

**MANAGEMENT DISCUSSION & ANALYSIS FOR THE QUARTER ENDING 31 MARCH 2012**

**Abu Dhabi Islamic Bank posts net profit of AED 307.3 Million for first quarter of 2012**

**Group Financial highlights - First quarter 2012**

- Group net revenue for Q1 2012 was AED 870.8 million vs. AED 808.8 million for Q1 2011, an increase of 7.7%.
- Group operating profit (“margin”) for Q1 2012 was AED 493.4 million vs. AED 464.2 million for Q1 2011, an increase of 6.3%.
- Total credit provisions and impairments for Q1 2012 were AED 186.1 million vs. AED 159.6 million in Q1 2011, an increase of 16.6%.
- Group net profit for Q1 2012 was AED 307.3 million vs. AED 304.6 million in Q1 2011, an increase of 0.9%.
- ADIB remains one of the most liquid banks in the UAE, with an advances to stable funds ratio of 81.7%, customer financing to deposits ratio of 86.2% and net due from banks and deposits with Central Bank totaling AED 13.0 billion.
- Capital adequacy position under Basel II remains strong at 17.40% (17.39% at the end of 2011).

**Bank Financial highlights - First quarter 2012**

- Bank net revenue for Q1 2012 was AED 874.8 million vs. AED 815.2 million for Q1 2011, an increase of 7.3%.
- Bank operating profit (“margin”) for Q1 2012 was AED 517.2 million vs. AED 491.6 million for Q1 2011, an increase of 5.2%.
- Total credit provisions and impairments for Q1 2012 were AED 156.8 million vs. AED 151.0 million in Q1 2011, an increase of 3.9%.
- Bank net profit for Q1 2012 was AED 360.4 million vs. AED 340.6 million in Q1 2011, an increase of 5.8%.
- Total number of customers increased by 38,303 since Q1 2011 to reach 466,244.
- Total number of branches in the UAE stands at 71 vs. 66 in Q1 2011.

## Financial analysis

### Income Statement: Q1 2012 vs. Q1 2011 and Q4 2011

- Group net revenues for Q1 2012 increased to AED 870.8 million vs. AED 808.8 million in Q1 2011, a 7.7% increase (and a decrease of 1.5% over the AED 884.1 million in Q4 2011).
- Bank net revenues for Q1 2012 increased to AED 874.8 million vs. AED 815.2 million in Q1 2011, an 7.3% increase (and a decrease of 1.5% over the AED 887.9 million in Q4 2011).
- Group net revenue from funding activities for Q1 2012 increased to AED 722.6 million vs. 664.7 million for Q1 2011, an increase of 8.7% (and a decrease of 5.1% over the AED 761.5 million in Q4 2011).
- Group fee and commission income for Q1 2012 decreased to AED 108.8 million vs. AED 111.2 million in Q1 2011, a decrease of 2.1% (and an increase of 15.8% over the AED 94.0 million in Q4 2011).
- Group operating profit ("margin") for Q1 2012 reached AED 493.4 million vs. AED 464.2 million for Q1 2011, an increase of 6.3% (an increase of 0.5% over the AED 491.1 million in Q4 2011).
- Bank operating profit ("margin") for Q1 2012 reached AED 517.2 million vs. AED 491.6 million for Q1 2011, an increase of 5.2% (a decrease of 0.4% over the AED 519.1 million in Q4 2011).
- Group net profit for Q1 2012 was AED 307.3 million, after taking credit provisions and impairments of AED 186.1 million for the quarter (vs. a net profit of AED 304.6 million in Q1 2011 which was recorded after taking credit provisions and impairments of AED 159.6 million). Net profit for Q4 2011 was AED 216.2 million after taking credit provisions and impairments of AED 274.9 million.
- Bank net profit for Q1 2012 was AED 360.4 million, after taking credit provisions and impairments of AED 156.8 million for the quarter (vs. a net profit of AED 340.6 million in Q1 2011 which was recorded after taking credit provisions and impairments of AED 151.0 million). Net profit for Q4 2011 was AED 338.6 million after taking credit provisions and impairments of AED 180.5 million.

