ADIB CAPITAL INVEST 2 LTD.

(incorporated with limited liability under the laws of the Cayman Islands)

U.S.$750,000,000 Additional Tier 1 Capital Certificates

The U.S.$750,000,000 Additional Tier 1 Capital Certificates (the **Certificates**) of ADIB Capital Invest 2 Ltd. (in its capacity as issuer and in its capacity as trustee, as applicable the **Trustee**) will be constituted by a declaration of trust (the **Declaration of Trust**) dated 20 September 2018 (the **Issue Date**) entered into between the Trustee, Abu Dhabi Islamic Bank PJSC (**ADIB**) and HSBC Corporate Trustee Company (UK) Limited as the delegate of the Trustee (the **Delegate**). Pursuant to the Declaration of Trust, the Trustee will declare that it will hold the Trust Assets (as defined herein) upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates (the **Conditions**).

If a Non-Viability Event (as defined herein) occurs, a Write-down (as defined herein) shall occur on the relevant Non-Viability Event Write-down Date (as defined herein), as more particularly described in Condition 11 (*Write-down at the Point of Non-Viability (as prescribed by the Financial Regulator)*). In such circumstances, the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets (as defined herein)) shall automatically be deemed to be irrevocably, unconditionally and permanently written-down in a proportion corresponding to the relevant Write-down Amount (as defined herein) and in the case of the relevant Write-down Amount corresponding to the full proportion of the Prevailing Face Amount (as defined herein) of each Certificate then outstanding, the Certificates shall be cancelled. See "*Risk Factors – Certificateholders' right to receive payment of the face amount of the Certificates and the Certificateholders' right to any profit will be permanently written-down upon the occurrence of a Non-Viability Event*".

The payment obligations of ADIB under the Mudaraba Agreement (as defined herein) (including all payments which are the equivalent of principal (being capital amounts, including the Mudaraba Capital (as defined herein), payable in accordance with the provisions of the Mudaraba Agreement) and profit) (the **Relevant Obligations**) will, subject to the Solvency Conditions (as defined herein) being satisfied at the relevant time and no bankruptcy order having been issued in respect of ADIB by a court in the United Arab Emirates (the **UAE**), rank in priority only to all Junior Obligations (as defined herein). Payments in respect of the Relevant Obligations by ADIB are conditional upon (i) ADIB being Solvent (as defined herein) at all times from (and including) the first day of the relevant Periodic Distribution Period (as defined herein) (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant Obligations that are due and payable; (ii) ADIB being capable of making payment of the Relevant Obligations and any other payment that is due to be made on the relevant date to a creditor in respect of all Senior Obligations and all Pari Passu Obligations (each, as defined herein) and still be Solvent immediately thereafter; and (iii) the total share capital (including, without limitation, retained earnings) of ADIB being greater than zero at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant Obligations that are due and payable (together, the **Solvency Conditions**). **In addition, to the extent that any of the Solvency Conditions are not satisfied at the relevant time or if a bankruptcy order in respect of ADIB has been issued by a court in the UAE, all claims of the Trustee in respect of the Relevant Obligations will be extinguished and the Certificates will be cancelled without any further payment to be made by ADIB in respect of the Relevant Obligations**.

Periodic Distribution Amounts (as defined herein) shall be payable subject to and in accordance with the Conditions on the Prevailing Face Amount of the Certificates then outstanding from (and including) the Issue Date to (but excluding) 20 September 2023 (the **First Call Date**) at a rate of 7.125 per cent. per annum. If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Periodic Distribution Amounts shall be payable from (and including) the First Call Date subject to and in accordance with the Conditions at a fixed rate, to be reset on the First Call Date and every five years thereafter, equal to the Relevant Five Year Reset Rate (as defined in the Conditions) plus a margin of 4.270 per cent. per annum. Periodic Distribution Amounts will, if payable pursuant to the Conditions, be payable semi-annually in arrear on 20 March and 20 September in each year, commencing 20 March 2019. Payments on the Certificates will be made free and clear of and without withholding or deduction for, or on account of, taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction (as defined herein) (the **Taxes**) to the extent described under Condition 13 (*Taxation*). Each payment of a Periodic Distribution Amount will be made by the Trustee provided that ADIB (in its capacity as Mudareb (as defined herein)) shall have paid Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit (as applicable) (each as defined herein) equal to such Periodic Distribution Amount pursuant to the terms of the Mudaraba Agreement (as defined in the Conditions). Payments of such profit amounts under the Mudaraba Agreement are subject to mandatory cancellation if a Non-Payment Event (as defined herein) occurs, and are otherwise at the sole discretion of ADIB (as Mudareb). Any Periodic Distribution Amounts not paid as aforesaid will not accumulate and neither the Trustee nor the Certificateholders shall have any claim in respect thereof but, for the avoidance of doubt, any corresponding unpaid profit amounts under the Mudaraba Agreement shall continue to constitute part of the Mudaraba Assets.

The Certificates are perpetual securities and have no fixed or final redemption date. Unless the Certificates have previously been redeemed or purchased and cancelled as provided in the Conditions, ADIB may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, redeem all but not some only of the Certificates on the First Call Date or on any Periodic Distribution Date falling after the First Call Date in accordance with Condition 10.1(b) (*Trustee's Call Option*). In addition, upon the occurrence of a Tax Event or a Capital Event (each as defined herein), ADIB may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall redeem all, but not some only, of the Certificates or vary the terms thereof, in each case at any time on or after the Issue Date in accordance with Conditions 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (*Redemption or Variation for Capital Event*), respectively. Any redemption or variation is subject to the conditions described in Condition 10.1 (*Redemption and variation*).

If an ADIB Event (as defined in the Conditions) occurs, the Delegate shall (subject to Condition 12.1 (*ADIB Events*)) give notice of the occurrence of such event to the Certificateholders in accordance with Condition 17 (*Notices*) with a request to the Certificateholders to indicate to the Trustee and the Delegate in writing if they wish the Certificates to be redeemed and the Trust to be dissolved (a **Dissolution Request**). If so requested in writing by the Certificateholders of at least 20 per cent. of the aggregate face amount of the Certificates then outstanding or if so directed by an Extraordinary Resolution of Certificateholders, the Delegate shall (but in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*)), give notice (a **Dissolution Notice**) to the Trustee that the Certificates are immediately due and payable at the Prevailing Face Amount of the Certificates then outstanding together with any Outstanding Payments (as defined in the Conditions), whereupon the aggregate face amount of the Certificates then outstanding together with any Outstanding Payments shall become immediately due and payable and, upon receipt of such Dissolution Notice, the Trustee and/or the Delegate shall subject to Condition 12.3 (*Winding-up, dissolution or liquidation*) take the actions referred to therein.

The Certificates will be limited recourse obligations of the Trustee. An investment in the Certificates involves certain risks. For a discussion of these risks, see "*Risk Factors*".

This Prospectus has been approved by the Central Bank of Ireland (the **Irish Central Bank**) as competent authority under Directive 2003/71/EC, as amended (the **Prospectus Directive**). The Irish Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union (**EU**) law pursuant to the Prospectus Directive. Such approval relates only to the Certificates which are to be admitted to trading on a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2014/65/EU) (**MiFID II**) (each such market being a **MiFID Regulated Market**) and/or which are to be offered to the public in any Member State of the European Economic Area (the **EEA**). Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin (**Euronext Dublin**) for the Certificates to be admitted to the official list (the **Official List**) and trading on its regulated market (the **Main Securities Market**). The Main Securities Market is a MiFID Regulated Market. References in this Prospectus to Certificates being **listed** (and all related references) shall mean that such Certificates have been (a) admitted to listing on the Official List and (b) admitted to trading on the Main Securities Market or, as the case may be, another MiFID Regulated Market.

The Certificates are expected to be assigned a rating of "B1(hyb)" by Moody's Investors Service Ltd. (**Moody's**).

Moody's is established in the EU and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such, Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency organisations.

The Certificates will be represented by interests in a global certificate in registered form (the **Global Certificate**) deposited on or before the Issue Date with, and registered in the name of a nominee for, a common depositary (the **Common Depositary**) for, Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

The transaction structure relating to the Certificates (as described in this Prospectus) and the Transaction Documents (as defined herein) have been approved by each of the Executive Committee of the Fatwa & Shari'a Supervisory Board of ADIB, the Shari'a Advisory Board of Citi Islamic Investment Bank E.C., the Fatwa and Shari'a Supervisory Board of First Abu Dhabi Bank PJSC, the Central Shariah Committee of HSBC Bank Middle East Limited, the J.P. Morgan Shariah Supervisory Committee and the Shariah Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

The Certificates may only be offered, sold or transferred in registered form in minimum face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

Amounts payable on the Certificates following the Reset Date will be calculated by reference to one or more U.S. Treasury rates. As at the date of this Prospectus, the administrator(s) of the relevant U.S. Treasury rate(s) are not included in ESMA's register of administrators under Article 36 of the Regulation (EU) No. 2016/1011 (the **Benchmarks Regulation**). As far as the Trustee is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that the administrator(s) of the relevant U.S. Treasury rate(s) are not currently required to obtain authorisation/registration (or, if located outside the EU, recognition, endorsement or equivalence).

GLOBAL COORDINATORS AND STRUCTURING AGENTS TO THE TRUSTEE AND ADIB

Abu Dhabi Islamic Bank **HSBC** **J.P. Morgan**

JOINT LEAD MANAGERS

Abu Dhabi Islamic Bank **Citigroup** **Emirates NBD Capital**

First Abu Dhabi Bank **HSBC** **J.P. Morgan**

Sharjah Islamic Bank **Standard Chartered Bank**

The date of this Prospectus is 19 September 2018

This Prospectus comprises a prospectus for the purposes of Article 5.3 of the Prospectus Directive and for the purpose of giving information with regard to the Trustee, ADIB and its subsidiaries and affiliates taken as a whole and the Certificates which, according to the particular nature of the Trustee, ADIB and of the Certificates, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Trustee and ADIB and of the Certificates. The opinions, assumptions, intentions, projections and forecasts expressed in this Prospectus with regard to the Trustee and ADIB are honestly held by the Trustee and ADIB, have been reached after considering all relevant circumstances and are based on reasonable assumptions and are not misleading in any material respect.

The Trustee and ADIB accept responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Trustee and ADIB, each having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Certain information under the headings "*Description of Abu Dhabi Islamic Bank PJSC*" and "*The UAE Banking Sector and Regulations*" has been extracted from information provided by or obtained from independent third party sources and, in each case, the relevant source of such information is specified where it appears under those headings. Each of the Trustee and ADIB confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant sources referred to, no facts have been omitted which would render the reproduced information inaccurate or misleading.

None of the Joint Lead Managers, nor any of their directors, affiliates, advisers, agents, the Delegate nor the Agents (as defined in the Agency Agreement) has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the accuracy, adequacy, reasonableness or completeness of the information contained in this Prospectus or any other information provided by the Trustee or ADIB in connection with the Certificates or for any acts or omissions of the Trustee, ADIB or any other person in connection with this Prospectus or the issue and offering of the Certificates.

To the fullest extent permitted by law, the Joint Lead Managers, the Delegate and the Agents each accepts no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Lead Manager, the Delegate or an Agent or on its behalf in connection with the Trustee, ADIB or the issue and offering of the Certificates. Each of the Joint Lead Managers, the Delegate and the Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

No person is or has been authorised by the Trustee, ADIB, the Joint Lead Managers, the Delegate or the Agents to give any information or to make any representation not contained in or not consistent with this Prospectus or any other document entered into in relation to the offering of the Certificates and, if given or made, such information or representation should not be relied upon as having been authorised by the Trustee, ADIB, the Joint Lead Managers, the Delegate or any of the Agents.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Certificates shall, in any circumstances, constitute a representation or create any implication that the information contained in this Prospectus is correct subsequent to the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or the financial or trading position of the Trustee or ADIB since the date hereof or, if later, the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Certificates is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

No comment is made, or advice given by, the Trustee, ADIB, the Joint Lead Managers, the Delegate or the Agents or, any of their directors, affiliates, advisers or agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under applicable or similar laws.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (**Regulation S**)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Certificates may be offered or sold solely to persons who are not U.S. persons outside the United States in reliance on Regulation S. Each purchaser of the Certificates is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

Fitch Ratings Ltd. (**Fitch**) has assigned ADIB a long-term issuer default rating of "A+" with a stable outlook and a short-term rating of "F1". Moody's has assigned ADIB a long-term rating of "A2" with a stable outlook and short-term rating of "P1".

Each of Fitch and Moody's is established in the EU and is registered under the CRA Regulation. As such, each of Fitch and Moody's is included in the list of credit rating agencies published by ESMA on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation. **A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency organisations.**

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF ANY CERTIFICATES.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the Trustee, ADIB, the Joint Lead Managers, the Delegate or the Agents makes any representation to any investor in the Certificates regarding the legality of its investment under any applicable laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

The distribution of this Prospectus and the offering, sale and delivery of the Certificates in certain jurisdictions may be restricted by law. None of the Trustee, ADIB, the Joint Lead Managers, nor any of their directors, affiliates, advisers, agents, the Delegate or the Agents represents that this Prospectus may be lawfully distributed, or that Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Trustee, ADIB, the Joint Lead Managers, nor any of their directors, affiliates, advisers, agents, the Delegate or the Agents which is intended to permit a public offering of the Certificates or distribution of this Prospectus in any jurisdiction where action for that purpose is required.

Accordingly, the Certificates may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Persons into whose possession this Prospectus comes are required by the Trustee, ADIB and the Joint Lead Managers to inform themselves about and to observe any such restrictions. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of the Certificates in the United States, the United Kingdom, the UAE (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Cayman Islands, the EEA (including the United Kingdom), the Kingdom of Saudi Arabia, the Kingdom of Bahrain, the State of Qatar (including the Qatar Financial Centre), Hong Kong, Singapore and

Malaysia. For a description of the restrictions on offers, sales and deliveries of Certificates and on the distribution of this Prospectus and other offering material relating to the Certificates, see "*Subscription and Sale*".

This Prospectus does not constitute an offer or an invitation to subscribe for or purchase Certificates, is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Trustee, ADIB, the Joint Lead Managers, the Delegate, the Agents or any of their directors, affiliates, advisers, agents or any of them that any recipient of this Prospectus should subscribe for, or purchase, the Certificates. Each recipient of this Prospectus shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Trustee and ADIB. None of the Joint Lead Managers undertakes to review the financial condition or affairs of the Trustee or ADIB during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Certificates of any information coming to the attention of any of the Joint Lead Managers.

The Certificates may not be a suitable investment for all investors. Each potential investor in the Certificates must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

(i) **have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Prospectus;**

(ii) **have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;**

(iii) **have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;**

(iv) **understand thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and**

(v) **be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.**

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (a) the Certificates are legal investments for it; (b) the Certificates can be used as collateral for various types of financing; and (c) other restrictions apply to its purchase or pledge of any Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk-based capital or similar rules.

The Certificates are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Certificates unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of the Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

No comment is made or advice given by the Trustee, ADIB, the Joint Lead Managers, the Delegate or the Agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Some statements in this Prospectus may be deemed to be forward looking statements. The words "anticipate", "believe", "expect", "plan", "intend", "targets", "aims", "seeks", "estimate", "project", "will", "would", "may", "could", "continue", "should" and similar expressions are intended to identify forward looking statements. All statements other than statements of historical fact included in this Prospectus, including, without limitation, those regarding the financial position of ADIB, or the business strategy, management plans and objectives for future operations of ADIB, are forward looking statements. These forward looking statements involve known and unknown risks, uncertainties and other factors, which may cause ADIB's actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward looking statements. These forward looking statements are based on numerous assumptions regarding ADIB's present, and future, business strategies and the environment in which ADIB expects to operate in the future. Important factors that could cause ADIB's actual results, performance or achievements to differ materially from those in the forward looking statements are discussed in this Prospectus (see "*Risk Factors*").

Forward looking statements speak only as at the date of this Prospectus and, without prejudice to any requirements under applicable laws and regulations, the Trustee and ADIB expressly disclaim any obligation or undertaking to publicly update or revise any forward looking statements in this Prospectus to reflect any change in the expectations of the Trustee or ADIB or any change in events, conditions or circumstances on which these forward looking statements are based. Given the uncertainties of forward looking statements, the Trustee and ADIB cannot assure potential investors that projected results or events will be achieved and the Trustee and ADIB caution potential investors not to place undue reliance on these statements.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

The historical financial information presented in this Prospectus is based on the audited consolidated financial statements of ADIB as at, and for the years ended, 31 December 2016 (together with the audit report thereon, the **2016 Financial Statements**) and 31 December 2017 (together with the audit report thereon, the **2017 Financial Statements** and, together with the 2016 Financial Statements, the **Audited Financial Statements**) and the unaudited interim condensed consolidated financial statements of ADIB for the six-month periods ended 30 June 2017 (together with the review report thereon, the **2017 Interim Financial Statements**) and 30 June 2018 (together with the review report thereon, the **2018 Interim Financial Statements** and, together with the 2017 Interim Financial Statements, the **Interim Financial Statements** and, together with the Audited Financial Statements, the **Financial Statements**). For further details, please refer to the "*Selected Financial Information*" section of this Prospectus.

In this Prospectus, save for where otherwise indicated, the selected financial information for ADIB as at, and for the six-month periods ended, 30 June 2017 and 30 June 2018, and the years ended 31 December 2015, 31 December 2016 and 31 December 2017, is presented as follows:

- the selected financial data as at, and for the six-month period ended, 30 June 2018 have been extracted from the 2018 Interim Financial Statements;
- the selected financial data for the six-month period ended 30 June 2017 have been extracted from the comparative financial information for the six-month period ended 30 June 2017 included in the 2018 Interim Financial Statements, and the selected financial data as at 30 June 2017 have been extracted from the 2017 Interim Financial Statements;
- the selected financial data as at, and for the year ended, 31 December 2017 have been extracted from the 2017 Financial Statements;

- the selected financial data as at, and for the year ended, 31 December 2016 have been extracted from the comparative financial information as at, and for the year ended, 31 December 2016 included in the 2017 Financial Statements; and

- the selected financial data as at, and for the year ended, 31 December 2015 have been extracted from the comparative financial information as at, and for the year ended, 31 December 2015 included in the 2016 Financial Statements.

The financial data extracted from the Financial Statements have been presented in AED and, for convenience only, in United States dollars using an exchange rate of US$ 1.00 = AED 3.6725.

The Audited Financial Statements have been prepared in accordance with International Financial Reporting Standards and have been audited in accordance with International Standards on Auditing by Ernst & Young Middle East (Abu Dhabi Branch) (**Ernst & Young**), as stated in their reports appearing herein. The Interim Financial Statements have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting. Investors should not rely on interim results as being indicative of results ADIB may expect for the full year. ADIB presents its Financial Statements in UAE Dirhams.

Certain Defined Terms

Capitalised terms which are used but not defined in any section of this Prospectus will have the meaning attributed thereto in the Conditions or any other section of this Prospectus. In addition, the following terms as used in this Prospectus have the meanings defined below:

- references to **Abu Dhabi** herein are to the Emirate of Abu Dhabi;

- references to the **Bank** herein are to ADIB;

- references to **Dubai** herein are to the Emirate of Dubai;

- references to the **Government** herein are to the government of Abu Dhabi;

- references to an **EU Member State** herein are references to a Member State of the European Union; and

- references to the **UAE** herein are to the United Arab Emirates.

In this Prospectus, unless the context otherwise requires, **ADIB** refers to Abu Dhabi Islamic Bank PJSC, a public joint stock company established by the Government on 20 May 1997 in Abu Dhabi with Registration Number 36148, and the **Group** refers to ADIB together with its consolidated subsidiaries, as well as their respective predecessor companies or entities, as applicable.

Certain Publicly Available Information

Certain statistical data and other information appearing in this Prospectus have been extracted from public sources identified in this Prospectus. None of the Joint Lead Managers, the Trustee nor ADIB accepts responsibility for the factual correctness of any such statistics or information but both the Trustee and ADIB accept responsibility for accurately extracting and transcribing such statistics and information and believe, after due inquiry, that such statistics and information represent the most current publicly available statistics and information from such sources at and for the periods with respect to which they have been presented.

All references in this document to **U.S. dollars**, **U.S.$**, **USD** and **$** are to the lawful currency of the United States of America, references to **£** and **Sterling** are to the lawful currency of the United Kingdom and references to **AED**, **dirham** and **UAE Dirham** are to the lawful currency of the United Arab Emirates. The UAE Dirham has been pegged to the U.S. dollar since 22 November 1980. The mid-point between the official buying and selling rates for the UAE Dirham is at a fixed rate of AED 3.6725 = U.S.$1.00. All references to **euro** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments. For the purposes of calculating certain figures and percentages, the underlying numbers used have been extracted from the relevant financial statements rather than the rounded numbers contained in this Prospectus. Accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Certain Non-IFRS financial information

This Prospectus includes references to certain non-IFRS financial measures which have not been prepared in accordance with IFRS and which would be considered alternative performance measures (**APMs**) as defined in ESMA's Guidelines on Alternative Performance Measures.

These measures include the following, each of which is set out in the "*Selected Financial Information*" section of this Prospectus, which explains the method by which these measures are calculated:

APM	**Description of APM**
Return on Average Assets	This measure is an indicator of how profitable a company is relative to its total assets. It gives an idea as to how efficient management is at using assets to generate earnings.
Return on Average equity attributable to ordinary shareholders	This measure is an adjusted version of return on equity. It gives an indication of the profit generated from the money shareholders have invested (the numerator being Net Profit and the denominator being average equity attributable to ordinary shareholders).
Equity attributable to ordinary shareholders to Total Assets	This ratio gives an indication of (i) how much shareholders would receive in the event of a company-wide liquidation and (ii) the amount of assets on which ordinary shareholders have a residual claim.
Due from banks/Due to financial institutions	This ratio gives an indication of the extent of a bank's exposure to the banking sector, which impacts a bank's liquidity.
Liquid Assets/Total Assets	This ratio gives an indication of the proportion of a bank's assets which can be realised as cash in the short term to meet its short term funding needs.
Financing/Total Deposits	This ratio measures how much of a bank's depositors' accounts and amounts due to financial institutions are deployed in financing assets. This also gives an indication of a bank's liquidity.
Depositors' accounts/Total Deposits	This ratio measures the size of a bank's depositors' accounts relative to the total funding available to the bank. Banks count on depositors' accounts as a stable source of funds. Depositors' accounts offer many advantages to banks, such as predictable costs and a measurement of customer loyalty.
Non-performing financing assets/Gross Financing	This ratio is used as a proxy for asset quality and is intended to identify problems with asset quality in a bank's portfolio of financing assets.
Provision for financing assets/Non-performing financing assets	This ratio is a financial measure which indicates the extent of a bank's provisions for losses on its non-performing financing assets.

ADIB believes that the APMs included in this Prospectus are helpful to investors because these and other similar measures are widely used by certain investors, security analysts and other interested parties as supplemental measures of financial performance, liquidity and financial position. However, none of the measures listed above is a measure of financial performance, liquidity or financial position under IFRS and should not be considered in isolation or as a substitute for Net Profit (as defined in the "*Selected Financial Information*" section of this Prospectus), total equity or other measures of ADIB's financial performance, liquidity or financial position computed in accordance with IFRS. None of these measures have been audited or reviewed by auditors. Other companies, including those in ADIB's industry, may calculate these measures differently to ADIB. As not all companies calculate these measures in the same manner, ADIB's presentation of these measures may not be comparable to other similarly titled measures of other companies.

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Certificates has led to the conclusion that: (i) the target market for the Certificates is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Certificates to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Certificates (a **distributor**) should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PRIIPS REGULATION / PROHIBITION OF SALES TO EEA RETAIL INVESTORS

The Certificates are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Certificates or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Certificates or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

NOTIFICATION UNDER SECTION 309(1)(B)(c) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE (THE SFA)

In connection with Section 309(B) of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), the Trustee has determined, and hereby notifies all relevant persons (as defined in Section 309(A)(1) of the SFA), that the Certificates are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

VOLCKER RULE

The Volcker Rule, which became effective on 1 April 2014, but was subject to a conformance period for certain entities that concluded on 21 July 2015, generally prohibits "banking entities" (which is broadly defined to include U.S. banks and bank holding companies and many non-U.S. banking entities, together with their respective subsidiaries and other affiliates) from (i) engaging in proprietary trading, (ii) acquiring or retaining an ownership interest in or sponsoring a "covered fund", and (iii) entering into certain relationships with "covered funds". The general effects of the Volcker Rule remain uncertain; any prospective investor in the Certificates and any entity that is a "banking entity" as defined under the Volcker Rule which is considering an investment in the Certificates should consult its own legal advisers and consider the potential impact of the Volcker Rule in respect of such investment. If investment by "banking entities" in the Certificates is prohibited or restricted by the Volcker Rule, this could impair the marketability and liquidity of such Certificates. No assurance can be made as to the effect of the Volcker Rule on the ability of certain investors subject thereto to acquire or retain an interest in the Certificates, and accordingly none of the Trustee, ADIB, the Joint Lead Managers, the Delegate or the Agents, or any of their respective affiliates makes any representation regarding (a) the status of the Trustee under the Volcker Rule (including whether it is a "covered fund" for their purposes) or (b) the ability of any purchaser to acquire or hold the Certificates, now or at any time in the future.

NOTICE TO U.K. RESIDENTS

The Certificates represent interests in a collective investment scheme (as defined in the FSMA) which has not been authorised, recognised or otherwise approved by the United Kingdom Financial Conduct Authority. Accordingly, this Prospectus is not being distributed to and must not be passed on to the general public in the United Kingdom.

