

**MANAGEMENT DISCUSSION & ANALYSIS FOR THE QUARTER ENDING 31 MARCH 2011**

**Abu Dhabi Islamic Bank posts net profit of AED 303.2 Million for first quarter of 2011**

**Group Financial highlights - First quarter 2011**

- Group net revenue for Q1 2011 was AED 807.5 million vs. AED 680.7 million for Q1 2010, an increase of 18.6%.
- Group operating profit (“margin”) for Q1 2011 was AED 462.8 million vs. AED 398.5 million for Q1 2010, an increase of 16.1%.
- Total credit provisions and impairments for Q1 2011 were AED 159.6 million vs. AED 105.2 million in Q1 2010, an increase of 51.7%.
- Group net profit for Q1 2011 was AED 303.2 million vs. AED 293.3 million in Q1 2010, an increase of 3.4% despite increasing credit provisions and impairments by 51.7%.
- ADIB remains one of the most liquid banks in the UAE, with a customer financing to deposits ratio of 92.7% and net due from banks of AED 10.1 billion.
- Capital adequacy position under Basel II remains strong at 15.3% (16.0% at the end of 2010).

**Bank Financial highlights - First quarter 2011**

- Bank net revenue for Q1 2011 was AED 813.8 million vs. AED 659.1 million for Q1 2010, an increase of 23.5%.
- Bank operating profit (“margin”) for Q1 2011 was AED 490.3 million vs. AED 395.2 million for Q1 2010, an increase of 24.1%.
- Total credit provisions and impairments for Q1 2011 were AED 151.0 million vs. AED 105.3 million in Q1 2010, an increase of 43.4%.
- Bank net profit for Q1 2011 was AED 339.3 million vs. AED 289.9 million in Q1 2010, an increase of 17.0%.
- Total number of customers increased by 62,861 since Q1 2010 to reach 427,941.
- Total number of branches stands at 66 vs. 55 in Q1 2010.

## Financial analysis

### Income Statement: Q1 2011 vs. Q1 2010 and Q4 2010

- Group net revenues for Q1 2011 increased to AED 807.5 million vs. AED 680.7 million in Q1 2010, a 18.6% increase (and a decrease of 3.7% over the AED 839.0 million in Q4 2010).
- Bank net revenues for Q1 2011 increased to AED 813.8 million vs. AED 659.1 million in Q1 2010, a 23.5% increase (and a decrease of 1.9% over the AED 829.5 million in Q4 2010).
- Group net revenue from funding activities for Q1 2011 increased to AED 664.7 million vs. 571.6 million for Q1 2010, an increase of 16.3% (and a decrease of 6.1% over the AED 707.7 million in Q4 2010).
- Group fee and commission income for Q1 2011 increased to AED 111.2 million vs. AED 56.1 million in Q1 2010, an increase of 98.2% (and an increase of 23.3% over the AED 90.2 million in Q4 2010).
- Group operating profit (“margin”) for Q1 2011 reached AED 462.8 million vs. AED 398.5 million for Q1 2010, an increase of 16.1% (an increase of 1.1% over the AED 457.9 million in Q4 2010).
- Bank operating profit (“margin”) for Q1 2011 reached AED 490.3 million vs. AED 395.2 million for Q1 2010, an increase of 24.1% (an increase of 3.2% over the AED 475.0 million in Q4 2010).
- Group net profit for Q1 2011 was AED 303.2 million, after taking credit provisions and impairments of AED 159.6 million for the quarter (vs. a net profit of AED 293.3 million in Q1 2010 which was recorded after taking credit provisions and impairments of AED 105.2 million). Net profit for Q4 2010 was AED 114.1 million after taking credit provisions and impairments of AED 343.8 million.
- Bank net profit for Q1 2011 was AED 339.3 million, after taking credit provisions and impairments of AED 151.0 million for the quarter (vs. a net profit of AED 289.9 million in Q1 2010 which was recorded after taking credit provisions and impairments of AED 105.3 million). Net profit for Q4 2010 was AED 250.6 million after taking credit provisions and impairments of AED 224.4 million.

