

MANAGEMENT DISCUSSION & ANALYSIS FOR THE QUARTER ENDING 30 September 2016

**Abu Dhabi Islamic Bank net profit for 9 months of 2016
increases 2.9% to AED 1.5 Billion**

Group Financial Highlights

Income Statement: 9 months of 2016 vs. 9 months of 2015

- Group net profit for first nine months of 2016 increased by 2.9% to AED 1,498.4 million vs. AED 1,456.6 million in first nine months of 2015.
- Group net revenues for first nine months of 2016 increased by 7.4% to AED 4,041.3 million vs. AED 3,762.5 million in first nine months of 2015.
- Credit provisions and impairments for first nine months of 2016 increased by 25.8% to AED 717.8 million vs. AED 570.7 million in first nine months of 2015.

Income Statement: Q3 2016 vs. Q3 2015

- Group net profit for Q3 2016 increased by 1.1% to AED 508.9 million vs. AED 503.2 million for Q3 2015.
- Group net revenues for Q3 2016 increased by 6.6% to AED 1,369.1 million vs. AED 1,284.2 million for Q3 2015.

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

- Total assets as of 30 September 2016 were AED 122.6 billion, representing an increase of 4.8% from AED 116.9 billion at the end of 30 September 2015 (and an increase of 3.6% over the AED 118.4 billion at 31 December 2015).
- Net customer financing grew 1.8% to AED 78.6 billion, from AED 77.2 billion at the end of 30 September 2015 (and an increase of 0.3% over the AED 78.4 billion at 31 December 2015).
- Customer deposits grew 10.3% to AED 98.6 billion, from AED 89.4 billion at the end of 30 September 2015 (and an increase of 3.9% over the AED 94.9 billion at 31 December 2015).

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

- The capital adequacy ratio under Basel II at 30 September 2016 is 15.03% vs. 14.70% recorded at 30 September 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 85.3% at 30 September 2016, vs. 88.3% at 30 September 2015 (84.6% at 31 December 2015) and an advances to deposits ratio of 79.7% at 30 September 2016, vs. 86.4% at 30 September 2015 (82.6% at 31 December 2015).

Group Financial highlights - Four-year performance

As at 30 September

All figures are in AED millions

Balance sheet	Q3 2013	Q3 2014	Q3 2015	Q3 2016	3 YR (CAGR)
Total assets	97,150	108,962	116,919	122,589	8.1%
Gross customer financing	62,256	74,909	80,123	81,869	9.6%
Customer deposits	70,165	82,936	89,434	98,610	12.0%
Total equity	12,942	13,439	14,714	15,593	6.4%
Capital adequacy ratio - Basel II	17.1%	14.3%	14.7%	15.0%	
Tier 1 ratio - Basel II	16.7%	13.9%	14.1%	14.4%	
Common Equity Tier 1 ratio	9.5%	7.8%	8.6%	9.0%	
Customer financing to deposit ratio	83.9%	86.4%	86.4%	79.7%	

Income statement	Q3 2013	Q3 2014	Q3 2015	Q3 2016	3 YR (CAGR)
Net revenue	1,015.9	1,170.8	1,284.2	1,369.1	10.5%
Operating profit (margin)	589.7	664.3	698.6	780.9	9.8%
Credit provisions and impairment charge	193.5	186.8	193.0	267.7	11.4%
Net profit after zakat & tax	395.5	476.8	503.2	508.9	8.8%
Total non-performing accounts to gross financing assets ratio	8.9%	6.2%	4.0%	4.4%	
Provision coverage ratio	60.7%	71.2%	90.0%	90.2%	
Cost to income ratio	42.0%	43.3%	45.6%	43.0%	

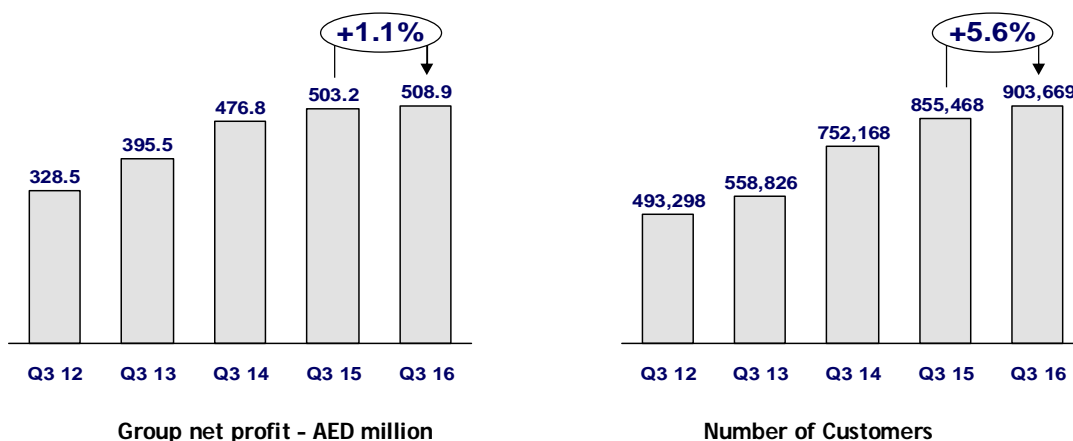
Network - UAE	Q3 2013	Q3 2014	Q3 2015	Q3 2016	3 YR (CAGR)
Total customers	558,826	752,168	855,468	903,669	17.4%
Branches	77	85	88	88	4.6%
ATMs	579	656	757	780	10.4%

