

MANAGEMENT DISCUSSION & ANALYSIS

FOR THE FIRST 9 MONTHS OF
2021



ADIB delivers a net profit of AED 1.6 billion in for the first 9 months with a 43% year-on-year growth

Abu Dhabi, UAE – 31 October 2021:

Abu Dhabi Islamic Bank (ADIB), a leading Islamic bank in the region, delivered a strong set of financial results for the first 9 months of 2021.

Net Profit surged 43% year-on-year to AED 1,602 million from AED 1,121 million in the same period last year. The growth in net profit reflects the strong underlying performance across the business which led to a **4% growth in total Revenue** to AED 4,093 million compared to AED 3,933 million in the same period last year.

Cost discipline was maintained amid ongoing investment in digital initiatives with **expenses declining 8%** and cost **to income ratio improving 535 basis points** to 42.2%.

ADIB continued to demonstrate strengths and depths in its balance sheet **with a 4% growth YTD in total assets**, driven by a **6% growth in deposits** and a **2% growth in gross customer financing**.

ADIB has also announced a **new 2025 strategy** to drive long-term growth and shareholder value, with a **Vision to become the world’s most innovative Islamic bank**, and a new Purpose **to serve as a lifelong partner for customers, colleagues and community**.

Key Highlights First 9 months of 2021 Compared to the same period in 2020

<p>Group net profit AED 1,602 million Increase 42.8%</p>	<p>Group net revenue AED 4,093 million Increase 4.1%</p>	<p>Total expenses declined 7.6% With Cost to Income ratio improving 535 basis points</p>
<p>Impairments AED 751.0 million Decline 21.3%</p>	<p>Total assets AED 133.4 billion Increase 4.9%</p>	<p>Gross Customer Finance AED 89.1 billion Increase 2.5%</p>
<p>Customer deposits AED 107.0 billion Increase 6.2%</p>	<p>CAR Ratio 19.47%</p>	<p>ROE Ratio 13.0%</p>

**H.E. JAWAAN AWAIDAH AL KHALI**

CHAIRMAN

“The recovery from the pandemic continues to drive positive consumer sentiment as reflected in our strong performance across all business lines. We continued to follow a positive growth trajectory achieving a 43% year-on-year growth in net profit driven by a 4% growth in revenues. ADIB’s financial performance reflects the continued success of our growth strategy and our ability to adapt to a challenging environment. It is particularly pleasing that we have done so without compromising on our commitment to offer best-in-class customer service, as is evidenced in the fact that we now serve over 1 million customers across multiple client segments.

“We were also honored that ADIB once again has taken the lead in the UAE banking sector by launching new digital initiatives including the launch of the world’s first Islamic digital proposition targeting youth between the age of 8 to 18 and the use of facial recognition for instant and secure account opening.

“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 to be the world’s most innovative Islamic bank. Our redefined strategy brings considerable focus on innovating new products 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 positive consumer sentiment around the end of the pandemic. Against this backdrop, we believe we are well positioned for a period of sustained growth for the last quarter of the year, leveraging on our strong market position, strategic initiatives and operational resilience.”

**MOHAMED ABDELBARY**

GROUP CHIEF FINANCIAL OFFICER

“Our first 9 months of 2021 results provide a good summary of where ADIB stands today, a growing bank that is attracting new customers based on a high-quality banking experience and trusted corporate values which place customers’ needs first. In Q3 2021, ADIB has continued to deliver strong growth in revenues of 5% driven by higher income from financing and a growth in investment income. This has resulted in a strong 43% year-on-year growth in our net profit which led to a healthy return on equity of 13.0%.

“Despite a low rate market environment our net profit margins ‘NPMs’ was at 3.32% helped by the positive impact of the low cost of fund that is supported by higher CASA balances. Our liquidity also remains strong, with an advances-to-deposits ratio of 78.9%. We therefore fully expect to be able to support our growth ambitions in the most effective and efficient manner.”

