

MANAGEMENT DISCUSSION & ANALYSIS

FOR THE 1st QUARTER ENDED 31
MARCH 2021



ADIB reports strong results in Q1 2021 with a net profit of AED 608 million surging 125% year-on-year and 26% compared to Q4 2020.

Abu Dhabi, UAE – 02 May 2021:

Abu Dhabi Islamic Bank (ADIB), a leading Islamic bank in the region, reported a strong first quarter for 2021 positioning the bank for a period of sustained growth in 2021. **Net Profit** surged in Q1 2021 by 125% to AED 608 million compared to AED 270 million in Q1 2020 and by 26% compared to Q4 2020. The growth in net profits reflects the strong underlying performance across the business. **Revenue** increased 3.3% to AED 1,336 million versus AED 1,292 million in the same period last year with non-funding income growing by 30% offsetting the impact of low rate environment. **Operating Expenses** were reduced by 7% year-on year due to the successful implementation of technology-led initiatives that helped reduce the cost of sales and customer acquisition while also streamlining internal processes. ADIB consistently demonstrated **balance sheet** strength with assets growing by 6.5% mainly due to a growth in customer financing by 5% compared to Q1 2020.

Q1 2021 Key Highlights Compared to Q1 2020

Group net profit AED 608 million Increase 125.3%	Group net revenue AED 1,336 million Increase 3.3%	Total expenses declined 6.8% With Cost to income ratio improving by 5%
Impairments AED 133.5 million Decline 65.5%	Total assets AED 130.7 billion Increase 6.5%	Gross Customer Finance AED 87.2 billion Increase 5.5%
Customer deposits AED 103.1 billion Increase 4.3%	CAR Ratio 19.2%	ROE Ratio 14.9%

Group net profit: A resurgent financial performance in Q1 2021 saw net profit grow 125% to AED 607.6 million compared to AED 269.7 million in Q1 2020 and 26% sequentially. This was driven by a growth in revenues, a cost improvement, and a lower impairment allowance as a result of the improving economic outlook.

Group net revenue: The rebound in UAE economic activity and an improvement in business momentum lifted revenues by 3.3% in Q1 2021 to AED 1,335.5 million vs. AED 1,292.3 million in Q1 2020. This was driven by a growth of 30% in revenues from non-funding activities offsetting the impact of the low rate environment.

Operating expenses: The successful implementation of cost initiatives and the efficacy of the digital strategy improved productivity resulted in a 6.8% fall in operating expenses to AED 592 million compared to Q1 2020, and leading to an improvement in cost-to-income ratio by 482 basis points compared to Q1 2020.

Net profit margins: ADIB preserves one of the highest net profit margins in the market of 3.15% Q1 2021 vs 3.84% Q1 2020, supported by one of the lowest cost of funds in the market.

New customers: 87,808 new customers became active in the 12 months period ending Q1 2021 as ADIB put emphasis on long-term customer relationships and delivering a superior customer service continues to bear fruit.

Impairments: Net impairment charges decreased by 65.5% to AED 133.5 million in Q1 2021 from AED 387.1 million in Q1 2020 reflecting improvements in the micro- and macro- economic outlook.

Gross Customer financing: Grew 5.5% year-on-year driven primarily by wholesale banking customer financing growth which grew 11.2%.

Total assets: AED 130.7 billion in Q1 2021, up 6.5% on Q1 2020.

Customer deposits: AED 103.1 billion in Q1 2021, up 4% year-on-year with CASA deposits including STI increasing by 15.7% to AED 92.6 billion comprising around 90% of total customer deposits.

Liquidity: ADIB continues to maintain a solid liquidity position with a Stable funds ratio of 84.4% Q1 2021 vs. 85.1% Q1 2020.

Capital: ADIB maintained a robust capital position with Common equity Tier 1 ratio 13.35% and Capital adequacy ratio of 19.20% comfortably above regulatory requirements.

Digital: 78% of customers are now utilizing ADIB digital channels and which concurrently has improved both operational efficiencies and significantly reduced costs.

Innovation: ADIB introduced numerous Artificial Intelligence-based initiatives across different functions to improve the overall customer experience and operational efficiencies. It recently collaborated with IBM to enhance its digital infrastructure, modernize operations and automate processes.

