FAB SECURITIES
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First Look Note | 2Q26

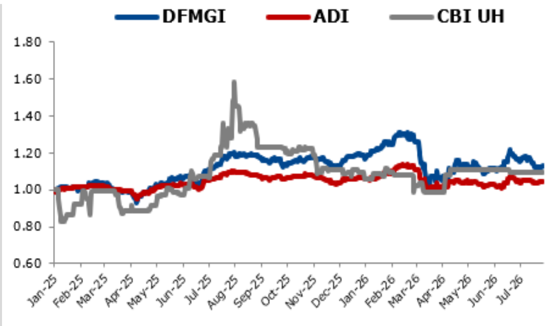
UAE Equity Research   Sector: Banking   Market: ADX

Commercial Bank International (CBI)

Impairment reversals and loan growth surging profitability amid funding mix headwinds

Current price	Target Price	Upside/Downside (%)	Rating
AED 0.89	AED 1.05	+18.0%	BUY

- Net advances increased 9.7% YOY and 4.2% QOQ to AED 14.2 Bn in 2Q26, supported by growth in wholesale and retail lending.
- Customer deposits increased by 7.9% YOY and remained broadly flat QOQ at AED 16.4 Bn in 2Q26, while the loan-to-deposit ratio increased to 86.7% in 2Q26 from 83.2% in 1Q26.
- CASA ratio declined to 16.5% in 2Q26 from 19.7% in 1Q26, as the funding mix shifted towards higher-cost time deposits, with share increasing to 81.6% in 2Q26.
- Reported impairment reversal of AED 65 Mn in 2Q26, compared with AED 3 Mn in 2Q25, reflecting higher recoveries and continued improvement in asset quality.
- Calculated NPL ratio declined to 12.4% in 2Q26 from 12.8% in 1Q26.



Stock Information	
Market Cap (AED, Mn)	1,546.27
Paid Up Capital (Mn)	1,737.38
52 Week High	1.22
52 Week Low	0.78
3M Avg. daily value (AED)	2,903

2Q26 Result Review (AED, Mn)	
Total Assets	22,978
Total Liabilities	19,522
Total Equity	3,455
Total Deposits	16,381
Net Profit	95

Financial Ratios	
Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	5.06
Price-to-Book Ratio (x)	0.55
Book Value (AED)	1.63
Return-on Equity (%)	11.42

Stock Performance	
5 Days	0.00%
1 Months	0.00%
3 Months	-1.11%
6 Months	1.48%
1 Year	-24.58%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	0.00%
Year to Date (YTD%)	3.49%

2Q26 Net Profit higher than our estimates

Commercial Bank International ("CBI"/ "The Bank") reported a significant increase in net profit from AED 43 Mn in 2Q25 to AED 95 Mn in 2Q26. The reported net profit was higher than our estimate of AED 55 Mn. The surge in net profit is primarily attributed to an increase in net-funded income, rise in fees & commission income and strong recoveries, partially offset by a rise in operating expenses and corporate taxes, coupled with a decline in other operating income.

P&L Highlights

CBI's funded income increased 18.9% YOY to AED 245 Mn in 2Q26, supported by higher yields on conventional earning assets and growth in loans and advances. However, income from Islamic financing and investing assets declined sharply by 60.1% YOY to AED 14 Mn, primarily due to a fall in Islamic financing assets and a decline in Islamic asset yield. Funded expenses increased 6.9% YOY to AED 156 Mn in 2Q26, driven by growth in interest-bearing liabilities and a rise in cost of funds. Consequently, net funded income rose 9.2% YOY to AED 103 Mn in 2Q26. Calculated net interest margin (NIM) declined 5 bps YOY and QOQ each to 2.0% in 2Q26, following the transmission of policy rate cuts. Net fees and commission income increased 52.0% YOY to AED 42 Mn, supported by stronger business activity and transaction volumes. Meanwhile, other operating income declined 78.3% YOY to AED 5 Mn due to lower foreign exchange gain and reduced gain on sale of properties, partially offset by a gain on financial assets at fair value through profit & loss (FVTPL). As a result, non-funded income declined 10.2% YOY to AED 45 Mn in 2Q26. Total operating income grew from AED 144 Mn in 2Q25 to AED 148 Mn in 2Q26. Operating expenses increased 8.8% YOY to AED 108 Mn in 2Q26, reflecting continued investments in operations and business expansion. Consequently, the cost- to- income ratio increased to

73.3% in 2Q26 from 69.1% in 2Q25. Pre-provision profit declined 11.5% YOY to AED 39 Mn in 2Q26. The Bank recorded an impairment reversal of AED 65 Mn in 2Q26 compared with AED 3 Mn in 2Q25, reflecting higher recoveries during the quarter. The Bank reported a corporate tax expense of AED 10 Mn, compared with AED 5 Mn in 2Q25. Profit attributable to non-controlling interest holders amounted to AED 0.5 Mn in 2Q26.