“Despite heavy investment in core areas that will help us achieve further growth in the future, including enhancing customer experience and advancing our digital capabilities, we demonstrated a strong expense discipline with the Group’s cost-to-income ratio improving by 535 basis points to 42.2%. This is in line with management targets and it will enable us to invest further to support our future growth.”

“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 13.8%.

GROUP FINANCIAL REVIEW

All figures are in AED millions

Income statement	YTD'21	YTD'20	Y-o-Y%	Q3'21	Q3'20	Q-o-Q%
Net Revenue from Funding	2,544.7	2,496.8	1.9%	957.4	827.0	15.8%
Non funding revenue	1,547.9	1,435.8	7.8%	490.9	549.1	-10.6%
Net revenue	4,092.6	3,932.6	4.1%	1,448.3	1,376.0	5.3%
Total Expenses	1,729.1	1,871.9	-7.6%	567.4	613.5	-7.5%
Operating profit (margin)	2,363.6	2,060.7	14.7%	881.0	762.5	15.5%
Credit provisions and impairment charge	751.0	954.1	-21.3%	384.2	245.5	56.5%
Net profit after zakat & tax	1,601.7	1,121.4	42.8%	492.9	533.8	-7.7%

Balance sheet	Sep'21	Dec'20	Sep'21 vs Dec'20 (%)	Sep'20	Sep'21 vs Sep'20 (%)
Total assets	133,382	127,816	4.4%	127,116	4.9%
Gross customer financing	89,124	87,407	2.0%	86,936	2.5%
Customer deposits	107,005	101,276	5.7%	100,722	6.2%
Total equity	19,928	19,162	4.0%	18,971	5.0%

Key ratios	Sep'21	Dec'20	Sep'21 vs Dec'20 (bps)	Sep'20	Sep'21 vs Sep'20 (bps)
Net Profit margins	3.32%	3.51%	-19	3.55%	-23
Cost to income ratio	42.2%	45.7%	-348	47.6%	-535
Cost of risk	1.1%	1.3%	-18	1.3%	-17
Non-performing assets	9.0%	8.8%	21	9.0%	3
Provision coverage including collaterals	118.2%	110.7%	752	108.6%	969
Net Financing to Deposit	78.9%	82.4%	-347	82.6%	-372
Return on equity	13.0%	9.6%	342	8.9%	411
CET 1 ratio	13.8%	12.9%	83	12.7%	111
Capital Adequacy Ratio	19.5%	18.8%	67	18.3%	112

Key highlights

OPERATING PERFORMANCE (YTD 2021 vs YTD 2020)

- **Group net profit** up 43% in the first 9 months of 2021 to AED 1,601.7 million compared to AED 1,121.4 million in the same period of 2020. This was driven by a growth in revenues and a cost improvement compared to the same period in 2020.
- **Group net revenue:** The rebound in UAE economic activity and an improvement in business momentum lifted revenues by 4.1% in the first 9 months of 2021 to AED 4,092.6 million versus AED 3,932.6 million in the same period of 2020.
- **Operating expenses:** The successful implementation of cost initiatives and the efficacy of the digital strategy resulted in a 7.6% improvement in operating expenses to AED 1,729.1 million compared to the first 9 months of 2020 and leading to an improvement in cost-to-income ratio by 535 basis points to 42.2% compared to the same period in 2020.
- **Income from financing activities** was AED 2,544.7 million, up by 2% from AED 2,496.8 million due to a growth in customer financing.
- **Net profit margin:** ADIB preserves one of the highest net profit margins in the market at 3.32% for the first 9 months of 2021 versus 3.55% for the same period of 2020, supported by one of the lowest cost of funds in the market.
- **Income from non-financing activities** which contributes 38% of total income is up 8% by AED 112 million to reach AED 1,547.9 million vs. AED 1,435.8 million. This increase was primarily driven by 19.5% growth in investment income and by a 25.1% increase in foreign exchange income year-on-year due to an encouraging economic and business environment.
- **Fees and commissions** were 4.0% lower at AED 689.5 million vs. AED 717.9 million.
- **Investment income** was 19.5% higher at AED 666.6 million vs. AED 557.9 million reflecting the Bank's focus to diversify its income.
- **New customers: 93,476** new customers joined ADIB in the 12 months period ended 30 September 2021 as ADIB's emphasis on long-term customer relationships and delivering a superior customer service continues to bear fruit.

