FAB SECURITIES أبوظبي الأول للأوراق المالية

Earnings Call Insight | 2Q26

UAE Equity Research | Sector: Banking | Market: ADX

Abu Dhabi Islamic Bank (ADIB)

Current Price	Target Price	Upside/Downside (%)	Rating
AED 21.50	AED 26.00	+21%	BUY

2Q26 Net Profit slightly higher than our estimate

- Net funded income increased 10.7% YOY to AED 2,054 Mn in 2Q26, primarily driven by strong financing growth, higher business volumes and continued customer acquisition, despite higher funded expenses.
- ADIB continued to expand its customer base, adding 59K new customers during 2Q26, reinforcing the strength of its franchise and supporting business growth.
- Calculated NIMs contracted 19 bps YOY and 10 bps QOQ to 2.9% in 2Q26, impacted by funding cost as financing assets repriced faster than wholesale deposits while asset yield remained stable.
- Non-funded income increased 2.3% YOY to AED 1,234 Mn in 2Q26, supported by higher sukuk income, investment gains and foreign exchange income, partially offset by lower fee and commission income.
- Cost-to-income ratio deteriorated 83 bps YOY but improved 130 bps QOQ to 28.3% in 2Q26, as investments in talent, technology, digital capabilities and business expansion outpaced operating income growth, while remaining well below the Bank's guidance of 30% for 2026.
- Financing impairment charges declined 28.6% YOY to AED 143 Mn in 2Q26, with the calculated cost of risk improving to 0.27% in 2Q26 from 0.48% in 2Q25, reflecting continued healthy asset quality.
- Net profit attributable to equity shareholders increased 8.2% YOY to AED 1,814 Mn in 2Q26, supported by resilient core operating performance, rise in non-funded income and lower impairment charges, partially offset by higher operating expenses, tax charges and NCI.
- Asset quality continued to strengthen, with the NPL ratio improving to 2.2% in 2Q26 from 2.6% in 1Q26, while the calculated provision coverage ratio increased to 86.0% in 2Q26 from 80.3% in 1Q26, reflecting prudent provisioning and disciplined risk management.
- Net advances increased 26.7% YOY and 6.4% QOQ to AED 206.2 Bn in 2Q26, driven by growth across the retail and wholesale banking segments, supported by sustained customer acquisition and healthy economic activity in the UAE.
- Customer deposits increased 15.4% YOY and 2.6% QOQ to AED 245.7 Bn in 2Q26, while CASA deposits accounted for 64.1% of total deposits, reinforcing ADIB's resilient, low-cost funding profile.
- Investment securities marginally increased by 0.6% YOY however declined 2.0% QOQ to AED 35.9 Bn in 2Q26.
- ADIB’s total assets grew 16.7% YOY and 5.9% QOQ to AED 303.9 Bn in 2Q26.

Earnings Call Summary

- Revenue remained well diversified in 1H26, with non-funded income contributing 36.9% of operating income, supported by higher cards, foreign exchange, trade finance and investment income.
- Management continues prioritizing disciplined asset pricing over financing volumes, focusing on relationship profitability, ancillary business opportunities and risk-adjusted returns rather than market share expansion.
- GRE financing continued to expand, accounting for 26.8% of the financing portfolio and increasing by 40.3% YOY and 8.7% QOQ to AED 56.4 Bn in 2Q26.
- Retail financing increased 22.9% YOY and 4.5% QOQ at AED 103.7 Bn in 2Q26, with June recording the strongest monthly origination as activity recovered following temporary moderation during March and April.
- Home financing continued to be the key growth driver within the retail portfolio, reaching AED 47.9 Bn in 2Q26 and representing 46.2% of total retail financing. Management also highlighted that off-

plan mortgages carry lower risk due to lower LTVs, higher customer equity contributions and developer-backed financing structures.

