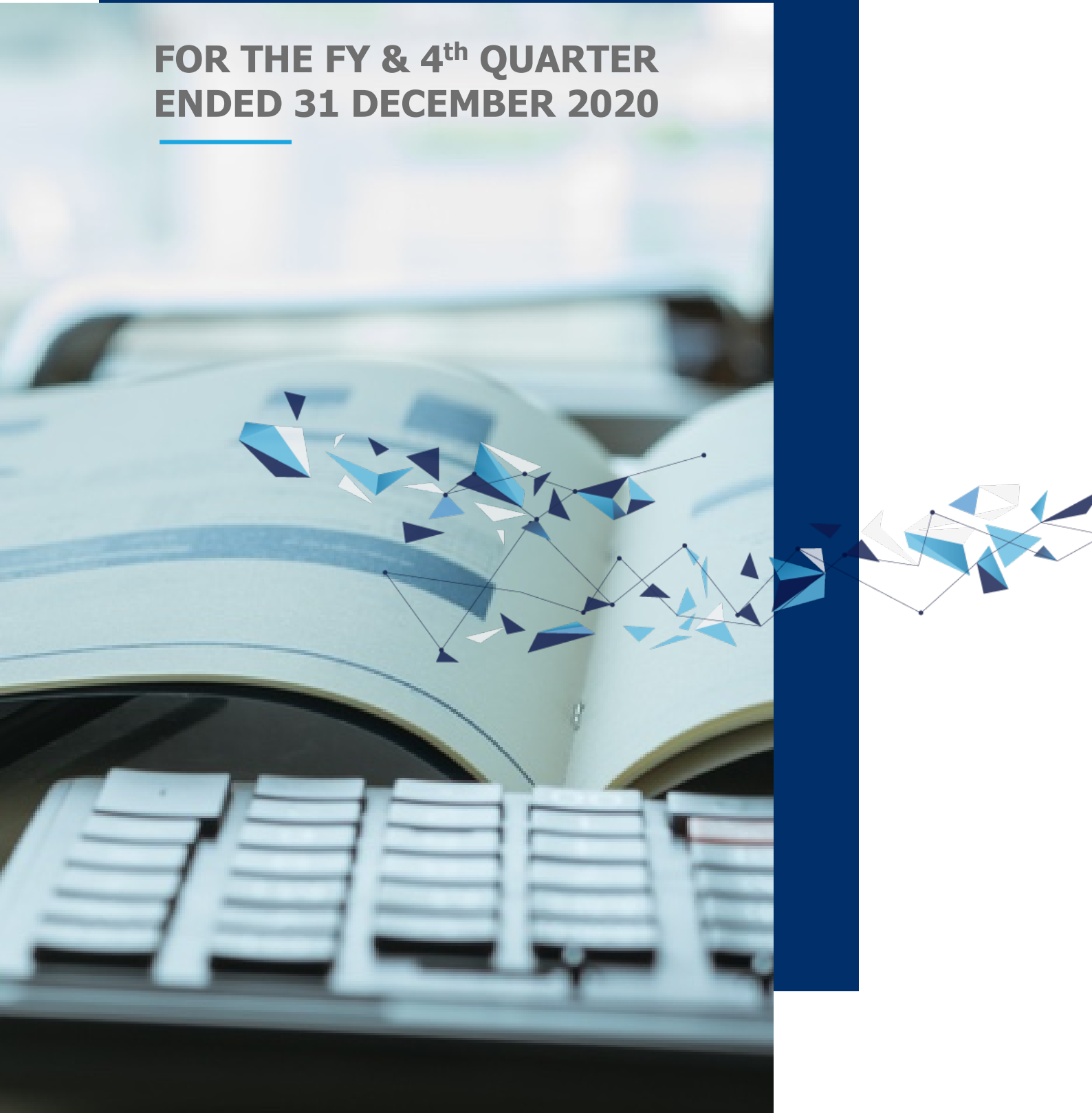


MANAGEMENT DISCUSSION & ANALYSIS

FOR THE FY & 4th QUARTER
ENDED 31 DECEMBER 2020



ADIB Reports FY 2020 Net Profit of AED 1.6 billion driven by a resurgent second half Net Profit growth of 73% compared to H1 2020

Abu Dhabi, UAE – 14th February 2021:

Abu Dhabi Islamic Bank (ADIB), a leading Islamic bank in the region, delivered strong recovery of 73% growth in net profit in H2 2020 compared to H1 2020 despite the continuing macroeconomic effects of the COVID-19 pandemic. This was driven by a 10% increase in revenues due to a rebound in the UAE economic activity and an improvement in business momentum. The Bank reported a net profit of AED 1.6 billion for the full year 2020 compared to AED 2.6 billion last year. Profitability was lower year-on-year reflecting unprecedented market conditions, record low rates and the pandemic-driven economic slowdown. The Bank continued to exercise a rigorous approach to cost which resulted in a reduction of 7.7% year on year in operating expenses; achieved by the successful implementation of technology-led initiatives that helped to reduce the cost of sales and customer acquisition while also streamlining internal processes. ADIB demonstrated balance sheet strength ending the year with solid liquidity, funding, and capital ratios.

FY 2020 Key Highlights

<p>Group net profit AED 1,604 million Decline 38.3%</p>	<p>Group net revenue AED 5,358 million Decline 9.4%</p>	<p>Total assets AED 127.8 billion</p>	<p>Customer deposits AED 101.3 billion</p>
<p>Total expenses AED 2,450 million Decline 7.7%</p>	<p>Impairments Grew 99.7%</p>	<p>Customer finance Grew 2.8%</p>	<p>CAR Ratio 19.4%</p>

Group net profit: A resurgent financial performance in H2 2020 with a growth of 73% in net profit compared to H1 2020 resulting in Group net profit of AED 1,604.0 million FY2020 vs. AED 2,601.1 million FY2019.

Group net revenue: The rebound in UAE economic activity and an improvement in business momentum lifted revenues by 9.6% in H2 2020 vs H1 2020 to AED 5,358.2 million FY2020 vs. AED 5,915.2 million FY2019.

Operating expenses: The successful implementation of cost initiatives and the efficacy of the digital strategy improved operating proficiencies which resulted in a 7.7% decrease in operating expenses compared to 2019.

Net profit margins: ADIB preserves one of the highest net profit margins in the market of 3.51% FY2020 vs 4.25% FY2019 supported by one of the lowest cost of funds in the market.

New customers: A continued emphasis on long-term customer relationships, while continuing to deliver a superior customer service, saw the number of active customers served by ADIB increase by 75,097 customers in 2020.

Impairments: ADIB continues to take a prudent approach to provisioning with net impairment charges increasing by 99.7% to AED 1,314.1 million in impairments, to reflect the challenging macro-economic environment.

Customer finance grew 2.8% in 2020 vs 2019 on the back of a **strong growth of 8.6%** year on year in wholesale banking division.

Total assets AED 127.8 billion FY2020, up 1.5% on FY2019.

Customer deposits AED 101.3 billion FY 2020 with **CASA deposits** increasing by 12.3% year on year to AED 89.3 billion comprising 88.2% of total customer deposits.

Liquidity: ADIB continues to maintain a solid liquidity position with a **Stable funds ratio** of 85.8% FY2020 vs. 84.1% FY2019.

Capital: ADIB maintained a robust capital position with **Common equity Tier 1 ratio** 13.54% and **Capital adequacy ratio** of 19.40% comfortably above regulatory requirements.

Digital: 78% of customers are now utilizing ADIB digital channels which concurrently, has improved both operational efficiencies and significantly reduced costs.

Innovation: ADIB introduced many Artificial intelligence-based initiatives across different functions to improve the overall customer experience and operational efficiencies.



H.E JAWAAN AWAIDAH AL KHALI

CHAIRMAN

“In an incredibly challenging year brought upon by the global COVID-19 pandemic, ADIB demonstrated strength, resilience and adaptability. We ended the year with encouraging results against a macro backdrop of ongoing economic uncertainty. We did not allow global headwinds to impact our long track record of delivering strong operational and financial results. I am particularly pleased with the significant recovery in our second half performance, which saw the bank’s net profit grow by 73% compared to H1 2020. This was made possible due to a robust, diversified business model, and the outcome of a rigorous cost discipline programme that offset the impact of net profit margin compression.

