

Abu Dhabi Commercial Bank PJSC

Earnings Press Release and
Management Discussion & Analysis
For the first quarter ended
31 March 2021



بنك أبوظبي التجاري
ADCB



ABU DHABI COMMERCIAL BANK PJSC REPORTS
FIRST QUARTER 2021 NET PROFIT OF AED 1.121 BILLION
UP 436% YoY AND 11% QoQ

Abu Dhabi, 25 April 2021 – Abu Dhabi Commercial Bank PJSC (“ADCB” or the “Bank”) today reported its financial results for the first quarter of 2021 (“Q1’21”).

- ▶ **Strong financial performance driven by aggressive cost management discipline, significantly higher non-interest income and marked improvement in cost of risk**

Q1’21 Key highlights

- Net profit of AED 1.121 billion increased 436% year on year and 11% sequentially
- Net interest income of AED 2.119 billion was 10% lower sequentially and 24% lower year on year mainly on account of the low interest rate environment and subdued macro-economic conditions. This was partially offset by higher non-interest income of AED 802 million, which was up 14% sequentially and 17% year on year
- Operating expenses of AED 1.061 billion decreased 20% year on year and 1% sequentially as the Bank continued to invest in digital offerings. Cost to income ratio of 36.3% in Q1’21 improved 180 basis points from a year earlier, driven by aggressive realisation of merger synergies, efficiencies derived from digital transformation and an additional programme of cost control measures
- The Bank is firmly on track to exceed its AED 1 billion cost synergy target for 2021, having captured cost synergies of AED 917 million in 2020
- ADCB continues to take a prudent approach to provisioning. Net impairment charges were AED 704 million in Q1’21, a decrease of 25% sequentially and 63% lower year on year

- ▶ **Robust balance sheet, with strong capital and liquidity positions. Current and savings account (CASA) deposits increased significantly to 58% of total customer deposits**

- CASA deposits increased by AED 10.5 billion during the quarter to AED 138 billion and accounted for 58% of total customer deposits compared to 51% at year end. Total customer deposits decreased 5% quarter on quarter to AED 239 billion as at 31 March 2021, as the Bank continued to replace expensive time deposits. Average deposit balance was AED 246 billion during the quarter
- Net loans decreased 1% quarter on quarter to AED 236 billion as at 31 March 2021, resulting primarily from corporate repayments in the real estate sector as well as significant provisioning levels. Average loan balance was AED 233 billion during the quarter
- The Bank’s active engagement with customers who have benefitted from TESS and other deferrals has resulted in repayments of AED 6.716 billion
- Total shareholders’ equity stood at AED 56 billion as at 31 March 2021
- Capital adequacy (Basel III) and CET1 ratios were 16.64% and 13.39% (post dividend payment) respectively and liquidity coverage ratio (LCR) of 139.3% as at 31 March 2021

- NPL ratio of 6.5% and provision coverage ratio of 88% while the coverage ratio including collateral held was 139% as at 31 March 2021. Including net POCI (purchase or originated credit impaired) assets, the NPL ratio was 8.10%. Cost of risk was 0.84% for Q1'21
- Given the headwinds faced by certain counterparties in the construction industry, ADCB remained proactive in working with contractors, developers and other stakeholders to achieve beneficial commercial outcomes. The Bank has been prudent in taking increased provisions reflective of stress in the sector

▶ **Launch of new five-year strategy focused on accelerated digital transformation to gain market share and enhance group-wide efficiencies**

- Creation of significant shareholder value through growth in market share and enhanced efficiencies, including additional savings beyond integration. The strategy impacts all aspects of the organisation, including ensuring appropriate risk appetite and best practice governance, a robust balance sheet, with optimised cost of funds
- Focus on market-leading digitisation, advanced analytics and artificial intelligence through implementation of a comprehensive roadmap across the Bank to drive customer acquisition, engagement and experience. The Bank is adopting an agile and efficient operating model, leveraging technology to enable delivery of digital and analytical capabilities with speed and improved productivity
- Continuation of successful strategy to attract CASA deposits. Further development of Consumer Banking business through growth in mortgages and credit cards, enabled by a revamped digital value proposition. Expansion of Wholesale Banking through a wide range of fee-generating services and broadening to new customer segments

