

## MANAGEMENT DISCUSSION & ANALYSIS FOR THE QUARTER ENDING 30 JUNE 2010

**Abu Dhabi Islamic Bank quarterly net profit increases by 55.9%  
to a record of AED 301.6 million**

### Financial highlights - Second quarter 2010

- Group net profit for Q2 2010 was a record AED 301.6 million vs. AED 193.4 million in Q2 2009, an increase of 55.9%.
- Group operating profit (“margin”) for Q2 2010 was AED 436.2 million vs. AED 364.8 million for Q2 2009, an increase of 19.6%.
- Total provisions were AED 134.6 million for Q2 2010 vs. AED 171.4 million in Q2 2009.
- Remains one of the most liquid banks in the UAE as customer deposits grew by 25.4% year-on-year, after adjusting to exclude the AED 2.2 billion of deposits that converted into Tier 2 capital at the end of 2009, resulting in a strong customer financing to deposits ratio of 87.1% (86.0% at the end of Q2 2009) and net due from banks increasing by 20.3% year-on-year to AED 11.6 billion.
- Capital adequacy position under Basel II remains strong at 16.64% (16.96% at the end of 2009).
- Total number of customers increased by 21,937 in Q2 2010 to 387,017.
- Total number of branches increased by 2 in Q2 2010 to 57.

### Financial highlights - First half 2010

- Group operating profit (“margin”) for H1 2010 was AED 834.7 million vs. AED 726.2 million for H1 2009, an increase of 14.9%.
- Group net profit for H1 2010 was a record AED 594.9 million vs. AED 461.8 million in H1 2009, an increase of 28.8%.

*As at 30 June 2010* *All figures are in AED millions*

Balance Sheet	Q2 2008	Q2 2009	Q2 2010
Total assets	48,078	58,104	68,332
Gross customer financing	30,653	38,389	47,133
Customer deposits *	33,710	41,359	51,883
Total equity	5,502	7,664	7,701
Capital adequacy ratio - Basel II	12.21%	14.19%	16.64%
Customer financing to deposit ratio	89.4%	86.0%	87.1%

\* Excludes AED 2.2bn of deposits converted to Tier 2 Capital on 31 December 2009

Income statement	Q2 2008	Q2 2009	Q2 2010
Net revenue	624.1	599.4	744.2
Operating profit (margin) - Group	437.4	364.8	436.2
Operating profit (margin) - Bank	305.6	385.4	466.2
Credit provisions and impairment charge	161.7	171.4	134.6
Net profit - Group	275.7	193.4	301.6
Net profit - Bank	143.9	214.0	331.6
Total credit provisions to gross financing assets ratio	1.72%	2.45%	4.10%
Cost to income ratio - Group	29.9%	39.1%	41.4%
Cost to income ratio - Bank	34.0%	34.4%	37.7%

Network	Q2 2009	Q2 2010	Change
Total customers	305,567	387,017	26.7%
Branches	48	57	18.8%
ATMs	160	262	63.8%

