

**MANAGEMENT DISCUSSION & ANALYSIS FOR THE QUARTER ENDING 30 JUNE 2015**

**Abu Dhabi Islamic Bank net profit for Q2 2015 increases**

**10.5% to AED 502.6 million**

**Customer financing assets increased 14.9% year-on-year to AED 74.5 billion**

**Group Financial Highlights**

**Income Statement: Q2 2015 vs. Q2 2014 and Q1 2015**

- Group net profit for Q2 2015 increased by 10.5% to AED 502.6 million vs. AED 454.8 million for Q2 2014 (and increased by 11.5% vs. AED 450.8 million for Q1 2015).
- Group net revenues for Q2 2015 increased by 15.8% to AED 1,254.0 million vs. AED 1,082.9 million for Q2 2014 (and increased by 2.4% vs. AED 1,224.3 million for Q1 2015).
- Credit provisions and impairments for Q2 2015 decreased by 0.4% to AED 175.1 million vs. AED 175.8 million for Q2 2014 (and decreased by 13.6% vs. AED 202.6 million for Q1 2015).

**Income Statement: First half 2015 vs. First half 2014**

- Group net profit for H1 2015 increased by 10.3% to AED 953.4 million vs. AED 864.3 million in H1 2014.
- Group net revenues for H1 2015 increased by 15.0% to AED 2,478.3 million vs. AED 2,156.0 million in H1 2014.
- Credit provisions and impairments for H1 2015 decreased by 3.7% to AED 377.7 million vs. AED 392.3 million for H1 2014.

**Balance Sheet: 30 June 2015 vs. 30 June 2014 and 31 December 2014**

- Total assets as of 30 June 2015 were AED 115.1 billion, representing an increase of 8.9% from AED 105.7 billion at the end of 30 June 2014 (and an increase of 2.8% over the AED 111.9 billion at 31 December 2014).
- Net customer financing grew 14.9% to AED 74.5 billion, from AED 64.9 billion at the end of 30 June 2014 (and increased by 2.1% from the AED 73.0 billion at 31 December 2014).
- Customer deposits grew 12.7% to AED 89.1 billion, from AED 79.0 billion at the end of 30 June 2014 (and an increase of 5.1% over the AED 84.8 billion at 31 December 2014).

**Capital adequacy and liquidity: 30 June 2015 vs. 30 June 2014 and 31 December 2014**

- The capital adequacy ratio under Basel II at 30 June 2015, after the payment of the 2014 dividend and the Tier 1 coupons in Q2 2015, is 14.01% vs. 15.80% recorded at 30 June 2014 (14.36% at 31 December 2014).

- ADIB remains one of the most liquid banks in the UAE, with an advances to stable funds ratio (a regulatory ratio) of 87.0% at 30 June 2015, vs. 79.0% at 30 June 2014 (86.5% at 31 December 2014) and a customer financing to deposits ratio at 30 June 2015 at 83.7% vs. 82.1% at 30 June 2014 (86.1% at 31 December 2014).