Abu Dhabi, UAE - 24 October 2016: The Abu Dhabi Islamic Bank (ADIB) Group posted a 2.9% increase in net profit for the first nine months of 2016 to AED 1,498.4 million while increasing total assets to AED 122.6 billion. Given the continued challenging environment, ADIB has retained its prudent focus on funding and capital management. Customer deposits have increased 10.3% to AED 98.6 billion and net customer financing assets by 1.8% to AED 78.6 billion since 30 September 2015. As a result, at 30 September 2016, ADIB remains one of the most liquid banks in the UAE, with advances to deposits ratio of 79.7%.

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 a range of customers, industry segments and geographies, remain.

The business highlights for Q3 2016 were:

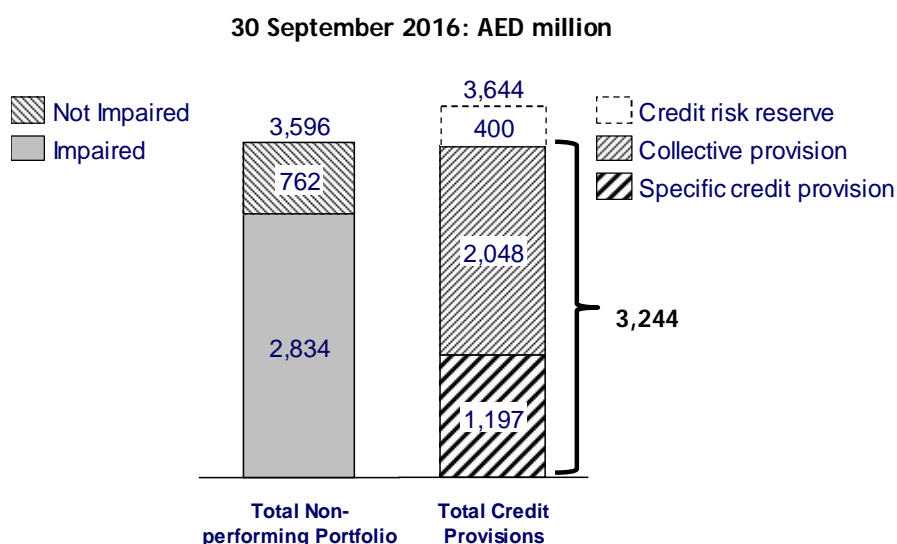
- A continued emphasis on long-term customer relationships and selected industry segments, while remaining loyal to the core UAE National individual and corporate customer base, saw the number of active customers served by ADIB increase by over 48,000 year-on-year to 903,669.
- Further evidence of concerns over the credit environment, with the non-performing account ratio increasing year-on-year to 4.4% vs. 4.0% at 30 September 2015. Given this, the Group continued its conservative practice of building provisions and took an additional AED 260.5 million in total credit provisions to maintain the pre-collateral non-performing coverage ratio at 90.2% of the total non-performing portfolio and 114.5% of the impaired portfolio.
- The continued focus on productivity, which has resulted in the cost to income ratio declining to 43.0% for Q3 2016. This is notwithstanding the fact that the Group has further enhanced its competencies in the risk, compliance, governance and control areas in support of its investment in the necessary infrastructure and capabilities to deliver leadership in its chosen customer segments, services, industries and geographies.



Risk management

Notwithstanding ADIB’s application of prudent practice credit risk management and proactive remedial efforts, the non-performing ratio increasing marginally year-on-year to 4.4% vs. 4.0% at 30 September 2015 with non-performing assets now totaling AED 3,596.3 million. As a result, and given that the asset quality outlook remains negative in a number of segments, ADIB took an additional AED 287.3 million in specific provisions in Q3 2016. In addition, collective provisions, which now represent 2.23% of total customer risk weighted assets, remain well above the 1.5% regulatory guidelines.

