First Look Note | 2Q26

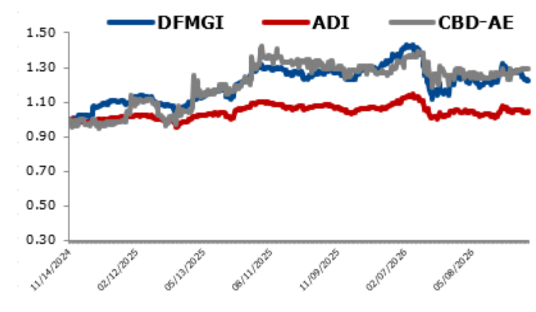
UAE Equity Research | Sector: Banking | Market: DFM

Commercial Bank of Dubai (CBD)

Lower impairments supported net profits

Current Price	Target Price	Upside/Downside (%)	Rating
AED 9.50	AED 10.70	+12.6%	ACCUMULATE

- Bank expects loans to grow by mid-to-high single digits, along with stable CASA and deposit growth in 2026. It also lowered its cost of risk guidance to below 50 bps, from below 70 bps previously.
- In July 2026, the Bank issued a USD 600 Mn AT1 perpetual instrument, the same size as the one it replaces, lifting pro-forma CAR to 15.9%.
- The CASA ratio stood at 51.0% of total deposits in 2Q26, reflecting a strong funding profile supported by stable, low-cost operational accounts.
- CBD reported an NPL ratio of 3.6% and a cash coverage ratio of 96.5% in 1H26, with coverage including collateral for stage 3 loans at 143.5%.



Stock Information	
Market Cap (AED, Mn)	28,359.32
Paid Up Capital (Mn)	2,985.19
52 Week High	10.85
52 Week Low	8.45
3M Avg. daily value(AED)	13,966

2Q26 Result Review (AED, Mn)	
Total Assets	154,505
Total Liabilities	137,537
Total Equity	16,968
Total Deposits	107,704
Net Profit	886

Financial Ratios	
Dividend Yield (12m)	6.10
Dividend Pay-out (%)	51.96
Price-Earnings Ratio(x)	8.22
Price-to-Book Ratio (x)	1.61
Book Value (AED)	5.77
Return-on Equity (%)	20.76

Stock Performance	
5 Days	0.53%
1 Months	2.48%
3 Months	0.11%
6 Months	-1.04%
1 Year	0.00%
Month to Date (MTD%)	2.15%
Quarter to Date (QTD%)	2.15%
Year to Date (YTD%)	2.48%

2Q26 Net Profit in line with our estimate

Commercial Bank of Dubai ("CBD, "the Bank") net profit grew 2.1% YOY to AED 886 Mn in 2Q26, in line with our estimate of AED 867 Mn. The growth was supported by higher non-funded income and lower impairment charges, partially offset by lower net funded income, higher operating expenses and taxes.

P&L Highlights

CBD's funded income declined 2.0% YOY to AED 1,839 Mn in 2Q26, owing to a decrease in asset yield, partially offset by an increase in the loan and investment portfolio. The funded expenses fell marginally 0.3% YOY to AED 845 Mn in 2Q26, owing to lower funding costs, partially offset by an increase in interest-bearing liabilities. Thus, the net funded income declined 3.4% YOY to AED 994 Mn in 2Q26, as lower funded income outweighed the reduction in funded expenses. CBD's calculated NIM fell 26 bps YOY to 2.8% in 2Q26, mainly due to competitive price pressure and margin compression, with Bank expecting margins to stabilize around this level. The Bank's fees and commission income grew 5.0% YOY to AED 340 Mn in 2Q26, driven by broad-based growth across trade finance and other product lines. Trading income grew 8% YOY to AED 82 Mn in 2Q26, while other non-funded income increased 16.2% YOY to AED 28 Mn in 2Q26. As a result, the Bank's total non-funded income increased 6.2% YOY to AED 450 Mn in 2Q26. CBD's total operating income declined 0.6% YOY to AED 1,444 Mn in 2Q26. Furthermore, the G&A expenses declined 2.1% YOY to AED 350 Mn in 2Q26. D&A expenses grew from AED 22 Mn in 2Q25 to AED 34 Mn in 2Q26. Thus, total operating expenses increased 1.1% YOY to AED 383 Mn in 2Q26, primarily driven by investments in digitization, technology, business expansion, and regulatory compliance. However, the cost-to-income ratio deteriorated 44 bps YOY to 26.5% in 2Q26, reflecting softer operating income growth alongside continued investment. Impairments on loans and advances and Islamic financing decreased from AED 164 Mn in 2Q25 to AED 134 Mn in 2Q26. While the recoveries on loans and advances and Islamic financing increased 3.7% YOY to AED 43 Mn in 2Q26, the Bank's impairment allowances on AFS investment rose from AED 1 Mn in 2Q25 to AED 4 Mn in 2Q26. CBD's corporate tax charge increased 3.1% YOY to AED 87 Mn in 2Q26, broadly in line with growth in profit before tax.