No. 1 Bank in UAE: ADIB was named number 1 bank in the UAE on the Forbes list of World's Best Banks that featured the top 500 banks worldwide from across 28 different countries. ADIB's ranking was based on customer satisfaction and feedback where ADIB received high scores across the different dimensions of the survey including satisfaction, customer service, financial advice, and digital services.

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**H.E JAWAAN AWAIDAH AL KHALI**

CHAIRMAN

“We have made a strong start to 2021, in what continues to be an uncertain economic environment related to the COVID-19 pandemic. Our net profit surged 125% compared to Q1 2020 and up 26% versus Q4 2020. This reflects our strong underlying performance across our all our businesses, partially driven by a rapidly improving economy which allowed us to decrease our impairment by 66% compared to Q1 2020. This solid first quarter was also achieved through continued cost discipline which saw our operating expenses improve by 7% year on year, as well as sustained business momentum and targeted strategic initiatives which partially offset the headwinds from record low rates and the overall economic slowdown brought about by the pandemic.

“In the first quarter, we continued to make significant investments in products, people, and technology, while maintaining credit discipline and a strong balance sheet. We have made good progress in finalizing our strategic review and in identifying our priorities and targets for the next five years. We will make sure we deliver on our three strategic pillars going forward – leadership in Islamic finance, deepening customer relationship and enhance our internal and digital capabilities to build the bank for the future. We will develop new products and services that will allow us to support customers at all important financial steps in their lives while attracting new segments where we can grow profitably building on our strong brand and market positions. We will continue with our digital transformation strategy to build a future-proof bank by rigorously simplifying and centralizing our operating model, enabling us to focus on clients and work more efficiently.

“We were also honored to be recognised as the top ranked bank in the UAE by Forbes magazine as part of their inaugural country list in the World’s Best Banks 2021 survey. This is a clear testament to the success of our customer-centric approach, digital transformation, and the hard work and dedication of all our employees as they worked selflessly throughout these unprecedented times to assist our customers navigate through this pandemic.

“Looking ahead and despite ongoing uncertainties, we believe that the UAE economy has the potential to have extremely robust, multi-year growth supported by the government stimulus measures, the strong vaccine roll out and the positive consumer sentiment around the potential end of the pandemic. Against this backdrop, we believe we are well positioned for a period of sustained growth in 2021, leveraging on our strong market position, strategic initiatives and operational resilience.”



MOHAMED ABDELBARY

GROUP CHIEF FINANCIAL OFFICER

“ADIB delivered a resurgent financial performance in Q1 2021 with 125% growth in net profit over the same period last year, which is a strong result in what continues to be an uncertain economic environment related to the COVID-19 pandemic. The growth in net profit was driven by strong performance across all our business segments on both costs and revenues and a decrease in our impairments allocation as a result of the improving economic outlook. Net revenue was 3% higher compared to Q1 2020 as the growth in customer financing and in investment income, fees & commissions more than offset a decline in margins due to lower rates.

“While our revenues from funding were down compared to the same period last year as a result of the low rate environment, we were able to grow our customer financing by 5% driven mainly by a growth of 11% in our whole banking portfolio. The strength of our retail banking business continues to drive ADIB’s performance and the bank has successfully employed its client franchise and increasingly powerful brand to increase market share, adding over 87,000 customers in the 12 months period ended Q1 2021. This has resulted in the bank growing deposits by 4% and CASA deposits including STI by 15.7%, allowing ADIB to maintain one of the highest net profit margins in the market of 3.15%.

“On costs, we continued to exercise a rigorous approach to managing costs which resulted in a 6.8% decrease in operating expenses compared to Q1 2020. This was achieved through implementing a number of initiatives, including a reduction of cost of sales and cost of customer acquisition, the optimization of our branch network, and the introduction of artificial intelligence to streamline processes. Such cost synergies have created capacity for us to continue our investments in digital technologies, as well as other strategic initiatives that can enable the bank to attract new customers and accelerate its growth for the rest of the year.”

