

## Board of Directors Report

**Abu Dhabi, 7 March 2017** – Abu Dhabi Commercial Bank PJSC (“ADCB” or the “Bank”) reported its financial results for the year ended 31 December 2016. Full year net profit was AED 4.157 billion. The Board recommended a cash dividend of 40 fils per share equivalent to 50% of net profit subject to shareholder approval at the Annual General Meeting.

### 2016 Financial highlights

Income statement highlights (AED mn)	Year on year trend			Quarterly trend				
	2016	2015	Change % YoY	Q4'16	Q3'16	Q4'15	Q4'16 Change % QoQ YoY	
Total net interest and Islamic financing income	6,201	6,206	0	1,573	1,528	1,476	3	7
Non - interest income	2,294	2,055	12	598	541	539	10	11
Operating income	8,495	8,260	3	2,171	2,070	2,016	5	8
Operating expenses	(2,796)	(2,827)	(1)	(729)	(663)	(715)	10	2
Operating profit before impairment allowances	5,700	5,434	5	1,443	1,406	1,301	3	11
Impairment allowances	(1,521)	(502)	203	(437)	(380)	(110)	15	296
Share in profit of associate	8	1	NM	2	2	1	NM	NM
Profit before taxation	4,187	4,933	(15)	1,008	1,028	1,191	(2)	(15)
Overseas income tax expense	(30)	(6)	NM	(4)	(22)	(1)	NM	NM
<b>Net profit for the period</b>	<b>4,157</b>	<b>4,927</b>	<b>(16)</b>	<b>1,004</b>	<b>1,006</b>	<b>1,191</b>	<b>0</b>	<b>(16)</b>
<b>Net profit attributable to equity shareholders</b>	<b>4,149</b>	<b>4,924</b>	<b>(16)</b>	<b>1,004</b>	<b>999</b>	<b>1,190</b>	<b>1</b>	<b>(16)</b>
<b>Basic EPS (AED)</b>	<b>0.77</b>	<b>0.93</b>	<b>-0.16</b>	<b>0.19</b>	<b>0.18</b>	<b>0.23</b>	<b>0.01</b>	<b>(0.04)</b>

Balance sheet highlights (AED mn)	Change			Change %				
	2016	2015	%	Dec'16	Sep'16	Dec'15	QoQ YoY	
Total assets	258,289	228,267	13	258,289	254,679	228,267	1	13
Loans and advances to customers, net <sup>1</sup>	158,458	146,250	8	158,458	161,562	146,250	(2)	8
Deposits from customers	155,442	143,526	8	155,442	153,353	143,526	1	8

Ratios (%)	2016	2015	bps	Dec'16	Sep'16	Dec'15	bps	bps
CAR (Capital adequacy ratio)	18.92	19.76	(84)	18.92	17.98	19.76	94	(84)
Tier I ratio	15.66	16.29	(63)	15.66	14.72	16.29	94	(63)
Loan to deposit ratio	101.9	101.9	-	101.9	105.4	101.9	(350)	-

Figures may not add up due to rounding differences

### Leading Through: Ambition + Discipline

#### 2016 Key indicators:

Net profit  
(AED billion)



Return on average equity  
(ROAE %)



Return on average assets  
(ROAA %)



