

## Q2/H1'20 MANAGEMENT DISCUSSION & ANALYSIS

### H1'20 financial highlights<sup>1</sup>

Income statement highlights (AED mn)	Half-yearly trend			Quarterly trend				
	H1'20	H1'19	Change% YoY	Q2'20	Q1'20	Q2'19	Q2'20 change% QoQ YoY	
Total net interest and Islamic financing income	5,136	5,219	(2)	2,347	2,789	2,596	(16)	(10)
Non-interest income	1,281	1,428	(10)	594	687	656	(13)	(9)
Operating income	6,417	6,647	(3)	2,941	3,476	3,252	(15)	(10)
Operating expenses <sup>2</sup>	(2,351)	(2,671)	(12)	(1,025)	(1,325)	(1,366)	(23)	(25)
<i>Integration expenses</i>	<i>(165)</i>	<i>(110)</i>	<i>50</i>	<i>(22)</i>	<i>(143)</i>	<i>(72)</i>	<i>(85)</i>	<i>(69)</i>
Operating profit before impairment allowances	4,066	3,976	2	1,916	2,151	1,886	(11)	2
Impairment allowances	(2,551)	(1,174)	117	(668)	(1,882)	(429)	(65)	56
<b>Net profit for the period</b>	<b>1,436</b>	<b>2,782</b>	<b>(48)</b>	<b>1,227</b>	<b>209</b>	<b>1,448</b>	<b>486</b>	<b>(15)</b>

Balance sheet highlights (AED mn)	June'20	March'20	Dec'19	Change%	
				QoQ	YTD
Total assets	406,235	412,192	405,095	(1)	0
Net loans and advances	239,288	246,663	247,833	(3)	(3)
Deposits from customers	250,272	262,863	262,094	(5)	(5)
<b>Ratios (%)</b>	<b>June'20</b>	<b>March'20</b>	<b>Dec'19</b>	<b>bps</b>	<b>bps</b>
CAR (Capital adequacy ratio – Basel III)	16.31	14.13	16.30	218	1
CET1 (Common equity tier 1) ratio	12.95	10.82	12.93	213	2
Loan to deposit ratio	95.6	93.8	94.6	180	100

Figures may not add up due to rounding differences

### Key indicators (Q2'20)

Net profit (AED billion)	Return on average tangible equity (ROATE %) <sup>3</sup>	Return on average assets (ROAA %) <sup>3</sup>	Basic earnings per share (EPS – AED)
1.227	13.2	1.20	0.18

<sup>1</sup> The results for H1'19 are based on the pro forma financial statements for the combined entity, following the merger between ADCB and Union National Bank, and the subsequent acquisition of Al Hilal Bank on 1 May 2019

<sup>2</sup> Operating expenses include non-recurring expenses pertaining to integration-related costs

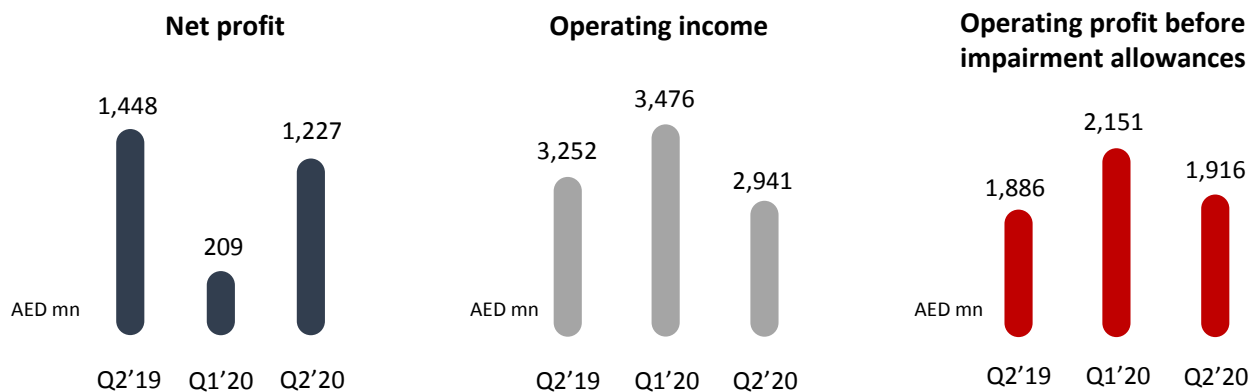
<sup>3</sup> For ROATE/ROAA calculations, net profit attributable to equity shareholders is considered, i.e., net profit after deducting interest expense on Tier I capital notes

