# Abu Dhabi Islamic Bank PJSC

INTERIM CONDNESED CONSOLIDATED
FINANCIAL STATEMENTS

30 JUNE 2011 (UNAUDITED)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2011 (Unaudited)

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**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF ABU DHABI ISLAMIC BANK PJSC**

*Introduction*

We have reviewed the accompanying interim condensed consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries (together "the Group") as at 30 June 2011, comprising of the interim consolidated statement of financial position as at 30 June 2011 and the related interim consolidated statements of income and comprehensive income for the three-month and six-month periods then ended and the related interim consolidated statements of changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

*Scope of review*

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Signed by:
Richard Mitchell
Partner
Ernst & Young
Registration No. 446

7 August 2011
Abu Dhabi

# INTERIM CONSOLIDATED INCOME STATEMENT
Three months and six months ended 30 June 2011 (Unaudited)

| | Notes | *Three months ended 30 June* **2011** ***AED '000*** | *2010* *AED '000* | *Six months ended 30 June* **2011** ***AED '000*** | *2010* *AED '000* |
|---|---|---|---|---|---|
| **OPERATING INCOME** | | | | | |
| Income from murabaha, mudaraba and wakala with financial institutions | | **30,309** | 51,712 | **65,894** | 107,045 |
| Income from murabaha, mudaraba, ijara and other Islamic financing | 5 | **918,487** | 838,658 | **1,808,663** | 1,592,521 |
| Investment income | 6 | **55,673** | 11,066 | **79,317** | 21,737 |
| Share of results of associates | | **6,057** | 247 | **8,019** | 7,618 |
| Fees and commission income, net | 7 | **105,257** | 78,891 | **216,444** | 134,995 |
| Foreign exchange income | | **13,190** | 10,029 | **13,399** | 21,325 |
| Income from investment properties | 8 | **844** | 1,161 | **1,469** | 2,446 |
| Income (loss) from development properties | 9 | **4,795** | (5,164) | **7,615** | 16,669 |
| Other income | | **1,147** | 300 | **3,512** | 822 |
| | | **1,135,759** | 986,900 | **2,204,332** | 1,905,178 |
| **OPERATING EXPENSES** | | | | | |
| Employees' costs | 10 | **(223,837)** | (189,543) | **(439,843)** | (363,642) |
| General and administrative expenses | 11 | **(112,111)** | (97,447) | **(220,002)** | (187,015) |
| Depreciation | | **(21,313)** | (20,956) | **(42,144)** | (39,423) |
| Provision for impairment, net | 12 | **(235,780)** | (134,603) | **(395,334)** | (239,785) |
| | | **(593,041)** | (442,549) | **(1,097,323)** | (829,865) |
| **PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS** | | **542,718** | 544,351 | **1,107,009** | 1,075,313 |
| Distribution to depositors and sukuk holders | 13 | **(226,131)** | (242,744) | **(487,207)** | (480,367) |
| **PROFIT FOR THE PERIOD** | | **316,587** | 301,607 | **619,802** | 594,946 |
| Attributable to: | | | | | |
| Equity holders of the Bank | | **316,549** | 301,532 | **619,700** | 594,799 |
| Non-controlling interest | | **38** | 75 | **102** | 147 |
| | | **316,587** | 301,607 | **619,802** | 594,946 |
| Basic and diluted earnings per share attributable to ordinary shares (AED) | 14 | **0.121** | 0.115 | **0.237** | 0.226 |

The attached notes 1 to 41 form part of these interim condensed consolidated financial statements.

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Three months and six months ended 30 June 2011 (Unaudited)

| | Notes | *Three months ended 30 June* **2011** **AED '000** | *2010* *AED '000* | *Six months ended 30 June* **2011** **AED '000** | *2010* *AED '000* |
|---|---|---|---|---|---|
| **PROFIT FOR THE PERIOD** | | **316,587** | 301,607 | **619,802** | 594,946 |
| **Other comprehensive income (loss)** | | | | | |
| Net loss on valuation of investments carried at fair value through other comprehensive income | 31 | **(302)** | **-** | **(22,049)** | - |
| Net (loss) gain on valuation of available-for-sale investments | 31 | **-** | (15,322) | **-** | 39,984 |
| Directors' remuneration paid | | **(4,200)** | (3,000) | **(4,200)** | (3,000) |
| Exchange differences arising on translation of foreign operations | 31 | **976** | (6,551) | **6,262** | (11,710) |
| Loss on hedge of foreign operations | 31 | **(976)** | - | **(6,262)** | - |
| Fair value gain (loss) on cash flow hedge | 31 | **1,727** | (136) | **1,893** | (2,418) |
| **OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD** | | **(2,775)** | (25,009) | **(24,356)** | 22,856 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **313,812** | 276,598 | **595,446** | 617,802 |
| Attributable to: | | | | | |
| Equity holders of the Bank | | **313,774** | 276,523 | **595,344** | 617,655 |
| Non-controlling interest | | **38** | 75 | **102** | 147 |
| | | **313,812** | 276,598 | **595,446** | 617,802 |

The attached notes 1 to 41 form part of these interim condensed consolidated financial statements.

# INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2011 (Unaudited)

| | Notes | *30 June 2011 AED '000* | *Audited 31 December 2010 AED '000* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 15 | **7,950,171** | 5,400,335 |
| Balances and wakala deposits with Islamic banks and other financial institutions | 16 | **2,429,538** | 2,906,382 |
| Murabaha and mudaraba with financial institutions | 17 | **7,693,770** | 12,823,542 |
| Murabaha and other Islamic financing | 18 | **22,129,673** | 22,682,521 |
| Ijara financing | 19 | **25,998,695** | 25,270,071 |
| Investments | 20 | **1,271,248** | 1,639,414 |
| Investment in associates | 21 | **849,766** | 837,195 |
| Investment properties | 22 | **207,734** | 191,654 |
| Development properties | 23 | **1,045,950** | 1,050,445 |
| Other assets | 24 | **2,091,499** | 1,870,072 |
| Property and equipment | | **658,808** | 585,887 |
| **TOTAL ASSETS** | | **72,326,852** | 75,257,518 |
| **LIABILITIES** | | | |
| Due to financial institutions | 25 | **1,116,004** | 891,390 |
| Depositors' accounts | 26 | **53,192,237** | 56,517,045 |
| Other liabilities | 27 | **1,982,368** | 2,091,500 |
| Tier 2 wakala capital | 28 | **2,207,408** | 2,207,408 |
| Sukuk financing instruments | 29 | **5,669,422** | 5,439,523 |
| **Total liabilities** | | **64,167,439** | 67,146,866 |
| **EQUITY** | | | |
| Share capital | 30 | **2,364,706** | 2,364,706 |
| Legal reserve | | **1,754,899** | 1,754,899 |
| General reserve | | **443,182** | 443,182 |
| Retained earnings | | **1,577,817** | 984,069 |
| Proposed dividends | 39 | **-** | 511,783 |
| Proposed dividends to charity | | **-** | 6,816 |
| Other reserves | 31 | **16,220** | 42,122 |
| **Equity attributable to the equity holders of the Bank** | | **6,156,824** | 6,107,577 |
| Tier 1 sukuk | 32 | **2,000,000** | 2,000,000 |
| Non-controlling interest | | **2,589** | 3,075 |
| **Total equity** | | **8,159,413** | 8,110,652 |
| **TOTAL LIABILITIES AND EQUITY** | | **72,326,852** | 75,257,518 |
| **CONTINGENT LIABILITIES AND COMMITMENTS** | 33 | **14,725,930** | 12,156,042 |

Chairman

Chief Executive Officer

The attached notes 1 to 41 form part of these interim condensed consolidated financial statements.

# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2011 (Unaudited)

| | | *Attributable to the equity holders of the Bank* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Notes* | *Share capital AED '000* | *Legal reserve AED '000* | *General reserve AED '000* | *Retained earnings AED '000* | *Proposed dividends AED '000* | *Proposed dividends to charity AED '000* | *Other reserves AED '000* | *Total AED '000* | *Tier 1 sukuk AED '000* | *Non-controlling interest AED '000* | *Total equity AED '000* |
| Balance at 1 January 2011 (audited) | | 2,364,706 | 1,754,899 | 443,182 | 984,069 | 511,783 | 6,816 | 42,122 | 6,107,577 | 2,000,000 | 3,075 | 8,110,652 |
| Transition adjustment on adoption of IFRS 9 | 4 | - | - | - | 38,248 | - | - | (5,746) | 32,502 | - | - | 32,502 |
| Balance at 1 January 2011 (adjusted) | | 2,364,706 | 1,754,899 | 443,182 | 1,022,317 | 511,783 | 6,816 | 36,376 | 6,140,079 | 2,000,000 | 3,075 | 8,143,154 |
| Total comprehensive income (loss) | | - | - | - | 615,500 | - | - | (20,156) | 595,344 | - | 102 | 595,446 |
| Profit paid on Tier 1 sukuk | 32 | - | - | - | (60,000) | - | - | - | (60,000) | - | - | (60,000) |
| Dividends paid | 39 | - | - | - | - | (511,783) | - | - | (511,783) | - | (588) | (512,371) |
| Dividends paid to charity | | - | - | - | - | - | (6,816) | - | (6,816) | - | - | (6,816) |
| Balance at 30 June 2011 (unaudited) | | **2,364,706** | **1,754,899** | **443,182** | **1,577,817** | **-** | **-** | **16,220** | **6,156,824** | **2,000,000** | **2,589** | **8,159,413** |
| Balance at 1 January 2010 (audited) | | 1,970,588 | 1,754,475 | 321,297 | 724,632 | 394,118 | 1,028 | (24,457) | 5,141,681 | 2,000,000 | 2,855 | 7,144,536 |
| Total comprehensive income | | - | - | - | 591,799 | - | - | 25,856 | 617,655 | - | 147 | 617,802 |
| Profit paid on Tier 1 sukuk | 32 | - | - | - | (60,000) | - | - | - | (60,000) | - | - | (60,000) |
| Bonus shares issued | | 394,118 | - | - | - | (394,118) | - | - | - | - | - | - |
| Dividends paid to charity | | - | - | - | - | - | (1,028) | - | (1,028) | - | - | (1,028) |
| Balance at 30 June 2010 (unaudited) | | 2,364,706 | 1,754,475 | 321,297 | 1,256,431 | - | - | 1,399 | 5,698,308 | 2,000,000 | 3,002 | 7,701,310 |

The attached notes 1 to 41 form part of these interim condensed consolidated financial statements.

# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
## Six months ended 30 June 2011 (Unaudited)

| | Notes | **Six months ended 30 June 2011 AED '000** | Six months ended 30 June 2010 AED '000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the period | | **619,802** | 594,946 |
| Adjustments for: | | | |
| Depreciation on investment properties | 22 | **1,657** | 1,857 |
| Depreciation on property and equipment | | **40,487** | 37,566 |
| Share of results of associates | | **(8,019)** | (7,618) |
| Dividend income | 6 | **(13)** | (910) |
| Realised gain on sale of investments carried at fair value through profit and loss | 6 | **(44,197)** | - |
| Unrealised gain on investments carried at fair value through profit and loss | 6 | **(5,699)** | - |
| Realised gain on available-for-sale investments | 6 | - | (21) |
| Realised loss on sale of held for trading investments | 6 | - | 433 |
| Unrealised loss on held for trading investments | 6 | - | 1,998 |
| Gain on disposal of property and equipment | | **(47)** | (29) |
| Provision for impairment, net | 12 | **395,334** | 239,785 |
| Gain on sale of development properties | 9 | **(9,365)** | (36,152) |
| Operating profit before changes in operating assets and liabilities | | **989,940** | 831,855 |
| Purchase of certificate of deposits | | **(1,904,490)** | - |
| Increase in balances and wakala deposits with Islamic banks and other financial institutions | | **(5,550)** | (193,844) |
| Decrease in murabaha and mudaraba with financial institutions | | **1,936,087** | 162,089 |
| Decrease (increase) in murabaha and other Islamic financing | | **522,622** | (1,695,850) |
| Increase in ijara financing | | **(1,001,076)** | (3,213,512) |
| Purchase of investments carried at fair value through profit and loss | | **(728,089)** | - |
| Proceeds from sale of investments carried at fair value through profit and loss | | **876,908** | - |
| Purchase of held for trading investments | | - | (758,291) |
| Proceeds from sale of held for trading investments | | - | 540,480 |
| (Increase) decrease in other assets | | **(330,590)** | 8,293 |
| Decrease in due to financial institutions | | **(1,535)** | (18,201) |
| (Decrease) increase in depositors' accounts | | **(3,331,070)** | 3,662,869 |
| (Decrease) increase in other liabilities | | **(171,056)** | 238,346 |
| Cash used in operations | | **(3,147,899)** | (435,766) |
| Directors' remuneration paid | | **(4,200)** | (3,000) |
| Net cash used in operating activities | | **(3,152,099)** | (438,766) |
| **INVESTING ACTIVITIES** | | | |
| Dividend received | 6 | **13** | 910 |
| Purchase of investments carried at fair value through other comprehensive income | | **(95,048)** | - |
| Proceeds from sale of investments carried at fair value through other comprehensive income | | **374,744** | - |
| Purchase of available-for-sale investments | | - | (80,986) |
| Proceeds from sale of available-sale-investments | | - | 4,865 |
| Investment in associates | | **1,710** | (90,644) |
| Additions to development properties | 23 | **(12,402)** | (54,299) |
| Proceeds from sale of development properties | | **22,246** | 82,963 |
| Purchase of property and equipment | | **(113,427)** | (171,018) |
| Proceeds from disposal of property and equipment | | **66** | 29 |
| Net cash from (used in) investing activities | | **177,902** | (308,180) |
| **FINANCING ACTIVITIES** | | | |
| Profit paid on Tier 1 sukuk to government of Abu Dhabi | 32 | **(60,000)** | (60,000) |
| Dividends paid | | **(455,370)** | (822) |
| Dividends paid to charity | | - | (1,028) |
| Proceeds from disposal of sukuk repurchased (second issue) | | **229,899** | - |
| Net cash used in financing activities | | **(285,471)** | (61,850) |
| **DECREASE IN CASH AND CASH EQUIVALENTS** | | **(3,259,668)** | (808,796) |
| Cash and cash equivalents at 1 January | | **15,955,903** | 10,655,313 |
| **CASH AND CASH EQUIVALENTS AT 30 JUNE** | 34 | **12,696,235** | 9,846,517 |

Operating cash flows from profit on balances and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, customer financing, Islamic sukuk and customer deposits are as follows:

| | Notes | 2011 | 2010 |
|---|---|---|---|
| Profit received | | **1,735,278** | 1,582,448 |
| Profit paid to depositors and sukuk holders | 13 | **292,424** | 277,072 |

The attached notes 1 to 41 form part of these interim condensed consolidated financial statements.

## 1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Abu Dhabi Islamic Bank PJSC ("the Bank") was incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE), as a public joint stock company with limited liability, in accordance with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) and the Amiri Decree No. 9 of 1997.

The Bank and its subsidiaries ("the Group") carry out full banking services, financing and investing activities through various islamic instruments such as Murabaha, Istisna'a, Mudaraba, Musharaka, Ijara, Wakalah, Sukuk etc. The activities of the Bank are conducted in accordance with Islamic Shari'a, which prohibits usury, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

In addition to its main office in Abu Dhabi, the Bank operates through its 66 branches in the UAE. The interim condensed consolidated financial statements combine the activities of the Bank's head office, its branches, subsidiaries and its associates.

The registered office of the Bank is at P O Box 313, Abu Dhabi, UAE.

The interim condensed consolidated financial statements of the Group were authorised for issued by the Board of Directors on 7 August 2011.

## 2 DEFINITIONS

The following terms are used in the interim condensed consolidated financial statements with the meanings specified:

**Murabaha**
A sale contract, in which the Group sells to a customer a physical asset, goods, or shares already owned and possessed (either physically or constructively) at a selling price consists of the purchasing cost plus a mark-up profit.

**Istisna'a**
A sale contract, in which the Group (Al Saanee) sells an asset to be developed using its own materials to a customer (Al Mustasnee) according to pre-agreed upon precise specification, at a specific price, installments dates and to be delivered on a specific date. This developed asset can be either developed directly by the Group or through a subcontractor and then it is handed over to the customer on the pre-agreed upon date.

**Ijara**
A lease contract whereby the Group (the Lessor) leases to a customer (the Lessee) a service or the usufruct of an owned or rented physical asset either exists currently or to be constructed in future (forward lease) for a specific period of time at specific rental installments. The lease contract could be ended by transferring the ownership of a leased physical asset through an independent mode to the lessee.

**Qard Hasan**
A non-profit bearing loan enables the borrower to use the borrowed amounts for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

**Musharaka**
A contract between the Group and a customer to enter into a partnership in an existing project (or to be established), or in the ownership of a specific asset, either on ongoing basis or for a limited time, during which the Group enters in particular arrangements with the customer to sell to him/her its share in this partnership until he/she becomes the sole owner of it (diminishing musharaka). Profits are distributed according to the mutual agreement of the parties as stipulated in the contract; however, losses are borne according to the exact shares in the Musharaka capital on a pro-rata basis.

## 2 DEFINITIONS continued

**Mudaraba**
A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible of all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

**Wakalah**
A contract between the Group and a customer whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the principal.

**Sukuk**
Certificates which are equal in value and represent common shares in the ownership of a specific physical asset (leased or to be leased either existing or to be constructed in future), or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or Partnership companies. In all these cases, the Sukuk holders shall be the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the Partnership or the Mudaraba.

## 3 BASIS OF PREPARATION

### 3.1.a Statement of compliance
The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), general principles of the Shari’a as determined by the Group’s Fatwa and Shari’a Supervisory Board and applicable requirements of UAE Federal Law No. 8 of 1984 (as amended).

### 3.1.b Accounting convention
The interim condensed consolidated financial statements have been prepared under the historical cost convention except for investments carried at fair value through profit or loss, investments carried at fair value through other comprehensive income (Previously: held for trading investments, available-for-sale investments), Shari'a compliant alternatives of derivative financial instruments which have been measured at fair value and land which has been carried at re-valued amount.

The interim condensed consolidated financial statements have been presented in UAE Dirhams (AED), which is the functional currency of the Bank and all values are rounded to the nearest thousand AED except where otherwise indicated.

**3 BASIS OF PREPARATION** continued

**3.1.c Basis of consolidation**

The interim condensed consolidated financial statements comprise the financial statements of the Bank and those of its following subsidiaries:

| | *Activity* | *Country of incorporation* | *Percentage of holding* | |
|---|---|---|---|---|
| | | | ***2011*** | *2010* |
| Abu Dhabi Islamic Securities Company LLC | Equity brokerage services | United Arab Emirates | **95%** | 95% |
| Burooj Properties LLC | Real estate investments | United Arab Emirates | **100%** | 100% |
| ADIB Invest 1 | Equity brokerage services | BVI | **100%** | 100% |
| ADIB Sukuk Company Ltd* | Special purpose vehicle | Cayman Island | **-** | - |
| Kawader Services Company LLC | Manpower supply | United Arab Emirates | **100%** | 100% |

*The Bank does not have any direct holding in ADIB Sukuk Company Ltd and is considered to be a subsidiary by virtue of control.

A subsidiary is an entity over which the Bank exercises control, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from its activities. These interim condensed consolidated financial statements include the operations of the subsidiaries over which the Bank has control. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The interim condensed financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of the profit or loss and net assets not held by the Bank and are presented separately in the interim consolidated income statement, comprehensive income and within equity in the interim consolidated statement of financial position, separately from the Bank shareholders' equity.

**3.3 Significant judgements and estimates**

The preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standards requires management to make judgment, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provisions as well as fair value changes.

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial periods. Estimates and judgments are currently evaluated and are based on historical experience and other factors. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows in order to estimate the level of impairment provision required for non-performing financing as well as for investments carried at amortised cost. In order to reduce the element of subjectivity, the Group has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

## 3 BASIS OF PREPARATION continued

### 3.3 Significant judgements and estimates continued

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2010 except as noted below:

*Property and equipment*

The cost of property and equipment is depreciated over its estimated useful life, which is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors. During the period, management has revised the estimated useful life of buildings to 25 years from 20 years. The effect of change in estimated life is accounted for on a prospective basis and resulted in decrease in depreciation charge by AED 278 thousand for six months period ended 30 June 2011.

## 4 ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2010, except as noted below:

**IFRS 9 Financial Instruments: Recognition and Measurement**

The Group has adopted IFRS 9 Financial Instruments ("IFRS 9") in advance of its effective date. The Group has chosen 1 January 2011 as its date of initial application (i.e. the date on which the Group has assessed its existing financial assets). The standard has been applied retrospectively and as permitted by IFRS 9, comparative amounts have not been restated.

IFRS 9 requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are subsequently measured at either fair value or amortized cost on the basis of both:

a. its business model for managing the financial assets; and
b. the contractual cash flow characteristics of the financial asset.

