

## Dubai Islamic Bank (DIB)

| Current Price | Target Price | Upside/Downside (%) | Rating |
|---------------|--------------|---------------------|--------|
| AED 9.69      | AED 9.50     | -2%                 | HOLD   |

### 2Q25 Net Profit higher than our estimate

- Net funded income declined marginally 0.6% YOY to AED 2,122 Mn in 2Q25, attributed to a 0.3% YOY decline in funded income, partially offset by strong loan growth.
- Reported NIMs contracted from 2.9% in 1Q25 to 2.7% in 2Q25.
- Non-funded income witnessed healthy growth of 18.6% YOY to AED 1,097 Mn in 2Q25, due to higher income from other investments measured at fair value, share of associates profit and other operating income, partially offset by a decline in income from investment properties.
- Operating expenses grew 10.6% YOY to AED 925 Mn in 2Q25 owing to continued investments in technology and digital upgrades. Furthermore, the calculated cost-to-income ratio increased 140 bps YOY to 28.7% in 2Q25.
- Impairment further reduced to AED 93 Mn in 2Q25 compared to AED 354 Mn in 2Q24, driven by robust underwriting risk management.
- Tax expenses grew from AED 157 Mn in 2Q24 to AED 268 Mn in 2Q25 due to an increase in tax rate.
- Net profit increased 10.8% YOY to AED 1,858 Mn in 2Q25, fueled by a healthy growth in non-funded income and lower impairment charges, partially offset by a rise in operating expense and tax charge.
- Net financings grew 19.1% YOY and 6.7% QOQ to AED 237.4 Bn in 2Q25, driven by strong momentum in both retail and corporate segments.
- The customer deposits grew 21.2% YOY and 7.1% QOQ to AED 283.7 Bn in 2Q25, attributed to effective customer acquisition and retention strategies, with CASA representing 36% of the total deposits in 2Q25.
- The headline loan-to-deposit ratio decreased from 84.0% in 1Q25 to 83.7% in 2Q25.
- The Bank maintained healthy capitalization with CET 1 ratio and CAR at 13.0% and 16.7%, respectively, in 2Q25.

### Earnings Call Summary

- Impairments fell in 2Q25 mainly due to quality underwriting and solid economic performance across all sectors.
- DIB's funded income continued to remain stable despite lower margins due to lower interest rates. However, the bank managed to compensate by lowering deposit rates to minimize the impact.
- Total gross underwriting, including the sukuk portfolio, reached AED 60 Bn in 1H25.
- Stage 2 loans fell 23% YOY in 2Q25 to AED 10 Bn owing to solid recoveries.
- The bank's digital strategy has driven strong growth in user adoption and transaction volumes by enhancing features and streamlining onboarding, especially for SME and business banking customers. This has improved customer acquisition across both retail and business segments.
- DIB had guided NIM at 2.8%–3% at the start of the year, assuming four rate cuts in 2025. However, no cuts occurred in 1H25, putting pressure on margins as a large portion of liabilities remain locked in at a higher fixed deposit rate while asset yields are largely fixed. If rate cuts begin in 2H25, DIB's liability structure positions it to benefit from lower funding costs.
- The NIM pressure is primarily due to higher deposit pricing and not asset yields, as interest rates did not decline as expected earlier in the year.
- Effective tax rate for 2025 stands at 15%. Meanwhile, the bank is figuring out ways to reduce the effective tax rate.
- The bank anticipates recoveries in Q3 and Q425, supporting strong asset quality through year-end.

- Loan growth reached 11.7% YTD in H1 2025, driven by all business segments, with the bank confident of hitting its 15% full-year target by Q3 itself. While guidance remains unchanged, the focus now shifts to achieving this ahead of schedule.
- DIB's interest rate sensitivity indicates that a 100-bps rate cut would result in an impact of c. AED 200 Mn on net income, assuming a static balance sheet.
- Cost of risk on normalized basis is anticipated at 50-60 bps for 2025.

#### DIB - P&L

| AED mn                       | 2Q24         | 1Q25         | 2Q25         | 2Q25F        | Var.         | YOY Ch       | QOQ Ch      |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Net funded income            | 2,135        | 2,192        | 2,122        | 2,215        | -4.2%        | -0.6%        | -3.2%       |
| Non-Funded Income            | 924          | 962          | 1,097        | 1,010        | 8.6%         | 18.6%        | 14.0%       |
| <b>Operating income</b>      | <b>3,060</b> | <b>3,154</b> | <b>3,219</b> | <b>3,225</b> | <b>-0.2%</b> | <b>5.2%</b>  | <b>2.1%</b> |
| Operating expenses           | -836         | -883         | -925         | -891         | 3.8%         | 10.6%        | 4.8%        |
| Impairment charges           | -354         | -163         | -93          | -302         | -69.1%       | -73.6%       | -42.8%      |
| <b>Profit before tax</b>     | <b>1,870</b> | <b>2,108</b> | <b>2,201</b> | <b>2,032</b> | <b>8.3%</b>  | <b>17.7%</b> | <b>4.4%</b> |
| Tax                          | -157         | -311         | -268         | -299         | -10.4%       | 70.6%        | -13.9%      |
| <b>Profit for the period</b> | <b>1,677</b> | <b>1,740</b> | <b>1,858</b> | <b>1,682</b> | <b>10.5%</b> | <b>10.8%</b> | <b>6.8%</b> |

FABS estimate & Co Data

## 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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