

MANAGEMENT DISCUSSION & ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2018

Abu Dhabi Islamic Bank 2018 net profit rises 8.7% to AED 2.5 billion

Group Financial Highlights

Income Statement:

FYR 2018 vs. FYR 2017

- Group net revenues for 2018 increased by 2.4% to AED 5,769.5 million vs. AED 5,632.3 million in 2017.
- Credit provisions and impairments for 2018 decreased by 21.5% to AED 620.1 million vs. AED 790.4 million for 2017.
- Group net profit for 2018 increased by 8.7% to AED 2,500.8 million vs. AED 2,300.1 million in 2017.

Q4 2018 vs. Q4 2017

- Group net revenues for Q4 2018 increased by 13.1% to AED 1,615.3 million vs. AED 1,427.9 million in Q4 2017.
- Credit provisions and impairments for Q4 2018 decreased by 20.2% to AED 133.1 million vs. AED 166.9 million for Q4 2017.
- Group net profit for Q4 2018 increased by 23.2% to AED 748.3 million vs. AED 607.2 million in Q4 2017.

Balance Sheet:

31 December 2018 vs. 31 December 2017 and 30 September 2018

- Total assets as of 31 December 2018 were AED 125.2 billion, representing an increase of 1.6% from AED 123.3 billion at the end of 31 December 2017 (and an increase of 0.7% from AED 124.3 billion at 30 September 2018).
- Net customer financing increased by 2.8% to AED 78.7 billion, from AED 76.5 billion at the end of 31 December 2017 (and increased 0.3% from AED 78.4 billion at 30 September 2018).
- Customer deposits increased by 0.4% to AED 100.4 billion, from AED 100.0 billion at the end of 31 December 2017 (and increased 1.9% from AED 98.5 billion at 30 September 2018).

Capital adequacy and liquidity:

31 December 2018 vs. 31 December 2017 and 30 September 2018

- The capital adequacy ratio under Basel III at 31 December 2018 was 17.18% vs. 16.09% at 31 December 2017, after adjusting for the 2018 dividend (30 September 2018 was 16.45%).
- ADIB remains one of the most liquid banks in the UAE, with an advances to stable funds ratio (a regulatory ratio) of 82.9% at 31 December 2018, vs. 80.0% at 31 December 2017 (85.4% at 30 September 2018) and an advances to deposits ratio of 78.4% at 31 December 2018, vs. 76.5% at 31 December 2017 (79.6% at 30 September 2018).

Group Financial highlights - Four-year performance

As at 31 December

All figures are in AED millions

Balance sheet	2015	2016	2017	2018	3 YR (CAGR)
Total assets	118,378	122,290	123,278	125,194	1.9%
Gross customer financing	81,398	81,369	79,750	81,559	0.1%
Customer deposits	94,927	98,814	100,004	100,404	1.9%
Total equity	15,075	15,459	16,573	17,737	5.6%
Customer financing to deposit ratio	82.6%	79.1%	76.5%	78.4%	

Income statement	2015	2016	2017	2018	3 YR (CAGR)
Net revenue	5,134	5,386	5,632	5,769	4.0%
Operating profit (margin)	2,760	2,938	3,123	3,126	4.2%
Credit provisions and impairment charge	820	970	790	620	-8.9%
Net profit after zakat & tax	1,934	1,954	2,300	2,501	8.9%
Total impaired financing to gross financing assets ratio	3.9%	4.5%	5.4%	4.8%	
Provision coverage ratio	95.5%	85.5%	74.9%	72.9%	
Cost to income ratio	46.2%	45.5%	44.5%	45.8%	

