

MANAGEMENT DISCUSSION & ANALYSIS

FOR THE 1st HALF OF 2021



ADIB records an 89% surge in H1 2021 net profit to AED 1.1 billion

Abu Dhabi, UAE – 28 July 2021:

Abu Dhabi Islamic Bank (ADIB), a leading Islamic bank in the region, delivered strong financial results for H1 2021.

Net Profit surged 89% year-on-year to AED 1,109 million from AED 588 million in H1 2020. The growth in net profit reflects the strong underlying performance across the business supported by a 3.4% growth in total **Revenue** to AED 2,644 million compared to AED 2,557 million in the same period last year. Growth in revenue was driven by an increase in non-funding income of 19%, boosted by a 11% improvement in fee income.

The financial results were also supported by an 8% decline in **Operating Expenses** with cost to income ratio improving 5% 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 continued to demonstrate strengths and depths in its balance sheet with a 5% year-on-year increase in **total assets**, driven by a 7% growth in deposits and a 3% growth in gross customer financing compared to H1 2020.

H1 2021 Key Highlights Compared to H1 2020

Group net profit AED 1,109 million Increase 88.7%	Group net revenue AED 2,644 million Increase 3.4%	Total expenses declined 7.7% With Cost to income ratio improving 5.3%
Impairments AED 366.8 million Decline 48.2%	Total assets AED 130.6 billion Increase 5.0%	Gross Customer Finance AED 88.1 billion Increase 3.0%
Customer deposits AED 105.2 billion Increase 6.6%	CAR Ratio 19.05%	ROE Ratio 13.7%

Group net profit: A resurgent financial performance in H1 2021 saw net profit grow 89% to AED 1,108.8 million compared to AED 587.6 million in H1 2020. Second quarter net profit of AED 501 million grew 57.6% compared to Q2 2020. 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 3.4% in H1 2021 to AED 2,644.3 million versus AED 2,556.6 million in H1 2020 and to AED 1,308.7 in Q2 2021 a 3.5% growth compared to Q2 2020. This was driven by a growth of 19% 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 7.7% improvement in operating expenses to AED 1,161.7 million compared to H1 2020, and leading to an improvement in cost-to-income ratio by 529 basis points compared to H1 2020.

Net profit margins: ADIB preserves one of the highest net profit margins in the market at 3.13% H1 2021 versus 3.58% H1 2020, supported by one of the lowest cost of funds in the market.

New customers: 97,035 new customers joined ADIB in the 12 months period ended H1 2021 as ADIB's emphasis on long-term customer relationships and delivering a superior customer service continues to bear fruit.

Impairments: Net impairment charges decreased by 48.2% to AED 366.8 million in H1 2021 from AED 708.6 million in H1 2020 reflecting improvements in the micro- and macro- economic outlook.

Gross Customer financing: Produced 3% year-on-year growth, driven by improvements of 3% in wholesale banking customer financing and 2% in retail customer financing compared to H1 2020.

Total assets: AED 130.6 billion in H1 2021, up 5.0% on H1 2020.

Customer deposits: AED 105.2 billion in H1 2021, up 6.6% year-on-year with CASA deposits including STI increasing by 13.9% to AED 96.4 billion comprising around 92% of total customer deposits.

Liquidity: ADIB continues to maintain a solid liquidity position with a Stable funds ratio of 83.1% H1 2021 vs. 86.6% H1 2020.

Capital: ADIB maintained a robust capital position with Common equity Tier 1 ratio 13.32% and Capital adequacy ratio of 19.05% comfortably above regulatory requirements.

Digital: In the first half of 2021, ADIB has seen a 30% rise in digitally active customers compared to the same period last year. Currently, the bank has over 700,000 digitally enabled customers, which is a record of 70%.

Innovation: ADIB continues to strengthen its digital banking capabilities with a host of new initiatives as the Bank continues to see high adoption and usage of its digital services. It recently announced the launch of new integrated digital kiosks 'Smart Tellers' across key UAE branches that offer the services of a mini-branch allowing customers to access a wide variety of banking services and products.

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**H.E JAWAAN AWDAIDAH AL KHAILI**

CHAIRMAN

“We are really encouraged by our financial results in the first half of 2021 as we continue to deliver strong operational performance across all business lines. Despite continued challenging market conditions, ADIB delivered robust year-on-year growth underscored by positive increases on our assets, revenues, and net profits while also maintaining a strong balance sheet, liquidity, and capital ratios. Our return on shareholders’ equity have also improved to 14%, in line with our commitment to enhance our profitability and deliver superior value to our shareholders.

“Our investments in key strategic and digital initiatives enabled us to enhance customer experience, support business productivity, and position the bank for future growth. We have seen an increase in key digital metrics with more and more customers benefiting from our enhanced digital banking features.