Note: In March 2020, the purchase price allocation was completed. As required under IFRS3, the fair value of loans and advances, investment securities and non-controlling interests as at the acquisition date were updated from the previous provisional amounts reported. Therefore, the comparative information has been restated to reflect these adjustments.

Comparisons in this section are calculated for the quarter ended 30 June 2020 ("Q2'20") versus 31 March 2020 ("Q1'20"), and 30 June 2019 ("Q2'19") unless otherwise specified.

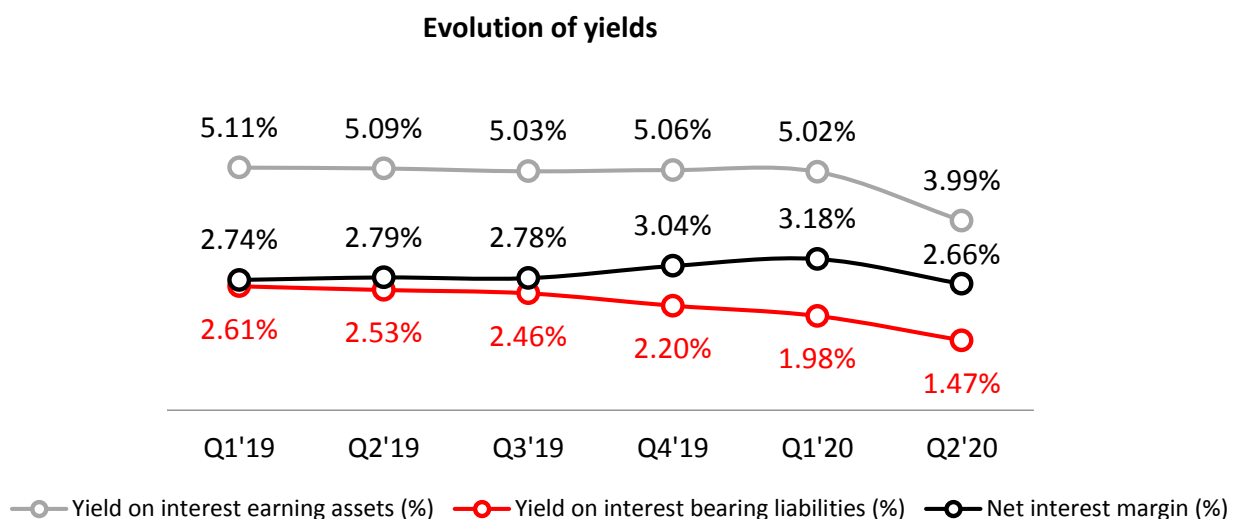
### Significant increase in Q2'20 net profit sequentially on account of lower impairment charges and continued reduction in operating expenses

- ▶ Q2'20 net profit of AED 1.227 billion compared to AED 209 million in Q1'20. This was driven primarily by a decrease in total impairments to AED 668 million, from AED 1.882 billion in Q1'20. The Bank took an AED 1.072 billion provision for its exposure to NMC Health Group, Finablr and associated companies in Q1'20 and increased provisioning on Finablr and associated companies by AED 159 million in Q2'20.



