

MANAGEMENT DISCUSSION & ANALYSIS FOR THE YEAR ENDING 31 DECEMBER 2016

Abu Dhabi Islamic Bank Group net revenues for 2016 increased by 4.9% to AED 5,385.5 million

Net profit for 2016 increased 1.0% to AED 1,953.6 million despite an 18.3% increase in provisions and impairments for 2016

Group Financial Highlights

Income Statement:

FYR 2016 vs. FYR 2015

- Group net revenues for 2016 increased by 4.9% to AED 5,385.5 million vs. AED 5,134.4 million in 2015.
- Credit provisions and impairments for 2016 increased by 18.3% to AED 970.0 million vs. AED 820.0 million for 2015.
- Group net profit for 2016 increased by 1.0% to AED 1,953.6 million vs. AED 1,934.0 million in 2015.

Q4 2016 vs. Q4 2015

- Group net profit for Q4 2016 decreased by 4.7% to AED 455.1 million vs. AED 477.4 million in Q4 2015.
- Group net revenues for Q4 2016 decreased by 2.0% to AED 1,344.2 vs. AED 1,371.9 in Q4 2015.
- Credit provisions and impairments for Q4 2016 increased by 1.2% to AED 252.1 million vs. AED 249.3 million for Q4 2015.

Balance Sheet:

31 December 2016 vs. 31 December 2015 and 30 September 2016

- Total assets as of 31 December 2016 were AED 122.3 billion, representing an increase of 3.3% from AED 118.4 billion at the end of 31 December 2015 (and a decrease of 0.2% from AED 122.6 billion at 30 September 2016).
- Net customer financing decreased by 0.2% to AED 78.2 billion, from AED 78.4 billion at the end of 31 December 2015 (and a decrease of 0.5% from AED 78.6 billion at 30 September 2016).
- Customer deposits grew 4.1% to AED 98.8 billion, from AED 94.9 billion at the end of 31 December 2015 (and an increase of 0.2% from AED 98.6 billion at 30 September 2016).

Capital adequacy and liquidity:

31 December 2016 vs. 31 December 2015 and 30 September 2016

- The capital adequacy ratio under Basel II at 31 December 2016 is 15.25% vs. 15.14% recorded at 31 December 2015 (15.03% at 30 September 2016).

- ADIB remains one of the most liquid banks in the UAE, with an advances-to-stable funds ratio (a regulatory ratio) of 85.1% at 31 December 2016, vs. 84.6% at 31 December 2015 (85.3% at 30 September 2016) and an advances-to-deposits ratio of 79.1% at 31 December 2016, vs. 82.6% at 31 December 2015 (79.7% at 30 September 2016).