GROUP FINANCIAL REVIEW

All figures are in AED millions

Income statement	Q1'21	Q4'20	Q-o-Q%	Q1'20	Y-o-Y %
Net Revenue from Funding	784.3	827.7	-5.2%	868.0	-9.6%
Non funding revenue	551.2	597.8	-7.8%	424.3	29.9%
Net revenue	1,335.5	1,425.5	-6.3%	1,292.3	3.3%
Total Expenses	591.7	578.1	2.4%	634.9	-6.8%
Operating profit (margin)	743.9	847.5	-12.2%	657.4	13.1%
Credit provisions and impairment charge	133.5	360.0	-62.9%	387.1	-65.5%
Net profit after zakat & tax	607.6	482.6	25.9%	269.7	125.3%

Balance sheet	Mar'21	Dec'20	Q-o-Q%	Mar'20	Y-o-Y %
Total assets	130,694	127,816	2.3%	122,712	6.5%
Gross customer financing	87,207	87,407	-0.2%	82,687	5.5%
Customer deposits	103,069	101,276	1.8%	98,852	4.3%
Total equity	19,835	19,162	3.5%	18,173	9.1%

Key ratios	Q1'21	Q4'20	Q-o-Q (bps)	Q1'20	Y-o-Y (bps)
Net Profit margins	3.15%	3.51%	-36	3.84%	-69
Cost to income ratio	44.3%	40.6%	375	49.1%	-482
Cost of risk	0.6%	1.5%	-90	1.9%	-130
Non-performing assets	8.9%	8.8%	9	7.9%	103
Provision coverage including collaterals	111.9%	110.7%	112	120.0%	-816
Net Financing to Deposit	80.6%	82.4%	-175	80.3%	32
Return on equity	14.9%	11.6%	336	5.8%	912
CET 1 ratio	13.3%	12.9%	41	12.3%	105
Capital Adequacy Ratio	19.2%	18.8%	40	18.1%	112

OPERATING PERFORMANCE (Q1 2021 vs Q1 2020)

- **Group Revenue** was AED 1,335.5 million vs. AED 1,292.3 million.
- **Income from financing activities** was AED 784.3 million, down 9.6% from AED 868.0 million due to a balance sheet repricing driven by the impact of a low-rate environment. This was partially offset by a growth in customer financing and other sources of income, such as fees and commissions and investment income.
- **Net profit margin** was 3.15%, down 69 basis points from 3.84% largely due to rate cuts.
- **Income from non-financing activities** which contributes 41% of total income is up 30% by AED 127 million to reach AED 551.2 million vs. AED 424.2 million. This increase was primarily driven by 63.5% growth in investment income and by a 14.3% increase in fees and commissions year-on-year due to encouraging business momentum.
- **Fees and commissions** were 14.3% higher at AED 241.5 million vs. AED 211.3 million reflecting the Bank's focus to diversify its income.
- **Investment income** was 63.5% higher at AED 248.9 million vs. AED 152.3 million
- **Expenses:** Amid ongoing investments in key strategic and digital initiatives, operating expenses decreased 6.8% to AED 591.7 million from AED 634.9 million as a result of the successful implementation of cost initiatives and the efficacy of the digital strategy while cost-to-income ratio significantly improved to be 44.3%.

ASSET QUALITY (Q1 2021 vs Q1 2020)

- **Non-Performing Assets** were AED 7.7 billion compared to AED 6.5 billion, reflecting a challenging operating environment with non-performing assets ratio of 8.9% broadly stable compared to 31 December 2020.
- **Credit provisions and impairments** While the bank continued to build prudent provisioning, the improving economic outlook resulted in lower net impairment charges of AED 133.5 million, compared to AED 387.1 million representing an annualized cost of risk of 61 basis points compared to 187 basis points and an adequate provision coverage ratio of 112% including collaterals
- **UAE Central Bank Targeted Economic Support Scheme (TESS)** ADIB provided payment deferrals of over AED 1.76 billion on a cumulative basis in addition to relief measures extended through the bank's own programmes.

