

Q2/H1 2021

EARNINGS PRESS RELEASE  
AND MANAGEMENT  
DISCUSSION & ANALYSIS

18 July 2021



## ABU DHABI COMMERCIAL BANK PJSC REPORTS

# NET PROFIT RISES 76% TO AED 2.524 BN IN H1'21 AND UP 14% TO AED 1.402 BN IN Q2'21

Abu Dhabi, 18 July 2021 – Abu Dhabi Commercial Bank PJSC (“ADCB” or the “Bank”) today reported its financial results for the second quarter of 2021 (“Q2'21”).



**Strong performance in Q2'21 supported by higher fee income, lower cost of funds and improved cost to income ratio**

### Key highlights - Q2'21

- **Net profit** of AED 1.402 bn increased 14% YoY and 25% QoQ
- **Net interest income** of AED 2.315 bn was 1% lower YoY and up 9% QoQ
- **Non-interest income** of AED 840 mn increased 41% YoY and 5% QoQ on higher fees and trading income
- **Cost to income ratio** of 33.4% improved 150 basis points YoY, on account of higher revenues, merger synergies, digital transformation and additional efficiencies
- **Impairment charges** of AED 678 mn up 1% YoY and 4% lower QoQ

### Key highlights - H1'21 vs. H1'20

- **Net profit** of AED 2.524 bn increased 76%
- **Net interest income** of AED 4.434 bn was 14% lower
- **Non-interest income** of AED 1.643 bn increased 28%
- **Cost to income ratio** of 34.8% improved 180 basis points from a year earlier
- **Realised cost synergies** of AED 661 mn in H1'21, on track to exceed AED 1 bn target for full year 2021
- **Impairment charges** of AED 1.382 bn, 46% lower

### KEY HIGHLIGHTS Q2'21

## 1.402 BN

NET PROFIT  
(AED)

## 33.4%

COST TO INCOME  
RATIO

## 14.4 BN

INCREASE IN CASA  
DEPOSITS OVER  
6 MONTHS  
(AED)

## 13.20%

CET1

## 13.1%

RETURN ON AVERAGE  
TANGIBLE EQUITY



## Robust balance sheet, with improved asset quality metrics, a pick-up in loan growth and CASA deposits continuing to rise

(All numbers are as at 30 June 2021 unless otherwise stated)

- **CASA deposits** of AED 141.9 bn, up AED 14.4 bn during H1'21, and were 57% of total customer deposits (vs. 51% in Dec'20)
- **Total customer deposits** of AED 250.6 bn were up 5% sequentially and 0.3% lower than in Dec'20
- **Net loans** of AED 237.8 bn were up 1% sequentially and 0.5% lower than in Dec'20
- **Capital adequacy (Basel III) and CET 1 ratios** were 16.32% and 13.20% respectively
- **Liquidity coverage ratio (LCR)** of 127.6%
- **Cost of risk** was 0.82% in H1'21. **NPL ratio** was at 5.86% (7.35% including POCl) while **provision coverage ratio** was 91.5% (145% including collateral held)

(Continued on next page)

**KHALDOON AL MUBARAK****Chairman**

“ ADCB has successfully navigated the many challenges presented by Covid-19 to deliver a robust financial performance in the first half of 2021. This has been driven by the disciplined implementation of our five-year strategy aiming to accelerate the digital transformation, grow new business lines, and enhance efficiencies across the Group.

The growth in net profit is a result of the increase in a diversified revenue stream, disciplined cost control and a prudent approach to risk management. As the business environment continues to improve, ADCB’s strong balance sheet, with comfortable capital and liquidity positions, provides it with a solid foundation for future growth.

Throughout the global pandemic, the Bank stood by its key stakeholders, particularly customers and the wider community. This is deeply rooted in a strong culture of personal and institutional responsibility, fostered through best-practice governance. These qualities will ensure that ADCB remains at the forefront of the UAE’s banking industry, playing an important role in driving sustainable economic growth. ”

**ALA’A ERAIQAT****Group Chief Executive Officer**

“ ADCB Group has continued to demonstrate clear focus and drive to deliver a strong financial performance and to provide continued excellence in customer service.

The Bank recorded a 14% year-on-year increase in net profit of AED 1.402 billion in the second quarter, representing a return on average tangible equity of 13.1%.

Our solid fundamentals and resilience are reflected in a wide range of metrics, including sustained growth in CASA deposits, lower cost of funds, increased fee income, accelerated digital transformation, and a continuously improving cost to income ratio.

