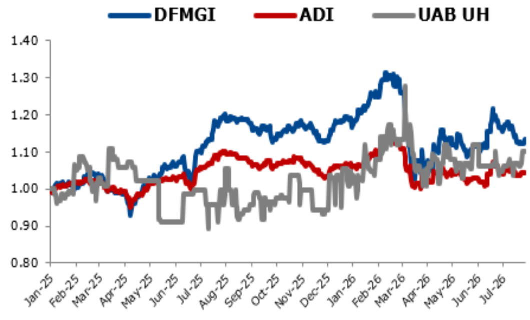
United Arab Bank (UAB)

Higher other non-funded income and impairment reversal boosted the bottom line

Current Price	Target Price	Upside/Downside (%)	Rating
AED 1.38	AED 1.60	+15.9%	BUY

- Total assets increased 16% YOY to AED 27.7 Bn in 2Q26, supported by a 25.3% YOY rise in the investment portfolio to AED 8.3 Bn.
- The Bank's asset quality is robust, with a gross NPL ratio of 2.7% and a provision coverage ratio of 101%, increasing to 177% with collateral in 2Q26.
- The cost-to-income ratio decreased from 42.9% in 2Q25 to 44.5% in 2Q26.
- Liquidity is strong, with a 17% liquid asset ratio and 73% advances to stable resources, both above regulatory standards in 2Q26.



Stock Information	
Market Cap (AED, Mn)	4,393.23
Paid Up Capital (Mn)	3,093.83
52 Week High	1.60
52 Week Low	1.07
3M Avg. daily value(AED)	257,366

2Q26 Result Review (AED, Mn)	
Total Assets	27,748
Total Liabilities	23,709
Total Equity	4,039
Total Deposits	18,166
Net Profit	126

Financial Ratios	
Dividend Yield (12m)	2.49
Dividend Pay-out (%)	25.00
Price-Earnings Ratio(x)	10.23
Price-to-Book Ratio (x)	1.26
Book Value (AED)	1.13
Return-on Equity (%)	15.08

Stock Performance	
5 Days	6.77%
1 Months	8.40%
3 Months	5.19%
6 Months	5.19%
1 Year	18.33%
Month to Date (MTD%)	8.40%
Quarter to Date (QTD%)	8.40%
Year to Date (YTD%)	9.23%

2Q26 Net Profit higher than our estimate

United Arab Bank PJSC ("UAB"/ "The Bank") net profit rose 18.6% YOY to AED 126 Mn in 2Q26, higher than our estimates of AED 85 Mn. The increase in net profit was primarily driven by higher funded and non-funded income (supported by forex income and other operating income), coupled with reversal of impairments, partially offset by growth in operating and tax expenses.

P&L Highlights

UAB's funded income improved 2.5% YOY to AED 345 Mn in 2Q26, driven by strong growth in the lending and investments book, partially offset by a contraction in asset yield. Funded expenses grew 3.9% YOY to AED 186 Mn in 2Q26, owing to a rise in customer deposits, medium-term borrowing and deposits & balances due to banks, partially offset by a decline in the cost of funds. Thus, net funded income slightly rose 0.8% YOY to AED 159 Mn in 2Q26. Fees and commissions income increased 2.3% YOY to AED 27 Mn in 2Q26. Exchange income expanded 30.1% YOY to AED 14 Mn in 2Q26. The Bank recorded other non-funded income of AED 28 Mn in 2Q26, compared with AED 13 Mn in 2Q25. Thus, total non-funded income increased 37.3% YOY to AED 69 Mn in 2Q26. As a result, operating income expanded 9.6% YOY to AED 228 Mn in 2Q26. Operating expenses increased 13.5% YOY to AED 101 Mn in 2Q26, due to continued investment in growth initiatives across people, products, process and systems. Thus, the cost-to-income ratio decreased from 42.9% in 2Q25 to 44.5% in 2Q26. The Bank recorded impairment reversal of AED 12 Mn in 2Q26 compared to impairment allowance of AED 2 Mn in 2Q25. Tax expenses rose 18.4% YOY to AED 12 Mn in 2Q26, in line with the increment in profit before tax.

Balance Sheet Highlights

UAB's total assets grew 16.0% YOY and 3.2% QOQ to AED 27.7 Bn in 2Q26, driven by a rise in lending volumes, Islamic financing and high-quality investments. Net advances and Islamic financing grew strongly 14.2% YOY and 1.6% QOQ to AED 15.3 Bn in 2Q26, driven by strong demand in corporate and retail lending. The Bank's investment portfolio grew 25.3% YOY and 0.2% QOQ to AED 8.3 Bn in 2Q26, driven by the efficient deployment of liquidity into high-quality assets, supporting yield enhancement. Similarly, customer deposits increased 16.4% YOY and 9.1% QOQ to AED 18.2 Bn in 2Q26, supported by targeted initiatives across corporate and retail banking, with a strong focus on CASA-led deposit growth and funding cost optimisation.