### Balance Sheet: 31 March 2011 vs. 31 March 2010 and 31 December 2010

- Total assets as of 31 Mar 2011 were AED 71.4 billion, representing an increase of 8.2% compared to AED 66.0 billion at the end of 31 Mar 2010 (AED 75.3 billion at 31 Dec 2010).
- Net Customer Financing has increased to AED 48.1 billion, growing 14.7% over the AED 42.0 billion at the end of 31 Mar 2010 (AED 48.0 billion at 31 Dec 2010).
- Customer deposits grew by 4.0% to AED 51.9 billion, from AED 49.9 billion at the same time last year (AED 56.5 billion at 31 Dec 2010).

### Capital Adequacy and Liquidity: 31 March 2011 vs. 31 March 2010 and 31 December 2010

- The Capital Adequacy ratio at 31 Mar 2011 stood at 15.3% vs. 16.8% recorded at 31 Mar 2010 (16.0% at 31 Dec 2010).
- The Customer Financing to Deposits ratio at 31 Mar 2011 was 92.7% vs. 84.0% at 31 Mar 2010 (84.8% at 31 Dec 2010).
- The Advances to Stable Funds ratio (regulatory ratio) improved to 86.8% at 31 Mar 2011 from 88.0% at 31 Mar 2010 (83.1% at 31 Dec 2010).