The distribution in the United Kingdom of this Prospectus and any other marketing materials relating to the Certificates: (A) if effected by a person who is not an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Financial Promotion Order**); (ii) persons falling within any of the categories of persons described in Article 49(2) (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Promotion Order; and (B) if effected by a person who is an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the **Promotion of CIS Order**); (ii) persons falling within any of the categories of person described in Article 22(2)(a)-(d) (High net worth companies, unincorporated associations, etc.) of the Promotion of CIS Order; and (iii) any other person to whom it may otherwise lawfully be made. Persons of any other description in the United Kingdom may not receive and should not act or rely on this document.

Prospective investors in the United Kingdom in the Certificates are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in the Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

Any prospective investor intending to invest in the Certificates should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

NOTICE TO RESIDENTS OF THE CAYMAN ISLANDS

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Certificates and this Prospectus shall not be construed as an invitation to any member of the public in the Cayman Islands to subscribe for the Certificates.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the Saudi Arabian Capital Market Authority (the **Capital Market Authority**).

The Capital Market Authority does not make any representation as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this Prospectus you should consult an authorised financial adviser.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

In relation to investors in the Kingdom of Bahrain, securities issued in connection with this Prospectus and related offering documents may only be offered in registered form to existing account holders and accredited investors as defined by the Central Bank of Bahrain (the **CBB**) in the Kingdom of Bahrain where such investors make a minimum investment of at least U.S.$100,000 or any equivalent amount in other currency or such other amount as the CBB may determine.

This offer does not constitute an offer of securities in the Kingdom of Bahrain in terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Prospectus and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no securities may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors for an offer outside the Kingdom of Bahrain.

The CBB has not reviewed, approved or registered this Prospectus or related offering documents and it has not in any way considered the merits of the securities to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this document and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this document. No offer of securities will be made to the public in the Kingdom of Bahrain and this Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

This Prospectus does not and is not intended to constitute an offer, sale or delivery of bonds or other debt financing instruments under the laws of the State of Qatar. The Certificates have not been and will not be authorised by the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority or the Qatar Central Bank in accordance with their regulations or any other regulations in the State of Qatar. The Certificates and interests therein will not be offered to investors domiciled or registered in the State of Qatar (including the Qatar Financial Centre) and do not constitute debt financing in the State of Qatar under the Commercial Companies Law No.(5) of 2002 or otherwise under any laws of the State of Qatar.

NOTICE TO RESIDENTS OF MALAYSIA

The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase the Certificates in Malaysia may be made, directly or indirectly, and this Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories set out in Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act 2007 of Malaysia as may be amended and/or varied from time to time and subject to any amendments to the applicable laws from time to time.

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Trustee or ADIB and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus.

STABILISATION

In connection with the issue of the Certificates, HSBC Bank plc (the **Stabilisation Manager**) (or persons acting on behalf of the Stabilisation Manager) may effect transactions with a view to supporting the market price of the Certificates at a level higher than that which might otherwise prevail, but in so doing, the

Stabilisation Manager shall act as principal and not as agent of the Trustee or ADIB. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the Issue Date and, if begun, may cease any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Certificates. Any stabilisation action must be conducted by the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

TABLE OF CONTENTS

RISK FACTORS

The purchase of the Certificates may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Certificates. Before making an investment decision, prospective purchasers of the Certificates should consider carefully, in light of their own financial circumstances and investment objectives, all of the information in this Prospectus.

Each of the Trustee and ADIB believes that the following factors may affect the Trustee's ability to fulfil its obligations under the Certificates. All of these factors are contingencies which may or may not occur and neither the Trustee nor ADIB is in a position to express a view on the likelihood of any such contingency occurring. Factors which the Trustee and ADIB believe may be material for the purpose of assessing the market risks associated with the Certificates are also described below.

Each of the Trustee and ADIB believes that the factors described below represent the principal risks inherent in investing in the Certificates but the inability of the Trustee to pay any amounts on or in connection with any Certificate may occur for other reasons and neither the Trustee nor ADIB represents that the statements below regarding the risks of holding any Certificate are exhaustive.

Although the Trustee and ADIB believe that the various structural elements described in this Prospectus lessen some of these risks for Certificateholders, there can be no assurance that these measures will be sufficient to ensure payment to Certificateholders of any Periodic Distribution Amount or the Dissolution Distribution Amount or any other amounts payable in respect of the Certificates on a timely basis or at all. There may also be other considerations, including some which may not be presently known to the Trustee or ADIB or which the Trustee or ADIB currently deems immaterial, that may impact any investment in the Certificates.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. Words and expressions defined in the Conditions and "Global Certificate" shall have the same meanings in this section.

Risks Relating to the Trustee

The Trustee is an exempted company with limited liability incorporated in the Cayman Islands on 12 January 2015 and has limited operating history. The Trustee has not as at the date of this Prospectus engaged, and will not engage, in any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents. As the Trustee is a Cayman Islands company, it may not be possible for Certificateholders to effect service of process on it outside the Cayman Islands.

The Trustee's only material assets, which will be held on trust for Certificateholders, will be the Trust Assets, including the right to receive amounts paid by the Mudareb under the Mudaraba Agreement. Therefore, the Trustee is subject to all the risks to which ADIB is subject to the extent that such risks could limit ADIB's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents.

The ability of the Trustee to pay amounts due on the Certificates will be dependent upon receipt by the Trustee from ADIB of amounts to be paid under the Mudaraba Agreement (which in aggregate may not be sufficient to meet all claims under the Certificates and the Transaction Documents).

Risks relating to ADIB

In the course of its business activities, ADIB is exposed to a variety of risks, including as set out below. Whilst ADIB believes it has implemented appropriate policies, systems and processes to control and mitigate these risks, investors should note that any failure to adequately control these risks, or predict unexpected market events that are beyond the control of ADIB, could be greater than anticipated and could result in a material adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects and thereby affect its ability to make payments in respect of the Certificates.

Credit risk

Credit risk arising from adverse changes in the credit quality and recoverability of financings, advances and amounts due from counterparties is inherent in a wide range of ADIB's businesses. Credit risk could arise from a deterioration in the credit quality of specific counterparties of ADIB, from a general deterioration in local or global economic conditions or from systemic risks with the financial systems, all of which could affect the recoverability and value of ADIB's assets and require an increase in ADIB's provisions for the impairment of its assets and other credit exposures which could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects and thereby affect its ability to make payments in respect of the Certificates.

To control credit risk, ADIB maintains documented risk management procedures and controls and monitors credit exposures across a number of customer segments and limits exposures by geographic region and industry sector by requiring approval by the Credit Risk Management team (**CRM**), the Group Risk and Investment Approval Committee, the Board of Directors and the regulatory authorities when exposures exceed a set limit or term to avoid undue concentration of risk with individuals or groups of customers, and by obtaining security when appropriate. In this regard it should be noted that ADIB's related party exposure, as reported in the audited financial statements, and any other exposures that from time to time exceed regulatory large exposure limits are submitted for approval to the Central Bank of the UAE (the **Central Bank**). Furthermore, ADIB maintains a monitoring process over all its risk portfolios that is designed to encourage early notification of changes in creditworthiness and timely escalation of any such changes to CRM, the Group Risk and Investment Approval Committee, and/or the Board of Directors, in accordance with a predetermined approval authority framework. There can be no assurance, however, that these controls and procedures will be successful in eliminating such credit risk.

Real estate exposure and investment risk

A significant portion of ADIB's credit risk is related to real estate exposure risk, which is the credit risk associated with providing financing to customers for the purpose of acquiring real estate, either for their own personal use or for investment purposes and where financing to the client is secured by real estate as collateral. Any downturn in the real estate market or default of ADIB's main real estate related clients could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects and thereby affect its ability to perform its obligations under the Transaction Documents. While ADIB seeks to manage this risk through its credit risk policies and procedures, including the carrying out of due diligence and the establishment of concentration limits, there is no guarantee that such policies and procedures will be successful, or that any collateral will be readily recoverable in the event of a default.

ADIB is also exposed to the real estate sector via its wholly owned subsidiary, Burooj Properties LLC (**Burooj Properties**). As further detailed in the "*Description of Abu Dhabi Islamic Bank PJSC – Subsidiaries*" section of this Prospectus, as at 30 June 2018, Burooj Properties had AED 1,090.2 million of investment properties and AED 837.4 million of land for development purposes in its property portfolio and had outstanding commitments of AED 4.4 million. Real estate investment risk could therefore arise from deterioration in the real estate market, for both rental returns and property sales which could affect the yield and fair value of ADIB's assets and require impairments of its real estate assets. This could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects and thereby affect its ability to perform its obligations under the Transaction Documents. To control and accurately reflect real estate risk, ADIB regularly reviews the Burooj Properties investment property portfolio, development costs and yield profiles with the support of both internal and independent external subject matter experts to assist in identifying and seeking to mitigate potential risks and recognising related impairments when required. However, there is no assurance that such action will be successful in controlling or mitigating these risks.

Asset concentration risk

Due to concentrations in the financing and deposit portfolio, ADIB is subject to the risk of default by its larger customers, from exposure to particular sectors of the UAE economy that may underperform and from withdrawal of large deposits. The financing and receivables portfolio of ADIB shows country, industry and customer concentrations.

The Group's financial assets are heavily concentrated, geographically, in the UAE, where certain sectors (including the real estate sector) and certain regions (including Dubai) were significantly affected by the global financial crises that commenced in early 2008. See "*Risks relating to ADIB – Political, economic and related risk*" for the risks associated with the global financial crises. In addition, the composition of ADIB's financing and deposit portfolio will change from time to time, and in some circumstances the portfolio may contain a concentration of exposure to particular industries or sectors, governmental entities, government-related entities, companies or individuals.

As at 30 June 2018, ADIB had AED 76.5 billion of Gross Financing (as defined in the "*Selected Financial Information*" section of this Prospectus) located in the UAE, representing 96.1 per cent. of its total Gross Financing.

As a result of the concentration of ADIB's financing assets in the UAE, any deterioration in general economic conditions in the UAE or any failure of ADIB to effectively manage its risk concentrations could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects and thereby affect its ability to make payments in respect of the Certificates.

In terms of the industry concentration of ADIB's Gross Financing, as at 30 June 2018, individual finance accounted for 63.3 per cent., corporates accounted for 27.7 per cent., the public sector accounted for 6.7 per cent., small and medium enterprises (which are businesses with an annual turnover below AED 100 million) (**SMEs**) and others accounted for 1.1 per cent., the Government accounted for 0.9 per cent. and financial institutions accounted for 0.3 per cent. In terms of financing customer concentrations, ADIB's 20 largest financing customers represented 20.0 per cent. of the Group's total net financing assets as at 30 June 2018.

Although ADIB considers that it has adequate access to sources of funding, the withdrawal of a significant portion of deposits may have a material adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects and thereby affect its ability to make payments in respect of the Certificates, as well as its ability to meet the Central Bank target stable resources ratio. In terms of deposit concentrations, ADIB's 20 largest depositors accounted for 16.4 per cent. of ADIB's total customer deposits as at 30 June 2018.

Liquidity risk

Liquidity risk is the risk that ADIB does not have sufficient funds available at all times to meet its contractual obligations. ADIB manages this risk by holding a stock of highly liquid assets which can be readily realised for cash and by actively managing the liquidity profile of its assets and liabilities. However, ADIB's liquidity may be adversely affected by a number of factors, including significant unforeseen changes in profit rates, rating downgrades, higher than anticipated losses on investments and disruptions in the financial markets generally. ADIB's inability to access funds or markets from which it raises funds may put ADIB's access to liquidity at risk, which could affect its ability to finance operations adequately. A dislocated credit environment creates the risk that ADIB will not be able to access funds on favourable terms. These and other factors could also lead creditors to form a negative view of ADIB's liquidity, which could result in less favourable credit ratings, higher funding costs and less accessible funds.

Furthermore, in circumstances where financial institutions generally have ongoing limitations on their access to other sources of funding such as wholesale market derived funding, ADIB's access to funds and its cost of funding (profit paid or expected to be paid) may be adversely affected. All of these factors related to liquidity risk could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects and thereby affect its ability to perform its obligations under the Transaction Documents.

Market risk

Changes in exchange rates, profit rates and market prices could adversely affect the market value of ADIB's portfolios and positions in financial instruments, which could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects and thereby affect its ability to perform its obligations under the Transaction Documents. The Group Governance and Risk Policy Committee of the Board of Directors approves market risk limits based on defined risk appetite and allocated capital, and Treasury manages ADIB's market risk within this framework. ADIB's Group Chief Risk Officer oversees an independent risk governance function with the aim of making the market risk profile transparent to senior management, the Board of Directors and regulators. However, there can be no assurance that such policies will be successful in eliminating or reducing market risk and should any of these measures fail to operate as intended, ADIB's business, reputation, financial condition, results of operations and prospects may be adversely affected.

Hedging product availability risk

ADIB's status as an Islamic bank means that its assets and liabilities are not fully comparable to those of a conventional bank. In particular, unlike conventional banks, ADIB does not have the full range of hedging products available for use. The fact that the return payable on ADIB's Islamic products is profit-linked reduces to some extent the risk of losses arising on unhedged liabilities and, in addition, there is a growing range of *Shari'a*-compliant derivative products which could be used for hedging purposes. However, there can be no assurances that the limited availability of hedging products will not have an adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects.

Regional risk

Investors should note that ADIB is incorporated in the UAE and has the majority of its operations and assets located in the UAE. Accordingly, ADIB may have insufficient assets located outside the UAE to satisfy in whole or in part any judgment obtained from an English court relating to amounts owing under the Certificates. If investors were to seek enforcement of an English judgment in the UAE or to bring proceedings in relation to the Certificates in the UAE, then certain limitations would apply (see *"Risks relating to enforcement"*). Furthermore, ADIB's business may be affected by the financial, political and general economic conditions prevailing from time to time in the UAE and/or the Middle East. The UAE and Middle East markets, being emerging markets, are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate.

Operational risk

Operational risk and losses can result from inadequate or failed internal processes, decisions and/or actions of people, systems failures and external events. Operational risk and losses are categorised as follows: (i) fraud; (ii) employment practices and workplace safety; (iii) clients, products, and business practice; (iv) damage to physical assets; (v) business disruption and systems failures; and (vi) execution, delivery, and process management.

Although ADIB has established a detailed operational risk management framework embedded across ADIB, devotes substantial resources to manage operational risk and maintains *Shari'a*-compliant insurance against certain operational losses, it is not possible to entirely eliminate operational risks and subsequent impacts. As such, there are no assurances that such measures will continue to mitigate operational risk and should any of these measures fail to operate as intended, ADIB's business, reputation, financial condition, results of operations and prospects may be adversely affected.

Technology risk

Banks, including ADIB, rely on technology. External attacks on banks' information technology systems, and those of their clients, have become increasingly common in the Gulf Cooperation Council (**GCC**) and worldwide. The introduction of digital channels, automated and interactive teller machines and other technology-based utility services have increased technology risk – for example, the risk that ADIB's data centres may become subject to system failures and/or infrastructure such as networks, firewalls, storage, servers and telecommunications services (which failures could result from, for example, limited capacity, out-of-support technology, service-provider quality and natural disasters). ADIB continues to invest in business continuity, recovery planning and related resources in order to mitigate such risks; however, there remains the possibility of, among other things, a data leak, a successful cyber or similar attack and/or failure of a new or existing system or user acceptance test. As such, there are no assurances that ADIB's preventative measures will continue to mitigate technology risk. Should any of these measures fail to operate as intended, ADIB's business, reputation, financial condition, results of operations and prospects may be adversely affected, thereby affecting ADIB's ability to meet its obligations under the Transaction Documents.

Legal risk

Legal risk is the risk of losses occurring due to legal or regulatory action that invalidates or otherwise precludes performance by ADIB or any of its counterparties under the terms of its contractual agreements. Additionally, ADIB may face certain legal risks from private actions brought against it. ADIB aims to mitigate these risks through properly reviewed documentation and by seeking appropriate legal advice when necessary. However, generally, as a participant in the regulated financial services industry, it is likely that ADIB may experience, from time to time, a level of litigation and regulatory scrutiny related to its businesses and operations which may, if adversely determined, have an impact on ADIB's business, reputation, financial condition, results of operations and prospects and thereby affect ADIB's ability to meet its obligations under the Transaction Documents.

Key personnel dependency risk

Revenues of ADIB will depend, in part, on ADIB's ability to continue to attract, retain and motivate qualified and skilled personnel. ADIB relies on its senior management for the implementation of its strategy and its day-to-day operations. There is competition in the UAE for hiring skilled personnel, especially at the senior management level, due to a disproportionately low number of available qualified and/or experienced individuals compared to current demand. If ADIB were unable to retain key members of its senior management and/or hire new qualified personnel in a timely manner, this could have a material adverse effect on the operations of ADIB. The loss of any member of the senior management team may result in: (i) a loss of organisational focus; (ii) poor execution of operations; and (iii) an inability to identify and execute potential strategic initiatives. These adverse results could, among other things, reduce potential revenue, which could adversely affect ADIB's business, reputation, financial condition, results of operations and prospects and ability to make payments due under the Transaction Documents to which it is a party.

Expansion and acquisition risk

ADIB's growth strategy is predicated on organic growth opportunities (including those resulting from the increased consumer demand for Islamic banking services and *Shari'a*-compliant banking products), supplemented by strategic sectoral and/or geographic acquisitions, if management identifies appropriate opportunities. Notwithstanding the fact that the majority of ADIB's operations and assets are located in the UAE, ADIB continues to look for opportunities to expand its business both domestically and internationally.

In addition to the normal business and related risks associated with organic expansion, ADIB may, when suitable opportunities present themselves, make acquisitions and these entail additional risks. While ADIB seeks to mitigate these risks by completing a detailed expansion opportunity analysis and commissioning due diligence reviews as well as inserting the necessary conditions precedent in any acquisition agreement, there is no guarantee that such mitigation will be effective. A failure on ADIB's part to manage its future growth efficiently and effectively could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects and thereby affect its ability to make payments in respect of the Certificates.

As an Islamic bank, ADIB may elect to acquire, in a *Shari'a*-compliant manner, a shareholding in a conventional financial services entity and embark on a process of converting this entity into a *Shari'a*-compliant business before consolidating it financially. The completion of all the conditions and approvals, relating to such an acquisition, including those of ADIB's Fatwa and *Shari'a* Supervisory Board (the ***Shari'a* Supervisory Board**), may take longer than would be the case for a conventional acquirer or in the case of the acquisition of an Islamic financial entity. Investors should note that Abu Dhabi Islamic Bank – Egypt (S.A.E.) (**ADIB Egypt**) is currently undergoing the process of conversion from a conventional bank to an Islamic bank and only after the conversion will ADIB Egypt become fully aligned with ADIB and is therefore currently treated as an investment in joint venture, where ADIB's capital commitment is met by a mix of common equity and placements in advance of any future equity issue.

Principal shareholders risk

As set out in the "*Description of Abu Dhabi Islamic Bank PJSC – Share capital and shareholder structure*" section of this Prospectus, as at 30 June 2018, ADIB's principal beneficial shareholders were Emirates International Investment Company LLC (**EIIC**), an Abu Dhabi based investment company wholly owned by the National Holding LLC, a privately-owned holding company based in Abu Dhabi and controlled by members of the Ruling Family of Abu Dhabi, which held approximately 40.23 per cent. of ADIB's issued share capital, the Abu Dhabi Investment Council which held approximately 7.62 per cent. of ADIB's issued share capital, various members and associates of the Ruling Family of Abu Dhabi who held approximately 9.50 per cent. of ADIB's issued share capital and the UAE General Pension and Social Security Authority which held approximately 1.54 per cent. of ADIB's issued share capital. The remaining shares were held by over 45,000 UAE nationals and UAE companies. As a strategic investor holding approximately 40.23 per cent. of the share capital of ADIB, the EIIC and its associated companies have the ability to influence ADIB's business significantly through their ability to control actions that require shareholder approval. If circumstances were to arise where the interests of the major shareholders conflict with the interests of the Certificateholders, the Certificateholders could be disadvantaged by any such conflict.

No Guarantees

Investors should be aware that no guarantee is given in relation to any amounts payable by ADIB under the Certificates or any of the Transaction Documents by ADIB, the shareholders of ADIB or by any other person.

Political, economic and related risk

While the UAE has seen significant economic growth and relative political stability, there is no assurance that such growth or stability will continue. Moreover, while the Government's policies have generally resulted in improved economic performance, there can be no assurance that such level of performance can be sustained. Traditionally, the oil and gas industry has been the basis of the development in the economy, and economic development can therefore be impacted by the general level of oil and gas prices. Although over the past few years the UAE government has tried to diversify away from oil and gas, a significant portion of government revenue is still dominated by oil and gas, contributing approximately US$ 143 billion, or 55.0 per cent., of nominal gross domestic product in 2017. Furthermore, the recent decline in crude oil prices (with the price of Brent crude falling from US$ 115 per barrel in June 2014 to US$ 74 per barrel in July 2018) may potentially adversely affect economic activity in the UAE.

No assurance can be given that the UAE government will not implement regulations, fiscal or monetary policies, including policies, regulations, or new legal interpretations of existing regulations, relating to or affecting taxation, financing rates or exchange controls, or otherwise take actions which could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects and thereby affect its ability to make payments in respect of the Certificates.

Although the UAE itself is generally regarded as a politically stable and secure jurisdiction, the wider MENA region within which the UAE is situated is subject to a wide range of political, military and socio-economic risks and uncertainties. These include, without limitation, risks related to:

1. terrorism and insurgency generally;

2. ongoing political instability, civil disorder and military conflict in a number of countries in the wider MENA region;

3. ongoing tensions between the Islamic Republic of Iran and the governments of various other countries in the region as well as the United States of America, including the scheduled return of sanctions by the United States of America, as announced on 8 May 2018; and

4. increasing tension between Qatar and various Middle Eastern states due to the severance by such states of ties with Qatar since 5 June 2017, following accusations that Qatar has supported extremism and terrorism.

   It is a feature of the MENA region that regional and domestic conflicts can be highly complex and unpredictable and new conflicts can evolve or emerge from time to time. The effect of conflicts in the MENA region can influence a number of factors relevant to ADIB's investments, including:

5. the price of oil and gas and items derived therefrom;

6. the strength of regional and global economies; and

7. the perceived attractiveness of investment in the UAE to international investors.

Such impacts could occur through a decrease in foreign direct investment into the region, capital outflows or increased volatility in the global and regional financial markets. Although the UAE has not been directly affected by the unrest in the broader region and has enjoyed economic growth and relative political stability, it remains unclear what long-term impact this unrest may have on the UAE. There can be no assurance that such growth or stability will continue, or that potential investors will not be deterred from investing in the UAE due to the political environment in or around the UAE.

It is not possible to predict the occurrence of events or circumstances such as or similar to a war or the impact of such occurrences and no assurance can be given that ADIB would be able to sustain its current profit levels if such events or circumstances were to expand or occur. Therefore, a downturn or any sustained deterioration in the economy of the UAE, instability in certain sectors of the UAE or regional economy or material deterioration of political conditions therein could have an adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects.

Prospective investors should also note that ADIB's business and financial performance could be adversely affected by political, economic and related developments both within and outside the countries in which ADIB operates, because of the inter-relationships within global financial markets.

General economic risk

Adverse changes in global economic conditions, or arising from systemic risks in the financial systems, could affect the recovery and value of ADIB's assets and require an increase in ADIB's provisions. ADIB uses different hedging strategies to minimise risk, including securities, collateral and *Shari'a*-compliant insurance that reduce the credit risk level to be within ADIB's strategy and acceptable risk levels. However, there can be no guarantee that such measures will eliminate or reduce such risks.

Regulatory risk

ADIB is subject to the laws, regulations, administrative actions and policies of the UAE and the other markets in which ADIB operates (see "*Description of Abu Dhabi Islamic Bank PJSC*"). These regulations may limit ADIB's activities and changes in supervision and regulation, particularly within the UAE, could materially adversely affect ADIB's business, the products or services offered, the value of its assets and its financial condition. Although ADIB works closely with its regulators and continually monitors all relevant legal and regulatory developments, future changes in regulation, fiscal or other policies cannot be predicted and are beyond the control of ADIB. Any such changes could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects and thereby affect its ability to make payments in respect of the Certificates.

Furthermore, ADIB is subject to the risk, inherent in all regulated financial businesses, of having insufficient capital resources to meet the minimum regulatory capital requirements applicable to it. A shortage of available capital might also restrict ADIB's opportunities for expansion. Under the Basel III regulatory capital framework developed and issued by the Basel Committee on Banking Supervision (**Basel III**) capital requirements are inherently more sensitive to market movements than under previous regimes and capital requirements will increase if economic conditions or negative trends in the financial markets worsen. Tier 1 and tier 2 capital instruments are also required to be more loss-absorbing.

Foreign exchange risk

ADIB maintains its accounts and reports its results in UAE Dirham. The UAE Dirham has been pegged to the US dollar at a fixed exchange rate since 22 November 1980. However, there can be no assurance that the Government will not re-peg or de-peg the UAE Dirham in the future and expose ADIB to the potential impact of any alteration to or abolition of this foreign exchange peg which could adversely affect ADIB's business, reputation, financial condition, results of operations and prospects.

Furthermore, as ADIB expands its business internationally, it will increasingly deploy capital and receive income in foreign and non-pegged currencies. ADIB's ability to both predict and mitigate against revaluation or devaluation is limited and, if an adverse event occurs, a revaluation or devaluation could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects and thereby affect its ability to make payments in respect of the Certificates.