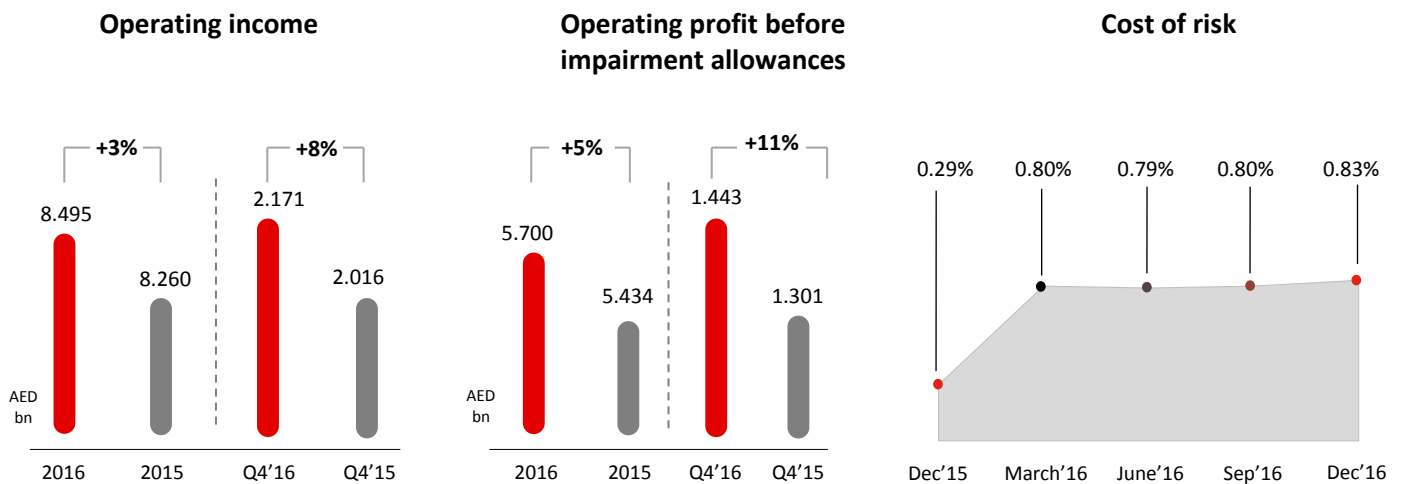
Basic earnings per share  
(EPS – AED)



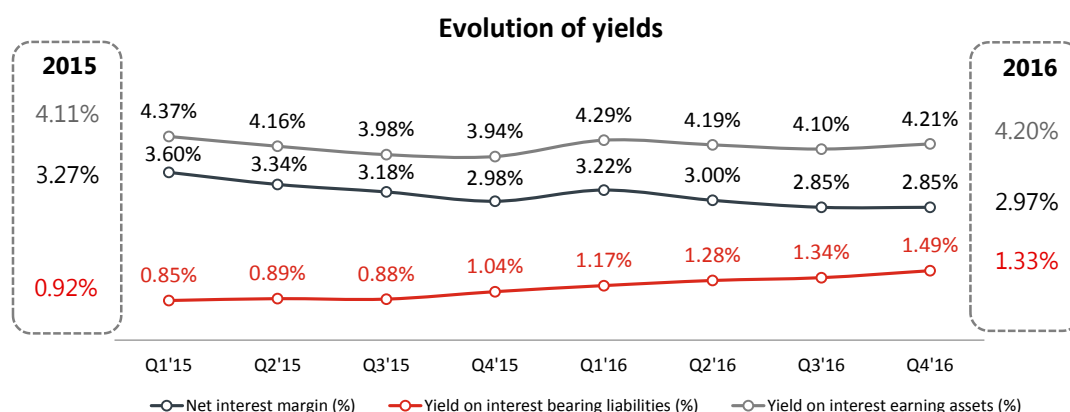
<sup>1</sup> In Q2'16, loans and advances to banks were reclassified to “Deposits and balances due from banks, net” to better reflect the underlying nature of the business of the borrowers. Accordingly, comparative amounts pertaining to previous years were reclassified to conform to current period’s presentation.