Balance Sheet Highlights

CBD's net advances grew 4.4% YOY and 2.1% QOQ to AED 104.2 Bn in 2Q26. On a YTD basis, the Bank's growth in gross loans was primarily driven by higher exposures in Others, Transportation & storage, Hospitality, Personal Mortgages, and Individual loans for consumption, partially offset by declines in exposure to Individual loans for business, Government entities, Manufacturing, Financial & insurance activities and Construction. The calculated NPL ratio declined 85 bps YOY and 3 bps QOQ to 4.2% in 2Q26. Further, the Bank's total assets rose 2.6% YOY but declined 2.2% QOQ to AED 154.5 Bn in 2Q26, reflecting a reduction in excess liquidity. Customer deposits grew 0.6% YOY but declined 1.8% QOQ to AED 107.7 Bn in 2Q26. The loan-to-deposit ratio reached 96.7% in 2Q26, compared to 93.1% in 1Q26.

Target Price and Rating

We revise our rating on CBD from BUY to ACCUMULATE with an unchanged target price of AED 10.70. The Bank reported net profit growth of 2.1% YOY in 2Q26, supported by growth in loans, and lower impairment charges, offsetting margin compression and higher expenses. Gross lending reached AED 108.2 Bn, representing c. 4.0% of the UAE loan market share in 2Q26. The Bank maintained its loan growth guidance for 2026 of mid-to-high single digits, broadly in line with sector trends. CBD's investment securities portfolio stood at AED 18.8 Bn in 2Q26, predominantly comprising fixed-rate government securities (84.6%), followed by other fixed-rate securities (14.6%), while fund of funds and equities accounted for a minimal 0.8% of the total portfolio, with 74.0% of the portfolio invested in the UAE and GCC. On the funding side, the Bank continued to benefit from a well-diversified and stable deposit base. Customer deposits grew 0.6% YOY to AED 107.7 Bn in 2Q26, and CASA deposits comprised 51.0% of total deposits, reflecting a strong funding profile supported by stable, low-cost operational accounts. CBD's net interest margin was 2.8% in 1H26, with Bank citing loan and CASA growth offsetting margin compression from competitive price pressure and expecting margins to stabilize around this level; the Bank reiterated its NIM guidance of 2.70% to 2.80% for 2026. CBD reported a cost of risk of 41 bps in 1H26 and lowered its 2026 cost of risk guidance to below 50 bps, from below 70 bps previously, supported by a healthy pipeline of recoveries, while noting the underlying loan book remains strong. On asset quality, CBD reported an NPL ratio of 3.60% and a cash coverage ratio of 96.5% in 1H26, with coverage including collateral for stage 3 loans at 143.5%, reflecting prudent provisioning including refreshed macroeconomic overlays. The Bank maintained a 20.9% return on equity after tax (reported) in 1H26 and expects to maintain above 18% in 2026. CBD's cost efficiency remained strong, with the cost-to-income ratio stable at 26.7% in 1H26, even as the bank continued investing in its technology-stack replacement and digitization. The Bank expects this ratio to remain below 28% in 2026. CBD's capital ratios were healthy, with the capital adequacy ratio (CAR) at 14.1%, Tier 1 ratio at 13.0% and Common Equity Tier 1 (CET1) ratio at 13.0%, all comfortably above the regulatory minimum requirements set by the UAE Central Bank; the USD 600 Mn AT1 issued in mid-July 2026 would lift pro-forma CAR to 15.9%. Thus, based on the above-mentioned factors, we revise our rating to ACCUMULATE on the stock.