Competition risk

ADIB faces competition in all of its business areas from domestic and foreign banks operating in the UAE. ADIB faces competition from both Islamic banks and conventional banks. As at 31 March 2018, there were 49 different banks (comprised of 22 locally incorporated banks and 27 foreign banks) licensed to operate in the UAE (excluding the Dubai International Financial Centre). There are also an increasing number of institutions offering Islamic financial products and services within the UAE. As at 31 December 2017, there were seven Islamic banks, in addition to a number of other financial institutions, offering Islamic products and solutions. Other financial institutions may consider offering *Shari'a*-compliant products.

The banking market in the UAE has generally been a relatively protected market with high regulatory and other barriers to entry for foreign financial institutions. However, should some of these barriers be removed or eased in the future, either voluntarily or as a result of the UAE's obligations to the World Trade Organisation, the GCC or any other similar entities, it is likely to lead to a more competitive environment for ADIB and other domestic financial institutions. This could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects and thereby affect its ability to make payments in respect of the Certificates.

Introduction of Value Added Tax

ADIB is not currently subject to corporation tax on its earnings within the UAE. However, investors should be aware that the UAE announced the adoption of a value added tax (**VAT**), effective 1 January 2018.

Uncertainty remains as to how the UAE Federal Tax Authority will interpret the relevant VAT legislation. Accordingly, the practical application of the VAT legislation remains open to testing by the UAE Federal Tax Authority and examination by courts within the UAE.

The practical application of VAT legislation, any changes in the VAT regime or any future corporation tax which may be introduced in the UAE could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations and prospects.

Risks Relating to the Certificates

Certificateholders' right to receive payment of the face amount of the Certificates and the Certificateholders' right to any profit will be permanently written-down upon the occurrence of a Non-Viability Event

If a Non-Viability Event (as defined below) occurs at any time, the Prevailing Face Amount of the Certificates then outstanding will be written-down in whole or, in exceptional cases, in part on a pro rata basis, in each case, as solely determined by the Financial Regulator. See "– *The circumstances triggering a Write-down are unpredictable*". Pursuant to a Write-down, the rights of any Certificateholder for payment of any amounts under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an ADIB Event) in a proportion corresponding to the relevant Write-down Amount (and any related unpaid Periodic Distribution Amounts) shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Event or notice in relation thereto and, in the case of a Write-down in whole, the Certificates shall be permanently cancelled.

In exceptional cases in which a Write-down in part is required by the Financial Regulator, a Write-down may occur on one or more occasions as solely determined by the Financial Regulator provided, however, that the face amount of a Certificate shall never be reduced to below nil.

Furthermore, during the period of any Write-down in part pursuant to Condition 11 (*Write-down at the Point of Non-Viability (as prescribed by the Financial Regulator*)), Periodic Distribution Amounts will accrue on the reduced face amount of the Certificates and its payment is subject to a Non-Payment Event (including, without limitation, ADIB having insufficient Distributable Items and, if applicable, any payment restrictions due to breach of any capital buffers imposed on ADIB by the Financial Regulator) or a Non-Payment Election having occurred. See "– *Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative*". Also, any redemption at the option of the Trustee (upon the instructions of ADIB (acting in its sole discretion)) (a) on the First Call Date or any Periodic Distribution Date thereafter or (b) upon the occurrence of a Tax Event or a Capital Event will be by reference to such reduced face amount of the Certificates.

The terms of the Existing Tier 1 Securities do not include write-down or similar features with triggers comparable to those of the Certificates. As a result, in the event that the Certificates are subject to a Write-down, the Existing Tier 1 Securities will not be subject to a Write-down and the holders thereof shall continue to be entitled to receive payments in accordance with their respective terms. In addition, the Conditions do not in any way impose restrictions on ADIB following a Write-down, including restrictions on making any distribution or equivalent payment in connection with any Junior Obligations (including, without limitation, any common shares of ADIB) or any Pari Passu Obligations.

Certificateholders will lose all or some of their investment in the Certificates as a result of a Write-down and moreover, in such event, it is likely that Certificateholders will suffer losses in respect of their investment in the Certificates ahead of ADIB's shareholders and holders of the Existing Tier 1 Securities. Investors should also be aware that the application of a non-viability loss absorption feature as contained in Condition 11 (*Write-down at the Point of Non-Viability (as prescribed by the Financial Regulator))* has not been tested in the UAE.

A **Non-Viability Event** means that the Financial Regulator has notified ADIB in writing that it has determined that ADIB is, or will become, Non-Viable without: (a) a Write-down; or (b) a public sector injection of capital (or equivalent support).

Certificateholders' right to receive payment of the face amount of the Certificates and the Certificateholders' right to any profit will be fully and permanently written-down upon any of the Solvency Conditions not being satisfied at any time or a bankruptcy order in respect of ADIB being issued

If any of the Solvency Conditions (as defined below) is not satisfied on any date on which any payment obligation under the Mudaraba Agreement is due or a bankruptcy order in respect of ADIB has been issued by a court in the UAE, all rights of any Certificateholder for payment of any amounts under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an ADIB Event) shall be extinguished and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to such date. As a result, Certificateholders will lose the entire amount of their investment in the Certificates.

Furthermore, any indication or perceived indication that any of the Solvency Conditions may not be satisfied or that such a bankruptcy order may be issued may have a material adverse effect on the market price of the Certificates.

The circumstances triggering a Write-down are unpredictable

The occurrence of a Non-Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside of ADIB's control. The occurrence of a Non-Viability Event is subject to, inter alia, a subjective determination by the Financial Regulator. As a result, the Financial Regulator may require a Write-down in circumstances that are beyond the control of ADIB and with which ADIB may not agree. Furthermore, although the Conditions provide that the Financial Regulator may require a Write-down in whole or in part upon the occurrence of a Non-Viability Event, the current stated position of the Financial Regulator is that a Write-down in whole will apply in all such cases save only in exceptional cases as determined by the Financial Regulator in its sole discretion. See "*–Certificateholders' right to receive payment of the face amount of the Certificates and the Certificateholders' right to any profit will be permanently written-down upon the occurrence of a Non-Viability Event*". The exercise (or perceived likelihood of exercise) of any such power by the Financial Regulator or any suggestion of such exercise could materially adversely affect the value of the Certificates and could lead to the Certificateholders losing some or all of their investment in the Certificates.

The financial viability of ADIB will also depend in part on decisions made by ADIB in relation to its business and operations, including the management of its capital position. In making such decisions, ADIB will not necessarily have regard to the interests of Certificateholders and, in particular, the consequences for Certificateholders of any such decisions and there can be no assurance in any such circumstances that the interests of ADIB, its shareholders and the Financial Regulator will be aligned with those of the Certificateholders.

The payment obligations of ADIB under the Mudaraba Agreement are subordinated and unsecured obligations

Payments of Periodic Distribution Amounts and the Dissolution Distribution Amount will be made by the Trustee provided that ADIB (as Mudareb) shall have paid to the Trustee amounts equal to such Periodic Distribution Amount and Dissolution Distribution Amount, respectively, pursuant to the terms of the Mudaraba Agreement. In this regard, prospective investors should note that the payment obligations of

ADIB under the Mudaraba Agreement are subordinated to the claims of the Senior Creditors and rank *pari passu* to the Pari Passu Obligations, as more particularly described in Condition 4.2 (*Subordination*). Potential investors should note that payment of all amounts by ADIB under the Mudaraba Agreement (and consequently, the corresponding payments by the Trustee under the Conditions) are conditional upon:

(i) ADIB (in its capacity as Mudareb or otherwise) being Solvent at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant Obligations that are due and payable;

(ii) ADIB (in its capacity as Mudareb or otherwise) being capable of making payment of the Relevant Obligations and any other payment that is due to be made on the relevant date to a creditor in respect of all Senior Obligations and all Pari Passu Obligations and still be Solvent immediately thereafter; and

(iii) the total share capital (including, without limitation, retained earnings) of ADIB being greater than zero at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant Obligations that are due and payable,

(together, the **Solvency Conditions**).

Further, the payment obligations of ADIB under the Mudaraba Agreement are unsecured and no collateral is or will be given by ADIB in relation thereto.

The Trustee may exercise its enforcement rights in relation to the Mudaraba Agreement only in the manner provided in Condition 12.3 (*Winding-up, dissolution or liquidation*). If an ADIB Event occurs and ADIB has failed to satisfy any of the Solvency Conditions or if a bankruptcy order in respect of ADIB has been issued by a court in the UAE, all claims of the Trustee in respect of the Relevant Obligations will be extinguished and the Certificates will be cancelled without any further payment to be made by ADIB in respect of the Relevant Obligations.

No limitation on issuing senior securities; subordination

Other than the limitations in relation to the issue of further Tier 1 Capital by ADIB as set out in Condition 4.3 (*Other Issues*) which limits the circumstances in which Tier 1 Capital of ADIB can be issued that ranks senior to the Certificates, there is no restriction in the Conditions or in the terms of the Transaction Documents on ADIB (in its capacity as Mudareb or otherwise) incurring additional financing or issuing securities or creating any guarantee or contractual support arrangement which would rank senior to the Certificates and the obligations of ADIB under the Mudaraba Agreement (**ADIB Senior Obligations**). The issue of or the creation of any such ADIB Senior Obligations may reduce the likelihood of the Solvency Conditions being met and/or the amount recoverable by Certificateholders on a winding-up of ADIB. See also "– *The payment obligations of ADIB under the Mudaraba Agreement are subordinated and unsecured obligations*".

Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative

ADIB may elect, in its sole discretion and by instructing the Trustee to such effect, not to make payment of a Periodic Distribution Amount to Certificateholders on the corresponding Periodic Distribution Date, except that no such election may be made in respect of the Periodic Distribution Amount payable on the date on which any Certificates are at ADIB's discretion to be redeemed.

In addition, if a Non-Payment Event (detailed below) occurs, ADIB (in its capacity as Mudareb) shall be prohibited from paying Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) pursuant to the Mudaraba

Agreement, and as a result thereof the Trustee shall be prohibited from paying Periodic Distribution Amounts to the Certificateholders on the corresponding Periodic Distribution Date.

A **Non-Payment Event** is any of the following events:

(i) the amount equal to the then applicable Periodic Distribution Amount (which for the purposes of the Conditions includes Additional Amounts as referred to in Condition 13 (*Taxation*)) to be paid by ADIB out of the Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as applicable (the **Relevant Rab-al-Maal Mudaraba Profit Amount**), when aggregated with any distributions or amounts payable by ADIB (in its capacity as Mudareb or otherwise) on the same date (or otherwise due and payable on such date) on any other obligations in respect of Pari Passu Obligations, exceeds, on the relevant date for payment of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, Distributable Items; or

(ii) ADIB (in its capacity as Mudareb or otherwise) is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), in breach of the Applicable Regulatory Capital Requirements (including any payment restrictions due to a breach of any capital buffers imposed on ADIB by the Financial Regulator) or payment of the Relevant Rab-al-Maal Mudaraba Profit Amount (as applicable) to the Trustee would cause it to be in breach thereof; or

(iii) the Financial Regulator requires (a) ADIB not to pay the Relevant Rab-al-Maal Mudaraba Profit Amount to the Trustee on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or (b) the Trustee not to pay the relevant Periodic Distribution Amount on that Periodic Distribution Date, in each case, on account of ADIB making a net loss during the relevant financial period or for any other reason as it may deem necessary; or

(iv) the Solvency Conditions are not satisfied (or would no longer be met if the Relevant Rab-al-Maal Mudaraba Profit Amount was paid),

as more particularly provided in Condition 8.1 (*Non-Payment Event*).

In relation to limb (i) above, as at the Issue Date, the definition of "Distributable Items" contained in Condition 1 (*Definitions and Interpretation*) will be as follows:

Distributable Items means the amount of ADIB's consolidated retained earnings and reserves, including general reserves, special reserves and statutory reserves (to the extent not restricted from distribution by applicable law) after the transfer of any amounts to non-distributable reserves, all as set out in its latest audited or (as the case may be) auditor reviewed consolidated financial statements, or any equivalent or successor term from time to time as prescribed by the Capital Regulations, including the applicable criteria for Tier 1 Capital that do not constitute Common Equity Tier 1 Capital.

However, current guidance issued by the Financial Regulator has indicated that the definition of "Distributable Items" may in the future be calculated by reference to the latest audited or (as the case may be) auditor reviewed non-consolidated financial statements. To the extent that this change comes into effect in the future, ADIB may be required to prepare audited and auditor reviewed non-consolidated financial statements given that it currently only prepares audited and auditor reviewed consolidated financial statements and, in such circumstances the level of Distributable Items as so calculated might be lower than otherwise would be the case if the change does not take effect.

In relation to limb (ii) above, payment restrictions will also apply in circumstances where ADIB does not meet certain capital buffer requirements, namely, payment restrictions in an amount equal to the Maximum Distributable Amount (as defined below) if the combined capital buffer requirement is not satisfied pursuant to the Capital Regulations. In the event of a breach of the combined buffer requirement, under the Capital Regulations, the restrictions will be scaled according to the extent of the breach of the combined buffer requirement and calculated as a percentage of ADIB's profits for the most recent relevant period. Such calculation will result in a maximum distributable amount (the **Maximum Distributable Amount**) in each relevant period. As an example, the scaling is such that in the lowest quartile of the combined buffer requirement, no discretionary distributions will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement it may be necessary to reduce payments that would, but for the breach of the combined buffer requirement, be discretionary, including Periodic Distribution Amounts in respect of the Certificates. In such circumstances, the aggregate amount of distributions which ADIB can make on account of dividends, Periodic Distribution Amounts and redemption amounts on its Additional Tier 1 instruments (including the Certificates) and certain variable remuneration (such as bonuses) or discretionary pension benefits will be limited. Furthermore, there can be no assurance that the combined buffer requirement applicable to ADIB will not be increased in the future, which may exacerbate the risk that discretionary distributions, including payments of Periodic Distribution Amounts in respect of the Certificates, are cancelled.

In the absence of notice of a Non-Payment Election or a Non-Payment Event, as the case may be, having been given in accordance with Condition 8.3 (*Effect of Non-Payment Event or Non-Payment Election*), the fact of non-payment of the relevant Periodic Distribution Amount on the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, as the case may be, shall be evidence of the occurrence of a Non-Payment Election or a Non-Payment Event, as the case may be. Accordingly, the Certificateholders shall have no claim in respect of any Periodic Distribution Amount not paid as a result of either a Non-Payment Election or a Non-Payment Event (irrespective of whether notice of such Non-Payment Election or Non-Payment Event, as the case may be, has been given in accordance with Condition 8.3 (*Effect of Non-Payment Event or Non-Payment Election*)) and the consequential non-payment of any Periodic Distribution Amount in such a circumstance shall not constitute a Dissolution Event. ADIB shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise) (which shall be credited by ADIB to the Mudaraba Reserve) and the Trustee will not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts.

If such a situation occurs, the Certificateholders shall not receive Periodic Distribution Amounts on their investment in the Certificates and neither the Trustee nor the Certificateholders shall have any claim in respect thereof. Any non-payment of Periodic Distribution Amounts or perceived risk of such non-payment may have a material adverse effect on the market value of the Certificates.

The Certificates are Perpetual Securities

The Certificates are perpetual securities which have no scheduled payment date. The Trustee is under no obligation to redeem the Certificates at any time and the Certificateholders have no right to call for their redemption unless an ADIB Event occurs.

The ADIB Events and Certificateholders' rights following a ADIB Event are set out in Condition 12 (*Dissolution Events and Winding-up*). See also "*– The Conditions contain limited Dissolution Events and remedies*".

In certain circumstances ADIB may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, redeem the Certificates, including on the First Call Date or any Periodic Distribution Date thereafter and if a Tax Event or a Capital Event occurs, as more particularly described in Condition 10 (*Redemption and Variation*), although there is no assurance that ADIB will require it to do so.

Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Certificates indefinitely, unless:

(i) the Trustee (upon the instructions of ADIB (acting in its sole discretion)) redeems the Certificates in accordance with Condition 10 (*Redemption and Variation*);

(ii) the Trustee is required by the Delegate (as directed by an Extraordinary Resolution of the Certificateholders), following an ADIB Event to redeem the Certificates; or

(iii) they sell their Certificates.

The exercise of (or perceived likelihood of exercise of) any such redemption feature of the Certificates may limit their market value, which is unlikely to rise substantially above the price at which the Certificates can be redeemed.

If the Certificates are redeemed, there can be no assurance that Certificateholders will be able to reinvest the amount received upon redemption in a comparable security at a rate that will provide the same rate of return as their investment in the Certificates. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Certificates will cease to accrue profit from the due date for redemption (if any)

Investors are advised that each Certificate will cease to accrue profit from the due date for redemption (following liquidation of the Mudaraba). Consequently, should payments owing to Certificateholders on the due date for redemption (if any) be received by them after the due date for any reason, no additional profit payment, late payment amount or other equivalent amount will be payable in respect of such delay. See Condition 7.3 (*Cessation of Accrual*).

The Conditions contain limited Dissolution Events and remedies

The Certificates are perpetual instruments with no fixed redemption date and there is no obligation on the Trustee to pay the face amount of the Certificates other than in accordance with Condition 10.1(b) (*Trustee's Call Option*), Condition 10.1(c) (*Redemption or Variation due to Taxation*), Condition 10.1(d) (*Redemption or Variation for Capital Event*) or following the occurrence of an ADIB Event in accordance with Condition 12.1 (*ADIB Events*). In addition, the Trustee may be prohibited from making, or instructed by ADIB not to make, payments of Periodic Distribution Amounts on the Certificates in accordance with Condition 8 (*Periodic Distribution Restrictions*) and Periodic Distribution Amounts will not therefore be due other than in the limited circumstances described in the Conditions.

The Dissolution Events in the Conditions are limited to: (a) ADIB Events (being (i) ADIB failing to pay an amount which is equivalent to principal (being capital amounts, including the Mudaraba Capital, payable in accordance with the provisions of the Mudaraba Agreement) or profit (including Additional Amounts) due and payable by it pursuant to the Mudaraba Agreement and the failure continuing for a period (in the case of principal) of seven days or (in the case of profit) fourteen days (save in each case where such failure occurs solely as a result of the occurrence of a Non-Payment Election or a Non-Payment Event); (ii) a final determination being made by a court or other official body that ADIB is insolvent or bankrupt or unable to pay its debts including any financing arrangement issued (or intended to be issued) in compliance with the principles of Shari'a and which is treated as debt for the purposes of applicable law, in each case whether entered into directly or indirectly by ADIB; (iii) an administrator being appointed, an order being made or an effective resolution being passed for the winding-up or dissolution or administration of ADIB or if ADIB applies or petitions for a winding-up or administration order in respect of itself or ceases, or through an official action of its Directors threatens to cease, to carry on all or substantially all of its business or operations, except, in each case (a) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders or (b) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or (iv) any event occurring which, under the laws of the UAE, has an analogous effect to any of the events referred to in (ii) or (iii) above; and (b) Trustee Events (being similar in nature to ADIB Events in respect of the Trustee), all as more fully described in the Conditions.

Moreover, pursuant to Condition 12 (*Dissolution Events and Winding-up*), upon the occurrence of any ADIB Event, the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement and the remedies available to the Trustee, the Delegate and/or the Certificateholders (as applicable) are limited to giving notice to the Trustee and ADIB that the Certificates are, and shall immediately become, due and payable at the applicable Dissolution Distribution Amount together with any Outstanding Payments and thereafter: (i) instituting any steps, actions or proceedings for the winding-up of ADIB and/or (ii) proving in the winding-up of ADIB and/or (iii) instituting any steps, actions or proceedings for the bankruptcy of ADIB and/or (iv) claiming in the liquidation of ADIB and/or (v) taking such other steps, actions or proceedings which, under the laws of the UAE, have an analogous effect to the actions referred to in (i) to (iv) above, in each case, for all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents. Therefore, it will only be possible to enforce claims for payment of the applicable Dissolution Distribution Amount and/or Periodic Distribution Amounts in respect of the Certificates when the same have become due pursuant to the Mudaraba Agreement and the Conditions.

Furthermore, the claims of Senior Creditors of ADIB will first have to be satisfied in any winding-up, bankruptcy, dissolution, liquidation or analogous proceedings before the Certificateholders may expect to obtain any amounts in respect of their Certificates and prior thereto Certificateholders will have only limited (if any) ability to influence the conduct of such winding-up, liquidation or analogous proceedings.

In addition, if an ADIB Event occurs and ADIB has failed to satisfy any of the Solvency Conditions or if a bankruptcy order in respect of ADIB has been issued by a court in the UAE, all claims of the Trustee in respect of the Relevant Obligations will be extinguished and the Certificates will be cancelled without any further payment to be made by ADIB in respect of the Relevant Obligations.

Resettable fixed rate instruments have a market risk

A holder of an instrument with a fixed profit (or equivalent) rate that will be reset during the term of the instrument (as will be the case for the Certificates with effect from each Reset Date if not previously redeemed and/or purchased and cancelled) is exposed to the risk of fluctuating profit rate levels and uncertain profit rate income. While the expected profit rate on the Certificates is fixed until the First Call Date (with a reset of the initial profit rate on the First Call Date as set out in the Conditions and every five years thereafter), the current investment return rate in the capital markets (the market return rate) typically changes on a daily basis. As the market return rate changes, the market value of the Certificates may also change, but in the opposite direction. If the market return rate increases, the market value of the Certificates would typically decrease. If the market return rate falls, the market value of the Certificates would typically increase. Certificateholders should be aware that movements in these market return rates can adversely affect the market value of the Certificates and can lead to losses for the Certificateholders if they sell the Certificates.

Variation upon the occurrence of a Capital Event or a Tax Event

Upon the occurrence and continuation of a Capital Event or a Tax Event, ADIB may (acting in its sole discretion), instruct the Trustee to, whereupon the Trustee shall, subject as provided in Condition 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (*Redemption or Variation for Capital Event*) (as the case may be) and without any requirement for consent or approval of the Certificateholders, vary the terms of the Mudaraba Agreement (subject to the approval of the Executive Committee of the Fatwa & Shari'a Supervisory Board of ADIB) and the Certificates such that the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments.

A **Capital Event** is deemed to have occurred if ADIB is notified in writing by the Financial Regulator to the effect that the face amount (or the amount that qualifies as regulatory capital, if some amount of the Certificates are held by ADIB or whose purchase is funded by ADIB) of the Certificates outstanding is excluded (in full or in part) from the consolidated Tier 1 Capital of ADIB (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital), and provided that ADIB satisfies the Financial Regulator that such non-qualification was not reasonably foreseeable at the time of the issuance of the Certificates. A **Tax Event** will arise if ADIB or the Trustee (as the case may be) would, as a result of a Tax Law Change, in making any payments under the Mudaraba Agreement or on the Certificates (as the case may be) on the next due date for such payment, be required to pay Additional Amounts (and such requirement cannot be avoided by ADIB or the Trustee (as the case may be) taking reasonable measures available to it), and provided that ADIB satisfies the Financial Regulator that such Tax Law Change was not reasonably foreseeable at the time of the issuance of the Certificates. Each of Tax Event and Capital Event are more particularly described in Condition 10.1 (*Redemption and variation*).

The tax and stamp duty consequences of holding the Certificates following variation as contemplated in Condition 10.1 (*Redemption and variation*) could be different for certain Certificateholders from the tax and stamp duty consequences for them of holding the Certificates prior to such variation and none of the Trustee, the Delegate or ADIB shall be responsible to any Certificateholder for any such consequences in connection therewith. Further, while the Conditions stipulate that the variation (as contemplated by the Conditions) must not be materially less favourable to the Certificateholders, no assurance can be given as to whether any of these changes will negatively affect any particular Certificateholder.

The Certificates are limited recourse obligations

The Certificates are not debt obligations of the Trustee. Instead, the Certificates represent an undivided ownership interest solely in the Trust Assets. Recourse to the Trustee in respect of the Certificates is limited to the Trust Assets and the proceeds of the Trust Assets are the sole source of payments on the Certificates. Upon receipt by the Trustee of a Dissolution Notice in accordance with the terms of Condition 12.1 (*ADIB Events*), the sole rights of each of the Trustee and/or the Delegate (acting on behalf of the Certificateholders), will be (subject to Condition 12.3 (*Winding-up, dissolution or liquidation*)) against ADIB to perform its obligations under the Transaction Documents. Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents (to the extent that each of the Delegate and the Agents (as applicable) fulfils all of its obligations under the Transaction Documents to which it is a party, subject to and in accordance with such Transaction Documents) or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets. ADIB is obliged to make certain payments under the Transaction Documents directly to the Trustee, and the Trustee and/or the Delegate will have direct recourse against ADIB to recover such payments due to the Trustee pursuant to the Transaction Documents.

After enforcing or realising the rights in respect of the Trust Assets and distributing the net proceeds of such Trust Assets in accordance with Condition 5.3, the obligations of the Trustee and/or the Delegate in respect of the Certificates shall be satisfied and neither the Trustee nor the Delegate nor any Certificateholder may take any further steps against the Trustee to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and ADIB shall be (in accordance with Condition 12.3 (*Winding-up, dissolution or liquidation*)), to enforce their respective obligations under the Transaction Documents.

Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, may have a material adverse effect on the market value of the Certificates. The Certificates generally may have a more limited secondary market liquidity and may be subject to greater price volatility than conventional debt securities as they are perpetual securities (see "*– The Certificates are Perpetual Securities*"), are subordinated (see "*– The payment obligations of ADIB under the Mudaraba Agreement are subordinated and unsecured obligations*"), will be permanently written-down upon the occurrence of a Non-Viability Event (see "*– Certificateholders' right to receive payment of the face amount of the Certificates and the Certificateholders' right to any profit will be permanently written-down upon the occurrence of a Non-Viability Event*") and payments of Periodic Distribution Amounts may be restricted in certain circumstances (see "*– Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative*").