## Operating performance: Strong underlying performance and efficiently managed cost base

- ▶ Operating income of AED 8.495 billion was up 3%, while operating profit before impairment allowances of AED 5.700 billion, was up 5% over 2015, reflecting the Bank's strong fundamentals and resilient financial performance in 2016. The Bank's solid underlying performance was also reflected in our quarterly numbers, with an operating income of AED 2.171 billion, up 8% and operating profit before impairment allowances of AED 1.443 billion, up 11% over Q4'15. The Bank achieved these results in the absence of significant recoveries and interest in suspense reversals recorded in 2015, which were not repeated in 2016.
- ▶ Net profit of AED 4.157 billion for 2016 and Q4'16 net profit of AED 1.004 billion were 16% lower year on year, impacted by the lingering effects of low oil prices on economic activity and tightened liquidity, which resulted in higher funding costs and cost of risk for the Bank. Cost of risk for 2016 was 0.83% compared to 0.29% in 2015, reflective of our prudent and disciplined approach to risk management.



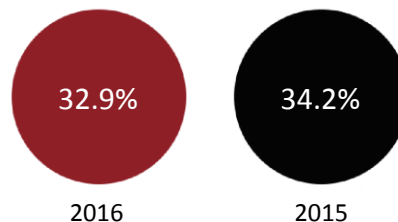
- ▶ Gross interest and Islamic financing income of AED 8.751 billion, was up 12% over 2015, driven by a 10% increase in average interest earning assets over 2015. While asset yields remained strong, higher cost of funds resulted in a flat total net interest and Islamic financing income of AED 6.201 billion, and a lower net interest margin of 2.97% in 2016. The Bank increased its time deposits 13% year on year, providing stability with longer term deposits. The higher premium paid on these deposits and higher Eibor drove cost of funds to 1.33% from 0.92% in 2015.



- ▶ Non-interest income of AED 2.294 billion was up 12% over the previous year and accounted for 27% of operating income in 2016 compared to 25% in 2015. The increase in non-interest income was mainly driven by higher trading income and higher fee and commission income. Net trading income of AED 522 million in 2016 was up 48% year on year, mainly due to higher FX and derivative income. Net fee income of AED 1.472 billion was up 2% over 2015, primarily on account of higher retail banking fees.

- ▶ The Bank's disciplined approach to cost management resulted in operating expenses of AED 2.796 billion in 2016, 1% lower year on year. The ongoing bankwide cost management initiatives and higher revenues resulted in an improved cost to income ratio of 32.9% compared to 34.2% in 2015. This improvement was achieved whilst we continued to make prudent investments in our businesses, systems and infrastructure, including a state of the art core banking system and a set of digital initiatives to enhance our offerings and customer service.

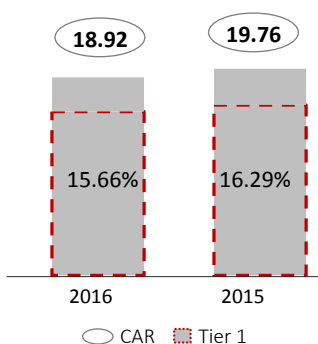
#### Cost to income ratio



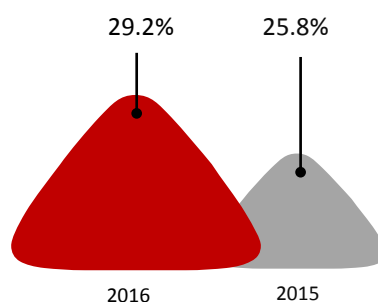
#### Balance sheet highlights: Focused on sustainable growth