Balance Sheet Highlights

CBI's total assets increased 11.7% YOY and 4.0% QOQ to AED 23.0 Bn in 2Q26, supported by continued expansion in the Bank's earning asset base. Net advances grew 9.7% YOY and 4.2% QOQ to AED 14.2 Bn in 2Q26, reflecting healthy lending growth across wholesale and retail lending on YOY basis, partially offset by a decline in Islamic financing. Customer deposits increased 7.9% YOY and remained broadly flat QOQ at AED 16.4 Bn in 2Q26. As a result, the loan-to-deposit ratio increased from 83.2% in 1Q26 to 86.7% in 2Q26, driven by faster loan growth relative to deposits.

Target Price and Rating

We maintained our BUY rating on CBI with a target price of AED 1.05. CBI delivered a strong 2Q26, with net profit more than doubling to AED 95 Mn from AED 43 Mn in 2Q25, supported by healthy core income growth and higher impairment reversals. Loans and advances grew 10.2% YTD, supported by strong wholesale funding growth and a modest increase in retail funding, partly offset by lower Islamic financing. We expect the Bank to continue expanding both its wholesale and retail funding base over the forecast period. Net funded income grew 9.2% YOY to AED 103 Mn in 2Q26. However, NIMs declined by 5 bps YOY and QOQ each to 2.0% in 2Q26, owing to changes in advances and deposit mix. Customer deposits increased 7.9% YOY and remained flat QOQ to AED 16.4 Bn, resulting in the loan-to-deposit ratio rising to 86.7% in 2Q26 from 83.2% in 1Q26. However, CBI's CASA deposits declined 13.4% YOY and 16.2% QOQ to AED 2.7 Bn in 2Q26, driven by a 10.3% YOY and 16.9% QOQ decline in current account balances to AED 2.4 Bn and a 32.9% YOY and 9.7% QOQ fall in savings deposits to AED 290 Mn in 2Q26. As a result, the CASA ratio declined to 16.5% of total customer deposits in 2Q26 from 19.7% in 1Q26, while the share of time deposits increased to 81.6% in 2Q26 from 78.5% in 1Q26, reflecting a shift towards term funding. The shift towards higher-cost term deposits could exert upward pressure on the Bank's cost of funds and weigh on net interest margins if continued in the remainder of 2026. Non-funded income declined 10.2% YOY to AED 45 Mn in 2Q26 due to a decline in non-core other operating income, partially offset by higher growth in core fee income. We expect the non-funded income to remain under pressure in 2026 owing to lower gains on sale of properties, partially offset by gains on investment in financial assets. Asset quality remained resilient; the calculated NPL ratio improved to 12.4% in 2Q26 from 12.8% in 1Q26, reflecting continued resolution of legacy non-performing assets. It only recorded fresh slippage of AED 32.2 Mn in 2Q26. However, the calculated coverage ratio excluding collateral declined to 39.6% in 2Q26 from 42.4% in 1Q26, indicating lower provisioning buffers. At the end of FY2025, the bank held collateral worth AED 1.4 Bn against wholesale funding sufficient to fund the shortfall in provisioning. Stage 2 loans also improved, declining to 6.1% of gross loans in 2Q26 from 6.5% in 1Q26, highlighting improving underlying credit trends. Capitalisation remained comfortable, with CET1 at 13.0% and capital adequacy ratio at 16.5%, providing adequate capacity to support future loan growth despite modest sequential moderation. The lower interest rates continue to pressure margins, but the CBI's improving asset quality, healthy loan growth, strong fee income generation and robust profitability position the Bank well for the remainder of 2026. Thus, we maintain a BUY rating on CBI.

CBI - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	12.70	13.19	10.05	8.90	6.99	5.86
PB	0.74	0.72	0.67	0.63	0.57	0.52
BVPS	1.200	1.230	1.320	1.422	1.559	1.715
EPS	0.070	0.067	0.089	0.100	0.127	0.152

FABS Estimates & Co Data

CBI – P&L

AED Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Funded income	206	238	245	240	2.0%	18.9%	3.2%	885	955	7.9%
Income from Islamic fin & investment assets	34	14	14	14	-1.1%	-60.1%	-6.3%	106	59	-44.3%
Funded expenses	-146	-148	-156	-147	6.2%	6.9%	5.3%	-601	-579	-3.6%
Net funded income	**95**	**104**	**103**	**108**	-4.1%	9.2%	-1.1%	**390**	**434**	**11.5%**
Fees and commissions	28	38	42	39	8.4%	52.0%	10.6%	166	179	8.0%
Other operating income, net	22	6	5	25	-81.2%	-78.3%	-15.2%	243	121	-50.0%
Total non-funded income	**50**	**44**	**45**	**64**	-30.5%	-10.2%	1.6%	**402**	**301**	**-25.1%**
Total operating income	**144**	**148**	**148**	**172**	-13.9%	2.5%	-0.3%	**791**	**735**	**-7.1%**
Operating expenses	-100	-101	-108	-103	5.2%	8.8%	7.6%	-414	-441	6.6%
Pre provision profit	**45**	**48**	**39**	**69**	-42.6%	-11.5%	-17.0%	**378**	**294**	**-22.1%**
Impairment	3	5	65	-7	NM	NM	NM	-67	28	-142.6%
UAE Corporate Tax	-5	-5	-10	-6	77.9%	NM	NM	-16	-29	78.2%
Non-controlling interests	0	0	0	1	NM	NM	1.7%	46	2	NM
Net Profit	**43**	**48**	**95**	**55**	**71.0%**	**NM**	**99.3%**	**249**	**291**	**17.2%**