Application has been made for the Certificates to be admitted to the Official List and for such Certificates to be admitted to trading on the Main Securities Market. However, there can be no assurance that any such listing or admission to trading will occur on or prior to the Issue Date or at all or, if it does occur, that it will enhance the liquidity of the Certificates.

Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates.

The Certificates may be subject to early redemption; redemption is conditional

Upon the occurrence of a Tax Event or a Capital Event and subject to a Non-Viability Event not having occurred (or if a Non-Viability Event has occurred, a Write-down in part having taken place in accordance with the instructions of the Financial Regulator), ADIB may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, at any time, give not less than 10 nor more than 15 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and the Delegate in accordance with the Declaration of Trust and, provided that, any such notice has not been revoked by the Trustee (upon the instructions of ADIB (acting in its sole discretion)) by giving notice of such revocation to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust and a Non-Viability Event has not occurred after the giving of such notice and, in each case prior to the redemption date specified in the initial notice, redeem in accordance with the Conditions, all, but not some only, of the Certificates together with any accrued but unpaid Periodic Distribution Amounts (as more particularly described in Condition 10.1(c) (*Redemption or Variation due to Taxation*) in relation to a Tax Event, and Condition 10.1(d) (*Redemption or Variation for Capital Event*) in relation to a Capital Event).

Any redemption of the Certificates is subject to the requirements in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), including obtaining the prior written consent of the Financial Regulator. There can be no guarantee that the consent of the Financial Regulator will be received on time or at all.

There is no assurance that the Certificateholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Certificates. During any period when ADIB may instruct the Trustee to redeem the Certificates, the market value of the Certificates generally will not rise substantially above the Tax Redemption Amount or the Capital Event Amount (as applicable) payable. Potential investors should consider re-investment risk in light of other investments available at that time.

The exercise of (or perceived likelihood of exercise of) the redemption features of the Certificates may limit their market value, which is unlikely to rise substantially above the price at which the Certificates can be redeemed.

Investment in the Mudaraba Assets

Pursuant to the Mudaraba Agreement, the proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Mudareb which proceeds shall form the initial capital of the Mudaraba (the **Mudaraba Capital**). The Mudaraba Capital will be invested by ADIB (as Mudareb) in the General Pool and, following investment of the Mudaraba Capital in the General Pool, the Mudaraba Capital shall constitute pro rata undivided assets in the General Pool (the **Mudaraba Assets**), on a basis proportionate to the rights and obligations of holders of equity of ADIB with a view to earning profit therefrom, which will in turn be applied towards payments due to Certificateholders in respect of the Certificates.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Mudaraba Assets. The investment activities of the Mudaraba will be carried out by ADIB, and the Certificateholders shall have no ability to influence such activities. ADIB shall be granted the express entitlement to co-mingle its own assets with the Mudaraba Assets on a basis proportionate to the rights and obligations of holders of equity of ADIB and as a result, it will not be possible to identify the Mudaraba Assets separately from the assets of ADIB.

If any of the risks relating to the business of ADIB mentioned above (see "– *Risks relating to ADIB*") materialise or otherwise impact ADIB's business, the value of and profit earned from the investment in such Mudaraba Assets may decrease which may, in turn, have a material adverse effect on ADIB's ability to fulfil its payment obligations under the Mudaraba Agreement and consequently, the Trustee's ability to make payments in respect of the Certificates.

Furthermore, whilst the Mudareb has agreed in the Mudaraba Agreement to ensure that the Mudaraba Capital is invested in accordance with the Investment Plan (and with the degree of skill and care that it would exercise in respect of its own assets), the Mudaraba Agreement also provides that there is no guarantee of any return from the Mudaraba Assets. In addition, the Trustee and the Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee except to the extent such losses are caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's negligence, misconduct or fraud.

Accordingly, potential investors are advised that any claim by or on behalf of the Trustee for the Mudaraba Capital following any Dissolution Event may be reduced if and to the extent that the Mudareb is able to prove that any losses to the Mudaraba Capital were not caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's negligence, misconduct or fraud. If the Mudareb is able to provide such proof, Certificateholders may lose all or some of their investment. It is not possible to state with certainty what approach any court with jurisdiction will take in such circumstances.

Limitation on gross-up obligation under the Certificates

The Trustee's obligation to pay Additional Amounts in respect of any withholding or deduction in respect of Taxes under Condition 13 (*Taxation*) applies only to payments of Periodic Distribution Amounts and not to payments of Dissolution Distribution Amounts (other than any Outstanding Payments) due and payable under the Certificates. As such, the Trustee will not be required to pay any Additional Amounts under the terms of the Certificates to the extent any withholding or deduction applied to payments of Dissolution Distribution Amounts (other than any Outstanding Payments). Accordingly, if any such withholding or deduction were to apply to any payments of Dissolution Distribution Amounts (other than any Outstanding Payments) under the Certificates, holders may receive less than the full amount due under the Certificates, and the market value of the Certificates may be adversely affected.

To the extent that ADIB is required to pay Additional Amounts in respect of amounts corresponding to Periodic Distribution Amounts under the Mudaraba Agreement, ADIB shall be entitled to recover amounts equal to such Additional Amounts from any amounts (if any) standing to the credit of the Mudaraba Reserve and if, following such recovery a shortfall remains between the amounts standing to the credit of the Mudaraba Reserve and such Additional Amounts paid by ADIB (such shortfall, the **Additional Amounts Shortfall**), ADIB shall be entitled to recover amounts equal to such Additional Amounts Shortfall from any Excess Liquidation Proceeds.

The credit ratings of the Certificates or ADIB may not reflect all risks

Moody's is expected to assign an expected rating of B1(hyb) to the Certificates. In addition, Fitch has assigned ADIB a long-term issuer default rating of "A+" with a stable outlook and a short-term rating of "F1" and Moody's has assigned ADIB a long-term rating of "A2" with a stable outlook and short-term rating of "P1". These ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Certificates or the standing of ADIB. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In addition, there is no guarantee that any rating of the Certificates and/or ADIB will be maintained by ADIB following the date of this Prospectus. If any rating assigned to the Certificates and/or ADIB is revised lower, suspended, withdrawn or not maintained by ADIB, the market value of the Certificates may be reduced.

In addition to ratings assigned by any hired rating agencies, rating agencies not hired by ADIB to rate the Certificates may assign unsolicited ratings. If any non-hired rating agency assigns an unsolicited rating to the Certificates, there can be no assurance that such rating will not differ from, or be lower than, the ratings provided by a hired rating agency. The decision to decline a rating assigned by a hired rating agency, the delayed publication of such rating or the assignment of a non-solicited rating by a rating agency not hired by ADIB could adversely affect the market value and liquidity of the Certificates.

Risks relating to enforcement

Compliance with the UAE bankruptcy law may affect ADIB's ability to perform its obligations under the Transaction Documents

In the event of ADIB's insolvency, UAE bankruptcy laws may adversely affect ADIB's ability to perform its obligations under the Mudaraba Agreement and, consequently, the Trustee's ability to make payments to Certificateholders. There is little precedent to predict how a claim on behalf of Certificateholders, the Trustee and/or the Delegate against ADIB would be resolved, and therefore there can be no assurance that Certificateholders will receive payment of their claims in full or at all in these circumstances.

Investors may experience difficulties in enforcing arbitration awards and foreign judgments in Abu Dhabi

Ultimately the payments under the Certificates are dependent upon ADIB making payments to the Trustee in the manner contemplated under the Transaction Documents. If ADIB fails to do so, it may be necessary to bring an action against ADIB to enforce its obligations (subject to the provisions of the Conditions), which could be both time consuming and costly.

Furthermore, to the extent that the enforcement of remedies must be pursued in the UAE, it should be borne in mind that there is limited scope for self-help remedies under UAE law and that generally enforcement of remedies in the UAE must be pursued through the courts.

ADIB has irrevocably agreed that the Transaction Documents will be governed by English law and that any dispute arising from such Transaction Documents will, unless the option to litigate is exercised, be referred to arbitration in London under the Arbitration Rules of the London Court of International Arbitration (the **LCIA Rules**). Under the Conditions, any dispute arising from the Conditions will, unless the option to litigate is exercised, be referred to arbitration in London under the LCIA Rules.

The 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the **New York Convention**) entered into force in the UAE on 19 November 2006. In the absence of any other multilateral or bilateral enforcement convention, any arbitration award rendered in London should therefore be enforceable in Abu Dhabi in accordance with the terms of the New York Convention. Under the New York Convention, the UAE has an obligation to recognise and enforce foreign arbitration awards, unless the party opposing enforcement can prove one of the grounds under Article V of the New York Convention to refuse enforcement, or the Abu Dhabi courts find that the subject matter of the dispute is not capable of settlement by arbitration or enforcement would be contrary to the public policy of the UAE.

There have been limited instances where the UAE courts, most notably the Fujairah Court of First Instance and the Dubai Court of Cassation, have ratified or ordered the recognition and enforcement of foreign arbitration awards under the New York Convention. It should be noted that only the Dubai Court of Cassation decision was a final decision. The uncertainty regarding the interpretation and application of the New York Convention provisions by the courts is further reinforced by the lack of a system of binding judicial precedent in the UAE and because of the independent existence of different Emirates within the UAE, some with their own court systems, whose rulings may have no more than persuasive force within other Emirates. There is therefore no guarantee that the Abu Dhabi courts will take the same approach in similar proceedings in the future.

Under the Conditions and the Transaction Documents, at the option of the Trustee or the Delegate, any dispute may also be referred to the courts in England who shall have exclusive jurisdiction to settle any dispute arising from such Transaction Documents. Where an English judgment has been obtained, there is no assurance that ADIB has or would at the relevant time have assets in the United Kingdom against which such a judgment could be enforced. ADIB is incorporated in and has its operations and the majority of its assets located in the UAE. Under current UAE federal law, the courts in the UAE are unlikely to enforce an English judgment without re-examining the merits of the claim and may not observe the choice by the parties of English law as the governing law of the Transaction Documents or the Certificates. In the UAE, foreign law is required to be established as a question of fact and the interpretation of English law by a Court in the UAE may not accord with the perception of an English Court. In principle, courts in the UAE recognise the choice of foreign law if they are satisfied that any appropriate connection exists between the relevant transaction agreement and the foreign law which has been chosen. In addition, even if English law is accepted as the governing law, this will only be applied to the extent that it is compatible with the laws of Abu Dhabi and the UAE, and public policy, order or morals in the UAE. This may mean that the UAE courts may seek to interpret English law governed documents as if they were governed by UAE law and there can therefore be no certainty that in those circumstances the UAE courts would give effect to such documents in the same manner as the parties may intend.

As the UAE judicial system is based on a civil code, judicial precedents in the UAE have no binding effect on subsequent decisions. In addition, there is no formal system of reporting court decisions in the UAE. These factors create greater judicial uncertainty. The enforcement of a foreign judgment or arbitral award may be a lengthy process in the UAE.

Considerations relating to the non-recognition of trusts under the laws of the UAE

UAE law does not recognise the concept of trust or beneficial interests. Accordingly, if a UAE court were to consider the merits of a claim in respect of the Declaration of Trust and apply UAE law principles in doing so, there is no certainty that all of the terms of the Declaration of Trust (which is governed by English law) would be enforced by the UAE courts and the trust arrangements set out therein may be re-characterised as an agency arrangement by the UAE courts.

Claims for specific enforcement

If ADIB fails to perform its obligations under any Transaction Document, the potential remedies available to the Trustee and the Delegate include obtaining an order for specific enforcement of ADIB's obligations or a claim for damages. There is no assurance that a court will provide an order for specific enforcement which is a discretionary matter.

The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors including an obligation on the Trustee and the Delegate to mitigate any loss arising as a result of such breach. No assurance is provided as to the level of damages which a court may award if ADIB fails to perform its obligations set out in the Transaction Documents.

ADIB's waiver of immunity may not be effective under UAE law

ADIB has waived its rights in relation to sovereign immunity under the Transaction Documents. However, there can be no assurance as to whether such waivers of immunity from execution or attachment or other legal process by it under the Transaction Documents are valid and binding under the laws of Abu Dhabi and, to the extent applicable therein, the federal laws of the UAE.

Change of law

The structure of the issue of the Certificates is based on English law as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law, or administrative practices after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Trustee to make payments under the Certificates or of the Trustee or ADIB to comply with their respective obligations under the Transaction Documents.

Additional risk factors

Certificateholders must rely on Euroclear and Clearstream, Luxembourg procedures

The Certificates will be represented on issue by a Global Certificate that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the ownership interests in the Global Certificate.

While the Certificates are represented by the Global Certificate, investors will be able to trade their ownership interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates are represented by the Global Certificate, the Trustee will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of an ownership interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, ownership interests in the Global Certificate.

Holders of ownership interests in the Global Certificate will not have a direct right to vote in respect of the Certificates so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

No assurance can be given as to Shari'a rules

The transaction structure relating to the Certificates (as described in this Prospectus) and the Transaction Documents have been approved by each of the Executive Committee of the Fatwa & Shari'a Supervisory Board of ADIB, the Shari'a Advisory Board of Citi Islamic Investment Bank E.C., the Fatwa and Shari'a Supervisory Board of First Abu Dhabi Bank PJSC, the Central Shariah Committee of HSBC Bank Middle East Limited, the J.P. Morgan Shariah Supervisory Committee and the Shariah Supervisory Committee of Standard Chartered Bank. However, there can be no assurance that the Transaction Documents or the issue and trading of the Certificates will be deemed to be *Shari'a*-compliant by any other *Shari'a* board or *Shari'a* scholars. None of the Trustee, ADIB, the Joint Lead Managers, the Delegate or the Agents makes any representation as to the *Shari'a*-compliance of the Certificates and/or any trading thereof and potential investors are reminded that, as with any *Shari'a* views, differences in opinion are possible. Prospective investors should obtain their own independent Shari'a advice as to whether the Transaction Documents and the Certificates will meet their individual standards of compliance and should also make their own determination as to the future tradability of the Certificates on any secondary market. Questions as to the Shari'a permissibility of the Transaction Documents or the issue and the trading of the Certificates may limit the liquidity and adversely affect the market value of the Certificates.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties under the Conditions or the Transaction Documents would be, if in dispute, the subject of arbitration in London under the LCIA Rules. ADIB has also agreed under the Transaction Documents to submit to the exclusive jurisdiction of the courts of England, at the option of the Trustee or the Delegate, as the case may be. In such circumstances, the arbitrator or judge, as the case may be, will apply English law rather than *Shari'a* principles in determining the obligation of the parties.

Shari'a requirements in relation to interest awarded by a court

In accordance with applicable *Shari'a* principles, each of the Trustee and the Delegate will waive all and any entitlement it may have to interest awarded in its favour by any court in connection with any dispute under the Mudaraba Agreement. Should there be any delay in the enforcement of a judgment given against ADIB, judgment interest may accrue in respect of that delay and, as a result of the waiver referred to above, Certificateholders will not be entitled to receive all, or any part of, such interest.

Certificates with a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade

As the Certificates have a minimum denomination consisting of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof, it is possible that the Certificates may be traded in amounts in excess of U.S.$200,000 that are not integral multiples of U.S.$200,000. In such a case a Certificateholder who, as a result of trading such amounts, holds a face amount of less than U.S.$200,000 would need to purchase an additional amount of Certificates with a face value of U.S.$200,000 or more such that it holds an amount equal to at least U.S.$200,000 to be able to trade such Certificates. Certificateholders should be aware that Certificates which have a denomination that is not an integral multiple of U.S.$200,000 may be illiquid and difficult to trade.

If a Certificateholder holds an amount which is less than the minimum Authorised Denomination in his account with the relevant clearing system at the relevant time, such Certificateholder may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to at least an Authorised Denomination in order to be eligible to receive a Definitive Certificate.

If Definitive Certificates are issued, holders should be aware that Definitive Certificates which have a denomination that is not an integral multiple of the minimum Authorised Denomination may be illiquid and difficult to trade.

Consents are required in relation to the variation of Transaction Documents and other matters

The Conditions contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally and for obtaining written resolutions on matters relating to the Certificates from Certificateholders without calling a meeting. A written resolution signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Declaration of Trust and whose Certificates are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Certificates are held in global form in the clearing systems, the Trustee will be entitled to rely upon:

(i) where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by the Trustee, ADIB or the Delegate or given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates for the time being outstanding; and

(ii) where electronic consent is not being sought, consent or instructions given in writing directly to the Trustee, the Delegate and/or ADIB by accountholders in the clearing systems with entitlements to the Global Certificate or, where the accountholders hold such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held (directly or via one or more intermediaries), provided that the Trustee has obtained commercially reasonable evidence to ascertain the validity of such holding and taken reasonable steps to ensure such holding does not alter following the giving of such consent/instruction and prior to effecting such resolution.

A written resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Certificateholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Certificateholders satisfying the special quorum in accordance with the provisions of the Declaration of Trust, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. These provisions permit defined majorities to bind all Certificateholders including Certificateholders who did not attend and vote at the relevant meeting and Certificateholders who voted in a manner contrary to the majority.

The Conditions also provide that the Delegate may, without the consent of Certificateholders, agree to the substitution of another company as obligor under the Certificates in place of the Trustee, in the circumstances described in Condition 12.2 (*Trustee Events*).

The Conditions also provide that the Delegate may, without the consent or approval of the Certificateholders, agree to the variation of the terms of the Certificates and (subject to the approval of the Executive Committee of the Fatwa & Shari'a Supervisory Board of ADIB) the Mudaraba Agreement so that the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments, as provided in Condition 10.1(c) (*Redemption or Variation due to Taxation*) and Condition 10.1(d) (*Redemption or Variation for Capital Event*).

The Declaration of Trust also contains provisions permitting the Delegate from time to time and at any time without the consent or sanction of the Certificateholders to make any modification to the Declaration of Trust if, in the opinion of the Delegate, such modification: (a) is of a formal, minor or technical nature; or (b) is made to correct a manifest error; or (c) is not materially prejudicial to the interests of the holders of the Certificates then outstanding and is other than in respect of a Reserved Matter (as defined in the Declaration of Trust) or any provision of the Declaration of Trust referred to in the definition of Reserved Matter. Unless the Delegate otherwise agrees, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

Exchange rate risks and exchange controls

The Trustee will pay amounts due on the Certificates in U.S. dollars and ADIB will make payments pursuant to the Transaction Documents to which it is a party in U.S. dollars. If the Certificateholders measure their investment returns by reference to a currency other than U.S. dollars (the **Investor's Currency**), an investment in the Certificates will entail foreign exchange-related risks due to, among other factors, possible significant changes in the value of the U.S. dollar, as applicable, relative to the Investor's Currency because of economic, political and other factors over which the Trustee has no control and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. Depreciation of the U.S. dollar, as applicable, against the Investor's Currency could cause a decrease in the effective yield of the Certificates below their stated Periodic Distribution Amount and could result in a loss to the Certificateholders when the return on the Certificates is translated into the Investor's Currency. Investment in the Certificates may also have important tax consequences as a result of any foreign currency exchange gains or losses.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less amounts under the Certificates than expected, or no such amounts.

Emerging markets

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Taxation risks on payments

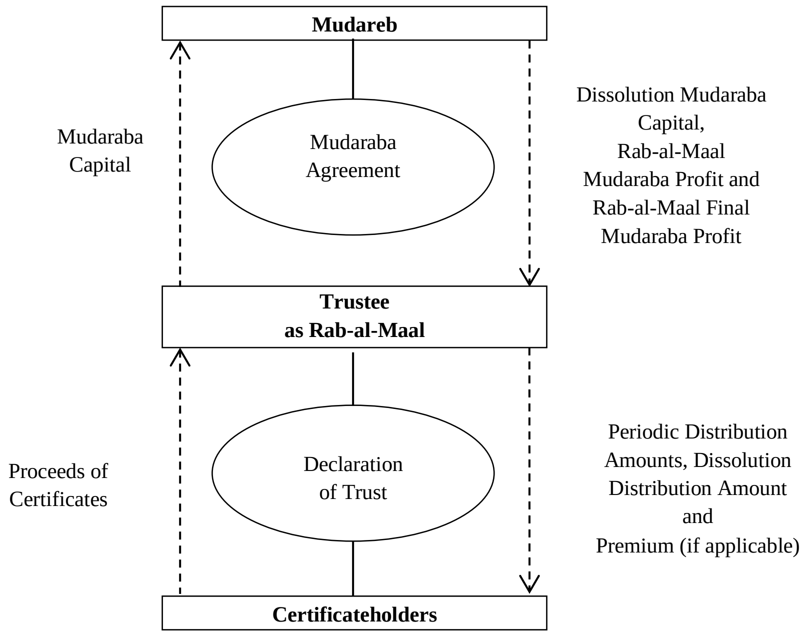
Payments made by ADIB to the Trustee under the Transaction Documents or by the Trustee in respect of the Certificates could become subject to taxation. The Mudaraba Agreement requires ADIB (acting in its relevant capacity thereunder), to pay Additional Amounts in the event that any withholding or deduction, for or on account of, any Taxes is required to be made in respect of payments made by it to the Trustee under such document. Condition 13 (*Taxation*) provides that the Trustee is required to pay Additional Amounts in respect of any withholding or deduction for, or on account of, any Taxes in certain circumstances. In the event that the Trustee fails to comply with any obligation to pay any such Additional Amounts pursuant to Condition 13 (*Taxation*), ADIB has, pursuant to the Declaration of Trust, unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to or to the order of the Delegate (for the benefit of the Certificateholders) an amount equal to the liability of the Trustee in respect of any and all Additional Amounts required to be paid by it in respect of the Certificates pursuant to Condition 13 (*Taxation*).

The circumstances described above may entitle ADIB to be able to instruct the Trustee to redeem or vary the Certificates pursuant to Condition 10.1(c) (*Redemption or Variation due to Taxation*). See "*– The Certificates may be subject to early redemption; redemption is conditional*" and "*– Variation upon the occurrence of a Capital Event or a Tax Event*" for a description of the consequences thereof.

STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows relating to the Certificates. This does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus. Potential investors are referred to the Conditions and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this Prospectus for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below. Potential investors should read this entire Prospectus carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".

Structure Diagram



Principal Cash Flows

Payments by the Certificateholders and the Trustee

On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates to the Trustee. Pursuant to the Declaration of Trust, the Trustee will declare a trust, in favour of the Certificateholders, over:

(a) the cash proceeds of the issuance of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets (as defined below);

(c) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by ADIB (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee by ADIB pursuant to clause 14.1 of the Declaration of Trust); and

(d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the **Trust Assets**).

The proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Mudareb and shall form the initial capital of the Mudaraba (the **Mudaraba Capital**) pursuant to the Mudaraba Agreement. ADIB (as Mudareb) will invest the Mudaraba Capital, on an unrestricted co-mingling Mudaraba basis, in the General Pool, and following investment of the Mudaraba Capital in the General Pool, the Mudaraba Capital shall constitute *pro rata* undivided assets in the General Pool (the **Mudaraba Assets**), on a basis proportionate to the rights and obligations of holders of equity of ADIB and in accordance with the Mudaraba Agreement.

Periodic payments by the Trustee

Unless a Non-Payment Event or a Non-Payment Election has occurred, prior to each Periodic Distribution Date, the Mudareb shall distribute the profit generated by the Mudaraba to both the Trustee and the Mudareb in accordance with an agreed profit sharing ratio (90 per cent. to the Trustee (as Rab-al-Maal) and 10 per cent. to the Mudareb). The Trustee shall apply its share of the profit (if any) generated by the Mudaraba on each Periodic Distribution Date to pay the Periodic Distribution Amount due to the Certificateholders on such date.

Payments of Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (each as defined in the Mudaraba Agreement) by ADIB (as Mudareb) may only be made in circumstances where a Non-Payment Event has not occurred and, in the case of Rab-al-Maal Mudaraba Profit only, are at the sole discretion of ADIB (as Mudareb). The Mudareb shall not have any obligation to make any subsequent payment in respect of such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise) (which shall be credited by ADIB (as Mudareb) to the Mudaraba Reserve).

Under the terms of the Mudaraba Agreement, the Mudareb shall be expressly entitled to co-mingle its assets with the Mudaraba Assets.

Dissolution payments, redemption and variation by the Trustee and the Mudareb

The Mudaraba is a perpetual arrangement with no fixed end date. Accordingly, the Certificates are perpetual securities in respect of which there is no fixed redemption date.

Subject to certain conditions set out in clause 7 of the Mudaraba Agreement, ADIB (as Mudareb) may at its option liquidate the Mudaraba in whole, but not in part, on the basis of an actual liquidation of the Mudaraba in the following circumstances:

(i) on the First Call Date or any Periodic Distribution Date after the First Call Date, by giving not less than 15 nor more than 20 days' prior notice to the Trustee and the Delegate; or

(ii) on any date on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 15 nor more than 20 days' prior notice to the Trustee and the Delegate:

  (a) upon the occurrence of a Tax Event; or

  (b) upon the occurrence of a Capital Event.

The Trustee (but only upon the instructions of ADIB (acting in its sole discretion)) shall, upon receipt of notice in accordance with paragraph (i) above redeem all of, but not only some of, the Certificates, and upon receipt of notice in accordance with paragraph (ii) above redeem all of, but not only some of, the Certificates or vary the terms thereof, in each case by giving not less than 10 nor more than 15 days' prior notice to the Certificateholders, all as more particularly described in the Conditions, and in each case following actual liquidation of the Mudaraba, as described above.

ADIB (as Mudareb) and the Trustee undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by ADIB to be varied upon the occurrence of a Tax Event or a Capital Event, to make such variations as are necessary to ensure that the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments.

OVERVIEW OF THE OFFERING

The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This overview does not contain all of the information that an investor should consider before investing in the Certificates. Each investor should read the entire Prospectus carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".