### Strong improvement in cost of funds driven by continued strategy to grow CASA deposits, in combination with declining benchmark rates

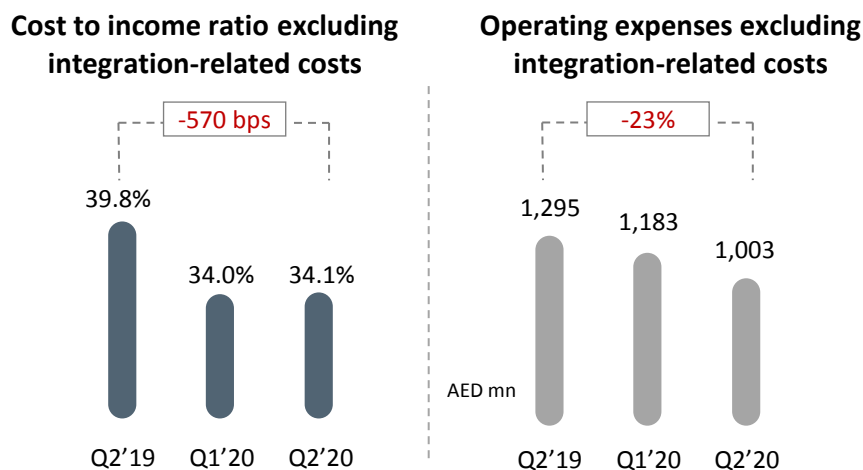
- ▶ The Bank's strategy to rebalance and re-price the deposit base, in combination with declining benchmark rates, resulted in a year-on-year improvement of 106 basis points in cost of funds to 1.47% in Q2'20. The sequential improvement was 51 basis points.
- ▶ Net interest income of AED 2.347 billion decreased 10% from Q2'19 and 16% from Q1'20. Net interest margin at 2.66% decreased from 3.18% in the previous quarter on account of lower benchmark rates and volumes, with asset yields declining on account of fair value adjustments and interest releases reported in Q1'20, which were not repeated in Q2'20.



- ▶ Non-interest income of AED 594 million was down 9% from Q2'19 and 13% lower than in Q1'20, mainly on account of lower net fees and commission as the economic environment impacted card-related fees, loan-processing fees and trade finance commission. This was partially offset by a rise in other operating income and trading income due to higher gains from foreign exchange and securities trading.
- ▶ Q2'20 operating income of AED 2.941 billion decreased 10% year on year reflecting the current operating conditions marked by lower interest rates, lower volumes and the impact of Covid-19 on the economy.

### Cost to income ratio improved substantially due to the capture of merger-related synergies and continued focus on effective management of the cost base

- ▶ Cost to income ratio, excluding one-off integration costs, improved 570 basis points year on year to 34.1% in Q2'20.
- ▶ Operating expenses, excluding integration costs, decreased 15% sequentially and 23% year on year to AED 1.003 billion, due to lower staff costs and general administrative expenses.
- ▶ The Bank is on track to capture 75% of its run-rate synergy target of AED 1 billion this year and reach the full target in 2021 as planned. The Group realised synergies of AED 226 million in Q2'20, bringing synergies realised in H1'20 to AED 411 million. Integration costs are projected to be well within the budgeted AED 980 million, with AED 557 million incurred to date (excluding capex).

