

**MANAGEMENT DISCUSSION & ANALYSIS FOR THE QUARTER ENDED 30 JUNE 2017**

**Abu Dhabi Islamic Bank net profit increases by 14.1%**

**in H1 2017 to AED 1,129.1 million**

**Group net revenues for H1 2017 increased by 4.1%**

**Group Financial Highlights**

**Income Statement: First half 2017 vs. First half 2016**

- Group net profit for H1 2017 increased by 14.1% to AED 1,129.1 million vs. AED 989.5 million in H1 2016.
- Group net revenues for H1 2017 increased by 4.1% to AED 2,782.1 million vs. AED 2,672.3 million in H1 2016.
- Credit provisions and impairments for H1 2017 decreased by 15.4% to AED 380.8 million vs. AED 450.1 million in H1 2016.

**Income Statement: Q2 2017 vs. Q2 2016 (and Q1 2017)**

- Group net profit for Q2 2017 increased by 8.7% to AED 551.6 million vs. AED 507.5 million in Q2 2016.
- Group net revenues for Q2 2017 increased by 3.9% to AED 1,408.0 million vs. AED 1,355.0 million in Q2 2016 (and increased by 2.5% vs. AED 1,374.1 million in Q1 2017).
- Credit provisions and impairments for Q2 2017 decreased by 7.5% to AED 216.4 million vs. AED 234.0 million for Q2 2016.

**Balance Sheet: 30 June 2017 vs. 30 June 2016 (and 31 December 2016)**

- Total assets as of 30 June 2017 were AED 122.2 billion, representing an increase of 0.6% from AED 121.5 billion at the end of 30 June 2016 (and a decrease of 0.1% from AED 122.3 billion at 31 December 2016).
- Net customer financing decreased by 3.7% to AED 76.8 billion, from AED 79.7 billion at the end of 30 June 2016 (and decreased 1.9% from AED 78.2 billion at 31 December 2016).
- Customer deposits grew 2.7% to AED 100.0 billion, from AED 97.4 billion at the end of 30 June 2016 (an increase of 1.2% from AED 98.8 billion at 31 December 2016).

**Capital adequacy and liquidity: 30 June 2017 vs. 30 June 2016 (and 31 December 2016)**

- The capital adequacy ratio under Basel II is 15.61% at 30 June 2017, after the payment of the 2016 dividend and the Tier 1 coupons in Q2 2017, vs. 14.59% at 30 June 2016 (15.25% at 31 December 2016).

- ADIB remains one of the most liquid banks in the UAE, with an advances to stable funds ratio (a regulatory ratio) of 81.0% at 30 June 2017, vs. 85.7% at 30 June 2016 (85.1% at 31 December 2016) and an advances to deposits ratio of 76.7% at 30 June 2017, vs. 81.8% at 30 June 2016 (79.1% at 31 December 2016).