## Financial highlights - Three year performance

As at 31 March

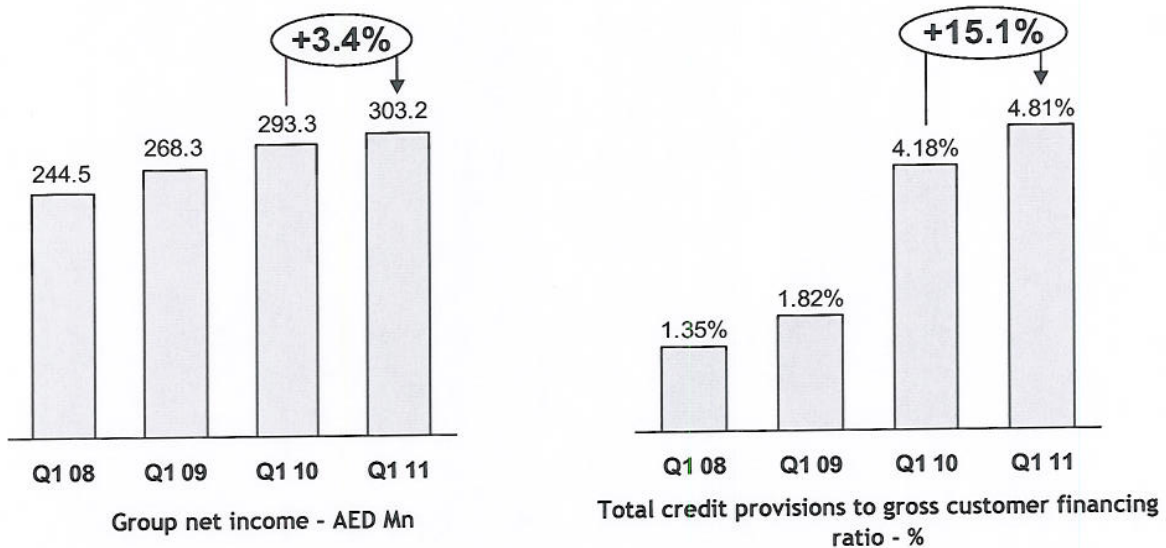
All figures are in AED millions

Balance sheet	Q1 2008	Q1 2009	Q1 2010	Q1 2011	3 YR (CAGR)
Total assets	44,303	55,052	66,041	71,449	17.3%
Gross customer financing	27,584	36,435	43,792	50,564	22.4%
Customer deposits	30,039	41,084	49,935	51,912	20.0%
Total equity	5,270	5,445	7,486	7,878	14.3%
Capital adequacy ratio - Basel II	13.7%	10.8%	16.8%	15.3%	
Customer financing to deposit ratio	90.6%	87.1%	84.0%	92.7%	
Income statement	Q1 2008	Q1 2009	Q1 2010	Q1 2011	3 YR (CAGR)
Net revenue - Group	476.0	578.9	680.7	807.5	19.3%
Net revenue - Bank	429.2	544.6	659.1	813.8	23.8%
Operating profit (margin) - Group	282.5	361.3	398.5	462.8	17.9%
Operating profit (margin) - Bank	258.5	351.1	395.2	490.3	23.8%
Credit provisions and impairment charge - Group	38.0	93.0	105.2	159.6	61.4%
Credit provisions and impairment charge - Bank	38.0	86.0	105.3	151.0	58.4%
Net profit - Group	244.5	268.3	293.3	303.2	7.4%
Net profit - Bank	220.5	265.1	289.9	339.3	15.5%
Total credit provisions to gross financing assets ratio - Group	1.35%	1.82%	4.18%	4.81%	
Cost to income ratio - Group	40.7%	37.6%	41.5%	42.7%	
Cost to income ratio - Bank	39.8%	35.5%	40.0%	39.8%	
Network	Q1 2008	Q1 2009	Q1 2010	Q1 2011	3 YR (CAGR)
Total customers	240,101	287,302	365,080	427,941	21.2%
Branches	42	45	55	66	16.3%
ATMs	76	138	234	324	62.1%

Abu Dhabi, UAE - 26 April 2011: Abu Dhabi Islamic Bank (ADIB) posted a net profit of AED 303.2 million for Q1 2011, an increase of 3.4% over the same period in 2010. Performance from the main banking business was particularly strong as the Bank's net revenues grew by 23.5% to AED 813.8 million from AED 659.1 million in Q1 2010. The Bank has maintained its strong liquidity position and continues to respect the regulatory ratios, as the advances to stable funds ratio improved to 86.8% at quarter end, while placing new emphasis on carefully managing the cost of funds by not building deposits at higher costs. In addition, strong year-on-year customer activity in both the Retail and Wholesale Banking units saw ADIB's customer numbers increase by 17.2% since Q1 2010 to more than 427,000 customers. Furthermore, the Bank continued its conservative approach to provisioning, in line with the prudent policy of taking collective and individual provisions it introduced in 2009, and thus ensuring a healthy non-performing asset coverage ratio.