▶ **Digital transformation builds on continued increase in customer engagement**

- The Bank launched 9 digital customer releases during the quarter, bringing the cumulative total to 71 releases since inception of the digital transformation programme*
- New developments in Q1'21 for Consumer Banking included the introduction of credit card loans on the ADCB Mobile Banking app and the launch of a new e-KYC portal to allow customers to easily update identity documents
- Consumer Banking subscribers and active digital users as at 31 March 2021 were 22% higher than a year earlier while digital bill payments and fund transfers were up 42% year on year in Q1'21
- Wholesale Banking introduced enhanced self-service capabilities, including enabling a bulk transactions approval feature on the ProCash digital cash management platform; APIs were launched to extend virtual account opening and closing to additional customers

*Digital transformation programme commenced in 2018

▶ **ADCB Egypt delivering double digit growth in net profit and a return on equity of 22% in line with enhanced strategy to achieve greater efficiencies and capture growth in a high potential market**

- ADCB Egypt finalised its 5 year strategy and is implementing a new operating model to achieve accelerated growth and greater efficiency, while stepping up recruitment of new talent in key areas of the Bank
 - Q1'21 net profit of EGP 170 million, an increase of 28% year on year and equivalent to return on equity of 22.2%
 - Net loans stood at EGP 19 billion, up 15% from year end
 - Total deposits reached EGP 33 billion, up 12% from year end
- The Consumer Banking business, which is focused on the affluent segment, is preparing to launch credit card and remittance payment solutions as well as a new digital banking platform to increase share of digital transactions and enhance customer experience
- The Wholesale Banking business, which serves the SME, mid-corporate and large corporate segments, is capturing synergies with the ADCB Group through facilitation of cross-border services, and plans to introduce a new online banking platform

▶ **Al Hilal Bank enhancing its digital proposition with new platform to become the first fully digital Sharia'ah-compliant retail bank in the UAE, with regional growth ambitions**

- Al Hilal Bank is preparing to launch a new Islamic Digital Financial services platform in Q4'21. It will offer seamless digital financial solutions for customers and their families to meet their lifestyle needs
- In addition to regular banking products such as accounts, payment cards and loans, the platform will harness state-of-the-art technology to enable non-banking financial solutions through an ecosystem of partnerships. The proposition is driven by customer insight provided by advanced data analytics, machine learning and artificial intelligence
- The scalable offering is built on a cloud-based platform to ensure agility, enabling the Bank to respond to evolving customer needs and to extend access to customers in key regional markets post successful launch in the UAE

▶ **Strong momentum in NMC Health Group restructuring and provisioning levels reflect potential for recoveries**

- **Update on restructuring process:** Following the entry into administration in 2020 of NMC Health Group (NMC) and its UAE subsidiaries, the restructuring process has gathered strong momentum. ADCB continues to work closely with the joint administrators and other creditors to approve and implement a restructuring plan that preserves and builds value at NMC and maximises recoveries
- ADCB, together with a syndicate of lenders, participated in a US\$ 325 million Administration Funding Facility (AFF) to ensure operational continuity of NMC and to pave the way for restructuring. Participation in the AFF confers super senior status to an equivalent amount contributed to the facility, placing the Bank in a strong position to maximise the potential for its recoveries

- **Update on financial performance:** NMC has adopted a three-year business plan and has been outperforming its financial projections on revenue and EBITDA metrics**. Also, the company has embarked on the sale of non-core assets and the divestment of Luarmia and Boston IVF to Fresenius for a total enterprise value of EUR 430 million, which is expected to be completed in Q2'21. Proceeds will be used to repay a portion of the AFF and for operating expenditure
- **Update on potential recoveries:** To date, the Bank has recorded significant provisions and interest in suspense on the NMC Group. ADCB is comfortable with these provisioning levels, which are in line with independent assessments on value and recoverability and are consistent with information on potential recoveries disclosed to creditors by NMC under the Entity Priority Model (EPM)
- Implementation of a Plan of Reorganisation (PoR) requires the support of at least 50.1% of unsecured creditors by value for each of the 29 entities under administration, with a 28 May 2021 deadline set for creditors to agree to proceed. The proposed alternative option is a sale of core assets

Ala'a Eraiqat, Group Chief Executive Officer, commented:

“ADCB had a strong start to 2021, recording net profit of AED 1.121 billion in the first three months, growth of 11% sequentially and significantly higher than in the first quarter of 2020, largely due to improved cost of risk compared to Q1'20.

