

## Abu Dhabi Commercial Bank (ADCB)

Current Price	Target Price	Upside/Downside (%)	Rating
AED 15.16	AED 17.00	+12%	ACCUMULATE

### 2Q25 Net Profit higher than our estimate

- Net funded income grew 11.5% YOY to AED 3.7 Bn in 2Q25, driven by a growth in interest-bearing assets and lower cost of funds, partially offset by a decline in asset yield.
- Reported NIMs declined from 2.6% in 2Q24 to 2.5% in 2Q25. Additionally, the reported risk-adjusted NIMs also declined from 2.2% in 2Q24 to 1.7% in 2Q25, primarily due to increased impairment charges on legacy corporate exposures.
- Non-funded income rose 44.2% YOY to AED 2.1 Bn in 2Q25, owing to solid growth in fee and commission income, net trading income and other operating income, mainly due to higher gains on sale of loans.
- Operating expenses declined 1.5% YOY to AED 1.5 Bn in 2Q25, attributed to lower G&A expenses partially offset by a growth in staff cost and amortization expenses.
- Cost-to-income declined 618 bps YOY and 285 bps QOQ to 26.4% in 2Q25, reaching its lowest level mainly due to higher operating income and ongoing cost discipline initiatives.
- Impairments grew significantly from AED 588 Mn in 2Q24 to AED 1,186 Mn in 2Q25, mainly driven by legacy corporate accounts.
- Net profit after tax increased 10.8% YOY to AED 2.6 Bn in 2Q25, driven by a growth in net funded and non-funded income, coupled with lower operating expenses, partially offset by higher impairments and tax charges.
- Total assets grew 17.4% YOY and 5.7% QOQ to AED 718.5 Bn in 2Q25, primarily due to an increase in cash and bank balance with the central bank, net advances, and investment securities portfolio.
- The Bank's loan book grew 13.9% YOY and 5.3% QOQ to AED 378 Bn in 2Q25, mainly due to strong growth across diverse sectors such as trading, financial institutions, energy, transport and communication.
- Reported NPL ratio continued to decline from 2.2% in 1Q25 to 2.0% in 2Q25, while NPL, including Purchased or originated credit-impaired financial assets (POCI), fell from 2.5% in 1Q25 to 2.2% in 2Q25.
- Deposits grew 18.8% YOY and 4.9% QOQ to AED 463.4 Bn in 2Q25, with the CASA deposits growing 20.5% YOY and accounting for 45.0% of total deposits in 2Q25.

### Earnings Call Summary

- Profit before tax rose 17.1% YOY to AED 3.0 Bn in 2Q25, marking the fourth consecutive year of quarterly growth. Profit before tax for 1H25 increased 18.0% YOY to AED 5.9 Bn.
- Net profit reached AED 2.6 Bn in 2Q25 and AED 5.0 Bn in 1H25, delivering a return on average equity of 14.9% and 14.1%, respectively.
- The Bank is launching advanced products and services to attract new customers, strengthen existing relationships, and unlock additional income streams.
- Fee income on assets under management grew 35% YOY for Retail Banking and 58% YOY for Private Banking during 2Q25.
- Net fees and commission income delivered strong performance in 2Q25, rising 14.8% YOY and 13.1% QOQ to AED 929 Mn in 2Q25, owing to a significant increase in card-related and loan processing fees.
- Net trading income recorded a sharp increase, rising 81.8% YOY and 56.0% QOQ to AED 872 Mn in 2Q25, driven by higher gains in foreign exchange and trading securities.
- The Bank issued its second 5-year bond of the year, raising USD 600 Mn at a spread of 100 bps, tighter than the February issuance. The transaction attracted strong demand from Asian investors, with the order book exceeding USD 900 Mn.