**A focus on the Bank's strategy continues to drive growth**

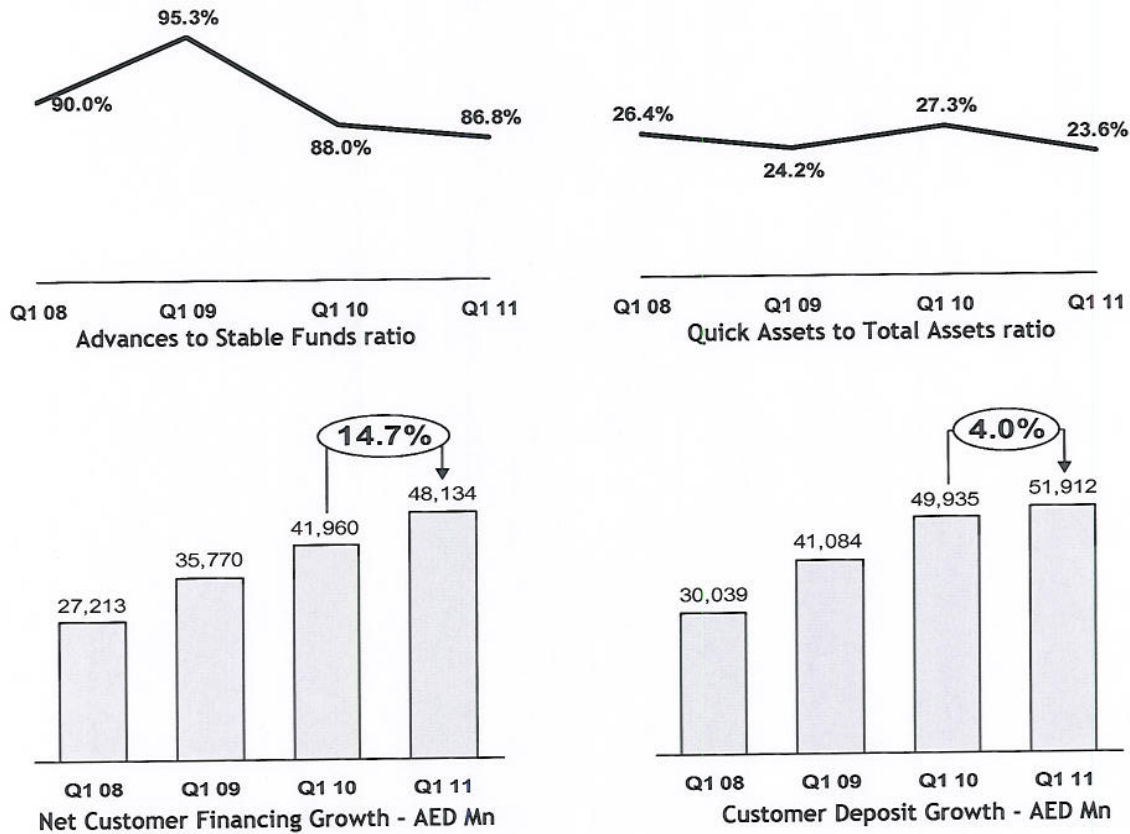
The first quarter of 2011 saw ADIB's management continue to take a conservative approach to the recognition of non-performing credit exposures and investments. As a result, the Bank has taken an additional AED 151.0 million in credit provisions and impairments in Q1 2011, thereby increasing total credit provisions to AED 2.43 billion, which now amounts to 4.81% of gross customer financing and represents a pre-collateral non-performing coverage ratio of 64.5%. In addition a further AED 8.6 million in impairments was taken against the Real Estate subsidiary's portfolio. The Real Estate subsidiary posted an AED 37.8 million loss for the Q1 2011, but notwithstanding this, net profit for the Group reached AED 303.2 million. This highlights the underlying strength of the core banking operations, where the Bank posted a 17.0% growth in net profit for the quarter to AED 339.3 million.



**Liquidity**

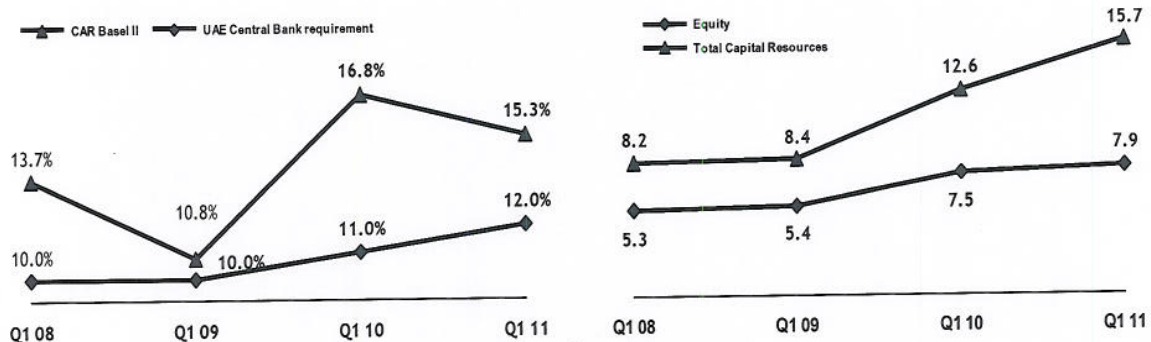
ADIB maintained its position as one of the most liquid banks in the UAE with customer deposits of AED 51.9 billion (AED 49.9 billion at 31 March 2010) and a net interbank position of AED 10.1 billion. Net customer