### Balance Sheet: 31 March 2012 vs. 31 March 2011 and 31 December 2011

- Total assets as of 31 Mar 2012 were AED 76.5 billion, representing an increase of 7.0% compared to AED 71.5 billion at the end of 31 Mar 2011 (AED 74.3 billion at 31 Dec 2011).
- Net Customer Financing has increased to AED 49.6 billion, growing 3.1% over the AED 48.1 billion at the end of 31 Mar 2011 (AED 48.8 billion at 31 Dec 2011).
- Customer deposits grew by 10.9% to AED 57.6 billion, from AED 51.9 billion at the same time last year (AED 55.2 billion at 31 Dec 2011).

### Capital Adequacy and Liquidity: 31 March 2012 vs. 31 March 2011 and 31 December 2011

- The Capital Adequacy ratio at 31 Mar 2012 stood at 17.40% vs. 15.29% recorded at 31 Mar 2011 (17.39% at 31 Dec 2011).
- The Customer Financing to Deposits ratio at 31 Mar 2012 was 86.2% vs. 92.7% at 31 Mar 2011 (88.5% at 31 Dec 2011).
- The Advances to Stable Funds ratio (a regulatory ratio) moved to 81.7% at 31 Mar 2012 from 86.8% at 31 Mar 2011 (83.4% at 31 Dec 2011).

## Financial highlights - Four year performance

As at 31 March

All figures are in AED millions

Balance sheet	Q1 2009	Q1 2010	Q1 2011	Q1 2012	3 YR (CAGR)
Total assets	55,052	66,041	71,477	76,513	11.6%
Gross customer financing	36,435	43,792	50,564	52,782	13.1%
Customer deposits	41,084	49,935	51,912	57,550	11.9%
Total equity	5,445	7,486	7,907	8,931	17.9%
Capital adequacy ratio - Basel II	10.8%	16.8%	15.3%	17.4%	
Customer financing to deposit ratio	87.1%	84.0%	92.7%	86.2%	

Income statement	Q1 2009	Q1 2010	Q1 2011	Q1 2012	3 YR (CAGR)
Net revenue - Group	578.9	680.7	808.8	870.8	14.6%
Net revenue - Bank	544.6	659.1	815.2	874.8	17.1%
Operating profit (margin) - Group	361.3	398.5	464.2	493.4	10.9%
Operating profit (margin) - Bank	351.1	395.2	491.6	517.2	13.8%
Credit provisions and impairment charge - Group	93.0	105.2	159.6	186.1	26.0%
Credit provisions and impairment charge - Bank	86.0	105.3	151.0	156.8	22.1%
Net profit - Group	268.3	293.3	304.6	307.3	4.6%
Net profit - Bank	265.1	289.9	340.6	360.4	10.8%
Total credit provisions to gross financing assets ratio - Group	1.82%	4.18%	4.81%	6.00%	
Cost to income ratio - Group	37.6%	41.5%	42.6%	43.3%	
Cost to income ratio - Bank	35.5%	40.0%	39.7%	40.9%	

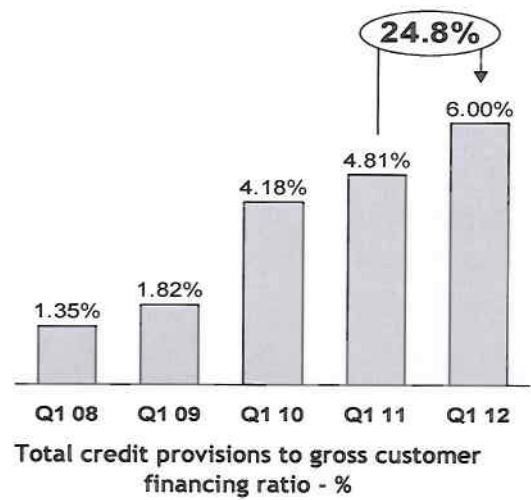
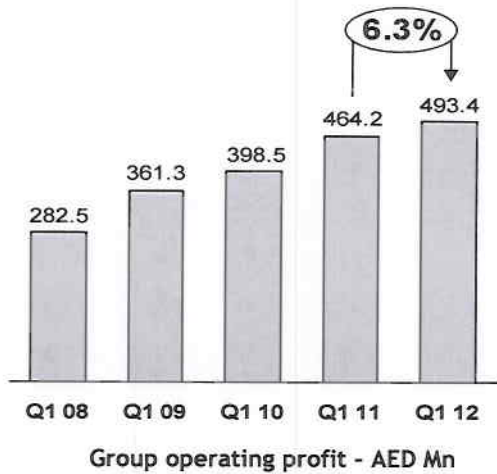
Network	Q1 2009	Q1 2010	Q1 2011	Q1 2012	3 YR (CAGR)
Total customers	287,302	365,080	427,941	466,244	17.5%
Branches - UAE	45	55	66	71	16.4%
ATMs	138	234	324	488	52.3%