As required by Securities and Commodities Authority of UAE ("SCA") notification no. 2635/2008 dated 12 October 2008, accounting policies related to financial instruments have been disclosed below.

***Classification (as per IFRS 9)***

*Financial assets at amortised cost*

Debt instruments, including customer financing and investment in sukuks, are measured at amortised cost, if both the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

**4 ACCOUNTING POLICIES** continued

**IFRS 9 Financial Instruments: Recognition and Measurement** continued

***Classification (as per IFRS 9)*** continued
*Financial assets at fair value through profit or loss ("FVTPL")*
Investments in equity instruments are classified as FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition.

Debt instruments that do not meet the amortised cost criteria are classified as FVTPL. In addition, debt instruments that meet the amortised criteria but at initial recognition are designated as FVTPL in line with the business model of the Bank. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different basis.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria is no longer met. Reclassification of debt instruments that are designated as FVTPL on initial recognition is not allowed.

*Financial assets at fair value through other comprehensive income ("FVTOCI")*
At initial recognition, the Group can make an irrevocable election (on instrument-by-instrument basis) to designate investments in equity instruments as FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is the part of identified financial instrument that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

***Measurement (as per IFRS 9)***
*Amortised cost*
Financial assets at amortised cost and customer financing are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

*Financial assets at fair value through profit or loss ("FVTPL")*
Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included within 'investment income' in the consolidated income statement.

*Financial assets at fair value through other comprehensive income ("FVTOCI")*
Investments in equity instruments are initially measured at fair value plus transaction costs. Subsequently they are measured at fair value with gains and losses arising from changes in fair value recognised in the consolidated statement of other comprehensive income and accumulated in the cumulative changes in fair values within equity. Where the assets are disposed off, the cumulative gain or loss previously accumulated in the cumulative changes in fair values is not transferred to the consolidated income statement, but is reclassified to retained earnings. As per the requirement of IFRS 9, financial assets measured at FVTOCI are not tested for impairment.

For investments quoted in active market, fair value is determined by reference to quoted market prices.

**4 ACCOUNTING POLICIES** continued

**IFRS 9 Financial Instruments: Recognition and Measurement** continued

***Measurement (as per IFRS 9)*** continued
For other investments, where there is no active market, fair value is normally based on one of the following:

- the expected cash flows discounted at current profit rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent transactions
- option pricing models
- net asset values

Dividends on investment in equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividend is established, unless the dividends clearly represent a recovery of part of the cost of investment.

Management has reviewed and assessed all of the Group's existing financial assets as at the date of initial application of IFRS 9. As a result:

- the Group's customer financing and investment in sukuk, excluding those held for trading, meeting the required criteria are measured at amortised cost; and
- the Group's equity investments not held for trading have been designated at FVTOCI.

The change in accounting policy has been applied retrospectively, in accordance with the transitional provisions of IFRS 9, where no restatement of comparative figures is required.

The impact of this change in accounting policy at the beginning of the current period (1 January 2011) is as follows:

| | ***Cumulative changes in fair value reserve AED'000*** | ***Retained earnings AED'000*** |
|---|---|---|
| **Due to reclassification of financial assets:** | | |
| Investments measured at FVTPL | - | 6,521 |
| Investments measured at FVTOCI– cumulative impairment losses in consolidated income statement in prior years | (31,727) | 31,727 |
| Investments carried at amortised cost | 25,981 | - |
| | **(5,746)** | **38,248** |

Had IFRS 9 not been adopted during the current period, the consolidated income statement would have been impacted by a decrease in profit by AED 2,423 thousand resulting from fair value changes in FVTPL investments.

Additional disclosures required, reflecting the revised classification and measurement of financial assets of the Group as a result of adopting IFRS 9, is shown in note 20 to the interim condensed consolidated financial statements.

**4 ACCOUNTING POLICIES** continued

**Financial instruments as per IAS 39**

***(i) Classification (as per IAS 39)***
The Group classifies its financial instruments in the following categories: Financial assets and financial liabilities at fair value through profit or loss, Murabaha, Ijara, Mudaraba, and certain other Islamic financing, available-for-sale investments and held to maturity investments. Management determines the classification of financial instruments at the time of initial recognition.

*Financial assets or financial liabilities at fair value through profit or loss*
This category has two sub-categories: financial assets or financial liabilities held for trading and those designated at fair value through profit or loss at inception. A financial asset or financial liability is classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short term. The Group has designated financial assets and liabilities at fair value through profit or loss when either the assets and liabilities are managed, evaluated and reported internally on a fair value basis; or the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

*Financial assets or financial liabilities at amortised cost*
Balances and deposits with banks and other financial institutions, Murabaha and Mudaraba with financial institutions, Murabaha, Ijara, Mudaraba and certain other Islamic financing are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Group provides funds directly to a customer with no intention of trading the receivable. Financial liabilities are liabilities where the Group has a contractual obligation to deliver cash or another financial asset or exchange financial instruments under conditions that are potentially unfavourable to the Group.

Balances and wakala deposits with Islamic banks and other financial institutions are stated at amortised cost less amounts written off and provision for impairment, if any.

Murabaha and mudaraba with financial institutions are stated at amortised cost less provisions for impairment and deferred or expected profits.

Islamic financing consist of murabaha receivables, mudaraba, Istisna'a, Islamic covered cards (murabaha based) and other Islamic financing.

Istisna'a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value.

Other Islamic financing are stated at amortised cost less any provisions for impairment and deferred income.

The Ijara is classified as a finance lease, when the Bank undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

*Held to maturity*
Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity and the Group's management has the positive intention and the ability to hold to maturity.

*Available-for-sale*
Financial assets that are not classified under any other category of financial assets are classified as available-for-sale.

**4 ACCOUNTING POLICIES** continued

**Financial instruments as per IAS 39** continued

***(ii) Recognition / De-recognition***
The Group initially recognises financial assets held for trading, financial assets at fair value through profit or loss, financial assets held to maturity and financial assets available-for-sale on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financing to customers are recognised on the day they are originated. A financial liability is recognised on the date the Group becomes a party to contractual provisions of the instruments.

A financial asset is de-recognised when the contractual rights to the cash flows from the financial asset expires or when it transfers the financial asset. A financial liability is de-recognised when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets designated at fair value through profit or loss, assets held for trading and assets available-for-sale that are sold are de-recognised and corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets. The Group uses the specific identification method to determine the gain or loss on de-recognition.

***(iii) Measurement (as per IAS 39)***
Financial assets and liabilities are measured initially at fair value plus, in case of a financial asset or financial liability or at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from a change in the fair value of assets at fair value through profit or loss account are recorded directly in the consolidated income statement.

Financial assets which are classified as available-for-sale are measured at fair value. Unrealised gains and losses on measurement to fair value of assets are recognised in the statement of other comprehensive income reported as a separate component of equity until the assets is sold or otherwise disposed of, or the assets is determined to be impaired, at which the cumulative gains of losses previously recognised through the statement of other comprehensive income are included in the consolidated income statement. For investments in equity instruments, where a reasonable estimate of the fair value cannot be determined, the investment is carried at cost less impairment allowance, if any.

All financial assets or liabilities at amortised cost, customer financing and held-to-maturity investments are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

***(iv) Fair value measurement principles (as per IAS 39)***
For investments quoted in active market, fair value is determined by reference to quoted market prices. The fair values of investments in funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments, where there is no active market, fair value is normally based on one of the following:

- the expected cash flows discounted at current profit rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent transactions
- option pricing models
- net asset values

The estimated fair value of deposits with no stated maturity, which includes non-profit bearing deposits, is the amount payable on demand.

**4 ACCOUNTING POLICIES** continued

**Financial instruments as per IAS 39** continued

***(v) Offsetting of financial instruments***
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

***(vi) Impairment of financial assets***
*Customer financing*
The recoverable amount of customer financing is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective profit rate. Short-term balances are not discounted. Financing is presented net of impairment allowances. Specific allowances are made against the carrying amount of financing that are identified as being impaired, based on regular reviews of outstanding balances to reduce these financing to their recoverable amounts. Portfolio allowances are maintained to reduce the carrying amount of portfolios of similar financing to their estimated recoverable amounts at the statement of financial position date. Changes in the allowance account are recognized in the consolidated income statement. When a financing is known to be irrecoverable, and all the necessary legal procedures have been completed, the final loss is determined and the financing is written off.

If in a subsequent period the amount of an impairment loss decreases, and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the consolidated income statement.

Where possible, the Bank seeks to restructure financing exposures rather than take possession of collateral and this may involve extending payment arrangements and agreement of new terms and conditions. Once the terms have been renegotiated, the financing exposure is no longer considered past due. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur on schedule. The facilities continue to be subject to individual or collective impairment assessment, calculated using the facilities original effective profit rate.

*Held to maturity investments*
Impairment losses on held to maturity investments carried at amortised cost are measured as the difference between the carrying amount and the present value of estimated cash flows discounted at the original profit rate. Impairment losses are recognised in the consolidated income statement and reflected in an allowance account against such financial assets. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated income statement.

*Available-for-sale investments (as per IAS 39)*
Impairment losses on available-for-sale investments are recognised by transferring the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in consolidated income statement out of equity to the consolidated income statement. Impairment losses recognised on equity instruments are not reversed through the consolidated income statement.

**Net investment hedge**
Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in consolidated statement of comprehensive income within foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement. Gains and losses accumulated in equity are included in the consolidated income statement on the disposal of the foreign operations.

The interim condensed consolidated financial statements do not contain all information and disclosures for full consolidated financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2010. In addition, results for the six months ended 30 June 2011 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2011.

