

Management Discussion & Analysis

H1 2022 Financial Results

Abu Dhabi, UAE – 20 July 2022

ADIB delivers a strong set of results for H1 2022 with y-o-y net profit growth of 30% to AED 1.4 billion underpinned by core business growth

Strong year on year Revenue growth driven by core business

<p>2.8bn Revenues +7% ▲</p>	<p>1.2bn Expenses -0.2% ▼</p>	<p>227mn Impairments -38% ▼</p>	<p>1.4bn Net Income +30% ▲</p>
<p>142bn Total Assets +9% ▲</p>	<p>97bn Gross Customer Financing +10% ▲</p>	<p>115bn Deposits +10% ▲</p>	<p>17.3% ROE +3.7 pts ▲</p>

- ▶ 30% y-o-y increase in Net Profit to AED 1.4 billion for the first half of 2022 with ROE improving 3.7 percentage points to 17.3%
- ▶ Revenue up 7% y-o-y to AED 2.8 billion driven by 5% growth in funded income and 11% increase in non-funded income
- ▶ Effective cost control strategy leads to a reduction of 3.1 percentage points in cost to income ratio to 40.9%
- ▶ Improved economic outlook drives 38% impairment decline, despite improved coverage on non-performing financing
- ▶ Steady balance sheet growth to AED 142 billion with 10% customer financing growth and 10% deposits growth y-o-y
- ▶ Robust capital position with a common equity tier 1 ratio of 12.8%

Abu Dhabi Islamic Bank reported year-on-year growth in **Net Profit** of 30% for the first half of 2022 to AED 1.4 billion from AED 1.1 billion in H1 2021, resulting from solid top-line growth, continued optimisation of the cost base and lower impairments. **Revenue** for H1 2022 improved 7% to AED 2,838 million compared to AED 2,644 million last year. This arose from an 11% year-on-year increase in non-funded income to AED 1,169 million driven by 26% increase in fees and commissions and 5% growth in funded income to AED 1,669 million, achieved from the growth in customer financing.

Cost discipline was maintained amid ongoing investment in digital initiatives with operating expenses declining 0.2% year-on-year to AED 1,160 million and the cost-to-income ratio improved 3.1 percentage points to 40.9%. **Impairments** declined 38% year-on-year to AED 227 million for the first half of 2022, reflecting an overall improvement in economic conditions. This reduction was achieved while improving the provision coverage of non-performing financing (including collaterals) by 8.5 percentage points to 123.7%.

Total assets increased 9% year-on-year to reach AED 142 billion, driven by 10% growth in gross **financing** and 30% in investments. Customer **deposits** rose 10% year-on-year to AED 115 billion from strong Current and Savings Accounts (CASA). ADIB maintained a robust **capital** position with a common equity tier 1 ratio of 12.8% and a total capital adequacy ratio of 18.0%. Further, the bank's **liquidity** position was healthy and comfortably within regulatory requirements, with the advances to a stable funding ratio at 85.1% and the eligible liquid asset ratio at 17.4%.



H.E. JAWAAN AWAIDAH AL KHAILI

CHAIRMAN

“ADIB delivered robust year-on-year net profit growth of 30% in the first half of 2022 underscored by positive increases in our assets, revenues, and gross financing. Our performance reflects solid momentum across our core businesses under our 2025 growth strategy, and improved macroeconomic conditions. The tangible progress ADIB has made against our strategic growth initiatives and investments in products, services, and technology is bearing fruit, with return on equity increasing 3.7 percentage points to 17.3%, well on track towards our ambition of 20 per cent by 2025.

“A particularly important development was the publication of ADIB’s first ESG report which underlines our commitment to embed both Islamic finance and sustainability principles in everything we do, and with commitments to governance and integrity, the environment, society, and diversity. This renewed focus on sustainability comes as the UAE prepares to host COP28 next year and builds on ADIB being globally recognised as ‘Islamic Bank of the Year 2022’ by The Banker magazine, part of the Financial Times group.

“As we look ahead we will continue to work towards creating value for all our stakeholders as we aim to become the world’s most innovative Islamic bank. We are confident in the economic outlook for the UAE and the region, and will look to accelerate our progress for both customers and shareholders alike.”