## Financial analysis - second quarter 2010 vs. second quarter 2009 and first quarter 2010

### Income Statement:

- Group operating profit for Q2 2010 was AED 436.2 million vs. AED 364.8 million for Q2 2009, an increase of 19.6% (an increase of 9.5% over the AED 398.5 million in Q1 2010).
- Bank operating profit for Q2 2010 reached AED 466.2 million vs. AED 385.4 million for Q2 2009, an increase of 20.9% (an increase of 18.0% over the AED 395.2 million in Q1 2010) which is mainly driven by top line revenue growth of 27.2%.
- Net revenue from funding activities for Q2 2010 increased to AED 647.6 million vs. 515.3 million for Q2 2009, an increase of 25.7% (an increase of 13.3% over the AED 571.6 million in Q1 2010).
- Fee and commission income for Q2 2010 increased to 79.0 million vs. AED 35.1 million in Q2 2009, an increase of 125.1% (and an increase of 40.8% over the 56.1 million in Q1 2010).
- Non-banking revenues recorded a decline vs. Q2 2009 of 131.0%, mainly due to an AED 6.5 million fall in revenues from the real estate subsidiary.
- Group total revenues for Q2 2010 increased to AED 744.2 million vs. AED 599.4 million in Q2 2009, a 24.1% increase (and an increase of 9.3% over the AED 680.7 million in Q1 2010).
- Group net profit for Q2 2010 was AED 301.6 million, after taking credit provisions and impairments of AED 134.6 million for the quarter (vs. a net profit of AED 193.4 million in Q2 2009 which was recorded after taking credit provisions and impairments of AED 171.4 million). Net profit for Q1 2010 was AED 293.3 million after taking credit provisions of AED 105.2 million.
- Total credit provisions reached AED 1.93 billion at the end of Q2 2010, which amounts to 4.10% of the Gross Customer Financing assets.

### Balance Sheet:

- Total assets as of 30 June 2010 were AED 68.3 billion, representing an increase of 17.6% compared to AED 58.1 billion at the same point last year (AED 66 billion at 31 March 2010).
- Net Customer Financing has increased to AED 45.2 billion with a growth ratio of 20.7%, compared to AED 37.4 billion at the end of June 2009 (AED 42.0 billion at 31 March 2010).
- Customer deposits continue to show a healthy growth of 19.1% to AED 51.9 billion, from AED 43.6 billion at the same time last year when including the Tier 2 AED 2.2 billion in 2009 (AED 49.9 billion at 31 March 2010).

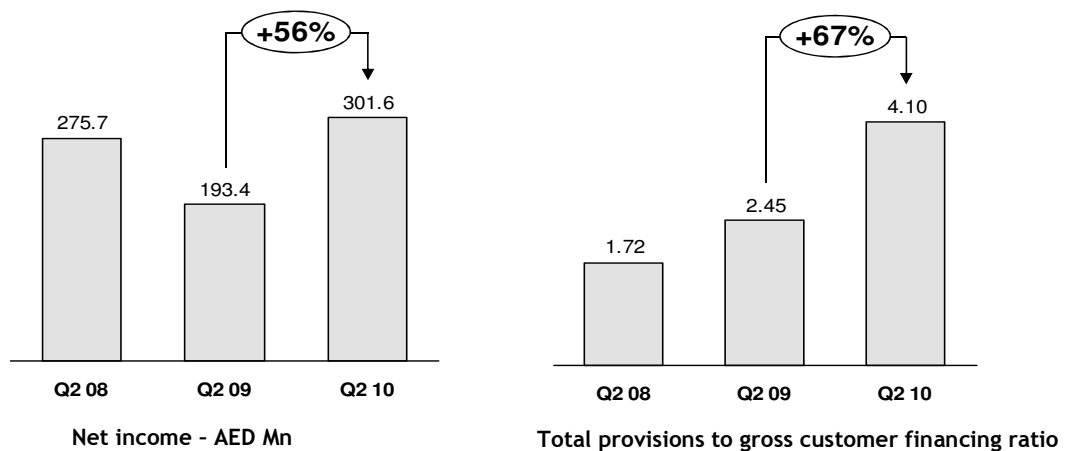
### Capital Adequacy and Liquidity:

- Capital Adequacy ratio at 30 June 2010 stood at 16.64%.
- Customer financing to deposits ratio was 87.1% vs. 86.0% at 30 June 2009 (84.0% at 31 March 2010).
- Stable funds ratio marginally improved to 88.2% from 88.8% at 30 June 2009 (88.0% at 31 March 2010).