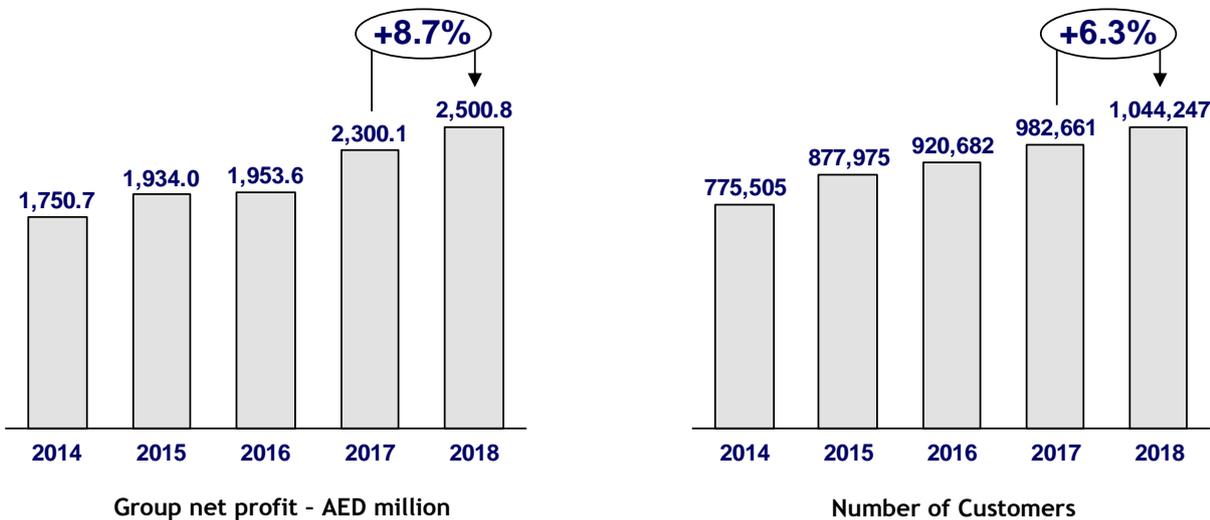
Network - UAE	2015	2016	2017	2018	3 YR (CAGR)
Total customers	877,975	920,682	982,661	1,044,247	6.0%
Branches	88	86	81	80	-3.1%
ATMs	769	749	722	684	-3.8%

Abu Dhabi, UAE - 04 February 2019: Abu Dhabi Islamic Bank (ADIB), a leading Islamic bank in the region, delivered a strong set of results for 2018 with net profit up 8.7% to AED 2,500.8 million and rise of 23.2% in Q4 2018 from Q4 2017 to AED 748.3 million, driven by a growth in customer financing and an improvement in provisioning. The performance was also supported by higher fee income, controlled operating expenses and improved funding costs. The bank has built a healthy balance sheet following a strengthening of capital through a rights issue and Tier-1 perpetual sukuk issuance, coupled with strong liquidity and good asset quality. This strong performance has enabled the Board of Directors to recommend a cash dividend of 27.38% for 2018, which represents 39.76% of 2018 net profit.

Key Business highlights for 2018 were:

- ADIB welcomed its one millionth customer in 2018, nearly double the number it had five years ago. A focus on customer service, combined with considerable investment in the bank’s digital platforms and the development of industry-leading products, has led to a year-on-year increase of 6% in active customers to 1,044,247.
- ADIB successfully raised AED 1 billion through a rights issue in October 2018, supporting the bank’s growth strategy while boosting its core capital. The rights issue generated strong interest across a highly diversified local investor base and was approximately 5 times oversubscribed.
- ADIB also raised USD 750 million of additional Tier 1 capital through a perpetual sukuk, complying with the Basel III regulatory framework issued by the Central Bank of the UAE. The issue, priced at a profit rate of 7.125 percent, was three times oversubscribed, accumulating USD 2.1 billion in orders.
- In Q4 2018, ADIB’s Board of Directors approved the introduction of foreign ownership of up to 25% of the bank’s issued capital, allowing non-Emirati investors registered with the Abu Dhabi Securities Exchange (ADX) to obtain shares from November 19, 2018.
- Finances and deposits both increased in 2018 resulting in a healthy financing-to-deposits ratio of 78.4%. Customer deposits increased 0.4% year-on-year to reach AED 100.4 billion at 31 December 2018. The bank also saw growth of 2.8% in customer financing to AED 78.7 billion while maintaining high credit quality.
- Cost of credit improved as total credit provisions and impairments decreased by 21.5% to AED 620.1 million in 2018 vs 2017. Credit provisions are calculated based on the expected credit loss methodology as per IFRS 9.
- ADIB made good progress in advancing its digital capabilities and has hired a a digital team to advance the bank’s digital strategy. ADIB was named Best Islamic Digital Bank in 2018 by Global Finance magazine.
- ADIB is also investing in upgrading its transaction banking and trade finance proposition, enhancing product capabilities and automating the financing process. This includes digitising the customer relationship management process via a new innovative system to increase efficiencies for corporates and SMEs.

- ADIB was recognised as the Best Bank for Customer Experience in the UAE for the 7th consecutive year and named World’s Best Islamic Bank by the Financial Times’ The Banker Magazine.
- ADIB has launched and supported numerous CSR initiatives in 2018 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 Zayed, the bank has supported numerous causes across the UAE with employees across ADIB giving up their personal time to serve their local communities.
- 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 729 UAE nationals and has adopted a new points-based system approved by the Central Bank of the UAE to promote the entry and development of Emiratis in the financial sector.