FABS estimate & Co Data

CBI – P&L KPI

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Net FI/OI	65.6%	70.4%	69.9%	426	-55	49.2%	59.1%	NM
NIM	2.1%	2.1%	2.0%	-5	-5	2.0%	2.1%	7
NIS	1.8%	1.7%	1.7%	-10	-1	1.7%	1.7%	1
Fees & comms/OI	19.3%	25.8%	28.6%	932	281	21.0%	24.4%	341
Trading/OI	15.1%	3.8%	3.2%	-1,189	-56	30.7%	16.5%	NM
Cost to income	69.1%	67.9%	73.3%	424	537	52.3%	60.0%	771
Impairment/PPP	-6.7%	-9.6%	-164.2%	-15,756	-15,460	17.6%	-9.6%	-2,726
NP/OI	29.6%	32.1%	64.2%	3,464	3,208	31.4%	39.6%	822
Cost of risk	-0.1%	-0.1%	-1.7%	-159	-156	0.6%	-0.2%	-78
Loan-to-Deposit	85.3%	83.2%	86.7%	144	351	81.3%	83.0%	172
NPL - Calculated	16.8%	12.8%	12.4%	-441	-41	13.3%	12.6%	-67
Coverage - Calculated	44.7%	42.4%	39.6%	-511	-284	41.7%	43.0%	129
CET1	13.7%	13.2%	13.0%	-75	-25	13.5%	13.9%	39
Capital adequacy	17.6%	16.8%	16.5%	-113	-37	17.2%	17.5%	26
ROAE	8.4%	9.7%	11.4%	306	175	9.6%	10.2%	64
ROAA	1.0%	1.2%	1.4%	40	22	1.2%	1.3%	11

FABS estimate & Co Data

CBI – Key BS Items

AED Mn	2Q25	3Q25	4Q25	1Q26	2Q26	YOY Ch
Net advances	12,946	12,782	12,928	13,632	14,203	9.7%
QOQ Change	-3.1%	-1.3%	1.1%	5.4%	4.2%	
Total assets	20,579	20,772	21,945	22,096	22,978	11.7%
QOQ Change	0.0%	0.9%	5.6%	0.7%	4.0%	
Customer deposits	15,185	15,774	15,906	16,385	16,381	7.9%
QOQ Change	-1.0%	3.9%	0.8%	3.0%	0.0%	
Total equity (excl. NCI & Tier1 instrument)	2,542	2,560	2,708	2,752	2,830	11.3%
QOQ Change	1.3%	0.7%	5.8%	1.6%	2.9%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	1.07	70.0%	0.75
Relative Valuation (RV)	1.01	30.0%	0.30
Weighted Average Valuation (AED)			**1.05**
Current market price (AED)			0.89
Upside/Downside (%)			+18.0%

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 10-year government bond yield of 5.2%, beta of 0.9 and equity risk premium of 4.0%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	-116
Terminal value (AED, Mn)	-497
Book value of equity (as of June 2026)	2,465
FV to Common shareholders (AED, Mn)	**1,851**
No. of share (Mn)	1,737
Current Market Price (AED)	0.89
Fair Value per share (AED)	**1.07**

Residual Income Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net Income	264	237	244	249	278
(-) Equity Charge	-238	-262	-283	-305	-327
Excess Equity	**26**	**-25**	**-39**	**-55**	**-48**
Discounting Factor	0.97	0.89	0.82	0.75	0.69
Present Value of Excess Equity	**12[1]**	**-22**	**-32**	**-42**	**-33**

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

2) Relative Valuation:

We have used local peers to value CBI, and it is valued using the PB multiple. We have applied a discount to the peer's valuation multiple, as it has consistently traded at a discount due to a lower return on assets compared to its peers. It is valued at a 2026 PB multiple of 0.6x as compared to a peer valuation of 1.3x.

Company	Market	P/E (x)		P/B (x)	
	(USD Mn)	2026F	2027F	2026F	2027F
Commercial Bank of Dubai (CBD)	7,680	8.6	9.5	1.5	1.4
Mashreq Bank (MASQ)	14,146	7.6	7.0	1.3	1.2
RAK Bank	4,967	6.4	8.6	1.1	1.3
Emirates NBD	52,727	8.5	7.7	1.3	1.1
Dubai Islamic Bank (DIB)	15,131	8.7	8.4	1.2	1.1
Abu Dhabi Commercial Bank (ADCB)	30,953	10.0	8.9	1.3	1.2
Abu Dhabi Islamic Bank (ADIB)	21,557	12.0	10.9	2.7	2.4
Average		**8.8x**	**8.7x**	**1.5x**	**1.4x**
Median		**8.6x**	**8.6x**	**1.3x**	**1.2x**
Max		**9.3x**	**9.2x**	**1.4x**	**1.4x**
Min		**8.0x**	**8.0x**	**1.2x**	**1.2x**

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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