The Group is making good progress on implementing its five-year strategy, which places a leading digital offering at the centre of our vision for superior customer experience. The Bank is increasing the pace of innovation, with eight new digital releases in the second quarter, providing easier access to our services and greater efficiency. In parallel, we continue to invest in data analytics to offer more personalised services in response to customer demand.

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SUBSCRIBERS TO ADCB INTERNET AND MOBILE BANKING

Our financial results show that the Bank is capturing greater efficiencies across the board. Cost to income ratio improved 150 basis points year on year to 33.4% in the second quarter, approaching our medium-term guidance of 29% to 32%. We are on track to exceed our target of AED 1 billion of merger synergies, having realised AED 661 million in the first six months of the year, and we continue to implement additional cost discipline measures.

## AED 661 million

COST SYNERGIES CAPTURED IN H1'21

ON TRACK TO EXCEED AED 1 BILLION TARGET IN 2021

In parallel, our key subsidiaries are advancing their growth strategies. Al Hilal Bank is on schedule to launch a new digital platform in the fourth quarter that will offer an extensive range of Islamic financial solutions to retail customers. ADCB Egypt is growing rapidly, with second quarter net profit up 218% year on year, as net loans and deposits increased 19% and 20% respectively during the first six months of 2021.

ADCB is proud to have played a prime role as Joint Lead Manager and Receiving Bank in the success of the recent Yahsat IPO listed on the Abu Dhabi Securities Exchange. We moved quickly to launch an online IPO subscription service allowing customers to participate in the offering conveniently. This transaction brought out the very best of ADCB, demonstrating our capabilities in delivering world-class client service and digital innovation while further diversifying our revenue streams and supporting the development of vibrant capital markets in the UAE.

During the quarter, the Bank also successfully completed the acquisition of the mortgage portfolio of Abu Dhabi Finance and seamlessly transferred customers to ADCB, resulting in an increase of AED 1.077 billion in our mortgage loan book.

Another major achievement over the last year has been the steady progress towards a positive resolution of the NMC Health issue. We have played a proactive role in supporting the operational and financial turn-around at the company and the restructuring process. With NMC in the final stages of obtaining creditor approval for its Plan of Reorganization, the Bank is confident that the provisions it has recorded for NMC are sufficient and appropriate, and we look forward to continuing to support the joint administrators in their strategy to create value at the company.

ADCB maintains a robust balance sheet. High levels of trust in the Bank and customer loyalty have supported our continued success in attracting CASA deposits, which now account for 57% of total deposits. The Bank's CET 1 ratio stood at 13.20% at the end of June and the liquidity coverage ratio was at 127.6%.

With economic conditions improving, ADCB is well-positioned to deliver a new phase of growth. The Bank is an increasingly agile organization, investing significantly in digital services, and elevating customer service to increase market share.



## ABU DHABI COMMERCIAL BANK PJSC

## Q2/H1 2021 MANAGEMENT DISCUSSION &amp; ANALYSIS

## Q2/H1 2021 FINANCIAL HIGHLIGHTS

INCOME STATEMENT HIGHLIGHTS (AED MN)	H1'21	H1'20	ΔYoY%	Q2'21	Q1'21	Q2'20	ΔQoQ%	ΔYoY%
Total net interest and Islamic financing income	4,434	5,136	(14)	2,315	2,119	2,347	9	(1)
Non-interest income	1,643	1,281	28	840	802	594	5	41
Operating income	6,077	6,417	(5)	3,155	2,922	2,941	8	7
Operating expenses <sup>1</sup>	(2,116)	(2,351)	(10)	(1,055)	(1,061)	(1,025)	(1)	3
<i>Integration expenses</i>	-	(165)	-	-	-	(22)	-	-
Operating profit before impairment allowances	3,961	4,066	(3)	2,100	1,861	1,916	13	10
Impairment allowances	(1,382)	(2,551)	(46)	(678)	(704)	(668)	(4)	1
<b>Net profit for the period<sup>2</sup></b>	<b>2,524</b>	<b>1,436</b>	<b>76</b>	<b>1,402</b>	<b>1,121</b>	<b>1,227</b>	<b>25</b>	<b>14</b>

BALANCE SHEET HIGHLIGHTS (AED MN)	Jun'21	Jun'20	ΔYoY%	Jun'21	Mar'21	Dec'20	ΔQoQ%	ΔYTD%
Total assets	416,290	406,235	2	416,290	395,819	411,156	5	1
Net loans and advances	237,814	239,288	(1)	237,814	235,725	238,976	1	(0)
Deposits from customers	250,564	250,272	0	250,564	238,830	251,395	5	(0)