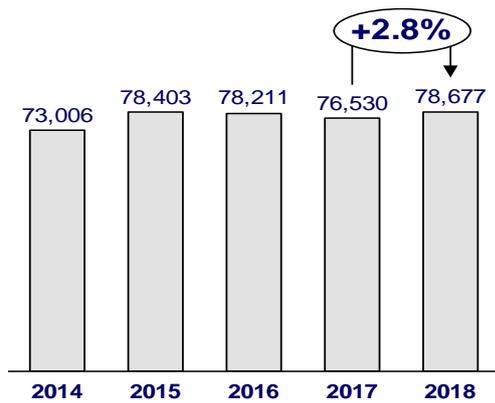


Risk management

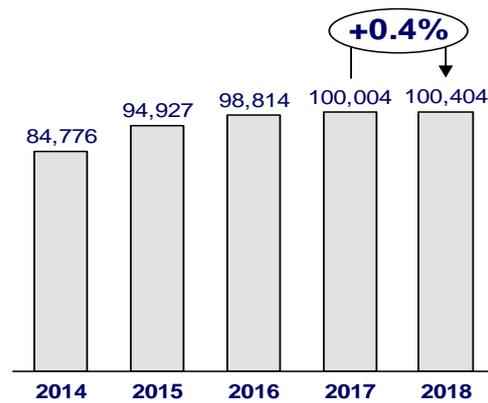
As per the newly adopted IFRS 9, customer financing that is classified under Stage 3 stands at 4.8% with these assets now totaling AED 3,951.2 million. Furthermore, total credit provisions held under IFRS 9 stood at AED 2,882.3 million at year end. These provisions are adequate as per the IFRS 9 requirements. In 2018, ADIB took additional provisions of AED 533.3 million for customer financing.

Asset and Liability Management

ADIB recorded a healthy customer financing-to-deposits ratio of 78.4% as at 31 December 2018. The bank maintained its position as one of the most liquid financial institutions in the UAE. Customer financing assets increased 2.8% year on year, while ADIB continued to focus on effective risk management.



Net Customer Financing Growth - AED million



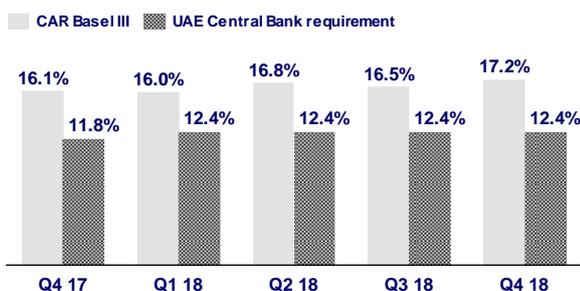
Customer Deposit Growth - AED million

Capital strength

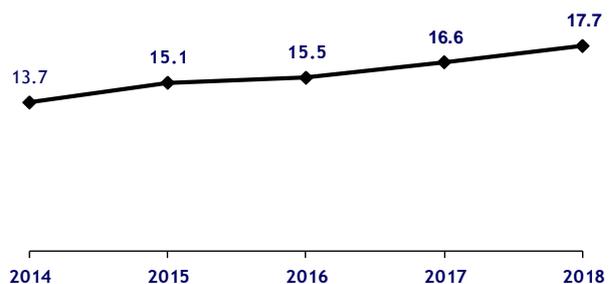
Total equity (including Tier 1 capital instruments) was AED 17.7 billion at 31 December 2018. This represents an increase of 7.0% year-on-year and a 3-year compounded growth rate of 5.6%.

As part of a capital enhancement strategy, during Q4 2018, ADIB successfully raised AED 1 billion through a rights issue aimed at supporting the bank’s growth strategy while boosting its common equity Tier 1 ratio. The impact of this was reflected in Q4 2018. The rights issue generated strong interest across a highly diversified local investor base and was approximately 5 times oversubscribed. ADIB’s capital raising plan also included raising USD 750 million of additional Tier 1 capital through a perpetual sukuk, becoming the first bank in the UAE to issue a fully Basel III-compliant instrument under the new regulations issued by the Central Bank of the UAE. The issue, priced at a profit rate of 7.125 percent, was three times oversubscribed, accumulating USD 2.1 billion in orders. ADIB also redeemed its US\$1 billion Tier 1 capital instrument issued in November 2012 at the first call date.

ADIB’s capital adequacy ratio under Basel III as at 31 December 2018 was 17.18%, while its Tier 1 capital ratio was at 16.09% and its common equity Tier 1 ratio stood at 11.31%. All capital ratios under Basel III principles are above the minimum regulatory thresholds advised by Central Bank of the UAE.