ADCB's institutional strength has underpinned the resilience of our Consumer and Wholesale Banking businesses. Merger synergies, acceleration of digital transformation and additional cost initiatives have resulted in greater efficiency across our operations.

ADCB benefits from a robust balance sheet and in March, the recommended cash dividend of AED 1.9 billion, equivalent to 49% of net profit, was approved at the Bank's Annual General Meeting. The Bank continues to pursue growth opportunities in line with its prudent risk management framework. During Q1'21, we announced the acquisition of the retail and SME mortgage portfolios of Abu Dhabi Finance, with a gross book value of AED 1.130 billion. The transaction, which further diversifies our asset and customer base, is expected to complete in Q2'21.

Having successfully integrated UNB and Al Hilal Bank into the ADCB Group and exited non-core assets and geographies, the Bank is driving further growth through a new five-year strategy to increase market share and enhance efficiency. The strategy, which is being delivered through a detailed road map with clear targets for each business unit, will deliver a superior digital offering and deeper customer engagement.

In our core-UAE market, where ADCB has a strong franchise, we will continue our successful strategy of attracting current and savings account (CASA) deposits, which increased to AED 138 billion at the end of March, accounting for 58% of total deposits compared to 51% at year end.

The Consumer Banking Group will grow its customer base, particularly through the mortgage and credit card businesses, while the Wholesale Banking Group will leverage its network of corporate relationships to expand fee-generating services. Building on its digital strategy, Al Hilal Bank continues to invest in innovation to provide a high-quality Sharia'ah-compliant retail banking offering. ADCB continues to invest in its sizeable and profitable operation in Egypt, where we see high growth potential, and we will continue to expand our presence and product offerings in the market.

** Further information on the restructuring process, financial performance and projections is available in the Investor Relations section of the NMC website – nmc.ae

Medium term guidance and outlook

Through this strategy, we remain committed to creating sustainable shareholder value. In the medium term, ADCB is targeting a dividend payout ratio in the range of 50% of net profit and a CET-1 ratio greater than 12%.

The operating environment in the UAE continues to improve gradually. Nevertheless, we recognize that conditions remain challenging for some sectors. The Bank therefore remains committed to supporting individuals and corporates impacted by the Covid-19 pandemic through TESS and other deferrals. Our active approach to engaging with customers is enabling them to transition out of the schemes, and has resulted in AED 6.7 billion of repayments to the Bank over the last nine months.

We remain confident that the UAE economy is progressing well on the path to recovery from the impact of the Covid-19 pandemic, driven by a robust response guided by the country's leadership. The UAE Central Bank's support for the economy through TESS, in combination with the Government's strong fiscal position and rapid roll-out of an effective vaccination programme that has reached 103 doses per 100 people¹ in the UAE, are underpinning consumer and business confidence."

Deepak Khullar, Group Chief Financial Officer, commented:

"ADCB delivered a solid financial performance in the first quarter, reflecting the Bank's strong resolve over the last 12 months in the face of global economic disruption.

We have continued to focus on delivering a sustained improvement in the efficiency ratio. Operating expenses in the first quarter were 20% lower year on year, as we realised further merger synergies, continued our programme of additional cost control measures and benefited from efficiencies stemming from digital transformation. The Bank is firmly on track to exceed its AED 1 billion cost synergy target for 2021, having captured cost synergies of AED 917 million in 2020.

While the UAE economy is broadly on an upward trajectory, a number of sectors, such as real estate contracting, aviation, and retail are expected to take longer to recover. The Bank continues to proactively manage sectoral concentration risk in a prudent manner and has reduced exposure to the construction and real estate sector. The real estate loan portfolio remains well diversified with a conservative LTV ratio, and completed properties account for the majority of the book.