- Customer franchise continued to strengthen, adding more than 125,000 new customers during 1H26 despite temporary disruptions from the regional conflict, following a record addition of 145,000 customers in 1H25. Customer acquisition continued to be supported by digital onboarding, product innovation and sustained market share gains across retail and wholesale banking.
- Digital transformation remained a key competitive differentiator, with 79% of new customers onboarded digitally and 61% of personal finance originated through digital channels during 1H26, supporting scalable franchise growth and operating efficiency.
- Funding costs remained elevated throughout 2Q26 due to intense competition for deposits, with management continuing to prioritize shorter-duration wholesale deposits to preserve repricing flexibility as market liquidity improves.
- Customer deposits remained resilient despite a competitive funding environment, with the CASA ratio moderating to 64.1% in 2Q26 from 66.9% in 1Q26, reflecting competitive pricing for deposits. Management expects the CASA mix to improve gradually as funding markets normalize.
- Liquidity remained comfortably above regulatory requirements, with the Eligible Liquid Asset Ratio improving to 15.0% in 2Q26 from 13.6% in 1Q26, reflecting the Bank's strong liquidity position.
- The funding profile remained resilient, with the Advances-to-Stable Funding Ratio increasing to 90.0% in 2Q26 from 87.6% in 1Q26 and the loan-to-deposits ratio improving to 83.9% in 2Q26 from 81.0% in 1Q26, providing sufficient capacity to support future financing growth despite a competitive funding environment.
- Capital remained robust, with CET1 of 12.2% and CAR of 15.6% in 2Q26. Management remains comfortable with current capital levels and expects to proactively manage any future regulatory capital requirements without affecting growth or dividend policy.
- Strong recoveries from a long-standing real estate exposure materially reduced impaired assets during 2Q26, driving the NPL ratio down to a record low of 2.2% in 2Q26 from 2.6% in 1Q26.
- Management continues maintaining a prudent provisioning approach through management overlays despite improving asset quality, while reiterating confidence that underlying credit trends remain stable across both Stage 1 and Stage 2 portfolios.
- Management reiterated that AT1 issuance remains an available capital management option but does not anticipate an immediate requirement given the Bank's strong capital position and internal capital generation.
- ADIB raised its 2026 gross financing growth guidance to 18%-20%, while revising its Net Profit Margin guidance to 3.7%-3.8%. The Bank maintained its Cost of Risk guidance at 0.40%-0.60%, Cost-to-Income ratio below 30% and Return on Equity above 25% for the period of 2026.

ADIB – P&L

AED Mn	**2Q25**	**1Q26**	**2Q26**	**2Q26F**	**Var**	**YOY Ch**	**QOQ Ch**
Net funded income	1,856	2,041	2,054	2,095	-1.9%	10.7%	0.6%
Non-Funded Inc	1,206	1,162	1,234	1,220	1.2%	2.3%	6.2%
Operating income	**3,062**	**3,203**	**3,288**	**3,314**	**-0.8%**	**7.4%**	**2.6%**
Operating expenses	-842	-949	-931	-963	-3.3%	10.6%	-1.9%
Pre-provision inc.	**2,220**	**2,254**	**2,356**	**2,351**	**0.2%**	**6.1%**	**4.5%**
Financing impairment	-199	-158	-143	-244	-41.5%	-28.6%	-10.0%
Profit before NCI	**2,021**	**2,096**	**2,214**	**2,108**	**5.0%**	**9.6%**	**5.6%**
NCI. & zakat	-344	-382	-400	-369	8.5%	16.2%	4.8%
Net Profit	**1,676**	**1,714**	**1,814**	**1,739**	**4.3%**	**8.2%**	**5.8%**

FABS estimate & Co Data

Management Guidance 2026:

Management Guidance	1H 2026 Actual	FY 2026 Guidance
Gross financing growth Customer financing momentum in both retail and corporate was strong in 1H 2026 driving assets above AED 300bn	26% YoY ✓ 13% YTD	18% to 20%
Net Profit Margin NPM remained resilient reflecting disciplined pricing and effective balance sheet management	3.78% ✓	3.7% to 3.8%
Cost of Risk CoR remaining in line with the Bank's risk appetite and reflecting disciplined underwriting, prudent risk management and a high-quality financing portfolio	0.33% ✓	0.40% to 0.60%
Cost to Income Ratio Maintained a healthy cost-to-income ratio through disciplined cost management and productivity gains, while continuing to invest in strategic growth initiatives	29% ✓	< 30%
Return on Equity Maintained an industry-leading ROE of 28%, supported by strong profitability, balance sheet growth and disciplined execution	28.2% ✓	> 25%

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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