## Group Financial highlights - Four-year performance

As at 30 June

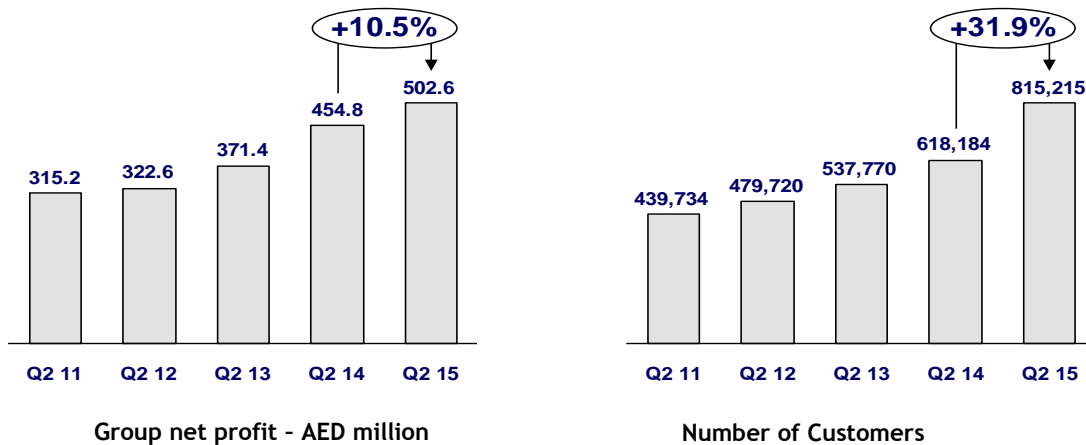
All figures are in AED millions

<b>Balance sheet</b>	<b>Q2 2012</b>	<b>Q2 2013</b>	<b>Q2 2014</b>	<b>Q2 2015</b>	<b>3 YR (CAGR)</b>
Total assets	78,857	91,565	105,666	115,077	13.4%
Gross customer financing	53,508	59,476	68,075	77,310	13.1%
Customer deposits	60,546	66,868	79,029	89,084	13.7%
Total equity	8,605	12,534	12,953	13,722	16.8%
Capital adequacy ratio - Basel II	16.6%	17.3%	15.8%	14.0%	
Tier 1 ratio - Basel II	12.8%	16.9%	15.3%	13.5%	
Customer financing to deposit ratio	83.0%	84.0%	82.1%	83.7%	
<b>Income statement</b>	<b>Q2 2012</b>	<b>Q2 2013</b>	<b>Q2 2014</b>	<b>Q2 2015</b>	<b>3 YR (CAGR)</b>
Net revenue	886.8	950.6	1,082.9	1,254.0	12.2%
Operating profit (margin)	509.2	551.2	630.6	677.7	10.0%
Credit provisions and impairment charge	186.6	179.8	175.8	175.1	-2.1%
Net profit	322.6	371.4	454.8	502.6	15.9%
Total non-performing accounts to gross financing assets ratio	10.6%	9.6%	7.1%	4.1%	
Provision coverage ratio	57.5%	57.7%	66.5%	88.3%	
Cost to income ratio	42.6%	42.0%	41.8%	46.0%	
<b>Network - UAE</b>	<b>Q2 2012</b>	<b>Q2 2013</b>	<b>Q2 2014</b>	<b>Q2 2015</b>	<b>3 YR (CAGR)</b>
Total customers	479,720	537,770	618,184	815,215	19.3%
Branches	73	76	80	88	6.4%
ATMs	500	560	606	737	13.8%

**Abu Dhabi, UAE - 22 July 2015:** The Abu Dhabi Islamic Bank (ADIB) Group posted a 10.5% increase in net profit for Q2 2015 to AED 502.6 million while increasing total assets by 8.9% to AED 115.1 billion vs. 30 June 2014. The Group increased deposits by 12.7% to AED 89.1 billion while, notwithstanding a continued conservative approach to new credit extension and concerns about declining credit spreads, net customer financing assets grew by 14.9% to AED 74.5 billion vs. 30 June 2014. The record second quarter financial performance was underpinned by: the continued strength of the main banking business across all customer segments in the UAE where ADIB now serves over 815,000 active customers; a 19.7% growth in fee income; as well as the steady improvement in overall asset quality levels where total non-performing accounts as a percentage of gross customer financing improved to 4.1% vs. 7.1% at 30 June 2014.

The business highlights for Q2 2015 were:

- A clear focus on building capital levels, in order to lay the foundation for the next strategic growth cycle, including the shareholders' approval of an AED 504 million rights issue and increase in the additional tier 1 capital issuance limit to USD 3 billion both of which followed a reduction in the dividend payout ratio to 40% of net profit.
- The limiting of new financing asset growth to 2.1% for the first half of 2015, due to declining credit spreads and a cautious economic and interest rate outlook, while simultaneously improving fee income by 19.7% vs. Q2 2014.
- The continued focus on core customer segments, including the ongoing penetration of the major expatriate 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 31.9% year-on-year to 815,215.
- The strengthening of ADIB's strategic positioning as one of the top retail banks in the UAE with a network of 88 branches and 737 ATMs and the leading mobile and internet banking platforms.
- The cost to income ratio declined significantly vs. Q4 2014 to 46.0%, notwithstanding an increase in governance, control and compliance related costs, as ADIB further enhanced its capabilities in this regard as part of its goal to be a leading institution in applying a best practice approach to applying regulatory and related standards.
- Maintaining the established policy of non-performing asset recognition and remedial management, including taking an additional AED 175.7 million in total credit provisions, to ensure a healthy pre-collateral non-performing coverage ratio of 88.3% of the total non-performing portfolio.