NASSER AL AWADHI

GROUP CHIEF EXECUTIVE OFFICER

“The first half of 2022 saw a relentless commitment to delivering the very best products and services to our customers and long-term value for our shareholders. Positive performance was achieved across our businesses, with both our Retail and Wholesale divisions achieving strong top-line growth. I am particularly pleased with our ability to generate robust fee income, including the supporting the healthy stream of IPOs, which led to 7% year-on-year revenue growth for the Group.

“This financial performance reflects our focus on continuing to deliver our 2025 growth strategy where ADIB showed real momentum. This included spearheading Open Banking in the UAE by launching our first Application Programming Interface (API) portal and entering into an exclusive partnership with Visa to help drive the growth of digital payments. We further embedded our contribution to UAE society through our new three-year football sponsorship of the *UAE Pro League Cup*, we empowered even more talented UAE Nationals to become leaders in finance and we further supported greater home ownership through product innovation.

“Today ADIB is well capitalised and highly liquid, we are helping customers, businesses and the UAE economy to thrive, and we have one of the most digitally active customer bases. We will continue to identify new growth areas and invest our resources for renewed customer excellence. We see significant growth opportunities as we continue to strive to break new ground for both UAE banking and Islamic banking globally.”



MOHAMED ABDELBARY

GROUP CHIEF FINANCIAL OFFICER

“The first half of 2022 saw net profit growth of 30% year-on-year up to a healthy AED 1.4 billion. This performance was driven by a 7% increase in revenues and a 0.2% decrease in expenses, with these positive jaws facilitating an impressive 17.3% return on equity. In addition to our solid fundamentals and prudent decision-making, we achieved 10% growth in both customer deposits, and gross customer financing year-on-year. Improved economic conditions were evidenced by a 38% decline in impairments, and we remain confident in the outlook for the remainder of the year. Our continued investment in digital customer transformation is paying off as our cost-to-income ratio further improved by 3.1 percentage points to 40.9%, and the strength we have today will allow us to continue to invest in being at the forefront of innovation.

“Our excellent performance this half is a reflection of our balanced approach to portfolio diversification and operational efficiency and resultant high asset quality and credit administration practices. Our net profit margin remains stable and we maintained a strong liquidity, funding and capital positions. As we look towards the future, we can expect to maintain our growth trajectory and previous successes.”

= Group Financial Review

► Income statement

AED (mn)	Q2 2022	Q2 2021	Δ%	H1 2022	H1 2021	Δ%
Gross revenue from funds	964	884	+9%	1,841	1,759	+5%
Distribution to depositors	(84)	(82)	+3%	(171)	(171)	-0.1%
Net revenue from funds	880	803	+10%	1,669	1,587	+5%
Investment income	166	223	-26%	421	472	-11%
Fees, commissions income, net	291	220	+32%	579	461	+26%
Foreign exchange income, net	89	61	+46%	165	117	+41%
Other income	2	2	+25%	4	7	-46%
Non-funded income	549	506	+8%	1,169	1,057	+11%
Total operating income	1,429	1,309	+9%	2,838	2,644	+7%
Total operating expenses before impairment charge	(583)	(570)	+2%	(1,160)	(1,162)	-0.2%
Provision for impairment	(114)	(233)	-51%	(227)	(367)	-38%
Profit before zakat and income tax	732	505	+45%	1,451	1,116	+30%
Zakat and tax	(5)	(4)	+26%	(9)	(7)	+31%
Profit after zakat and tax	726	501	+45%	1,442	1,109	+30%
Non-controllable interest	(0.5)	(0.2)	+189%	(0.9)	(0.4)	+119%
Profit attributable to equity holders of the bank	726	501	+45%	1,441	1,108	+30%
EPS	0.19	0.13	+49%	0.36	0.27	+34%
Net profit margin – YTD				3.13%	3.13%	-
Cost to income ratio	40.8%	43.6%	-2.8ppts	40.9%	43.9%	-3.1ppts
Cost of risk – YTD				0.42%	0.85%	-43bps
ROAE – YTD				17.3%	13.7%	+3.7ppts
ROAA – YTD				2.12%	1.74%	+38bps

- **Group net profit** grew 30% in H1 2022 to AED 1.4 billion compared to AED 1.1 billion in H1 2021. This was driven by solid growth in revenues, improved operating efficiency and lower overall impairments compared to the previous year.
- **Revenues:** The rebound in the UAE economic activity and an improvement in business momentum lifted **revenues** by 7% in H1 2022 to AED 2,838 million versus AED 2,644 million in H1 2021.
- **Funded income** rose 5% year-on-year to reach AED 1,669 million with 5% growth in average earning assets thereby maintaining the net profit margin at 3.13% similar to the comparable 6 month period of 2021. There was an improvement in the cost of funding of 3 basis points year-on-year. ADIB preserves one of the highest margins in the market, supported by one of the lowest costs of funds in the market.
- **Non-funded income** increased by 11% year-on-year to AED 1,169 million for H1 2022, resulting from 26% growth in fees and commission income, and a 41% improvement in foreign exchange income.

