FAB SECURITIES أبوظبي الأول للأوراق المالية

First Look Note | 2Q26

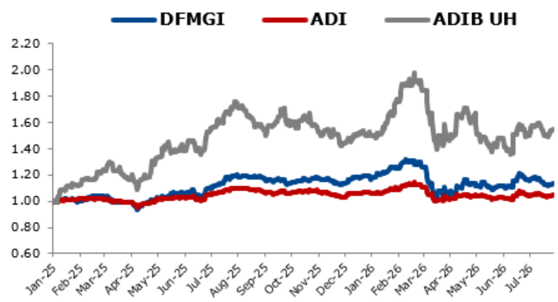
UAE Equity Research — Sector: Banking — Market: ADX

Abu Dhabi Islamic Bank (ADIB)

Financing growth remains robust with improvement in asset quality

Current Price	Target Price	Upside/Downside (%)	Rating
AED 21.42	AED 26.00	+21%	BUY

- Net advances increased by 26.7% YOY and 6.4% QOQ to AED 206.2 Bn in 2Q26, driven by broad-based financing growth.
- Customer deposits grew 15.4% YOY and 2.6% QOQ to AED 245.7 Bn, with the Bank adding 59K new customers in 2Q26.
- Asset quality continued to improve with the calculated NPL ratio declining to 2.2% in 2Q26 from 2.6% in 1Q26 while the calculated provision coverage ratio strengthened to 86.0%.
- 2026 guidance for gross financing growth rate and net profit margin revised to 18%-20% and 3.7%-3.8% respectively.
- The guidance for cost-to-income, CoR and ROAE remains unchanged.



Stock Information	
Market Cap (AED, Mn)	77,797.44
Paid Up Capital (Mn)	3,632.00
52 Week High	27.96
52 Week Low	18.28
3M Avg. daily value (AED)	97,528,540

2Q26 Result Review (AED, Mn)	
Total Assets	303,916
Total Liabilities	271,589
Total Equity	25,834
Total Deposits	245,652
Net Profit	1,814

Financial Ratios	
Dividend Yield (12m)	4.53
Dividend Pay-out (%)	55.60
Price-Earnings Ratio(x)	11.82
Price-to-Book Ratio (x)	3.01
Book Value (AED)	7.11
Return-on Equity (%)	27.09

Stock Performance	
5 Days	0.85%
1 Months	3.58%
3 Months	-2.28%
6 Months	-12.00%
1 Year	-11.34%
Month to Date (MTD%)	3.58%
Quarter to Date (QTD%)	3.58%
Year to Date (YTD%)	3.18%

2Q26 Net Profit Marginally Exceeded Our Estimate

Abu Dhabi Islamic Bank's (ADIB/ the Bank) net profit attributable to equity shareholders grew 8.2% YOY to AED 1,814 Mn in 2Q26, slightly higher than our estimate of AED 1,739 Mn. The increase in net profit is primarily attributed to higher growth in net funded and non-funded income along with lower financing impairment charges, partially offset by increase in operating expenses and higher non-controlling interest and zakat expenses.

P&L Highlights

ADIB's Islamic financing income rose 19.7% YOY to AED 3,155 Mn in 2Q26. Income from financial institutions increased 8.2% YOY to AED 570 Mn in 2Q26. Thus, total funded income surged 17.8% YOY to AED 3,725 Mn in 2Q26, supported by broad based financing growth across retail and wholesale banking, higher business volumes and new customer acquisition. Funded expenses increased significantly by 28.0% YOY to AED 1,671 Mn in 2Q26, mainly due to the significant rise in the interest-bearing liabilities couple with higher funding cost. Thus, net funded income grew 10.7% YOY to AED 2,054 Mn in 2Q26. However, calculated NIMs contracted 19 bps YOY to 2.9% in 2Q26. Fees and commission income decreased 2.7% YOY to AED 532 Mn in 2Q26. Other non-funded income increased 6.4% YOY to AED 702 Mn in 2Q26, supported by higher sukuk income, net gains from investments and higher foreign exchange income. Thus, total non-funded income increased 2.3% YOY to AED 1,234 Mn in 2Q26. As a result, total operating income increased 7.4% YOY to AED 3,288 Mn in 2Q26. Furthermore, operating expenses rose 10.6% YOY to AED 931 Mn in 2Q26, attributable to continued investments in talent, technology, digital capabilities and business expansion initiatives. ADIB's cost-to-income deteriorated 83 bps YOY to 28.3% in 2Q26. The Bank's financing impairment decreased 28.6% YOY to AED 143

Mn in 2Q26. Additionally, zakat and profit attributable to non-controlling interest holders increased 16.2% to AED 400 Mn in 2Q26.