KEY METRICS	H1'21	H1'20	YoY Δ bps	Q2'21	Q1'21	Q2'20	QoQ Δ bps	YoY Δ bps
CAR (Capital adequacy ratio – Basel III)	16.32	16.31	1	16.32	16.64	16.31	(32)	1
CET1 (Common equity tier 1) ratio	13.20	12.95	25	13.20	13.39	12.95	(19)	25
Liquidity coverage ratio (LCR)	127.6	129.1	(150)	127.6	139.3	129.1	(1,170)	(150)
Loan to deposit ratio	94.9	95.6	(70)	94.9	98.7	95.6	(380)	(70)
CASA/total customer deposits	57	46	1,100	57	58	46	(100)	1,100
Non-performing loan (NPL) ratio	5.86	5.16	70	5.86	6.53	5.16	(67)	70
Provision coverage ratio <sup>3</sup>	91.5	101.8	(1,030)	91.5	87.8	101.8	370	(1,030)
NPL ratio including POCI <sup>4</sup>	7.35	6.62	73	7.35	8.10	6.62	(75)	73
Cost of risk	0.82	1.65	(83)	0.81	0.84	0.97	(3)	(16)
Cost to income ratio	34.8	36.6	(180)	33.4	36.3	34.9	(290)	(150)
Net interest margin (NIM)	2.51	2.92	(41)	2.60	2.42	2.66	18	(6)
Risk adjusted NIM	1.73	1.37	36	1.82	1.63	1.76	19	6
Return on average tangible equity (ROATE)	11.3	6.3	500	13.1	9.8	13.2	330	(10)

Figures may not add up due to rounding differences

<sup>1</sup>Operating expenses include non-recurring expenses pertaining to integration-related costs.

<sup>2</sup>After share in profit of associates, overseas income tax charge, and profit/loss from discontinued operations

<sup>3</sup>Provisions on loans and advances, including fair value adjustments

<sup>4</sup>POCI: Purchase or originated credit-impaired financial assets

## KEY HIGHLIGHTS



### In a low interest rate environment, ADCB has optimised cost of funds, increased fee income and delivered synergies and cost efficiencies to drive improvement in the cost to income ratio

- Net interest income of AED 2.315 billion for Q2'21 was 9% higher sequentially and 1% lower year on year. Net interest margin (NIM) of 2.60% in Q2'21 was 18 basis points higher sequentially, mainly driven by higher volumes, improved cost of funds, interest in suspense reversals and fair value unwinds. Cost of funds improved to 0.66% in Q2'21 from 0.78% in the previous quarter and 1.47% in Q2'20 as the Bank continued its strategy to rebalance the proportion of CASA and time deposits to optimize its funding mix.
- The Bank's revenue continues to diversify. Non-interest income increased 5% sequentially and 41% year on year to AED 840 million in Q2'21, accounting for 27% of total operating income versus 20% a year earlier. Net fee and commission income of AED 501 million in Q2'21 was 61% higher year on year, with loan processing and card-related fees more than doubling. Net trading income of AED 174 million in Q2'21 increased 12% year on year and 13% sequentially.
- A significant improvement in cost to income ratio has been achieved despite an environment of subdued growth and declining interest rates, which resulted in a 30% decline in gross interest income in H1'21. The 180 basis point year on year improvement in the cost to income ratio to 34.8% in H1'21 was driven by a 10% reduction in operating expenses and a 59% improvement in interest expense, supported by the Bank's disciplined approach to the cost of funds and to increasing CASA deposits.
- Cost to income ratio was 33.4% in Q2'21, an improvement of 150 basis points year on year and 290 basis points sequentially. Operating income was up 8% sequentially and 7% year on year at AED 3.155 billion in Q2'21. Meanwhile, operating expenses decreased 1% sequentially and were up 3% year on year to AED 1.055 billion in Q2'21, mainly on account of lower variable pay accruals in the previous year.
- The Group is on track to surpass its AED 1 billion cost synergy target for 2021, having realised synergies of AED 419 million in Q2'21 and AED 661 million in H1'21. 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.
- Net profit of AED 1.402 billion in Q2'21, increased 25% sequentially and 14% year on year, while first half net profit of AED 2.524 billion represented a 76% increase year on year. Return on average tangible equity was 13.1% for the second quarter and 11.3% for the first half of 2021.