**Abu Dhabi, UAE - 18 July 2010:** Abu Dhabi Islamic Bank (ADIB) posted a record net profit of AED 301.6 million for the second quarter of 2010, an increase of 55.9% over the same period in 2009. This is the second consecutive record quarter for ADIB as it continued on its growth path by: launching its new brand positioning, “Banking as it should be”, and corporate identity; launching its new e-banking and mobile platform; increasing total customer numbers to 387,017; opening its 57<sup>th</sup> branch in the UAE; increasing total assets to AED 68.3 billion; and maintaining its strong liquidity (financing to deposits ratio at 87.1%). The Bank also continued its conservative approach to provisioning including maintaining its prudent policy of taking a minimum 1.25% collective provision.

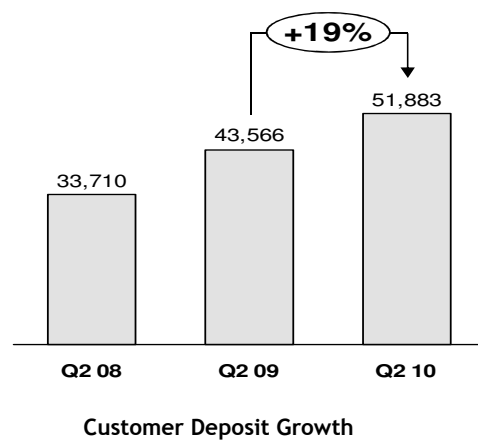
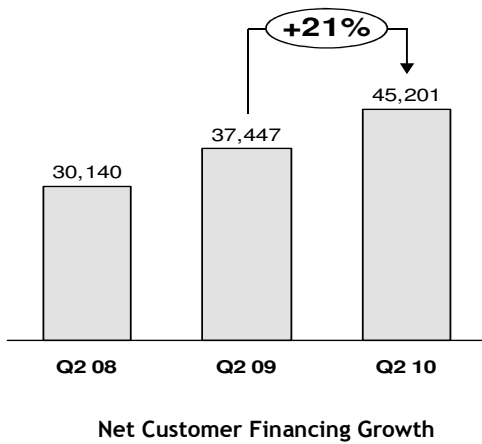
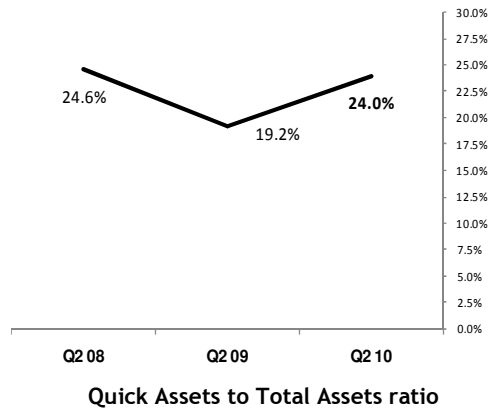
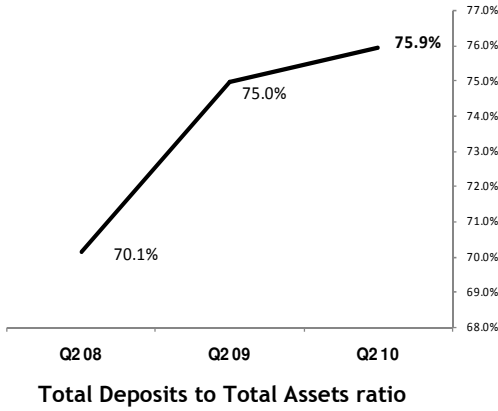
**A focus on the Bank’s vision and mission sees profitability restored**

The quarter under review saw ADIB’s management continuing taking a conservative approach in regard to the recognition of non-performing credit exposures and investments and this practice is evidenced in the build-up of total provisions. As a result the Bank has taken an additional AED 82.5 million in individual provisions and AED 52.1 million in collective provisions thereby increasing total provisions to AED 1.93 billion which amounts to 4.10% of gross customer financing. Notwithstanding this the profitability that was restored in the first quarter of 2010 has been followed by a second consecutive record quarterly net profit of AED 301.6 million.