- Overall revenues were supported by growth in **new customers** of approximately 48,000 during H1 2022, evidencing ADIB's emphasis on long-term customer relationships and the delivery of superior customer service.
- Successful implementation of **cost initiatives** and the efficacy of the digital strategy resulted in a 0.2% improvement in **operating expenses** to AED 1,160 million compared to H1 2021, leading to an improvement in the **cost-to-income ratio** of 3.1 percentage points year-on-year to 40.9%. Cost initiatives included optimisation of branch network , renegotiation of premises leases and ongoing management of natural staff attrition.
- The **net impairment charge** for the year decreased by 38% year-on-year to AED 227 million, lowering the **cost of risk** by 43 basis points year-on-year to 0.42%. This reflected improvements in the micro-and macro-economic environment and was achieved while improving the **provision coverage** of non-performing financing (including collaterals) by 8.5 percentage points to 123.7%.

► Balance Sheet

AED (mn)	Q2 2022	Q2 2021	Δ%
Cash and balances with central banks	19,578	19,562	+0.1%
Due from financial institutions	2,564	4,040	-37%
Customer financing, net	92,190	83,700	+10%
Investments	18,572	14,259	+30%
Investment in associates	1,677	1,389	+21%
Investment and development properties	1,996	2,010	-1%
Other assets	5,366	5,648	-5%
Total assets	141,944	130,608	+9%
Due to financial institutions	2,391	2,636	-9%
Depositors' accounts	115,188	105,159	+10%
Other liabilities	3,961	3,276	+21%
Total liabilities	121,541	111,071	+9%
Share capital	3,632	3,632	-
Retained earnings	6,765	5,987	15%
Other reserves	5,241	5,244	-0.1%
Equity attributable to shareholders of the bank	15,638	14,773	+6%
Tier 1 sukuk	4,754	4,754	-
Non - controllable interest	11	11	+4%
Equity attributable to equity holders of the bank	20,404	19,538	+4%
Customer financing, gross	97,237	88,068	+10%
Non-performing financing	8,175	7,786	+5%
NPA ratio	8.4%	8.8%	-43bps
NPA coverage ratio	71.4%	64.2%	+7.2ppts
NPA coverage ratio with collaterals	123.7%	115.2%	+8.5ppts
Risk weighted assets	114,228	102,332	+12%
Core Equity Tier 1 Ratio	12.77%	13.32%	-55bps
Tier 1 Ratio	16.94%	17.97%	-1.0ppts

Capital Adequacy Ratio	18.04%	19.05%	-1.0ppts
Loans to deposit ratio	80.0%	79.6%	+44bps
Advances to stable fund ratio (AFR)	85.1%	83.1%	+2.1ppts
Eligible Liquid Asset Ratio (ELAR)	17.4%	20.5%	-3.1ppts

- **Total assets** reached AED 141.9 billion as at 30 June 2022, an increase of 9% from 30 June 2021 , driven by a growth in net financing and growth of the investment portfolio.
- Gross customer **financing** increased 10% year-on-year to AED 97.2 billion from 16% growth in wholesale financing across Government and public sector enterprises, corporates and financial institutions while retail financing portfolios grew by 8%.
- The bank's **investment** portfolio increased 30% at H1 2022 to AED 18.6 billion
- Customer **deposits** amounted to AED 115 billion as of 30 June 2022, up 10% from 30 June 2021 as CASA deposits increased by 8% to AED 87 billion comprising 75.3% of total customer deposits.
- **Non-performing financing** totaled AED 8.2 billion as of 30th June 2022 compared to AED 7.8 billion as of 30th June 2021 while the non-performing financing ratio improved to 8.4% versus 8.8% as at 30 June 2021.
- ADIB continued to maintain a healthy liquidity position with an advances to stable funding ratio at 85.1% compared with 83.1% at H1 2021, while the eligible liquid asset ratio was 17.4% as at 30 June 2022 versus 20.5% at 30 June 2021.
- The bank further maintained a robust **capital position** with the common equity tier 1 ratio at 12.8%, a tier 1 ratio of 16.9% and capital adequacy ratio of 18.0% as at 30 June 2022, comfortably exceeding regulatory requirements prescribed by the UAE Central Bank until 30 June 2022 of 11.5% as part of capital relief buffers under TESS.