financing grew to AED 48.1 billion (AED 42.0 billion as at 31 March 2010) and the Bank ended the quarter with a customer financing to deposits ratio of 92.7% and advances to stable funds ratio of 86.8%, which is significantly better than the regulatory threshold of 100%. The quarter saw an increased focus on lowering the cost of funds on the back of ADIB's successful benchmark USD 750 million 3.745% profit rate sukuk issue in Q4 2010 and in support of the UAE Central Bank's goal of lowering the interbank rate in the UAE. In this regard the current and savings accounts grew by 5.2% for the quarter to AED 22.7 billion.



### Capital strength

The Bank's capital position remains strong. Total capital resources, including both Tier 1 and Tier 2 capital, as at 31 March 2011 improved to AED 15.7 billion vs. AED 12.6 billion at 31 March 2010 (AED 15.8 billion at 31 December 2010). The Capital Adequacy ratio remained strong at 15.3% under Basel II principles (16.0% at 31 December 2010), with the Basel II Tier 1 capital ratio stable at 12.4% (13.0% at 31 December 2010).



### Cost management

A focus on cost management saw operating expenses decline by 9.5% to AED 344.7 million for Q1 2011 vs. AED 381.0 million for Q4 2010. However, the investment in 11 new branches in the past 12 months, related infrastructure and human capital saw the Group's operating expenses increase by 22.2% year-on-year, with the Group cost to income ratio increasing to 42.7%. More importantly, the Bank's cost to income ratio was 39.8% for Q1 2011 vs. 42.7% in Q4 2010. ADIB expects the Bank's cost to income ratio to stabilize in 2011 as the continued investment in growth is matched by further revenue increases.

### Human resources

The Bank's headcount now stands at 1,667. Furthermore, ADIB is particularly proud of the fact that by the end of Q1 2011 the Bank's Emiratisation ratio had moved above 44%. The focus on training and enhancing the professional qualifications of staff to better serve customers is proving itself as customer satisfaction levels continue to rise, as recognized by ADIB's award as the most improved bank for customer service in the UAE in 2010 and its top three rating in the banking sector.

### Management comment

On behalf of the Board of Directors and the management team, ADIB's CEO, Tirad Mahmoud, said: "The first quarter of 2011 has seen us maintain our strategic momentum, enabling us to post a Group net profit of AED 303.2 million for Q1 2011. More importantly, our banking operations delivered a record quarterly net profit of AED 339.3 million. The foundations of our growth remain customer service excellence, best practice risk management and qualified staff led by an experienced management team. This, when combined with our outstanding capital and liquidity position, means that our growth is sustainable and ADIB's strategy to become a top tier UAE bank and global Islamic bank remains on track despite the continued global economic challenges and events closer to home.

"The Bank has maintained its strong liquidity position and continues to respect the regulatory ratios, as the advances to stable funds ratio improved to 86.8% at quarter end, while also placing new emphasis on carefully managing the cost of funds by not building deposits at higher costs. We are fully supportive of the efforts of the regulatory authorities to reduce the costs of banking in the UAE while simultaneously encouraging the responsible use of credit by consumers. As a major bank in this country we have decided to take a leading role in this regard, including the launch of our Smart Money initiative. Smart Money is a step-by-step guide to a balanced financial life and look forward to providing the community at large with ways in which they can increase their savings and spend wisely.

