expand its digital banking franchise, with c. 97% of customers active user base. Furthermore, 82% of new customers were onboarded through digital channels supporting customer acquisition and improving operational efficiency. Overall, DIB faced continued pressure on margins with NIMs declining 34 bps YOY and 6 bps QOQ, amid higher funding costs in

3Q26. However, the Bank continued to deliver balance-sheet growth, improve asset quality and strengthen the capital position, supported by prudent risk management and disciplined capital allocation. Accordingly, we maintain our BUY rating on the Bank.

DIB - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	13.39	8.69	8.01	6.78	7.21	7.63
PB	1.67	1.55	1.41	1.29	1.20	1.09
BVPS	4.226	4.563	5.012	5.486	5.878	6.454
EPS	0.526	0.811	0.880	1.039	0.977	0.924
DPS	0.250	0.300	0.450	0.450	0.350	0.350
Dividend yield	3.6%	4.3%	6.4%	6.4%	5.0%	5.0%

FABS Estimates & Co Data

DIB - P&L

AED Mn	3Q25	2Q26	3Q26	3Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Funded income	5,050	5,187	5,263	5,311	-0.9%	4.2%	1.5%	19,548	20,918	7.0%
Funded expense	-2,717	-2,897	-3,006	-2,925	2.8%	10.7%	3.8%	-10,576	-11,763	11.2%
Net funded income	2,333	2,291	2,256	2,386	-5.4%	-3.3%	-1.5%	8,972	9,154	2.0%
Fees & commissions	505	479	434	491	-11.6%	-14.1%	-9.4%	1,874	1,794	-4.3%
Other non-funded income	465	476	447	466	-4.0%	-3.8%	-6.1%	2,405	2,288	-4.9%
Non-funded Income	970	956	882	957	-7.9%	-9.2%	-7.8%	4,279	4,083	-4.6%
Operating income	3,303	3,246	3,138	3,343	-6.1%	-5.0%	-3.3%	13,251	13,237	-0.1%
Operating expenses	-966	-969	-816	-977	-16.5%	-15.6%	-15.8%	-3,763	-3,794	0.8%
Pre-provisioning profit	2,337	2,277	2,322	2,366	-1.9%	-0.6%	2.0%	9,488	9,443	-0.5%
Impairment charges	-36	-69	-121	-181	-33.3%	NM	74.5%	-485	-851	NM
Profit before tax	2,301	2,208	2,201	2,185	0.8%	-4.3%	-0.3%	9,003	8,592	-4.6%
Tax	-351	-270	-330	-317	4.2%	-5.8%	22.1%	-1,195	-1,289	7.8%
Profit before NCI	1,951	1,938	1,871	1,868	0.2%	-4.1%	-3.4%	7,808	7,303	-6.5%
Non-controlling interests	-88	-82	-72	-80	-10.7%	-18.4%	-12.2%	-307	-310	1.0%
Profit for the period	1,863	1,856	1,800	1,788	0.7%	-3.4%	-3.0%	7,500	6,993	-6.8%

FABS estimate & Co Data

DIB - KPI

	3Q25	2Q26	3Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Net FI/OI	70.6%	70.6%	71.9%	128	134	67.7%	69.2%	145
NIMs	2.6%	2.3%	2.2%	-34	-6	2.5%	2.2%	-26
NIS	2.1%	1.9%	1.8%	-35	-8	2.0%	1.8%	-19
Fees & commissions/OI	15.3%	14.8%	13.8%	-146	-92	14.1%	13.6%	-59
Other non-funded/OI	14.1%	14.7%	14.3%	18	-42	18.2%	17.3%	-86
Cost to income	29.3%	29.9%	26.0%	NM	NM	28.4%	28.7%	27
Impairment/PPP	1.5%	3.0%	5.2%	NM	216	5.1%	9.0%	NM
NCI/PBT	4.5%	4.2%	3.8%	-67	-38	3.9%	4.3%	31
NP/OI	56.4%	57.2%	57.4%	96	18	56.6%	52.8%	NM
Cost of risk	0.1%	0.1%	0.2%	11	7	0.2%	0.3%	12
Loan-to-deposit (calculated)	82.2%	85.9%	88.7%	NM	281	81.8%	83.0%	115
NPL	3.1%	2.4%	2.4%	-72	4	2.7%	2.5%	-17
Coverage - Calculated	89.6%	87.7%	85.6%	NM	-216	85.4%	85.6%	16
CET 1	13.4%	13.0%	13.4%	8	47	12.3%	12.5%	12
Capital adequacy	16.6%	16.1%	16.5%	-9	43	15.5%	15.4%	-8
ROAA	2.2%	1.9%	1.8%	-43	-7	2.0%	1.6%	-35
ROAE	19.5%	17.4%	16.5%	-295	-82	17.2%	15.0%	-221