- CASA deposits grew strongly during the quarter, supported by both retail and corporate banking segments, which contributed to a lower cost of funds.
- ADCB Egypt delivered strong financial performance in 2Q25, with net profit surging 16% YOY to EGP 1.3 Bn.
- ADCB Egypt's net loans increased 53% YOY to EGP 65 Bn, while total deposits increased 34% YOY to EGP 133 Bn in 2Q25.
- The sharp increase in impairments during 2Q25 was primarily driven by specific developments related to legacy corporate exposures. However, ADCB confirmed that this was a one-off charge, and the full-year cost of risk guidance remains unchanged at below 60 bps.
- The gains from trading securities are part of the Bank's regular operations and not considered one-offs. In contrast, gains from loan sales were non-recurring and are not expected to repeat each quarter.
- There were no one-off elements in net interest income during 2Q25.
- ADCB has provisioned for corporate tax at 15% for 1H25. However, the Bank is currently assessing its eligibility for the Safe Harbour exemption, which if granted could reduce the applicable UAE tax rate to 9% for a period of five years.
- The 9% tax rate is expected to apply only to the Bank's UAE operations, while the other geographies like Egypt and KSA, continue to follow their respective local tax frameworks.
- The Bank CET1 ratio stood at 12.2% in 2Q25, and the Bank is working on optimizing risk-weighted asset (RWA) utilization and capital efficiency.
- The Bank's target of doubling net profit to AED 20 Bn by 2029 and projected 20% annual CAGR are currently based on the assumption of a 15% corporate tax rate.
- As of 2Q25, the Bank's 23% of its total loan book is deployed outside the UAE.
- ADCB's provisioning in 2Q25 was driven by an internal reassessment of legacy corporate accounts and was not triggered by any regulatory write-off deadlines.
- ADCB maintains a progressive dividend payout strategy and is not considering any dividend cuts.
- The decline in the share of GREs in the Bank's loan book during 2Q25 was mainly due to repayments by specific counterparties and is not expected to reflect a long-term trend.
- ADCB expects the pipeline for GRE and sovereign deals to remain strong, with drawdowns scheduled in the coming quarters.
- The Bank expects deposit growth to remain strong, particularly in CASA balances, which will support its performance during a declining interest rate cycle.
- ADCB expects loan growth momentum to continue through the remainder of the year, supported by a strong pipeline of committed facilities, and is targeting low to mid-teen growth for 2025.
- ADCB aims to maintain stable margins, although anticipated rate cuts are expected to impact both asset yields and funding costs.
- The Bank onboarded over 68,000 new customers in 2Q25, with 62% acquired through digital channels, reinforcing its leadership in digital card acquisition.

**ADCB – P&L**

AED Mn	2Q24	1Q25	2Q25A	2Q25F	VAR	YOY Ch	QOQ Ch
Funded income	8,326	8,256	8,637	8,339	3.6%	3.7%	4.6%
Funded expense	-5,049	-4,863	-4,983	-4,926	1.2%	-1.3%	2.5%
<b>Net funded income</b>	<b>3,276</b>	<b>3,394</b>	<b>3,654</b>	<b>3,413</b>	<b>7.1%</b>	<b>11.5%</b>	<b>7.7%</b>
Fees & commissions	809	820	929	861	7.9%	14.8%	13.3%
Other operating income	629	799	1,145	817	40.2%	82.1%	43.3%
<b>Non-funded income</b>	<b>1,438</b>	<b>1,619</b>	<b>2,074</b>	<b>1,678</b>	<b>23.6%</b>	<b>44.2%</b>	<b>28.1%</b>
<b>Operating income</b>	<b>4,714</b>	<b>5,013</b>	<b>5,728</b>	<b>5,091</b>	<b>12.5%</b>	<b>21.5%</b>	<b>14.3%</b>
Operating expenses	-1,534	-1,465	-1,511	-1,527	-1.1%	-1.5%	3.1%
<b>Pre-provision profit</b>	<b>3,180</b>	<b>3,548</b>	<b>4,218</b>	<b>3,563</b>	<b>18.4%</b>	<b>32.6%</b>	<b>18.9%</b>
Impairments	-588	-646	-1,186	-667	77.9%	101.6%	83.4%
<b>Operating profit</b>	<b>2,591</b>	<b>2,901</b>	<b>3,032</b>	<b>2,897</b>	<b>4.6%</b>	<b>17.0%</b>	<b>4.5%</b>
Share of profit of assoc.	1	5	3	0	NM	NM	-36.6%
<b>Profit before tax</b>	<b>2,593</b>	<b>2,907</b>	<b>3,035</b>	<b>2,897</b>	<b>4.8%</b>	<b>17.1%</b>	<b>4.4%</b>
Overseas tax expense	-276	-461	-467	-435	7.5%	69.6%	1.5%
Non-controlling interest	0	0	0	-1	NM	-9.4%	-12.7%
<b>Profit for the period</b>	<b>2,318</b>	<b>2,447</b>	<b>2,568</b>	<b>2,461</b>	<b>4.3%</b>	<b>10.8%</b>	<b>5.0%</b>

*FABS estimate & Co Data*
**Guidance**
**5-year guidance**

Profitability	Double net profit to AED 20 billion within five years; c.20% annual growth rate
Cost of risk <sup>(1)</sup>	<60 bps
CET1 ratio	>12%
ROE	>15%
Dividend payout <sup>(2)</sup>	Progressive year-on-year increase in paid-out dividends, with targeted total dividend payout of c. AED 25 billion over five-year period

## 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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