Group Financial highlights - Four-year performance

As at 31 December

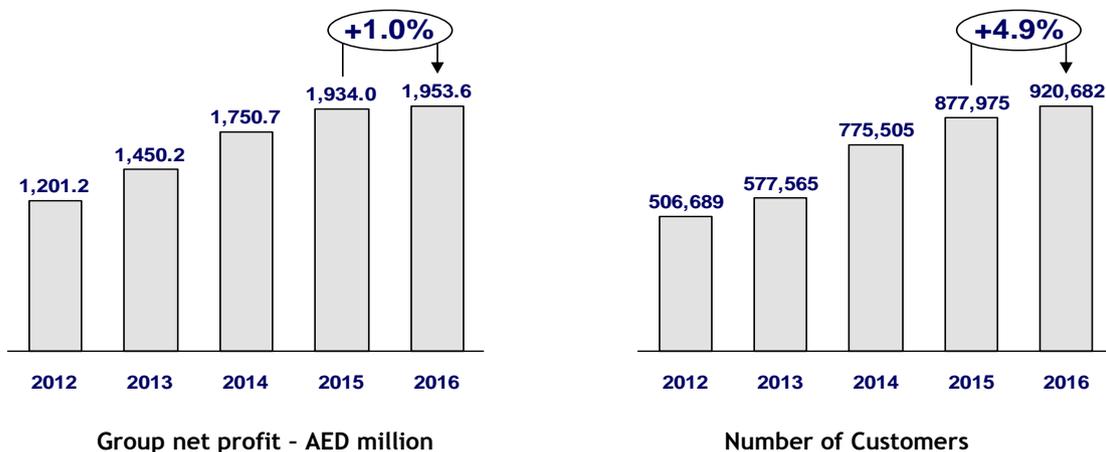
All figures are in AED millions

Balance sheet	2013	2014	2015	2016	3 YR (CAGR)
Total assets	103,160	111,904	118,378	122,290	5.8%
Gross customer financing	65,109	75,760	81,398	81,369	7.7%
Customer deposits	75,524	84,776	94,927	98,814	9.4%
Total equity	13,074	13,687	15,075	15,459	5.7%
Capital adequacy ratio - Basel II	16.86%	14.36%	15.14%	15.25%	
Tier 1 ratio - Basel II	16.42%	13.87%	14.59%	14.61%	
Common Equity Tier 1 ratio	9.41%	7.97%	8.98%	9.12%	
Customer financing to deposit ratio	81.8%	86.1%	82.6%	79.1%	
Income statement	2013	2014	2015	2016	3 YR (CAGR)
Net revenue	3,931	4,583	5,134	5,386	11.1%
Operating profit (margin)	2,232	2,512	2,760	2,938	9.6%
Credit provisions and impairment charge	780	758	820	970	7.5%
Net profit after zakat & tax	1,450	1,751	1,934	1,954	10.4%
Total non-performing accounts to gross financing assets ratio	8.3%	4.4%	3.9%	4.5%	
Provision coverage ratio	62.5%	83.2%	95.5%	85.5%	
Cost to income ratio	43.2%	45.2%	46.2%	45.5%	
Network - UAE	2013	2014	2015	2016	3 YR (CAGR)
Total customers	577,565	775,505	877,975	920,682	16.8%
Branches	77	88	88	86	3.8%
ATMs	590	683	769	749	8.3%

Abu Dhabi, UAE - 14 February 2017: The Abu Dhabi Islamic Bank (ADIB) Group posted a growth in net revenues of 4.9% for 2016 to AED 5,385.5 million and a 1.0% increase in net profit for 2016 to AED 1,953.6 million, while increasing total assets to AED 122.3 billion. Given the continued challenging environment, ADIB has retained its conservative approach on credit extension and capital management, which led to a year-on-year decrease of 0.2% in customer financing assets to AED 78.2 billion at the end of 2016. The focus of ADIB’s customer-centric strategy remains on delivering an award-winning experience to over 920,000 customers across all major segments through a large branch network and market-leading digital channels. This has seen customer deposits increase by 4.1% to AED 98.8 billion at the end of 2016. As a result, at 31 December 2016, ADIB remains one of the most liquid banks in the UAE, with advances to deposits ratio of 79.1%.

The business highlights for 2016 were:

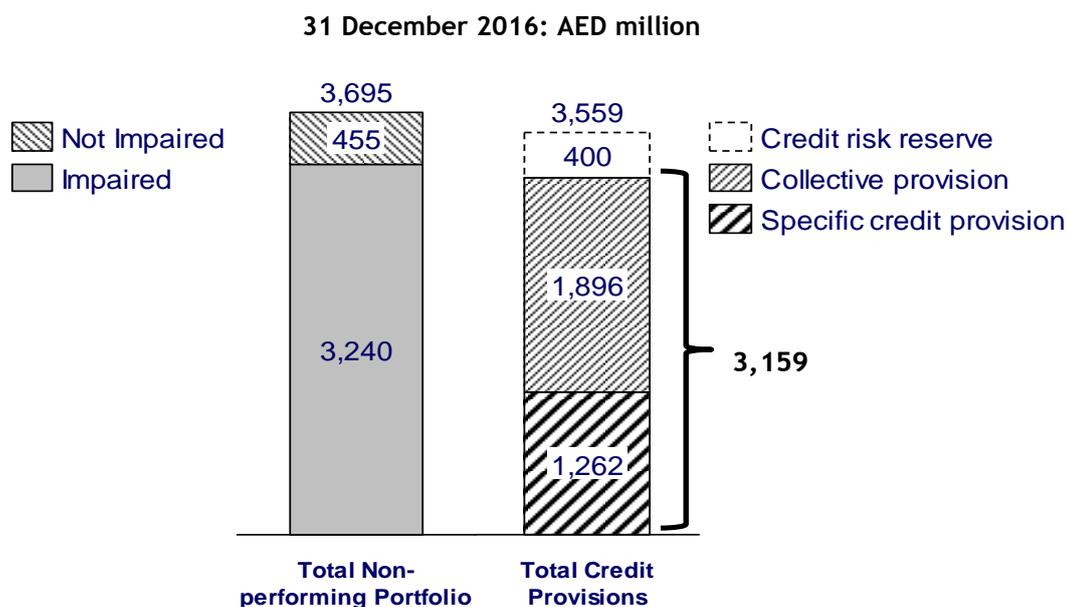
- A continued emphasis on long-term customer relationships and selected industry segments, while remaining loyal to the core UAE National individual and corporate customer base, saw the number of active customers served by ADIB increase by over 42,000 year-on-year to 920,682.
- ADIB was recognized as the Best Bank for customer service in the UAE for the 6th consecutive year.
- Maintaining a conservative policy of non-performing asset recognition and remedial management, saw the non-performing account ratio increase to 4.5% year-on-year vs. 3.9% at 31 December 2015. The Group continued its conservative practice of building provisions and took an additional AED 968.6 million in total credit provisions to maintain the pre-collateral non-performing coverage ratio at 85.5% of the total non-performing portfolio and 97.5% of the impaired portfolio. A continued focus on productivity has resulted in the cost-to-income ratio declining to 45.5% for 2016. This is notwithstanding the fact that the Group has further enhanced its competencies in the risk, compliance, governance, digital, and control areas in support of its investment in the necessary infrastructure and capabilities to deliver leadership in its chosen customer segments, services, industries and geographies.



Risk management

As ADIB continued its conservative approach to credit risk management and its proactive remedial efforts, the non-performing ratio increased to 4.5% year-on-year vs. 3.9% at 31 December 2015 with non-performing assets now totaling AED 3,695.2 million. As a result, and given that the asset quality outlook remains negative in a number of segments including the SME due to the lower oil price that impacted the price of soft commodities , ADIB took an additional AED 968.6 million in provisions in 2016. Furthermore, collective provisions now represent 2.12% of total customer risk weighted assets. This is well above the 1.5% set out in regulatory guidelines.

Total credit provisions, net of write-offs, now stand at AED 3,158.7 million. Specific and collective provisions, excluding the AED 400 million credit risk reserve established in 2012, now represent a healthy pre-collateral coverage ratio of 85.5% of the total non-performing portfolio and 97.5% of the impaired portfolio.