Abu Dhabi, UAE - 13 May 2012: Abu Dhabi Islamic Bank (ADIB) posted a net profit of AED 307.3 million for Q1 2012. Despite the continued challenging market conditions, and an increasing number of regulations, the performance from the main banking business remained strong as the Bank's net profit grew by 5.8% to AED 360.4 million from AED 340.6 million for Q1 2011. Both the Retail and Wholesale Banking unit's growth in market share was underpinned by ADIB's ranking as the number one customer service bank in the UAE, a continuously improving network, a broadening product offering and a best practice approach to risk management. As a result customer numbers increased by 9.0% to 466,244, the 71<sup>st</sup> branch in the UAE opened, the ATM network reached 488 and the wealth management, transaction banking, treasury and investment banking solutions gained further momentum. Customer deposits and assets grew by 4.3% and 1.6% respectively while, in an encouraging sign, total non-performing assets declined by 4.8% in the quarter. Notwithstanding the success of ADIB's strategy throughout the global financial crises the Bank expects the environment for quality credit extension, underpinned by further regulations, to remain subdued for the rest of 2012.

The Bank further improved its strong liquidity position, as the advances to stable funds ratio improved to 81.7% at the end of 31 Mar 2012, while the continued focus on managing the cost of funds saw current and savings account balances reach AED 27.9 billion at the end of the period, an increase of 23.0% over Q1 2011. Furthermore, ADIB maintained its conservative approach to non-performing asset recognition and provisioning in line with both best practice and UAE Central Bank guidelines, ensuring a healthy pre-collateral non-performing asset coverage ratio of 70.2%. In addition the Group continued the quarterly impairment review of the portfolio held by the real estate subsidiary, Burooj Properties, and as a result made further provisions in this regard.

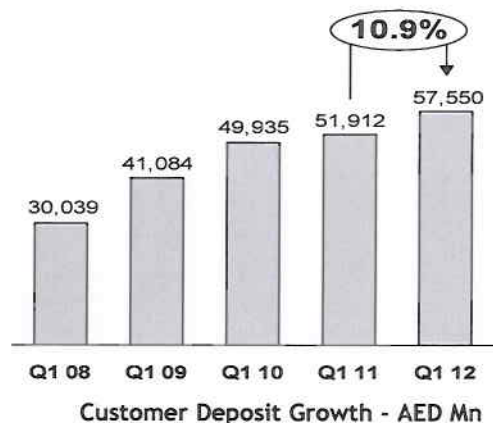
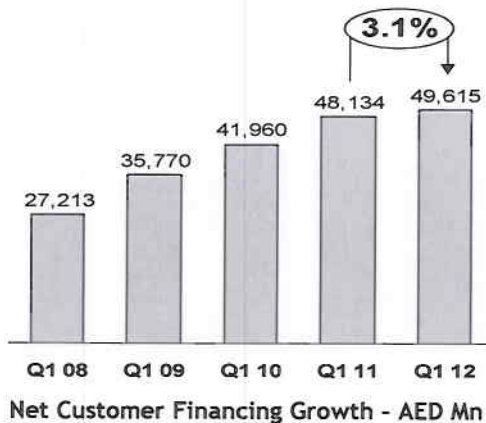
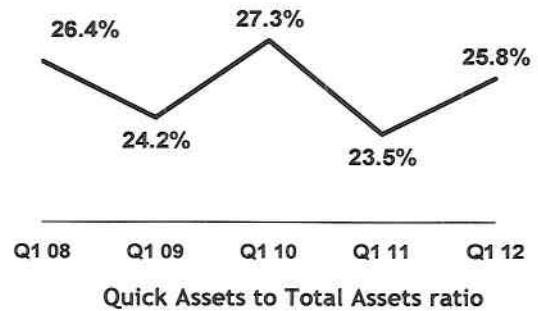
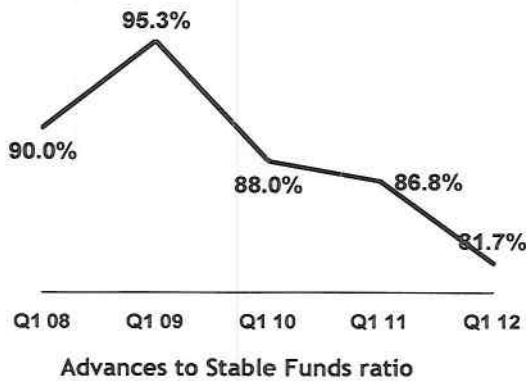
#### **A best practice approach to risk management continues to underpin the Bank's strategy**