We continue to be prudent in providing for expected credit losses for businesses that are likely to experience stress in the medium to long term due to the current challenging macro-economic environment. The Group recorded gross impairments of AED 4.3 billion in 2020, including significant one-off charges on NMC Group and on exposure to the real estate and contracting sector. In addition, the Bank took fair value adjustments of AED 5.7 billion on performing loans², including historical ECL, at the date of their acquisition through the merger with UNB and Al Hilal Bank. Considering all prevailing factors and progress in NMC's restructuring process, the Bank views existing provisioning levels to be prudent and appropriate.

ADCB's financial position remains strong, with robust capital and liquidity positions. We remain confident that the Bank is well positioned to pursue opportunities for growth in 2021 as the UAE economy continues to recover."

¹ UAE Ministry of Health and Prevention, as at 24 April 2021

² Stage 1 and Stage 2 loans

Q1'21 MANAGEMENT DISCUSSION & ANALYSIS

Q1'21 Financial highlights

Income statement highlights (AED mn)	Q1'21	Q4'20	Q1'20	△QoQ%	△YoY%
Total net interest and Islamic financing income	2,119	2,362	2,789	(10)	(24)
Non-interest income	802	701	687	14	17
Operating income	2,922	3,063	3,476	(5)	(16)
Operating expenses ¹	(1,061)	(1,073)	(1,325)	(1)	(20)
Integration expenses	-	74	(143)	NA	NA
Operating profit before impairment allowances	1,861	1,990	2,151	(6)	(13)
Impairment allowances	(704)	(938)	(1,882)	(25)	(63)
Net profit for the period	1,121	1,007	209	11	436

Balance sheet highlights (AED mn)	March'21	Dec'20	March'20	△QoQ%	△YoY%
Total assets	395,819	411,156	412,192	(4)	(4)
Net loans and advances	235,725	238,976	246,663	(1)	(4)
Deposits from customers	238,830	251,395	262,863	(5)	(9)
Ratios (%)	March'21	Dec'20	March'20	bps	bps
CAR (Capital adequacy ratio – Basel III)	16.64	17.22	14.13	(58)	251
CET1 (Common equity tier 1) ratio	13.39	13.91	10.82	(52)	257
Loan to deposit ratio	98.7	95.1	93.8	360	490

Figures may not add up due to rounding differences

Key indicators (Q1'21)

Net profit (AED billion)	Return on average tangible equity (ROATE %) ²	Return on average assets (ROAA %) ²	Basic earnings per share (EPS – AED)
1.121	9.8	1.04	0.15

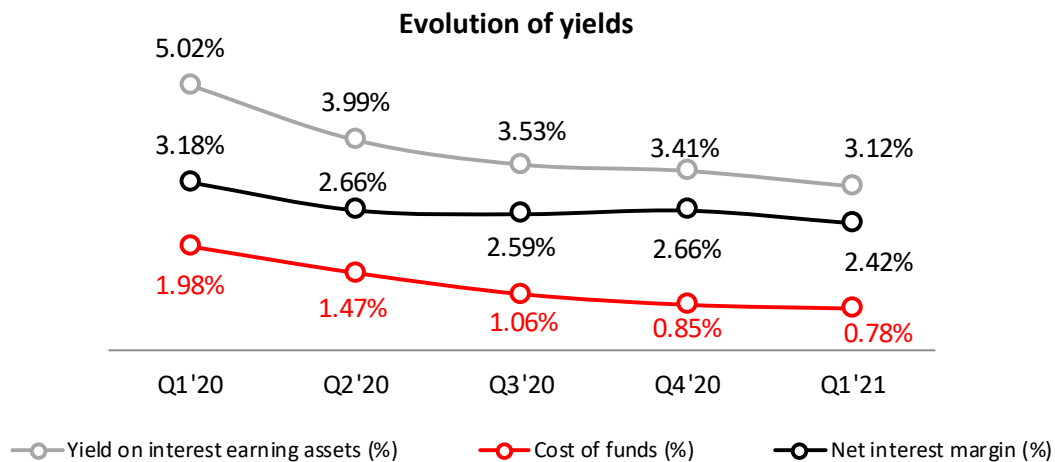
¹ Operating expenses include non-recurring expenses pertaining to integration-related costs.

² 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.

Comparisons in this section are calculated for the quarter ended 31 March 2021 ("Q1'21") versus the quarters ended 31 December 2020 ("Q4'20") and 31 March 2020 ("Q1'20") unless otherwise specified.

