

# MANAGEMENT DISCUSSION & ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2017

# ADIB 2017 Net Profit rises 17.7% to AED 2.3 billion

# Group Financial Highlights

# Income Statement:

# FYR 2017 vs. FYR 2016

- Group net revenues for 2017 increased by 4.6% to AED 5,632.3 million vs. AED 5,385.5 million in 2016.
- Credit provisions and impairments for 2017 decreased by 18.5% to AED 790.4 million vs. AED 970.0 million for 2016.
- Group net profit for 2017 increased by 17.7% to AED 2,300.1 million vs. AED 1,953.6 million in 2016.

# Q4 2017 vs. Q4 2016

- Group net revenues for Q4 2017 increased by 6.2% to AED 1,427.9 million vs. AED 1,344.2 million in Q4 2016.
- Credit provisions and impairments for Q4 2017 decreased by 33.8% to AED 166.9 million vs. AED 252.1 million for Q4 2016.
- Group net profit for Q4 2017 increased by 33.4% to AED 607.2 million vs. AED 455.1 million in Q4 2016.

# Balance Sheet:

## 31 December 2017 vs. 31 December 2016 and 30 September 2017

- Total assets as of 31 December 2017 were AED 123.3 billion, representing an increase of 0.8% from AED 122.3 billion at the end of 31 December 2016 (and an increase of 1.7% from AED 121.3 billion at 30 September 2017).
- Net customer financing decreased by 2.1% to AED 76.5 billion, from AED 78.2 billion at the end of 31 December 2016 (and decreased 0.4% from AED 76.8 billion at 30 September 2017).
- Customer deposits grew 1.2% to AED 100.0 billion, from AED 98.8 billion at the end of 31 December 2016 (an increase of 0.9% from AED 99.1 billion at 30 September 2017).

## Capital adequacy and liquidity:

## 31 December 2017 vs. 31 December 2016 and 30 September 2017

- The capital adequacy ratio under Basel II at 31 December 2017 is 16.71% vs. 15.25% at 31 December 2016 (16.28% at 30 September 2017). The capital adequacy ratio under Basel III is 17.02% at 31 December 2017.
- ADIB remains one of the most liquid banks in the UAE, with an advances to stable funds ratio (a regulatory ratio) of 80.0% at 31 December 2017, vs. 85.1% at 31 December 2016 (81.1% at 30



September 2017) and an advances to deposits ratio of 76.5% at 31 December 2017, vs. 79.1% at 31 December 2016 (77.5% at 30 September 2017).

# Group Financial highlights - Four-year performance

As at 31 December	at 31 December All figures are in AED millions									
Balance sheet	2014	2015	2016	2017	3 YR (CAGR)					
Total assets	111,904	118,378	122,290	123,278	3.3%					
Gross customer financing	75,760	81,398	81,369	79,750	1.7%					
Customer deposits	84,776	94,927	98,814	100,004	5.7%					
Total equity	13,687	15,075	15,459	16,573	6.6%					
Capital adequacy ratio - Basel II	14.36%	15.14%	15.25%	16.71%						
Tier 1 ratio - Basel II	13.87%	14.59%	14.61%	16.18%						
Common Equity Tier 1 ratio	7.97%	<b>8.98</b> %	9.12%	10.56%						
Customer financing to deposit ratio	86.1%	82.6%	<b>79.</b> 1%	76.5%						
Income statement	2014	2015	2016	2017	3 YR (CAGR)					
Net revenue	4,583	5,134	5,386	5,632	7.1%					
Operating profit (margin)	2,512	2,760	2,938	3,123	7.5%					
Credit provisions and impairment charge	758	820	970	790	1.4%					
Net profit after zakat & tax	1,751	1,934	1,954	2,300	9.5%					
Total non-performing accounts to gross financing assets ratio	4.4%	3.9%	4.5%	5.4%						
Provision coverage ratio	83.2%	95.5%	85.5%	74.9%						
Cost to income ratio	45.2%	46.2%	45.5%	44.5%						
Network - UAE	2014	2015	2016	2017	3 YR (CAGR)					
Total customers	775,505	877,975	920,682	982,661	8.2%					
Branches	88	88	86	81	-2.7%					
ATMs	683	769	749	722	1.9%					



**Abu Dhabi, UAE - 04 February 2018**: The Abu Dhabi Islamic Bank (ADIB) Group delivered a solid set of results for 2017 with net profit up 17.7% year-on-year to AED 2,300.1 million and up 33.4% in Q4 2017 from Q4 2016 to AED 607.2 million. Revenues increased by 4.6% for 2017 to AED 5,632.3 million driven by growth in Fees, FX and investment income.