## Group Financial highlights - Four-year performance

As at 30 June

All figures are in AED millions

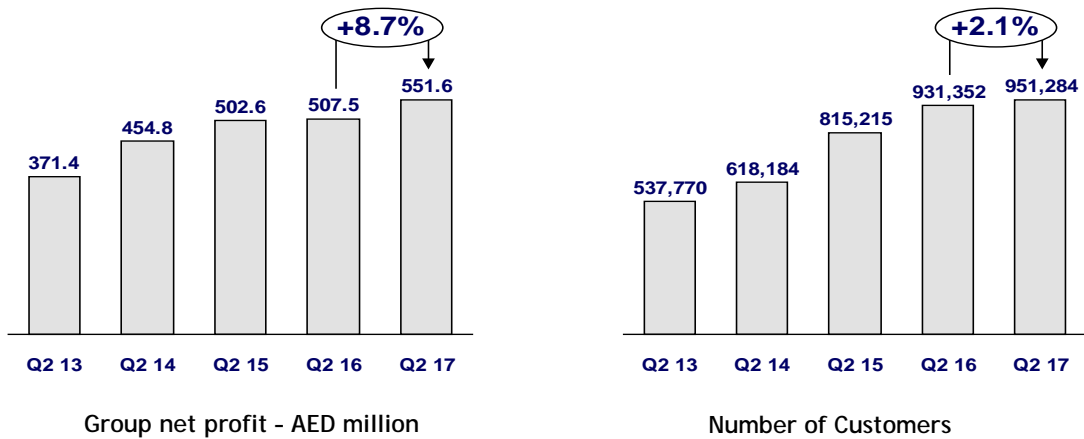
Balance sheet	Q2 2014	Q2 2015	Q2 2016	Q2 2017	3 YR (CAGR)
Total assets	105,666	115,077	121,507	122,227	5.0%
Gross customer financing	68,075	77,310	82,787	79,736	5.4%
Customer deposits	79,029	89,084	97,375	100,033	8.2%
Total equity	12,953	13,722	15,081	15,580	6.3%
Capital adequacy ratio - Basel II	15.8%	14.0%	14.6%	15.6%	
Tier 1 ratio - Basel II	15.3%	13.5%	14.0%	15.0%	
Common Equity Tier 1 ratio	8.7%	7.8%	8.6%	9.4%	
Customer financing to deposit ratio	82.1%	83.7%	81.8%	76.7%	
Income statement	Q2 2014	Q2 2015	Q2 2016	Q2 2017	3 YR (CAGR)
Net revenue	1,082.9	1,254.0	1,355.0	1,408.0	9.1%
Operating profit (margin)	632.0	678.6	745.0	780.8	7.3%
Credit provisions and impairment charge	175.8	175.1	234.0	216.4	7.2%
Net profit after zakat & tax	454.8	502.6	507.5	551.6	6.6%
Total non-performing accounts to gross financing assets ratio	7.1%	4.1%	4.0%	5.2%	
Provision coverage ratio	66.5%	88.3%	94.1%	71.7%	
Cost to income ratio	41.8%	46.0%	45.0%	44.5%	
Network - UAE	Q2 2014	Q2 2015	Q2 2016	Q2 2017	3 YR (CAGR)
Total customers	618,184	815,215	931,352	951,284	15.5%
Branches	80	88	88	81	0.4%
ATMs	606	737	771	726	6.2%

Abu Dhabi, UAE - 23 July 2017: The Abu Dhabi Islamic Bank (ADIB) Group delivered a solid set of results with net profit for H1 2017 up 14.1% year on year to AED 1,129.1 million and up 8.7% from Q2 2016 to AED 551.6 million. This performance was underpinned by 4.1% increase in total revenues for the first half to AED 2,782.1 million driven by increase in number of customers and growth in fee and FX income coupled with control on expenses and lower provisions.

Given the challenging macroeconomic environment, ADIB has sustained its conservative approach on credit extension and capital management, this led to a year-on-year decrease of 3.7% in customer financing assets to AED 76.8 billion at the end of 30 June 2017. ADIB's customer-centric strategy continued delivering an award-winning experience to over 950,000 customers across all major segments through a large branch network and market-leading digital channels. This has seen customer deposits increase by 2.7% year-on-year to reach AED 100.0 billion at the end of 30 June 2017. As a result, ADIB remains one of the most liquid banks in the UAE, with advances to deposits ratio of 76.7%.