Despite a decline in total non-performing assets of 4.8% in Q1 2012, ADIB's management continued its best practice approach to provisioning and impairment recognition. As a result, the Bank has taken an additional AED 156.8 million in credit provisions in Q1 2012, thereby increasing total credit provisions to over AED 3.1 billion with specific credit provisions at AED 2,368 million and collective provisions at AED 798 million. Total credit provisions now amount to 6.0% of gross customer financing assets and represent a pre-collateral non-performing coverage ratio of 70.2%. It is noteworthy that the Bank's collective provisions now represent 1.70% of total customer risk weighted assets in recognition of the three year historical loss norms and ahead of the Central Bank of the UAE requirements of 1.5%. In addition a further AED 29.3 million in impairments were taken against the real estate subsidiary's portfolio in the first quarter of 2012, bringing total impairments related to this business to AED 385 million over the past three years. As a result, while Group operating profit increased by 6.3% to AED 493.4 million and Bank posted a 5.8% increase in net profit to AED 360.4 million, the Group net profit increased by 0.9% in Q1 2012 to reach AED 307.3 million versus Q1 2011 - clearly highlighting the underlying strength of the core banking operations.



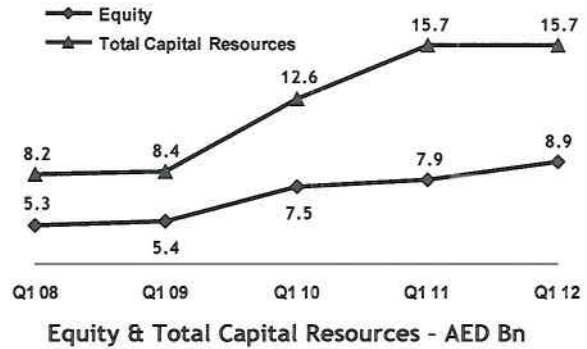
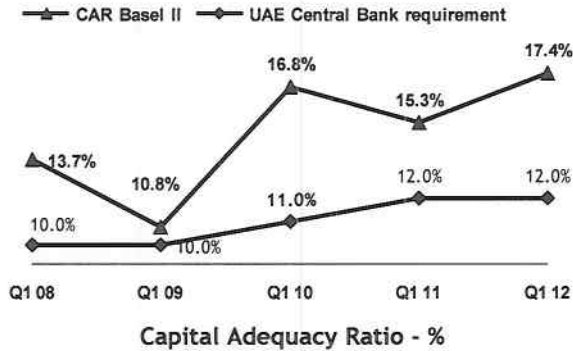
**Liquidity**

ADIB maintained its position as one of the most liquid banks in the UAE with customer deposits of AED 57.6 billion, Central Bank placements of AED 4.9 billion and a net interbank position of AED 8.1 billion. A continued focus on reducing the cost of funds in support of the Central Bank’s goal of lowering the interbank rate in the UAE, as well as a proven ability to manage the Bank’s maturity profile as evidenced by successful sukuk placements in 2010 and 2011, saw current and savings accounts grow by 23.0% since Q1 2011 to reach AED 27.9 billion at 31 Mar 2012 while overall deposits increased 10.9% to AED 57.6 billion during the same period. Net customer financing grew to AED 49.6 billion (AED 48.1 billion as at 31 Mar 2011) and the Bank ended the quarter with a customer financing to deposits ratio of 86.2% and an advances to stable funds ratio of 81.7%, which is significantly better than the regulatory threshold of 100%.