Words and expressions defined in the Conditions shall have the same meanings in this overview.

Certificates:	U.S.$750,000,000 Additional Tier 1 Capital Certificates.
Trustee:	ADIB Capital Invest 2 Ltd., a special purpose company incorporated on 12 January 2015 under the laws of the Cayman Islands and formed and registered in the Cayman Islands with registered number 295506 with its registered office at MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands.
Trustee Legal Entity Identifier (LEI):	549300IKJ30XQO8HG702
Ownership of the Trustee:	The authorised share capital of the Trustee is U.S.$50,000 consisting of 50,000 ordinary shares of U.S.$1.00 each, 250 of which are fully-paid and issued. The Trustee's entire issued share capital is held on trust for charitable purposes by MaplesFS Limited as share trustee under the terms of a declaration of trust.
Administration of the Trustee:	The affairs of the Trustee are managed by MaplesFS Limited (the **Trustee Administrator**), who has agreed to perform certain management functions and provide certain clerical, administrative and other services pursuant to an amended and restated corporate services agreement dated 29 August 2018 between the Trustee Administrator and the Trustee (the **Corporate Services Agreement**). The Trustee Administrator's registered office is P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands. Maples Compliance Services (Cayman) Limited (**MCSL**) has agreed to provide certain services to the Trustee in connection with the Trustee's obligations under the Guidance Certificates on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands (or equivalent legislation and guidance, as applicable) (as amended and revised from time to time) (the **Cayman AML Regulations**) pursuant to an AML services agreement dated 29 August 2018 between the Trustee and MCSL (the **AML Services Agreement**) for the provision of services to the Trustee to enable the Trustee to achieve compliance with the Cayman AML Regulations.
Mudareb:	Abu Dhabi Islamic Bank PJSC.

Rab-al-Maal:	ADIB Capital Invest 2 Ltd.
Risk Factors:	Certain factors may affect the Trustee's ability to fulfil its obligations under the Certificates and ADIB's ability to fulfil its obligations under the Transaction Documents to which it is a party. In addition, certain factors are material for the purpose of assessing the market risks associated with the Certificates. These are set out under "*Risk Factors*".
Global Coordinators and Structuring Agents to the Trustee and ADIB:	Abu Dhabi Islamic Bank PJSC, HSBC Bank plc and J.P. Morgan Securities plc.
Joint Lead Managers:	Abu Dhabi Islamic Bank PJSC, Citigroup Global Markets Limited, Emirates NBD Bank PJSC, First Abu Dhabi Bank PJSC, HSBC Bank plc, J.P. Morgan Securities plc, Sharjah Islamic Bank P.J.S.C. and Standard Chartered Bank.
Delegate:	HSBC Corporate Trustee Company (UK) Limited. Pursuant to the Declaration of Trust, the Trustee shall delegate to the Delegate certain of the present and future powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled to (and, in certain circumstances, shall, subject to being directed and indemnified and/or secured and/or pre-funded to its satisfaction, be obliged to) take enforcement action in the name of the Trustee against the Mudareb and/or ADIB following an ADIB Event.
Principal Paying Agent, Calculation Agent, Registrar and Transfer Agent:	HSBC Bank plc.
Summary of the transaction structure and Transaction Documents:	An overview of the structure of the transaction and the principal cashflows is set out under "*Structure Diagram and Cash Flows*" and a description of the principal terms of certain of the Transaction Documents is set out under "*Summary of the Principal Transaction Documents*".
Issue Date:	20 September 2018.
Issue Price:	100 per cent.
Periodic Distribution Dates:	20 March and 20 September in each year, commencing on 20 March 2019.
Periodic Distributions:	Subject to Condition 8 (*Periodic Distribution Restrictions*), Periodic Distribution Amounts shall be payable on each Periodic Distribution Date up to and including the First Call Date at a rate of 7.125 per cent. per annum. If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Periodic Distribution Amounts shall be payable on each Periodic Distribution Date after the First Call Date (subject as aforesaid) at a fixed rate, to be reset on the First Call Date and every five

	years thereafter, equal to the Relevant Five Year Reset Rate plus a margin of 4.270 per cent. per annum. If ADIB makes a Non-Payment Election (as defined herein) or a Non-Payment Event occurs (as defined herein), the Trustee shall not pay the corresponding Periodic Distribution Amounts and neither ADIB nor the Trustee shall have any obligation to make any subsequent payment in respect of any unpaid Periodic Distribution Amount as more particularly described in Condition 8 (*Periodic Distribution Restrictions*).
Form of Certificates:	The Certificates will be issued in registered form as described in "*Global Certificate*". The Certificates will be represented on issue by ownership interests in a Global Certificate which will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Definitive Certificates evidencing a holding of Certificates will be issued in exchange for interests in the Global Certificate only in limited circumstances.
Clearance and Settlement:	Certificateholders must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing systems.
Denomination of the Certificates:	The Certificates will be issued in registered form in face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Status of the Certificates:	Each Certificate will represent an undivided ownership interest in the Trust Assets, will be a limited recourse obligation of the Trustee and will rank *pari passu* without any preference or priority with all other Certificates; see Condition 4.1 (*Status*). The Relevant Obligations will: (a) constitute Additional Tier 1 Capital of ADIB; (b) constitute direct, unsecured, conditional and subordinated obligations of ADIB; (c) rank subordinate and junior to all Senior Obligations but not further or otherwise; (d) rank *pari passu* with all other Pari Passu Obligations, which, for the avoidance of doubt, includes and shall continue to include ADIB's obligations under the Existing Tier 1 Securities; and (e) subject to the Solvency Conditions being satisfied at the relevant time and no bankruptcy order having been issued in respect of ADIB by a court in the UAE rank in priority to all Junior Obligations; see Condition 4.2 (*Subordination*). Payments in respect of the Relevant Obligations by ADIB are conditional upon: (i) ADIB (in its capacity as Mudareb or otherwise) being Solvent at all times from (and including) the first day of the relevant Periodic Distribution Period (or the

Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant Obligations that are due and payable; (ii) ADIB (in its capacity as Mudareb or otherwise) being capable of making payment of the Relevant Obligations and any other payment that is due to be made on the relevant date to a creditor in respect of all Senior Obligations and all Pari Passu Obligations and still be Solvent immediately thereafter; and (iii) the total share capital (including, without limitation, retained earnings) of ADIB being greater than zero at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant obligations that are due and payable (together, the **Solvency Conditions**).

To the extent that any of the Solvency Conditions are not satisfied at the relevant time or if a bankruptcy order in respect of ADIB has been issued by a court in the UAE, all claims of the Trustee in respect of the Relevant Obligations will be extinguished and the Certificates will be cancelled without any further payment to be made by ADIB in respect of the Relevant Obligations.

Trust Assets:

The Trust Assets consist of:

(a) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;

(c) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by ADIB (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee pursuant to clause 14.1 of the Declaration of Trust); and

(d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing which will be held by the Trustee upon trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each holder in accordance with the Declaration of Trust and the Conditions.

Redemption of Certificates and variation of their terms:

The Certificates are perpetual securities and accordingly do not have a fixed or final redemption date. The Certificates may be redeemed in whole but not in part, or the terms thereof may be varied by the Trustee (but only upon the instructions of ADIB (acting in its sole discretion)) only in accordance with the provisions of Condition 10 (*Redemption and Variation*).

Pursuant to Condition 10.1(b) (*Trustee's Call Option*), ADIB may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, on the First Call Date or on any Periodic Distribution Date thereafter, redeem all, but not some only, of the Certificates at the Trustee Call Amount.

In addition (on any date on or after the Issue Date, whether or not a Periodic Distribution Date), upon the occurrence of a Tax Event or a Capital Event, all but not some only, of the Certificates may be redeemed or the terms of the Certificates may be varied, in each case in accordance with Conditions 10.1(c) (*Redemption or Variation due to Taxation*) and 10.1(d) (*Redemption or Variation for Capital Event*). Any redemption of the Certificates is subject to the conditions described in Condition 10.1 (*Redemption and variation*).

Write-down at the Point of Non-Viability (as prescribed by the Financial Regulator)

If a Non-Viability Event occurs, a Write-down (as defined herein) shall occur on the relevant Non-Viability Event Write-down Date, as more particularly described in Condition 11 (*Write-down at the Point of Non-Viability (as prescribed by the Financial Regulator)*). In such circumstances, the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably, unconditionally and permanently written-down in a proportion corresponding to the relevant Write-down Amount and in the case of the relevant Write-down Amount corresponding to the full proportion of the Prevailing Face Amount of each Certificate then outstanding, the Certificates shall be cancelled. See Condition 11 (*Write-down at the Point of Non-Viability (as prescribed by the Financial Regulator)*).

A **Non-Viability Event** means that the Financial Regulator (as defined in the Conditions) has notified ADIB in writing that it has determined that ADIB is, or will become, Non-Viable without: (a) a Write-down; or (b) a public sector injection of capital (or equivalent support).

Dissolution Events:

Subject to Condition 12 (*Dissolution Events and Winding-up*), if an ADIB Event occurs, and, if so requested in writing by the Certificateholders of at least 20 per cent. of the aggregate face amount of the Certificates then outstanding or if so directed by an Extraordinary Resolution of the Certificateholders in accordance with Condition 12.1 (*ADIB Events*), the Trustee and/or the Delegate shall, subject to Condition 12.3 (*Winding-up, dissolution or liquidation*), take the actions referred to therein.

Withholding Tax:

Subject to Condition 9.2 (*Payments subject to Applicable Laws*) and Condition 13 (*Taxation*), all payments in respect of the Certificates shall be made free and clear of and without withholding or deduction for, or on account of, any Taxes (as defined in Condition 13 (*Taxation*)), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay, in respect of Periodic Distribution Amounts (but not, for the avoidance of doubt, in respect of Dissolution Distribution Amounts (other than any Outstanding Payments)), Additional Amounts as shall be necessary in order that the net amounts of Periodic Distribution Amounts received by the Certificateholders after such withholding or deduction shall equal the respective amounts of Periodic Distribution Amounts due and payable to any Certificateholder which would otherwise have been receivable in the absence of such withholding or deduction.

In addition, the Mudaraba Agreement provides that all payments thereunder by ADIB (in its capacity as the Mudareb) shall be made without withholding or deduction for, or on account of, any Taxes, unless such withholding or deduction of the Taxes is required by law. In the event there is any such withholding or deduction in relation to any Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as the case may be, ADIB shall pay such Additional Amounts as shall result in the receipt by the Trustee of such net amounts of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as the case may be, as would have been receivable by it if no such withholding or deduction had been required. To the extent that any such Additional Amounts are paid by ADIB pursuant to the Mudaraba Agreement, ADIB shall be entitled to recover amounts equal to such Additional Amounts from the amounts (if any) standing to the credit of the Mudaraba Reserve and if, following such recovery a shortfall remains between the amounts standing to the credit of the Mudaraba Reserve and such Additional Amounts paid by ADIB (such shortfall the **Additional Amounts Shortfall**), ADIB shall be entitled to recover amounts equal to such Additional Amounts Shortfall from any Excess Liquidation Proceeds.

Notwithstanding any other provision of the Conditions, in no event will the Trustee be required to pay any additional amounts in respect of the Certificates for, or on account of, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through to 1474 of the Code, any regulations or agreements thereunder, or any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

Trustee Covenants: The Trustee has agreed to certain restrictive covenants as set out in Condition 6 (*Covenants*).

Ratings: Upon issue, the Certificates are expected to be assigned a rating of "B1(hyb)" by Moody's.

Certificateholder Meetings: A summary of the provisions for convening meetings of the Certificateholders to consider matters relating to their interests as such is set out in Condition 18 (*Meetings of*

Certificateholders, Modification, Waiver, Authorisation and Determination).

Tax Considerations:	See "*Taxation*" for a description of certain tax considerations applicable to the Certificates.
Listing and Admission to Trading:	Application has been made to Euronext Dublin for the Certificates to be admitted to listing on the Official List and to trading on the Main Securities Market.
Transaction Documents:	The Declaration of Trust, the Agency Agreement and the Mudaraba Agreement are referred to herein as the **Transaction Documents**.
Governing Law:	The Declaration of Trust, the Certificates, the Mudaraba Agreement, the Conditions, the Agency Agreement and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, English law. The Corporate Services Agreement, the AML Services Agreement and the Share Declaration of Trust are governed by the laws of the Cayman Islands.
Waiver of Immunity:	ADIB has irrevocably and unconditionally waived any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consented to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever of any order, judgment or award made or given in connection with any Proceedings or Disputes. See Condition 20.7 (*Waiver of Immunity*).
Limited Recourse:	Proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as otherwise provided in Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*), the Certificates do not represent an interest in any of the Trustee, the Delegate, ADIB, any of their Agents, or any of their respective affiliates. If the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets is not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of any of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents (to the extent that each of them fulfils all of its respective obligations under the Transaction Documents to which it is a party) or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets. ADIB is obliged to make certain payments under the Transaction Documents directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets

and the Trustee and/or the Delegate will, subject to Condition 4.2 (*Subordination*) and Condition 12.3 (*Winding-up, dissolution or liquidation*), have direct recourse against ADIB to recover payments due to the Trustee from ADIB pursuant to such Transaction Documents notwithstanding any other provision of Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*). Such right of the Trustee and the Delegate shall constitute an unsecured claim against ADIB. None of the Certificateholders, the Trustee and the Delegate shall be entitled to claim any priority right in respect of any specific assets of ADIB in connection with the enforcement of any such claim.

See Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*) for further details.

Selling Restrictions: There are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the EEA (including the United Kingdom), the United Kingdom, the UAE (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Cayman Islands, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, the State of Qatar (including the Qatar Financial Centre), Hong Kong, Singapore and Malaysia. See "*Subscription and Sale*".

Use of Proceeds: The net proceeds of the issue of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to ADIB (as Mudareb) as Mudaraba Capital pursuant to the terms of the Mudaraba Agreement and will be used by ADIB to enhance its tier 1 capital as well as for general corporate purposes, all in accordance with the investment plan set out in the Mudaraba Agreement, as described in "*Use of Proceeds*".

TERMS AND CONDITIONS OF THE ADDITIONAL TIER 1 CAPITAL CERTIFICATES

The following (except for the text in italics) is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Certificate in definitive form (if issued) and will, save as provided in Global Certificate, apply to the Global Certificate:

ADIB Capital Invest 2 Ltd. (in its capacity as issuer and in its capacity as trustee, as applicable, the **Trustee**, which expression shall where the context allows include the Delegate (as defined below) acting pursuant to the powers delegated to it by the Trustee pursuant to the Declaration of Trust (as defined below)) has issued Additional Tier 1 Capital Certificates (the **Certificates**) in an aggregate face amount of U.S.$750,000,000. The Certificates are constituted by a declaration of trust (the **Declaration of Trust**) dated 20 September 2018 (the **Issue Date**) made between the Trustee, Abu Dhabi Islamic Bank PJSC (**ADIB**) and HSBC Corporate Trustee Company (UK) Limited as the delegate of the Trustee (the **Delegate**, which expression shall include all persons for the time being appointed as the delegate or delegates under the Declaration of Trust) and will represent an undivided ownership in the Trust Assets (as defined in Condition 5 (*The Trust*)).

Payments relating to the Certificates will be made pursuant to an agency agreement dated the Issue Date (the **Agency Agreement**) made between the Trustee, ADIB, the Delegate, HSBC Bank plc as principal paying agent (in such capacity, the **Principal Paying Agent** and together with any further or other paying agents appointed from time to time in respect of the Certificates, the **Paying Agents**), HSBC Bank plc as registrar (in such capacity, the **Registrar**) and as transfer agent (in such capacity, the **Transfer Agent** and, together with the Registrar and any further or other transfer agents appointed from time to time in respect of the Certificates, the **Transfer Agents**) and HSBC Bank plc as calculation agent (the **Calculation Agent**, which expression includes the Calculation Agent for the time being). The Paying Agents, the Transfer Agents and the Calculation Agent are together referred to in these terms and conditions (the **Conditions**) as the Agents. References to the **Agents** or any of them shall include their successors.

These Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as defined in Condition 1 (*Definitions and Interpretation*)). Copies of the Transaction Documents are available for inspection and/or collection during normal business hours at the specified offices of the Principal Paying Agent. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee, on behalf of the Certificateholders:

(a) to contribute the sums paid by it in respect of its Certificate(s) to the Mudareb (as defined in Condition 5 (*The Trust*)) in accordance with the Mudaraba Agreement (as defined in Condition 5 (*The Trust*));

(b) to act as Rab-al-Maal pursuant to the Mudaraba Agreement on its behalf (which authorisation and direction shall also apply to its successors in title and any Substituted Trustee (as defined below)); and

(c) to enter into each Transaction Document, subject to the provisions of the Declaration of Trust and these Conditions.

1. DEFINITIONS AND INTERPRETATION

Words and expressions defined in the Declaration of Trust and the Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between any such document and these Conditions, these Conditions will prevail. In addition, in these Conditions the following expressions have the following meanings:

Additional Amounts has the meaning given to it in Condition 13 (*Taxation*);

Additional Tier 1 Capital means capital qualifying as, and approved by the Financial Regulator as, additional tier 1 capital in accordance with the Capital Regulations;

ADIB Event means:

(a) **Non-payment**: ADIB (acting in its capacity as Mudareb) fails to pay an amount which is equivalent to principal (being capital amounts, including the Mudaraba Capital, payable in accordance with the provisions of the Mudaraba Agreement) or profit (including Additional Amounts) due and payable by it pursuant to any Transaction Document and the failure continues for a period of (in the case of principal) seven days or (in the case of profit) 14 days (save in each case where such failure occurs solely as a result of the occurrence of a Non-Payment Election or a Non-Payment Event); or

(b) **Insolvency**: a final determination is made by a court or other official body that ADIB is insolvent or bankrupt or unable to pay its debts including any financing arrangement issued (or intended to be issued) in compliance with the principles of Shari'a and which is treated as debt for the purposes of applicable law, in each case whether entered into directly or indirectly by ADIB; or

(c) **Winding-up**: an administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of ADIB or ADIB applies or petitions, for a winding-up or administration order in respect of itself or ceases, or through an official action of its Directors threatens to cease, to carry on all or substantially all of its business or operations, except, in each case (i) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders; or (ii) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or

(d) **Analogous Event**: any event occurs which under the laws of the UAE has an analogous effect to any of the events referred to in paragraphs (b) or (c) above;

Applicable Regulatory Capital Requirements means any regulatory capital requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to ADIB, including transitional rules and waivers granted in respect of the foregoing;

Assets means the consolidated gross assets of ADIB as shown (if required by any relevant party) in the latest audited or (as the case may be) auditor reviewed consolidated balance sheet of ADIB, but adjusted for subsequent events in such manner as the Directors, the Auditors or (if a bankruptcy trustee (or any equivalent insolvency practitioner) has been appointed in respect of ADIB) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine;

Auditors means, at any time, the statutory independent auditors to ADIB at the relevant time or such other auditor as may be appointed for the purpose of the Transaction Documents or, failing such appointment, as may be nominated by the Delegate (subject to the Delegate being indemnified and/or secured and/or pre-funded to its satisfaction);

Authorised Denomination has the meaning given to that term in Condition 2.1 (*Form and Denomination*);

Basel III Documents means the Basel Committee on Banking Supervision document "A global regulatory framework for more resilient banks and banking systems" released by the Basel Committee on Banking Supervision on 16 December 2010 and revised in June 2011 and the Annex contained in its document "Basel Committee issues final elements of the reforms to raise the quality of regulatory capital" on 13 January 2011;

Business Day means a day, other than a Friday, Saturday, Sunday or public holiday, on which registered banks settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in Abu Dhabi, New York City and London;

Capital Event is deemed to have occurred if ADIB is notified in writing by the Financial Regulator to the effect that the face amount (or the amount that qualifies as regulatory capital, if some amount of the Certificates are held by ADIB or whose purchase is funded by ADIB) of the Certificates outstanding is excluded (in full or in part) from the consolidated Tier 1 Capital of ADIB (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital), and provided that ADIB satisfies the Financial Regulator that such non-qualification was not reasonably foreseeable at the time of the issuance of the Certificates;

Capital Event Amount in relation to a Certificate means its Prevailing Face Amount together with any Outstanding Payments;

Capital Regulations means, at any time, the regulations, requirements, standards, guidelines, guidance and policies relating to the maintenance of capital and/or capital adequacy then in effect in the UAE, including those of the Financial Regulator;

Central Bank means the Central Bank of the UAE or any successor thereto;

Certificateholder means a person in whose name a Certificate is registered in the Register (or in the case of joint Certificateholders, the first named thereof) and the expressions **holder** and **holder of Certificates** and related expressions shall (where appropriate) be construed accordingly;

Common Equity Tier 1 Capital means capital qualifying as, and approved by the Financial Regulator as, common equity tier 1 in accordance with the Capital Regulations;

Corporate Services Agreement means the amended and restated corporate services agreement dated 29 August 2018 made between the Trustee and the Trustee Administrator;

Day-count Fraction means the actual number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months and, in the case of an incomplete month, the number of days elapsed of the Periodic Distribution Period in which the relevant period falls (including the first such day but excluding the last));

Determination Date means, in respect of a Reset Period, the third Business Day prior to the commencement of such Reset Period;

Directors means the executive and non-executive directors of ADIB who make up its board of directors;

Dispute has the meaning given to it in Condition 20.2 (*Arbitration*);

Dissolution Distribution Amount means the Trustee Call Amount, the Capital Event Amount or the Tax Redemption Amount, as the case may be, or such other amount in the nature of a redemption amount as may be determined in accordance with these Conditions;

Dissolution Event means an ADIB Event and/or a Trustee Event;

Dissolution Notice has the meaning given to it in Condition 12.1 (*ADIB Events*);

Dissolution Request has the meaning given to it in Condition 12.1 (*ADIB Events*);

Distributable Items means the amount of ADIB's consolidated retained earnings and reserves, including general reserves, special reserves and statutory reserves (to the extent not restricted from distribution by applicable law) after the transfer of any amounts to non-distributable reserves, all as set out in its latest audited or (as the case may be) auditor reviewed consolidated financial statements, or any equivalent or successor term from time to time as prescribed by the Capital Regulations, including the applicable criteria for Tier 1 Capital that do not constitute Common Equity Tier 1 Capital;

Excess Liquidation Proceeds has the meaning given to it in the Mudaraba Agreement;

Existing Tier 1 Securities means the AED2,000,000,000 perpetual tier 1 mudaraba certificates issued by ADIB on 16 April 2009 in connection with a mudaraba agreement dated 16 April 2009 and the U.S.$1,000,000,000 perpetual tier 1 mudaraba certificates issued by ADIB Capital Invest 1 Ltd. on 19 November 2012 in connection with a mudaraba agreement dated 19 November 2012;

Extraordinary Resolution has the meaning given to it in the Declaration of Trust;

Final Mudaraba Profit has the meaning given to it in the Mudaraba Agreement;

Financial Regulator means the Central Bank or any successor entity having primary bank supervisory authority with respect to ADIB in the UAE;

First Call Date means 20 September 2023;

First Mudaraba Profit Distribution Date means 20 March 2019;

General Pool has the meaning given to it in the Mudaraba Agreement;

H.15 (519) means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the United States Federal Reserve System and **most recent H.15 (519)** means the H.15 (519) published closest in time but prior to the applicable U.S. Government Securities Determination Date. H.15 (519) may be currently obtained at the following website: https://www.federalreserve.gov/releases/h15/;

Initial Period means the period from (and including) the Issue Date to (but excluding) the First Call Date;

Initial Periodic Distribution Rate has the meaning given to it in Condition 7.4(a) (*Periodic Distribution Rate*);

Junior Obligations means all claims of the holders of Ordinary Shares and all payment obligations of ADIB in respect of its Other Common Equity Tier 1 Instruments and any other payment obligations that rank or are expressed to rank junior to the Certificates;

LCIA means the London Court of International Arbitration;

Liabilities means the consolidated gross liabilities of ADIB as shown (if required by any relevant party) in the latest audited or (as the case may be) auditor reviewed consolidated balance sheet of ADIB, but adjusted for contingent liabilities and for subsequent events in such manner as the Directors, the Auditors or (if a bankruptcy trustee (or any equivalent insolvency practitioner) has been appointed in respect of ADIB) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine;

Margin means 4.270 per cent. per annum;

Mudaraba has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba Agreement has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba Assets has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba Capital has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba End Date means the date on which the Mudaraba ends, being the date on which the Certificates are redeemed in whole but not in part in accordance with these Conditions;

Mudaraba Profit has the meaning given to it the Mudaraba Agreement;

Mudaraba Profit Distribution Date means 20 March and 20 September in each year, starting on the First Mudaraba Profit Distribution Date;

Mudaraba Reserve has the meaning given to it in the Mudaraba Agreement;

Mudareb has the meaning given to it in Condition 5 (*The Trust*);

Non-Payment Election has the meaning given to it in Condition 8.2 (*Non-Payment Election*);

Non-Payment Event has the meaning given to it in Condition 8.1 (*Non-Payment Event*);

Non-Viability Event means that the Financial Regulator has notified ADIB in writing that it has determined that ADIB is, or will become, Non-Viable without (a) a Write-down; or (b) a public sector injection of capital (or equivalent support);

Non-Viability Event Write-down Date shall be the date on which the Write-down will take place as specified in the Non-Viability Notice, which date shall be as determined by the Financial Regulator;

Non-Viability Notice has the meaning given to it in Condition 11.2 (*Non-Viability Notice*);

Non-Viable means (a) insolvent, bankrupt, unable to pay a material part of its obligations as they fall due or unable to carry on its business or (b) any other event or circumstance which is specified as constituting non-viability by the Financial Regulator or in applicable banking regulations;