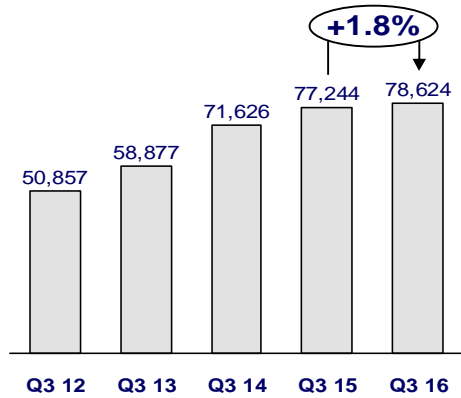
Total credit provisions, net of write-offs now stand at AED 3,244.1 million. Specific and collective provisions, excluding the AED 400 million credit risk reserve established in 2012, now represent a healthy pre-collateral coverage ratio of 90.2% of the total non-performing portfolio and 114.5% of the impaired portfolio.



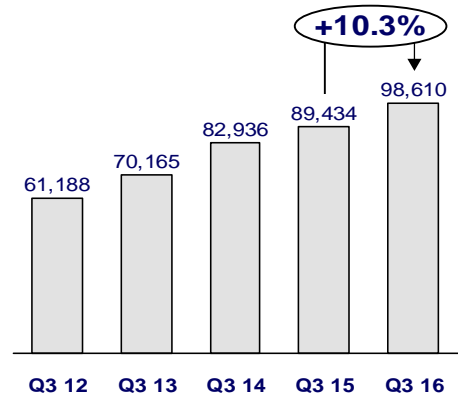
Asset and Liability Management

ADIB ended 30 September 2016 with a healthy customer financing to deposits ratio of 79.7% and the Bank has maintained its position as one of the most liquid banks in the UAE. The main driver of the best in market customer to deposits ratio remains ADIB’s continued focus on building long-term relationships, which saw customer deposits increase by 10.3% vs. 30 September 2015 to AED 98.6 billion as at 30 September 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 capital 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 growth limited to 1.8% since 30 September 2015 to reach AED 78.6 billion.



Net Customer Financing Growth - AED million

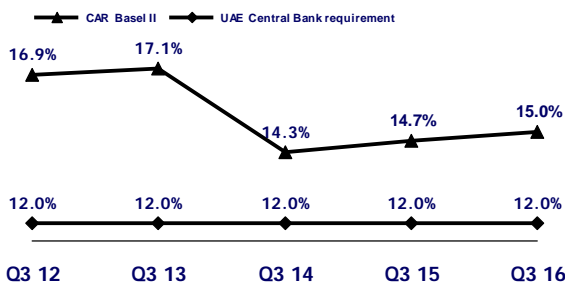


Customer Deposit Growth - AED million

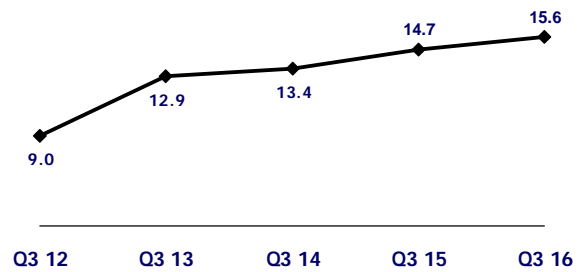
Capital strength

Total Equity (including Tier 1 capital instruments) was AED 15.6 billion as at 30 September 2016. This represents an increase of 6.0% 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 15.03% with the Basel II Tier 1 capital ratio at 14.39% and a common equity tier 1 ratio of 9.04%.

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 putting in place the infrastructure necessary for its growth strategy. The emphasis, therefore, remains on recruiting and retaining top performers and investing appropriately in expanding business capabilities across all targeted customer

segments, and selected industries, in the UAE while laying the foundations for its wholesale banking led international franchises. Specifically, ADIB has continued to: enhance its digital competence across all businesses and processes in line with its ambition to be a leading digital bank; focus on service excellence and convenience; build and diversify its fee income capabilities in line with identified customer needs; and upgrade all aspects of its infrastructure to ensure the Group operates in a stable and secure manner.

Furthermore, in line with the Group's ambition of being a leader in the application of regulatory and related governance best practice, ADIB has increased its investment in risk, control and compliance capabilities while simultaneously expanding its review of any pertinent historical activities to ensure that the Group takes the necessary and appropriate corrective action, irrespective of cost, wherever any areas of concern are identified.

Despite the ongoing high levels of investment required to achieve the Group's growth ambitions, and the amortization of the purchase consideration of the Barclay's UAE Retail acquisition, the simultaneous focus on productivity saw the cost to income ratio for Q3 2016 decline to 43.0% vs. 45.6% as at 30 September 2015.

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 an enhanced emphasis on productivity, the Bank's headcount in the UAE is 2,206 in Q3 2016.

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. The Bank now employs 918 Nationals in the UAE with a resultant Emiratization ratio of 41.6%.