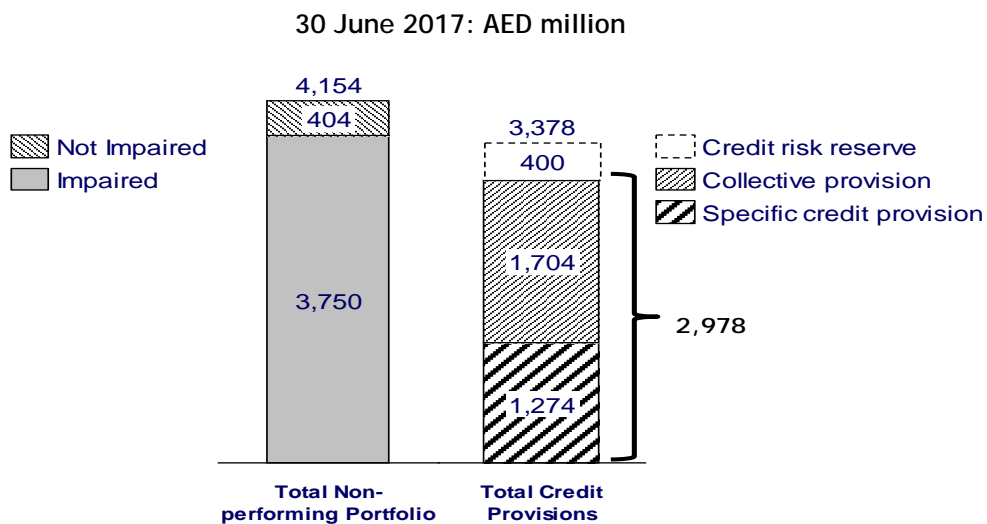
Business highlights for Q2 2017 were:

- Continued emphasis on customer service saw the number of active customers served by ADIB increase by over 2.1% year-on-year to 951,284.
- Total revenues increased by 3.9% y-o-y to AED 1,408.0 million driven by fee income mainly from cards, wealth management, Takaful products and FX income.
- Cost of credit improved as total credit provision and impairment charge decreased by 7.5% to AED 216.4 million in Q2 2017. Notwithstanding, the Group continued its conservative practice of building provisions and booked AED 221.7 million in total credit provisions to maintain the pre-collateral non-performing coverage ratio at 71.7% of the total non-performing portfolio and 79.4% of the impaired portfolio.
- Continued focus on productivity has resulted in the cost-to-income ratio dropping to 44.5% for Q2 2017. This is notwithstanding the fact that the Group has further enhanced its competencies in the risk, compliance, governance, digital, and control areas which are necessary infrastructure and capabilities to deliver leadership in its chosen customer segments, services, industries and geographies.
- ADIB has continued to enhance its digital capabilities with the launch of ADIB Express, best in class digitally-enabled branch and the new ADIB application. This contributed to ADIB winning 'Best Online Banking Services at the Banker Middle East UAE Product Awards 2017.



**Risk management**

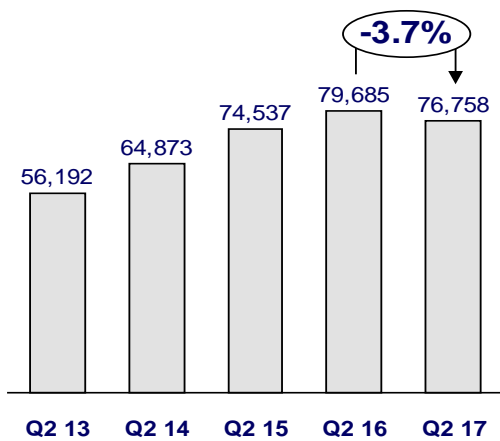
ADIB continued its prudent approach to credit risk management, Non-performing assets ratio stood at 5.2% with non-performing assets now totaling AED 4,154.3 million. In Q2 2017, ADIB took an additional AED 221.7 million in provisions. Total credit provisions, net of write-offs, stand at AED 2,978.3 million. Specific and collective provisions now represent a pre-collateral coverage ratio of 71.7% of the total non-performing portfolio and 79.4% of the impaired portfolio. Furthermore, collective provisions now represent 1.96% of total credit risk weighted assets. This is well above the 1.5% set out in regulatory guidelines.