## 5 INCOME FROM MURABAHA, MUDARABA, IJARA AND OTHER ISLAMIC FINANCING

| | ***Three months ended 30 June*** | | ***Six months ended 30 June*** | |
|---|---|---|---|---|
| | ***2011*** | *2010* | ***2011*** | *2010* |
| | ***AED '000*** | *AED '000* | ***AED '000*** | *AED '000* |
| Vehicle murabaha | **145,230** | 156,465 | **296,080** | 306,941 |
| Goods murabaha | **47,462** | 76,720 | **102,247** | 159,237 |
| Share murabaha | **170,876** | 115,785 | **337,587** | 212,837 |
| Commodities murabaha – Al Khair | **65,565** | 57,199 | **130,264** | 109,474 |
| Other murabaha | **12,745** | 7,836 | **22,756** | 16,186 |
| Total murabaha | **441,878** | 414,005 | **888,934** | 804,675 |
| Mudaraba | **32,676** | 38,364 | **71,301** | 68,649 |
| Ijara | **394,716** | 339,355 | **750,038** | 630,370 |
| Islamic covered cards | **43,465** | 37,307 | **86,676** | 72,875 |
| Istisna'a | **5,752** | 9,627 | **11,714** | 15,952 |
| | **918,487** | 838,658 | **1,808,663** | 1,592,521 |

## 6 INVESTMENT INCOME

| | ***Three months ended 30 June*** | | ***Six months ended 30 June*** | |
|---|---|---|---|---|
| | ***2011*** | *2010* | ***2011*** | *2010* |
| | ***AED '000*** | *AED '000* | ***AED '000*** | *AED '000* |
| Income from Islamic sukuk | **8,762** | 8,352 | **21,842** | 13,986 |
| Income from other investment assets | **1,396** | 6,854 | **7,566** | 9,251 |
| Dividend income | **3** | 64 | **13** | 910 |
| Realised gain on sale of investments carried at FVTPL | **38,235** | - | **44,197** | - |
| Unrealised gain on investments carried at FVTPL | **7,277** | - | **5,699** | - |
| Realised gain on sale of available-for-sale investments | **-** | - | **-** | 21 |
| Realised loss on sale of held for trading investments | **-** | (1,933) | **-** | (433) |
| Unrealised loss on held for trading investments | **-** | (2,271) | **-** | (1,998) |
| | **55,673** | 11,066 | **79,317** | 21,737 |

## 7 FEES AND COMMISSION INCOME, NET

| | *Three months ended 30 June* | | *Six months ended 30 June* | |
|---|---|---|---|---|
| | ***2011*** | *2010* | ***2011*** | *2010* |
| | ***AED '000*** | *AED '000* | ***AED '000*** | *AED '000* |
| **Fees and commission income** | | | | |
| Fees and commission income on cards | **51,965** | 28,671 | **97,133** | 53,409 |
| Trade related fees and commission | **16,975** | 17,338 | **35,627** | 32,208 |
| Accounts services fees | **15,830** | 10,123 | **39,815** | 21,964 |
| Projects and property management fees | **11,301** | 9,444 | **20,602** | 17,008 |
| Risk participation and arrangement fees | **14,753** | 7,336 | **28,215** | 8,066 |
| Brokerage fees and commission | **4,350** | 4,669 | **8,373** | 9,728 |
| Other fees and commissions | **22,668** | 17,584 | **43,071** | 28,360 |
| Total fees and commission income | **137,842** | 95,165 | **272,836** | 170,743 |
| **Fees and commission expenses** | | | | |
| Card related expenses | **(26,558)** | (11,073) | **(44,454)** | (19,739) |
| Other fees and commission expenses | **(6,027)** | (5,201) | **(11,938)** | (16,009) |
| Total fees and commission expenses | **(32,585)** | (16,274) | **(56,392)** | (35,748) |
| Fees and commission income, net | **105,257** | 78,891 | **216,444** | 134,995 |

## 8 INCOME FROM INVESTMENT PROPERTIES

| | *Three months ended 30 June* | | *Six months ended 30 June* | |
|---|---|---|---|---|
| | ***2011*** | *2010* | ***2011*** | *2010* |
| | ***AED '000*** | *AED '000* | ***AED '000*** | *AED '000* |
| Rental income | **844** | 1,161 | **1,469** | 2,446 |

## 9 INCOME (LOSS) FROM DEVELOPMENT PROPERTIES

| | *Three months ended 30 June* | | *Six months ended 30 June* | |
|---|---|---|---|---|
| | ***2011*** | *2010* | ***2011*** | *2010* |
| | ***AED '000*** | *AED '000* | ***AED '000*** | *AED '000* |
| Revenue from sale of development properties | **11,500** | - | **22,246** | 82,963 |
| Less: cost of properties sold | **(6,705)** | - | **(12,881)** | (46,811) |
| Gain on sale of development properties | **4,795** | - | **9,365** | 36,152 |
| Provision for rent guarantee | **-** | (5,164) | **(1,750)** | (19,483) |
| | **4,795** | (5,164) | **7,615** | 16,669 |

Provision for rent guarantee represents provision against the minimum rental income guaranteed by a subsidiary of the Bank to the buyers of properties at the time of sale. Rent guarantee is computed as the difference between guaranteed and expected rent as of the reporting date.

## 10 EMPLOYEES' COSTS

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **AED '000** | AED '000 | **AED '000** | AED '000 |
| Salaries and wages | **200,665** | 169,770 | **398,453** | 326,502 |
| End of service benefits | **14,510** | 11,475 | **26,216** | 23,612 |
| Other staff expenses | **8,662** | 8,298 | **15,174** | 13,528 |
| | **223,837** | 189,543 | **439,843** | 363,642 |

## 11 GENERAL AND ADMINISTRATIVE EXPENSES

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **AED '000** | AED '000 | **AED '000** | AED '000 |
| Legal and professional expenses | **21,147** | 23,029 | **43,120** | 38,868 |
| Premises expenses | **33,948** | 28,640 | **64,169** | 54,253 |
| Marketing and advertising expenses | **22,380** | 17,853 | **47,167** | 39,073 |
| Communication expenses | **10,456** | 9,406 | **20,157** | 19,758 |
| Technology related expenses | **6,575** | 4,791 | **11,433** | 8,721 |
| Other operating expenses | **17,605** | 13,728 | **33,956** | 26,342 |
| | **112,111** | 97,447 | **220,002** | 187,015 |

## 12 PROVISION FOR IMPAIRMENT, NET

| | | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 |
| | | **AED '000** | AED '000 | **AED '000** | AED '000 |
| Murabaha and mudaraba with financial institutions | 17 | **-** | 33,374 | **(2,786)** | 57,305 |
| Murabaha and other Islamic financing | 18 | **(27,775)** | 74,781 | **30,226** | 103,500 |
| Ijara financing | 19 | **176,678** | 26,448 | **272,452** | 79,080 |
| Other assets | 24 | **86,877** | - | **95,442** | (100) |
| | | **235,780** | 134,603 | **395,334** | 239,785 |

The above provision for impairment includes AED 95,442 thousand (30 June 2010: AED nil) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank and charge of AED nil (30 June 2010: Reversal of AED 100 thousand) pertaining to Abu Dhabi Islamic Securities Company LLC, an equity brokerage subsidiary of the Bank.

## 13 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

| | *Six months ended 30 June* | |
|---|---|---|
| | ***2011*** | *2010* |
| | ***AED '000*** | *AED '000* |
| Depositors and sukuk holders share of profit for the period | **487,207** | 480,367 |
| Less: pertaining to depositors' profit equalisation reserve (note 26) | **(32,034)** | (4,517) |
| | **455,173** | 475,850 |
| Less: paid during the period | **(292,424)** | (277,072) |
| Depositors and sukuk holders share of profit payable (note 27) | **162,749** | 198,778 |

Share of profits distributable to customers and financial institutions are as follows:

| | *Three months ended 30 June* | | *Six months ended 30 June* | |
|---|---|---|---|---|
| | ***2011*** | *2010* | ***2011*** | *2010* |
| | ***AED '000*** | *AED '000* | ***AED '000*** | *AED '000* |
| Saving accounts | **28,216** | 17,460 | **53,044** | 35,691 |
| Investment accounts by customers | **101,704** | 131,870 | **212,948** | 256,606 |
| Investment accounts by financial institutions | **62,382** | 85,743 | **153,358** | 173,107 |
| Sukuk holders | **33,829** | 7,671 | **67,857** | 14,963 |
| | **226,131** | 242,744 | **487,207** | 480,367 |

## 14 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the profit for the period attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by dividing the profit for the period attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the period, adjusted for the effects of any financial instruments with dilutive effects.

## 14 BASIC AND DILUTED EARNINGS PER SHARE continued

The following reflects the income and shares data used in the earnings per share computations:

| | | *Three months ended 30 June* | | *Six months ended 30 June* | |
|---|---|---|---|---|---|
| | | ***2011*** | *2010* | ***2011*** | *2010* |
| | | ***AED '000*** | *AED '000* | ***AED '000*** | *AED '000* |
| Profit for the period attributable to equity holders (AED '000) | | **316,549** | 301,532 | **619,700** | 594,799 |
| Less: profit attributable to Tier 1 sukuk holder (AED '000) | 32 | **(30,000)** | (30,000) | **(60,000)** | (60,000) |
| Profit for the period attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000) | | **286,549** | 271,532 | **559,700** | 534,799 |
| Weighted average number of ordinary shares in issue at the beginning of the period (000's) | | **2,364,706** | 2,364,706 | **2,364,706** | 1,970,588 |
| Effect of bonus shares issued (000's) | | **-** | - | **-** | 394,118 |
| Weighted average number of ordinary shares in issue at the end of the period (000's) | | **2,364,706** | 2,364,706 | **2,364,706** | 2,364,706 |
| Basic and diluted earnings per share (AED) | | **0.121** | 0.115 | **0.237** | 0.226 |

As of 30 June 2011 and 2010, the Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised.

## 15 CASH AND BALANCES WITH CENTRAL BANKS

| | ***30 June 2011*** | *Audited 31 December 2010* |
|---|---|---|
| | ***AED '000*** | *AED '000* |
| Cash on hand | **1,038,214** | 738,396 |
| Balances with central banks: | | |
| - Current accounts | **127,613** | 141,202 |
| - Statutory reserve | **3,979,765** | 3,620,648 |
| - Islamic certificate of deposits | **2,804,579** | 900,089 |
| | **7,950,171** | 5,400,335 |

The Bank is required to maintain statutory reserve with the Central Bank of the UAE in AED and US Dollar on demand, time and other deposits. The statutory reserves are not available for use in the Bank's day-to-day operations and cannot be withdrawn without the approval of the Central Bank of the UAE. Cash on hand and current accounts are not profit-bearing. Islamic certificate of deposits are profit bearing, which is based on entering into international commodities Murabaha transaction in which Central Bank of the UAE is the buyer and the Bank is the seller.

**15 CASH AND BALANCES WITH CENTRAL BANKS** continued

The distribution of the cash and balances with central banks by geographic region was as follows:

| | ***30 June 2011 AED '000*** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| UAE | **7,924,472** | 5,374,627 |
| Middle East | **25,699** | 25,708 |
| | **7,950,171** | 5,400,335 |

**16 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS**

| | ***30 June 2011 AED '000*** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| Current accounts | **111,278** | 108,249 |
| Wakala deposits | **2,318,260** | 2,798,133 |
| | **2,429,538** | 2,906,382 |

In accordance with Shari'a principles deposits are invested only with Islamic financial institutions. The Bank does not earn profits on current accounts with banks and financial institutions.