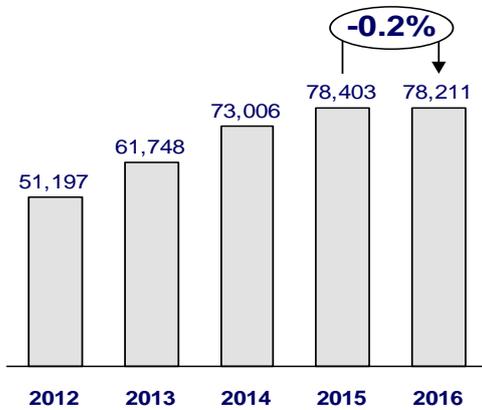


Asset and Liability Management

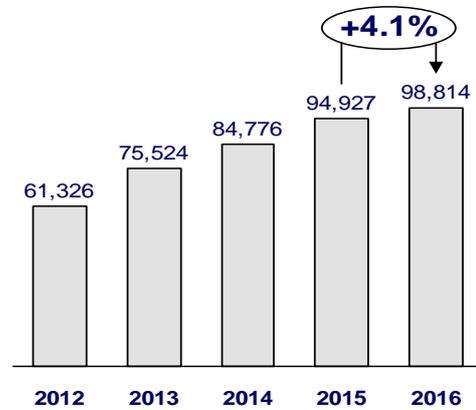
As at 31 December 2016, ADIB recorded a healthy customer financing-to-deposits ratio of 79.1% and the bank has maintained its position as one of the most liquid financial institutions in the UAE. The main driver of the best-in-market customer-to-deposits ratio remains ADIB’s continued focus on building long-term relationships, which saw customer deposits increase by 4.1% year-on-year to AED 98.8 billion at 31 December 2016.

At the same time, a disciplined return on shareholders’ equity and a capital conservation approach ahead of the Central Bank of the UAE’s forthcoming adoption of Basel III capital regulations, combined with

ongoing concerns regarding the levels of credit stress in certain industries, resulted in a decrease of 0.2% in customer financing assets to AED 78.2 billion.



Net Customer Financing Growth - AED million

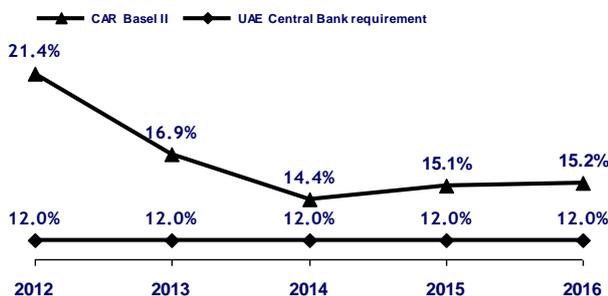


Customer Deposit Growth - AED million

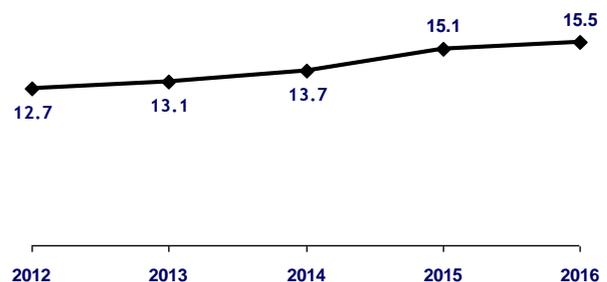
Capital strength

Total equity (including Tier 1 capital instruments) was AED 15.5 billion at 31 December 2016. This represents an increase of 2.5% year-on-year and a 3-year compounded growth rate of 5.7%. ADIB's capital adequacy ratio under Basel II principles now stands at 15.25% with the Basel II Tier 1 capital ratio at 14.61% and a common equity tier 1 ratio of 9.12%.

Notwithstanding the fact that ADIB's capital ratios continue to be well above Central Bank of the UAE's current prescribed minimums of 12% for capital adequacy and 8% for Tier 1, ADIB intends to continue enhancing the Group's capital base through a series of specific actions. These actions, will be aligned with the Central Bank of the UAE's forthcoming adoption of Basel III and related capital regulations, and will occur as and when market conditions are favorable.



Capital Adequacy Ratio - %



Total Equity - AED billion

Cost management

In line with ADIB's growth strategy of becoming a top-tier regional bank, and notwithstanding the current economic environment, the Group has maintained its focus on putting in place the infrastructure necessary to implement its growth strategy. The emphasis, therefore, remains on recruiting and retaining top performers, building the necessary infrastructure to deliver an award-winning customer experience,

and investing appropriately in expanding business capabilities across all targeted customer segments, and selected industries in the UAE, while laying the 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 a leading 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 manner.

Furthermore, in line with the Group's ambition of being a leader in the application of regulatory and related governance best practice, ADIB has increased its investment in risk, control and compliance capabilities while simultaneously expanding its review of any pertinent historical activities to ensure that the Group takes the necessary and appropriate corrective action, irrespective of cost, wherever any areas of concern are identified.

