

MANAGEMENT DISCUSSION & ANALYSIS FOR THE QUARTER ENDING 30 JUNE 2016

**Abu Dhabi Islamic Bank net profit for H1 2016 increases
3.8% to AED 989.5 million**

Group Financial Highlights

Income Statement: First half 2016 vs. First half 2015

- Group net profit for H1 2016 increased by 3.8% to AED 989.5 million vs. AED 953.4 million in H1 2015.
- Group net revenues for H1 2016 increased by 7.8% to AED 2,672.3 million vs. AED 2,478.3 million in H1 2015.
- Credit provisions and impairments for H1 2016 increased by 19.2% to AED 450.1 million vs. AED 377.7 million in H1 2015.

Income Statement: Q2 2016 vs. Q1 2016

- Group net profit for Q2 2016 increased by 5.3% to AED 507.5 million vs. AED 482.0 million for Q1 2016.
- Group net revenues for Q2 2016 increased by 2.9% to AED 1,355.0 million vs. AED 1,317.3 million for Q1 2016.
- Credit provisions and impairments for Q2 2016 increased by 8.3% to AED 234.0 million vs. AED 216.2 million for Q1 2016.

Balance Sheet: 30 June 2016 vs. 30 June 2015 and 31 December 2015

- Total assets as of 30 June 2016 were AED 121.5 billion, representing an increase of 5.6% from AED 115.1 billion at the end of 30 June 2015 (and an increase of 2.6% over the AED 118.4 billion at 31 December 2015).
- Net customer financing grew 6.9% to AED 79.7 billion, from AED 74.5 billion at the end of 30 June 2015 (and an increase of 1.6% over the AED 78.4 billion at 31 December 2015).
- Customer deposits grew 9.3% to AED 97.4 billion, from AED 89.1 billion at the end of 30 June 2015 (and an increase of 2.6% over the AED 94.9 billion at 31 December 2015).

Capital adequacy and liquidity: 30 June 2016 vs. 30 June 2015 and 31 December 2015

- The capital adequacy ratio under Basel II at 30 June 2016, after the payment of the 2015 dividend and the Tier 1 coupons in Q2 2016, is 14.59% vs. 14.01% recorded at 30 June 2015 (15.14% at 31 December 2015).

- ADIB remains one of the most liquid banks in the UAE, with an advances to stable funds ratio (a regulatory ratio) of 85.7% at 30 June 2016, vs. 87.0% at 30 June 2015 (84.6% at 31 December 2015) and an advances to deposits ratio of 81.8% at 30 June 2016, vs. 83.7% at 30 June 2015 (82.6% at 31 December 2015).

Group Financial highlights - Four-year performance

As at 30 June

All figures are in AED millions

Balance sheet	Q2 2013	Q2 2014	Q2 2015	Q2 2016	3 YR (CAGR)
Total assets	91,565	105,666	115,077	121,507	9.9%
Gross customer financing	59,476	68,075	77,310	82,787	11.7%
Customer deposits	66,868	79,029	89,084	97,375	13.3%
Total equity	12,534	12,953	13,722	15,081	6.4%
Capital adequacy ratio - Basel II	17.3%	15.8%	14.0%	14.6%	
Tier 1 ratio - Basel II	16.9%	15.3%	13.5%	14.0%	
Customer financing to deposit ratio	84.0%	82.1%	83.7%	81.8%	

Income statement	Q2 2013	Q2 2014	Q2 2015	Q2 2016	3 YR (CAGR)
Net revenue	950.6	1,082.9	1,254.0	1,355.0	12.5%
Operating profit (margin)	551.2	632.0	678.6	745.0	10.6%
Credit provisions and impairment charge	179.8	175.8	175.1	234.0	9.2%
Net profit after zakat & tax	371.4	454.8	502.6	507.5	11.0%
Total non-performing accounts to gross financing assets ratio	9.6%	7.1%	4.1%	4.0%	
Provision coverage ratio	57.7%	66.5%	88.3%	94.1%	
Cost to income ratio	42.0%	41.8%	46.0%	45.0%	