Ordinary Shares means issued ordinary shares of ADIB, having on the Issue Date a par value of AED1.00 each;

Other Common Equity Tier 1 Instruments means securities issued by ADIB that qualify as Common Equity Tier 1 Capital of ADIB other than Ordinary Shares;

Outstanding Payments means, in relation to any amounts payable on redemption of the Certificates, an amount representing accrued and unpaid Periodic Distribution Amounts for the Periodic Distribution Period during which redemption occurs to the date of redemption plus Additional Amounts thereon, if any;

Pari Passu Obligations means all subordinated payment obligations of ADIB which rank, or are expressed to rank, *pari passu* with the Relevant Obligations;

Payment Business Day has the meaning given to it in Condition 9.3 (*Payment only on a Payment Business Day*);

Periodic Distribution Amount has the meaning given to it in Condition 7.2 (*Periodic Distribution Amounts*);

Periodic Distribution Date means 20 March and 20 September in each year, starting on (and including) 20 March 2019;

Periodic Distribution Period means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Periodic Distribution Date and each successive period beginning on (and including) a Periodic Distribution Date and ending on (but excluding) the next succeeding Periodic Distribution Date;

Potential Dissolution Event means an event which, with the giving of notice, lapse of time, determination of materiality or fulfilment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event;

Premium means, on the date of actual liquidation of the Mudaraba pursuant to subclause 7.3(c) (*Actual Liquidation for Capital Event*) of the Mudaraba Agreement an amount equal to one per cent. of the Mudaraba Capital on such date;

Prevailing Face Amount means, in respect of a Certificate, the initial face amount of such Certificate as reduced by a Write-down of such Certificate (on one or more occasions) at or prior to such time pursuant to Condition 11 (*Write-down at the Point of Non-Viability (as prescribed by the Financial Regulator*));

Proceedings has the meaning given to it in Condition 20.5 (*Submission to Jurisdiction*);

Profit Rate means, in respect of the Initial Period, the Initial Periodic Distribution Rate, and, in respect of each Reset Period thereafter, the rate calculated in accordance with the provisions of Condition 7.4(a) (*Periodic Distribution Rate*);

Qualifying Tier 1 Instruments means instruments (whether securities, trust certificates, interests in limited partnerships or otherwise) other than Ordinary Shares or Other Common Equity Tier 1 Instruments, issued directly or indirectly by ADIB that:

(a) will be eligible to constitute Tier 1 Capital on issue;

(b) have terms and conditions not materially less favourable to a holder of the Certificates than the terms and conditions of the Certificates (as reasonably determined by ADIB (*provided that* in making this determination ADIB is not required to take into account the tax treatment of the new instrument in the hands of all or any Certificateholders, or any transfer or similar taxes that may apply on the acquisition of the new instrument) *provided that* a certification to such effect of two Directors shall have been delivered to the Trustee prior to the variation of the terms of the Certificates in accordance with Condition 10.1(c) (*Redemption or Variation due to Taxation*) or Condition 10.1(d) (*Redemption or Variation for Capital Event*) (as the case may be));

(c) continue to be obligations of ADIB, directly or indirectly or by a guarantee or equivalent support undertaking by ADIB;

(d) rank on a winding-up at least *pari passu* with the Relevant Obligations;

(e) have the same face value amount, profit distribution dates and profit or distribution rate or rate of return as the Certificates;

(f) (where the Certificates are varied prior to the First Call Date) have a first call date no earlier than the First Call Date;

(g) have the same optional redemption dates as the Certificates;

(h) have been assigned (or maintain) the same solicited credit ratings as were assigned to the Certificates immediately prior to the variation of the terms of the Certificates in accordance with Condition 10.1(c) (*Redemption or Variation due to Taxation*) or Condition 10.1(d) (*Redemption or Variation for Capital Event*) (as the case may be)); and

(i) if, immediately prior to the variation of the terms of the Certificates in accordance with Condition 10.1(c) (*Redemption or Variation due to Taxation*) or Condition 10.1(d) (*Redemption or Variation for Capital Event*) (A) the Certificates were listed or admitted to trading on a Regulated Market, have been listed or admitted to trading on a Regulated Market; or (B) the Certificates were listed or admitted to trading on a recognised stock exchange other than a Regulated Market, have been listed or admitted to trading on any recognised stock exchange (including, without limitation, a Regulated Market), in each case as selected by the Trustee and approved by the Delegate,

and which may include such technical changes as necessary to reflect the requirements of Additional Tier 1 Capital under the Capital Regulations then applicable to ADIB (including, without limitation, such technical changes as may be required in the adoption and implementation of the Basel III Documents);

Rab-al-Maal has the meaning given to it in Condition 5 (*The Trust*);

Rab-al-Maal Final Mudaraba Profit has the meaning given to it in the Mudaraba Agreement;

Rab-al-Maal Mudaraba Profit has the meaning given to it in the Mudaraba Agreement;

Record Date means, in the case of the payment of a Periodic Distribution Amount, the date falling on the fifteenth day before the relevant Periodic Distribution Date and, in the case of the payment of a Dissolution Distribution Amount, the date falling two Payment Business Days before the date for payment of the relevant Dissolution Distribution Amount, as the case may be;

Register has the meaning given to it in Condition 2.1 (*Form and Denomination*);

Registered Account has the meaning given to it in Condition 9.1 (*Payments in respect of the Certificates*);

Registered Office Agreement means the registered office agreement dated 25 May 2015 made between the Trustee and the Trustee Administrator;

Regulated Market means a regulated market for the purposes of Directive 2014/65/EU;

Relevant Date in respect of a Certificate means (a) the date on which payment in respect of such Certificate first becomes due, or (b) if the full amount of the money payable has not been received by the Principal Paying Agent or the Delegate on or before the due date, the date on which, the full amount of the money having been so received, notice to that effect has been duly given to Certificateholders in accordance with Condition 17 (*Notices*);

Relevant Five Year Reset Rate means, in respect of each Reset Period: (i) a rate (expressed as a decimal and, in the case of U.S. Treasury bills, converted to a bond equivalent yield) determined on the relevant U.S. Securities Determination Date to be the per annum rate equal to the weekly average yield to maturity for U.S. Treasury securities with a maturity of five years and trading in the public securities markets; or (ii) if there is no such published U.S. Treasury security with a maturity of five years and trading in the public securities markets, then the rate will be determined on the relevant U.S. Securities Determination Date by interpolation between the most recent weekly average yield to maturity for two series of U.S. Treasury securities trading in the public securities market: (A) one maturing as close as possible to, but earlier than, the immediately following Reset Date; and (B) the other maturity as close as possible to, but later than the immediately following Reset Date, in each case as published in the most recent H.15 (519). If the Trustee cannot procure the determination of the Relevant Five Year Reset Rate on the relevant Determination Date pursuant to the methods described in (i) and (ii) above, then the Relevant Five Year Reset Rate will be: (i) equal to the rate applicable to the immediately preceding Reset Period; or (ii) in the case of the Reset Period commencing on the First Call Date, 2.855 per cent.;

Relevant Jurisdiction means the Cayman Islands (in the case of any payment made by the Trustee) and the UAE and/or the Emirate of Abu Dhabi (in the case of any payment made by ADIB) or, in each case, any political sub-division or authority thereof or therein having the power to tax;

Relevant Obligations has the meaning given to it Condition 4.2(a) (*Subordination*);

Reserved Matter has the meaning given to it in the Declaration of Trust;

Reset Date means the First Call Date and every fifth anniversary thereafter;

Reset Period means the period from (and including) the first Reset Date to (but excluding) the earlier of (a) the Mudaraba End Date and (b) the following Reset Date, and (if applicable) each successive period thereafter from (and including) such Reset Date to (but excluding) the earlier of (i) the Mudaraba End Date and (ii) the next succeeding Reset Date;

Rules has the meaning given to it in Condition 20.2 (*Arbitration*);

Senior Creditors means creditors of ADIB (including depositors (in respect of their due claims) and, for this purpose, holders of any instrument issued by, or other obligation of, ADIB which ranks senior to the claims of the Trustee in respect of the Relevant Obligations) other than creditors in respect of obligations the claims in relation to which rank or are expressed to rank *pari passu* with, or junior to, the claims of the Trustee in respect of the Relevant Obligations;

Senior Obligations means all unsubordinated payment obligations of ADIB (including payment obligations to ADIB's depositors (in respect of their due claims)) and all subordinated payment obligations (if any) of ADIB except Pari Passu Obligations and Junior Obligations;

Solvency Conditions has the meaning given to it in Condition 4.2(b) (*Subordination*);

Solvent means that: (a) ADIB is able to pay its debts as they fall due and (b) its Assets exceed its Liabilities;

Subsidiary means any entity whose financial statements at any time are required by applicable law or in accordance with provisions of generally accepted accounting principles to be fully consolidated with those of ADIB;

Substituted Territory has the meaning given to it in Condition 12.2 (*Trustee Events*);

Substituted Trustee has the meaning given to it in Condition 12.2 (*Trustee Events*);

Tax Event means ADIB or the Trustee (as the case may be) would, as a result of a Tax Law Change, in making any payments under the Mudaraba Agreement (in the case of ADIB (in its capacity as Mudareb)) on the next due date for a payment of Mudaraba Profit or the Certificates (in the case of the Trustee) on the next due date for payment of a Periodic Distribution Amount (as the case may be) (whether or not a Non-Payment Event has occurred or a Non-Payment Election has been made), be required to pay Additional Amounts (and such requirement cannot be avoided by ADIB or the Trustee (as the case may be) taking reasonable measures available to it), and provided that ADIB satisfies the Financial Regulator that such Tax Law Change was not reasonably foreseeable at the time of the issuance of the Certificates;

Tax Law Change means any change in, or amendment to, the laws, regulations or rulings affecting taxation of any Relevant Jurisdiction, or any change in the official application of such laws, regulations or rulings;

Tax Redemption Amount in relation to a Certificate means its Prevailing Face Amount together with any Outstanding Payments;

Taxes has the meaning given to it in Condition 13 (Taxation);

Tier 1 Capital means capital qualifying as, and approved by the Financial Regulator as, tier 1 capital in accordance with the Capital Regulations;

Transaction Account has the meaning given to it in Condition 5 (*The Trust*);

Transaction Documents means each of the Declaration of Trust, the Agency Agreement, the Mudaraba Agreement and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto;

Trust Assets has the meaning given to it in Condition 5 (*The Trust*);

Trustee Administrator means MaplesFS Limited;

Trustee Call Amount in relation to a Certificate means its Prevailing Face Amount together with any Outstanding Payments;

Trustee Event means any of the following events:

(a) **Non-Payment**: default is made in the payment of the Dissolution Distribution Amount on the due date for payment thereof or default is made in the payment of any Periodic Distribution Amount on the due date for payment thereof and, in the case of any Periodic Distribution Amount only, such default continues for a period of seven days; or

(b) **Insolvency**: the Trustee is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or (in the opinion of the Delegate) a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Trustee; or

(c) **Winding-up**: an administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Trustee, or the Trustee applies or petitions for a winding-up or administration order in respect of itself or ceases or through an official action of its board of directors threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders; or

(d) **Analogous Events**: any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (b) or (c) above;

For the purpose of paragraph (a) (*Non-Payment*) above, all amounts payable in respect of the Certificates shall be considered due and payable (including any amounts calculated as being payable under Condition 7.4 (*Periodic Distributions*)) notwithstanding that the Trustee has at the relevant time insufficient funds or relevant Trust Assets to pay such amounts including, without limitation, as a result of any failure by the Mudareb to comply with the matters described in Condition 4.4(c) (*Limited Recourse and Agreement of Certificateholders*) (save in each case where such insufficient funds arise solely as a result of ADIB making a Non-Payment Election or the occurrence of a Non-Payment Event);

Trustee's Territory has the meaning given to it in Condition 12.2 (*Trustee Events*);

UAE means United Arab Emirates;

U.S. Government Securities Business Day means any day except for a Saturday, Sunday or a day on which the U.S. Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities;

U.S. Securities Determination Date means the second U.S. Government Securities Business Day before the commencement of the Reset Period for which the rate will apply;

Write-down means:

(a) the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably, unconditionally and permanently written down in a proportion corresponding to the relevant Write-down Amount;

(b) in the case of the relevant Write-down Amount corresponding to the full proportion of the Prevailing Face Amount of each Certificate then outstanding, the Certificates shall be cancelled; and

(c) the rights of any Certificateholder for payment of any amounts under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event) in a proportion corresponding to the relevant Write-down Amount (and any related unpaid Periodic Distribution Amounts) shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date,

and all references to **Written-down** will be construed accordingly; and

Write-down Amount means, on any Non-Viability Event Write-down Date, the amount as determined by the Financial Regulator by which the aggregate Prevailing Face Amount of the Certificates then outstanding is to be Written-down on a *pro rata* basis and shall be calculated per Certificate by reference to the Prevailing Face Amount of each Certificate then outstanding which is to be Written-down.

All references in these Conditions to **U.S. dollars** and **U.S.$** are to the lawful currency of the United States of America.

2. FORM, DENOMINATION AND TITLE

2.1 Form and Denomination

The Certificates are issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an **Authorised Denomination**). A Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Certificateholders (the **Register**).

*Upon issue, the Certificates will be represented by a Global Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**). Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. These Conditions are modified by certain provisions contained in the Global Certificate. Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to receive definitive Certificates representing their holdings of Certificates. See Global Certificate.*

2.2 Title

The Trustee will cause the Registrar to maintain the Register outside the United Kingdom in accordance with the provisions of the Agency Agreement. Title to the Certificates passes only by registration in the Register. The registered holder of any Certificate will (except as otherwise required by law) be treated as the absolute owner of the Certificates represented by the Certificate for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate) and no person will be liable for so treating the holder of any Certificate. The registered holder of a Certificate will be recognised by the Trustee as entitled to his Certificate free from any equity, set-off or counterclaim on the part of the Trustee against the original or any intermediate holder of such Certificate.

3. TRANSFERS OF CERTIFICATES

3.1 Transfers

Subject to Conditions 3.4 (*Closed Periods*) and 3.5 (*Regulations*) and the provisions of the Agency Agreement, a Certificate may be transferred in an Authorised Denomination only by depositing the Certificate by which it is represented, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the individuals who have executed the forms of transfer.

Transfers of interests in the Global Certificate will be effected in accordance with the rules of the relevant clearing system through which the interest is held.

3.2 Delivery of New Certificates

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

3.3 Formalities Free of Charge

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Trustee or any Transfer Agent but upon payment (or the giving of such indemnity as the Trustee or any Transfer Agent may reasonably require) by the transferee in respect of any stamp duty, tax, or other governmental charges which may be imposed in relation to such transfer.

3.4 Closed Periods

No Certificateholder may require the transfer of a Certificate to be registered during the period of 15 days ending on a Periodic Distribution Date or any other date on which any payment of the face amount or payment of any premium or profit in respect of a Certificate falls due.

3.5 Regulations

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning the transfer of Certificates scheduled to the Declaration of Trust. The Regulations may be changed by the Trustee from time to time with the prior written approval of the Delegate and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests in writing a copy of such regulations.

The holder of Certificates shall be entitled to receive, in accordance with Condition 3.2 (*Delivery of New Certificates*), only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 3.2 (*Delivery of New Certificates*).

4. STATUS, SUBORDINATION AND LIMITED RECOURSE

4.1 Status

The Certificates represent an undivided ownership interest in the Trust Assets and are limited recourse obligations of the Trustee. Each Certificate will constitute unsecured obligations of the Trustee and shall at all times rank *pari passu* without any preference or priority, with all other Certificates. The rights and claims of the Trustee and the Certificateholders against ADIB in respect of the Relevant Obligations are subordinated as described in Condition 4.2 (*Subordination*).

4.2 Subordination

(a) The payment obligations of ADIB under the Mudaraba Agreement (including all payments which are the equivalent of principal (being capital amounts, including the Mudaraba Capital, payable in accordance with the provisions of the Mudaraba Agreement) and profit) (the **Relevant Obligations**) will (i) constitute Additional Tier 1 Capital of ADIB, (ii) constitute direct, unsecured, conditional and subordinated obligations of ADIB, (iii) rank subordinate and junior to all Senior Obligations but not further or otherwise, (iv) rank *pari passu* with all other Pari Passu Obligations, which, for the avoidance of doubt, includes and shall continue to include ADIB's obligations under the Existing

Tier 1 Securities, and (v) subject to the Solvency Conditions being satisfied at the relevant time and no bankruptcy order having been issued in respect of ADIB by a court in the UAE, rank in priority only to all Junior Obligations.

(b) The rights and claims of the Trustee against ADIB in respect of the Relevant Obligations are subordinated in right of payment to the claims of all Senior Creditors and accordingly payments in respect of the Relevant Obligations by ADIB are conditional upon the following (together, the **Solvency Conditions**):

(i) ADIB (in its capacity as Mudareb or otherwise) being Solvent at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant Obligations that are due and payable;

(ii) ADIB (in its capacity as Mudareb or otherwise) being capable of making payment of the Relevant Obligations and any other payment that is due to be made on the relevant date to a creditor in respect of all Senior Obligations and all Pari Passu Obligations and still be Solvent immediately thereafter; and

(iii) the total share capital (including, without limitation, retained earnings) of ADIB being greater than zero at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant Obligations that are due and payable.

(c) The Trustee has agreed in the Mudaraba Agreement that ADIB shall be entitled (in its capacity as Mudareb or otherwise) to utilise the Mudaraba Assets (or any part thereof) or utilise the Mudaraba Profit (or any part thereof) to make payments in respect of the claims of Senior Creditors and, for the avoidance of doubt, such entitlement shall apply both in circumstances (i) where ADIB (in its capacity as Mudareb or otherwise) is Solvent and/or (ii) where an order has been made, or an effective resolution has been passed, for the winding-up, bankruptcy, dissolution or liquidation (or other analogous event) of ADIB (in its capacity as Mudareb or otherwise).

(d) Notwithstanding any other provision in these Conditions, to the extent that any of the Solvency Conditions are not satisfied at the relevant time or if a bankruptcy order in respect of the Mudareb has been issued by a court in the UAE, all claims of the Trustee in respect of the Relevant Obligations will be extinguished and the Certificates will be cancelled without any further payment to be made by the Mudareb in respect of the Relevant Obligations.

(e) The Trustee may only exercise its enforcement rights in relation to any Relevant Obligation or in relation to any of its other rights under the Mudaraba Agreement or any other Transaction Document in the manner provided in Condition 12.3 (*Winding-up, dissolution or liquidation*).

(f) The Trustee will, in each relevant Transaction Document, unconditionally and irrevocably waive any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of the Relevant Obligations. No collateral is or will be given by ADIB for the Relevant Obligations and any collateral that may have been or may in the future be given in connection with other obligations of ADIB shall not secure the Relevant Obligations.

4.3 Other Issues

So long as any of the Certificates remain outstanding, ADIB (in its capacity as Mudareb or otherwise) will not issue any securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity which in each case constitutes (whether on a solo, or a solo consolidated or a consolidated basis) issued Tier 1 Capital of ADIB if claims in respect of such securities, guarantee or contractual support arrangement would rank (as regards distributions on a return of assets on a winding-up or in respect of distribution or payment of dividends and/or any other amounts thereunder) senior to the Relevant Obligations. This prohibition will not apply if at the same time or prior thereto: (a) these Conditions and (to the extent applicable) the Transaction Documents are amended to ensure that the Trustee (on behalf of the Certificateholders) obtains and/or (b) the Relevant Obligations and ADIB's obligations under the Relevant Obligations have, the benefit of, such of those rights and entitlements as are contained in or attached to such securities or under such guarantee or contractual support arrangement as are required so as to ensure that claims in respect of the Relevant Obligations rank *pari passu* with, and contain substantially equivalent rights of priority as to distributions or payments on, such securities or under such guarantee or contractual support arrangement.

4.4 Limited Recourse and Agreement of Certificateholders

Save as provided in this Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*), the Certificates do not represent an interest in any of the Trustee, the Delegate, ADIB, any of the Agents or any of their respective affiliates. Each Certificateholder, by subscribing for or acquiring the Certificates, acknowledges and agrees that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

(a) no payment of any amount whatsoever shall be made by the Trustee or any of its agents on its behalf except to the extent funds are available therefor from the Trust Assets;

(b) the Trustee may not deal with the Mudaraba Assets or realise or deal with its interest, rights, title, benefit and entitlements, present and future, in to and under the Transaction Documents and the Trust Assets except in the manner expressly permitted by the Transaction Documents;

(c) the proceeds of the Trust Assets are the sole source of payments on the Certificates. Payment by the Trustee of any Periodic Distribution Amount or any amount required to redeem the Certificates is subject to receipt by the Trustee of the amounts expected to be received by it from the Mudareb in accordance with the provisions of the Mudaraba Agreement. The Mudaraba Agreement provides that there is no guarantee of any return from the Mudaraba Assets and ADIB's obligation to pay amounts thereunder are subject to the more detailed provisions set out therein, and references in these Conditions to "Periodic Distribution Amount", "profit" and "Profit Rate" should be construed accordingly;

(d) if the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets are not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents (to the extent that each of the Delegate and the Agents (as applicable) fulfils all of its respective obligations under the Transaction Documents to which it is a party, subject to and in accordance with such Transaction Documents), or any of their respective affiliates in respect of any such shortfall, and no recourse shall be had, and no holder will have any claim, for the payment of any amount due and owing hereunder or under any Transaction Document, whether for the payment of any fee, indemnity or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee to the extent the Trust Assets have been exhausted (following which all obligations of the Trustee shall be extinguished) or the Delegate or the Agents (to the extent that each of the Delegate and the Agents (as applicable) fulfils all of its respective obligations under the Transaction Documents to which it is a party, subject to and in accordance with such Transaction Documents);

(e) it will not petition for, institute, or join with any other person in instituting proceedings for, the reorganisation, arrangement, liquidation, bankruptcy winding-up or receivership or other proceedings under any bankruptcy or similar law against the Trustee or any of its directors, officers, employees, agents, shareholders or affiliates as a consequence of such shortfall or otherwise;

(f) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee arising under or in connection with these Conditions or the Transaction Documents by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, director or corporate services provider of the Trustee in their capacity as such. The obligations of the Trustee under these Conditions and the Transaction Documents are corporate or limited liability obligations of the Trustee and no personal liability shall attach to or be incurred by the shareholders, members, officers, agents, directors or corporate services provider of the Trustee (in each of their respective capacities as such), save in the case of their wilful default or actual fraud. References in these Conditions to wilful default or actual fraud means a finding to such effect by a court of competent jurisdiction in relation to the conduct of the relevant party);

(g) it shall not be entitled to claim or exercise any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of any sums due under such Certificate. No collateral is or will be given for the payment obligations under the Certificates; and

(h) the Trustee and Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by (i) the Mudareb's breach of the Mudaraba Agreement or (ii) the Mudareb's negligence, misconduct or fraud.

ADIB is obliged to make certain payments under the Transaction Documents directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and/or the Delegate will, subject to Condition 4.2 (*Subordination*) and Condition 12.3 (*Winding-up, dissolution or liquidation*), have direct recourse against ADIB to recover payments due to the Trustee from ADIB pursuant to such Transaction Documents notwithstanding any other provision of this Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*). Such right of the Trustee and the Delegate shall constitute an unsecured claim against ADIB. None of the Certificateholders, the Trustee and the Delegate shall be entitled to claim any priority right in respect of any specific assets of ADIB in connection with the enforcement of any such claim.

5. THE TRUST

5.1 ADIB Capital Invest 2 Ltd. (in its capacity as Trustee and as the **Rab-al-Maal**) will enter into a mudaraba agreement (the **Mudaraba Agreement**) to be dated the Issue Date with ADIB (in such capacity, the **Mudareb**). Pursuant to the Mudaraba Agreement, the Rab-al-Maal will contribute the proceeds of the issue of the Certificates to the Mudareb, which proceeds will form the initial capital of the Mudaraba (as defined below) and which may be subject to change after the Issue Date in accordance with Condition 10.2 (*Purchase*) (the **Mudaraba Capital**). The Mudareb will invest the Mudaraba Capital in the General Pool and following investment of the Mudaraba Capital in the General Pool, it shall constitute *pro rata* undivided assets in the General Pool (the **Mudaraba Assets**), on a basis proportionate to the rights and obligations of holders of equity of ADIB and in accordance with the Mudaraba Agreement, which shall include an investment plan prepared by the Mudareb and shall constitute a mudaraba (the **Mudaraba**).

The Trustee has opened a non-interest bearing transaction account in London (the **Transaction Account**) in its own name (details of which are set out in the Declaration of Trust) which shall be operated by the Principal Paying Agent on behalf of the Trustee and for the benefit of the Certificateholders, and into which the Mudareb will pay all amounts due to the Trustee under the Mudaraba Agreement. If the Trustee is substituted in accordance with Condition 12.2 (*Trustee Events*), the Substituted Trustee will be required to open and maintain a transaction account in London in its name which shall be operated by the Principal Paying Agent on behalf of the Trustee and for the benefit of the Certificateholders and into which the Mudareb will pay all amounts due to the Trustee under the Mudaraba Agreement from the date of substitution onwards, and references in these Conditions to the **Transaction Account** will be construed accordingly.

5.2 Pursuant to the Declaration of Trust, the Trustee holds:

(a) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) all of its rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;

(c) all of its rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by ADIB (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee pursuant to clause 14.1 of the Declaration of Trust); and

(d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the **Trust Assets**) upon trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each such holder in accordance with the Declaration of Trust and these Conditions.

