

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDING 31 DECEMBER 2009

To provide a solid base for future growth, Abu Dhabi Islamic Bank sets aside a year's earnings as provisions.

Financial highlights – Full year

- Group operating profit (margin) grew by a strong 16.5% to AED 1,527 million.
- Total number of customers increased by 27.2% to 342,097.
- Number of branches reached 52.
- Total provisions, including a 1.25% collective provision, increase by AED 1,449 million vs. AED 460 million in 2008 and AED 117 million in 2007.
- Net profit of AED 78 million in 2009.
- The most liquid bank in the UAE, as customer deposits grew by 36.7%, after adjusting to exclude the AED 2.2 billion of deposits that converted into Tier 2 capital, resulting in the customer financing to deposits ratio strengthening to 83.9% (91.2% in 2008) and net due from banks increasing by 155% to AED 13.6 billion.
- Capital adequacy position under Basel II has significantly improved to 17.0% (11.6% in 2008).

Financial highlights – Fourth quarter

- Group operating profit for Q4 2009 was AED 439.6 million (including net capital gain on sale of real estate developments of AED 100.8 million by the real estate subsidiary) vs. AED 266.8 million for Q4 2008, an increase of 64.8%.
- A conservative and preemptive increase in total provisions by AED 1,063 million' resulting, in a net loss for Q4 2009 of AED 623.3 million vs. a profit of AED 114.4 million in Q4 2008.

As at 31 December

All figures are in AED millions

Balance Sheet	2007	2008	2009	2-year CAGR
Total assets	44,040	51,210	64,084	20.6%
Gross customer financing	24,681	34,768	42,225	30.8%
Customer deposits	29,629	35,279*	48,220	27.6%
Total equity	5,421	5,637	7,145	14.8%
Capital adequacy ratio – Basel II	14.9%	11.6%	17.0%	
Customer financing to deposit ratio	82.1%	91.2%	83.9%	

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

Income statement	2007	2008	2009	2-year CAGR
Net revenue	1,438	2,199	2,520	32.4%
Operating profit (margin) - Group	886	1,311	1,527	31.3%
Operating profit (margin) - Bank	765	1,162	1,516	40.8%
Credit provisions and impairment charge	117	460	1,449	251.6%
Net profit - Group	769	851	78	
Net profit - Bank	648	791	111	
Total credit provisions to gross financing assets ratio	1.43%	1.69%	4.15%	
Cost to income ratio	38.4%	40.4%	39.4%	

Network	2007	2008	2009	2-year CAGR
Total customers	202,276	269,037	342,097	30.0%
Branches	40	44	52	14.0%
ATMs	75	116	204	64.9%

Financial analysis

Income Statement – Full year 2009 vs. prior periods:

- Group operating profit (margin) grew by a strong 16.5% to AED 1,527 million.
- Bank operating profit (margin) grew by a strong 30.5% to AED 1,516 million.
- Net revenue from funding activities for 2009 increased to AED 2,109 million (a two year compounded annual growth rate of 48.8% from AED 952 million in 2007).
- Non-banking revenues recorded a year-on-year decline of 54.6%, mainly due to an AED 161.1 million fall in revenues from the real estate subsidiary (a two year annual compounded 13.1% decline when compared to non-banking revenues of AED 177 million in 2007).
- Total revenues for 2009 increased to AED 2,520 million (a two year compounded annual growth rate of 32.4%).
- Net profit for 2009 at AED 78 million, after taking credit provisions and impairments of AED 1,449 million for 2009 (vs. a net profit of AED 460 million in 2008 and AED 117 million in 2007).
- Total credit provisions reached AED 1.75 billion in 2009, which amounts to 4.2% of the Gross Customer Financing assets.

Income Statement – fourth quarter 2009 vs. prior periods:

- Group operating profit for Q4 2009 was AED 439.6 million (including net capital gain on sale of real estate developments of AED 100.8 million by the real estate subsidiary) vs. AED 266.8 million for Q4 2008, an increase of 64.8%.
- Bank operating profit for Q4 2009 reached AED 392.4 million vs. AED 323.3 million for Q4 2008, an increase of 21.1% that is mainly driven by top line revenue growth of 28.9%.
- A conservative and preemptive increase in total provisions by AED 1,063 million, resulting in a net loss for Q4 2009 of AED 623.3 million vs. a profit of AED 114.4 million in Q4 2008.