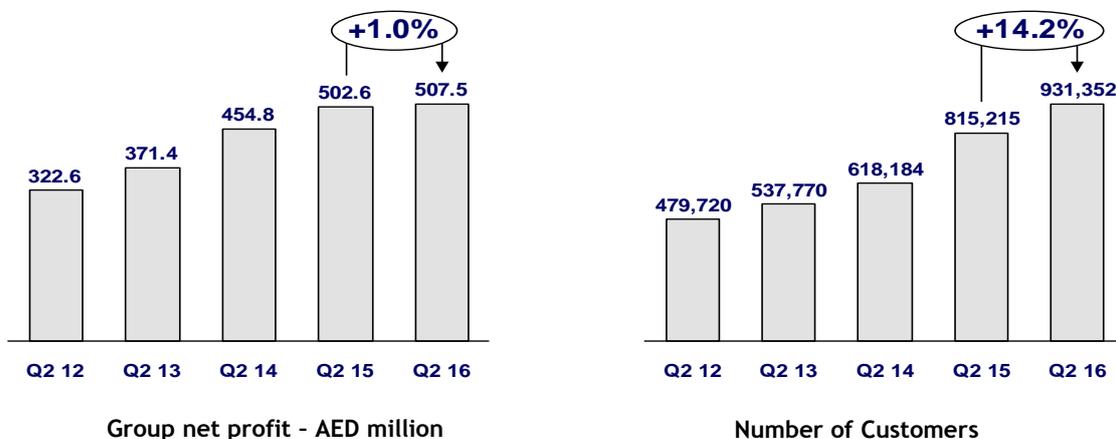
Network - UAE	Q2 2013	Q2 2014	Q2 2015	Q2 2016	3 YR (CAGR)
Total customers	537,770	618,184	815,215	931,352	20.1%
Branches	76	80	88	88	5.0%
ATMs	560	606	737	771	11.2%

Abu Dhabi, UAE - 14 July 2016: The Abu Dhabi Islamic Bank (ADIB) Group posted a 3.8% increase in net profit for H1 2016 to AED 989.5 million while increasing total assets to AED 121.5 billion and net customer financing assets to AED 79.7 billion. Given the challenging environment, ADIB has retained its focus on funding, with customer deposits increasing to AED 97.4 billion, and remains one of the most liquid banks in the UAE with the advances to deposits ratio at 30 June 2016 at 81.8% vs. 83.7% at 30 June 2015.

The growth in customer financing assets continues to reflect ADIB’s conservative approach to both: capital management - ahead of the Central Bank of the UAE’s forthcoming adoption of Basel III regulations; and new credit extension - as concerns about the near-term economic outlook, and its impact on an increasing number of customers, industry segments and geographies, remain.

The business highlights for Q2 2016 were:

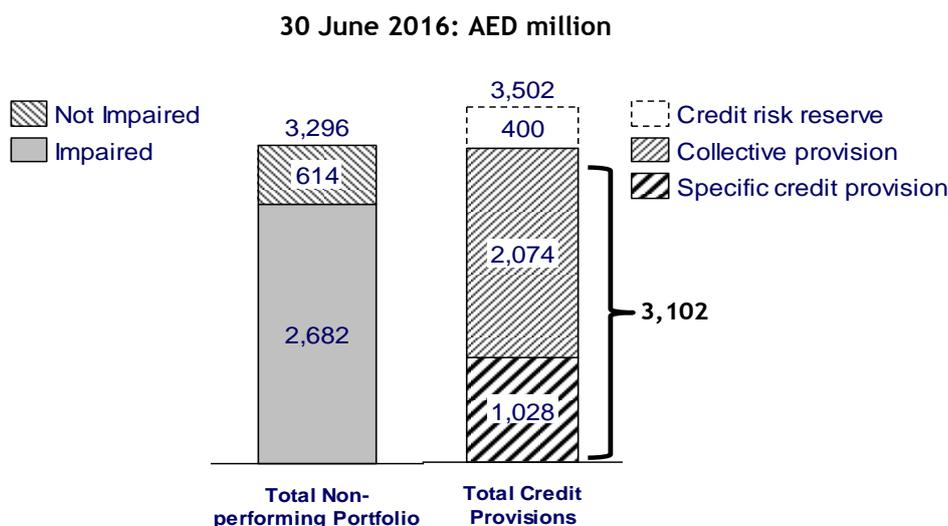
- A greater emphasis on long-term customer relationships and selected industry segments, while remaining loyal to the core UAE National individual and corporate customer base, saw the number of active customers served by ADIB increase by over 115,000 year-on-year to 931,352.
- Despite the concerns over the credit environment, the non-performing account ratio decreased marginally year-on-year to 4.0% vs. 4.1% at 30 June 2015. Notwithstanding this, the Group continued its conservative practice of building provisions and took an additional AED 253.1 million in total credit provisions to improve the pre-collateral non-performing coverage ratio to 94.1% of the total non-performing portfolio.
- In continued recognition of the challenges of operating in the current environment - and in support of the strategy of building leadership in its chosen customer segments, services, industries and geographies - the Group has maintained its focus on enhancing its competencies in the risk, compliance, governance and control areas. However, a simultaneous focus on productivity has resulted in the cost to income ratio declining to ADIB’s medium term target of 45.0%.