The distribution of the balances and wakala deposits with Islamic banks and other financial institutions by geographic region was as follows:

| | ***30 June 2011 AED '000*** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| UAE | **1,578,770** | 2,264,096 |
| Middle East | **3,150** | 4,509 |
| Europe | **43,721** | 34,305 |
| Others | **803,897** | 603,472 |
| | **2,429,538** | 2,906,382 |

**17 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS**

| | ***30 June 2011 AED '000*** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| Murabaha | **7,616,677** | 12,748,177 |
| Mudaraba | **264,617** | 265,675 |
| | **7,881,294** | 13,013,852 |
| Less: provision for impairment | **(187,524)** | (190,310) |
| | **7,693,770** | 12,823,542 |

The movement in the provision for impairment during the period was as follows:

| | ***30 June 2011 AED '000*** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| At the beginning of the period | **190,310** | 186,298 |
| (Reversal) charge for the period (note 12) | **(2,786)** | 38,902 |
| Written off during the period | **-** | (34,890) |
| At the end of the period | **187,524** | 190,310 |

The distribution of the gross murabaha and mudaraba with financial institutions by geographic region was as follows:

| | ***30 June 2011 AED '000*** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| UAE | **6,885,897** | 12,193,125 |
| Middle East | **231,332** | 230,270 |
| Europe | **551,087** | 367,421 |
| Others | **212,978** | 223,036 |
| | **7,881,294** | 13,013,852 |

## 18 MURABAHA AND OTHER ISLAMIC FINANCING

| | **30 June 2011 AED '000** | Audited 31 December 2010 AED '000 |
|---|---|---|
| Vehicle murabaha | **7,656,054** | 7,904,499 |
| Goods murabaha | **3,217,955** | 4,168,262 |
| Share murabaha | **8,763,531** | 7,644,552 |
| Commodities murabaha – Al Khair | **3,925,072** | 3,654,793 |
| Other murabaha | **2,000,412** | 2,295,820 |
| Total murabaha | **25,563,024** | 25,667,926 |
| Mudaraba | **2,599,444** | 2,763,970 |
| Islamic covered cards | **4,015,320** | 4,004,584 |
| Istisna'a | **292,666** | 301,219 |
| Other financing receivables | **139,594** | 116,809 |
| Total murabaha and other Islamic financing | **32,610,048** | 32,854,508 |
| Less: deferred income | **(8,562,994)** | (8,274,397) |
| | **24,047,054** | 24,580,111 |
| Less: provision for impairment | **(1,917,381)** | (1,897,590) |
| | **22,129,673** | 22,682,521 |

The movement in the provision for impairment during the period was as follows:

| | **30 June 2011** | | | Audited 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | **Individual impairment AED '000** | **Collective impairment AED '000** | **Total AED '000** | Individual impairment AED '000 | Collective impairment AED '000 | Total AED '000 |
| At the beginning of the period | **1,608,567** | **289,023** | **1,897,590** | 1,088,461 | 281,694 | 1,370,155 |
| Charge for the period (note 12) | **11,591** | **18,635** | **30,226** | 551,230 | 7,329 | 558,559 |
| Written off during the period | **(10,435)** | **-** | **(10,435)** | (31,124) | - | (31,124) |
| At the end of the period | **1,609,723** | **307,658** | **1,917,381** | 1,608,567 | 289,023 | 1,897,590 |

**18 MURABAHA AND OTHER ISLAMIC FINANCING** continued

The distribution of the gross murabaha and other Islamic financing by segment and industry sector and geographic region was as follows:

| | **30 June 2011 AED '000** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| ***Segment and industry sector*:** | | |
| *Wholesale banking* | | |
| Government | **175,974** | 242,115 |
| Public sector | **150,129** | 89,294 |
| Corporates | **4,849,016** | 5,743,157 |
| Financial institutions | **613,422** | 614,920 |
| | **5,788,541** | 6,689,486 |
| *Retail banking* | | |
| Individuals | **16,554,805** | 15,898,717 |
| Small and medium enterprises | **468,435** | 468,492 |
| | **17,023,240** | 16,367,209 |
| *Private banking* | | |
| Individuals | **1,235,273** | 1,523,416 |
| | **24,047,054** | 24,580,111 |
| ***Geographic region:*** | | |
| UAE | **22,857,967** | 23,387,881 |
| Middle East | **788,961** | 783,656 |
| Europe | **367,543** | 377,757 |
| Others | **32,583** | 30,817 |
| | **24,047,054** | 24,580,111 |

## 19 IJARA FINANCING

This represents net investment in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The documentation include a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

| | **30 June 2011 AED '000** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| The aggregate future lease receivables are as follows: | | |
| Due within one year | **6,718,497** | 6,371,984 |
| Due in the second to fifth year | **18,186,870** | 16,739,421 |
| Due after five years | **8,258,718** | 8,789,073 |
| Total ijara financing | **33,164,085** | 31,900,478 |
| Less: deferred income | **(6,513,838)** | (6,251,307) |
| Net present value of minimum lease payments receivable | **26,650,247** | 25,649,171 |
| Less: provision for impairment | **(651,552)** | (379,100) |
| | **25,998,695** | 25,270,071 |

The movement in the provision for impairment during the period was as follows:

| | **30 June 2011** | | | *Audited 31 December 2010* | | |
|---|---|---|---|---|---|---|
| | **Individual impairment AED '000** | **Collective impairment AED '000** | **Total AED '000** | *Individual impairment AED '000* | *Collective impairment AED '000* | *Total AED '000* |
| At the beginning of the period | **92,779** | **286,321** | **379,100** | 144,737 | 235,906 | 380,643 |
| Charge for the period (note 12) | **251,595** | **20,857** | **272,452** | (51,712) | 50,415 | (1,297) |
| Written off during the period | **-** | **-** | **-** | (246) | - | (246) |
| At the end of the period | **344,374** | **307,178** | **651,552** | 92,779 | 286,321 | 379,100 |

The distribution of the gross ijara financing by segment and industry sector and geographic region was as follows:

| | **30 June 2011 AED '000** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| ***Segment and industry sector:*** | | |
| *Wholesale banking* | | |
| Government | **173,622** | 119,191 |
| Public sector | **2,253,654** | 2,173,962 |
| Corporates | **10,449,181** | 9,589,736 |
| Financial institutions | **621,325** | 827,682 |
| | **13,497,782** | 12,710,571 |

## 19 IJARA FINANCING continued

| | *30 June 2011 AED '000* | *Audited 31 December 2010 AED '000* |
|---|---|---|
| ***Segment and industry sector:*** continued | | |
| *Retail banking* | | |
| Individuals | **7,318,686** | 6,995,765 |
| Small and medium enterprises | **300,708** | 240,141 |
| | **7,619,394** | 7,235,906 |
| *Private banking* | | |
| Individuals | **5,385,216** | 5,572,042 |
| Non-profit organisations | **147,855** | 130,652 |
| | **5,533,071** | 5,702,694 |
| | **26,650,247** | 25,649,171 |
| ***Geographic region:*** | | |
| UAE | **25,877,658** | 24,774,860 |
| Middle East | **18,277** | 20,890 |
| Others | **754,312** | 853,421 |
| | **26,650,247** | 25,649,171 |

## 20 INVESTMENTS

The analysis of the Group's investments as of 30 June 2011 (classified in accordance with IFRS 9) was as follows:

| | ***30 June 2011 AED '000*** |
|---|---|
| ***Investment carried at fair value through profit or loss ("FVTPL")*** | |
| Equities | **4,305** |
| Sukuk | **384,402** |
| | **388,707** |
| ***Investments carried at fair value through other comprehensive income ("FVTOCI")*** | |
| Quoted investments | |
| Equities | **35,124** |
| Unquoted investments | |
| Funds | **233,608** |
| Private equities | **196,412** |
| | **430,020** |
| | **465,144** |

**20 INVESTMENTS** continued

| | ***30 June 2011 AED '000*** |
|---|---|
| ***Investments carried at amortised cost*** | |
| Sukuk | **417,397** |
| Total investments | **1,271,248** |

The analysis of the Group's investments as of 31 December 2010 (classified in accordance with IAS 39) was as follows:

| | *Audited 31 December 2010 AED '000* |
|---|---|
| ***Held for trading*** | |
| Equities | 6,920 |
| Sukuk | 329,353 |
| | 336,273 |
| ***Available-for-sale*** | |
| Quoted investments | |
| Equities | 58,817 |
| Sukuk | 604,280 |
| | 663,097 |
| Unquoted investments | |
| Funds | 223,322 |
| Private equities | 281,272 |
| | 504,594 |
| | 1,167,691 |
| ***Held to maturity*** | |
| Sukuk | 135,450 |
| Total investments | 1,639,414 |

Investments in private equity funds represent investments made in funds and limited partnerships to fund primary investment commitments in target companies with the objective of generating returns outperforming the public equity markets.

## 20 INVESTMENTS continued

The movement in the provision for impairment during the period was as follows:

| | *30 June 2011 AED '000* | *Audited 31 December 2010 AED '000* |
|---|---|---|
| At the beginning of the period (audited) | **108,391** | 57,770 |
| Transition adjustment upon adoption of IFRS 9 (note 4) | **(31,727)** | - |
| At the beginning of the period (adjusted) | **76,664** | 57,770 |
| Charge for the period (note 12) | **-** | 50,621 |
| At the end of the period | **76,664** | 108,391 |

The distribution of the gross investments by geographic region was as follows:

| | *30 June 2011 AED '000* | *Audited 31 December 2010 AED '000* |
|---|---|---|
| UAE | **963,974** | 1,147,659 |
| Middle East | **292,997** | 465,031 |
| Europe | **189** | 104 |
| Others | **90,752** | 135,011 |
| | **1,347,912** | 1,747,805 |

## 21 INVESTMENT IN ASSOCIATES

| | *30 June 2011 AED '000* | *Audited 31 December 2010 AED '000* |
|---|---|---|
| Cost of investment in associates | **859,563** | 861,273 |
| Share of results | **3,159** | (4,860) |
| Foreign currency translation (note 31) | **19,827** | 13,565 |
| | **882,549** | 869,978 |
| Less: provision for impairment | **(32,783)** | (32,783) |
| | **849,766** | 837,195 |

Details of the Bank's investment in associates at 30 June 2011 is as follows:

| *Name of associate* | *Place of incorporation* | *Proportion of ownership interest and voting power 2011 %* | *2010 %* | *Principal activity* |
|---|---|---|---|---|
| Abu Dhabi National Takaful PJSC | UAE | **40** | 40 | Islamic insurance |
| BBI Leasing and Real Estate D.O.O | Bosnia | **32** | 32 | Islamic leasing and real estate |
| Bosna Bank International D.D | Bosnia | **27** | 27 | Islamic banking |
| National Bank for Development | Egypt | **49** | 49 | Banking (under conversion to Islamic bank) |

## 21 INVESTMENT IN ASSOCIATES continued

The distribution of the gross investment in associates by geographic region was as follows:

| | ***30 June 2011 AED '000*** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| UAE | **120,710** | 117,337 |
| Europe | **74,281** | 65,083 |
| Others | **687,558** | 687,558 |
| | **882,549** | 869,978 |

## 22 INVESTMENT PROPERTIES

The movement in investment properties balance during the period was as follows:

| | ***30 June 2011 AED '000*** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| Cost: | | |
| Balance at the beginning of the period | **222,495** | 215,498 |
| Transfer from development properties (note 23) | **4,016** | - |
| Transfer from other assets | **13,721** | 6,997 |
| Gross balance at the end of the period | **240,232** | 222,495 |
| Less: provision for impairment | **(18,082)** | (18,082) |
| Net balance at the end of the period | **222,150** | 204,413 |
| Accumulated depreciation: | | |
| Balance at the beginning of the period | **12,759** | 8,737 |
| Charge for the period | **1,657** | 4,022 |
| Balance at the end of the period | **14,416** | 12,759 |
| Net book value at the end of the period | **207,734** | 191,654 |

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 1,469 thousand (30 June 2010: AED 2,446 thousand), for the six months period ended 30 June 2011.