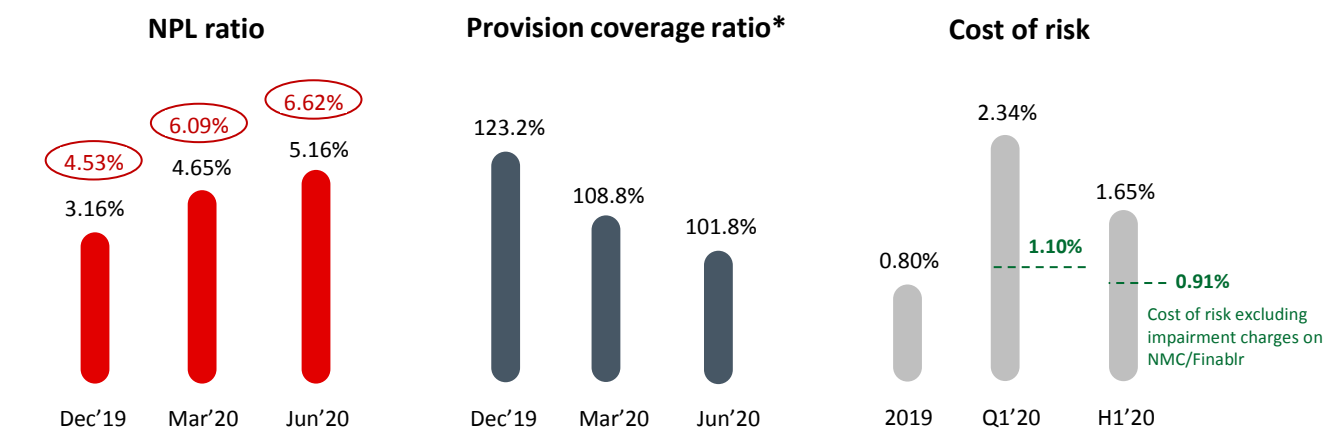


### Loan book remained stable during H1'20 despite economic impact of Covid-19. Bank received large corporate repayments at the end of Q2'20

- ▶ The Group's balance sheet remains strong, with total assets standing at AED 406 billion as at 30 June 2020. Following the merger with Union National Bank and acquisition of Al Hilal Bank, the Bank completed the purchase price allocation (PPA) exercise in the first quarter of 2020 as planned.
- ▶ The loan book remained stable with an average loan balance of AED 248 billion in H1'20. However period-end net loans were at AED 239 billion as at 30 June 2020, 3% lower year to date, on account of large corporate repayments at the end of Q2'20.
- ▶ Total customer deposits were at AED 250 billion as at 30 June 2020, down 5% year to date. CASA balances reached AED 114 billion, up AED 12 billion year to date, and comprised 46% of total customer deposits, compared to 39% as at 31 December 2019.
- ▶ ADCB has utilised close to its full entitlement of AED 8.9 billion under the zero cost funding programme offered by the UAE Central Bank's Targeted Economic Support Scheme (TESS), which is designed to mitigate the economic impact of Covid-19. As at 30 June 2020, ADCB has extended support to over 53,000 customers in the amount of AED 8.3 billion under TESS.

## Bank continues to take prudent approach to provisioning and risk management in a challenging operating environment

- ▶ As at 30 June 2020, the non-performing loan ratio (NPL) was 5.16%, up from 4.65% at the end of March 2020, on account of a few corporate accounts. The NPL ratio including net POCI (purchase or originated credit impaired) assets stood at 6.62%. Total impairment allowances on loans and advances were AED 9.435 billion and the provision coverage ratio stood at 101.8%\*.
- ▶ Year to date, cost of risk stood at 1.65%, and excluding impairment charges on NMC Health Group, Finabl and associated companies, it was at 0.91%.



○ NPL ratio including POCI, net

\* Includes fair value adjustments on loans and advances of AED 3.2 billion in Dec'19, AED 4.6 billion in Mar'20 and AED 4.5 billion in June'20 (for stage 1 and stage 2 accounts only) for computing the coverage ratio

## Capital ratios improved sequentially due to increase in FVTOCI-designated reserves on debt instruments; liquidity position enhanced through measures taken by the Bank

- ▶ The Bank continues to maintain a comfortable liquidity position, with a liquidity coverage ratio of 129.1%. The Bank was a net lender of AED 11 billion in the interbank markets and had a liquidity ratio of 27.0% as at 30 June 2020.
- ▶ Total shareholders' equity was at AED 53 billion as at 30 June 2020, compared to AED 49 billion at the end of Q1'20. Shareholder's equity increased due to an improvement in the fair value of investments through other comprehensive income (FVTOCI) and on account of retained earnings for Q2'20.
- ▶ The Bank remains well capitalised with a Basel III capital adequacy ratio (CAR) of 16.31% and a common equity tier 1 (CET1) ratio of 12.95% as at 30 June 2020.