Risk management

ADIB’s application of prudent practice credit risk management and proactive remedial efforts, including having dedicated teams focus on achieving a positive and sustainable level of credit performance post-restructuring, saw the non-performing ratio decreasing year-on-year to 4.0% vs. 4.1% at 30 June 2015 with non-performing assets now totaling AED 3,296.2 million. However, given that the asset quality outlook remains negative, ADIB took an additional AED 231.3 million in specific provisions while further increasing collective provisions by AED 21.8 million in Q2 2016. The Bank’s collective provisions reflect the Bank’s conservative credit outlook and, excluding the AED 400 million credit risk reserve established in Q4 2012, now represent 2.27% of total customer risk weighted assets and are well above the 1.5% regulatory guidelines.

Total credit provisions, net of write-offs, now stand at AED 3,102.2 million. Specific and collective provisions, excluding the credit risk reserve, now represent a healthy pre-collateral coverage ratio of 94.1% of the total non-performing portfolio and 115.7% of the impaired portfolio.



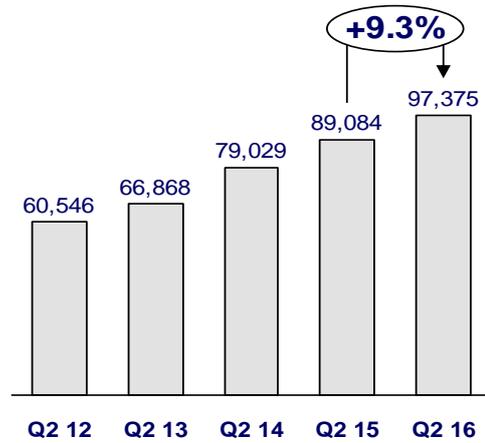
Asset and Liability Management

ADIB ended 30 June 2016 with a healthy customer financing to deposits ratio of 81.8% and the Bank has maintained its position as one of the most liquid banks in the UAE. The main driver of the low customer to deposits ratio remains ADIB’s continued focus on building long-term relationships, which saw customer deposits increase by 9.3% vs. 30 June 2015 to AED 97.4 billion as at 30 June 2016.

At the same time, a disciplined return on shareholders’ equity and capital conservation approach ahead of the Central Bank of the UAE’s forthcoming adoption of Basel III regulations combined with ongoing concerns regarding the levels of credit stress in certain industries, particularly in the commercial and business banking commodity linked customer segments, saw customer financing assets grow by only 6.9% since 30 June 2015 to reach AED 79.7 billion.



Net Customer Financing Growth - AED million

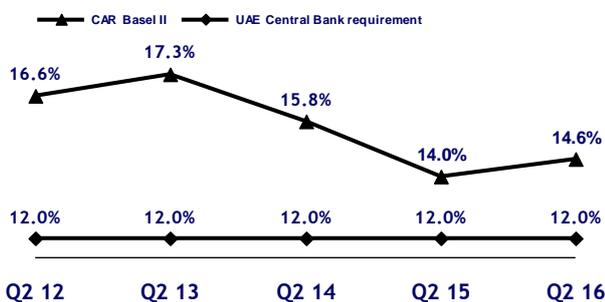


Customer Deposit Growth - AED million

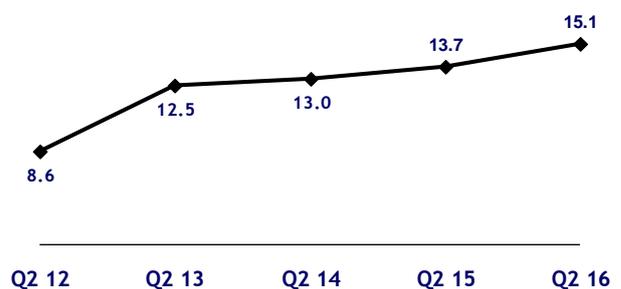
Capital strength

Total Equity (including Tier 1 capital instruments) was AED 15.1 billion as at 30 June 2016. This represents an increase of 9.9% year-on-year and a 3-year compounded growth rate of 6.4%. ADIB’s capital adequacy ratio under Basel II principles now stands at 14.59% with the Basel II Tier 1 capital ratio at 14.00% and a common equity tier 1 ratio of 8.62%.