**22 INVESTMENT PROPERTIES** continued

The distribution of the investment properties by geographic region was as follows:

| | ***30 June 2011 AED '000*** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| UAE | **217,247** | 201,167 |
| Middle East | **8,569** | 8,569 |
| | **225,816** | 209,736 |

**23 DEVELOPMENT PROPERTIES**

The movement in development properties during the period was as follows:

| | ***30 June 2011 AED '000*** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| Balance at the beginning of the period | **1,050,445** | 931,070 |
| Additions | **12,402** | 75,800 |
| Transfers to investment properties (note 22) | **(4,016)** | - |
| Transfers from other assets | **-** | 87,457 |
| Disposals | **(12,881)** | (43,882) |
| Balance at the end of the period | **1,045,950** | 1,050,445 |

Development properties include land with a carrying value of AED 809,044 thousand (31 December 2010: AED 815,750 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

**24 OTHER ASSETS**

| | ***30 June 2011 AED '000*** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| Advances against purchase of properties | **1,292,046** | 1,247,680 |
| Trade receivables | **366,983** | 214,345 |
| Cheques for collection | **2,787** | 3,382 |
| Prepaid expenses | **255,563** | 180,571 |
| Income receivable | **4,408** | 16,616 |
| Advance to contractors | **3,471** | 8,443 |
| Advance for investments | **290,017** | 290,017 |
| Others | **180,975** | 129,955 |
| | **2,396,250** | 2,091,009 |
| Less: provision for impairment | **(304,751)** | (220,937) |
| | **2,091,499** | 1,870,072 |

## 24 OTHER ASSETS continued

The movement in the provision for impairment during the period was as follows:

| | *Advances against purchase of properties AED '000* | *Trade receivables AED '000* | *Advance for investments AED '000* | *Others AED '000* | *Total AED '000* |
|---|---|---|---|---|---|
| At 1 January 2011 (audited) | **74,031** | **30,100** | **106,392** | **10,414** | **220,937** |
| Charge for the period (note 12) | **95,442** | **-** | **-** | **-** | **95,442** |
| Written off during the period | **(11,628)** | **-** | **-** | **-** | **(11,628)** |
| At 30 June 2011 (unaudited) | **157,845** | **30,100** | **106,392** | **10,414** | **304,751** |
| At 1 January 2010 (audited) | - | 46,547 | 106,392 | - | 152,939 |
| Charge for the period | 74,031 | (100) | - | 10,414 | 84,345 |
| Written off during the period | - | (16,347) | - | - | (16,347) |
| At 31 December 2010 (audited) | 74,031 | 30,100 | 106,392 | 10,414 | 220,937 |

## 25 DUE TO FINANCIAL INSTITUTIONS

| | ***30 June 2011 AED '000*** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| Current accounts | **352,399** | 240,660 |
| Investment deposits | **763,605** | 650,730 |
| | **1,116,004** | 891,390 |

The distribution of due to financial institutions by geographic region was as follows:

| | ***30 June 2011 AED '000*** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| UAE | **152,327** | 68,487 |
| Middle East | **265,883** | 507,458 |
| Europe | **181,485** | 169,147 |
| Others | **516,309** | 146,298 |
| | **1,116,004** | 891,390 |

## 26 DEPOSITORS' ACCOUNTS

| | 30 June 2011 AED '000 | Audited 31 December 2010 AED '000 |
|---|---|---|
| Current accounts | **13,898,631** | 12,635,323 |
| Saving accounts | **10,571,814** | 8,911,158 |
| Investment accounts | **28,624,970** | 34,905,776 |
| Profit equalisation reserve | **96,822** | 64,788 |
| | **53,192,237** | 56,517,045 |

The movement in the profit equalisation reserve during the period was as follows:

| | 30 June 2011 AED '000 | Audited 31 December 2010 AED '000 |
|---|---|---|
| At the beginning of the period | **64,788** | 49,594 |
| Share of profit for the period (note 13) | **32,034** | 15,194 |
| At the end of the period | **96,822** | 64,788 |

The distribution of the gross depositors' accounts by segment and industry sector, geographic region and currency was as follows:

| | 30 June 2011 AED '000 | Audited 31 December 2010 AED '000 |
|---|---|---|
| ***Segment and industry sector:*** | | |
| *Wholesale banking* | | |
| Government | **7,945,161** | 8,736,816 |
| Public sector | **7,290,045** | 9,999,671 |
| Corporates | **3,564,548** | 7,414,994 |
| Financial institutions | **2,648,121** | 2,286,598 |
| | **21,447,875** | 28,438,079 |
| *Retail banking* | | |
| Individuals | **21,274,930** | 17,588,022 |
| Small and medium enterprises | **3,347,443** | 2,891,105 |
| | **24,622,373** | 20,479,127 |
| *Private banking* | | |
| Individuals | **4,546,135** | 4,510,701 |
| Non-profit organisations | **2,575,854** | 3,089,138 |
| | **7,121,989** | 7,599,839 |
| | **53,192,237** | 56,517,045 |

**26 DEPOSITORS' ACCOUNTS** continued

| | *30 June 2011 AED '000* | *Audited 31 December 2010 AED '000* |
|---|---|---|
| ***Geographic region:*** | | |
| UAE | **53,000,888** | 56,077,875 |
| Middle East | **36,330** | 289,220 |
| Europe | **1,593** | 1,793 |
| Others | **153,426** | 148,157 |
| | **53,192,237** | 56,517,045 |
| ***Currencies:*** | | |
| UAE Dirham | **43,613,273** | 46,347,084 |
| US Dollar | **9,042,704** | 9,901,370 |
| Euro | **328,661** | 233,890 |
| Sterling Pound | **206,091** | 32,780 |
| Others | **1,508** | 1,921 |
| | **53,192,237** | 56,517,045 |

The Bank invests all of its investment accounts including saving accounts, adjusted for UAE Central Bank reserve requirements and the Group's liquidity requirements.

With respect to investment deposits, the Bank is liable only in case of willful misconduct, negligence or breach of contract.

**27 OTHER LIABILITIES**

| | *30 June 2011 AED '000* | *Audited 31 December 2010 AED '000* |
|---|---|---|
| Accounts payable | **419,454** | 566,690 |
| Payable for properties | **64,772** | 109,679 |
| Accrued profit for distribution to depositors and sukuk holders (note 13) | **162,749** | 232,413 |
| Bankers' cheques | **164,082** | 62,108 |
| Provision for staff benefits and other expenses | **188,895** | 214,901 |
| Retentions payable | **305,104** | 345,815 |
| Advances from customers | **62,954** | 29,079 |
| Accrued legal and professional charges | **1,882** | 6,729 |
| Accrued expenses | **84,387** | 45,569 |
| Unclaimed dividends | **108,770** | 51,769 |
| Deferred income | **59,117** | 62,932 |
| Charity account | **6,833** | 6,000 |
| Donation account | **3,857** | 4,198 |
| Negative fair value on Shari'a compliant alternatives of derivative financial instruments | **6,749** | 8,642 |
| Others | **342,763** | 344,976 |
| | **1,982,368** | 2,091,500 |

## 28 TIER 2 WAKALA CAPITAL

In December 2008, the UAE Federal government ("the Government") placed deposits with the Bank for a period of 3 - 5 years. Subsequent to the deposit placements, the Government offered, subject to certain terms and conditions and in accordance with the Central Bank's capital adequacy requirements, to convert the deposits, into capital qualifying as Tier 2 capital. Pursuant to the Extraordinary General Meeting held on 22 March 2009, the shareholders approved, subject to the terms of an instrument to be entered into with the Government, the conversion of these deposits into a Tier 2 capital. On 31 December 2009, a Shari'a compliant wakala agreement was signed by the Bank. In accordance with the terms of that agreement the deposits were converted into Tier 2 qualifying wakala capital.

The wakala capital is an unsecured subordinated obligation of the Bank which has been provided to the Bank for a term of 7 years. However, the Bank may, subject to certain conditions, return the wakala capital to the Government prior to the expiry of the 7 year term. The Tier 2 qualifying wakala capital bears an expected profit rate ranging, over the term that it has been provided, from 4% - 5.25%. The profit rate is payable quarterly in arrears. In limited circumstances and subject to certain conditions, the Government has the ability to convert all or part of the wakala capital into ordinary shares of the Bank at the prevailing market price.

## 29 SUKUK FINANCING INSTRUMENTS

| | ***30 June 2011 AED '000*** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| First issue | **2,938,000** | 2,938,000 |
| Second issue | **2,731,422** | 2,501,523 |
| | **5,669,422** | 5,439,523 |

**First issue - USD 800 million**
In December 2006, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 2,938,000 thousand (USD 800 million) as the first issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in December 2011. The sukuk deserved profit distribution varies based on the market rate plus a margin.

**Second issue - USD 750 million**
In November 2010, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 2,754,375 thousand (USD 750 million) as the second issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in November 2015. The sukuk deserved profit is distributed in accordance with fixed profit rate. As of 30 June 2011, sukuk with a face value of AED 22,953 thousand (USD 6.3 million) (31 December 2010: AED 252,852 thousand (USD 68.9 million)) were repurchased by the Bank.