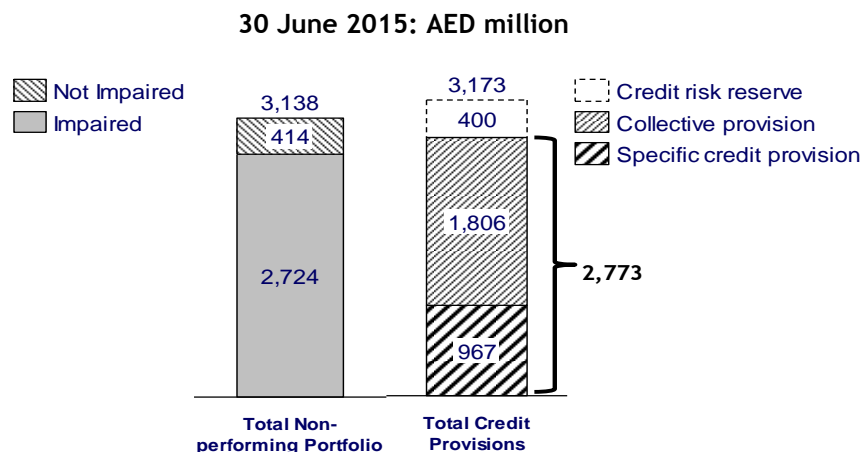


**Risk management**

ADIB continued its best-practice approach in risk management by having dedicated teams manage its legacy non-performing portfolios with a goal of achieving a sustainable credit performance post-restructuring. As a result total non-performing accounts decreased marginally in Q2 2015 to AED 3,138.3 million, with the ratio of total non-performing assets to gross customer financing assets decreasing year-on-year to 4.1% vs. 7.1% at 30 June 2014. The Bank remains on target to further reduce this ratio by the end of 2015.

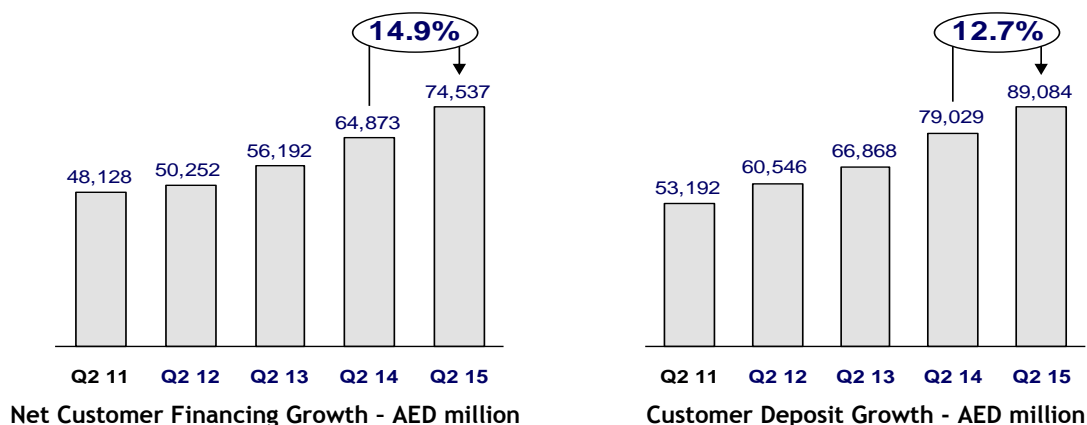
Notwithstanding the overall improvement in asset quality the Bank also took an additional AED 123.4 million in specific provisions and AED 52.3 million in collective provisions in Q2 2015, and as a result total credit provisions, net of write-offs, now stand at AED 2,772.5 million. The specific and collective provisions, which exclude the AED 400 million credit risk reserve established in Q4 2012, now represent a pre-collateral coverage ratio of 88.3% of the total non-performing portfolio and 101.8% of the impaired portfolio.

The Bank's collective provisions, which are correlated to the net growth in customer financing and increasingly based on an expected loss norm approach informed in part by ADIB's early membership of the newly established credit bureau in the UAE, now represent a healthy 2.1% of total customer risk weighted assets.