Notwithstanding the fact that ADIB’s capital ratios continue to be well above Central Bank of the UAE’s current prescribed minimums of 12% for capital adequacy and 8% for Tier 1, ADIB’s intends to continue enhancing the Group’s capital base through a series of specific actions. These actions, will be aligned with the Central Bank of the UAE’s forthcoming adoption of Basel III and related capital regulations, and will occur as and when market conditions are favorable and the cost benefits are in line with the Group’s 2020 strategic ambition.



Capital Adequacy Ratio - %



Total Equity - AED billion

Cost management

In line with ADIB’s growth strategy of becoming a top regional bank, and notwithstanding the current economic environment, the Group has maintained its focus on recruiting and retaining top performers and investing appropriately in expanding its operations across all customer segments, and selected industries, in the UAE while laying the foundations for its wholesale banking led international franchises. Specifically,

ADIB has continued to build a number of additional capabilities, including, but not limited to: enhancing its digital competence across all businesses and processes in line with its ambition to be a leading digital bank; building and diversifying its fee income capabilities in line with identified customer needs; establishing complementary business units such as merchant acquiring; and upgrading its infrastructure to ensure the Group operates in a stable and secure manner.

Furthermore, in line with the Group's commitment to leadership in the application of regulatory and related governance best practice, ADIB has continued to increase its investment in risk, control and compliance capabilities while simultaneously reviewing any pertinent historical activities and taking the necessary corrective actions should any areas of concern be identified.

Despite the ongoing high levels of investment required to achieve the Group's growth ambitions, including the amortization of the purchase consideration of the Barclay's UAE Retail acquisition, a simultaneous focus on productivity saw the cost to income ratio for Q2 2016 decline to ADIB's medium term targeted level of 45.0%.

Human resources

In line with the Group's 2020 strategic ambition, ADIB has continued to selectively recruit the necessary staff required to service a comprehensive range of client segments and selective industries through a broad range of products and solutions, while also enhancing the governance structures. Notwithstanding this, by retaining its established focus on performance management and enhanced productivity, the Bank's headcount in the UAE decreased by 110 to 2,349 in Q2 2016.

Furthermore, ADIB remains one of the leading banks in advocating the recruitment, development and promotion of local talent in all the markets in which it operates. As a result, the Bank now employs 1,014 Nationals in the UAE with a resultant Emiratization ratio of 43.2%.

Management comment

On behalf of the Board of Directors and the management team, Tirad Al Mahmoud, Group CEO of ADIB, said: "ADIB, and our peers, continue to operate in a very challenging environment. However, while we fully recognize these challenges, the environment also provides selective opportunities for banks who have well-proven capabilities and robust strategies. ADIB has therefore maintained its focus on implementing its long-term growth strategy and continuing to deliver the levels of customer service that have become synonymous with our brand.

"The success of our strategy means that I am pleased to report that more than 115,000 new customers elected to bank with ADIB, as the number 1 bank for customer service in the UAE, in the past 12 months. As a result, ADIB has been able to deliver a sustainable level of financial performance with the Group's H1 2016 net profit increasing by 3.8% to AED 989.5 million while total assets grew 5.6% to AED 121.5 billion vs.

30 June 2015. Furthermore, and despite concerns about the levels of market liquidity, ADIB has improved its funding position with customer deposits increasing by 9.3% year-on-year to AED 97.4 billion. However, given our concerns about the levels of credit stress combined with our stated ambition to optimize the Group's capital, customer financing assets grew at a conservative 6.9% year-on-year resulting in the customer financing assets to deposits ratio further improving to 81.8%.

“However, and notwithstanding the fact that at its core ADIB is a customer centric organization and one of the most liquid banks in the UAE, we recognize that being a top tier bank also means that we must also excel in meeting the needs and requirements of all our stakeholders, including regulators, shareholders and investors, our staff and the community at large. Therefore, it is of primary importance that ADIB continues to build the required level of capital, across all classes, that is appropriate for a bank with our ambition and profile. As evidence of this commitment, and in anticipation of the Central Bank of the UAE's forthcoming Basel III capital regulations, ADIB increased total equity by 9.9% year-on-year to AED 15.1 billion and the Group's capital adequacy ratio is now 14.59%.