Despite the ongoing high levels of investment required to achieve the Group's growth ambitions, the simultaneous focus on productivity saw the cost-to-income ratio for 2016 decline to 45.5% vs. 46.2% as at 31 December 2015.

Human resources

In line with the Group's 2020 strategic ambition, ADIB has continued to selectively recruit the necessary staff 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 2,146 at the end of the fourth quarter of 2016.

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 868 Nationals in the UAE with a resultant Emiratization ratio of 40.4%.

Awards in 2016

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
10. Best Islamic Bank IN Egypt by Global Finance
11. Best Islamic Bank in the UAE by Banker FT

12. Best Islamic Private Bank by IFN finance
13. Islamic Finance Deal of the Year by Global Transport Finance
14. The best Excellence CSR committee in the UAE from Private consultant of the King of Saudi Arabia
15. Best Property Consultancy in Abu Dhabi for MPM by the Arabian Property Awards
16. Process Innovation Award by Global Finance Magazine
17. Sukuk Manager of the Year from Global Investor / ISF MENA
18. Best SME Internet Banking Service by Banker Middle East
19. Best Premium Banking Services by Banker Middle East
20. Best SME Exchange Service by Banker Middle East
21. Best Private Bank in the Middle East for Islamic Finance by Private Banker International magazine
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
Syndicated Mudarabah by IFN Finance
24. Best in Talent management by MENA HR Excellence awards

Management comment

On behalf of the Board of Directors and the management team, Tirad Al Mahmoud, Group CEO of ADIB, said: “We had a strong finish to 2016, ADIB continued to follow a positive growth trajectory achieving a 5% year-on-year growth in revenues which is considered amongst the highest revenue growth within the banking industry in the UAE. These results highlight our robust strategy and our award-winning level of customer service that saw us welcoming 42,000 new customers in 2016. Equally pleasing is that this sound financial performance is underpinned by a clear commitment to excellence, and it is a matter of great pride that ADIB was the only bank to be awarded with the ‘Sheikh Khalifa Excellence Award” for the third time, in addition to being recognized, for the 6th consecutive year, as the best bank in the UAE for customer service.”

“In 2016, we invested heavily in 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. Despite our focus on growing the bank, we demonstrated a strong expense discipline with the Group’s cost-to-income ratio decreasing by 1%.”

“We remain focused on prudently managing risks and credit extension where our customer financing assets ended at AED 78.2 billion, resulting in the customer financing assets to deposits ratio further improving to 79.1%. ADIB has continued to improve its funding position with customer deposits increasing by 4.1% year on year to AED 98.8 billion.”

“However, and notwithstanding the fact that at its core ADIB is a customer-centric organization and one of the most liquid banks in the UAE, we recognize that being a top-tier bank also means that we must also excel in meeting the needs and requirements of all our stakeholders, including regulators, shareholders and investors, our staff and the community at large. Therefore, it remains of primary importance that

ADIB continues to build the required level of capital, across all classes, that is appropriate for a bank with our ambition and profile. As evidence of this, and in anticipation of the Central Bank of the UAE's forthcoming Basel III capital regulations, ADIB increased total equity by 2.5% year-on-year to AED 15.5 billion and the Group's capital adequacy ratio is now 15.25% vs. 15.14% as at 31 December 2015.

“Our total credit provisions and impairments have increased to AED 970.0 million given the slowdown in the economy and lower soft commodity prices that impacted the SME sector. While there are some encouraging signs of recovery we will continue with our conservative approach and we are actively engaged with our customers who have been impacted by the current economic conditions and are working with them to develop solutions that will enable them to meet their commitments.

Outlook

“The prospects for the UAE as a whole for 2017 are encouraging, and supported by a recovery in oil prices. Nonetheless, we continue to forecast modest customer financing growth in the UAE and an increase in provisions in the UAE retail banking. Our focus remains on delivering an award winning customer experience with a digital focus, maintaining our conservative risk management practices, growing our market share in all major segments in the UAE, focusing on managing our expenses and continue our prudent management approach in both specific and collective provisions.”