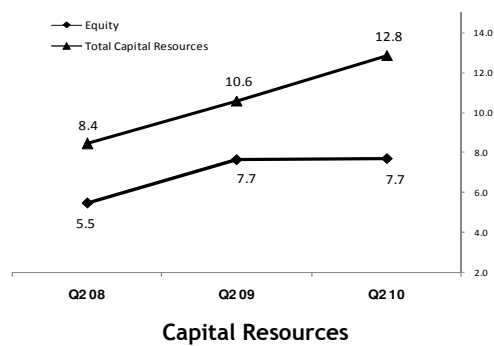
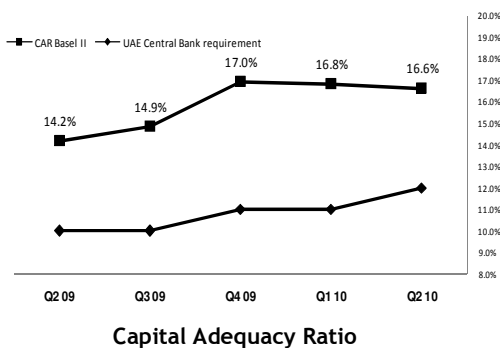
**Liquidity**

ADIB grew its customer deposits by 25.4% to AED 51.9 billion (AED 41.4 billion in Q2 2009 - adjusted to exclude the AED 2.2 billion of deposits converted into Tier 2 Capital on 31 December 2009) and net customer financing by 20.7% to AED 45.2 billion (AED 37.4 billion as at 30 June 2009). Sustaining the Bank’s overall liquidity reflects the focus on customer service across all segments, while the growth in customer financing comes on the back of a robust credit process that ensured that customer assets grew by AED 3.3 billion during the quarter.



### Capital strength

The Bank's capital position remains strong. Total capital resources, including both the Tier 1 and Tier 2 capital, as at 30 June 2010 improved to AED 12.8 billion vs. AED 10.6 billion at 30 June 2009. The capital adequacy ratio remained strong at 16.64% under Basel II principles (14.19% as at 30 June 2009) with the Basel II Tier 1 capital ratio stable at 13.42% (15.84% at 30 June 2009).



### **Cost management**

Investment in 9 new branches in the past 12 months, related infrastructure and human capital saw operating expenses increase by 31.3% to AED 307.9 million year-on-year with the cost to income ratio increasing to 41.4%. The Bank's cost to income ratio was 37.7% for the quarter down from 40.0% in the first quarter of 2010. Management expects the Group's cost to income ratio to resume its downward trend once the core growth investment cycle is completed and the non-banking businesses return to profitability.

### **Human resources**

The bank's headcount increased by 44 in the quarter and now stands at 1,557. Furthermore ADIB is particularly proud of the fact that by the end of Q2 2010 its Emiratisation ratio was over 40%, building on an achievement that was recognised by the Bank being awarded the prestigious Human Resource Development Award in the first category by the Emirates Institute of Banking and Financial Studies earlier in the year.

### **Management comment**

On behalf of the Board of Directors and the management team, Tirad Mahmoud, ADIB's CEO, said: "The second quarter of 2010 witnessed a number of achievements as we continued to position ADIB at the forefront of Islamic financial services. For the first time the Group's quarterly net profit passed AED 300 million as the Bank's net profit grew by 54.9% vs. the same quarter last year reflecting the new management teams' prudent risk decisions and commitment to growth during the uncertain economic times. The foundation of our growth remains firmly on customer service excellence and convenient delivery channels, including: relationship managers with enhanced skills; more branches and ATMs; and a series of innovative e-solutions. The focus on customers and risk management when combined with our outstanding capital and liquidity position means that we will now be able to sustain our growth into the future and we are particularly proud that our achievements have been recognized by The Banker Middle East which recently awarded ADIB the coveted Best Islamic Bank in the Middle East title.