5.3 On each Periodic Distribution Date and on any date fixed for payment of the Dissolution Distribution Amount, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority (in each case, only if and to the extent that payments of a higher priority have been made in full):

(a) *first*, (to the extent not previously paid) to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate in accordance with the Declaration of Trust;

(b) *second*, only if such payment is due on or before a Periodic Distribution Date (to the extent not previously paid) to pay *pro rata* and *pari passu*, (i) the Trustee in respect of all amounts owing to it under the Transaction Documents in its capacity as trustee; (ii) the Trustee Administrator in respect of all amounts owing to it under the Transaction Documents, the Corporate Services Agreement and the Registered Office Agreement in its capacity as Trustee Administrator; and (iii) each Agent in respect of all amounts owing to such Agent on account of its fees, costs, charges and expenses and the payment or satisfaction of any Liability incurred by such Agent pursuant to the Agency Agreement or the other Transaction Documents in its capacity as Agent;

(c) *third*, only if such payment is due on a Periodic Distribution Date, and subject to Condition 8 (*Periodic Distribution Restrictions*), in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts (including Additional Amounts) due but unpaid;

(d) *fourth*, only if such payment is due on a date fixed for payment of the Dissolution Distribution Amount, in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount; and

(e) *fifth*, only after all amounts required to be paid in respect of the Certificates have been discharged in full, in payment of any residual amount to ADIB.

Any such residual amount shall be credited to the Murabaha Reserve and the balance of amounts standing to the credit of the Mudaraba Reserve, after paying all amounts due to the Trustee pursuant to the Mudaraba Agreement, shall be paid to ADIB as an incentive fee.

6. COVENANTS

The Trustee has covenanted in the Declaration of Trust that, *inter alia*, for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate):

(a) incur any indebtedness in respect of financed, borrowed or raised money whatsoever (whether structured (or intended to be structured) in accordance with the principles of Shari'a or otherwise), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;

(b) secure any of its present or future indebtedness (whether structured in accordance with the principles of Shari'a or otherwise) by granting or permitting to be outstanding any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law (if any) or under or pursuant to any of the Transaction Documents);

(c) sell, transfer, assign, participate, exchange or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise), or permit such to occur or suffer such to exist) any part of its interest in any of the Trust Assets except pursuant to any of the Transaction Documents (other than those arising by operation of law);

(d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;

(e) amend or agree to any amendment to any Certificate or Transaction Document (other than in accordance with the terms thereof) in each case in a manner which is materially prejudicial to the rights of Certificateholders, without (i) the prior approval of the Certificateholders by way of Extraordinary Resolution and (ii) first notifying the Rating Agencies of the proposed amendments and subsequently providing the Rating Agencies with copies of the relevant executed amended Transaction Documents, save that it shall be permitted to make such variations to the Transaction Documents and these Conditions as are required pursuant to Condition 10.1 (*Redemption and variation*);

(f) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;

(g) have any subsidiaries or employees;

(h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;

(i) put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding-up (except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an

Extraordinary Resolution of the Certificateholders) or any resolution for the commencement of any other bankruptcy or insolvency proceedings with respect to it; and

(j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:

(i) as provided for or permitted in the Transaction Documents;

(ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and

(iii) such other matters which are incidental thereto.

7. PERIODIC DISTRIBUTIONS

7.1 Distribution of Mudaraba Profit

The Trustee has agreed in the Mudaraba Agreement that ADIB shall be entitled (in its capacity as Mudareb or otherwise) to utilise the Mudaraba Assets (and the proceeds thereof) in respect of the Certificates to make payments in respect of the claims of Senior Creditors or to cover losses of the Mudaraba and that such entitlement shall apply at any time before an order has been made, or an effective resolution has been passed, for the winding-up, dissolution or liquidation (or other analogous event) of ADIB (in its capacity as Mudareb or otherwise).

7.2 Periodic Distribution Amounts

Subject to Conditions 4.2(d) (*Subordination*), 4.4 (*Limited Recourse and Agreement of Certificateholders*), 7.3 (*Cessation of Accrual*), 8 (*Periodic Distribution Restrictions*), 9 (*Payments*) and 11 (*Write-down at the Point of Non-Viability (as prescribed by the Financial Regulator)*), the Trustee shall distribute to Certificateholders, *pro rata* to their respective holdings, out of amounts transferred into the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the Periodic Distribution Amount. The **Periodic Distribution Amount** payable on each Periodic Distribution Date (a) falling prior to and including the first Reset Date shall be equal to the product of: (a) the Initial Periodic Distribution Rate; and (b) the Prevailing Face Amount of the Certificates then outstanding and (b) falling after the first Reset Date shall be the relevant amount calculated pursuant to Condition 7.4 (*Periodic Distributions*).

7.3 Cessation of Accrual

Subject to Conditions 4.2(d) (*Subordination*), 8 (*Periodic Distribution Restrictions*) and 11 (*Write-down at the Point of Non-Viability (as prescribed by the Financial Regulator)*), each Certificate will cease to be eligible to earn Periodic Distribution Amounts from the due date for redemption, following liquidation of the Mudaraba in accordance with these Conditions and the Mudaraba Agreement.

7.4 Periodic Distributions

Subject to Condition 8 (*Periodic Distribution Restrictions*), the Certificates bear profit at the applicable Profit Rate from (and including) the Issue Date in accordance with the provisions of this Condition 7 (*Periodic Distributions*). Periodic Distribution Amounts will not be cumulative and any Periodic Distribution Amount which is not paid will not accumulate or compound and Certificateholders will have no claim in respect of any such Periodic Distribution Amount at any time, even if Periodic Distribution Amounts are paid in the future.

If ADIB makes a Non-Payment Election or a Non-Payment Event occurs, any Periodic Distribution Amount which is not paid to the Certificateholders shall be credited by ADIB to the Mudaraba Reserve and re-invested by ADIB in the same manner as it invested the Mudaraba Capital for and on behalf of the Trustee in accordance with the investment plan set out in the Mudaraba Agreement.

Subject to Condition 8 (*Periodic Distribution Restrictions*), Periodic Distribution Amounts shall be payable on the Certificates semi-annually in arrear on each Periodic Distribution Date, in respect of the Periodic Distribution Period ending on such date, in each case as provided in this Condition 7 (*Periodic Distributions*).

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Periodic Distribution Period and other than the first Periodic Distribution Period (the **Relevant Period**), it shall be calculated as an amount equal to the product of: (a) the applicable Profit Rate; (b) the Prevailing Face Amount of the relevant Certificate then outstanding; and (c) the applicable Day-count Fraction for the Relevant Period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

(a) **Periodic Distribution Rate**

For the Initial Period, the Certificates bear profit at the Profit Rate of 7.125 per cent. per annum (the **Initial Periodic Distribution Rate**).

The Profit Rate will be reset on each Reset Date on the basis of the aggregate of the Margin and the Relevant Five Year Reset Rate procured by the Trustee on the relevant Determination Date, and notified to the Calculation Agent on such Determination Date.

The Calculation Agent will, as soon as practicable upon determination of the Profit Rate which shall apply to the Reset Period commencing on the relevant Reset Date but in no event later than the second Business Day thereafter, cause the applicable Profit Rate and the corresponding Periodic Distribution Amount to be notified to each of the Paying Agents, the Irish Stock Exchange plc trading as Euronext Dublin or any other stock exchange on which the Certificates are for the time being listed and to be notified to Certificateholders in accordance with Condition 17 (*Notices*).

(b) **Calculation Agent**

With effect from the First Call Date, and so long as any Certificates remain outstanding thereafter, the Trustee will maintain a Calculation Agent.

The Trustee may, with the prior written approval of the Delegate, from time to time replace the Calculation Agent with another leading investment, merchant or commercial bank or financial institution in London. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or (without prejudice to Condition 7.4(c) (*Determinations of Calculation Agent or Trustee Binding*)) fails duly to determine the Profit Rate in respect of any Reset Period as provided in Condition 7.4(a) (*Periodic Distribution Rate*), the Trustee shall forthwith appoint another leading investment, merchant or commercial bank or financial institution in London approved in writing by the Delegate to act as such in its place. The Calculation Agent may not resign its duties or be removed without a successor having been appointed as aforesaid.

(c) **Determinations of Calculation Agent or Trustee Binding**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (*Periodic Distributions*), whether by the Calculation Agent or the Trustee (or its agent), shall (in the absence of manifest error) be binding on the Trustee, ADIB, the Calculation Agent, the Paying Agents, the Delegate and all Certificateholders and (in the absence of manifest error) no liability to the Certificateholders, the Trustee, any Agent or the Delegate shall attach to the Calculation Agent, the Trustee (or its agent) in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

8. PERIODIC DISTRIBUTION RESTRICTIONS

8.1 Non-Payment Event

Notwithstanding Condition 7.4 (*Periodic Distributions*), if any of the following events occurs (each, a **Non-Payment Event**), ADIB (as Mudareb) shall not pay Mudaraba Profit (and, as a result, Rab-al-Maal Mudaraba Profit) or Final Mudaraba Profit (and, as a result, Rab-al-Maal Final Mudaraba Profit) on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), and as a result thereof the Trustee shall not pay Periodic Distribution Amounts on the corresponding Periodic Distribution Date:

(a) the amount equal to the then applicable Periodic Distribution Amount (which for the purposes of these Conditions includes Additional Amounts as referred to in Condition 13 (*Taxation*)) to be paid by ADIB out of the Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as applicable (the **Relevant Rab-al-Maal Mudaraba Profit Amount**), when aggregated with any distributions or amounts payable by ADIB (in its capacity as Mudareb or otherwise) on the same date (or otherwise due and payable on such date) on any other obligations in respect of Pari Passu Obligations, exceeds, on the relevant date for payment of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, Distributable Items; or

(b) ADIB (in its capacity as Mudareb or otherwise) is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), in breach of the Applicable Regulatory Capital Requirements (including any payment restrictions due to a breach of any capital buffers imposed on ADIB by the Financial Regulator) or payment of the Relevant Rab-al-Maal Mudaraba Profit Amount (as applicable) to the Trustee would cause it to be in breach thereof; or

(c) the Financial Regulator requires (i) ADIB not to pay the Relevant Rab-al-Maal Mudaraba Profit Amount to the Trustee on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or (ii) the Trustee not to pay the relevant Periodic Distribution Amount on that Periodic Distribution Date, in each case, on account of ADIB making a net loss during the relevant financial period or for any other reason as it may deem necessary; or

(d) the Solvency Conditions are not satisfied (or would no longer be met if the Relevant Rab-al-Maal Mudaraba Profit Amount was paid).

8.2 Non-Payment Election

Notwithstanding Condition 7.4 (*Periodic Distributions*), ADIB may in its sole discretion elect that Rab-al-Maal Mudaraba Profit will not be paid to the Trustee (in its capacity as Rab-al-Maal) on any Mudaraba Profit Distribution Date, and ADIB shall, in such case, instruct the Trustee not to make payment of a Periodic Distribution Amount to Certificateholders on such Periodic Distribution Date provided that the foregoing in this Condition 8.2 (*Non-Payment Election*) shall not apply in respect of Rab-al-Maal Final Mudaraba Profit payable on any Mudaraba End Date (any such election being a **Non-Payment Election**).

8.3 Effect of Non-Payment Event or Non-Payment Election

If a Non-Payment Election or a Non-Payment Event occurs, then ADIB shall (a) in the case of a Non-Payment Election, no later than seven calendar days prior to such event, and (b) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case no later than five Business Days prior to the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, as the case may be, give notice to the Trustee and the Principal Paying Agent in accordance with the Mudaraba Agreement, the Delegate in accordance with the Declaration of Trust and Certificateholders in accordance with Condition 17 (*Notices*), which notice shall be revocable, in each case providing details of the Non-Payment Election or Non-Payment Event, as the case may be. In the absence of notice of such Non-Payment Election or Non-Payment Event, as the case may be, having been given in accordance with this Condition 8.3, the fact of non-payment of the relevant Periodic Distribution Amount on the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, as the case may be, shall be evidence of the occurrence of a Non-Payment Election or a Non-Payment Event, as the case may be. Certificateholders shall have no claim in respect of any Periodic Distribution Amount due but not paid as a result of either a Non-Payment Election or a Non-Payment Event (in each case, irrespective of whether notice of such Non-Payment Election or Non-Payment Event, as the case may be, has been given in accordance with this Condition 8.3 (*Effect of Non-Payment Event or Non-Payment Election*)) and any non-payment of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit (in the case of a Non-Payment Event only) or a Periodic Distribution Amount in such circumstance shall not constitute a Dissolution Event. ADIB shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise) (which shall be credited by ADIB to the Mudaraba Reserve). The Trustee shall not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts but, for the avoidance of doubt, any such unpaid profit shall continue to constitute part of the Mudaraba Assets.

8.4 Dividend and Redemption Restrictions

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of a Non-Payment Election or a Non-Payment Event pursuant to Condition 8.1 (*Non-Payment Event*) or 8.2 (*Non-Payment Election*) (as the case may be), then, from the date of such Non-Payment Election or Non-Payment Event (the **Dividend Stopper Date**), ADIB will not, so long as any of the Certificates are outstanding:

(a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any class of shares issued by ADIB (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or

(b) declare or pay profit or any other distribution on any of its Other Common Equity Tier 1 Instruments or securities ranking, as to the right of payment of dividend, distributions or similar payments, junior to or *pari passu* with the Relevant Obligations (excluding securities the terms of which do not at the relevant time enable ADIB to defer or otherwise not to make such payment), only to the extent such restriction on payment or distribution is permitted under the relevant regulatory criteria for Additional Tier 1 Capital applicable from time to time; or

(c) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any class of shares issued by ADIB; or

(d) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire Other Common Equity Tier 1 Instruments or any securities issued by ADIB ranking, as to the right of repayment of capital, junior to or *pari passu* with the Relevant Obligations (excluding securities the terms of which stipulate a mandatory redemption or conversion into equity), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the relevant regulatory criteria for Additional Tier 1 Capital applicable from time to time,

in each case unless or until the next following payment of Rab-al-Maal Mudaraba Profit or (as the case may be) Rab-al-Maal Final Mudaraba Profit following the Dividend Stopper Date has been made in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Trustee in accordance with the Mudaraba Agreement).

9. PAYMENTS

9.1 Payments in respect of the Certificates

Subject to Condition 9.2 (*Payments subject to Applicable Laws*), payment of the Dissolution Distribution Amount and any Periodic Distribution Amount will be made by or on behalf of the Trustee in U.S. dollars by wire transfer in same day funds to the Registered Account (as defined below) of the Certificateholder. Payments of the Dissolution Distribution Amount will only be made against presentation and surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid to the holder shown on the Register at the close of business on the relevant Record Date.

For the purposes of this Condition 9 (*Payments*), a Certificateholder's **Registered Account** means the U.S. dollar account maintained by or on behalf of such Certificateholder with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant Record Date.

9.2 Payments subject to Applicable Laws

Payments in respect of Certificates are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*).

9.3 Payment only on a Payment Business Day

Where payment is to be made by transfer to a Registered Account, payment instructions (for value the due date or, if that is not a Payment Business Day (as defined below), for value the first following day which is a Payment Business Day) will be initiated by the Principal Paying Agent on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or if the relevant Certificateholder is late in surrendering its Certificate (if required to do so).

If the amount of the Dissolution Distribution Amount or, subject to Conditions 8.1 (*Non-Payment Event*) and 8.2 (*Non-Payment Election*), any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount in fact paid.

In this Condition 9.3 (*Payment only on a Payment Business Day*), **Payment Business Day** means a day on which commercial banks and foreign exchange markets in Abu Dhabi, London and New York City settle payments and are open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

9.4 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Trustee reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

(a) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity); and

(b) so long as any Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, it will at all times maintain a Paying Agent, Registrar and a Transfer Agent having its specified office in such place (if any) as may be required by the rules of such listing authority, stock exchange and/or quotation system. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Trustee in accordance with Condition 17 (*Notices*).

10. REDEMPTION AND VARIATION

10.1 Redemption and variation

(a) No Fixed Redemption Date and Conditions for Redemption and Variation

The Certificates are perpetual securities in respect of which there is no fixed redemption date and the Trustee shall (subject to the provisions of Condition 4.2 (*Subordination*), Condition 11 (*Write-down at the Point of Non-Viability (as prescribed by the Financial Regulator)*) and without prejudice to the provisions of Condition 14 (*Prescription*)) only have the right to redeem the Certificates or vary the terms thereof in accordance with the following provisions of this Condition 10 (*Redemption and Variation*).

The redemption of the Certificates or variation of these Conditions, in each case pursuant to this Condition 10 (*Redemption and Variation*), is subject to the following conditions (in addition to those set out elsewhere in this Condition 10.1 (*Redemption and variation*)):

(i) (except to the extent that the Financial Regulator and/or the Capital Regulations no longer so requires) ADIB having obtained the prior consent of the Financial Regulator;

(ii) (except to the extent that the Financial Regulator and/or the Capital Regulations no longer so requires) at the time when the relevant notice of redemption or variation is given, ADIB is in compliance with the Applicable Regulatory Capital Requirements;

(iii) (except to the extent that the Financial Regulator and/or the Capital Regulations no longer so requires) immediately following such redemption or variation (as applicable), ADIB will be in compliance with the Applicable Regulatory Capital Requirements;

(iv) the Solvency Conditions are satisfied; and

(v) (in the case of a redemption or variation pursuant to Conditions 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (*Redemption or Variation for Capital Event*) only) the Tax Law Change or Capital Event, as the case may be, becomes, or would become, effective on or after the Issue Date.

If the Trustee (upon the instructions of ADIB (acting in its sole discretion)) gives a notice of redemption in accordance with this Condition 10 (*Redemption and Variation*) and, after giving such notice but prior to the relevant redemption date specified in such notice, a Non-Viability Event occurs, the relevant notice of redemption shall be automatically rescinded and shall be of no force and effect, the Certificates will not be redeemed on the scheduled date of redemption and instead a Write-down shall occur in accordance with Condition 11 (*Write-down at the Point of Non-Viability (as prescribed by the Financial Regulator)*).

Following the occurrence of a Non-Viability Event, the Trustee (upon the instructions of ADIB (acting in its sole discretion)) shall not be entitled to give a notice of redemption in accordance with Condition 10 *(Redemption and Variation*) prior to the Non-Viability Event Write-down Date.

(b) **Trustee's Call Option**

Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), ADIB may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall give not less than 10 nor more than 15 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, and, provided that any such notice has not been revoked by the Trustee (upon the instructions of ADIB (acting in its sole discretion)) by giving notice of such revocation to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust prior to the redemption date specified in the initial notice, redeem all, but not some only, of the Certificates at the Trustee Call Amount.

Redemption of the Certificates pursuant to this Condition 10.1(b) (*Trustee's Call Option*) may only occur on the First Call Date or any Periodic Distribution Date thereafter.

(c) **Redemption or Variation due to Taxation**

(i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) and the provisions of this Condition 10.1(c) (*Redemption or Variation due to Taxation*), if a Tax Event occurs, ADIB may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than ten nor more than 15 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, and, provided that any such notice has not been revoked by the Trustee (upon the instructions of ADIB (acting in its sole discretion)) by giving notice of such revocation to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust prior to the redemption date specified in the initial notice (A) redeem all, but not some only, of the Certificates at the Tax Redemption Amount; or (B) vary the terms of the Mudaraba Agreement (subject to the approval of the Shari'a Board of the Mudareb) and the Certificates such that the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments, in each case without any requirement for consent or approval of the Certificateholders, and in the case of (B) only provided that such modifications or any document giving effect to such modifications do not impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its protections, and that such modifications or any document giving effect to such modifications are approved by the Trustee and the Delegate. If ADIB does not instruct the Trustee to so redeem or vary in accordance with this Condition 10.1(c)(i) in respect of such Tax Event then the Certificates shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Trustee shall otherwise (subject to the provisions of Condition 4.2 (*Subordination*), Condition 11 (*Write-down at the Point of Non-Viability (as prescribed by the Financial Regulator)*) and Condition 12.3 (*Winding-up, dissolution or liquidation*) and without prejudice to the provisions of Condition 14 (*Prescription*)) redeem the Certificates or vary the terms thereof in accordance with the provisions of this Condition 10 (*Redemption and Variation*).

(ii) Redemption of the Certificates, or variation of these Conditions, pursuant to this Condition 10.1(c) (*Redemption or Variation due to Taxation*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) At the same time as the delivery of any notice of redemption or variation, as the case may be, pursuant to this Condition 10.1(c) (*Redemption or Variation due to Taxation*), ADIB shall give to the Trustee and the Delegate a certificate signed by two Directors (upon which the Delegate may rely without liability to any person) stating that (A) the conditions set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (B) a Tax Event has occurred; and (C) in the case of a variation only, the Certificates, as so varied, are Qualifying Tier 1 Instruments and that the Financial Regulator has confirmed that they satisfy limb (a) of the definition of Qualifying Tier 1 Instruments. Such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 10.1(c)(iii) (*Redemption or Variation due to Taxation*) and the Delegate shall be entitled to accept and rely on such certificate as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice and provided that it has not been revoked, the Trustee shall redeem or vary the terms of the Certificates, as the case may be.

(d) **Redemption or Variation for Capital Event**

(i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) and the provisions of this Condition 10.1(d) (*Redemption or Variation for Capital Event*), if a Capital Event occurs, ADIB may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than ten nor more than 15 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, and, provided that any such notice has not been revoked by the Trustee (upon the instructions of ADIB (acting in its sole discretion)) by giving notice of such revocation to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust prior to the redemption date specified in the initial notice, (A) redeem all, but not some only, of the Certificates at the Capital Event Amount together with the Premium; or (B) solely for the purpose of ensuring compliance with the Applicable Regulatory Capital Requirements vary the terms of the Mudaraba Agreement (subject to the approval of the Shari'a Board of the Mudareb) and the Certificates such that the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments without any requirement for consent or approval of the Certificateholders, and in the case of (B) only provided that such modifications or any document giving effect to such modifications do not impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its protections, and that such modifications or any document giving effect to such modifications are approved by the Trustee and the Delegate. If ADIB does not instruct the Trustee to so redeem or vary in accordance with this Condition 10.1(d)(i) in respect of such Capital Event then the Certificates shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Trustee shall otherwise (subject to the provisions of Condition 4.2 (*Subordination*), Condition 11 (*Write-down at the Point of Non-Viability (as prescribed by the Financial Regulator)*) and Condition 12.3 (*Winding-up, dissolution or liquidation*) and without prejudice to the provisions of Condition 14 (*Prescription*)) redeem the Certificates or vary the terms thereof in accordance with the provisions of this Condition 10 (*Redemption and Variation*).

(ii) Redemption of the Certificates, or variation of these Conditions, pursuant to this Condition 10.1(d) (*Redemption or Variation for Capital Event*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) At the same time as the delivery of any notice of redemption or variation, as the case may be, pursuant to this Condition 10.1(d) (*Redemption or Variation for Capital Event*), ADIB shall give to the Trustee and the Delegate a certificate signed by two Directors (upon which the Delegate may rely without liability to any person) stating that (A) the conditions set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (B) a Capital Event has occurred; and (C) in the case of a variation only, the Certificates, as so varied, are Qualifying Tier 1 Instruments and the Financial Regulator has confirmed that they satisfy limb (a) of the definition of Qualifying Tier 1 Instruments. Such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 10.1(d)(iii) (*Redemption or Variation for Capital Event*) and the Delegate shall be entitled to accept and rely on such certificate as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice and provided that it has not been revoked, the Trustee shall redeem or vary the terms of the Certificates, as the case may be.

(e) **Taxes upon Variation**

In the event of a variation in accordance with Conditions 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (*Redemption or Variation for Capital Event*), none of the Trustee, the Delegate and ADIB will be obliged to pay and will not pay any liability of any Certificateholder to corporation tax, corporate income tax or tax on profits or gains or any similar tax arising in respect of the variation of the terms of the Certificates provided that (in the case of a Tax Event) or so that (in the case of a Capital Event) the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments, including in respect of any stamp duty or similar other taxes arising on any subsequent transfer, disposal or deemed disposal of the Qualifying Tier 1 Instruments by such Certificateholder.

10.2 Purchase

Subject to ADIB (a) obtaining the prior written consent of the Financial Regulator, (b) being in compliance with the Applicable Regulatory Capital Requirements, and (c) satisfying the Solvency Conditions at the time of purchase, ADIB or any of its Subsidiaries, may after the First Call Date purchase the Certificates in the open market or otherwise at such price(s) and upon such other conditions as may be agreed upon between ADIB or the relevant Subsidiary (as the case may be) and the relevant Certificateholder(s). Upon any purchase, ADIB shall deliver such Certificates to any Paying Agent for cancellation and upon such cancellation, the Mudaraba Capital shall be reduced by the face amount of the Certificates so cancelled.

10.3 Cancellation

All Certificates that are redeemed and all Certificates that are purchased pursuant to Condition 10.2 (*Purchase*) and which ADIB delivers for cancellation in accordance with Condition 10.2 (*Purchase*) will forthwith be cancelled and accordingly may not be held, reissued or resold.

11. WRITE-DOWN AT THE POINT OF NON-VIABILITY (AS PRESCRIBED BY THE FINANCIAL REGULATOR)

11.1 Non-Viability Event

If a Non-Viability Event occurs, a Write-down will take place in accordance with Condition 11.2 (*Non-Viability Notice*).

11.2 Non-Viability Notice

On the third Business Day following the date on which such Non-Viability Event occurs (or on such earlier date as determined by the Financial Regulator), the Mudareb will notify the Trustee in writing thereof in accordance with the Mudaraba Agreement and the Trustee will then notify the Delegate, the Certificateholders and the Principal Paying Agent in writing thereof in accordance with Condition 17 (*Notices*) (a **Non-Viability Notice**). A Write-down will occur on the Non-Viability Event Write-down Date. In the case of a Write-down resulting in the reduction of the Prevailing Face Amount of each Certificate then outstanding to nil, the Mudaraba Agreement will be automatically terminated with effect from the Non-Viability Event Write-down Date and the Trustee shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets.