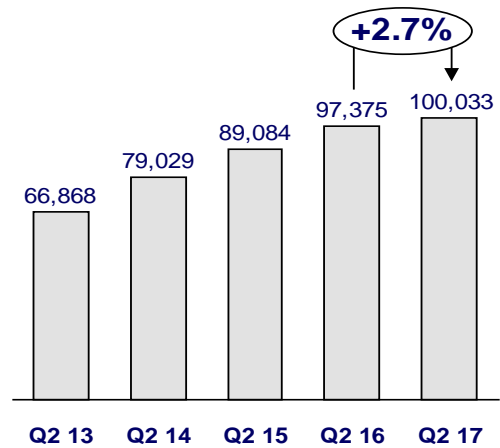
**Asset and Liability Management**

ADIB recorded healthy customer financing-to-deposits ratio of 76.7%. The bank maintained its position as one of the most liquid financial institutions 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 2.7% year-on-year to reach AED 100.0 billion at 30 June 2017.

Customer financing assets saw minor contraction as ADIB continued to focus on capital conservation at a time when the economy is encountering stress.



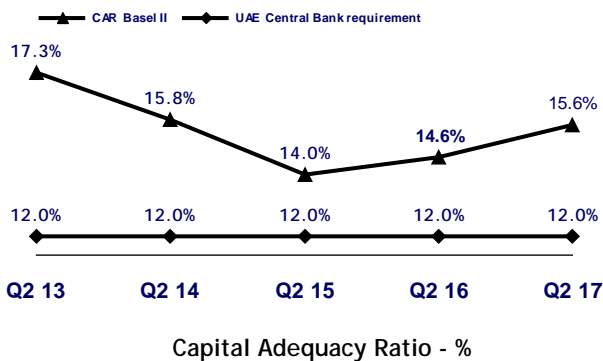
Net Customer Financing Growth - AED million



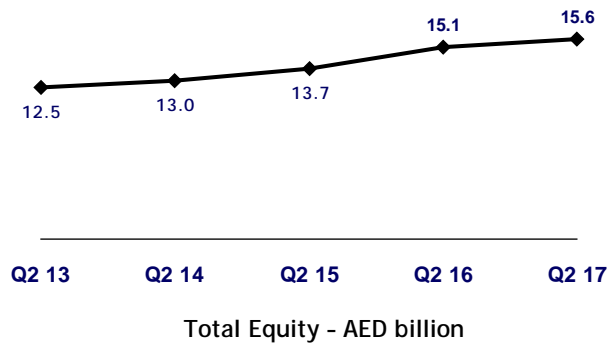
Customer Deposit Growth - AED million

**Capital strength**

Total equity (including Tier 1 capital instruments) was AED 15.6 billion at 30 June 2017. This represents an increase of 3.3% year-on-year and a 3-year compounded growth rate of 6.3%. ADIB’s capital adequacy ratio under Basel II principles now stands at 15.61% with the Basel II Tier 1 capital ratio at 15.00% and a common equity tier 1 ratio of 9.42%, well above Central Bank of the UAE’s prescribed minimums of 12% for capital adequacy and 8% for Tier 1 under Basel II. Similar capital ratios under Basel III are also above the minimum regulatory thresholds which were recently advised by Central Bank of the UAE.



Capital Adequacy Ratio - %



Total Equity - AED billion

**Cost management**

In line with ADIB’s growth strategy, the Group has maintained its focus on putting in place infrastructure necessary to support the strategy. Emphasis remains on recruiting and retaining top talent, building infrastructure to deliver award-winning customer experience and investing appropriately in expanding business capabilities across all targeted customer segments and selected industries in the UAE while laying foundations for its wholesale banking led international franchises. Specifically, ADIB has continued to enhance its digital capabilities across all businesses and processes in line with its ambition to be the customers’ favourite digital bank. It is focusing on service excellence and convenience, while building and diversifying its fee income capabilities in line with identified customer needs. The bank is also upgrading all aspects of its infrastructure to ensure the Group operates in a stable and secure operating environment.

Furthermore, in line with the Group's ambition of being a leader in the application of regulatory and related governance best practices, ADIB has increased its investment in risk, control and compliance capabilities.

Despite the ongoing high levels of investment required to achieve the Group's growth ambitions, the focus on productivity saw the cost-to-income ratio for Q2 2017 decline to 44.5% from 45.0% in 30 June 2016.