"In regard to provisioning, ADIB is now acknowledged as being in line with best practice when it comes to our recognition of non-performing accounts and providing against these, having preempted the UAE Central Bank guidelines. We have therefore continued to be prudent and take appropriate individual

provisions on the impaired portfolio in line with our 90 days past due and conservative collateral recognition approach, adding a further AED 126.2 million in Q1 2011 versus AED 58.7 million in the corresponding quarter last year. Since the new management team took over early in 2008, total credit provisions and impairments have increased to AED 3,007 million from AED 404 million at the end of 2007. The two remedial management units we established in 2009 are now very active as we continue to work with those customers who are in genuine difficulty, and actively engage with us, to assist them in the sustainable restructuring of their financing.

“Turning to our collective provisioning, our policy has been refined to recognize both the UAE Central Bank guidelines and best practice accounting standards and our provisions in this regard increased by AED 27.5 million in Q1 2011, to stand at AED 602.9 million.

#### **Other ADIB Group companies**

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

Commenting on the performance of other Group companies besides the core banking business, Tirad said: “ADIB’s stock brokerage subsidiary has had a challenging quarter given the low volumes, lack of new offerings and general uncertainty that continues to impact the equity markets. It is therefore a credit to the management team at ADIB Securities that they managed to post a profit of AED 1.3 million for the quarter and grow their market share to over 7%.

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

“Burooj, the Group’s real estate subsidiary, continues to be operated independently from the banking and financial services business. Burooj posted a loss of AED 37.8 million for the Q1 2011, including a further AED 8.6 million in impairments, compared to the profit of AED 2.1 million in the Q1 2010. We expect Burooj to sustain further losses in 2011 and we will continue to manage costs and focus its business model until there is a meaningful and sustained change in the real-estate market.

#### **Outlook for 2011**

“Providing guidance on the Bank’s direction for rest of 2011, Tirad said: “While we expect 2011 to be another year of muted global economic activity, we are closely monitoring what is happening in the broader region and its follow-on impact on some of our customers and operations. We are also aware of the increasingly competitive environment in which we operate in the UAE and the increased regulatory oversight that is being brought to bear on the market as a whole, all of which makes the year ahead a challenging one and we therefore expect single digit growth in both assets and liabilities. Furthermore, while the brunt of the legacy portfolio’s cost of credit was absorbed in 2009, and we took further action in 2010, we expect to continue to take prudent measures as necessary for both the Bank and Burooj portfolios during the course of the year. However, despite these realities, ADIB remains on a clear growth

trajectory and we will continue to focus on building our banking and financial services businesses both in the UAE and abroad as opportunities present themselves.”

**Gratitude**

The Board of Directors, executive management and members of ADIB staff wish to extend their sincere appreciation and gratitude to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, the President of the UAE and Ruler of Abu Dhabi, to His Highness Sheikh Mohamed Bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces, to the UAE Central Bank and to the Emirates Securities and Commodities Authority, our shareholders and our clients for their continued trust in and support of ADIB.