ADIB has maintained its conservative approach on credit extension and capital management. This led to a year-on-year decrease of 2.1% in customer financing assets to AED 76.5 billion at the end of 31 December 2017.

ADIB's customer-centric strategy continued to deliver an award-winning banking experience to over 980,000 customers through a large branch network and market-leading digital channels. This has seen customer deposits increase by 1.2% year-on-year to reach AED 100.0 billion at the end of 31 December 2017. As a result, ADIB remains one of the most liquid banks in the UAE, with advances to deposits ratio of 76.5%.

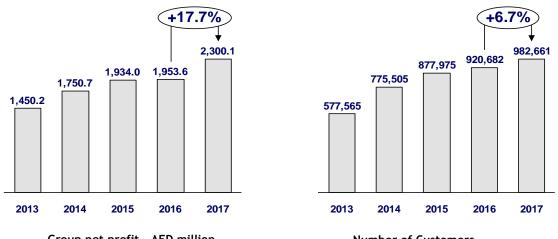
### Business highlights for 2017 were:

- ADIB's focus on delivering a high-quality customer experience saw the number of active customers served by ADIB increase by over 6.7% year-on-year to 982,661 as at 31 December 2017.
- Total revenues increased by 4.6% for the year 2017 to AED 5,632.3 million. This growth was largely driven by 22.6% rise in fee income to AED 1,030.3 million, while investment income increased 16.5% to AED 546.0 million.
- Cost of credit improved as total credit provision and impairment decreased by 18.5% to AED 790.4 million in 2017. Notwithstanding, the Group continued its conservative practice of building provisions and booked AED 765.9 million in total credit provisions.
- Continued focus on productivity has resulted in the cost-to-income ratio dropping by 1.0% to 44.5% for 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 continued to focus on innovation and automation, and to maintain its market leading position in digital banking. Over 95% of financial transactions were carried out on ADIB's digital platforms during 2017, including an average of 2 million mobile transactions every month. Our Mobile Banking App continues to be recognized as a market leader, with more than 94,000 new users during 12 months of 2017.
- ADIB has launched and supported numerous CSR initiatives in 2017 to reinforce and maximise its contribution to society, including blood donation campaigns, sponsoring mass weddings and organising a range of activities during Ramadan. In alignment with the UAE's Year of Giving, the bank has supported numerous causes across the UAE with employees across ADIB giving up their



personal time to serve their local communities. Such charitable principles continue to demonstrate ADIB's role within society and complement the bank's business objectives.

• 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 757 Nationals in the UAE. The bank has adopted a new points-based system approved by the UAE Central Bank to promote the entry of Emiratis into the financial sector while also enhancing career development opportunities.



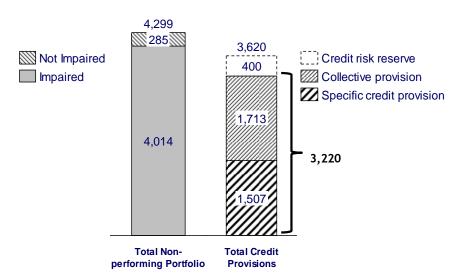
#### Group net profit - AED million



### **Risk management**

ADIB continued its prudent approach to credit risk management, Non-performing assets ratio stood at 5.4% with non-performing assets now totaling AED 4,299.1 million. In 2017, ADIB took an additional AED 765.9 million in provisions. Total credit provisions, net of write-offs, stand at AED 3,220.4 million. Specific and collective provisions now represent a pre-collateral coverage ratio of 74.9% of the total non-performing portfolio and 80.2% of the impaired portfolio. Furthermore, collective provisions now represent 2.01% of total credit risk weighted assets. This is well above the 1.5% set out in regulatory guidelines.