### Human resources

In line with the Group's 2020 strategic ambition, ADIB has continued to selectively recruit the necessary talent required to service a comprehensive range of client segments and selective industries through a broad range of products and solutions while also enhancing governance structures. The bank's headcount in the UAE was 2,106 at the end of the second quarter of 2017.

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 841 Nationals in the UAE.

### Awards in 2016 & 2017

#### H1 2017 awards

1. Best Islamic Bank in the UAE by Global Finance Magazine.
2. Global Islamic Business Award by Department of Economic Development.
3. Best Emiratization initiative by NASEEBA.
4. Best Online Banking Service from Banker Middle East.
5. Best Performance Campaign' by MENA Digital Awards.
6. Best Home Finance in the Middle East by Asian Banker.
7. Best Sport CSR initiative of the year by SPIA.
8. Best Youth Development Program by SPIA.
9. Best Islamic Bank in the Middle East by Executive Magazine.
10. Best Islamic Bank in the UAE by Banker Magazine FT.
11. Excellence in CSR Initiatives for Islamic Banks.

#### 2016 awards

1. Sheikh Khalifa Excellence Award 2016 - Gold category.
2. Best Bank in customer experience by Ethos Consultancy.
3. Best Islamic Bank in MENA by EMEA Finance.
4. Best Islamic bank in the UAE by EMEA Finance.
5. Euromoney Awards for Innovation in Islamic Finance 2016.
6. Excellence in Digital Banking Award by the Lafferty Global Awards.
7. Best Commercial Bank by Islamic Bank and Finance Magazine.
8. Best Islamic Bank in Egypt by Islamic Bank and Finance Magazine.

9. Best Islamic Bank for SME by Global Finance.
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22. Qatar Deal of the Year for the Ezdan Holding US\$500 million Sukuk by IFN Finance.
23. Mudarabah Deal of the Year for the Egyptian Electricity Transmission Company EGP 2 Billion.
24. Syndicated Mudarabah by IFN Finance.
25. Best in Talent management by MENA HR Excellence awards.

#### Management comment

On behalf of the Board of Directors and the management team, Khamis Mohamed Buharoon, ADIB's Vice Chairman and acting CEO, said: "The sound results we saw in the first quarter of the year continued in the second quarter, resulting in significantly better overall performance than a year ago with 14% growth in our net profit. Revenues increased, most notably in areas related to Cards, Wealth management, Takaful products and FX income and our balance sheet strengthened with further improvements in liquidity, coupled with solid capital ratios. These results were underpinned by a control on expenses, an improved cost of credit and a customer centric strategy that enabled us to welcome approximately 20,000 new customers in the last 12 months.

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, in line with our ambition to become the customers' most favored digital bank, we demonstrated a strong expense discipline with the Group's cost-to-income ratio decreasing by 0.5% when compared to 2016, This is in line with management targets and it will enable us to invest further to support our future growth.

ADIB has achieved improved profitability whilst further enhancing its asset quality and capital ratios. The bank has remained focused on prudently managing risk and credit extension with customer financing assets reaching AED 76.8 billion, resulting in the customer financing assets to deposits ratio further



improving to 76.7%. This is complemented by improvements in our funding position with customer deposits increasing by 2.7% year-on-year to AED 100.0 billion.

ADIB's strategy has been to balance long-term growth with capital conservation. As evidence of this, ADIB increased total equity by 3.3% year-on-year to AED 15.6 billion and the Group's capital adequacy under Basel II now stands at 15.61%. Furthermore, ADIB is confident about meeting the Basel III capital and liquidity requirements as they are introduced by the Central Bank of the UAE.

It is pleasing to note that the continued improvement in resolving our non-performing asset portfolio and the stabilisation of the business environment coupled with our focus in asset quality has led to higher recoveries and lower impairment allowances, down 7.5% from last year. While there are some encouraging signs of recovery we will continue with our conservative approach in building provisions where our total credit provisions and impairments have increased to AED 2,978.3 million.