Balance Sheet Highlights

ADIB's total assets grew 16.7% YOY and 5.9% QOQ to AED 303.9 Bn in 2Q26, supported by growth in Islamic financing and continued customer acquisition. ADIB's net advances recorded a significant growth of 26.7% YOY and 6.4% QOQ to AED 206.2 Bn in 2Q26, driven by growth in retail financing and wholesale financing, supported by continued economic activity across the UAE. ADIB's customer deposits rose 15.4% YOY and 2.6% QOQ to AED 245.7 Bn in 2Q26, further strengthening the funding franchise. CASA deposits accounted for 64.1% of total deposits in 2Q26, underpinning a stable funding base. The loan-to-deposit ratio stood at 83.9% in 2Q26 as compared to 81.0% in 1Q26. Investment securities marginally increased by 0.6% YOY however declined 2.0% QOQ to AED 35.9 Bn in 2Q26. Furthermore, ADIB maintained a strong capital position, with a CET1 ratio of 12.2% and a Capital Adequacy Ratio of 15.6%, as of 2Q26.

Target Price and Rating

We maintain our BUY rating on Abu Dhabi Islamic Bank with a target price of AED 26.00 per share. ADIB reported strong net profit growth of 8.2% YOY in 2Q26, primarily driven by higher funded income supported by robust financing growth across the retail and wholesale banking segments, alongside resilient non-funded income from higher cards, foreign exchange, trade-related and investment income. Earnings growth was achieved despite higher operating expenses due to continued investments in talent, technology and digital capabilities, as well as increased impairment charges, while maintaining strong cost discipline and a healthy funding profile. ADIB's assets grew 16.7% YOY and 5.9% QOQ to AED 303.9 Bn, a record high, underscoring the strength of its franchise and sustained balance sheet expansion. The Bank continues to benefit from a resilient funding base with a high CASA mix and strong capital generation. ADIB's net advances grew 26.7% YOY and 6.4% QOQ to AED 206.2 Bn in 2Q26, driven by broad-based financing activities, supported by a healthy financing pipeline and sustained customer acquisition reflecting strong credit demand in UAE. ADIB's customer deposits increased 15.4% YOY and 2.6% QOQ to AED 245.7 Bn in 2Q26, driven by continued customer acquisition thereby further strengthening the Bank's funding franchise. The Bank added 59K new customers in 2Q26. CASA deposits grew 11.9% YOY to AED 157.4 Bn in 2Q26, reflecting the strength of ADIB's deposit franchise. CASA deposits stood at 64.1% of total customer deposits in 2Q26, compared to 66.9% in 1Q26. Management expects the CASA mix to improve gradually as funding market conditions normalize, supporting the Bank's resilient low-cost funding profile. ADIB maintained a robust liquidity profile in 2Q26, supported by a well-diversified funding base and strong customer deposit franchise with all key liquidity metrics remaining comfortably above regulatory requirements. The Eligible Liquid Asset Ratio improved to 15.0% in 2Q26 from 13.6% in 1Q26, while the Advances to Stable Fund Ratio increased to 90.0% from 87.6% for the same period. The loan-to-deposits ratio also strengthened to 83.9% in 2Q26 from 81.0% in 1Q26, reflecting continued growth in customer deposits and a resilient funding profile that supports ongoing balance sheet expansion. On the front of capitalization, CAR and CET1 ratio remained broadly stable at 15.6% and 12.2% in 2Q26 compared to 15.5% and 12.0% in 1Q26, comfortably above regulatory requirements. The Bank's strong capital position continues to provide sufficient capacity to support future financing growth while maintaining prudent capital buffers. Following the Bank's strong 1H26 performance, ADIB upgraded its 2026 gross financing growth guidance to 18%-20% from earlier 12%-14%, reflecting sustained financing momentum across segments. The Bank revised its Net Profit Margin guidance to 3.7%-3.8% for the same period, primarily reflecting the funding cost pressure. Meanwhile, management maintained its Cost of Risk guidance at 0.40%-0.60%, Cost-to-Income ratio guidance of below 30% and Return on Equity guidance of above 25%, underscoring confidence in the Bank's profitability, asset quality and disciplined cost management. Overall, ADIB remains well positioned to deliver sustainable earnings growth, supported by strong fundamentals, disciplined execution and a resilient UAE operating environment. Thus, we maintain BUY rating on the Bank.