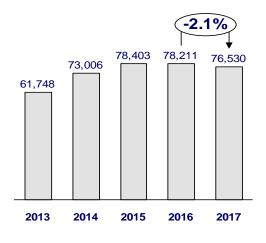




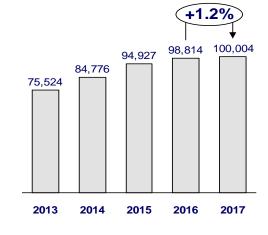
#### Asset and Liability Management

ADIB recorded healthy customer financing-to-deposits ratio of 76.5%. 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 1.2% year-on-year to reach AED 100.0 billion at 31 December 2017.

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



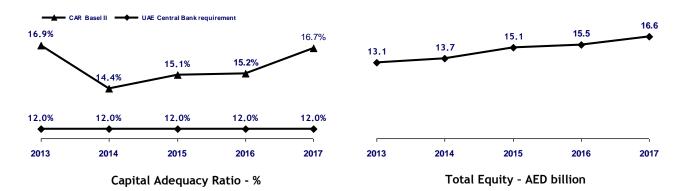




Customer Deposit Growth - AED million

### Capital strength

Total equity (including Tier 1 capital instruments) was AED 16.6 billion at 31 December 2017. This represents an increase of 7.2% year-on-year and a 3-year compounded growth rate of 6.6%. ADIB's capital adequacy ratio under Basel II principles now stands at 16.71% with the Basel II Tier 1 capital ratio at 16.18% and a common equity tier 1 ratio of 10.56%, well above Central Bank of the UAE's prescribed minimums of 12% for capital adequacy, 8% for Tier 1. Similar capital ratios under Basel III principles are: capital adequacy ratio is at 17.02%, Tier 1 capital ratio is at 15.96% and a common equity tier 1 ratio is at 10.27%. All capital ratios under Basel III principles are above the minimum regulatory thresholds advised by Central Bank of the UAE.





#### Cost management

In line with ADIB's growth strategy, the Group has maintained its focus on putting in place infrastructure necessary to support this approach. 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. 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 decline to 44.5% from 45.5% in 31 December 2016 helped by cost control measures implemented during the year.

#### 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 2,036 at the end 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 757 Nationals in the UAE. The bank has adopted a new points-based system approved by the UAE Central Bank to promote the entry of Emiratis into the financial sector while also enhancing career development opportunities.

#### Corporate Social Responsibility

ADIB has launched and supported numerous CSR initiatives in 2017 to reinforce and maximise its contribution to society, including blood donation campaigns, sponsoring mass weddings and organising a range of activities during Ramadan. In alignment with the UAE's Year of Giving, the bank has supported numerous causes across the UAE with employees across ADIB giving up their personal time to serve their local communities. Such charitable principles continue to demonstrate ADIB's role within society and complement the bank's business objectives.



#### Management comment

On behalf of the Board of Directors and the management team, Mr. Khamis Buharoon, ADIB Vice Chairman and acting CEO, said: "We had a great year in 2017, with net profit rising nearly 18% to AED 2.3 billion. ADIB experienced robust growth across our businesses, while we maintained a disciplined approach to cost and risk management. During the year, we welcomed approximately 62,000 new customers with a strong offering of products and services, easily accessed through digital platforms. The solid performance has permitted ADIB's Board of Directors to recommend cash dividend payout of 39.76% of the year's net profit, while still allowing for continued significant reinvestment in the future growth of our businesses."

"In 2017, we accelerated our investment in digital banking and finding new ways to add value to our customers. Our digital and innovation agenda is about enhancing the customer experience, making it simpler, faster and more cost effective to access high quality financial services, while ensuring that customers continue to receive a highly personalised service".

"Despite heavy investment in advancing our digital capabilities, we demonstrated a strong expense discipline with the cost-to-income ratio decreasing by 1.0% when compared to 2016. This is in line with management targets and it will enable us to invest further to support our future growth".

"The financial discipline we exercised over the years, by prudently managing risk and credit extension, has ensured that our balance sheet remains strong. It is pleasing to note that the stabilisation of the business environment, together with our focus on asset quality, has led to higher recoveries and an 18.5% decrease in impairment allowances from last year".

"ADIB has always been at the forefront of banks in the UAE when it comes to capital management with a capital adequacy ratio under Basel II of 16.71%. Capital adequacy ratio under Basel III are 17.02%, which is also above the minimum regulatory thresholds advised by Central Bank of the UAE. We therefore fully expect to be able to support our continued growth in the most effective and efficient manner".