Emile



## Financial summaries

### ADIB Financial summary

Financials	Banking					Consolidated Group				
	Q1 2009	Q1 2010	Q1 2011	Chg Q1 10 vs. Q1 09	Chg Q1 11 vs. Q1 10	Q1 2009	Q1 2010	Q1 2011	Chg Q1 10 vs. Q1 09	Chg Q1 11 vs. Q1 10
	AED Mn	AED Mn	AED Mn	%	%	AED Mn	AED Mn	AED Mn	%	%
Net Revenue from Funding	523.7	597.6	688.8	14.1%	15.3%	523.7	597.6	688.8	14.1%	15.3%
Fees, Commissions and FX	26.3	45.7	100.6	73.8%	119.9%	26.3	45.7	100.6	73.8%	119.9%
Investment Revenues	(5.4)	15.8	24.4	392.6%	54.7%	(5.4)	15.8	24.4	392.6%	54.7%
<b>Net Banking Revenues</b>	<b>544.6</b>	<b>659.1</b>	<b>813.8</b>	<b>21.0%</b>	<b>23.5%</b>	<b>544.6</b>	<b>659.1</b>	<b>813.8</b>	<b>21.0%</b>	<b>23.5%</b>
Brokerage Revenues (ADIFS subsidiary)	-	-	-	-	-	0.5	5.2	4.3	940.0%	-18.7%
Real Estate Revenues (Burooj subsidiary)	-	-	-	-	-	29.3	16.3	(10.7)	-44.4%	-165.5%
Revenue from Other Minor Activities	-	-	-	-	-	4.5	0.1	0.1	-97.8%	-
<b>Net Non-banking Revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34.3</b>	<b>21.6</b>	<b>(6.3)</b>	<b>-37.0%</b>	<b>-129.2%</b>
	Banking					Consolidated Group				
<b>Total Revenues</b>	<b>544.6</b>	<b>659.1</b>	<b>813.8</b>	<b>21.0%</b>	<b>23.5%</b>	<b>578.9</b>	<b>680.7</b>	<b>807.5</b>	<b>17.6%</b>	<b>18.6%</b>
<b>Operating profit (margin)</b>	<b>351.1</b>	<b>395.2</b>	<b>490.3</b>	<b>12.6%</b>	<b>24.1%</b>	<b>361.3</b>	<b>398.5</b>	<b>462.8</b>	<b>10.3%</b>	<b>16.1%</b>
Credit Provisions and Impairment charge	86.0	105.3	151.0	22.4%	43.4%	93.0	105.2	159.6	13.1%	51.7%
<b>Net Profit</b>	<b>265.1</b>	<b>289.9</b>	<b>339.3</b>	<b>9.4%</b>	<b>17.0%</b>	<b>268.3</b>	<b>293.3</b>	<b>303.2</b>	<b>9.3%</b>	<b>3.4%</b>
Total Assets in AED (Billion)	54.4	65.6	71.2	20.6%	8.5%	55.1	66.0	71.4	20.0%	8.2%
Customer Financing in AED (Billion)	37.6	43.9	50.2	16.8%	14.2%	35.8	42.0	48.1	17.3%	14.7%
Customer Deposits in AED (Billion)	41.4	50.3	52.0	21.5%	3.5%	41.1	49.9	51.9	21.5%	4.0%

-Ends-

#### About ADIB:

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

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

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

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

#### ADIB - Awards

1. ADIB was named "*The Best Islamic Bank*" in the Middle East at the Banker Middle East Industry Awards 2010, reaffirming its leadership position in the growing Islamic finance sector.
2. ADIB won the "*Best Islamic Bank*" at the 2010 Islamic Banking and Finance Awards organized by CPI Financial.
3. ADIB won the best Islamic bank in the UAE award by Islamic Finance Asia.
4. ADIB won the best Islamic bank in the UAE by EMEA Finance.
5. ADIB won the UAE Deal of the year by Islamic Finance News.
6. ADIB also won the "*HRD Award*" from the Emirates Institute of Banking & Financial Studies.
7. ADIB's GHINA saving program won the "*Best Savings Account Award*" at the Banker Middle East Product Awards 2010.
8. ADIB won the "*Best Private Sector Customer Service Team*" award at the 2010 UAE Customer Service Week forum, held by The International Customer Service Institute UK.
9. ADIB won the "*Most Improved Bank*" in service excellence and got the top rank in "*Call Centre Performance*" in the 6<sup>th</sup> Annual Bank Benchmarking Index for service excellence by Ethos Consultancy.
10. ADIB also won the award for "*Best Branding Category*" at the 2010 Islamic Banking and Finance Awards organized by CPI Financial.
11. ADIB won the best ladies' banking service by Banker Middle East Product award 2011.
12. ADIB won the best SME card by Banker Middle East Product Award 2011.

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