“We are focused on the priorities we outlined as part of our 5-year strategic review. We are now embarking on a new journey with a renewed purpose and a revamped vision. We are aiming to develop and launch new banking products and services that will allow us to support customers in all important financial stages in their lives while attracting new segments where we can grow profitably building on our strong brand and market position. We will continue with our digital transformation strategy to build a future-proof bank by rigorously simplifying and centralizing our operating model that will enable us to focus on clients and work more efficiently.

“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 for the rest of 2021, leveraging on our strong market position, strategic initiatives and operational resilience.”

**MOHAMED ABDELBARY**

GROUP CHIEF FINANCIAL OFFICER

"ADIB delivered a strong set of results in the first half of 2021, with net profits increasing by 89% to AED 1.1 billion. This is further evidence that ADIB is in the right path in all its businesses and is building sustainable profitability in what continues to be an uncertain economic environment.

"I am particularly pleased with our topline, year-on-year growth of 3.4% on the back of strong improvements in customer financing, customer deposits, and an increase in other sources of income, such as fees and commissions and investment income. We have progressively pursued a strict cost discipline approach which allowed us to drive our operating expenses down by 8% year on year and enabled us to achieve a 5% improvement in our cost to income ratio. This was achieved through implementing a number of cost optimisation initiatives that includes a reduction of cost of sales and cost of customer acquisitions, 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 to attract new customers and accelerate our growth for the rest of the year.

"While low rates remain a key headwind that impacted revenues from funding, we were still able to grow our revenues driven by improved numbers from our customer financing as well as in investment income, fees & commissions. Throughout the period, we continued to demonstrate risk discipline, with our asset quality broadly stable underpinned by a prudent risk approach and recoveries. Our balance sheet foundation remains robust, with solid liquidity and funding ratios, and a strong capital position with a CET1 at 13.3%.

"The strength of our retail banking business continues to drive ADIB's performance. This highlights the bank's increasingly powerful brand and its success in successfully employing its client franchise to increase market share, adding over 97,000 customers in the 12 months period ended 30 June 2021. This has resulted in a 7% rise in customer deposits and a 14% increase in CASA deposits (including STI) allowing ADIB to maintain one of the highest net profit margins in the market of 3.13%."

GROUP FINANCIAL REVIEW

All figures are in AED millions

Income statement	H1'21	H1'20	Y-o-Y%	Q2'21	Q2'20	Q-o-Q%
Net Revenue from Funding	1,587.3	1,669.8	-4.9%	802.9	801.8	0.1%
Non funding revenue	1,057.0	886.8	19.2%	505.8	462.5	9.4%
Net revenue	2,644.3	2,556.6	3.4%	1,308.7	1,264.3	3.5%
Total Expenses	1,161.7	1,258.4	-7.7%	570.0	623.5	-8.6%
Operating profit (margin)	1,482.6	1,298.2	14.2%	738.7	640.8	15.3%
Credit provisions and impairment charge	366.8	708.6	-48.2%	233.3	321.5	-27.4%
Net profit after zakat & tax	1,108.8	587.6	88.7%	501.2	317.9	57.6%

Balance sheet	Jun'21	Dec'20	Jun'21 vs Dec'20 (%)	Jun'20	Jun'21 vs Jun'20 (%)
Total assets	130,608	127,816	2.2%	124,418	5.0%
Gross customer financing	88,068	87,407	0.8%	85,519	3.0%
Customer deposits	105,159	101,276	3.8%	98,631	6.6%
Total equity	19,538	19,162	2.0%	18,514	5.5%

Key ratios	Jun'21	Dec'20	Jun'21 vs Dec'20 (bps)	Jun'20	Jun'21 vs Jun'20 (bps)
Net Profit margins	3.13%	3.51%	-38	3.58%	-45
Cost to income ratio	43.9%	45.7%	-179	49.2%	-529
Cost of risk	0.9%	1.3%	-43	1.4%	-54
Non-performing assets	8.8%	8.8%	4	8.4%	43
Provision coverage including collaterals	115.2%	110.7%	449	114.4%	-81
Net Financing to Deposit	79.6%	82.4%	-276	83.1%	-352
Return on equity	13.7%	9.6%	406	6.6%	707
CET 1 ratio	13.3%	12.9%	38	12.5%	86
Capital Adequacy Ratio	19.1%	18.8%	25	18.2%	87

OPERATING PERFORMANCE (H1 2021 vs H1 2020)

- **Group Revenue** grew 3.4% from AED 2,644.3 million vs. AED 2,556.6 million.
- **Income from financing activities** was AED 1,587.3 million, down 4.9% from AED 1,669.8 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 3.13%, down 45 basis points from 3.54% largely due to rate cuts.
- **Income from non-financing activities** which contributes 40% of total income is up 19% by AED 170 million to reach AED 1,057.0 million vs. AED 886.8 million. This increase was primarily driven by 27.8% growth in investment income and by a 10.6% increase in fees and commissions year-on-year due to an encouraging economic and business environment.
- **Fees and commissions** were 10.6% higher at AED 461.5 million vs. AED 417.1 million reflecting the Bank's focus to diversify its income.
- **Investment income** was 27.8% higher at AED 472.1 million vs. AED 369.3 million
- **Expenses:** Amid ongoing investments in key strategic and digital initiatives, operating expenses decreased 7.7% to AED 1,161.7 million from AED 1,258.4 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 43.9%.