Management comment

On behalf of the Board of Directors and the management team, Tirad Al Mahmoud, Group CEO of ADIB, said: "I am pleased with the positive results that ADIB has delivered in the first nine months of 2016 with a 2.9% growth in net profits and 4.8% growth in assets. These results demonstrate our ability to generate solid earnings in a challenging environment, highlighting our robust strategy and our award-winning level of customer service that saw us welcoming 48,000 new customers during the last 12 months."

"We remain focused on prudently managing risks and credit extension where our customer financing assets grew at a conservative 1.8% vs. 30 September 2015, resulting in the customer financing assets to deposits ratio further improving to 79.7%. ADIB has continued to improve its funding position with customer deposits increasing by 10.3% year on year to AED 98.6 billion."

“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 remains 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, and in anticipation of the Central Bank of the UAE’s forthcoming Basel III capital regulations, ADIB increased total equity by 6.0% year-on-year to AED 15.6 billion and the Group’s capital adequacy ratio is now 15.03% vs. 14.70% as at 30 September 2015.

“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 and associated costs 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 43.0%; well within our medium term-goal of 45.0%.”

Outlook

“The levels of activity and growth in the major economies around the world remain challenging. 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.

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 the Group is required to hold is expected to increase. Notwithstanding this, the strength of our current liquidity profile will see ADIB repay, as scheduled, the sukuk issued in Q4 2011, from existing cash resources. It should be noted that, while we have the capacity and capability to do further capital market issuances it remains unlikely that we will act before the Central Bank of the UAE’s Basel III regulations are in place since any action would need to ensure the optimal balance between long-term funding and the Bank’s capital needs as necessary to deliver on our 2020 growth strategy.

“Finally, the prevailing credit environment has justified ADIB’s historical conservative approach to building both specific and collective provisions as well as taking a credit risk reserve in 2012. 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 9 months summary

Financials	Consolidated Group									
	Q3 2014	Q3 2015	Q3 2016	Chg Q3 15 vs. Q3 14	Chg Q3 16 vs. Q3 15	YTD 2014	YTD 2015	YTD 2016	Chg YTD 15 vs. YTD 14	Chg YTD 16 vs. YTD 15
	AED Mn	AED Mn	AED Mn	%	%	AED Mn	AED Mn	AED Mn	%	%
Net Revenue from Funding	921.8	934.4	984.4	1.4%	5.4%	2,560.4	2,794.4	2,939.7	9.1%	5.2%
Fees & Commissions	173.3	224.2	221.9	29.4%	-1.0%	517.5	660.2	654.5	27.6%	-0.9%
Investment income	65.8	90.2	103.3	37.0%	14.6%	213.4	251.5	365.9	17.9%	45.5%
FX	10.8	24.7	45.1	127.2%	82.9%	34.5	43.8	65.2	27.0%	48.7%
Other	-0.9	10.9	14.3	1,364.0%	31.8%	1.0	12.5	16.0	1,123.8%	28.5%
Total Revenues	1,170.8	1,284.2	1,369.1	9.7%	6.6%	3,326.8	3,762.5	4,041.3	13.1%	7.4%
Operating profit (margin)	664.3	698.6	780.9	5.2%	11.8%	1,922.5	2,031.7	2,228.2	5.7%	9.7%
Credit Provisions and Impairment	186.8	193.0	267.7	3.3%	38.7%	579.1	570.7	717.8	-1.5%	25.8%
Net Profit before Zakat & Tax	477.5	505.6	513.2	5.9%	1.5%	1,343.4	1,461.0	1,510.4	8.8%	3.4%
Zakat & Tax	0.7	2.4	4.3	266.0%	75.2%	2.3	4.4	11.9	90.9%	174.2%
Net Profit after Zakat & Tax	476.8	503.2	508.9	5.5%	1.1%	1,341.1	1,456.6	1,498.4	8.6%	2.9%
Total Assets in AED (Billion)	109.0	116.9	122.6	7.3%	4.8%	109.0	116.9	122.6	7.3%	4.8%
Customer Financing in AED (Billion)	71.6	77.2	78.6	7.8%	1.8%	71.6	77.2	78.6	7.8%	1.8%
Customer Deposits in AED (Billion)	82.9	89.4	98.6	7.8%	10.3%	82.9	89.4	98.6	7.8%	10.3%

-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. Process Innovation Award for the IBM Digital Studio 2016 from Global Finance.
37. "Best SME Internet Banking Service" by Banker Middle East.
38. "Best SME Exchange Service" by Banker Middle East.
39. Best Premium Banking Service by Banker Middle East.
40. Best Private Bank in the Middle East for Islamic Finance by Private Banker International magazine.
41. Best in Talent management by MENA HR Excellence awards.
42. Sukuk Manager of the Year Global Investor / Euromoney.

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