## Loan growth driven by government and public sector credit while CASA deposits continue to increase

- The Group's balance sheet remains strong, with total assets at AED 416 billion as at 30 June 2021. Net loans and advances of AED 238 billion were up 1% sequentially driven by lending to government and public sector entities, but were 0.5% lower than in December 2020 due to significant corporate repayments in the first half of 2021. The Bank's real estate exposure continued to decrease, comprising 26% of the total loan book as at 30 June 2021 compared to 29% at the end of 2020. The average loan balance was AED 235 billion during H1'21.
- CASA deposits increased by AED 14.4 billion during the first half of 2021 to AED 142 billion as at 30 June 2021, accounting for 57% of total customer deposits compared to 51% at year-end. Retail CASA deposits continued to increase, rising 8% during H1'21. Total customer deposits stood at AED 251 billion as at 30 June 2021, an increase of 5% over March'21 and remained broadly unchanged from year-end. The average deposit balance was AED 245 billion in H1'21.
- Total shareholders' equity stood at AED 57 billion as at 30 June 2021.
- The Bank remains well capitalised with capital adequacy (Basel III) and CET1 ratios of 16.32% and 13.20% respectively as at 30 June 2021, versus 17.22% and 13.91% at December-end. The decrease reflects the dividend payment during H1'20 and a change in UAE Central Bank regulations that led to an increase in risk-weighted assets.
- ADCB continues to maintain a comfortable liquidity position, with a liquidity coverage ratio of 127.6%, a liquidity ratio of 30.4% and a loan to deposit ratio of 94.9% as at 30 June 2021. The Bank was a net lender of AED 11 billion in the interbank markets as at June-end.



## Improved asset quality metrics, with reduced NPLs and a higher provision coverage ratio

- Net impairment charges of AED 678 million in Q2'21 were 4% lower sequentially and 1% higher than in Q2'20. NPL ratio improved to 5.86% from 6.53% at March-end, while provision coverage ratio increased to 91.5% from 87.8% the previous quarter. The coverage ratio including collateral held was 145% as at 30 June 2021 compared to 139% at March-end. Including net POCI (purchase or originated credit impaired) assets, the NPL ratio was 7.35%.
- The Bank's active engagement with customers who have benefitted from TESS and other deferrals has resulted in a reduction of AED 8.878 billion, reducing outstanding deferrals to AED 5.341 billion as at 30 June 2021. The Bank holds collateral of AED 51.961 billion against the AED 38.915 billion total exposure to customers who continue to benefit from deferrals. Of the outstanding deferrals, AED 3.7 billion or 68% of the total, are classified as "Group 1" customers that are temporarily and mildly impacted by liquidity constraints without substantial impact to credit-worthiness.



## ADCB in a strong position to maximise recoveries as NMC Health Group restructuring gathers pace

- NMC Health Group is in the final stages of obtaining creditor agreement for a Plan of Reorganisation (PoR) which, when approved, will be implemented during the second half of 2021.
- Under the PoR, ADCB is well positioned to register significant participation in exit instruments, partly as a result of the Bank's contribution to a US\$ 325 million Administration Funding Facility (AFF) for NMC, which conferred super senior status to an equivalent amount contributed to the facility.
- To date, the Bank has recorded significant provisions and interest in suspense of AED 1.075 billion on NMC Health. ADCB is comfortable with these provisioning levels, which are in line with independent assessments on value and recoverability expected through NMC's restructuring process.
- The Bank is fully supportive of the three-year business plan being executed by the joint administrators of NMC that is building value at the company's core assets. Meanwhile, good progress is being made in the divestment of non-core assets, including the sale of Luarmia in April 2021. ADCB is also finalizing the exit of its 51.5% stake in Alexandria NMC.



## Over 900,000 customers subscribed to ADCB digital channels as transformation strategy drives service excellence

- ADCB launched eight digital releases during the second quarter, bringing the cumulative total to 79 releases since inception of the digital transformation programme in 2018. The acceleration of digital transformation has increased the number of subscribers to the Bank's internet and mobile banking platforms to over 900,000 customers.
- Consumer Banking digital enhancements in Q2'21 included the launch of tailor-made offers and promotions through [adcb.com](http://adcb.com), and the introduction of an online portal for IPO subscriptions. The introduction of credit card loans this year on the ADCB Mobile Banking App has received strong uptake among retail customers.
- Wholesale Banking introduced multiple enhancements to its digital platforms, including the enablement of bill payments and cross-border dirham remittance on ProCash Mobile, as well as upgrades to the ProTrade dashboards to improve tracking of requests. Transactions on the ProTrade platform accounted for 78% of total transactions.
- The Bank took practical steps to implement its strategy to deploy advanced analytics to deliver personalised solutions, introducing a new personal loan pricing tool optimiser that provides for tailor-made interest rates for the Bank's customers.