ASSET QUALITY (H1 2021 vs H1 2020)

- **Non-Performing Assets** were AED 7.8 billion compared to AED 7.2 billion, reflecting a challenging operating environment with non-performing assets ratio of 8.8% broadly stable compared to 31 March 2021.
- **Credit provisions and impairments** While the bank continued to build prudent provisioning, the improving economic outlook resulted in lower net impairment charges of AED 366.8 million, compared to AED 708.6 million representing an annualized cost of risk of 85 basis points compared to 139 basis points and an adequate provision coverage ratio of 115% 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 (H1 2021 vs H1 2020)

- **Total assets** grew 5.0% to AED 130.6 billion.
- **Gross Customer financing** increased 3.0% to AED 88.1 billion, primarily driven by 2.7% growth in corporate financing.
- **Customer deposits** were AED 105.2 billion up 7% with Current Account and Savings Account (CASA) including STI balances grew 13.9% to AED 96.4 billion, and now represent 91.7% of total deposits.
- ADIB recorded a healthy **customer financing-to-deposits** ratio of 79.6% in H1 2021.
- Maintained its **strong liquidity position** with Stable fund ratio of 83.1% and remains comfortably in excess of regulatory requirement.

EQUITY, CAPITAL AND RETURNS (H1 2021 vs H1 2020)

- Total equity (inc. Tier 1 capital instruments) increased 5.5% to AED 19.5 billion from AED 18.5 billion.
- At H1 2021, under Basel III principles:
 - **Capital adequacy ratio** improved sequentially from 18.18% to 19.05%. 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 17.97%.
 - **Common equity Tier 1 ratio** was 13.32%.
 - All capital ratios are well above the minimum regulatory thresholds advised by the Central Bank of the UAE.

ADIB DIGITAL TRANSFORMATION INITIATIVES IN H1 2021

- In the first half of 2021, ADIB has seen a 30% rise in digitally active customers. Currently, the bank has over 900,000 digitally enabled customers, of which a record 65% are active on a daily or weekly basis.
- ADIB Mobile app ranked number one App on UAE App store.
- ADIB has a 58% digital usage when opening current accounts with more than 35% of new bank customers opening their accounts digitally.
- ADIB has seen a surge of 30% in digital finance application, with more than 30% of personal finance applications taking place digitally.
- In terms of Retail Services, digital money transfers and customer profile updates have witnessed an 88% and 40% rise, with 99% of transactions happening digitally.
- Digital adoption in corporate banking realised a major surge, with Wholesale Banking Group's daily transaction clocking a high of 21,000 in June 2021, representing a 95% increase over the same period last year.
- Over 90% of ADIB's Global Transaction Banking business was generated digitally through ADIB Direct, an innovative banking platform providing automated trade finance services.
- The ADIB Business Banking department recorded 56,000 transactions in June 2021, up 27% year-on-year. Around 92% of these transactions were concluded digitally, up from 75% last year.
- 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.
- ADIB has been working on a set of new digital initiatives which are due for rollout in the next 6 months. ADIB is launching a branch paperless strategy with the aim to saving more than 2 million papers by end of 2021 as most of the transactions in branches will move to digital.
- In addition, the bank has been deploying AI technology to clear cheques with now 300 cheques per day being cleared without any human interaction which the aim to have 65% of cheques cleared digitally by year end which will result in operational efficiency due to reduction of cheque processing time, better risk management and fraud prevention.
- Other initiatives including ADIB Chat Banking, the UAE's first Emirati customer care chatbot, continues to evolve, with major upgrades being developed to ensure it can support cases across ADIB's digital banking ecosystem. The customer-facing chat bot has built sufficient learning now to resolve 85% of queries.

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 556 million of net profit in H1 2021, a 4% 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 2% growth in finances to AED 48 billion as at 30 June 2021.

Operating expenses in H1 2021 improved 2% 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 97,000 customers from H1 2020. Our liabilities also grew in the first half of the year by 8%, 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 H1 2021 with a rebound in net profit by 144% driven by a gradual return to normalcy marked. Sequentially, customer finance grew by 3% 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 H1 2021 with a growth of 85% in net profit compared to H1 2020 due to the solid contributions from sales and trading. Revenue in H1 2021 improved 75% year-on-year mainly due to gains on sales in its 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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