- ▶ Total assets reached AED 258 billion as at 31 December 2016, an increase of 13% over 2015. Net loans and advances to customers were AED 158 billion, up 8% year on year, compared to system wide growth of 6%. Consumer Banking loans increased 5%, while Wholesale Banking loans increased 11% year on year. 94% of loans to customers (gross) were within the UAE, in line with the Bank's UAE centric strategy. Loans to banks decreased 52% year on year to AED 3.6 billion.
- ▶ Total customer deposits increased to AED 155 billion as at 31 December 2016, up 8% year on year, outpacing the system wide growth of 6%. Year on year, low cost CASA deposits increased 3% to AED 65 billion, and comprised 42% of total customer deposits. In a tight liquidity environment, the Bank was able to maintain its loan to deposit ratio of 101.9%, and improved its liquidity ratio to 29.2% from 25.8% in 2015.
- ▶ The Bank adopted the liquidity coverage ratio (LCR) standard issued by Basel and the UAE Central Bank. LCR at the end of 2016 stood at 129% as compared to a minimum ratio of 70% prescribed by UAE Central Bank. ADCB was amongst the first banks approved by the Central Bank to publish the LCR ratio.
- ▶ Investment securities totaled AED 33 billion, an increase of 58% year on year, mainly driven by an increase in UAE government bonds, providing further liquidity for the Bank. The Bank was a net lender of AED 22 billion in the interbank markets at year end.
- ▶ Capital and liquidity position continue to be at industry leading levels, with a capital adequacy ratio of 18.92% and a Tier I ratio of 15.66% compared to 19.76% and 16.29% respectively as at 31 December 2015. The reduction in capital adequacy ratio was mainly on account of balance sheet growth and a change in asset mix. The capital adequacy ratio minimum requirement stipulated by the UAE Central Bank is 12% and the Tier I minimum requirement is 8%.

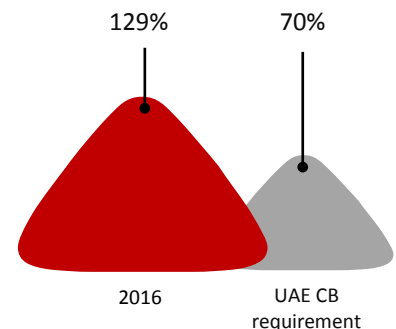
#### Capital adequacy ratio (%)



#### Liquidity ratio (%)

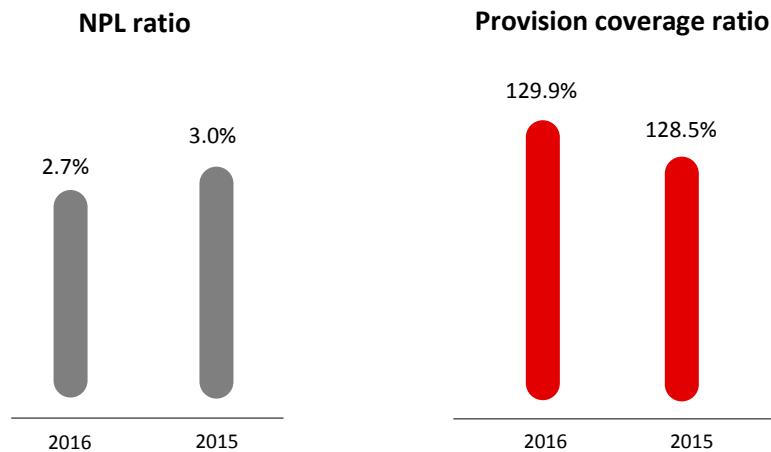


#### Liquidity coverage ratio (%)



## Healthy asset quality metrics

- ▶ Non-performing loan (NPL) and provision coverage ratios were 2.7% and 129.9% respectively, compared to NPL ratio of 3.0% and provision coverage ratio of 128.5% as at 31 December 2015. Non-performing loans were AED 4.600 billion compared to AED 4.834 billion as at 31 December 2015, a decrease of 5% year on year.
- ▶ Charges for impairment allowances on loans and advances, net of recoveries amounted to AED 1.552 billion in 2016 compared to AED 500 million in 2015. Loan impairment charges in 2016 include collective impairment charges of AED 226 million to account for increase in the loan book and reflecting our prudent risk management approach.
- ▶ The Bank's collective impairment allowance balance was AED 3.194 billion, 1.89% of credit risk weighted assets and above the minimum 1.5% stipulated by the UAE Central Bank, while individual impairment balances stood at AED 2.851 billion.