#### Outlook

The long-term outlook for the UAE economy is encouraging with ADIB well-positioned to take advantage of opportunities that are expected to arise as the pace of economic diversification accelerates.

As we seek to increase market share across all major banking segments in the UAE, ADIB's focus remains on delivering award-winning customer experience led by our digital banking offering delivered with a personalised approach. We will also continue to improve our credit quality.

#### 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.

  
Khamis Mohamed Buharoon  
Vice Chairman &  
Acting Chief Executive Officer



## Financial summaries

### ADIB Group Financial summary - 3 months and 6 months summary

Financials	Consolidated Group									
	Q2 2015	Q2 2016	Q2 2017	Chg Q2 16 vs. Q2 15	Chg Q2 17 vs. Q2 16	H1 2015	H1 2016	H1 2017	Chg H1 16 vs. H1 15	Chg H1 17 vs. H1 16
	AED Mn	AED Mn	AED Mn	%	%	AED Mn	AED Mn	AED Mn	%	%
Net Revenue from Funding	918.8	982.3	918.5	6.9%	-6.5%	1,860.1	1,955.3	1,872.7	5.1%	-4.2%
Fees & Commissions	200.1	215.7	273.7	7.8%	26.9%	422.7	432.6	499.0	2.3%	15.4%
Investment income	96.5	112.3	129.2	16.4%	15.0%	174.7	262.6	252.2	50.3%	-3.9%
FX	37.6	43.7	76.8	16.1%	75.8%	19.2	20.1	148.3	4.8%	637.5%
Other	1.0	1.0	9.8	6.7%	965.6%	1.6	1.7	9.9	6.4%	470.3%
<b>Total Revenues</b>	<b>1,254.0</b>	<b>1,355.0</b>	<b>1,408.0</b>	<b>8.1%</b>	<b>3.9%</b>	<b>2,478.3</b>	<b>2,672.3</b>	<b>2,782.1</b>	<b>7.8%</b>	<b>4.1%</b>
<b>Total Expenses</b>	<b>575.4</b>	<b>610.0</b>	<b>627.2</b>	<b>6.0%</b>	<b>2.8%</b>	<b>1,145.3</b>	<b>1,224.9</b>	<b>1,255.3</b>	<b>7.0%</b>	<b>2.5%</b>
<b>Operating profit (margin)</b>	<b>678.6</b>	<b>745.0</b>	<b>780.8</b>	<b>9.8%</b>	<b>4.8%</b>	<b>1,333.0</b>	<b>1,447.4</b>	<b>1,526.8</b>	<b>8.6%</b>	<b>5.5%</b>
Credit Provisions and Impairment	175.1	234.0	216.4	33.6%	-7.5%	377.7	450.1	380.8	19.2%	-15.4%
<b>Net Profit before Zakat &amp; Tax</b>	<b>503.5</b>	<b>511.0</b>	<b>564.3</b>	<b>1.5%</b>	<b>10.4%</b>	<b>955.3</b>	<b>997.2</b>	<b>1,146.0</b>	<b>4.4%</b>	<b>14.9%</b>
Zakat & Tax	<b>0.9</b>	<b>3.5</b>	<b>12.7</b>	284.0%	260.7%	<b>1.9</b>	<b>7.7</b>	<b>16.9</b>	299.4%	120.0%
<b>Net Profit after Zakat &amp; Tax</b>	<b>502.6</b>	<b>507.5</b>	<b>551.6</b>	<b>1.0%</b>	<b>8.7%</b>	<b>953.4</b>	<b>989.5</b>	<b>1,129.1</b>	<b>3.8%</b>	<b>14.1%</b>
Total Assets in AED (Billion)	115.1	121.5	122.2	5.6%	0.6%	115.1	121.5	122.2	5.6%	0.6%
Customer Financing in AED (Billion)	74.5	79.7	76.8	6.9%	-3.7%	74.5	79.7	76.8	6.9%	-3.7%
Customer Deposits in AED (Billion)	89.1	97.4	100.0	9.3%	2.7%	89.1	97.4	100.0	9.3%	2.7%

-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.

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