“In addition to our actions related to capital and balance sheet management, and despite the current challenges relating to revenue growth, ADIB has continued its focus on ensuring that the necessary expenditure required to build our customer focused franchises - and the infrastructure to support them - is matched by the commitment to ensuring that we operate, and have done so in the past, in accordance with the best practice governance, control and compliance requirements of regulators at home and abroad. Notwithstanding the ongoing impact of this type of essential expenditure, and any related remedial efforts they highlight, our continued focus on productivity has resulted in a sustainable improvement in the Group's expense profile and as a result the cost to income ratio is now in line with our medium term-goal of 45.0%.”

Outlook

“We remain concerned about the current levels of economic activity and growth in the region and the major markets around the world. Our concern is further exacerbated by the rising levels of defaults in an increasing number of client segments and industry sectors in the markets in which we operate. As a result, we continue to forecast modest new customer financing growth and, where credit extension is targeted, will continue our practice of only doing so in such a manner that the risk related returns are commensurate with our long-term regulatory capital needs and return of shareholders equity goals.

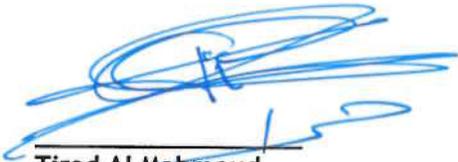
Furthermore, while ADIB remains one of the most liquid banks in the region with a sound capital base, the pressure on market liquidity levels and the amount, and mix, of capital ADIB is required to hold is expected to increase. While we have the capacity and capability to do further capital market issuances it is unlikely that we will act before the Central Bank of the UAE's Basel III regulations are in place.

“Finally, the prevailing credit environment has justified ADIB's historical conservative approach to building both specific and collective provisions. Therefore, despite the successes we have had in the

remedial management of the non-performing accounts backed by customers willingness to work proactively with the Bank in this regard, we expect to take increased levels of specific provisions as is necessary and prudent”.

Gratitude

The Board of Directors and executive management wish to extend their sincere appreciation and gratitude to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, the President of the UAE and Ruler of Abu Dhabi, to His Highness Sheikh Mohammed Bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces, to the Central Bank of the UAE and to the Emirates Securities and Commodities Authority, our shareholders and our clients for their continued trust in and support of ADIB, along with our staff for their dedication.



Tirad Al Mahmoud
Group Chief Executive Officer

Financial summaries

ADIB Group Financial summary - 3 months and 6 months summary

Financials	Consolidated Group									
	Q2 2014	Q2 2015	Q2 2016	Chg Q2 15 vs. Q2 14	Chg Q2 16 vs. Q2 15	H1 2014	H1 2015	H1 2016	Chg H1 15 vs. H1 14	Chg H1 16 vs. H1 15
	AED Mn	AED Mn	AED Mn	%	%	AED Mn	AED Mn	AED Mn	%	%
Net Revenue from Funding	840.9	918.8	982.3	9.3%	6.9%	1,638.6	1,860.1	1,955.3	13.5%	5.1%
Fees & Commissions	167.3	200.1	204.3	19.7%	2.1%	344.2	422.7	411.7	22.8%	-2.6%
Investment income	68.2	96.5	123.7	41.6%	28.2%	147.6	174.7	283.4	18.4%	62.2%
FX	5.1	37.6	43.7	636.9%	16.1%	23.7	19.2	20.1	-19.0%	4.8%
Other	1.4	1.0	1.0	-40.4%	6.7%	1.9	1.6	1.7	-13.5%	6.4%
Total Revenues	1,082.9	1,254.0	1,355.0	15.8%	8.1%	2,156.0	2,478.3	2,672.3	15.0%	7.8%
Total Expenses	450.9	575.4	610.0	27.6%	6.0%	897.8	1,145.3	1,224.9	27.6%	7.0%
Operating profit (margin)	632.0	678.6	745.0	7.4%	9.8%	1,258.2	1,333.0	1,447.4	5.9%	8.6%
Credit Provisions and Impairment	175.8	175.1	234.0	-0.4%	33.6%	392.3	377.7	450.1	-3.7%	19.2%
Net Profit before Zakat & Tax	456.2	503.5	511.0	10.4%	1.5%	865.9	955.3	997.2	10.3%	4.4%
Zakat & Tax	1.4	0.9	3.5	-33.6%	284.0%	1.6	1.9	7.7	19.0%	299.4%
Net Profit after Zakat & Tax	454.8	502.6	507.5	10.5%	1.0%	864.3	953.4	989.5	10.3%	3.8%
Total Assets in AED (Billion)	105.7	115.1	121.5	8.9%	5.6%	105.7	115.1	121.5	8.9%	5.6%
Customer Financing in AED (Billion)	64.9	74.5	79.7	14.9%	6.9%	64.9	74.5	79.7	14.9%	6.9%
Customer Deposits in AED (Billion)	79.0	89.1	97.4	12.7%	9.3%	79.0	89.1	97.4	12.7%	9.3%