ADIB - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	37.71	23.55	16.78	14.42	12.34	11.76
PB	4.95	4.41	3.84	3.46	3.00	2.67
BVPS	4.348	4.881	5.610	6.220	7.177	8.063
EPS	0.571	0.915	1.284	1.493	1.746	1.832
DPS	0.311	0.490	0.715	0.834	0.971	1.016
Dividend yield	1.4%	2.3%	3.3%	3.9%	4.5%	4.7%

FABS Estimates & Co Data

ADIB – P&L

AED Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Funded income	3,161	3,567	3,725	3,660	1.8%	17.8%	4.4%	13,156	15,096	14.7%
Funded expense	-1,305	-1,526	-1,671	-1,565	6.8%	28.0%	9.5%	-5,603	-6,877	22.7%
Net funded income	**1,856**	**2,041**	**2,054**	**2,095**	**-1.9%**	**10.7%**	**0.6%**	**7,553**	**8,219**	**8.8%**
Fees and commission	547	516	532	547	-2.7%	-2.7%	3.2%	2,100	2,180	3.8%
Other non-funded income	660	646	702	673	4.2%	6.4%	8.6%	2,650	2,783	5.0%
Non-Funded Income	**1,206**	**1,162**	**1,234**	**1,220**	**1.2%**	**2.3%**	**6.2%**	**4,751**	**4,963**	**4.5%**
Operating income	**3,062**	**3,203**	**3,288**	**3,314**	**-0.8%**	**7.4%**	**2.6%**	**12,304**	**13,182**	**7.1%**
Operating expenses	-842	-949	-931	-963	-3.3%	10.6%	-1.9%	-3,525	-3,832	8.7%
Pre-provision inc.	**2,220**	**2,254**	**2,356**	**2,351**	**0.2%**	**6.1%**	**4.5%**	**8,779**	**9,351**	**6.5%**
Financing impairment	-199	-158	-143	-244	-41.5%	-28.6%	-10.0%	-678	-894	31.9%
Profit before NCI	**2,021**	**2,096**	**2,214**	**2,108**	**5.0%**	**9.6%**	**5.6%**	**8,101**	**8,457**	**4.4%**
NCI. & zakat	-344	-382	-400	-369	8.5%	16.2%	4.8%	-1,428	-1,480	3.7%
Net Profit	**1,676**	**1,714**	**1,814**	**1,739**	**4.3%**	**8.2%**	**5.8%**	**6,674**	**6,977**	**4.5%**

FABS estimate & Co Data

ADIB - KPI

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Net FI/OI	60.6%	63.7%	62.5%	186	-126	61.4%	62.3%	96
NIM	3.1%	3.0%	2.9%	-19	-10	3.1%	2.9%	-25
NIS	2.8%	2.7%	2.6%	-20	-10	2.8%	2.6%	-21
Fees & comms/OI	17.8%	16.1%	16.2%	-167	9	17.1%	16.5%	-53
Other non-funded/OI	21.5%	20.2%	21.3%	-19	117	21.5%	21.1%	-43
Cost to income ratio	27.5%	29.6%	28.3%	83	-130	28.6%	29.1%	42
Provisions/PPP	9.0%	7.0%	6.0%	-294	-98	7.7%	9.6%	184
NP/OI	52.5%	53.5%	55.2%	269	166	54.2%	52.9%	-132
Cost of risk	0.48%	0.32%	0.27%	-21	-5	0.41%	0.45%	4
Loan-to-deposit	76.5%	81.0%	83.9%	747	296	79.2%	81.5%	233
NPL	3.5%	2.6%	2.2%	-130	-50	2.8%	2.8%	-4
Coverage excluding collateral (reported)	77.4%	80.3%	86.0%	866	571	80.1%	85.6%	555
CET1	12.7%	12.0%	12.2%	-52	21	12.0%	11.7%	-35
Capital adequacy	16.6%	15.5%	15.6%	-96	10	15.7%	14.8%	-89
ROAE	27.6%	28.6%	27.1%	-48	-154	26.1%	24.0%	-201
ROAA	2.6%	2.6%	2.4%	-18	-10	2.6%	2.3%	-29