Balance Sheet:

- Total assets as of 31 December 2009 were AED 64.1 billion, representing an increase of 25.1% compared to AED 51.2 billion at the same point last year (AED 44.0 billion in 2007).
- Net Customer Financing has increased to AED 40.5 billion with a growth ratio of 18.4%, compared to AED 34.2 billion at the end of December 2008 (AED 24.3 billion in 2007).
- Customer deposits have shown a healthy growth of 28.6% to AED 48.2 billion, from AED 37.5 billion at the same time last year including AED 2.2 billion of tier 2 capital (AED 29.6 billion in 2007).

Capital Adequacy and Liquidity:

- Capital Adequacy ratio at 31 December 2009 stood at 16.96%.
- Customer financing to deposits ratio improved to 83.9% vs. 91.2% at 31 December 2008.
- Stable funds ratio improved to 91.3% from 94.4% at 31 December 2008.

Abu Dhabi, UAE - 14 February 2010: Abu Dhabi Islamic Bank (ADIB) reported an operating profit, of AED 1,527 million for the 2009 financial year, an increase of 16.5% over the previous year. After a year of multiple achievements, including: increasing total customer numbers by 27.2% to 342,097; the opening of the 50th branch in the UAE; an increase of 25.1% in total assets to AED 64.1 billion; the strengthening in

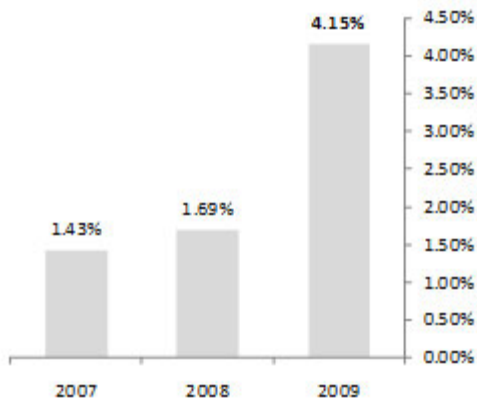
both capital adequacy (to 16.96% under Basel II) and liquidity ratios (financing to deposits ratio improved to 83.9%); and a top three year-on-year improvement in customer service ratings, the Bank has taken a preemptive decision to set aside a year's earnings to enhance its total provisions and secure future growth.

New management and departure from past practices

Since the arrival of the new management team in the first quarter of 2008 the Bank has focused on:

(a) enhancing its customer service; (b) refining its customer target markets and customer segmentation; and (c) applying prudent banking risk practices, which include recognition of non-performing credit exposures and investments as evidenced by the increases in total provisions.

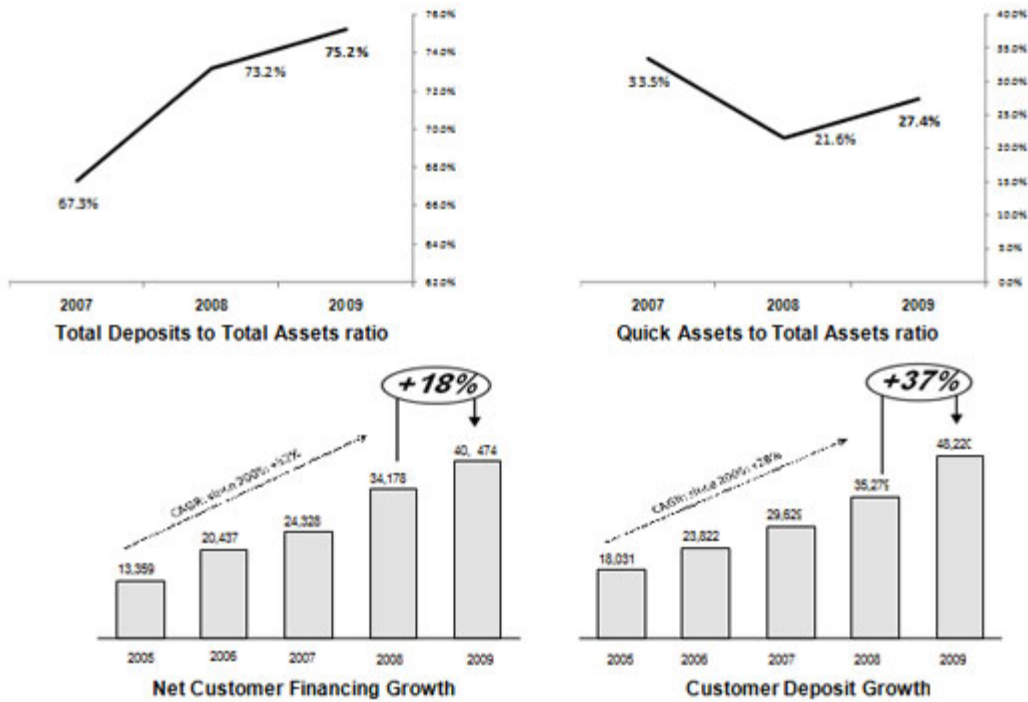
This prudent decision, which comes in the midst of continued uncertainty as local and global economies adjust to the global credit crunch, removes the bulk of the non-performing investments and assets burden. Importantly, it strongly positions ADIB for the next phase in its growth strategy. As a result the Bank has taken an additional AED 1,449 million in credit provisions and impairments, including a 1.25% collective provision. Despite the large charge taken, the Bank remains profitable with a net profit of AED 78 million.