-Ends-

About ADIB:

Abu Dhabi Islamic Bank (ADIB) was established on 20th May 1997 as a Public Joint Stock Company following the Emiri Decree No. 9 of 1997. The Bank commenced commercial operations on 11th November 1998, and was formally inaugurated by His Highness Sheikh Abdullah Bin Zayed Al Nahyan on 18th April 1999.

ADIB's vision is to be a top-tier, global Islamic financial services group and its mission is to provide Islamic financial solutions to the global community.

The Bank carries out all contracts, operations and transactions in accordance with Islamic Shari'a principles.

ADIB's core values, reflected in all its activities are: Simple and Sensible; Transparent; Mutual Benefit; Hospitality and Tolerance; and Shari'a inspired. It brings to its customers banking as it should be.

ADIB - Awards:

1. Sheikh Khalifa Award - Gold Category.
2. Best Bank in the UAE by Banker Magazine.
3. Best Islamic Bank in the UAE by Banker Magazine.
4. Best Overall bank in customer experience in the GCC by Ethos Consultancy
5. Best Overall Bank in the UAE in customer service for the 4th consecutive year by Ethos Consultancy.
6. Best call center in the UAE by Ethos Consultancy.
7. Best Branch network for by Ethos Consultancy.
8. Best Overall Best Islamic Bank by IFN.
9. Best Islamic Bank in the UAE by Global Finance for 4th consecutive year
10. Best overall Islamic retail Bank globally by Global finance magazine.
11. Best Islamic bank in the Middle East by Euromoney.
12. Best Islamic bank in the UAE for 2nd consecutive year by Euromoney.
13. Best Islamic Bank in Egypt by IFN.
14. Best Islamic Bank in UAE by IFN.
15. Best Islamic Bank in the UAE by IFLR.
16. Best M&A deal by IFLR.
17. "Seatrade Maritime Finance for Shipping Award.
18. Best Treasury Services in the Middle East by EMEA Finance
19. Best Private Bank in the UAE by Wealth Briefing.
20. Best Islamic Bank in the UAE by EMEA Finance magazine for 4th consecutive year
21. Best retail bank by Islamic Banking and Finance Magazine
22. Best Overall Islamic Bank by International Financial Law Review Magazine
23. Best Islamic bank in the UAE by Asiamoney Awards.
24. Best Islamic bank in the Middle East by Asiamoney Awards.
25. Best Loyalty card in Asia, Middle East and Oceania by Freddie Awards.
26. Best Nationalization Initiative by MENA HR Excellence Awards.
27. Euromoney Awards for Innovation in Islamic Finance.
28. Best project finance deal in UAE by EMEA Finance.
29. Human Resource Development Award from the Emirates Institute of Banking and Financial Studies (EIBFS)
30. Best Islamic Bank Award by Banker FT.
31. Mohammed bin Rashid Al Maktoum Business Award.
32. The Leading Arab Islamic Bank for 2015 by Union of Arab Banks.
33. Euromoney Awards for Innovation in Islamic Finance 2016.
34. Most innovative bank in the Middle East in 2015 by EMEA Finance Middle East Banking Awards.
35. Most innovative Bank in the Middle East by Global Finance magazine 2015
36. "Best SME Internet Banking Service" by Banker Middle East.
37. "Best SME Exchange Service" by Banker Middle East.
38. Best Premium Banking Service by Banker Middle East
39. Best Private Bank in the Middle East for Islamic Finance by Private Banker International magazine
40. Best in Talent management by MENA HR Excellence awards

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