= Segmental Performance Review

▶ Retail Banking Group

Income statement

AED (mn)	H1 2022	H1 2021	Δ%
Funded income	1,334	1,240	+8%
Non-funded income	295	289	+2%
Total operating income	1,629	1,529	+7%
Operating expenses excluding impairments	(904)	(918)	-2%
Impairment charge	(63)	(53)	+19%
Profit before tax and zakat	661	558	+19%
Tax and Zakat	0	0	-
Profit after tax and zakat	661	558	+19%
Cost income ratio	55.5%	60.1%	-4.5ppts
Cost of risk	0.24%	0.22%	+2bps

Balance Sheet

AED (mn)	H1 2022	H1 2021	Δ%
Financing, gross	51,406	47,614	+8%
Depositors' accounts	79,247	73,551	+8%

- ADIB's Retail Banking Group ('Retail Banking'), is the leading bank for UAE nationals and a critical growth engine for ADIB. Retail Banking delivered a strong performance, generating AED 661 million of **net profit** in H1 2022, a 19% increase over the same period last year. In addition, Retail Banking continued strengthening their customer propositions and improving channel productivity, resulting in improved sales momentum for cards and 8% year-on-year growth in gross **financing** to AED 51.4 billion as of 30 June 2022.
- Based on encouraging financing growth, **revenue** for Retail Banking increased 7% year-on-year to AED 1,629 million.
- Operating expenses** in H1 2022 declined 2% year-on-year, reflecting cost optimisation initiatives, and continued focus on process simplification and automation to improve efficiency and deliver better customer experiences.
- The strategic focus on delivering an excellent customer experience enabled Retail Banking to expand its customer base by approximately 48,000 customers in H1 2022. **Deposits** also grew by 8% year-on-year, outperforming the market on deposit growth. This is a testament to the Bank's strong UAE national and Emirati-focused strategy, which is at the core of the Retail Banking business.
- On **digital**, the bank continued to introduce industry-leading digital capabilities, redesign the client experience, and enabled its 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

Income statement

AED (mn)	H1 2022	H1 2021	Δ%
Funded income	320	297	+8%
Non-funded income	160	126	+27%
Total operating income	481	423	+14%
Operating expenses excluding impairments	(136)	(137)	-1%
Impairment charge	(79)	(182)	-57%
Profit before tax and zakat	266	105	+154%
Tax and Zakat	(6)	(5)	+27%
Profit after tax and zakat	260	100	+160%
Cost income ratio	28.3%	32.4%	-4.0ppts
Cost of risk	0.4%	1.1%	-68bps

Balance Sheet

AED (mn)	H1 2022	H1 2021	Δ%
Financing, gross	38,825	33,346	+16%
Depositors' accounts	23,389	20,490	+14%

- The Wholesale Banking Group ('WBG') saw an increase in **net profit** of 160% driven by a decline in impairments of 57%. Gross customer **financing** grew by 16% year-on-year to AED 38.8 billion, as a result of 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 progress on its transformation journey, offering digitally enabled and innovative solutions to clients.
- **Revenues** for WBG for H1 2022 increased 14% year-on-year to AED 481 million.
- WBG's **impairment charge** for the period amounted to AED 79 million, a 57% decrease relative to the corresponding H1 2021.

► Treasury

Income statement

AED (mn)	H1 2022	H1 2021	Δ%
Funded income	(111)	(69)	-60%
Non-funded income	425	481	-12%
Total operating income	314	412	-24%
Operating expenses excluding impairments	(20)	(20)	+0.3%
Impairment charge	(5)	(1)	+334%
Profit before tax and zakat	289	390	-26%
Tax and Zakat	0	0	-
Profit after tax and zakat	289	390	-26%
Cost income ratio	6.5%	5.0%	+1.6ppts
Investment Yield	2.7%	5.0%	-2.4ppts

Balance Sheet

AED (mn)	H1 2022	H1 2021	Δ%
Investments	18,572	14,259	+30%
Depositors' accounts	3,663	2,138	+71%

- ADIB's Treasury department saw a decline of 26% in **net profit** to AED 289 million year-on-year due to a reduction in the revenue for the period by 24% year-on-year to AED 314 million.