**Capital strength**

The Bank’s capital position further strengthened since Q1 2011 with the Capital Adequacy ratio improving to 17.40% under Basel II principles and the Basel II Tier 1 capital ratio increasing to 14.26% at quarter end.



**Cost management**

Investment in 164 ATMs and 5 branches in UAE during the past 12 months, the establishment of operations in the United Kingdom, Qatar, Sudan and Iraq, with the consequent investment in related infrastructure and human capital, saw the Group’s operating expenses increase by 9.5% year-on-year. The Group cost to income ratio was 43.3% for Q1 2012 (42.6% - Q1 2011) while the Bank’s cost to income ratio was 40.9% for Q1 2012 (39.7% - Q1 2011). ADIB expects to continue its investment program as it builds the defining universal Islamic finance proposition both domestically and internationally. As a result, the Bank’s cost to income ratio is expected to improve only gradually in the medium-term as the ongoing investment in growth is matched by a marginally higher relative increase in revenue and further process efficiencies.

**Human resources**

Despite the growth of its local and international operations the Bank’s headcount has increased by only 45 since Q1 2011, as a result of a continued emphasis on efficiency, and now stands at 1,712. In addition to being recognized as the number one bank for customer service in the UAE, ADIB is particularly proud of the fact that the Bank’s efforts in Emiratisation were once again recognized by the awarding, for the second year in a row, of the Emirates Institute of Banking and Financial Studies’ Human Resource Development Award.

**Management comment**

On behalf of the Board of Directors and the management team Tirad Mahmoud, CEO of ADIB, said: “The start of 2012 has witnessed a welcome joint focus by the government, regulators and banks in the UAE on easing the burden faced by those debtors whose circumstances and ability to meet their obligations are most onerous. The partnership between the three stakeholder representatives is ideal and we are committed to playing a leading role in meeting the objectives that have been set. As one of the major retail banks in the country, we believe that the changes in the regulatory environment will further



enhance the reputation of the UAE, which is already the most competitive banking market in the region, as a leader when it comes to placing long-term customer interests ahead of short-term profitability.

"However, the continuation of the global financial crises and uncertainty prevailing in the eurozone, when combined with an increasingly enhanced regulatory regime in the UAE, means that we continue to anticipate limited quality credit opportunities and a resultant subdued growth in profits for the balance of 2012. Despite this we are committed to maintaining our best practice approach to risk management even if this means that we are not always able to sustain above market customer financing growth rates in the near term, since credit quality is at the core of our recent strategic success. This practice, when combined with our conservative approach to capital and liquidity management, means that ADIB's vision to become a top-tier UAE bank and global Islamic bank remains on track.

"In regard to provisioning of our legacy portfolio, ADIB is widely acknowledged as being a leader in the adoption of best practice when it comes to our recognition of non-performing assets and providing against these. We have therefore continued to be prudent in classifying our impaired portfolio and taking provisions - and suspending the accrual of profit - in line with our 90 days past due and conservative collateral recognition approach, adding a further AED 122 million in specific provisions during Q1 2012 versus AED 126 million during Q1 2011 and increasing our collective provisions by AED 35.1 million to reach 1.7% of total customer credit risk weighted assets. Since the new management team took over early in 2008, total credit provisions and impairments have increased to AED 3,693 million from AED 404 million at the end of 2007. Our collective provisions now represent a substantial buffer against future surprises and we will continue to increase these in line with our internally generated loss norms even though they now exceed the Central Bank of the UAE guidelines requiring banks to increase the level of collective provisions to 1.5% by 2014.

"In addition to our conservative approach to the recognition of problem credits our two remedial management units remain very active as we work with those customers who are in genuine difficulty, and actively engage with us, to assist them in the sustainable restructuring of their commitments. The result is that total non-performing accounts declined by 4.8% in Q1 2012 and while we continue to maintain it is too early to call a meaningful improvement in the credit environment we are pleased with the progress made in late 2011 and early 2012. Notwithstanding this, we once again reiterate that where customers resist ADIB's attempts to work constructively with them in providing sustainable solutions to honoring their credit obligations, we will use all remedies available to us in order to protect both our depositors' and shareholders' rights.