### Asset and Liability Management

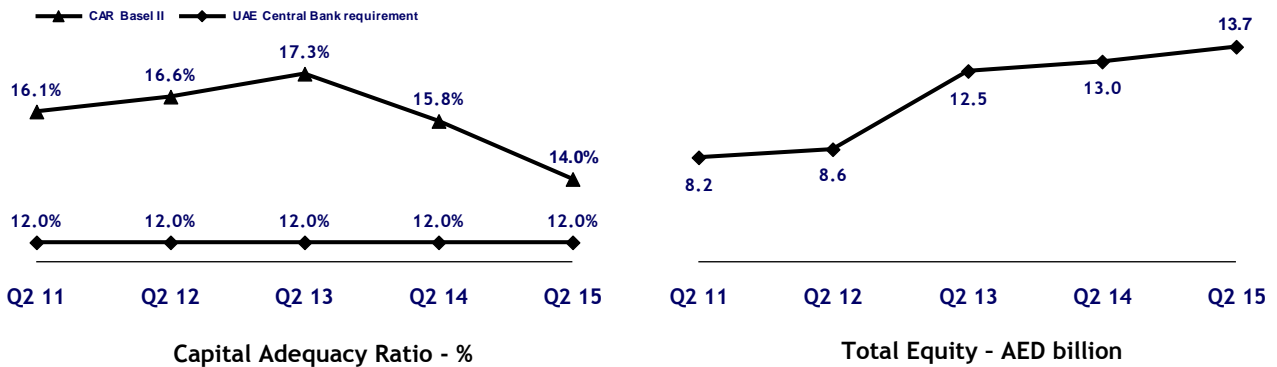
ADIB, as an early adopter of Basel III liquidity measures, maintained its position as one of the most liquid banks in the UAE while simultaneously continuing to manage its cost of funding. Customer deposits increased by 12.7% year-on-year and 1.7% in Q2 2015 and stood at AED 89.1 billion as at 30 June 2015 - with Central Bank placements at AED 7.5 billion and the net interbank position at AED 1.8 billion. At the same time, a disciplined return on shareholders' equity approach to asset growth informed by concerns about the economic outlook and declining credit spreads saw customer financing assets grow by only 2.1% since 31 December 2014 to reach AED 74.5 billion - an increase of 14.9% vs. 30 June 2014. As a result, ADIB ended Q2 2015 with a customer financing to deposits ratio of 83.7% and an advances to stable funds ratio of 87.0%, which remains significantly better than the regulatory threshold of 100%.



### Capital strength

Total Equity (including Tier 1 capital instruments) was AED 13.7 billion as at 30 June 2015, an increase of 5.9% year-on-year and a 3-year compounded growth rate of 16.8%. However, given the: 14.9% year-on-year growth in net customer financing assets - including the acquisition of the Barclay's UAE Retail Banking business; and the introduction by the Central Bank of the UAE of a change to the treatment of risk-weighted assets in mid-2014, ADIB's capital adequacy ratio under Basel II principles now stands at 14.01% with the Basel II Tier 1 capital ratio at 13.47%.

Notwithstanding the fact that ADIB's capital ratios continue to be well above Central Bank of the UAE's prescribed minimums of 12% for capital adequacy and 8% for Tier 1, ADIB's intends further enhancing the Group's capital base through a series of specific actions which will ultimately cover all capital classes. The primary objective is to support the Group's 2020 strategic growth objectives and do so in line with global best practice and Basel III when introduced in the UAE. In this regard, shareholders in Q2 2015 have approved: a reduction in the dividend payout ratio to 40% of net profit; a common equity rights issue of AED 504 million; and increasing the cap on additional tier 1 to USD 3 billion.



### Cost management

In line with ADIB’s growth strategy of becoming a top regional bank the Group continues to invest strategically in expanding its operations across an increasing number of customer segments in the UAE and in regionally. However, at the core of ADIB’s strategy is its UAE retail banking operation and the past 12 months has seen significant growth both organically - with the number of branches increasing by 8 to 88 and ATMs by 21.6% to 737 - and by the acquisition of Barclay’s UAE retail banking business, including staff and premises.

ADIB has also continued to invest materially in a number of additional capabilities, including, but not limited to: building its digital competence across all businesses and processes in line with its ambition to be the leading digital bank in the UAE; diversifying its business model to include new business services such as investment and wealth advisory, equity capital markets and merchant acquiring; and enhancing its governance, control and compliance structures as part of the Group’s goal to be a leading institution in applying a best practice approach to regulatory and related global standards.

Notwithstanding these high levels of investment, as well as the amortization of the Barclay’s purchase consideration, the cost to income ratio ended Q2 2015 at 46.0% after peaking at 53.2% for Q4 2014 and is expected to further improve going forward.