Total provisions to gross customer financing ratio

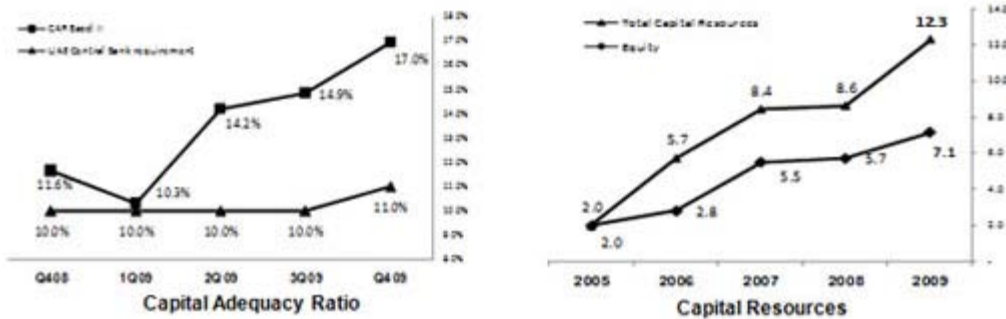
Liquidity

In 2009 UAE banking deposits and customer assets grew by 6.5% and 4.2% respectively, while ADIB grew its customer deposits by 36.7% to AED 48.2 billion (AED 35.3 billion in 2008 – adjusted to exclude the AED 2.2 billion of deposits converted into Tier 2 Capital on 31 December 2009 - and AED 29.6 billion in 2007) and net customer financing by 18.4% to AED 40.5 billion (AED 34.2 billion in 2008 and AED 24.3 billion in 2007). The further strengthening of the Bank's overall liquidity is a testament to a keen focus on customer service across all segments, while the growth in customer financing comes on the back of a robust credit process that ensured the booking of quality assets.



Capital strength

The Bank's capital position remains strong. Total capital resources, including both the Tier 1 and Tier 2 capital, as at 31 December 2009 improved to AED 12.3 billion vs. AED 8.6 billion at 31 December 2008 and AED 8.4 billion in 2007. A focus on putting in place a strong balance sheet saw the capital adequacy ratio further improve to 17.0% under Basel II principles (11.6% as at 31 December 2008) with the Tier 1 capital ratio improving to 13.52% (13.47% at 31 December 2008). On 16 April 2009 the Bank issued a Tier 1 capital note to the Government of Abu Dhabi and on 31 December 2009 the UAE Federal Government converted its AED 2.2 billion deposit pursuant to a Sharia'a compliant agreement into Tier 2 qualifying capital.



Cost management

Continued investment in new branches, related infrastructure and human capital saw operating expenses increase by 11.9% to AED 993.4 million with the cost to income ratio declining to 39.4%, which reflects the balancing of the related revenue growth to bring the Group closer to its target of a 33% cost to income ratio.