Target Price and Rating

We maintain our BUY rating on UAB with a target price of AED 1.60. The stock price has increased 3.8% since our last rating. The Bank delivered a strong operating performance in 2Q26, with a 9.6% YOY increase in operating income, reflecting disciplined strategy execution, robust asset growth, and prudent risk management amid global and regional uncertainties. Net profit also rose 18.6% YOY in 2Q26 to AED 126 Mn, primarily due rise in other non-funded income and impairment reversal. Furthermore, the Bank's 2Q26 performance was supported by continued investment in people, products, systems, and processes, reinforcing ongoing operational progress. Net advances grew 14.2% YOY and 1.6% QOQ to AED 15.3 Bn in 2Q26, supported by strong demand across corporate and retail segments, along with growth in Islamic financing, indicating sustained lending momentum and continued balance sheet expansion. Similarly, the Bank's investment portfolio expanded 25.3% YOY and 0.2% QOQ to AED 8.3 Bn in 2Q26, driven by the efficient deployment of excess liquidity into high-quality assets, supporting yield improvement. The Bank's performance took a hit in its NIM (calculated), which declined to 2.4% in 2Q26 from 2.8% in 2Q25. UAB's deposits expanded 16.4% YOY and 9.1% QOQ to AED 18.2 Bn in 2Q26, with a growth in CASA deposits of 17.3% YOY to AED 7.2 Bn in 2Q26, accounting for 39.7% of total deposits. This reflects a strengthening low-cost funding mix and supports funding stability. UAB's asset quality slightly dipped in 2Q26, with a decline in the NPL ratio (calculated) from 2.2% in 2Q25 to 2.7% in 2Q26. However, the coverage ratio (calculated) fell from 148.0% in 2Q25 to 96.6% in 2Q26. Additionally, stage 2 loans declined over the past four quarters, signaling improving asset migration trends and reducing credit stress within the portfolio. The Bank's CET1 and CAR stood at 17.2% and 21.1% in 2Q26, respectively, remaining well above regulatory requirements, thus enhancing the Bank's capacity to absorb potential shocks, sustain lending expansion, and maintain financial stability while pursuing strategic growth initiatives. Similarly, UAB's advances to stable resource ratio and eligible liquid asset ratio (ELAR) stood at 73% and 17%, respectively in 2Q26, both above the regulatory requirement, thus reflecting the Bank's continued resilience in maintaining a well-balanced funding mix and sufficient liquidity buffers. Thus, based on these factors, we maintain our rating to BUY on the stock.

UAB - Relative valuation

(at CMP)	**2021**	**2022**	**2023**	**2024**	**2025**	**2026F**
PE	40.55	18.40	11.13	9.45	7.77	11.97
PB	1.88	1.90	1.63	1.42	0.98	1.18
BVPS	0.733	0.727	0.844	0.971	1.411	1.170
EPS	0.034	0.075	0.124	0.146	0.178	0.115
DPS	NA	NA	NA	NA	0.035	0.030
Dividend Yield	NA	NA	NA	NA	2.5%	2.2%

FABS Estimates & Co Data

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UAB – P&L

AED Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Funded income	337	335	345	328	5.1%	2.5%	3.2%	1,291	1,292	0.1%
Funded expense	-179	-177	-186	-170	9.1%	3.9%	4.8%	-713	-701	-1.6%
Net funded income	**158**	**157**	**159**	**158**	**0.7%**	**0.8%**	**1.3%**	**579**	**591**	**2.1%**
Fees & commissions	26	20	27	21	29.7%	2.3%	32.3%	102	104	2.0%
Exchange income	11	14	14	15	-4.9%	30.1%	4.6%	47	61	28.0%
Other non-funded income	13	1	28	12	NM	NM	NM	68	87	28.0%
Total non-funded income	**50**	**35**	**69**	**48**	**43.1%**	**37.3%**	**NM**	**218**	**252**	**15.8%**
Total operating income	**208**	**193**	**228**	**206**	**10.6%**	**9.6%**	**18.5%**	**797**	**843**	**5.9%**
Total operating expenses	-89	-92	-101	-93	9.3%	13.5%	10.0%	-365	-403	10.3%
Pre provision profit	**119**	**100**	**127**	**113**	**11.7%**	**6.7%**	**26.3%**	**431**	**440**	**2.1%**
Impairment	-2	-18	12	-20	NM	NM	NM	51	-48	NM
Profit before tax	**117**	**82**	**138**	**94**	**47.8%**	**18.6%**	**67.9%**	**482**	**392**	**-18.7%**
Tax expense	-11	-7	-12	-8	48.7%	18.4%	NM	-44	-35	-19.8%
Net profit	**106**	**75**	**126**	**85**	**47.7%**	**18.6%**	**67.8%**	**438**	**357**	**-18.6%**