### Human resources

Despite ADIB’s continued expansion strategy, including servicing an increasing number of client segments through a broader range of products and solutions while enhancing governance, control and compliance structures, the focus on performance levels has seen the Bank’s headcount in the UAE decrease to 2,402 from 2,435 as at 31 December 2014.

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 1,112 Nationals in the UAE with a resultant Emiratization ratio of 46.3%.

### Management comment

On behalf of the Board of Directors and the management team, Tirad Al Mahmoud, Group CEO of ADIB, said: “ADIB has once again delivered a record quarterly performance, with the Group’s net profit increasing by 10.5% to AED 502.6 million and total assets growing 8.9% to AED 115.1 billion when compared to the same period last year. What is particularly pleasing is that this performance reflects the robustness of ADIB’s growth strategy and our ability to adapt this strategy to the economic realities and competitive environment in which we operate, without compromising on our commitment to best in market customer experience. The result is that we now serve over 815,000 customers with deposits growing by 5.1% since 31 December 2014 to AED 89.1 billion and fee income growing by 19.7% vs. Q2 2014.

“However, as a top regional bank, 2015 has seen ADIB bring an even greater focus to managing the necessary balance between: the sustainability of our long-term strategic ambitions; the ever increasing need to invest in best practice governance, control and compliance; and a disciplined risk and return approach to new credit extension. As a result, and in line with our cautious economic outlook and concern about declining credit spreads in the UAE, new customer financing asset growth has been a conservative 2.1% for the year-to-date and we fully expect to continue to ensure that new credit extension is done in such a manner that the risk related returns are commensurate with our return of shareholders’ equity targets.

“Furthermore, while ADIB is at heart a customer centric organization, we recognize that being the number one bank for customer service and experience also means that we must meet 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 levels of capital across all classes, including common equity, which is appropriate for a bank with our ambition and profile. We were therefore pleased that Q2 2015 saw our shareholders approve a rights issue of 168 million new common shares to raise an additional AED 504 million in equity. We are now moving towards taking the necessary actions to give effect to this decision.

“The rights issue will be the second targeted capital related action by ADIB in 2015, after shareholders supported the Board’s recommendation to reduce the cash dividend payout rate to 40% of net profit. However, ADIB is known for its diligent and market leading approach to managing capital and we will therefore continue to act as necessary to ensure that the Group has the required capital base to support its 2020 growth strategy while being able to fully adopt Basel III as and when it is introduced in the UAE.”

### Other ADIB Group companies

#### **Securities**

“Despite the continued volatility in the UAE and global equity markets, and increased economic uncertainty around the Eurozone and in sectors linked to oil and gas, our stock-brokerage subsidiary, ADIB Securities, registered a net profit of AED 18.9 million in Q2 2015. While this represents a decrease of



23.9% from same period in 2014, we recognize the cyclical nature of this business and its importance to our Priority and Private client value proposition. We will therefore continue to invest in its business model to ensure that it remains a leading digital player with best in market execution capabilities and is well positioned for the next upturn.”

#### **Real Estate**

In respect to the Group’s property management and related services subsidiary, MPM: “After significant changes to its business model and management in 2014, it is pleasing to see MPM register a net profit of AED 2.7 million for Q2 2015. ADIB believes strongly in offering an integrated real estate solution to its clients and it is therefore gratifying to see that MPM’s new positioning, increasing country-wide presence and operational focus is starting to deliver better levels of customer service and financial performance.”

With regard to Burooj Properties, the Group’s real estate subsidiary: “Our focus remains on the optimization of the remaining portfolio and a further reduction of the Group’s exposure to proprietary Real Estate. We were pleased, therefore, that no further impairments were required during Q2 2015.”

#### **Outlook for 2015**

“ADIB is committed to delivering a market leading customer experience to our clients across all selected segments, including remaining loyal to our core UAE National customer base. Therefore, our 2020 growth strategy - which is underpinned by conservative risk management practices and a commitment to best practice governance, control and compliance - remains firmly on track. However, we cannot ignore the economic realities of the environment in which we operate and the concerns we have about declining credit spreads and other competitive dynamics currently at play. We will therefore continue our conservative return on shareholders’ equity based approach to balancing the risk and rewards of new credit extension while simultaneously building our capital base for future expansion as an when market conditions are favorable.”