Capital Adequacy Ratio - %



Total Equity - AED billion

Cost management

ADIB is focused on putting in place the necessary infrastructure to support its growth strategy. Emphasis remains on recruiting and retaining top talent, building infrastructure to deliver an 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 UAE's favorite digital bank. The bank is enhancing service and convenience, while building and diversifying its fee income capabilities in line with identified customer needs. ADIB is also upgrading all aspects of its infrastructure to ensure the bank functions efficiently 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. These investments, and cost control measures, have resulted in cost-to-income ratio reaching 45.8%.

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.

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. ADIB currently runs training programs that are designed to equip employees from graduates to management with the attributes to flourish in the financial industry. These programs are focused on coaching and mentoring talent, providing support with career planning and the development of key professional skills.

Corporate Social Responsibility

ADIB has launched and supported numerous CSR initiatives in 2018 to reinforce and maximise its contribution to society, including blood donation campaigns, sponsoring mass weddings and organising a range of activities during Ramadan. In support of the Year of Zayed, the bank 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: "Despite increased competition within the UAE banking industry, 2018 has marked another successful year for ADIB in which we have achieved solid revenue and net profit growth. During the year we have enhanced our digital banking platforms and award-winning product offering, enabling us to attract over 60,000 new customers and cross the one million customer milestone. This has enhanced income sourced from customer financing, which now represents over two-thirds of total revenues."

“We have invested heavily in new technology that can equip customers to conduct their banking transactions in a more flexible, convenient and secure way in 2018. The rapid uptake in the use of digital channels by customers, with over two million mobile transactions initiated via the ADIB mobile banking app every month, is indicative of changing customer behaviour. We feel that with the implementation of a comprehensive digital transformation strategy, we are ideally positioned amongst peers to capitalise on this clear trend towards mobile banking. Our aim is to continue to gain market share by meeting the needs and aspirations of customers, and delivering an exceptional experience across retail, wholesale and transaction banking underpinned by practical innovation and an extensive branch network.”

“A major achievement in 2018 was the strengthening of the bank’s capital position through a highly successful rights issue and issuance of a Tier 1 perpetual sukuk. There was notable appetite from a broad range of local and international investors for these capital raising initiatives, and for the subsequent opening of ADIB’s shares to foreign investors. Such interest and excitement amongst the investment community is a testament to ADIB’s strength and stability as well as the bank’s prospects for further growth and development.”

“The UAE economy has proved its resilience in recent years, and a continuation of government investment in diversification initiatives will provide opportunities for ADIB to develop its corporate and retail banking businesses. While the global economic picture is uncertain, we can mitigate volatility by remaining committed to maintaining our best practice approach to risk management. There is no doubt that credit quality and capital strength lie at the core of our strategic success and in 2019 we will maintain a prudent approach commensurate with our long-term targets for return on shareholder equity.”

“Our strong performance in 2018 has allowed ADIB’s Board of Directors to recommend a cash dividend payout representing 39.76% of the year’s net profit, while still allowing for continued significant reinvestment in the future growth of our businesses.”

Dividend

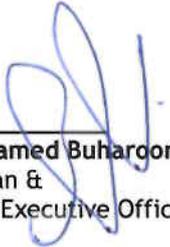
The Board of Directors recommends the distribution of 27.38% cash dividend for 2018. The cash dividend represents 39.76% of full year net profits for 2018.

Approvals

These results, including the dividend, are subject to approval by the Central Bank of the UAE and the shareholders at ADIB’s 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 Buharon
Vice Chairman &
Acting Chief Executive Officer