## ADCB Egypt accelerating growth through five-year strategy to expand base of affluent and corporate customers

- ADCB Egypt has delivered strong financial results driven by significant operational improvements across the Consumer and Wholesale Banking businesses, resulting in strong growth in loans and deposits.

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Q2'21 net profit of EGP 188 million in Q2'21, an increase of 218% year on year, representing return on equity of 13%

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H1'21 net profit of EGP 358 million, up 83% year on year respectively, representing return on equity of 16.3%

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Net loans increased 19% year to date to EGP 19.8 billion as at 30 June 2021

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Total deposits increased 20% year to date to EGP 34.9 billion as at 30 June 2021

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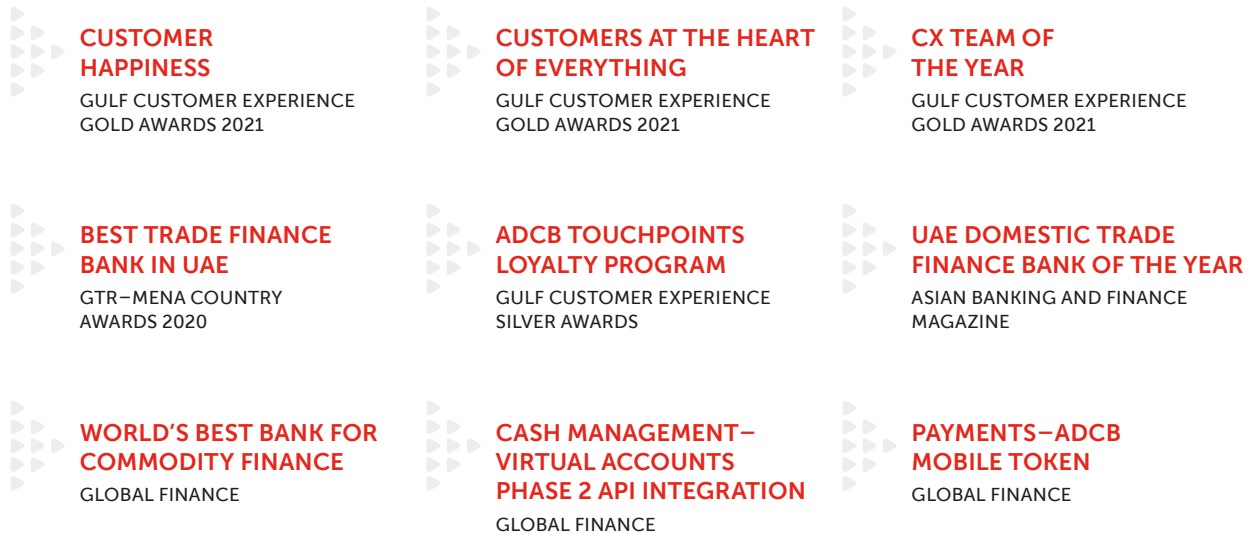
- The Consumer Banking business, which is focused on the affluent segment, has taken important steps to enhance the customer experience. The business has launched a new digital banking platform that has significantly increased digital transactions, as well as a full credit card offering and a remittance payment solution.
- The Wholesale Banking business continues to capture synergies with the ADCB Group through facilitation of cross-border services. The business has launched a new online banking platform to provide a seamless banking experience for its customers.
- The ADCB Egypt Talent Academy has been launched, with 39 new employees joining the Bank in June 2021 following a six-month intensive training programme for fresh graduates.



## Al Hilal Bank on track to launch new digital platform in Q4'21 to become the first fully digital Sharia'ah-compliant retail bank in the UAE

- With active digital banking users increasing 56% in the last year, Al Hilal Bank is scheduled to launch a new Islamic digital platform in Q4'21 that will offer seamless financial solutions for individual customers and their families. The value proposition has received positive feedback during testing by a community of potential customers.
- In addition to regular banking products, the digital platform will provide access to a range of non-banking financial solutions through a wide ecosystem of partnerships. The digital service will be complemented by a number of physical Customer Experience Centers that will promote a paperless and seamless digital experience through customer education and testing.
- The fully scalable platform will enable the Bank to rapidly respond to customer feedback and will enable regional expansion post successful launch in the UAE.

## 2020 AND H1'21 AWARDS



Further information on ADCB can be found at [adcb.com/ir](http://adcb.com/ir) or by contacting:

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