FAB SECURITIES أبوظبي الأول للأوراق المالية

CBD - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	21.54	16.75	11.26	9.79	8.42	8.54
PB	2.50	2.43	2.09	1.86	1.65	1.52
BVPS	3.807	3.912	4.548	5.099	5.768	6.249
EPS	0.441	0.567	0.843	0.971	1.128	1.113
DPS	0.243	0.245	0.444	0.507	0.586	0.579
Dividend Yield	2.6%	2.6%	4.7%	5.3%	6.2%	6.1%

FABS Estimates & Co Data

CBD – P&L

AED Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Funded income	1,876	1,821	1,839	1,862	-1.2%	-2.0%	1.0%	7,657	7,709	0.7%
Funded expense	-847	-812	-845	-800	5.5%	-0.3%	4.0%	-3,505	-3,535	0.8%
Net funded income	**1,029**	**1,009**	**994**	**1,061**	**-6.3%**	**-3.4%**	**-1.5%**	**4,151**	**4,174**	**0.5%**
Fees and commissions	324	296	340	305	11.7%	5.0%	15.1%	1,171	1,277	9.0%
Trading income	75	111	82	98	-16.6%	8.0%	-26.5%	493	376	-23.8%
Other non-funded income	24	41	28	39	-28.4%	16.2%	-32.0%	103	144	40.0%
Total non-funded income	**423**	**447**	**450**	**441**	**1.9%**	**6.2%**	**0.5%**	**1,768**	**1,797**	**1.7%**
Total operating income	**1,453**	**1,456**	**1,444**	**1,502**	**-3.9%**	**-0.6%**	**-0.9%**	**5,919**	**5,971**	**0.9%**
G&A Expenses	-357	-359	-350	-355	-1.5%	-2.1%	-2.7%	-1,459	-1,465	0.4%
Depreciation & amortization	-22	-32	-34	-33	3.2%	52.3%	3.9%	-95	-130	37.4%
Operating Expenses	**-379**	**-392**	**-383**	**-388**	**-1.1%**	**1.1%**	**-2.2%**	**-1,554**	**-1,595**	**2.7%**
Pre provision profit	**1,074**	**1,065**	**1,061**	**1,115**	**-4.9%**	**-1.2%**	**-0.4%**	**4,365**	**4,376**	**0.2%**
Impairments	-164	-180	-134	-205	-34.3%	-17.9%	-25.1%	-710	-740	4.2%
Recoveries	42	46	43	45	-4.2%	3.7%	-6.8%	189	182	-3.7%
Impairment on AFS invest.	1	-19	4	-2	NM	NM	NM	-1	-22	NM
Profit before tax	**952**	**912**	**973**	**953**	**2.1%**	**2.2%**	**6.7%**	**3,844**	**3,796**	**-1.2%**
Corporate tax	-85	-82	-87	-86	1.9%	3.1%	6.2%	-344	-342	-0.7%
Net Profit	**867**	**830**	**886**	**867**	**2.1%**	**2.1%**	**6.7%**	**3,500**	**3,455**	**-1.3%**

FABS estimate & Co Data

CBD - KPI

	2Q25	1Q26	2Q26	YOY Ch	QQQ Ch	2025	2026F	Change
Net FI/OI	70.9%	69.3%	68.9%	-199	-42	70.1%	69.9%	-23
NIMs	3.0%	2.8%	2.8%	-26	2	3.0%	2.8%	-19
NIS	2.7%	2.4%	2.4%	-21	2	2.6%	2.5%	-12
Fees & comms/OI	22.3%	20.3%	23.6%	126	327	19.8%	21.4%	159
Trading/OI	5.2%	7.6%	5.6%	45	-197	8.3%	6.3%	-204
Cost to income	26.1%	26.9%	26.5%	44	-36	26.3%	26.7%	46
Impairment/PPP	11.3%	14.3%	8.3%	-306	-605	11.9%	13.2%	130
NP/OI	59.7%	57.0%	61.3%	164	434	59.1%	57.9%	-127
Cost of Risk	0.5%	0.5%	0.3%	-13	-16	0.49%	0.49%	1
Loan-to-deposit	93.2%	93.1%	96.7%	350	365	90.7%	93.1%	235
NPL – Calculated	5.0%	4.2%	4.2%	-85	-3	4.3%	4.2%	-11
Coverage – Calculated	92.6%	96.3%	89.4%	-317	-688	96.6%	97.0%	43
CET1	12.4%	12.5%	13.0%	59	46	12.5%	13.7%	113
Capital adequacy	15.4%	15.5%	14.1%	-123	-132	15.5%	14.9%	-65
ROAE	21.6%	21.9%	20.9%	-70	-103	20.8%	18.5%	-224
ROAA	2.2%	2.3%	2.3%	6	-3	2.7%	2.5%	-24