"Turning to customer deposits the Bank further evidenced its strong liquidity capabilities backed by a customer orientated value proposition based on service excellence and convenience and supported by our now proven capability to manage maturity matching through sukuk issues. The results is that our advances to stable funds ratio further improved to 81.7% at 31 Mar 2012 and current and saving account balances

grew by 23% over the course of the past year. This, when combined with our other practices, saw the core banking business increase net profit by 5.8% versus the same quarter in 2011.

#### Other ADIB Group companies

##### **ADIB Securities:**

Commenting on the performance of other Group companies besides the core banking business, Tirad said: "The lack of liquidity and increased volatility in the equity markets remains a major concern and it is a credit to the management team at our stock brokerage, ADIB Securities, that they managed to post a net profit of AED 2.8 million in Q1 2012 and grow their market share to over 7.2% and thereby retain their top 3 ranking in the UAE. ADIB Securities is an integral part of our emerging wealth management proposition, which is focused on enhancing the savings, investment and related wealth diversification of our customers, and we continue to ensure that it has the necessary capabilities to best serve all our customers both now and when the markets recover."

##### **Burooj Properties:**

In regard to Burooj, the Group's real estate subsidiary, Tirad said: "Burooj, as a limited liability company, continues to be managed independently from the banking and financial services business. All properties and commitments in Burooj's portfolio are regularly subjected to independent review, including a comprehensive highest-and-best-use analysis at the end of 2011, and we are actively engaged in discussions with Burooj's partners in regard to restructuring its investment program. While we are confident in making progress in this regard our approach to valuing Burooj's portfolio, first adopted in late 2010, has resulted in a further AED 29.3 million in impairments in Q1 2012 and a consequent loss of AED 56.7 million versus the loss of AED 37.8 million in Q1 2011. The real estate market in general remains subdued as supply continues to outstrip demand and the probability of Burooj sustaining further losses in 2012 and beyond remains high. We therefore expect to continue to take impairments against Burooj's portfolio until there is a meaningful and sustained positive change.

#### Outlook for 2012

Providing guidance on the Bank's direction for the rest of 2012, Tirad said: "Our outlook has not changed and we remain concerned about global and regional growth rates and the impact on our markets. Fortunately the UAE banking sector is now closely involved with government and regulatory bodies who continue to introduce creative and prudent measures to deal with the challenges all stakeholders are facing and we firmly believe that the UAE Government are willing, ready and able to play the supportive role we have seen from them since the crisis began in late 2008. In this regard the proposed formation of a credit bureau in the UAE is essential since good clients will enjoy greater access to much needed credit and remedial efforts can focus on those who require same.

"Given this environment, we continue to expect low single digit growth in both assets and liabilities for the UAE banking sector in 2012. In addition, while there are increasing indications that the brunt of ADIB's



legacy portfolio's cost of credit has been absorbed we will continue to take prudent measures as necessary for both the Bank and Burooj portfolios in 2012."

**Gratitude**

The Board of Directors, executive management and members of ADIB 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 Mohammed 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.