Human resources

ADIB continues to invest in growing its human capital. Since the beginning of 2008 a strong senior management team of highly skilled bankers with excellent reputations in global financial circles has been

brought together. The new management team combines best practice financial expertise of more than four centuries of banking and finance in ADIB and domestic, regional and international banks. This highly qualified team, combined with a loyal staff base, provides ADIB with the ability to efficiently adjust to changing market conditions and to take advantage of growth opportunities as the Group pursues its strategy of becoming a top tier Islamic financial services provider.

The bank's headcount now stands at 1,459 and it is particularly proud of the fact that by the end of 2009 its Emiratisation ratio was almost 40%.

Management comment

Acknowledging the fact that ADIB has not been immune to the impact of the economic downturn, on behalf of the Board of Directors and the management team, Tirad Mahmoud, ADIB's CEO, said:

"Last year was an extraordinary year for financial services and the global economy, and like many others the impact of the economic downturn also affected some of our customers. Our new management team completed its second year in the Bank and our strong income momentum and sustainable growth saw operating profit increase by 16.5% to a record AED 1,527 million. It is this operational and strategic momentum, together with the Bank's outstanding capital and liquidity position along with a commitment to best practice that prompted our preemptive decision to accrue substantial provisions. This decision will ensure sustained growth into the future. Without our loyal customers, shareholders and staff, as well as the Federal and Abu Dhabi government support in 2009 we would not have been so well positioned to be proactive. Banks that undertake quick and decisive action in economic downturns come out of the cycle best positioned for rapid growth. We recognize that this is an unprecedented decision and have no doubt that it will prove defining of ADIB's new strength."

"In the two years since the new management team took over at ADIB total credit provisions and impairments have increased to AED 2,180 million from AED 403.4 million at the end of 2007, as the portfolio of old investments and credits from the past five years have been prudently reviewed. We now have strong risk management in place and have established two remedial management units working with those customers who are in genuine difficulty to assist them in restructuring their financing in a manner which will be of mutual benefit. Where this fails we have a responsibility towards our shareholders to use the full scope of remedies that are available to us, including resorting to the justice system to collect past dues. In this regard we believe in the right of customer confidentiality and will continue to maintain our policy of not discussing the affairs of individual customers in public."

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 5.1 million for 2009. This represents a significant turnaround after ADIFS posted a loss of AED 4.2 million in 2008 and against a profit of AED 11.8 million in 2007. ADIFS is now an agency only business and its performance in 2009 reflects our commitment to building a strong customer orientated franchise. ADIFS is now both the 6th largest share brokerage house overall and largest Sharia'a compliant broker, by market share, in the UAE and we expect it to continue to grow in status in 2010 as our new trading and settlement platform goes live in the first quarter and the new management team takes control.

Turning to Burooj, the Group's real estate subsidiary, this had a profitable fourth quarter posting a net profit of AED 12.8 million after booking a net capital gain on the sale of real estate developments, culminating in a net loss of AED 29.7 million for the full year. While this stands in contrast with the profit of AED 62.2 million Burooj posted in 2008 and AED 108.6 million in 2007, it reflects the continued downturn in the real estate sector. We expect the next year to remain challenging for Burooj, although we anticipate a return to profitability in 2010."

Outlook for 2010

Providing guidance on the Bank's direction for 2010, Tirad said: "ADIB ended its 11th year of operations well positioned for its next stage of growth as we align our brand proposition with all of our stakeholders' needs. While the brunt of the legacy portfolio's cost of credit has been absorbed in 2009 we don't rule out the need to take further measures and, depending on how the credit and investment environment evolves, this may include further credit provisions and impairments. Notwithstanding this, we are confident that 2010 will see a restoration of profitability.

Moreover, the strength of the Bank is now well established and we are building a diversified business that will deliver Shari'a inspired solutions to our customers. Specifically:

- We expect to grow our Retail Banking presence across the UAE, where our target is 70 branches by year end, thereby giving us the necessary network scope to drive our growth.
- We will have more 24-hour branches, an increased ATM presence and an enhanced electronic banking offering in the new year.
- Our Private Banking and Wealth Management platform is due for its re-launch as we seek to offer our clients trusted advice and access to top products.
- Our Wholesale Banking franchise will be further strengthened as our Corporate Finance and Transaction Banking propositions gain momentum in support of our corporate, commercial and public sector clients.
- All of this will be backed by the continued investment in talented individuals and systems to support them."

Dividend

The Board of Directors will recommend a 20% share bonus award to the shareholders at the Annual General Assembly.