“In this historically challenging year, our focus was on the well-being of our employees, our clients and our communities. I am proud of our employee commitment to our business and to our customers. They have been on the front line from day one, delivering uninterrupted banking services throughout this challenging period. Furthermore, the demand for ADIB’s digital banking services continued to gain momentum throughout 2020, and 78% of customers are now utilising our digital channels which concurrently, has improved both operational efficiencies and significantly reduced costs.”

“I am exceptionally proud that ADIB succeeded in winning several important international and regional awards in 2020. The bank received a Gold category award at the 18th edition of the prestigious Sheikh Khalifa Excellence Awards (SKEA) in 2020 and was named ‘Innovator in Islamic Finance’ for 2020 by Global Finance magazine and best Islamic Digital bank marking the fourth consecutive year that the publication’s judging panel has commended ADIB’s innovations. The bank was also voted as the ‘Most Helpful Bank during COVID-19 in the Middle East by Asian banker readers in recognition of its digital capabilities during the pandemic. ”

“We have started the new year with good momentum and, while it is difficult to predict how 2021 will unfold, the potential return to business as normal provides cause for optimism. ADIB has the strength, stability and operational resilience to face a range of scenarios, and we are confident in the bank’s ability to generate sustainable, long-term value for shareholders and all other stakeholders.



MOHAMED ABDELBARY

GROUP CHIEF FINANCIAL OFFICER

“While our FY 2020 profitability was affected by the need to increase impairments due to economic uncertainty, our promising H2 2020 results demonstrate we are on the right track. The strength of our retail banking business continues to drive ADIB’s performance and the bank has successfully employed its client franchise and increasingly powerful brand to increase market share, adding over 75,000 customers in 2020. This has resulted in the bank growing CASA deposits by 12.3%, allowing ADIB to maintain one of the highest net profit margins in the market of 3.51%.

“We continue to exercise a rigorous approach to managing costs which resulted in a 7.7% decrease in operating expenses compared to 2019. This was achieved through implementing a number of initiatives, including a reduction of cost of sales and cost of customer acquisition, 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 that can enable the bank to attract new customers and accelerate its growth in 2021.”

GROUP FINANCIAL REVIEW

All figures are in AED millions

Income statement	Q4'19	Q4'20	Change %	H1'20	H2'20	Change %	FY'19	FY'20	Change %
Net Revenue from Funding	953.1	827.7	-13.2%	1,669.8	1,654.7	-0.9%	3,818.3	3,324.5	-12.9%
Fees & Commissions	335.6	274.2	-18.3%	417.1	575.0	37.8%	1,083.3	992.2	-8.4%
Investment income	144.8	233.5	61.3%	369.3	422.1	14.3%	687.0	791.4	15.2%
FX	88.8	76.7	-13.6%	94.1	129.3	37.5%	317.5	223.4	-29.7%
Other income	2.1	13.4	529.0%	6.3	20.5	224.2%	9.2	26.8	191.8%
Net revenue	1,524.4	1,425.5	-6.5%	2,556.6	2,801.6	9.6%	5,915.2	5,358.2	-9.4%
Total Expenses	667.6	578.1	-13.4%	1,258.4	1,191.6	-5.3%	2,653.1	2,450.0	-7.7%
Operating profit (margin)	856.8	847.5	-1.1%	1,298.2	1,610.0	24.0%	3,262.2	2,908.2	-10.9%
Credit provisions and impairment charge	105.6	360.0	240.8%	708.6	605.5	-14.6%	658.1	1,314.1	99.7%
Net profit after zakat & tax	750.6	482.6	-35.7%	587.6	1,016.3	73.0%	2,601.1	1,604.0	-38.3%

Balance sheet	Dec'19	Dec'20	Change %
Total assets	125,987	127,816	1.5%
Gross customer financing	84,121	87,407	3.9%
Customer deposits	101,404	101,276	-0.1%
Total equity	19,103	19,162	0.3%
Customer financing to deposit ratio	80.0%	82.4%	

OPERATING PERFORMANCE

- **Group Revenue** for the full year ended 31 December 2020 was AED 5,358.2 million compared to AED 5,915.2 million FY2019, in the prior year period.
- **Income from financing activities** in 2020 was AED 3.32 billion, down 12.9% from FY2019 primarily due to a balance sheet repricing driven by the impact of a low-rate environment. This was partially offset by an increase in other sources of income, such as investment income, and the benefits of the bank's cost discipline exercise.
- **Net profit margin** was 3.51%, down 74 basis points from FY2019.
- **Income from non-financing activities** which contributes 38% of total income, reached AED 2.03 billion FY 2020, down AED 63 million from FY 2019.
- **Fees and commissions** were 8.4% lower year-on-year reflecting the slowdown in activity due to the pandemic.
- **Expenses:** Amid ongoing investments in key strategic and digital initiatives, operating expenses decreased 7.7% year-on-year as a result of the successful implementation of cost initiatives and the efficacy of the digital strategy.