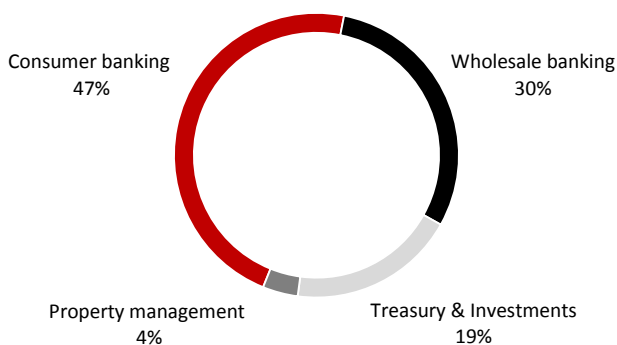


## Business review: Strong performance in 2016 was driven by significant contribution from all our businesses

### Percentage contribution to operating income

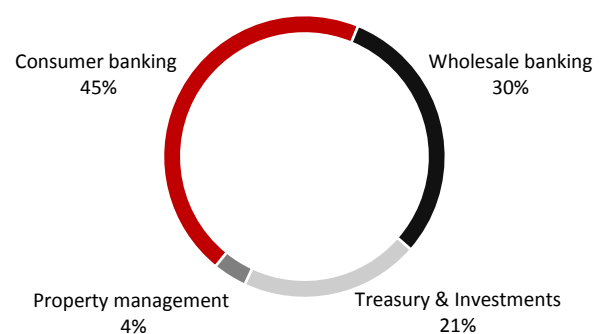
#### 2016

Total operating income: AED 8.495 billion



#### 2015

Total operating income: AED 8.260 billion



## Consumer Banking Group\* (CBG)

Consumer Banking Group delivered strong results in 2016. Despite the challenging and highly competitive environment, operating income for the Group rose 5% to AED 3.953 billion and operating profit before impairment allowances increased 8% to AED 2.171 billion over 2015. Year on year, CBG deposits increased 18% to AED 50 billion, while net loans increased 5% to AED 71 billion as at 31 December 2016. An increase in the customer base led to a 32% growth in the retail liability book and 5% growth in the retail asset book over 2015.

\* Consumer banking includes retail and high net worth individuals and their businesses

ADCB has set a new standard for digital banking in the UAE with the opening of the first uBank, ADCB's digital banking centre, at Yas Mall in Abu Dhabi. It is the first of its kind digital banking centre in the UAE, which enables the path of transition from conventional banking channels to a paperless digital experience, with the help of biometric authentication and digital signature and video assistance from a Virtual Relationship Officer, if required. At uBank a new customer may open a bank account and receive his debit card, cheque leaves and credit card instantly. In addition, uBank can also service several requirements for existing ADCB customers, such as emergency replacement of credit or debit card.

Today, more than 90% of our retail financial transactions occur digitally, with mobile banking emerging as the fastest growing channel. Adoption and usage of the internet and mobile banking platforms continued to grow in 2016, with the percentage of active users reaching 51% for internet banking and 65% for mobile banking. Our first in market, multi-lingual voice authentication system, VoicePass, now has over 64,000 registered users, with 30% active users every month and over 1,100 authentications every day.

Numerous enhancements and refinements were made to our mobile app this year. These include the introduction of Fingerprint Authentication, Balance Preview and "Ready Money" released this year. "Ready Money", a first in the UAE, allows customers to make international transfers using ADCB Credit Cards. The app also enables faster remittances to 14 countries through the Xpress Money partnership. The constant innovation and development of this channel has resulted in financial transactions via mobile app overtaking the desktop for the first time this year.

2016 also saw the continued launch of ADCB Private, introduced at the very end of 2015. This regionally distinctive private banking proposition aims at the top end of the market, with a full suite of services tailored to high-net-worth individuals and families. By year end 2016, ADCB Private's assets under management had grown to AED 3.4 billion. SimplyLife, our suite of banking solutions aimed at the mass market launched just two years ago, led the growth in our retail asset book, contributing AED 1.1 billion in 2016.