Strong increase in net profit driven by aggressive cost management discipline, significantly higher non-interest income and marked improvement in cost of risk

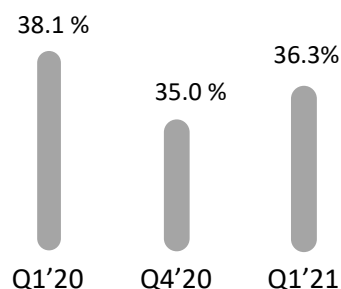
▶ Net interest income of AED 2.119 billion was 10% lower sequentially and decreased 24% year on year mainly on account of lower benchmark rates and subdued macro-economic conditions. Net interest margin (NIM) of 2.42% in Q1'21 was 24 basis points lower sequentially, as the Bank recorded higher fair value unwinds and net interest in suspense reversals in Q4'20. Cost of funds improved to 0.78% in Q1'21 from 0.85% in Q4'20 and 1.98% a year earlier as the Bank continued its strategy to rebalance the proportion of time deposits and CASA deposits to optimise its funding mix.



▶ The Bank's revenue continues to diversify, with non-interest income up 14% sequentially and 17% year on year to AED 802 million in Q1'21, to account for 27% of total operating income versus 20% a year earlier. Net fee and commission income of AED 443 million was 3% higher year on year mainly attributable to higher card-related income of AED 124 million, which was up 29%. Net trading income increased 11% year on year to AED 154 million on account of higher derivative income. Other operating income of AED 205 million increased 76% year on year, driven by retirement of hedges and higher net gains from disposal of investment securities.

▶ Operating expenses decreased 1% sequentially and 20% year on year to AED 1.061 billion. Cost to income ratio stood at 36.3% in Q1'21, an improvement of 180 basis points from a year earlier. ADCB Group delivered AED 242 million in cost synergies for the quarter and is firmly on track to surpass its AED 1 billion cost synergy target for 2021, having captured cost synergies of AED 917 million in 2020. The Bank successfully completed integration in 2020 and is no longer incurring integration costs, with the final total of AED 545 million (excluding capex) significantly outperforming the original projection of AED 980 million. Greater efficiencies are also being driven by digital transformation and a continuing programme of additional cost control measures in line with the Bank's new five-year strategy.

Cost to income ratio



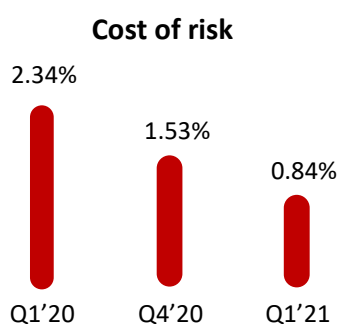
- ▶ Net impairment charges of AED 704 million in Q1'21 were 25% lower sequentially and 63% lower than in Q1'20, when the Bank recorded significant impairment charges related to NMC, Finabl and associated companies.
- ▶ Net profit of AED 1.121 billion was up 11% sequentially and 436% higher than Q1'20 net profit of AED 209 million. This was equivalent to a return on average tangible equity of 9.8%.

Continued focus on optimising funding mix through increased current and savings account (CASA) deposits while maintaining a well diversified loan portfolio, with reduced exposure to real estate

- ▶ The Group's balance sheet remains strong, with total assets standing at AED 396 billion as at 31 March 2021. Net loans and advances decreased 1% sequentially to AED 236 billion at the end of Q1'21. The Bank received corporate repayments of over AED 4 billion, which reduced exposure to the real estate sector to 27% of the total loan book from 29% at year end. The average loan balance was AED 233 billion during the quarter.
- ▶ The Bank continued to optimise cost of funds. CASA deposits increased by AED 10.5 billion during the quarter to AED 138 billion and accounted for 58% of total customer deposits compared to 51% at year end. Retail CASA deposits continued to increase, rising AED 6 billion during the quarter. Total customer deposits stood at AED 239 billion as at 31 March 2021, a decline of 5% from year end, with the Bank continuing to reduce time deposits. The average deposit balance was AED 246 billion during the quarter.
- ▶ Total shareholders' equity stood at AED 56 billion as at 31 March 2021.
- ▶ The Bank remains well capitalised with capital adequacy (Basel III) and CET1 ratios of 16.64% and 13.39% respectively as at 31 March 2021. At the Bank's Annual General Meeting in March, shareholders approved the recommended cash dividend of AED 1.9 billion, equivalent to 49% of net profit.
- ▶ ADCB continues to maintain a comfortable liquidity position, with a liquidity coverage ratio of 139.3%. The Bank maintained a net lending position of AED 5 billion in the interbank markets in Q1'21 and had a liquidity ratio of 29.3% and a loan-to-deposit ratio of 98.7% as at 31 March 2021.