= Strategy and Outlook

► Strategy

The global banking industry is currently experiencing an unprecedented era of transformation and opportunity. The global drive towards digitalization and Fintech disintermediation is well underway, leading to both increased regulatory liberalization and pressures. At the same time, the Covid pandemic has accelerated the adoption of digital products and services and structurally altered working patterns and economic fundamentals, leading to a lower rate and growth environment. Finally, sustainability has become a central theme for consumers, communities, employees and Governments globally and matters of diversity, climate change, staff wellbeing and governance, amongst others, are now critical success factors for corporations and their stakeholders.

Against this backdrop, ADIB conducted its 5-year strategic review in 2021, which defined the bank's renewed purpose of becoming a lifelong partner for our clients, community and colleagues. Furthermore, ADIB's vision revamped to be the world's most innovative Islamic bank.

The bank's 2025 strategy is built upon 4 strategic pillars:

Continuous Innovation of new Sharia-compliant banking products that will allow the bank to support customers across the retail, SME and corporate landscape remains a key tenant of the Bank's strategy. This will be supported by the training and development of Islamic banking experts. Additionally, the bank will re-engineer the delivery of products and services and plans to launch innovative digital ventures and new business models.

ADIB's strategy is **Segment Focused**, building on its existing strength in the Emirati retail segment while attracting and developing new business segments where the bank can grow profitably. In this respect, a core focus area includes developing an ecosystem to support Emirati customers across all financial stages in their lives and expanding customer propositions and product offerings across large, medium and small corporations.

Digital Excellence remains at the heart of the 2025 strategy and the bank strives to become a digital-first financial institution. ADIB aims to elevate customer convenience through its digital platforms and become a data-driven organization by leveraging advanced analytics and artificial intelligence. At the same time, ADIB will build a modern technology foundation and new digital tools and capabilities for staff to enable seamless, digital processing and front-line delivery, while creating a future-proof workforce.

Finally, ADIB is planning to embed sustainability and ESG frameworks into the existing Islamic banking DNA to ensure a **Sustainable Future** for the bank, its employees, and the customers and wider community it serves. Under this pillar, ADIB will create a more comprehensive ESG risk framework and policies, develop a Group sustainability strategy and roadmap, and foster existing talents in the organization.

The central objective underpinning the revamped strategy is a commitment to driving value for our stakeholders and the bank's 2025 strategic targets include reaching a return on equity of 20%, doubling net profit, achieving a cost-to-income ratio below 36%, being ranked first in customer experience measured with the Net Promotor Scores (NPS) and driving digitalization to more than 85% Straight-Through-Processing (STP).

► Digital and Innovation

ADIB's focus on continuous innovation and digital excellence are core tenants of the revamped 2025 strategy. The number of digitally active customers has increased steadily over the past year. Currently, the bank has 65% of its customers digitally active.

In addition, ADIB continued to strengthen its digital banking capabilities over the period, with a host of new initiatives driving improved adoption and usage rates of its digital services. The bank announced the launch of a new Wealth Management digital platform. ADIB also continues to provide customers with convenient remote account opening services through a government-linked facial recognition system.

Additional highlights of ADIB’s progress on digitalization and innovation include the following:

- ADIB’s mobile app was top-ranked in the UAE App store.
- ADIB had 64% digital usage while maintaining current accounts and 29% when opening current accounts
- Digital finance applications increased with 36% of personal finance applications taking place digitally
- More than 30% of new accounts are opened through ADIB application
- ADIB received and processed 95% of payment fund transfer requests through STP
- ADIB opened a total 7400 through its new digital product Amwali, the world’s first Islamic digital proposition for youth

► Outlook

Following a year of rebound in 2021 which saw a 2.1% increase in economic activity, the economic environment steadily improved in H1 2022. Consumer sentiment and spending has recovered and GDP growth is expected to rebound to a positive 4.2% in 2022. This expectation is underpinned by a sharp increase in oil prices which are expected to remain above USD 100 per barrel and sustained government expenditure.

ADIB reported a solid financial performance in the first half against the backdrop of a positive economic outlook. Our renewed strategic vision and drive provide a solid foundation for sustained value creation into the medium term ahead, as we continue to execute our 5-year growth strategy.

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About ADIB:

ADIB is a leading bank in the UAE with more than AED 141 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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