FABS estimate & Co Data

CBD - Key B/S items

AED Mn	2Q25	3Q25	4Q25	1Q26	2Q26	YOY Ch
Net advances	99,816	105,223	101,049	102,055	104,194	4.4%
QOQ change	3.0%	5.4%	-4.0%	1.0%	2.1%	
Total assets	150,607	163,409	160,308	157,922	154,505	2.6%
QOQ change	6.7%	8.5%	-1.9%	-1.5%	-2.2%	
Customer deposits	107,047	112,148	111,353	109,633	107,704	0.6%
QOQ change	7.5%	4.8%	-0.7%	-1.5%	-1.8%	
Total equity	17,645	18,572	19,422	18,315	16,968	-3.8%
QOQ change	4.9%	5.3%	4.6%	-5.7%	-7.4%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	11.77	70.0%	8.24
Relative Valuation (RV)	8.19	30.0%	2.46
Weighted Average Valuation (AED)			**10.70**
Current market price (AED)			9.50
Upside/Downside (%)			+12.6%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.3%. The cost of equity is calculated using a 10-year government bond yield of 5.3%, a beta of 0.95, and an equity risk premium of 4.2%. The government bond yield is calculated by adding the Dubai 10-year CDS spread to the 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	5,213
Terminal value (AED, Mn)	12,961
Book value of equity (as of Jun 2026)	16,968
FV to Common shareholders (AED, Mn)	**35,143**
No. of share (Mn)	2,985
Current Market Price (AED)	9.50
Fair Value per share (AED)	**11.77**

Residual Income Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net Profit	3,323	3,175	3,300	3,413	3,543
(-) Equity Charge	-1,596	-1,729	-1,864	-2,016	-2,174
Excess Equity	**1,726**	**1,445**	**1,437**	**1,397**	**1,369**
Discounting Factor	0.96	0.88	0.81	0.74	0.67
Present Value of Excess Equity	**830**[1]	**1,272**	**1,157**	**1,030**	**924**

Source: FAB Securities, [1] Adjusted for partial year

2) Relative Valuation:

We have used local and international peers to value CBD, and it is valued using the PB multiple. It is valued at a 2026 PB multiple of 1.3x in line with peers.

Company	Market	P/E (x)		P/B (x)		Dividend Yield (%)	
	(USD Mn)	2026F	2027F	2026F	2027F	2026F	2027F
Dubai Islamic Bank	15,131	1.2x	1.1x	8.7x	8.4x	4.7%	4.9%
Emirates NBD	52,727	1.3x	1.1x	8.5x	7.7x	3.3%	3.7%
ADCB	30,953	1.3x	1.2x	10.0x	8.9x	4.5%	4.8%
MASQ	14,146	1.3x	1.2x	7.6x	7.0x	4.0%	NA
ADIB	21,557	2.7x	2.4x	12.0x	10.9x	4.3%	4.7%
Alinma Bank	19,184	1.8x	1.7x	11.6x	10.8x	3.5%	3.6%
Average		**1.6x**	**1.4x**	**9.7x**	**8.9x**	**4.0%**	**4.3%**
Median		**1.3x**	**1.2x**	**9.3x**	**8.6x**	**4.1%**	**4.7%**
Max		**1.7x**	**1.5x**	**11.2x**	**10.3x**	**4.5%**	**4.8%**
Min		**1.3x**	**1.1x**	**8.6x**	**7.8x**	**3.6%**	**3.7%**

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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