FABS estimate & Co Data

DIB - Key B/S items

AED Mn	3Q25	4Q25	1Q26	2Q26	3Q26	YOY Ch
Net financings	248,301	262,055	270,662	280,995	287,093	15.6%
QOQ change	4.6%	5.5%	3.3%	3.8%	2.2%	
Total assets	392,953	415,948	419,916	423,170	427,007	8.7%
QOQ change	5.2%	5.9%	1.0%	0.8%	0.9%	
Customer deposits	301,932	320,184	322,000	326,978	323,493	7.1%
QOQ change	6.4%	6.0%	0.6%	1.5%	-1.1%	
Shareholders equity	41,360	42,562	44,186	43,286	45,047	8.9%
QOQ change	4.0%	2.9%	3.8%	-2.0%	4.1%	

FABS estimate & Co Data

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	9.02	70.0%	6.31
Relative Valuation (RV)	9.62	30.0%	2.89
Weighted Average Valuation (AED)			9.20
Current market price (AED)			7.01
Upside/Downside (%)			+31%

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 5.4%, beta of 0.87 and equity risk premium of 4.1%. 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)	8,026
Terminal value (AED, Mn)	12,233
Book Value of Equity (as of June 2026)	45,047
FV to Common shareholders (AED, Mn)	65,306
No. of share (Mn)	7,241
Current Market Price (AED)	7.01
Fair Value per share (AED)	9.02

Residual Income Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E
Net Profit	6,699	6,729	6,725	6,698	6,770	6,988
(-) Equity Charge	-3,805	-4,178	-4,553	-4,928	-5,301	-5,680
Excess Equity	2,894	2,551	2,171	1,769	1,469	1,308
Discounting Factor	0.98	0.90	0.83	0.76	0.70	0.64
Present Value of Excess Equity	712¹	2,304	1,800	1,346	1,026	839

Source: FAB Securities,¹Partial year adjustment

2) Relative Valuation:

We have used local and regional peers to value DIB, which is valued using PB multiple. It is valued at a 2027 PB multiple of 1.4x, in line with peers.

Company	Market Cap (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2026F	2027F	2026F	2027F	2026F	2027F
Commercial Bank of Dubai	7,884	1.6	NA	8.8	NA	5.9%	NA
Abu Dhabi Islamic Bank	21,854	2.8	2.4	12.2	11.0	4.4%	4.8%
Emirates NBD	52,764	1.3	1.1	8.1	7.4	3.3%	3.7%
Abu Dhabi Commercial Bank	33,951	1.5	1.3	10.1	9.1	4.3%	4.7%
Alinma Bank	18,507	1.8	1.6	11.3	10.4	3.4%	3.6%
First Abu Dhabi Bank	56,730	1.5	1.4	10.2	9.4	4.3%	4.7%
Average		1.7x	1.6x	10.1x	9.5x	4.1%	4.3%
Median		1.5x	1.4x	10.2x	9.4x	4.3%	4.3%
Max		1.7x	1.6x	11.0x	10.4x	3.6%	4.2%
Min		1.5x	1.3x	9.1x	9.1x	3.6%	4.3%

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%

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