FABS estimate & Co Data

ADIB - Key B/S items

AED Mn	**2Q25**	**3Q25**	**4Q25**	**1Q26**	**2Q26**	**YOY Ch**
Net advances	162,751	170,801	181,376	193,809	206,189	26.7%
QOQ ch	8.4%	4.9%	6.2%	6.9%	6.4%	
Total assets	260,352	269,734	280,753	287,065	303,916	16.7%
QOQ ch	6.9%	3.6%	4.1%	2.2%	5.9%	
Customer deposits	212,831	221,668	229,096	239,335	245,652	15.4%
QOQ ch	6.4%	4.2%	3.4%	4.5%	2.6%	
Total equity (excluding Tier 1 & NCI)	22,759	24,453	26,067	23,865	25,834	13.5%
QOQ ch	7.9%	7.4%	6.6%	-8.5%	8.3%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	28.92	70.0%	20.24
Relative Valuation (RV)	19.18	30.0%	5.75
Weighted Average Valuation (AED)			**26.00**
Current market price (AED)			21.42
Upside/Downside (%)			+21%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.8%. Cost of equity is calculated by using the 10-year government bond yield of 4.9%, beta of 0.9 and equity risk premium of 4.3%. Government bond yield is calculated after adding Abu Dhabi 10-year CDS spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	18,731
Terminal value (AED, Mn)	60,492
Book Value of Equity (as of June 2026)	25,834
FV to Common shareholders (AED, Mn)	**105,057**
No. of shares (Mn)	3,632
Current Market Price (AED)	21.42
Fair Value per share (AED)	**28.92**

Residual Income Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net Profit	6,655	7,401	8,022	8,762	9,472
(-) Equity Charge	-2,292	-2,574	-2,901	-3,248	-3,631
Excess Equity	**4,363**	**4,827**	**5,121**	**5,516**	**5,843**
Discounting Factor	0.97	0.89	0.82	0.75	0.69
Present Value of Excess Equity	**2,106**[1]	**4,284**	**4,178**	**4,136**	**4,028**

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

2) Relative Valuation:

We have used local and international peers to value ADIB, and it is valued using the PB multiple. We have applied a premium as ADIB trades at a premium to its peers and is valued at a 2026 PB multiple of 1.5x. The premium in valuation stems from the high composition of the retail loan book, and it generates superior return on assets as compared to its peers.

Company	Market	P/B (x)		P/E (x)		Dividend Yield (x)	
	(USD Mn)	2026F	2027F	2026F	2027F	2026F	2027F
Commercial Bank of Dubai	7,680	1.5	1.4	8.6	9.5	6.1%	NA
Abu Dhabi Commercial Bank	30,953	1.3	1.2	10.0	8.9	4.5%	4.8%
Dubai Islamic Bank (DIB)	15,131	1.2	1.1	8.7	8.4	4.7%	4.9%
Alinma	19,184	1.8	1.7	11.6	10.8	3.5%	3.6%
Al Rajhi Bank	102,950	3.0	2.7	14.4	13.1	3.7%	4.2%
Bank Albilad	9,580	1.5	NA	11.4	10.9	4.2%	4.4%
Average		**1.7x**	**1.6x**	**10.8x**	**10.3x**	**4.4%**	**4.4%**
Median		**1.5x**	**1.4x**	**10.7x**	**10.1x**	**4.3%**	**4.4%**
Max		**1.7x**	**1.7x**	**11.5x**	**10.9x**	**4.7%**	**4.8%**
Min		**1.4x**	**1.2x**	**9.0x**	**9.0x**	**3.8%**	**4.2%**

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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