We took decisive cost of credit action in 2009 and will continue to do so in 2010. It is noteworthy that our collective provisions now stand at over AED 592 million as we apply our pre-emptive 1.25% policy as a minimum. We also take appropriate individual provisions in line with our 90 days past due approach. Since the new management team took over in early 2008, total credit provisions and impairments have increased to AED 2,402 million from AED 403 million at the end of 2007, as the portfolio of old investments and credits from the past five years have been prudently reviewed. The efforts of the two remedial management units we established in 2009 are now clearly in evidence as our non-performing portfolio has stabilized and we will continue to work with those customers who are in genuine difficulty to assist them in the sustainable restructuring of their financing.

Both our Retail Banking and Wholesale Banking franchises had a particularly good quarter on the back of their focus on quality asset growth backed by strong customer relationships. We saw customer financing grow by over AED 3.3 billion in the quarter to AED 45.2 billion supported by our deposits increasing by AED 1.9 billion to AED 51.9 billion.

### **Banking as it should be**

In reference to the launch of ADIB's new brand positioning in June, Tirad said: "The new identity symbolizes a new promise to our customers. It is part of an initiative that changes the face of ADIB to align with our vision to become a top-tier Islamic Financial Services Group and to deliver on our mission of Islamic financial solutions for the global community. Our new promise is built on the premise "Banking as it should be." This tagline captures our commitment to provide all our stakeholders with world-class ethical banking based on our core values:

- We keep it Simple and Sensible
- We work for Mutual Benefit
- We are Transparent
- We nurture Hospitality and Tolerance
- We are Shari'a Inspired

Our new logo was designed to reinforce these values and represents an evolution from our existing one. We are proud of our legacy as the first Islamic bank to be established in Abu Dhabi and inaugurated by the late Sheikh Zayed, may his soul rest in peace, and want to build on the foundation of trust that we have with all our stakeholders to deliver a customer centric proposition based on our new brand promise.

### **Other ADIB Group companies**

Commenting on the performance of other Group companies besides the core Bank business, Tirad said: "We are pleased to report that ADIB's stock-brokerage subsidiary, Abu Dhabi Islamic Financial Services, posted a profit of AED 1.5 million for Q2 2010. The second quarter has been a difficult period of the financial markets and yet ADIFS has continued to gain market share as it positions itself as one of the leading securities agency business in the UAE. We are proud to report that in June ADIFS was the largest brokerage house on the ADX and 2<sup>nd</sup> largest, by market share, in the UAE. Our new e-trading platform has gone live and will be rolled out to our customers in the third quarter.

Burooj, the Group's real estate subsidiary, continues to be run as an independent entity from the banking and financial services businesses. Burooj had a disappointing second quarter as the real estate sector remains under pressure and as a consequence posted a loss of AED 31.5 million for the quarter vs. a profit of AED 2.1 million in the first quarter. We expect the rest of the year to remain challenging for Burooj as market supply and demand factors depress values in the real estate sector."

### Outlook for the rest of 2010

Providing guidance on the Bank's direction for 2010, Tirad said: "Despite the continuation of the weak global economic environment ADIB remains firmly on a growth trajectory. While the brunt of the legacy portfolio's cost of credit was absorbed in 2009 we will continue to take further prudent measures in 2010 and, depending on the credit and real estate markets, this will include further credit provisions and impairments. Notwithstanding this, we are confident that the bank is on the right track as witnessed by our headline numbers. On the back of our rebranding we are implementing a broad range of initiatives to enhance our product portfolio, improve our processes and introduce new banking channels, all of which is designed to provide support to our customers, with best in market service and Shari'a inspired solutions.

