

MANAGEMENT DISCUSSION & ANALYSIS FOR THE QUARTER ENDED 30 JUNE 2020

Abu Dhabi Islamic Bank reports H1 2020 net profit of AED 587.6 million and AED 2.5 billion in net revenue

Abu Dhabi, UAE - 12th August 2020: Abu Dhabi Islamic Bank (ADIB), a leading Islamic bank in the region, reported a net profit of AED 587.6 million and AED 2.5 billion in net revenue for H1 2020. The decline in profitability was predominantly driven by higher impairment charges, due to the unprecedented operating environment, as well as lower revenues, given challenging market conditions. Despite these macroeconomic headwinds, ADIB was able to sustain robust levels of capital, with a capital adequacy ratio of 18.18% that remains well above regulatory thresholds, as well as healthy liquidity and a resilient funding profile with an advances to deposit ratio of 83.1%.

Key Financial Highlights

- Group net revenue for H1 2020 decreased to AED 2,556.6 million from AED 2,887.1 million in H1 2019.
- Group net profit for H1 2020 decreased to AED 587.6 million vs. AED 1,230.5 million in H1 2019.
- Operating expenses of AED 1,258.4 million decreased by 4.0% vs. H1 2019, reflecting the successful implementation of our cost initiatives that were taken to create future efficiencies and capabilities to continue our investment into key strategic and digital programs that are designed to support business growth and enhance the customer experience.
- Credit provisions and impairments for H1 2020 increased by 105.4% to AED 708.6 million from AED 345.0 million in H1 2019.
- ADIB continued to maintain one of the lowest cost of funds in the region supported by an efficient funding strategy and higher CASA which enabled the Bank to maintain one of the highest net profit margins in the market of 3.6% in H1 2020 despite the low rate environment.
- Net customer financing increased by 3.9% to AED 82.0 billion from AED 78.9 billion at the end of H1 2019. The rise was led by growth in Corporate Banking financing.
- CASA deposits increased by 4.2% year on year to AED 74.6 billion, comprising 75.6% of the AED 98.6 billion total customer deposits compared to 71.7% a year earlier.
- Total assets as at 30 June 2020 were AED 124.4 billion, representing a decrease of 1.2% from AED 125.9 billion at the end of 31 December 2019.
- Advances to stable funds ratio was 86.6% at 30 June 2020, compared to 84.0% at 30 June 2019 (84.1% at 31 December 2019).
- The bank's common equity tier 1 ratio of 12.46% and capital adequacy ratio of 18.18% remain well above regulatory requirements.

ADIB commentary

H.E Jawaan Awaidah Al Khaili, Chairman of ADIB, said: “This period demonstrated the resilience of the bank’s businesses and the dedication of our employees as we remained focused on delivering uninterrupted services to customers amidst a very challenging environment. At the same time, we took mitigating steps to manage our risk while continuing to invest in initiatives that will support the growth of our business over coming years.

“While cost of credit and the challenging macroeconomic environment largely impacted our profits in the first half of 2020, we have been able to navigate the COVID-19 pandemic reasonably well. Our levels of capital and liquidity continue to remain strong, with both our common equity Tier-1 ratio and advances to deposits ratio increasing from the end of the previous quarter.

“As a bank that puts customers at the heart of everything we do, we have taken proactive steps to alleviate the financial pressure on individuals and businesses during this time, in line with the Central Bank of the UAE’s Targeted Economic Support Scheme in response to COVID-19. We have supported our customers through the deferral of finance repayments, while waiving certain fees to help individuals and businesses manage the difficulties they may be facing.

“ADIB’s investment into its digital transformation strategy has yielded substantial benefits including strong customer and transactional growth. In the first half of the year, we recorded high levels of digital adoption across our retail and corporate banking, and nearly 60% of all our customers are now banking digitally.

“In response to heightened interest from international investors in ADIB’s stock, the bank raised the percentage of foreign ownership to 40%, from 25%, which will accelerate efforts to broaden and diversify the bank’s investor base at a critical time.

“While the economic outlook remains uncertain globally, I am confident that the decisive actions taken by the UAE Government to re-open the economy in a phased and safe manner will lead to improvements in the domestic operating environment. We are already seeing a resurgence in business volumes, as demonstrated in ADIB’s 4% growth in customer financing, and believe that this trend would continue as the recovery gathers pace in the second half of the year.”