Approvals

These results, including the share bonus award, are subject to approval by the Central Bank of the United Arab Emirates and the shareholders at the Annual General Assembly.

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 – Year ending 2009 vs. 2008

Financials	Banking					Consolidated Group				
	2007	2008	2009	Chg 08 vs 07	Chg 09 vs 08	2007	2008	2009	Chg 08 vs 07	Chg 09 vs 08
	AED Mn	AED Mn	AED Mn	%	%	AED Mn	AED Mn	AED Mn	%	%
Net Revenue from Funding	976.4	1,783.8	2,217.5	82.7%	24.3%	976.4	1,783.8	2,217.5	82.7%	24.3%
Fees, Commissions and FX	107.8	83.3	139.3	-22.8%	67.2%	107.8	83.3	139.3	-22.8%	67.2%
Investment Revenues	176.4	37.4	29.9	-78.8%	-20.1%	176.4	37.4	29.9	-78.8%	-20.1%
Net Banking Revenues	1,260.6	1,904.5	2,386.7	51.1%	25.3%	1,260.6	1,904.5	2,386.7	51.1%	25.3%
Brokerage Revenues (ADIFS subsidiary)	-	-	-	-	-	19.5	21.6	22.3	10.8%	3.2%
Real Estate Revenues (Burooj subsidiary)	-	-	-	-	-	177.6	259.1	98.0	45.9%	-62.2%
Revenue from Other Minor Activities	-	-	-	-	-	-20.1	13.3	13.3	166.2%	-
Net Non-banking Revenues	-	-	-	-	-	177.0	294.0	133.6	66.1%	-54.6%
Total Revenues	Banking					Consolidated Group				
	1,260.6	1,904.5	2,386.7	51.1%	25.3%	1,437.6	2,198.5	2,520.3	52.9%	14.6%
Operating profit (margin)	Banking					Consolidated Group				
	765.1	1,162.1	1,516.0	51.9%	30.5%	886.2	1,310.7	1,526.8	47.9%	16.5%
Credit Provisions and Impairment charge	117.1	370.9	1,404.9	216.7%	278.8%	117.1	459.7	1,448.8	292.3%	215.2%
Net Profit	648.0	791.2	111.1	22.1%	-86.0%	769.1	851.1	78.0	10.7%	-90.8%
Total Assets in AED (Billion)	43.3	50.3	63.3	16.2%	25.9%	44.0	51.2	64.1	16.3%	25.1%
Customer Financing in AED (Billion)	25.6	35.8	42.6	39.8%	19.0%	24.3	34.2	40.5	40.5%	18.4%
Customer Deposits in AED (Billion)	30.1	35.5	48.5	18.0%	36.4%	29.6	35.3	48.2	19.1%	36.7%

ADIB Financials summary – Fourth Quarter 2009 vs. Fourth Quarter 2008

Financials	Banking			Consolidated Group		
	Fourth Quarter 2008	Fourth Quarter 2009	Change	Fourth Quarter 2008	Fourth Quarter 2009	Change
	AED Mn	AED Mn	%	AED Mn	AED Mn	%
Net Revenue from Funding	484.9	592.0	22.1%	484.9	592.0	22.1%
Fees, Commissions and FX	39.1	48.6	24.3%	39.1	48.6	24.3%
Investment Revenues	(19.1)	10.0	152.4%	(19.1)	10.0	152.4%
Net Banking Revenues	504.9	650.6	28.9%	504.9	650.6	28.9%
Brokerage Revenues (ADIFS subsidiary)	-	-	-	2.1	6.5	209.5%
Real Estate Revenues (Burooj subsidiary)	-	-	-	1.7	74.0	4,252.9%
Revenue from Other Minor Activities	-	-	-	4.5	2.3	-48.9%
Net Non-banking Revenues	-	-	-	8.3	82.8	897.6%
Total Revenues	Banking			Consolidated Group		
	504.9	650.6	28.9%	513.2	733.4	42.9%
Operating profit (margin)	Banking			Consolidated Group		
	323.9	392.4	21.1%	266.8	439.6	64.8%
Credit Provisions and Impairment charge	63.6	1,023.5	1,508.7%	152.4	1,062.9	597.4%
Net Profit	260.3	(631.1)	-342.5%	114.4	(623.3)	-644.9%