"Looking ahead, we believe ADIB is well positioned to take advantage of the opportunities that are expected to arise from the positive economic outlook of the UAE. We are confident that our financial strength and our focus on leveraging innovation and providing a high-quality banking experience will help us attract more customers and deliver long-term shareholder value".

### <u>Dividend</u>

The Board of Directors recommends the distribution of 28.87% cash dividend for 2017. The cash dividend represents 39.76% of full year net profits for 2017.



### Approvals

These results, including the dividend, are subject to approval by the Central Bank of the UAE and the shareholders at the Annual General Assembly.

## 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 Full year summary

	Consolidated Group									
Financials	Q4 2015	Q4 2016	Q4 2017	Chg Q4 16 vs. Q4 15	Chg Q4 17 vs. Q4 16	2015	2016	2017	Chg 2016 vs. 2015	Chg 2017 vs. 2016
	AED Mn	AED Mn	AED Mn	<u>%</u>	<u>%</u>	<u>AED Mn</u>	AED Mn	<u>AED Mn</u>	<u>%</u>	<u>%</u>
Net Revenue from Funding	976.8	981.3	935.0	0.5%	-4.7%	3,771.3	3,921.0	3,769.6	4.0%	-3.9%
Fees & Commissions	251.1	185.9	283.3	-26.0%	52.4%	911.3	840.4	1,030.3	-7.8%	22.6%
Investment income	100.6	102.6	147.2	2.0%	43.4%	352.1	468.5	546.0	33.1%	16.5%
FX	35.8	74.0	56.3	106.7%	-23.8%	79.6	139.2	270.3	74.8%	94.2%
Other	7.6	0.3	6.1	-95.5%	1705.6%	20.1	16.4	16.1	-18.5%	-1.4%
Total Revenues	1,371.9	1,344.2	1,427.9	-2.0%	6.2%	5,134.4	5,385.5	5,632.3	4.9%	4.6%
Operating profit (margin)	728.6	709.4	783.5	-2.6%	10.4%	2,760.3	2,937.6	3,123.1	6.4%	6.3%
Credit Provisions and Impairment	249.3	252.1	166.9	1.2%	-33.8%	820.0	970.0	790.4	18.3%	-18.5%
Net Profit before Zakat & Tax	479.4	457.3	616.6	-4.6%	34.8%	1,940.3	1,967.7	2,332.8	1.4%	18.6%
Zakat & Tax	2.0	2.2	9.4	11.0%	333.1%	6.3	14.1	32.7	123.6%	131.3%
Net Profit after Zakat & Tax	477.4	455.1	607.2	-4.7%	33.4%	1,934.0	1,953.6	2,300.1	1.0%	17.7%
Total Assets in AED (Billion)	118.4	122.3	123.3	3.3%	0.8%	118.4	122.3	123.3	3.3%	0.8%
Customer Financing in AED (Billion)	78.4	78.2	76.5	-0.2%	-2.1%	78.4	78.2	76.5	-0.2%	-2.1%
Customer Deposits in AED (Billion)	94.9	98.8	100.0	4.1%	1.2%	94.9	98.8	100.0	4.1%	1.2%

-Ends-



#### <u>Awards</u>

- 1. Global Islamic Business Award by Department of Economic Development.
- 2. Best Islamic Bank in the UAE by Global Finance Magazine.
- 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.
- 12. Best Private bank in the UAE by Banker Magazine
- 13. Sheikh Khalifa Excellence Award 2016 Gold category.
- 14. Best bank in customer experience by Ethos Consultancy.

#### About ADIB:

ADIB is a leading bank in the UAE with more than AED 123 billion in assets. Its 980,000 customers benefit from the third largest distribution network in the UAE with 81 branches and more than 720 ATMs. The bank also offers worldclass 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).

In the UAE, the Bank has more than 2,000 employees and remains one of the leading banks in the recruitment, development and promotion of local talent in all the markets in which it operates. The bank has one of the highest Emiratisation ratios with more than 37 percent of the bank's workforce being UAE Nationals.

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 "Best Bank in the UAE" 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 Etihad and Etisalat and a wide range of financing products.

#### For media information, please visit www.adib.ae or contact:

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