ASSET QUALITY

- **Non-Performing Assets** were AED 7.7 Billion as of December-end 2020, compared to AED 5.4 Billion at the end of 2019, reflecting a challenging operating environment.
- **Credit provisions and impairments** increased by 99.7% to AED 1,314.1 million FY2020 vs. AED 658.1 million FY2019.
- **Cost of risk** was 150 basis points for the full year in 2020, compared to 78 basis points in 2019.

BALANCE SHEET

- **Total assets** grew 1.5% year-on-year to AED 127.8 Billion.
- **Customer financing** increased 2.8% year-on-year to AED 83.4 Billion, primarily driven by 8.6% growth in corporate financing.
- **Customer deposits** were AED 101.3 Billion. Current Account and Savings Account (CASA) balances grew 12.3% to AED 89.3 Billion, and now represent 88.2% of total deposits.
- ADIB recorded a healthy **customer financing-to-deposits** ratio of 82.4% FY2020.
- Maintained its strong liquidity position with Stable fund ratio of 85.8% and remains comfortably in excess of regulatory requirement.

EQUITY, CAPITAL AND RETURNS

- Total equity (inc. Tier 1 capital instruments) increase 0.3% to AED 19.2 billion FY2020 from AED 19.1 billion FY2019.
- At FY2020, under Basel III principles:
 - Capital adequacy ratio was 19.40%.
 - Tier 1 capital ratio was 18.32%.
 - Common equity Tier 1 ratio 13.54%.
 - All capital ratios are well above the minimum regulatory thresholds advised by the Central Bank of the UAE.

DIGITAL TRANSFORMATION IN ADIB IN 2020

- 78% all customers are now active on ADIB's digital banking channels.
- 97% retail financial transactions, including payments and fund transfers, are now conducted digitally.
- 50% of new ADIB customers opened their accounts digitally.
- 80%+ of ADIB's Global Transaction Banking business was generated digitally through ADIB Direct, an innovative banking platform providing automated trade finance services.
- 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
- Partnered with the UAE's Ministry of Finance to offer a new range of eDirham card enabling UAE residents to access 5,000 government services.
- Introduced Apple Pay to allow customers to make contactless payments.
- Launched ADIB Chat Banking, the UAE's first Emirati customer care chatbot through WhatsApp, to support customers with general requests and to provide information.

SUPPORTING CUSTOMERS AND THE COMMUNITY DURING COVID-19

- Implemented a variety of measures across the organisation to ensure the safety and wellbeing of its employees, including Installing technology-based work-from-home platforms for staff; strict sterilisation protocols at all premises; and awareness programmes on the importance of health and safety.
- ADIB has led a COVID-19 inoculation programme that has now been taken up by 65% of the entire ADIB workforce.
- Introduced wide-ranging measures to keep customers safe including enhanced cleanings, personal protective equipment, wellness barriers, physical distancing, and virtual client meetings.
- Proactively reached out to customers to offer relief measures including the postponement of monthly payment installments and the reduction of certain fees or charges across a range of products, in line with the Central Bank of the UAE's Targeted Economic Support Scheme.
- Continued to develop its digital banking platforms and services to ensure reliable access for clients' financial needs. This included 24/7 access to mobile and online banking tools, virtual communication tools and uninterrupted access to cash.
- Offered extensive support to the community during the COVID-19 outbreak. Initiatives included donating AED 25 million to the Ma'an's 'Together We Are Good' programme, designed to encourage financial and in-kind contributions from individuals and companies to support the community.
- Collaborated with the Abu Dhabi Department of Finance to be part of the SME Credit Guarantee Scheme, which aims to bolster the resilience of SMEs by increasing access to financing.

About ADIB:

ADIB is a leading bank in the UAE with more than AED 127 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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