### **Wholesale Banking Group (WBG)**

Wholesale Banking Group delivered year on year growth of 3% in operating income at AED 2.579 billion and 9% growth in operating profit before impairment allowances at AED 1.878 billion. Customer deposits increased 12% to AED 66 billion, and net loans and advances to customers increased 11% year on year to AED 87 billion as at 31 December 2016. Loans to banks decreased 52% year on year to AED 3.6 billion, due to conscious decisions to reduce this portfolio. Whilst the external market conditions were challenging in 2016, the Bank stayed on plan and posted strong results for our wholesale business.

We grew our commercial business serving small to medium enterprises (SMEs) in 2016. We remain positive on business opportunity in this market segment, despite present pressure on some firms. SMEs remain a net contributor of liabilities to our balance sheet. Our active SME client roster is now over 19,000 strong and our focus has been to grow our share of wallet with these customers in a controlled, risk averse manner. We have also increased the number and proportion of new loans that are collateralised. ADCB remains one of the few providers still fully open for business in this critical segment of the UAE economy.

Mid-corporates also face a challenging time in a rapidly changing risk environment. ADCB benefits from having built a relatively clean loan book in this segment, through high quality lending and stringent discipline in client selection. Our focus on mid-corporates is relatively new and we have built a substantial market share in around 5 years. We maintain our position as a large and growing force in serving large corporates and government-related entities in the UAE.

Our transactional banking business had a record year in 2016, in every market segment. We continue to invest and focus on transactional banking because of the breadth of new client relationships it can provide, and the accompanying strong client retention. Our leading cash management business once again delivered a record number of new client mandates, with payment automation now at 77% of all activity. Our world-class cash management and client services also enable strong current account and savings account (CASA) growth, as well as low-cost deposits which help to support the Bank's funding needs.

Early in 2016, to strengthen the real estate market and protect buyers and sellers, the government of Abu Dhabi established a legal requirement for escrow related to real estate development projects. As a leader in providing such escrow services elsewhere in the UAE, ADCB was uniquely asked to consult on structuring the regulation and became the first registered escrow bank in Abu Dhabi.

### **Treasury & Investments Group (Treasury)**

Despite a challenging backdrop with unprecedented financial market and geo-political turmoil, Treasury & Investments Group (Treasury), delivered solid results, with an operating income of AED 1.600 billion and operating profit before impairment allowances of AED 1.403 billion. Of particular note, revenue from trading activities grew by 48% year over year, adding meaningful diversity to the Bank's revenue streams.

2016 was a challenging year. The UAE's diversified economic base as well as structural reforms helped to soften the impact somewhat. However, liquidity in the region remained tight as government and public sector deposits declined. Treasury was effective in diversifying our funding base through innovations in funding formats and tapping existing markets more deeply by offering diverse opportunities to our established investor base.

Treasury's success in dealing with the challenging liquidity environment and in responding to the fast-changing market and regulatory backdrop, stems from the disciplined execution of its strategy. Early adaptation of international best practices around liquidity coverage, capital management and funding diversification has helped provide a stable platform for our other activities. In turn, the group has delivered strong, sustainable revenue and growth through continuous engagement with clients and delivering innovative product offerings.

The Bank has continued the buildup of its HQLA portfolio despite significant volatility in interest rate and credit markets, and has diversified its sources of funding from new markets, tenors, formats and currencies. This has allowed the Bank to achieve our stated objective of maintaining some of the strongest liquidity and capital ratios amongst our peer group.

As for wholesale funding, 2016 stands as ADCB's most successful year ever, raising over USD 3.3 billion in new funding. Wholesale funding is a critical element of ADCB's strategy for generating more stable and diversified term structure to its liability profile, and also paramount in terms of meeting the upcoming regulatory requirements for liquidity management.

With less than a year before various far reaching international regulatory changes come into effect, Treasury will continue to adjust our franchise and internal resource allocation to ensure that we deliver value to our shareholders over the long term.