Mohamed Abdelbary, Group Chief Financial Officer, added: “ADIB reported net profits of AED 587.6 million for the first half of 2020, a decrease of 52% from the same period last year due to the impact of a challenging operating environment, which saw lower economic activity, lower rates and a higher cost of credit. Despite the low rate environment, ADIB was able to maintain one of the highest net profit margins in the market of 3.6% in H1 2020. This was helped by the positive impact of a low cost of funds, supported by higher CASA balances which comprised 76% of our total customer deposits.

“We have maintained a rigorous discipline in managing costs by successfully implementing a number of optimisation initiatives. This led to a 4.0% improvement in costs compared to H1 2019. This created capacity for us to continue our investments in new digital and strategic initiatives that can help to attract new customers and support ADIB’s long-term growth.

“ADIB continues to operate with strong liquidity and healthy capital ratios and the balance sheet which will allow us to continuously serve our customers. For our H1 2020 reporting, we increased our impairment allowance by AED 363.6 million as a prudent measure to the lingering effects of the Covid-19 pandemic.”

Group Financial Review - Year on Year performance

All figures are in AED millions

Income statement	Q2 2019	Q2 2020	Change %	H1 2019	H1 2020	Change %
Net Revenue from Funding	961.3	801.8	-16.6%	1,917.0	1,669.8	-12.9%
Fees & Commissions	253.9	205.8	-18.9%	467.7	417.1	-10.8%
Investment income	161.9	217.0	34.0%	347.3	369.3	6.3%
FX	71.1	37.6	-47.1%	149.5	94.1	-37.1%
Other income	2.2	2.1	-7.6%	5.7	6.3	10.8%
Net revenue	1,450.5	1,264.3	-12.8%	2,887.1	2,556.6	-11.4%
Total Expenses	660.8	623.5	-5.6%	1,310.7	1,258.4	-4.0%
Operating profit (margin)	789.7	640.8	-18.9%	1,576.5	1,298.2	-17.7%
Credit provisions and impairment charge	158.6	321.5	102.7%	345.0	708.6	105.4%
Net profit after zakat & tax	630.1	317.9	-49.5%	1,230.5	587.6	-52.2%

Balance sheet	June 2019	June 2020	Change %
Total assets	124,655	124,418	-0.2%
Gross customer financing	81,928	85,519	4.4%
Customer deposits	99,803	98,631	-1.2%
Total equity	17,840	18,514	3.8%
Customer financing to deposit ratio	79.0%	83.1%	

Risk Management

Given the unprecedented impact of Covid-19 and the prevailing economic environment, ADIB has taken significant increases in provisions. As a result, credit provisions and impairments for H1 2020 increased to AED 708.6 million from AED 345.0 million in H1 2019.

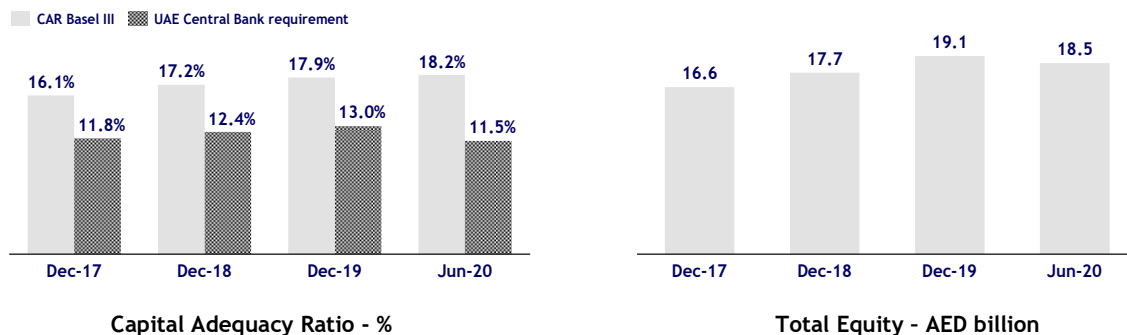
Asset and Liability Management

ADIB recorded a healthy customer financing-to-deposits ratio of 83.1% as at 30 June 2020. The bank maintained its position as one of the most liquid financial institutions in the UAE. Customer financing assets increased 3.9% year on year on the back of growth in its wholesale banking assets.