Specifically:

- We will continue to grow our Retail Banking presence across the UAE, where our target remains adding 13 more branches this year and reaching 70 branches, thereby giving us the necessary network scope to drive our growth. We look forward to launching our new priority banking proposition and re-launching our women's banking, thereby enhancing the service we deliver to two of our main customer groups.
- We will roll out our Wealth Management product range as we seek to offer our clients trusted advice and access to top products through certified professional investment advisors.
- Our Private Banking strategy has been significantly revised and our initial focus is to ensure that all eligible private banking customers receive, as a minimum, our priority banking services while we build the new value proposition for our high net worth customers. .
- The Wholesale Banking business has now gathered the necessary momentum with our Corporate Finance and Investment Banking teams already delivering on a number of mandates. Our focus is now on our Transaction Banking propositions which we are building to support our SME, corporate, commercial and public sector clients.
- All these initiatives will be backed by the continued investment in talented individuals and systems - including an upgrade in our core banking system - to support them."

### Gratitude

The Board of Directors, executive management and all members of staff 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 Mohamed Bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces, to the UAE Central Bank and to the Emirates Securities and Commodities Authority, our shareholders and our clients for their continued trust in and support of ADIB.

## Financial summaries

### ADIB Financials summary - Half-year summary

Financials	Banking					Consolidated Group				
	H1 2008	H1 2009	H1 2010	Chg H1 09 vs H1 08	Chg H1 10 vs H1 09	2008	2009	2010	Chg H1 09 vs H1 08	Chg H1 10 vs H1 09
	AED Mn	AED Mn	AED Mn	%	%	AED Mn	AED Mn	AED Mn	%	%
Net Revenue from Funding	831.3	1,066.8	1,269.1	28.3%	19.0%	831.3	1,066.8	1,269.1	28.3%	19.0%
Fees, Commissions and FX	11.6	41.7	111.1	259.5%	165.8%	11.6	41.7	111.1	259.5%	165.8%
Investment Revenues	49.3	23.9	26.7	-51.6%	11.9%	49.3	23.9	26.7	-51.6%	11.9%
<b>Net Banking Revenues</b>	<b>892.2</b>	<b>1,132.4</b>	<b>1,406.9</b>	<b>26.9%</b>	<b>24.2%</b>	<b>892.2</b>	<b>1,132.4</b>	<b>1,406.9</b>	<b>26.9%</b>	<b>24.2%</b>
Brokerage Revenues (ADIFS subsidiary)	-	-	-	-	-	14.7	9.8	10.1	-33.3%	2.6%
Real Estate Revenues (Burooj subsidiary)	-	-	-	-	-	185.5	29.3	9.8	-84.2%	-66.6%
Revenue from Other Minor Activities	-	-	-	-	-	7.8	6.9	(2.0)	-14.1%	-129.8%
<b>Net Non-banking Revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>208.0</b>	<b>46.0</b>	<b>17.9</b>	<b>-78.0%</b>	<b>-60.9%</b>
	<b>Banking</b>					<b>Consolidated Group</b>				
<b>Total Revenues</b>	<b>892.2</b>	<b>1,132.4</b>	<b>1,406.9</b>	<b>26.9%</b>	<b>24.2%</b>	<b>1,100.2</b>	<b>1,178.4</b>	<b>1,424.8</b>	<b>7.1%</b>	<b>20.9%</b>
<b>Operating profit (margin)</b>	<b>564.1</b>	<b>736.5</b>	<b>861.3</b>	<b>30.6%</b>	<b>16.9%</b>	<b>719.9</b>	<b>726.2</b>	<b>834.7</b>	<b>0.9%</b>	<b>14.9%</b>
Credit Provisions and Impairment charge	199.7	257.4	239.9	28.9%	-6.8%	199.7	264.4	239.8	32.4%	-9.3%
<b>Net Profit</b>	<b>364.4</b>	<b>479.1</b>	<b>621.4</b>	<b>31.5%</b>	<b>29.7%</b>	<b>520.2</b>	<b>461.8</b>	<b>594.9</b>	<b>-11.2%</b>	<b>28.8%</b>
Total Assets in AED (Billion)	47.8	57.4	67.6	20.1%	17.8%	48.1	58.1	68.3	20.9%	17.6%
Customer Financing in AED (Billion)	31.3	39.3	47.1	25.6%	19.7%	30.1	37.4	45.2	24.3%	20.7%
Customer Deposits in AED (Billion)	34.2	41.6*	52.0	21.6%	25.2%	33.7	41.4*	51.9	22.8%	25.4%