Provisioning levels prudent and appropriate considering prevailing factors, including the operating environment and strong momentum in NMC Group's restructuring process

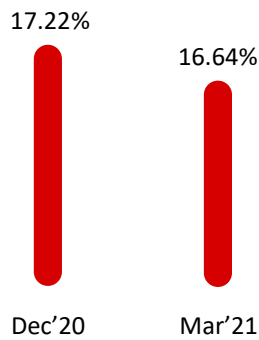
- ▶ NPL ratio of 6.5% and provision coverage ratio of 88% while the coverage ratio including collateral held was 139% as at 31 March 2021. Including net POCI (purchase or originated credit impaired) assets, the NPL ratio was 8.10%. Cost of risk was 0.84% for Q1'21.



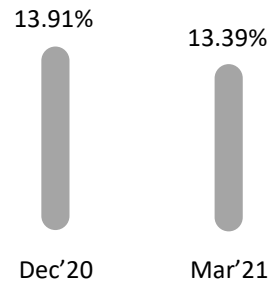
- ▶ To date, the Bank has recorded significant provisions and interest in suspense of AED 1.656 billion on the NMC Group. ADCB is comfortable with these provisioning levels which are in line with independent assessments on value and recoverability and are consistent with information on potential recoveries disclosed to creditors by NMC under the Entity Priority Model (EPM). NMC's core businesses are outperforming its business plan financial projections and the sale of non-core assets is progressing well. ADCB, together with a syndicate of lenders, participated in a US\$ 325 million Administration Funding Facility (AFF) to ensure operational continuity of NMC and to pave the way for restructuring. Participation in the AFF confers super senior status of an equivalent amount contributed to the facility, placing the Bank in a strong position to maximise the potential for its recoveries.

- ▶ The Bank's active engagement with customers who have benefitted from TESS and other deferrals has resulted in repayments of AED 6.716 billion, reducing outstanding deferrals to AED 6.908 billion as at 31 March 2021. The Bank holds collateral of AED 75.459 billion against the AED 56.136 billion total exposure to customers who continue to benefit from deferrals. Of outstanding deferrals, AED 4.7 billion or 69% of the total, are classified as "Group 1" customers that are temporarily and mildly impacted by liquidity constraints without substantial impact to credit-worthiness.

Capital adequacy ratio (Basel III)



CET1 ratio (Basel III)



As part of the TESS programme to respond to Covid-19, the Central Bank of the UAE has allowed banks to tap into their Capital Conservation Buffer (CCB) up to a maximum of 60% and D-SIB buffer up to 100% without supervisory consequences.

Q1'21 and 2020 awards

Customer
Happiness

Gulf Customer Experience
Gold Awards 2021

Customers at the heart
of everything

Gulf Customer Experience
Gold Awards 2021

CX Team of
the year

Gulf Customer Experience
Gold Awards 2021

Best Trade Finance
Bank in UAE

GTR - MENA Country
Awards 2020

ADCB TouchPoints
Loyalty Program

Gulf Customer Experience
Silver Awards

World's Best Bank for
Commodity Finance

Global Finance

Cash Management - Virtual
Accounts Phase 2 API Integration

Global Finance

Payments - ADCB
Mobile Token

Global Finance

UAE Domestic Trade
Finance Bank of the Year

Asian Banking and Finance
magazine's

Best
Homepage

Webby Honoree in Websites
Category, The Webby Awards

Further information on ADCB can be found at adcb.com/ir

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By their nature, these forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond ADCB’s control, including, among others, the UAE domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory and Governmental authorities, the impact of competition, the timing impact and other uncertainties of future acquisition or combinations within relevant industries.

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