**Tirad M. Mahmoud**  
Chief Executive Officer



**Andrew D. Moir**  
Global Head of Strategy and Finance

## Financial summaries

### ADIB Financial summary

Financials	Banking					Consolidated Group				
	Q1 2010	Q1 2011	Q1 2012	Chg Q1 11 vs. Q1 10	Chg Q1 12 vs. Q1 11	Q1 2010	Q1 2011	Q1 2012	Chg Q1 11 vs. Q1 10	Chg Q1 12 vs. Q1 11
	AED Mn	AED Mn	AED Mn	%	%	AED Mn	AED Mn	AED Mn	%	%
Net Revenue from Funding	597.6	688.8	747.9	15.3%	8.6%	597.6	688.8	747.9	15.3%	8.6%
Fees, Commissions and FX	45.7	100.6	104.2	119.9%	3.5%	45.7	100.6	104.2	119.9%	3.5%
Investment Revenues	15.8	25.8	22.7	63.3%	-11.9%	15.8	25.8	22.7	63.3%	-11.9%
<b>Net Banking Revenues</b>	<b>659.1</b>	<b>815.2</b>	<b>874.8</b>	<b>23.7%</b>	<b>7.3%</b>	<b>659.1</b>	<b>815.2</b>	<b>874.8</b>	<b>23.7%</b>	<b>7.3%</b>
Brokerage Revenues (ADIFS subsidiary)	-	-	-	-	-	5.2	4.3	5.9	-18.7%	39.1%
Real Estate Revenues (Burooj subsidiary)	-	-	-	-	-	16.3	(10.7)	(10.0)	-165.5%	6.1%
Revenue from Other Minor Activities	-	-	-	-	-	0.1	-	0.1	-100%	100%
<b>Net Non-banking Revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21.6</b>	<b>(6.4)</b>	<b>(4.0)</b>	<b>-129.6%</b>	<b>37.5%</b>
	<b>Banking</b>					<b>Consolidated Group</b>				
<b>Total Revenues</b>	<b>659.1</b>	<b>815.2</b>	<b>874.8</b>	<b>23.7%</b>	<b>7.3%</b>	<b>680.7</b>	<b>808.8</b>	<b>870.8</b>	<b>18.8%</b>	<b>7.7%</b>
<b>Operating profit (margin)</b>	<b>395.2</b>	<b>491.6</b>	<b>517.2</b>	<b>24.4%</b>	<b>5.2%</b>	<b>398.5</b>	<b>464.2</b>	<b>493.4</b>	<b>16.5%</b>	<b>6.3%</b>
Credit Provisions and Impairment charge	105.3	151.0	156.8	43.4%	3.9%	105.2	159.6	186.1	51.7%	16.6%
<b>Net Profit</b>	<b>289.9</b>	<b>340.6</b>	<b>360.4</b>	<b>17.5%</b>	<b>5.8%</b>	<b>293.3</b>	<b>304.6</b>	<b>307.3</b>	<b>3.8%</b>	<b>0.9%</b>
Total Assets in AED (Billion)	65.6	71.2	76.6	8.5%	7.6%	66.0	71.5	76.5	8.2%	7.0%
Customer Financing in AED (Billion)	43.9	50.2	51.7	14.2%	3.1%	42.0	48.1	49.6	14.7%	3.1%
Customer Deposits in AED (Billion)	50.3	52.0	57.7	3.5%	10.9%	49.9	51.9	57.6	4.0%	10.9%

-Ends-



### About ADIB:

Abu Dhabi Islamic Bank (ADIB) was established on 20<sup>th</sup> May 1997 as a Public Joint Stock Company following the Emiri Decree No. 9 of 1997. The Bank commenced commercial operations on 11<sup>th</sup> November 1998, and was formally inaugurated by His Highness Sheikh Abdullah Bin Zayed Al Nahyan on 18<sup>th</sup> April 1999.

ADIB's vision is to be a top-tier, global Islamic financial services group and its mission is to provide Islamic financial solutions to the global community.

The Bank carries out all contracts, operations and transactions in accordance with Islamic Shari'a principles.

ADIB's core values, reflected in all its activities are: Simple and Sensible; Transparent; Mutual Benefit; Hospitality and Tolerance; and Shari'a inspired. It brings to its customers banking as it should be.

### ADIB - Awards

1. ADIB was named the "Best Overall Bank in the UAE in customer service" for 2011 by Ethos Consultancy.
2. ADIB won the "Best Branch Award in the UAE" for 2011 by Ethos Consultancy.
3. ADIB was named the "Best Islamic Bank in the UAE" for 2011 by Global Finance Magazine.
4. ADIB was named Best Islamic Bank for 2011 by Business Banking and Finance Magazine.
5. ADIB won Best Corporate Bank for 2011 by Business Banking and Finance Magazine.
6. ADIB was named "The Best Islamic Bank" in the Middle East region for the second year running at the Banker Middle East Industry Awards 2011.
7. ADIB was nominated as "Fastest Growing Bank in the UAE" by the awards jury at the Banker Middle East Industry Awards 2011.
8. ADIB won the Best Islamic Bank in the UAE by EMEA Finance magazine.
9. ADIB won the Best Islamic Bank in the UAE by Islamic Finance News Magazine.
10. ADIB won Syndicated loan of the year by Islamic Finance News Magazine.
11. ADIB won best Turkey deal of the year by Islamic Finance News Magazine.
12. ADIB won the Human Resource Development Award for 2011 organised by Emirates Institute of Banking & Financial Studies.
13. ADIB was rated in the top 10 companies in the UAE list by Forbes Middle East.
14. ADIB was rated in the top 10 companies in the UAE list by Arabian Business.

For media information, please visit [www.adib.ae](http://www.adib.ae) or contact:

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