Capital strength

Total equity (including Tier 1 capital instruments) was AED 18.5 billion at 30 June 2020. This represents an increase of 3.8% year-on-year.

ADIB's capital adequacy ratio under Basel III as at 30 June 2020 was 18.18%, while its Tier 1 capital ratio was 17.09% and its common equity Tier 1 ratio, 12.46%. All capital ratios under Basel III principles are well above the minimum regulatory thresholds advised by the Central Bank of the UAE.



H1 2020- Key Business Highlights

- ADIB introduced a series of special promotions exclusively to healthcare professionals as a tribute to their relentless efforts during the Covid-19 pandemic. The offers include a reduction on the profit rate and pricing discounts on some of ADIB products.
- ADIB launched its digital booking service enabling customers to schedule their branch visits ahead of time through the bank's digital channels.
- ADIB raised the percentage of foreign ownership to 40%, from 25%, after obtaining the necessary regulatory approvals.
- ADIB collaborated with the UAE's Ministry of Finance to offer the new range of eDirham card.
- ADIB partnered with Etisalat, to launch four new covered cards. The ADIB Smiles cards, which include Signature, Platinum, Gold and Classic options, provide a wide range of daily deals and lifestyle rewards to customers.
- ADIB was recognised as 'Best Islamic Finance House' for a third consecutive year at the EMEA Finance Achievement Awards 2019.
- ADIB was named an 'Innovator in Islamic Finance' for 2020 by Global Finance magazine, marking the fourth consecutive year that ADIB's innovations have been commended by the publication's judging panel.

ADIB recorded high levels of digital adoption in the first half of 2020

- 60% of all customers are now active on ADIB's digital channels.
- 2 million transactions are conducted every month on ADIB's mobile app.
- 99% of retail financial transactions, including payments and fund transfers, as well as 65% of non-financial services, including personal information updates, are now conducted digitally.
- 30% of new to bank customers opened their accounts digitally.
- 40% of ADIB's business customers are now active on ADIB Direct, an innovative banking platform providing automated trade finance services.

Supporting customers and community during Covid-19

- ADIB implemented a variety of measures across the organization to ensure the safety and wellbeing of its employees, including implementing technology-based work from home platforms for staff, implementing strict sterilisation protocols at all its premises, and running awareness programmes on the importance of health and safety.
- ADIB has taken actions to keep customers safe including enhanced cleanings, personal protective equipment, wellness barriers, physical distancing, and virtual client meetings.
- ADIB proactively reached out to customers to offer relief measures including the postponement of monthly payment installments and the reduction of certain fees or charges across a range of products, in line with the Central Bank of the UAE's Targeted Economic Support Scheme.
- ADIB ensured reliable access for clients' financial needs through 24/7 access to mobile and online banking tools, virtual communication tools and continued access to cash.
- In addition to supporting customers, ADIB has also offered extensive support to the community during the Covid-19 outbreak. Initiatives include donating AED 25 million to the Ma'an's 'Together We Are Good' programme, designed to encourage financial and in-kind contributions from individuals and companies to support the community.
- ADIB collaborated with the Abu Dhabi Department of Finance to be part of the SME Credit Guarantee Scheme, which aims to bolster the resilience of SMEs by increasing access to finances.

About ADIB:

ADIB is a leading bank in the UAE with more than AED 124 billion in assets. The bank also offers world-class online, mobile and phone banking services, providing clients with seamless digital access to their accounts 24 hours a day. ADIB provides retail, corporate, business, private banking and wealth management solutions. The bank was established in 1997 and its shares are traded on the Abu Dhabi Securities Exchange (ADX).

ADIB has presence in six strategic markets: Egypt, where it has 70 branches, the Kingdom of Saudi Arabia, the United Kingdom, Sudan and Iraq.

Named World's Best Islamic Bank by The Financial Times' The Banker publication, ADIB has a rich track record of innovation, including introducing the award-winning Ghina savings account, award-winning co-branded cards with Emirates airlines, Etihad and Etisalat and a wide range of financing products.

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