ASSET QUALITY (YTD 2021 vs YTD 2020)

- **Non-Performing Assets** were AED 8.0 billion compared to AED 7.8 billion, reflecting a challenging operating environment with non-performing assets ratio of 9.0% slightly higher by 3 basis points as compared to 30th September 2020.
- **Credit provisions and impairments:** While the bank continued to build prudent provisioning, the improving economic outlook resulted in lower net impairment charges of 21% to AED 751.0 million, compared to AED 954.1 million representing an annualized cost of risk of 110 basis points compared to 127 basis points and an adequate provision coverage ratio of 118% including collaterals. Impairment charges increased by 57% in Q3 2021 compared to the same period last year due to single name provisions taken on NMC Health Group and its associated companies

BALANCE SHEET (30 Sep 2021 vs 30 Sep 2020)

- **Total assets** reached AED 133.4 billion as of 30 September 2021, up 4.9% compared to 30 September 2020 maintaining a strong asset base.
- **Gross Customer financing** increased 2.5% to AED 89.1 billion, primarily driven by 6% growth in GREs
- **Customer deposits** reached AED 107.0 billion as of 30 September 2021, up 6.2% year-on-year with current and savings account deposits including short-term investments increasing by 12.4% to AED 97.7 billion comprising around 91% of total customer deposits.
- ADIB recorded a healthy **customer financing-to-deposits** ratio of 78.9% as of 30 September 2021.
- Maintained its **strong liquidity position** with Stable fund ratio of 82.4% and remains comfortably in excess of regulatory requirement.

EQUITY, CAPITAL AND RETURNS (30 Sep 2021 vs 30 Sep 2020)

- **Liquidity:** ADIB continues to maintain a solid liquidity position with a stable funds ratio of 82.4% as of 30 September 2021 vs. 87.1% as of 30 September 2020.
- **Capital:** ADIB maintained a robust capital position with a Common Equity Tier 1 ratio of 13.77%, up 111 basis points from the same period in 2020, and a Capital Adequacy Ratio of 19.47% comfortably above regulatory requirements.
- **Total equity** (inc. Tier 1 capital instruments) increased 5.0% to AED 19.9 billion from AED 19.0 billion.

ADIB 2025 strategy

- ADIB recently announced its **2025 strategy** with a revamped purpose and vision
- **Purpose:** to serve as a lifelong partner for customers, colleagues and community
- **Vision:** to be the world's most innovative Islamic bank
- Strategy is based on 4 pillars where ADIB believes by championing innovation, focusing on certain segments, excelling at digital and doing that with sustainability in mind, ADIB is positioned to drive long-term growth and shareholder value.

ADIB DIGITAL TRANSFORMATION INITIATIVES IN 2021

- **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 "Amwali", the world's first Islamic digital proposition targeting youth between the age of 8 to 18. ADIB also was the first bank in the UAE to provide customers with convenient remote account opening services through a government-linked facial recognition system.
- In the first 9 months of 2021, ADIB has seen a 30% rise in digitally active customers. Currently, the bank has over 700,000 digitally enabled customers, a record 70% 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.

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 885 million of net profit in the first 9 months of 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 1% growth in finances to AED 48 billion as of 30 September 2021.

Operating expenses in the first 9 months of 2021 improved 4% 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 over the past 12 months. Our liabilities also grew in the first 9 months of the year by 10%, 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 the first 9 months of 2021 with a rebound in net profit by 101% driven by a gradual return to normalcy marked. Sequentially, customer finance grew by 2% 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 the first 9 months of 2021 with a growth of 68% in net profit compared to the same period in 2020 due to the solid contributions from sales and trading. Revenue in the first 9 months of 2021 improved 58% 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 133 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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