BALANCE SHEET (Q1 2021 vs Q1 2020)

- **Total assets** grew 6.5% to AED 130.7 billion.
- **Gross Customer financing** increased 5.5% to AED 87.2 billion, primarily driven by 11.2% growth in corporate financing.
- **Customer deposits** were AED 103.1 billion up 4% with Current Account and Savings Account (CASA) including STI balances grew 15.7% to AED 92.6 billion, and now represent 89.8% of total deposits.
- ADIB recorded a healthy **customer financing-to-deposits** ratio of 80.6% in Q1 2021.
- Maintained its **strong liquidity position** with Stable fund ratio of 84.4% and remains comfortably in excess of regulatory requirement.

EQUITY, CAPITAL AND RETURNS (Q1 2021 vs Q1 2020)

- Total equity (inc. Tier 1 capital instruments) increased 9.1% to AED 19.8 billion from AED 18.2 billion.
- At Q1 2021, under Basel III principles:
 - **Capital adequacy ratio** improved sequentially from 18.08% to 19.20%. The Bank's CAR ratio stands comfortably above the minimum requirement prescribed by the UAE Central Bank until 31 December 2021 of 11.5% as part of capital relief buffers under TESS.
 - Tier 1 capital ratio was 18.12%.
 - Common equity Tier 1 ratio 13.35%.
 - All capital ratios are well above the minimum regulatory thresholds advised by the Central Bank of the UAE.

DIGITAL TRANSFORMATION IN ADIB IN FIRST QUARTER OF 2021

- 78% all customers are now active on ADIB's digital banking channels.
- 98% retail financial transactions, including payments and fund transfers, are now conducted digitally.
- 52% of new ADIB customers opened their accounts digitally.
- 90%+ of ADIB's Global Transaction Banking business was generated digitally through ADIB Direct, an innovative banking platform providing automated trade finance services.
- ADIB launched an Analytics Center of Excellence, a remote sales platform allowing customers to interact with ADIB and apply for personal finance, covered cards, takaful, and other banking products without having to leave their homes.
- ADIB introduced many AI based initiatives across our support functions to improve overall effectiveness
- Launched ADIB Chat Banking, the UAE's first Emirati customer care chatbot through WhatsApp, to support customers with general requests and to provide information.

Business performance

Retail Banking Group

ADIB's Retail Banking Group ('Retail Banking'), is a national champion and a critical growth engine for ADIB. Retail Banking delivered a resilient performance, generating AED 273 million of net profit in Q1 2021, a 1% improvement over the same period last year. In addition, Retail Banking has strengthened their propositions and improved their channel productivity, resulting in a good performance for sales of cards and finances and a 1% growth in finances to AED 47 billion as at 31 March 2021.

Operating expenses in Q1 2021 improved 8% year-on-year, reflecting cost optimisation initiatives, and our continued focus on process simplification and automation to improve efficiency and deliver better customer experiences.

Our strategic focus on delivering an excellent customer experience enabled us to expand our customer base by 87,000 customers from Q1 2020. Our liabilities also grew in the first quarter by 12%, significantly above market rates, outgrowing the market on deposits. This is a testament to the Bank's strong UAE national and Emirati-focused strategy, which is at the core of our business.

On digital, we continued to introduce industry-leading digital capabilities, redesign the client experience, and enabled our customers to bank anytime, anywhere, on their preferred channels. The provision of the new digital remote sales platform, allowed customers to interact remotely, driving significant sales across consumer finance products.

Wholesale Banking Group

Wholesale Banking Group ('WBG') delivered a strong performance in Q1 2021 with a rebound in net profit by 279% following a very challenging 2020 marked by extraordinary market conditions as a result of the COVID-19 pandemic. Sequentially, customer finance grew by 11% indicating a rebound in economic activity and market sentiment, as well as strong momentum in deal execution. The Global Transaction Banking (GTB) team continued to make significant progress in its transformation journey, offering digitally enabled and innovative solutions to clients.

Treasury

ADIB Treasury department delivered a very strong performance in Q1 2021 with a growth of 121% in net profit compared to Q1 2020 due to the solid contributions from sales and trading. Revenue in Q1 2021 improved 112% year-on-year mainly due to gain on sale in sukuk portfolio.

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About ADIB:

ADIB is a leading bank in the UAE with more than AED 130 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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