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UAB - KPI

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Net FI/OI	75.9%	81.6%	69.8%	-608	NM	72.6%	70.1%	-256
NIM	2.8%	2.4%	2.4%	-37	0	2.5%	2.2%	-32
NIS	2.4%	2.0%	2.0%	-41	1	2.0%	1.7%	-27
Fees & comms/OI	12.6%	10.6%	11.8%	-85	123	12.9%	12.4%	-47
Exchange income/OI	5.3%	7.1%	6.3%	99	-83	5.9%	7.2%	124
Cost to income	42.9%	47.9%	44.5%	153	-343	45.9%	47.8%	192
Impairment/PPP	1.7%	17.8%	-9.2%	NM	NM	-11.8%	11.0%	NM
NP/OI	51.0%	39.0%	55.2%	419	NM	55.0%	42.3%	NM
Cost of risk - Calculated	0.1%	0.5%	-0.3%	-36	-77	-0.4%	0.3%	68
Loan-to-deposit - Calculated	86.0%	90.6%	84.4%	-163	-619	81.7%	85.0%	NM
NPL - Calculated	2.2%	2.6%	2.7%	56	11	2.8%	2.7%	-10
Coverage excluding collateral - Calculated	148.0%	105.2%	96.6%	NM	NM	102.4%	102.5%	10
CET 1	12.1%	16.4%	17.2%	510	80	17.4%	16.4%	-102
Capital adequacy	16.3%	20.4%	21.1%	480	70	21.5%	20.1%	-141
ROAE	18.1%	15.2%	15.1%	-302	-16	16.0%	10.0%	NM
ROAA	1.7%	1.6%	1.7%	-2	3	1.8%	1.3%	-55

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UAB - Key B/S items

AED Mn	2Q25	3Q25	4Q25	1Q26	2Q26	YOY Ch.
Net advances	13,418	14,112	14,554	15,081	15,328	14.2%
QOQ change	7.6%	5.2%	3.1%	3.6%	1.6%	
Total assets	23,921	24,465	27,000	26,893	27,748	16.0%
QOQ change	2.1%	2.3%	10.4%	-0.4%	3.2%	
Customer deposits	15,601	14,369	17,809	16,652	18,166	16.4%
QOQ change	4.4%	-7.9%	23.9%	-6.5%	9.1%	
Total equity	2,781	3,959	4,032	3,842	4,039	45.2%
QOQ change	4.6%	42.4%	1.8%	-4.7%	5.1%	

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Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	1.65	70.0%	1.15
Relative Valuation (RV)	1.49	30.0%	0.45
Weighted Average Valuation (AED)			**1.60**
Current market price (AED)			1.38
Upside/Downside (%)			+15.9%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.3%. Cost of equity is calculated by using a 10-year government bond yield of 4.9%, a beta of 0.60 and an equity risk premium of 5.7%. Government bond yield is calculated after adding Abu Dhabi's 10-year CDS spread over the 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	365
Terminal value (AED, Mn)	1,248
Book Value of Equity (as of Mar 2026)	3,488
FV to Common shareholders (AED, Mn)	**5,101**
No. of shares (Mn)	3,094
Current Market Price (AED)	1.38
Fair Value per share (AED)	**1.65**

Residual Income Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net Profit	357	378	404	425	442
(-) Equity Charge	-271	-282	-301	-321	-343
Excess Equity	**86**	**96**	**103**	**104**	**99**
Discounting Factor	0.97	0.90	0.83	0.77	0.72
Present Value of Excess Equity	**42[1]**	**87**	**86**	**80**	**71**

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

2) Relative Valuation:

We have used local peers to value UAB, 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 (USD Mn)	P/E (x)		P/B (x)	
		2026F	2027F	2026F	2027F
Sharjah Islamic Bank	2,564	8.6x	NA	1.1x	NA
Commercial Bank of Dubai	7,680	8.6x	9.5x	1.5x	1.4x
Emirates NBD	52,727	8.5x	7.7x	1.3x	1.1x
Mashreq Bank	14,146	7.6x	7.0x	1.3x	1.2x
RAK Bank	4,967	6.4x	8.6x	1.1x	1.3x
Average		**7.9x**	**8.2x**	**1.3x**	**1.3x**
Median		**8.5x**	**8.2x**	**1.3x**	**1.3x**
Max		**8.6x**	**8.8x**	**1.3x**	**1.3x**
Min		**7.6x**	**7.5x**	**1.1x**	**1.2x**

Source: FAB Securities

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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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