“While ADIB remains one of the most liquid banks in the region with a sound capital base, the pressure on market liquidity levels and the amount, and mix of capital the Group is required to hold is expected to increase. Notwithstanding this, the strength of our current liquidity profile saw ADIB repay, as scheduled in Q4 2016, the sukuk issued in Q4 2011, from existing cash resources.

Dividend

The Board of Directors recommends the distribution of a 24.52% cash dividend for 2016. The cash dividend represents 39.8% of full year net profits for 2016.

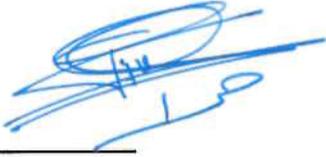
Approvals

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.



Tirad Al Mahmoud
Group Chief Executive Officer

Financial summaries

ADIB Group Financial summary - 3 months and Full year summary

Financials	Consolidated Group									
	Q4 2014	Q4 2015	Q4 2016	Chg Q4 15 vs. Q4 14	Chg Q4 16 vs. Q4 15	2014	2015	2016	Chg 2015 vs. 2014	Chg 2016 vs. 2015
	AED Mn	AED Mn	AED Mn	%	%	AED Mn	AED Mn	AED Mn	%	%
Net Revenue from Funding	944.6	976.8	981.3	3.4%	0.5%	3,505.0	3,771.3	3,921.0	7.6%	4.0%
Fees & Commissions	221.1	251.1	185.9	13.6%	-26.0%	738.6	911.3	840.4	23.4%	-7.8%
Investment income	63.4	100.6	102.6	58.5%	2.0%	276.8	352.1	468.5	27.2%	33.1%
FX	25.6	35.8	74.0	39.9%	106.7%	60.1	79.6	139.2	32.5%	74.8%
Other	1.4	7.6	0.3	434.3%	-95.5%	2.4	20.1	16.4	722.1%	-18.5%
Total Revenues	1,256.2	1,371.9	1,344.2	9.2%	-2.0%	4,583.0	5,134.4	5,385.5	12.0%	4.9%
Operating profit (margin)	589.5	728.6	709.4	23.6%	-2.6%	2,512.0	2,760.3	2,937.6	9.9%	6.4%
Credit Provisions and Impairment	178.7	249.3	252.1	39.5%	1.2%	757.8	820.0	970.0	8.2%	18.3%
Net Profit before Zakat & Tax	410.8	479.4	457.3	16.7%	-4.6%	1,754.2	1,940.3	1,967.7	10.6%	1.4%
Zakat & Tax	1.2	2.0	2.2	63.7%	11.0%	3.5	6.3	14.1	81.6%	123.6%
Net Profit after Zakat & Tax	409.6	477.4	455.1	16.6%	-4.7%	1,750.7	1,934.0	1,953.6	10.5%	1.0%
Total Assets in AED (Billion)	111.9	118.4	122.3	5.8%	3.3%	111.9	118.4	122.3	5.8%	3.3%
Customer Financing in AED (Billion)	73.0	78.4	78.2	7.4%	-0.2%	73.0	78.4	78.2	7.4%	-0.2%
Customer Deposits in AED (Billion)	84.8	94.9	98.8	12.0%	4.1%	84.8	94.9	98.8	12.0%	4.1%

-Ends-

About ADIB:

Abu Dhabi Islamic Bank (ADIB) was established on 20th May 1997 as a Public Joint Stock Company following the Emiri Decree No. 9 of 1997. The Bank commenced commercial operations on 11th November 1998, and was formally inaugurated by His Highness Sheikh Abdullah Bin Zayed Al Nahyan on 18th 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 Excellence Award 2016 - Gold category
2. Excellence in Digital Banking Award by the Lafferty Global Awards
3. Best Islamic Bank in MENA by EMEA FINANCE
4. Best Islamic bank in the UAE by EMEA Finance
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