**Terms of arrangement**
The terms of the arrangement include transfer of the ownership of certain assets ("the Co-Owned Assets"), including original ijara assets of the Bank, to a sukuk company, ADIB Sukuk Company Ltd - the Issuer, a subsidiary of the Bank, specially formed for the sukuk transaction. The assets are owned by the investors, however the assets are controlled by the Bank and shall continue to be serviced by the Bank as the managing agent.

The issuer will pay the quarterly distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the sukuk holders on the quarterly distribution dates. Upon maturity of the sukuk, the Bank has undertaken to repurchase the assets at an exercise price which equals the value of the Issuer's co-ownership interest in the unpaid rental installments due and payable in respect of the Co-Owned Assets, which may equal the amount of AED 5,692,375 thousand (USD 1,550 million).

## 30 SHARE CAPITAL

| | **30 June 2011 AED '000** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| ***Authorised share capital:*** | | |
| 3,000,000 thousand (2010: 3,000,000 thousand) ordinary shares of AED 1 each (2010: AED 1 each) | **3,000,000** | 3,000,000 |
| ***Issued and fully paid share capital:*** | | |
| 2,364,706 thousand (2010: 2,364,706 thousand) ordinary shares of AED 1 each (2010: AED 1 each) | **2,364,706** | 2,364,706 |

## 31 OTHER RESERVES

| | *Cumulative changes in fair values AED '000* | *Land revaluation reserve AED '000* | *Foreign currency translation reserve AED '000* | *Hedging reserve AED '000* | *Total AED '000* |
|---|---|---|---|---|---|
| At 1 January 2011 (audited) | **(92,040)** | **129,239** | **13,565** | **(8,642)** | **42,122** |
| Transition adjustment on adoption of IFRS 9 (note 4) | **(5,746)** | **-** | **-** | **-** | **(5,746)** |
| At 1 January 2011 – (adjusted) | **(97,786)** | **129,239** | **13,565** | **(8,642)** | **36,376** |
| Net loss on valuation of investments carried at FVTOCI | **(22,049)** | - | - | - | **(22,049)** |
| Exchange differences arising on translation of foreign operations | - | - | **6,262** | - | **6,262** |
| Loss on hedge of foreign operations | - | - | **(6,262)** | - | **(6,262)** |
| Fair value gain on cash flow hedge | **-** | **-** | **-** | **1,893** | **1,893** |
| At 30 June 2011 (unaudited) | **(119,835)** | **129,239** | **13,565** | **(6,749)** | **16,220** |
| At 1 January 2010 (audited) | (167,560) | 129,239 | 19,940 | (6,076) | (24,457) |
| Net gain on valuation of available-for-sale investments | 39,984 | - | - | - | 39,984 |
| Exchange difference arising on translation of foreign operation | - | - | (11,710) | - | (11,710) |
| Fair value loss on cash flow hedge | - | - | - | (2,418) | (2,418) |
| At 30 June 2010 (unaudited) | (127,576) | 129,239 | 8,230 | (8,494) | 1,399 |

## 32 TIER 1 SUKUK

On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk") to the Department of Finance of the Government of Abu Dhabi, with a principal amount of AED 2,000,000 thousand. Issuance of this Sukuk was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

This Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba. The Sukuk is callable by the Bank subject to certain conditions. The Sukuk bear an expected mudaraba profit rate of 6% payable during the initial period of five years semi-annually in arrears and, after the initial period, bear an expected variable mudaraba profit rate payable of 6 months EIBOR plus an expected margin of 2.3%. Profit distributions will be reported in the consolidated statement of changes in equity. Sukuk holder will not have a right to claim the mudaraba profit if the Bank decided not to distribute dividends on its shares and the event is not considered an event of default.

## 33 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments include commitments to extend Islamic credit facilities, standby letters of credit, guarantees and acceptances, which are designed to meet the requirements of the Bank's customers.

Commitments to extend Islamic credit facilities represent contractual commitments under Islamic financing contracts. Commitments generally have fixed expiration dates, or other termination clauses and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of contracts.

The Bank has the following credit related contingencies, commitments and other capital commitments:

| | ***30 June 2011 AED '000*** | *Audited 31 December 2010 AED '000* |
|---|---|---|
| ***Contingent liabilities*** | | |
| Letters of credit | **1,806,858** | 1,077,025 |
| Letters of guarantee | **8,964,418** | 7,004,417 |
| Acceptances | **267,454** | 173,516 |
| | **11,038,730** | 8,254,958 |
| ***Commitments*** | | |
| Undrawn facilities commitments | **1,540,163** | 2,047,396 |
| Investment securities | **144,200** | 144,200 |
| Future capital expenditure | **398,874** | 42,325 |
| Investment and development properties | **1,603,963** | 1,667,163 |
| | **3,687,200** | 3,901,084 |
| | **14,725,930** | 12,156,042 |

## 34 CASH AND CASH EQUIVALENTS

| | ***30 June 2011 AED '000*** | *30 June 2010 AED '000* |
|---|---|---|
| Cash and balances with central banks, short term | **5,145,592** | 4,290,648 |
| Balances and wakala deposits with Islamic banks and other financial institutions, short term | **2,170,048** | 1,470,841 |
| Murabaha and mudaraba with financial institutions, short term | **6,107,667** | 4,763,862 |
| Due to financial institutions, short term | **(727,072)** | (678,834) |
| | **12,696,235** | 9,846,517 |

**35 RELATED PARTY TRANSACTIONS**

In the ordinary course of its activities, the Bank enters into transactions with related parties, comprising associates, directors, major shareholder, key management and their related concerns. The Bank obtains collateral, including charges over real estate properties and securities, the extent of which is dependent on the Bank's assessment of the credit risk of the related party. All financing to related parties are performing financing and free of any provision for impairment.

During the period, significant transactions with related parties included in the interim consolidated income statement are as follows:

| | *Major shareholder AED '000* | *Directors AED '000* | *Associates AED '000* | *Others AED '000* | *Total AED '000* |
|---|---|---|---|---|---|
| ***30 June 2011 (unaudited)*** | | | | | |
| Income from murabaha, mudaraba and wakala with financial institutions | **-** | **-** | **1,523** | **-** | **1,523** |
| Income from murabaha, mudaraba, ijara and other Islamic financing | **53,462** | **165** | **-** | **81,556** | **135,183** |
| Investment income | **5,973** | **-** | **-** | **-** | **5,973** |
| Fees and commission income, net | **-** | **-** | **-** | **2,800** | **2,800** |
| Operating expenses | **-** | **201** | **-** | **-** | **201** |
| Distribution to depositors and sukuk holders | **37** | **21** | **352** | **309** | **719** |
| ***30 June 2010 (unaudited)*** | | | | | |
| Income from murabaha, mudaraba and wakala with financial institutions | - | - | 307 | - | 307 |
| Income from murabaha, mudaraba, Ijara and other Islamic financing | 59,391 | 97 | - | 45,912 | 105,400 |
| Operating expenses | - | 147 | - | - | 147 |
| Distribution to depositors and sukuk holders | 21 | 19 | 886 | 93 | 1,019 |

**35 RELATED PARTY TRANSACTIONS** continued

The related party balances included in the interim consolidated statement of financial position were as follows:

| | *Major shareholder AED '000* | *Directors AED '000* | *Associates AED '000* | *Others AED '000* | *Total AED '000* |
|---|---|---|---|---|---|
| ***30 June 2011 (unaudited)*** | | | | | |
| Balances and wakala deposits with Islamic banks and other financial institutions | **-** | **-** | **754,697** | **-** | **754,697** |
| Murabaha, mudaraba, ijara and other Islamic financing | **2,275,516** | **11,150** | **-** | **2,671,593** | **4,958,259** |
| Other assets | **-** | **-** | **3,097** | **183,625** | **186,722** |
| | **2,275,516** | **11,150** | **757,794** | **2,855,218** | **5,899,678** |
| Due to financial institutions | **-** | **-** | **2,752** | **-** | **2,752** |
| Depositors' accounts | **46,737** | **9,349** | **38,610** | **100,236** | **194,932** |
| Other liabilities | **4** | **-** | **28** | **4,594** | **4,626** |
| | **46,741** | **9,349** | **41,390** | **104,830** | **202,310** |
| Undrawn facilities commitments | **-** | **-** | **-** | **1,517** | **1,517** |
| ***31 December 2010 (audited)*** | | | | | |
| Balances and wakala deposits with Islamic banks and other financial institutions | - | - | 569,735 | - | 569,735 |
| Murabaha, mudaraba, ijara and other Islamic financing | 2,270,460 | 8,409 | - | 2,556,854 | 4,835,723 |
| Other assets | 3,982 | - | 2,736 | 183,694 | 190,412 |
| | 2,274,442 | 8,409 | 572,471 | 2,740,548 | 5,595,870 |
| Due to financial institutions | - | - | 1,800 | - | 1,800 |
| Depositors' accounts | 9,785 | 12,713 | 74,344 | 70,075 | 166,917 |
| Other liabilities | 4 | - | 420 | 1,563 | 1,987 |
| | 9,789 | 12,713 | 76,564 | 71,638 | 170,704 |
| Undrawn facilities commitments | - | - | - | 1,517 | 1,517 |

**Compensation of key management personnel**
The compensation of key management personnel during the period was as follows:

| | ***Six months ended*** | |
|---|---|---|
| | ***30 June 2011 AED '000*** | *30 June 2010 AED '000* |
| Salaries and other benefits | **15,021** | 12,174 |
| Employees' end of service benefits | **1,458** | 1,300 |
| | **16,479** | 13,474 |

Board of Directors remuneration amounting to AED 4,200 thousand (2010: AED 3,000 thousand) was approved by the shareholders in the Annual General Assembly held on 31 March 2011.

## 36 SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision makers of the Bank in order to allocate resources to the segment and to assess its performance. Information reported to the chief operating decision makers for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to the different markets.

Retail banking - Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahat, Ijara, Islamic covered card and funds transfer facilities and trade finance facilities.

Wholesale banking – Principally handling financing and other credit facilities and deposits and current accounts for corporate and institutional customers.

Private banking - Principally handling financing and other credit facilities, deposits and current accounts for high net worth individual customers.

Capital markets – Principally handling money market brokerage, trading and treasury services, as well as the management of the Bank's funding operations by use of investment deposits.

Real estate – Subsidiary of the Bank handling the acquisition, selling, development and leasing including both land and buildings, management and resale of properties and all associated activities.