Financial summaries

ADIB Group Financial summary - 3 months and Full year summary

Financials	Consolidated Group									
	Q4 2016	Q4 2017	Q4 2018	Chg Q4 17 vs. Q4 16	Chg Q4 18 vs. Q4 17	2016	2017	2018	Chg 2017 vs. 2016	Chg 2018 vs. 2017
	AED Mn	AED Mn	AED Mn	%	%	AED Mn	AED Mn	AED Mn	%	%
Net Revenue from Funding	981.3	935.0	1,078.1	-4.7%	15.3%	3,921.0	3,769.6	3,906.7	-3.9%	3.6%
Fees & Commissions	185.9	283.3	314.5	52.4%	11.0%	840.4	1,030.3	1,058.7	22.6%	2.8%
Investment income	102.6	147.2	161.2	43.4%	9.6%	468.5	546.0	525.5	16.5%	-3.8%
FX	74.0	56.3	59.1	-23.8%	4.9%	139.2	270.3	257.0	94.2%	-4.9%
Other	0.3	6.1	2.4	1705.6%	-60.4%	16.4	16.1	21.7	-1.4%	34.1%
Total Revenues	1,344.2	1,427.9	1,615.3	6.2%	13.1%	5,385.5	5,632.3	5,769.5	4.6%	2.4%
Operating profit (margin)	709.4	783.5	882.3	10.4%	12.6%	2,937.6	3,123.1	3,125.7	6.3%	0.1%
Credit Provisions and Impairment	252.1	166.9	133.1	-33.8%	-20.2%	970.0	790.4	620.1	-18.5%	-21.5%
Net Profit before Zakat & Tax	457.3	616.6	749.2	34.8%	21.5%	1,967.7	2,332.8	2,505.6	18.6%	7.4%
Zakat & Tax	2.2	9.4	0.9	333.1%	-90.2%	14.1	32.7	4.8	131.3%	-85.2%
Net Profit after Zakat & Tax	455.1	607.2	748.3	33.4%	23.2%	1,953.6	2,300.1	2,500.8	17.7%	8.7%
Total Assets in AED (Billion)	122.3	123.3	125.2	0.8%	1.6%	122.3	123.3	125.2	0.8%	1.6%
Customer Financing in AED (Billion)	78.2	76.5	78.7	-2.1%	2.8%	78.2	76.5	78.7	-2.1%	2.8%
Customer Deposits in AED (Billion)	98.8	100.0	100.4	1.2%	0.4%	98.8	100.0	100.4	1.2%	0.4%

-Ends-

Awards

1. World's Best Islamic Bank by Banker Magazine FT.
2. Best Islamic Bank in the Middle East by Banker FT
3. Best Islamic Bank in the UAE at Middle East Banking Awards.
4. Best Islamic Bank in UAE by EMEA Finance.
5. Best Islamic Bank in the UAE by Banker FT.
6. Best Islamic Digital Bank by Global Finance Magazine.
7. Best Islamic bank in Egypt Global Finance Magazine.
8. Best Overall Bank in customer Experience by Ethos Consultancy.
9. Best Overall Call Center in the UAE by Ethos Consultancy.
10. Best Islamic Private Bank by Islamic Finance news Awards.
11. Best Private bank in the Middle East for Islamic Finance by Private Banker International Magazine.
12. Best Private Bank in the UAE by Banker FT.
13. Best Islamic Finance House by EMEA finance.
14. Best Islamic Borrower by EMEA finance for our work with Airport Financing Company FZE "FINCO".
15. Best Syndicated Murabaha / Ijara Facility by EMEA finance for its role as an Initial Mandated Lead Arranger, Bookrunner and underwriter for a or GEMS MENASA (CAYMAN) LIMITED.
16. Best Structured Finance House in the Middle East by EMEA finance.
17. Best Structured Finance Deal in the Middle East by EMEA finance, for its contribution to Dubai Aerospace Enterprise's US\$75.6 million syndicated aircraft financing.
18. Best IPO in EMEA by EMEA Finance.
19. Best Privatisation Deal (Equity Markets) by EMA finance for its role on the ADNOC Distribution Initial Public Offering.
20. Syndicated Deal of the year by IFN.
21. UAE Deal of the Year by IFN.
22. Musharkah Deal of the Year by IFN.
23. Gitex Award for Mobile Trading App by Dubai Financial Market.
24. Property Consultancy of the Year by African & Arabian Property Awards.
25. Real Estate Agency of the Year by African & Arabian Property Awards.
26. Best Sharia'a Savings Account Provider of the Year at the second annual Yalla compare award.
27. EIBFS Human Resources Development Award.
28. Best Emiratization Initiative by Naseeba.
29. Best in Talent Management by MENA HR Excellence Awards.
30. Best Home Finance in the Middle East by Asian Banker.
31. Best Sport CSR Initiative of the Year by SPIA.
32. Best Youth Development Program by SPIA.
33. Excellence in CSR Initiatives for Islamic Banks by Regional Network Consultancy.
34. CSR label from Dubai Chamber of Commerce.
35. Information Security Executive of the Year Award at MESA Conference & Awards.

About ADIB:

ADIB is a leading bank in the UAE with more than AED 125 billion in assets. Its 1,044,000 customers benefit from the third largest distribution network in the UAE with 80 branches and more than 680 ATMs. 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).

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 Emiratization ratios with approx. 36 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 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 Etihad and Etisalat and a wide range of financing products.

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

Lamia Hariz

Head of Corporate Communications

ADIB

Tel: +971 561623535

Email: lamia.hariz@adib.com