\* Excludes AED 2.2bn of deposits converted to Tier 2 Capital on 31 December 2009

### ADIB Financials summary - Quarter summary

Financials	Banking					Consolidated Group				
	Q2 2008	Q2 2009	Q2 2010	Chg Q2 09 vs. Q2 08	Chg Q2 10 vs. Q2 09	Q2 2008	Q2 2009	Q2 2010	Chg Q2 09 vs. Q2 08	Chg Q2 10 vs. Q2 09
	AED Mn	AED Mn	AED Mn	%	%	AED Mn	AED Mn	AED Mn	%	%
Net Revenue from Funding	436.8	543.0	671.6	24.3%	23.7%	436.8	543.0	671.6	24.3%	23.7%
Fees, Commissions and FX	-3.4	15.5	65.3	555.9%	321.9%	-3.4	15.5	65.3	555.9%	321.9%
Investment Revenues	29.6	29.3	10.9	-1.2%	-62.6%	29.6	29.3	10.9	-1.2%	-62.6%
<b>Net Banking Revenues</b>	<b>463.0</b>	<b>587.8</b>	<b>747.8</b>	<b>26.9%</b>	<b>27.2%</b>	<b>463.0</b>	<b>587.8</b>	<b>747.8</b>	<b>26.9%</b>	<b>27.2%</b>
Brokerage Revenues (ADIFS subsidiary)	-	-	-	-	-	7.3	9.3	4.9	27.4%	-48.0%
Real Estate Revenues (Burooj subsidiary)	-	-	-	-	-	147.7	0.0	(6.5)	-100%	-21,059%
Revenue from Other Minor Activities	-	-	-	-	-	6.1	2.3	(2.0)	-62.3%	-187.0%
<b>Net Non-banking Revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>161.1</b>	<b>11.6</b>	<b>(3.6)</b>	<b>-92.8%</b>	<b>-131.0%</b>
	<b>Banking</b>					<b>Consolidated Group</b>				
<b>Total Revenues</b>	<b>463.0</b>	<b>587.8</b>	<b>747.8</b>	<b>26.9%</b>	<b>27.2%</b>	<b>624.1</b>	<b>599.4</b>	<b>744.2</b>	<b>-4.0%</b>	<b>24.1%</b>
<b>Operating profit (margin)</b>	<b>305.6</b>	<b>385.4</b>	<b>466.2</b>	<b>26.1%</b>	<b>20.9%</b>	<b>437.4</b>	<b>364.8</b>	<b>436.2</b>	<b>-16.6%</b>	<b>19.6%</b>
Credit Provisions and Impairment charge	161.7	171.4	134.6	6.0%	-21.5%	161.7	171.4	134.6	6.0%	-21.5%
<b>Net Profit</b>	<b>143.9</b>	<b>214.0</b>	<b>331.6</b>	<b>48.8%</b>	<b>54.9%</b>	<b>275.7</b>	<b>193.4</b>	<b>301.6</b>	<b>-29.8%</b>	<b>55.9%</b>



-Ends-

**About ADIB:**

Abu Dhabi Islamic Bank (ADIB) was established on 20th May 1997 as a Public Joint Stock Company following the Amiri Decree No. 9 of 1997. The Bank commenced commercial operations on 11th November 1998, and was formally inaugurated by His Highness Sheikh Abdullah Bin Zayed Al Nahyan, on 18th April 1999. The Bank carries out all contracts, operations and transactions in accordance with Islamic Shari'a principles. ADIB's mission is to offer financial solutions for the global community, and its vision is to become a top tier Islamic financial services group.

ADIB prides itself on its values which reflect the Bank's commitment to the Islamic Shari'a, and the guidelines of the Bank's practices adhere to the principles of Islam. [www.adib.ae](http://www.adib.ae)

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