#### **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 2013	Q2 2014	Q2 2015	Chg Q2 14 vs. Q2 13	Chg Q2 15 vs. Q2 14	H1 2013	H1 2014	H1 2015	Chg H1 14 vs. H1 13	Chg H1 15 vs. H1 14
	AED Mn	AED Mn	AED Mn	%	%	AED Mn	AED Mn	AED Mn	%	%
Net Revenue from Funding	755.8	840.9	918.8	11.3%	9.3%	1,481.5	1,638.6	1,860.1	10.6%	13.5%
Investment income	32.1	68.2	96.5	112.4%	41.6%	85.2	147.6	174.7	73.2%	18.4%
Fees & Commissions	143.1	167.3	200.1	16.9%	19.7%	294.9	344.2	422.7	16.7%	22.8%
FX	16.6	5.1	37.6	-69.3%	636.9%	4.8	23.7	19.2	388.9%	-19.0%
Other	3.0	1.4	1.0	-51.2%	-40.4%	3.2	1.9	1.6	-40.5%	-13.5%
<b>Total Revenues</b>	<b>950.6</b>	<b>1,082.9</b>	<b>1,254.0</b>	<b>13.9%</b>	<b>15.8%</b>	<b>1,869.6</b>	<b>2,156.0</b>	<b>2,478.3</b>	<b>15.3%</b>	<b>15.0%</b>
Operating profit (margin)	551.2	630.6	677.7	14.4%	7.5%	1,076.8	1,256.6	1,331.1	16.7%	5.9%
Credit Provisions and Impairment	179.8	175.8	175.1	-2.2%	-0.4%	365.4	392.3	377.7	7.4%	-3.7%
<b>Net Profit</b>	<b>371.4</b>	<b>454.8</b>	<b>502.6</b>	<b>22.5%</b>	<b>10.5%</b>	<b>711.4</b>	<b>864.3</b>	<b>953.4</b>	<b>21.5%</b>	<b>10.3%</b>
Total Assets in AED (Billion)	91.6	105.7	115.1	15.4%	8.9%	91.6	105.7	115.1	15.4%	8.9%
Customer Financing in AED (Billion)	56.2	64.9	74.5	15.4%	14.9%	56.2	64.9	74.5	15.4%	14.9%
Customer Deposits in AED (Billion)	66.9	79.0	89.1	18.2%	12.7%	66.9	79.0	89.1	18.2%	12.7%

-Ends-

### **About ADIB:**

Abu Dhabi Islamic Bank (ADIB) was established on 20<sup>th</sup> May 1997 as a Public Joint Stock Company following the Emiri Decree No. 9 of 1997. The Bank commenced commercial operations on 11<sup>th</sup> November 1998, and was formally inaugurated by His Highness Sheikh Abdullah Bin Zayed Al Nahyan on 18<sup>th</sup> 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. Most recommended Bank in the UAE by Souq Al Mal
21. Best Islamic Bank in the UAE by EMEA Finance magazine for 4th consecutive year
22. Best retail bank by Islamic Banking and Finance Magazine
23. Best Overall Islamic Bank by International Financial Law Review Magazine
24. Best Islamic bank in the UAE by Asiamoney Awards.
25. Best Islamic bank in the Middle East by Asiamoney Awards.
26. Best Sukuk Deal by Triple A Asset Asian Awards.
27. Best Bank Capital Sukuk by Triple A Asset Asian Awards.
28. Best Sukuk Deal in the UAE by Triple A Asset Asian Awards.
29. Islamic Deal of the Year by Triple A Asset Asian Awards.
30. Best Loyalty card in Asia, Middle East and Oceania by Freddie Awards.
31. Best Nationalization Initiative by MENA HR Excellence Awards.
32. Best Islamic Bank for Treasury Management by IFN
33. Perpetual Deal of the Year by IFN
34. Qatar Deal of the Year by IFN
35. Regulatory Capital Deal of the Year by IFN
36. UAE Deal of the Year by IFN
37. Corporate Finance Deal of the Year on Barclays acquisition by IFN
38. Infrastructure & Project Finance Deal of the Year by IFN
39. Euromoney Awards for Innovation in Islamic Finance
40. Best project finance deal in UAE by EMEA Finance
41. Human Resource Development Award from the Emirates Institute of Banking and Financial Studies (EIBFS)
42. Best Islamic Bank Award by Banker FT
43. Mohammed bin Rashid Al Maktoum Business Award
44. Employer of the Year by Higher Colleges of Technology
45. The Leading Arab Islamic Bank for 2015 by Union of Arab Banks

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