Other operations - Other operations comprises mainly of Head Office, subsidiaries and associates other than above categories including unallocated costs.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

Business segments information for the period ended 30 June 2011 were as follows:

| | *Retail banking AED '000* | *Wholesale banking AED '000* | *Private banking AED '000* | *Capital markets AED '000* | *Real estate AED '000* | *Other operations AED '000* | *Total AED '000* |
|---|---|---|---|---|---|---|---|
| **Revenue and results** | | | | | | | |
| Segment revenues, net | **1,169,395** | **389,568** | **87,682** | **47,372** | **18,891** | **4,217** | **1,717,125** |
| Operating expenses excluding provision for impairment, net | **(469,333)** | **(97,366)** | **(42,162)** | **(32,316)** | **(38,430)** | **(22,382)** | **(701,989)** |
| Operating profit (margin) | **700,062** | **292,202** | **45,520** | **15,056** | **(19,539)** | **(18,165)** | **1,015,136** |
| Provision for impairment, net | **(96,837)** | **(69,112)** | **(133,943)** | **-** | **(95,442)** | **-** | **(395,334)** |
| **Profit (loss) for the period** | **603,225** | **223,090** | **(88,423)** | **15,056** | **(114,981)** | **(18,165)** | **619,802** |
| Non-controlling interest | **-** | **-** | **-** | **(102)** | **-** | **-** | **(102)** |
| Profit (loss) for the period attributable to equity holders of the Bank | **603,225** | **223,090** | **(88,423)** | **14,954** | **(114,981)** | **(18,165)** | **619,700** |
| **Assets** | | | | | | | |
| Segmental assets | **25,114,520** | **18,308,354** | **6,394,470** | **18,831,150** | **2,853,299** | **825,059** | **72,326,852** |
| **Liabilities** | | | | | | | |
| Segmental liabilities | **24,792,721** | **15,245,387** | **7,210,224** | **16,213,246** | **365,105** | **340,756** | **64,167,439** |

## 36 SEGMENT INFORMATION continued

Business segments information for the period ended 30 June 2010 were as follows:

| | *Retail banking AED '000* | *Wholesale banking AED '000* | *Private banking AED '000* | *Capital markets AED '000* | *Real estate AED '000* | *Other operations AED '000* | *Total AED '000* |
|---|---|---|---|---|---|---|---|
| **Revenue and results** | | | | | | | |
| Segment revenues, net | 920,062 | 296,372 | 87,918 | 106,240 | 7,149 | 7,070 | 1,424,811 |
| Operating expenses excluding provision for impairment, net | (377,054) | (95,381) | (37,854) | (24,911) | (39,202) | (15,678) | (590,080) |
| Operating profit (margin) | 543,008 | 200,991 | 50,064 | 81,329 | (32,053) | (8,608) | 834,731 |
| Provision for impairment, net | (86,512) | (137,977) | (15,396) | 100 | - | - | (239,785) |
| **Profit (loss) for the period** | 456,496 | 63,014 | 34,668 | 81,429 | (32,053) | (8,608) | 594,946 |
| Non-controlling interest | - | - | - | (147) | - | - | (147) |
| Profit (loss) for the period attributable to equity holders of the Bank | 456,496 | 63,014 | 34,668 | 81,282 | (32,053) | (8,608) | 594,799 |
| **Assets** | | | | | | | |
| Segmental assets | 21,912,071 | 17,158,863 | 7,213,166 | 18,144,049 | 3,150,257 | 753,283 | 68,331,689 |
| **Liabilities** | | | | | | | |
| Segmental liabilities | 21,048,043 | 17,911,562 | 7,787,937 | 12,965,079 | 647,681 | 270,077 | 60,630,379 |

### Geographical information

The Bank operates principally in only one geographic area, the United Arab Emirates. Accordingly no further geographical analysis of segment revenues, expenses, operating profit (margin), assets and liabilities is given.

## 37 FINANCIAL RISK MANAGEMENT

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset and impairment losses, if any. The table shows the maximum exposure to credit risk / price risk for murabaha, mudaraba, ijara, other Islamic financing and investments. Details of credit risk arising from contingencies and commitments is disclosed in note 33 to the interim condensed consolidated financial statements.

| | ***Balances and wakala deposits with Islamic banks and other financial institutions*** | | ***Murabaha and mudaraba with financial institutions*** | | ***Murabaha and other Islamic financing*** | | ***Ijara financing*** | | ***Investments*** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | *Audited* | | *Audited* | | *Audited* | | *Audited* | | *Audited* |
| | ***30 June 2011 AED '000*** | *31 December 2010 AED '000* | ***30 June 2011 AED '000*** | *31 December 2010 AED '000* | ***30 June 2011 AED '000*** | *31 December 2010 AED '000* | ***30 June 2011 AED '000*** | *31 December 2010 AED '000* | ***30 June 2011 AED '000*** | *31 December 2010 AED '000* |
| **Individually impaired** | | | | | | | | | | |
| Substandard | **-** | - | **184,372** | 186,476 | **1,120,101** | 625,853 | **1,037,744** | 846,627 | **11,017** | 68,142 |
| Doubtful | **-** | - | **-** | - | **997,380** | 952,964 | **429,032** | 347,371 | **91,813** | 91,813 |
| Loss | **-** | - | **129,811** | 129,811 | **1,040,713** | 789,389 | **229,017** | 18,745 | **-** | 9,571 |
| Gross amount | **-** | - | **314,183** | 316,287 | **3,158,194** | 2,368,206 | **1,695,793** | 1,212,743 | **102,830** | 169,526 |
| Provision for individual impairment | **-** | - | **(187,524)** | (190,310) | **(1,609,723)** | (1,608,567) | **(344,374)** | (92,779) | **(76,664)** | (108,391) |
| | **-** | - | **126,659** | 125,977 | **1,548,471** | 759,639 | **1,351,419** | 1,119,964 | **26,166** | 61,135 |
| **Past due but not impaired** | **-** | - | **-** | - | **281,127** | 877,558 | **1,325,119** | 1,125,280 | **-** | - |
| **Neither past due nor impaired** | **2,429,538** | 2,906,382 | **7,567,111** | 12,697,565 | **20,607,733** | 21,334,347 | **23,629,335** | 23,311,148 | **1,245,082** | 1,578,279 |
| **Collective allowance for impairment** | **-** | - | **-** | - | **(307,658)** | (289,023) | **(307,178)** | (286,321) | **-** | - |
| **Carrying amount** | **2,429,538** | 2,906,382 | **7,693,770** | 12,823,542 | **22,129,673** | 22,682,521 | **25,998,695** | 25,270,071 | **1,271,248** | 1,639,414 |

## 38 CAPITAL ADEQUACY RATIO

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the period and year ended 30 June 2011 and 31 December 2010 respectively. During those two periods, the Group has complied with all of the externally imposed capital requirements to which it is subject to:

| | Basel I | | Basel II | |
|---|---|---|---|---|
| *Audited* | *Audited* | | | |
| | ***30 June 2011 AED '000*** | *31 December 2010 AED '000* | ***30 June 2011 AED '000*** | *31 December 2010 AED '000* |
| ***Tier 1 capital*** | | | | |
| Share capital | **2,364,706** | 2,364,706 | **2,364,706** | 2,364,706 |
| Legal reserve | **1,754,899** | 1,754,899 | **1,754,899** | 1,754,899 |
| General reserve | **443,182** | 443,182 | **443,182** | 443,182 |
| Retained earnings | **1,577,817** | 984,069 | **1,577,817** | 984,069 |
| Proposed dividends | **-** | 511,783 | **-** | 511,783 |
| Proposed dividends to charity | **-** | 6,816 | **-** | 6,816 |
| Tier 1 sukuk | **2,000,000** | 2,000,000 | **2,000,000** | 2,000,000 |
| Non-controlling interest | **2,589** | 3,075 | **2,589** | 3,075 |
| **Total** | **8,143,193** | 8,068,530 | **8,143,193** | 8,068,530 |
| ***Tier 2 capital*** | | | | |
| Tier 2 wakala capital | **2,207,408** | 2,207,408 | **2,207,408** | 2,207,408 |
| Cumulative changes in fair value and other reserves | **(113,019)** | (92,040) | **(113,019)** | (92,040) |
| Collective impairment provision for financing assets | **-** | - | **614,836** | 575,344 |
| **Total** | **2,094,389** | 2,115,368 | **2,709,225** | 2,690,712 |
| **Total tier 1 and tier 2 capital** | **10,237,582** | 10,183,898 | **10,852,418** | 10,759,242 |
| Deductions for Tier 1 and Tier 2 capital | **(849,766)** | (837,195) | **(849,766)** | (837,195) |
| **Total capital base** | **9,387,816** | 9,346,703 | **10,002,652** | 9,922,047 |
| ***Risk weighted assets*** | | | | |
| On balance sheet | **53,887,027** | 54,666,166 | - | - |
| Off balance sheet | **5,936,329** | 4,263,158 | - | - |
| Credit risk | **-** | - | **57,853,479** | 58,320,901 |
| Market risk | **-** | - | **1,032,716** | 1,008,157 |
| Operational risk | **-** | - | **3,247,006** | 2,565,177 |
| **Total risk weighted assets** | **59,823,356** | 58,929,324 | **62,133,201** | 61,894,235 |
| ***Capital ratios*** | | | | |
| Total regulatory capital expressed as a percentage of total risk weighted assets | **15.69%** | 15.86% | **16.10%** | 16.03% |
| Tier 1 capital expressed as a percentage of total risk weighted assets | **13.61%** | 13.69% | **13.11%** | 13.04% |

The Basel II capital adequacy ratio was above the minimum requirement of 12% for 30 June 2011 (31 December 2010 – 12%) as stipulated by the Central Bank of the UAE.

**39 DIVIDENDS**

A cash dividend of 21.6% (2009: nil) of the paid up capital amounting to AED 511,783 thousand (2009: AED nil) was approved by the shareholders in the Annual General Assembly held on 31 March 2011. The dividends were paid within 30 days of the Annual General Assembly to the shareholders.

**40 SEASONALITY OF RESULTS**

The nature of Group's business is such that the income and expenditure are incurred in a manner, which is not impacted by any forms of seasonality. These interim condensed consolidated financial statements were prepared based upon accrual concept, which requires income and expenses to be recorded as earned or incurred and not as received or paid throughout the period.

**41 COMPARATIVE FIGURES**

Following comparatives were reclassified to conform to the current period presentation. The reclassification has no effect on the previously reported profit or equity of the Group:

An amount of AED 21,325 thousand has been re-classified from “fees and commission income, net” and shown separately in the interim consolidated income statement as “foreign exchange income”.