12. DISSOLUTION EVENTS AND WINDING-UP

The Declaration of Trust contains provisions entitling the Delegate to claim from the Trustee and ADIB, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Declaration of Trust. The restrictions on commencing proceedings described below will not apply to any such claim.

12.1 ADIB Events

If an ADIB Event occurs, the Delegate (provided it shall have been given notice in writing thereof by the Trustee or ADIB or otherwise upon becoming aware of such ADIB Event through actual knowledge or express notice) shall as soon as practicable give notice of the occurrence of such ADIB Event to the Certificateholders in accordance with Condition 17 (*Notices*) with a request to such Certificateholders to indicate to the Trustee and the Delegate in writing if they wish the Certificates to be redeemed and the Trust to be dissolved (a **Dissolution Request**). The Delegate may, and if so requested in writing by the Certificateholders of at least 20 per cent. of the aggregate face amount of the Certificates then outstanding, or if so directed by an Extraordinary Resolution of Certificateholders, the Delegate shall (but in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*)), give notice (a **Dissolution Notice**) to the Trustee that the Certificates are immediately due and payable at the Prevailing Face Amount of the Certificates then outstanding together with any Outstanding Payments, whereupon the aggregate face amount of the Certificates then outstanding together with any Outstanding Payments shall become immediately due and payable. A Dissolution Notice may be given whether or not a Dissolution Request has been given to Certificateholders.

12.2 Trustee Events

(a) ADIB has undertaken in the Declaration of Trust that, as soon as practicable following the occurrence of a Trustee Event, it will procure, subject to such amendment of the Declaration of Trust and such other conditions as the Delegate may require and subject to the consent of the Financial Regulator, the substitution of any newly formed special purpose company in form substantially the same as that of the Trustee, in place of the Trustee (the **Substituted Trustee**), or of any previous substituted company, as trustee and issuer under the Declaration of Trust and the Certificates provided that:

   (i) a deed is executed or undertaking given by the Substituted Trustee to the Delegate, in form and manner satisfactory to the Delegate, agreeing to be bound by the Declaration of Trust, the Certificates and the Transaction Documents (with consequential amendments as the Delegate may deem appropriate) as if the Substituted Trustee had been named in the Declaration of Trust, the Certificates and the other Transaction Documents as trustee and issuer in place of the Trustee;

(ii) if the Substituted Trustee is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the **Substituted Territory**) other than the territory of the taxing jurisdiction to which (or to any such authority of or in which) the Trustee is subject generally (the **Trustee's Territory**), the Substituted Trustee shall (unless the Delegate otherwise agrees) give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to Condition 13 (*Taxation*) with the substitution for or the addition to the references in that Condition and the definition of Relevant Jurisdiction to the Trustee's Territory of references to the Substituted Territory whereupon the Declaration of Trust and the Certificates shall be read accordingly (and ADIB shall also be required to give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to the last paragraph of Condition 13 (*Taxation*), extending its obligations thereunder to the Substituted Territory);

(iii) if any two directors of the Substituted Trustee certify that it will be solvent immediately after such substitution, the Delegate need not have regard to the Substituted Trustee's financial condition, profits or prospects or compare them with those of the Trustee;

(iv) the Trustee, the Substituted Trustee and ADIB comply with such other requirements as the Delegate may direct in the interests of the Certificateholders; and

(v) such substitution would not, in the sole opinion of the Delegate, be materially prejudicial to the interests of the Certificateholders.

(b) Subject to this Condition 12.2 (*Trustee Events*), the Delegate may agree to the substitution of the Substituted Trustee without obtaining the consent of the Certificateholders (it being acknowledged that each Certificateholder has by virtue of the last paragraph of the preamble to these Conditions authorised each Substituted Trustee to act as Rab-al-Maal pursuant to the Mudaraba Agreement on its behalf).

(c) If ADIB fails to comply with the foregoing provisions of this Condition 12.2 (*Trustee Events*) within 60 days of the occurrence of the relevant Trustee Event, Conditions 12.1 (*ADIB Events*) and 12.3 (*Winding-up, dissolution or liquidation*) shall apply to the relevant Trustee Event as if it was an ADIB Event.

12.3 Winding-up, dissolution or liquidation

(a) **Proceedings for Winding-up**

If an ADIB Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1 (*ADIB Events*), the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement, and either the Trustee or the Delegate may at its discretion, and the Delegate shall if so requested in writing by the Certificateholders holding at least 20 per cent of the aggregate face amount of the Certificates then outstanding (subject in each case to Condition 12.3(e)(i) (*Realisation of Trust Assets*)), (i) institute any steps, actions or proceedings for the winding-up of ADIB and/or (ii) prove in the winding-up of ADIB and/or (iii) institute any steps, actions or proceedings for the bankruptcy of ADIB and/or (iv) claim in the liquidation of ADIB and/or (v) take such other steps, actions or proceedings which, under the laws of the UAE, have an analogous effect to the actions referred to in (i) to (iv) above, in each case, for (subject as set out below) all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents, provided, however, that the Trustee or the Delegate may only take such steps, actions or proceedings as described in this Condition 12.3(a) (*Proceedings for Winding-up*), but may take no further or other steps, actions or proceedings to enforce, prove or claim for any payment and provided further that neither the Trustee nor the Delegate may take any steps, actions or proceedings against ADIB with respect to any sum that ADIB has paid into the

Transaction Account in accordance with the Transaction Documents in circumstances where the Trustee has failed to pay that amount to Certificateholders in accordance with these Conditions. No payment in respect of the Transaction Documents may be made by ADIB as a result of any steps, actions or proceedings taken pursuant to Condition 12.1 (*ADIB Events*), nor will the Trustee or the Delegate accept the same, otherwise than during or after a winding-up (or analogous event) of ADIB, unless ADIB has given prior written notice (with a copy to the Trustee and the Delegate) to, and received no objection from, the Financial Regulator (which ADIB shall confirm in writing to the Trustee and the Delegate).

(b) **Enforcement**

Without prejudice to Condition 12.1 (*ADIB Events*) and the remaining provisions of this Condition 12.3 (*Winding-up, dissolution or liquidation*), the Trustee (or the Delegate) may at its discretion and the Delegate shall if so requested in writing by the Certificateholders holding at least 20 per cent. of the aggregate face amount of the Certificates then outstanding and without further notice (subject in each case to Condition 12.3(e)(i) (*Realisation of Trust Assets*)) institute such steps, actions or proceedings against ADIB, and the Delegate may at its discretion and without further notice institute such steps, actions or proceedings against the Trustee, as it may think fit to enforce any term or condition binding on ADIB or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of ADIB under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations), including, without limitation, any failure by ADIB to procure the substitution of the Trustee in the circumstances described in Condition 12.2 (*Trustee Events*). However, in no event shall ADIB, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents. Nothing in this Condition 12.3 (*Winding-up, dissolution or liquidation*) shall, however, prevent the Trustee (or the Delegate) from taking such steps, actions or proceedings as described in Condition 12.3(a) (*Proceedings for Winding-up*) in respect of any payment obligations of ADIB arising from the Mudaraba Agreement or any other Transaction Document (including any damages awarded for breach of any obligations).

(c) **Non-Viability and Solvency Conditions**

All claims by the Delegate and/or the Certificateholders against the Trustee under the Certificates and all claims by the Trustee (or the Delegate) against ADIB under the Transaction Documents (including, without limitation, any claim in relation to any unsatisfied payment obligation of the Trustee and/or ADIB under the Certificates or the Transaction Documents, as the case may be) shall be subject to, and shall be superseded by: (i) the provisions of Condition 11 (*Write-down at the Point of Non-Viability (as prescribed by the Financial Regulator)*), irrespective of whether the relevant Non-Viability Event occurs prior to or after the event which is the subject matter of the claim and (ii) the provisions of Condition 4.2(d) (*Subordination*), irrespective of whether the breach of a Solvency Condition at the relevant time or the issue of a bankruptcy order in respect of ADIB occurs prior to or after the event which is the subject matter of the claim, in each case provided that nothing in these Conditions or the Transaction Documents shall affect or prejudice the payment of the actual costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

(d) **Extent of Certificateholder remedy**

No remedy against ADIB, other than as referred to in this Condition 12 (*Dissolution Events and Winding-up*), shall be available to the Delegate, the Trustee or the Certificateholders, whether for the recovery of amounts owing in respect of the Transaction Documents or in respect of any breach by ADIB of any of its other obligations under or in respect of the Transaction Documents.

(e) **Realisation of Trust Assets**

(i) Neither the Trustee nor the Delegate shall be bound to take any steps, actions or proceedings to enforce or to realise the Trust Assets or any of the steps, actions or proceedings referred to in these Conditions in respect of ADIB or, in the case of the Delegate only, the Trustee to enforce the terms of the Transaction Documents or give a Dissolution Notice (including, without limitation, pursuant to this Condition 12 *(Dissolution Events and Winding-up)*), unless (A) it shall have been so requested by an Extraordinary Resolution of the Certificateholders or in writing by Certificateholders holding at least 20 per cent. of the aggregate face amount of the Certificates then outstanding and (B) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction provided that the Delegate shall not be liable for the consequences of exercising its discretion or taking such steps, actions or proceedings and may do so without having regard to the effect of such action on individual Certificateholders.

(ii) No Certificateholder shall be entitled to proceed directly against the Trustee or ADIB or to take the steps, actions or proceedings referred to in Conditions 12.3(a) (*Proceedings for Winding-up*) and 12.3(b) (*Enforcement*) above, unless the Delegate, having become bound so to proceed, (A) fails to do so within a reasonable period, or (B) is unable by reason of an order of a court having competent jurisdiction to do so, and such failure or inability shall be continuing, in which case the Certificateholders shall have only such rights against ADIB as those which the Trustee or the Delegate is entitled to exercise as set out in this Condition 12.3 (*Winding-up, dissolution or liquidation*).

(iii) Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and ADIB shall be to enforce their respective obligations under the Transaction Documents.

(iv) The foregoing paragraphs in this Condition 12.3(e) (*Realisation of Trust Assets*) are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the net proceeds thereof in accordance with these Conditions and the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) to recover any further sums in respect of the Certificates and the right to receive any such sums remaining unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

13. TAXATION

All payments in respect of the Certificates shall be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed, levied, collected, withheld or assessed by or on behalf of any Relevant Jurisdiction (**Taxes**), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay, in respect of Periodic Distribution Amounts (but not, for the avoidance of doubt, in respect of Dissolution Distribution Amounts (other than any Outstanding Payments)), additional amounts (**Additional Amounts**) as shall be necessary in order that the net amounts of Periodic Distribution Amounts received by the Certificateholders after such withholding or deduction shall equal the respective amounts of Periodic Distribution Amounts due and payable to any Certificateholder which would otherwise been receivable in the absence of such withholding or deduction, except that no such Additional Amount shall be payable in relation to any payment in respect of any Certificate:

(a) the holder of which is liable for such Taxes in respect of such Certificate by reason of having some connection with any Relevant Jurisdiction other than the mere holding of such Certificate; or

(b) presented for payment (where presentation is required) more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to Additional Amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day.

In these Conditions, references to any Periodic Distribution Amounts (and related expressions including, without limitation, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and Outstanding Payments) shall be deemed to include any Additional Amounts payable under this Condition 13 (*Taxation*) or any undertaking given in addition to or in substitution for it under the Declaration of Trust.

Notwithstanding any other provision in these Conditions, in no event will the Trustee be required to pay any additional amounts in respect of the Certificates for, or on account of, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, or any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

The Mudaraba Agreement provides that all payments made thereunder by ADIB (in its capacity as the Mudareb) to the Trustee shall be made without any withholding or deduction for, or on account of, any present or future Taxes, unless such withholding or deduction is required by law. In the event there is any such withholding or deduction in relation to any Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as the case may be, ADIB shall pay such Additional Amounts as shall result in the receipt by the Trustee of such net amounts of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as the case may be, as would have been receivable by it if no such withholding or deduction had been required. To the extent that any such Additional Amounts are paid by ADIB pursuant to the Mudaraba Agreement, ADIB shall be entitled to recover amounts equal to such Additional Amounts from any amounts (if any) standing to the credit of the Mudaraba Reserve and if, following such recovery a shortfall remains between the amounts standing to the credit of the Mudaraba Reserve and such Additional Amounts paid by ADIB (such shortfall, the **Additional Amounts Shortfall**), ADIB shall be entitled to recover amounts equal to such Additional Amounts Shortfall from any Excess Liquidation Proceeds.

14. PRESCRIPTION

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within periods of ten years (in the case of the Dissolution Distribution Amount) and five years (in the case of Periodic Distribution Amounts or Outstanding Payments) from the Relevant Date in respect thereof. Any amounts in respect of which claims have been prescribed under this Condition 14 shall be promptly donated by the Trustee to a registered or otherwise officially recognised charitable organisation.

15. DELEGATE

15.1 Delegation of Powers

The Trustee will in the Declaration of Trust irrevocably and unconditionally appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of the present and future powers (including the power to sub-delegate), trusts, rights, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the Declaration of Trust, that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, (a) exercise all of the rights of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and (b) make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust (together, the **Delegation** of the **Relevant Powers**), provided that: (i) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Declaration of Trust or any other Transaction Document shall be imposed on the Delegate by virtue of the Delegation; (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust or managing the Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any duty, power, trust, right, authority or discretion to dissolve the trusts constituted by the Declaration of Trust following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The Trustee shall ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of the Relevant Powers.

In addition to the Delegation of the Relevant Powers under the Declaration of Trust, the Delegate also has certain powers which are vested solely in it from the date of the Declaration of Trust.

The appointment of a delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee.

15.2 Indemnification

The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any action, step or proceeding unless indemnified and/or secured and/or pre-funded to its satisfaction. In particular, but without limitation, in connection with the exercise of any of its rights in respect of the Trust Assets or any other right it may have pursuant to the Declaration of Trust or the other Transaction Documents, the Delegate shall in no circumstances be bound to take any action, step or proceeding unless directed to do so in accordance with Condition 12 (*Dissolution Events and Winding-up*), and then only if it shall also have been indemnified and/or secured and/or pre-funded to its satisfaction.

15.3 No Liability

(a) The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of ADIB or the Trustee under the Transaction Documents and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been paid by ADIB or the Trustee but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in these Conditions or in the Declaration of Trust.

(b) Each of the Trustee and the Delegate is exempted from: (i) any liability in respect of any loss or theft of the Trust Assets or any cash; (ii) any obligation to insure the Trust Assets or any cash; and (iii) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of actual fraud, wilful default or gross negligence by the Trustee or the Delegate, as the case may be.

15.4 Reliance on Opinions, Certificates, Reports and/or Information

The Delegate may rely on any opinion, certificate, report or information of the auditors or insolvency officials (as applicable) of the Trustee or ADIB or any other expert or other person called for by or provided to the Delegate (whether or not addressed to the Delegate) in accordance with or for the purposes of the Declaration of Trust or the other Transaction Documents and such opinion, certificate, report or information may be relied upon by the Delegate (without liability to any person) as sufficient evidence of the facts stated therein notwithstanding that such opinion, certificate, report, information and/or any engagement letter or other document entered into by the Delegate or any other person in connection therewith contains a monetary or other limit on the liability of the auditors or insolvency officials of the Trustee or ADIB or such other expert or other person in respect thereof and notwithstanding that the scope and/or basis of such opinion, certificate, report or information may be limited by an engagement or similar letter or by the terms of the opinion, certificate, report or information itself and the Delegate shall not be bound in any such case to call for further evidence or be responsible for any liability, delay or inconvenience that may be occasioned by its failure to do so.

15.5 Proper performance of duties

Nothing shall, in the case of the Trustee (having regard to the provisions of the Declaration of Trust conferring on it any trusts, powers, authorities or discretions) or as donee and delegate, in the case of the Delegate (having regard to the powers, authorities and discretions conferred on it by the Declaration of Trust and to the Relevant Powers delegated to it), respectively exempt the Trustee or the Delegate from or indemnify either of them against any Liability for gross negligence, wilful default or actual fraud of which either of them may be guilty in relation to their duties under the Declaration of Trust.

15.6 Notice of Events

The Delegate shall not be responsible for monitoring or ascertaining whether or not a Non-Payment Event, Capital Event, Tax Event, Non-Viability Event, Dissolution Event or Potential Dissolution Event has occurred or exists or is continuing or will occur or exist and, unless and until it shall have received express written notice to the contrary, it will be entitled to assume that no such event or circumstance exists or has occurred or is continuing (without any liability to the Certificateholders or any other person for so doing).

16. REPLACEMENT OF CERTIFICATES

If a definitive Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar (and if the Certificates are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Trustee, ADIB, the Registrar, the Paying Agent or the Transfer Agent may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

17. NOTICES

Notices to Certificateholders will be deemed to be validly given if mailed to Certificateholders by pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses in the Register. The Trustee shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) on which the Certificates are for the time being admitted to listing, trading and/or quotation. Any notices shall be deemed to have been given on the day after being so mailed (or on the date of publication, or if so published more than once or on different dates, on the date of the first publication).

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with evidence of entitlement to the relevant Certificates, with the Principal Paying Agent.

18. MEETINGS OF CERTIFICATEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

18.1 The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Declaration of Trust. Such a meeting may be convened by Certificateholders holding not less than 10 per cent. in face amount of the Certificates for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more Certificateholders, proxies or representatives holding or representing in aggregate more than 50 per cent. in face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more Certificateholders, proxies or representatives present whatever the face amount of the Certificates held or represented, except that any meeting the business of which includes consideration of proposals, *inter alia*, (a) to modify any date for payment in respect of the Certificates, (b) to reduce or cancel or vary the method for calculating the amount of any payment due in respect of the Certificates, (c) to amend any of the Trustee's and/or ADIB's covenants set out in the Transaction Documents, (d) to amend the covenant given by the Trustee and the Delegate in clause 16 (*Application of Moneys*) of the Declaration of Trust, (e) to alter the currency of payment or the denomination of the Certificates, (f) to modify the provisions concerning the quorum required at any meeting of Certificateholders or the majority required to pass an Extraordinary Resolution, (g) to sanction any such substitution as is described in paragraph 14(c) of Schedule 4 to the Declaration of Trust, or (h) to amend the above list or the proviso to paragraph 8 of Schedule 4 to the Declaration of Trust, in which case the quorum shall be one or more Certificateholders, proxies or representatives holding or representing in aggregate not less than three-quarters, or at any adjourned such meeting not less than one-quarter, in face amount of the Certificates for the time being outstanding. To be passed, an Extraordinary Resolution requires (i) a majority in favour consisting of not less than 75 per cent. of the votes cast, (ii) a Written Resolution (as defined in the Declaration of Trust) or (iii) Electronic Consent (as defined in the Declaration of Trust). Any Extraordinary Resolution, if duly passed, will be binding on all Certificateholders, whether or not they were present at the meeting at which such resolution was passed and whether or not they voted.

18.2 The Declaration of Trust provides that a Written Resolution or an Electronic Consent shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. Such a Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Certificateholders. Such a Written Resolution and/or Electronic Consent will be binding on all Certificateholders whether or not they participated in such Written Resolution or Electronic Consent.

18.3 The Delegate may (but shall not be obliged to), without the consent of the Certificateholders (a) agree to any modification to these Conditions or any provisions of the Transaction Documents which, in the sole opinion of the Delegate, is of a formal, minor or technical nature or is made to correct a manifest error; (b) agree to any modification (other than in respect of a Reserved Matter) of these Conditions, the Declaration of Trust or any other Transaction Document, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Trust or the other Transaction Documents; or (c) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such, provided in the case of paragraphs (a) and (b) that such modification, waiver, authorisation or determination is not, in the sole opinion of the Delegate, materially prejudicial to the interests of Certificateholders and that such waiver, authorisation or determination is not in contravention of any express direction by Extraordinary Resolution or request in writing by the holders of at least 20 per cent. of the aggregate face amount of the Certificates then outstanding.

18.4 In connection with the exercise by it of any of its powers, authorities and discretions (including, without limitation, those referred to in this Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*), the Delegate shall have regard to the interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders except to the extent provided in Condition 13 (*Taxation*).

18.5 Any modification, waiver, authorisation or determination shall be binding on all of the Certificateholders and shall be notified to the Certificateholders as soon as practicable thereafter in accordance with Condition 17 (*Notices*).

19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. GOVERNING LAW AND DISPUTE RESOLUTION

20.1 Governing Law

The Declaration of Trust (including these Conditions) and the Certificates, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

20.2 Arbitration

Subject to Condition 20.3 (*Option to Litigate*), any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Declaration of Trust (including these Conditions) and the Certificates (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity of any of them or a dispute relating to any non-contractual obligations arising out of or in connection with them) (a **Dispute**) shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules of the LCIA (the **Rules**), which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 20.2 (*Arbitration*). For these purposes:

(a) the seat of arbitration shall be London;

(b) there shall be three arbitrators, each of whom shall be disinterested in the arbitration and shall be an attorney experienced in international securities transactions. The parties to the Dispute shall each nominate one arbitrator and both arbitrators in turn shall nominate a further arbitrator who shall be the presiding arbitrator of the tribunal. In cases where there are multiple claimants and/or multiple respondents, the class of claimants jointly, and the class of respondents jointly, shall each nominate one arbitrator. If the party nominated arbitrators fail to nominate the third arbitrator within 15 days of the nomination of the second arbitrator, such arbitrator shall be appointed by the LCIA; and

(c) the language of the arbitration shall be English.

20.3 Option to Litigate

Notwithstanding Condition 20.2 (*Arbitration*) above, the Delegate or (only where permitted to take action in accordance with the terms of the Declaration of Trust) any Certificateholder may in the alternative, and at its sole discretion, by notice in writing to the Trustee and ADIB (as applicable):

(a) within 28 days of service of a Request for Arbitration (as defined in the Rules); or

(b) if no arbitration has commenced,

require that a Dispute be heard by a court of law. If such notice is given, the Dispute to which such notice refers shall be determined in accordance with Condition 20.5 (*Submission to Jurisdiction*) and any arbitration commenced under Condition 20.2 (*Arbitration*) in respect of that Dispute will be terminated. With the exception of the Delegate (whose costs will be borne by the Trustee, failing which ADIB), each of the parties to the terminated arbitration will bear its own costs in relation thereto.

20.4 Notice to Terminate

If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the Delegate or (but only where it is permitted to take action in accordance with the terms of the Declaration of Trust) any Certificateholder must promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

(a) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;

(b) his entitlement to be paid his proper fees and disbursements; and

(c) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

20.5 Submission to Jurisdiction

If a notice is issued pursuant to Condition 20.3 (*Option to Litigate*), the following provisions shall apply:

(a) subject to paragraph (c) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and each of the Trustee and ADIB submits to the exclusive jurisdiction of such courts;

(b) each of the Trustee, the Delegate and ADIB agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(c) this Condition 20.5 (*Submission to Jurisdiction*) is for the benefit of the Delegate and the Certificateholders only. As a result, and notwithstanding paragraphs (a) and (b) above, the Delegate and the Certificateholders may take proceedings relating to a Dispute (the **Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Delegate and the Certificateholders may take concurrent Proceedings in any number of jurisdictions.

20.6 Appointment of Process Agent

Each of the Trustee and ADIB has, in the Declaration of Trust, appointed Law Debenture Corporate Services Limited at its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent for service of process and has undertaken that, in the event of Law Debenture Corporate Services Limited ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings or Disputes and notify the Delegate and the Certificateholders of such appointment in accordance with this Condition 20.6 (*Appointment of Process Agent*). Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

20.7 Waiver of Immunity

Under the Declaration of Trust, ADIB has irrevocably and unconditionally waived any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consented to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order, judgment or award made or given in connection with any Proceedings or Disputes.

20.8 Waiver of Interest

(a) Each of the Trustee, the Delegate and ADIB has irrevocably agreed in the Declaration of Trust that no interest will be payable or receivable under or in connection therewith and in the event that it is determined that any interest is payable or receivable in connection therewith by a party, whether as a result of any judicial award or by operation of any applicable law or otherwise, such party has agreed to waive any rights it may have to claim or receive such interest and has agreed that if any such interest is actually received by it, it shall promptly donate the same to a registered or otherwise officially recognised charitable organisation.

(b) For the avoidance of doubt, nothing in this Condition 20.8 (*Waiver of Interest*) shall be construed as a waiver of rights in respect of Mudaraba Profit, Final Mudaraba Profit, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit, Indemnity Payment, Premium, Periodic Distribution Amounts, Outstanding Payments or profit of any kind howsoever described payable by ADIB (in any capacity) or the Trustee (in any capacity) pursuant to the Transaction Documents and/or these Conditions, howsoever such amounts may be described or re-characterised by any court or arbitral tribunal.

GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Certificates whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Unless otherwise defined, terms defined in the Conditions have the same meaning below.

Form of the Certificates

The Certificates will be in registered form and will be issued outside the United States to persons who are not U.S. persons in reliance on Regulation S.

The Certificates will be represented by beneficial interests in a global certificate in registered form the Global Certificate. The Global Certificate will be deposited with a common depositary for Euroclear and Clearstream and will be registered in the name of a nominee for the common depositary. Persons holding ownership interests in the Global Certificate will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Certificates in fully registered form.

Holders

For so long as the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the registered holder of the Global Certificate shall, except as ordered by a court of competent jurisdiction or as required by law, be treated as the owner thereof (the **Registered Holder**). Each of the persons (other than another clearing system) who is for the time being shown in the records of either such clearing system as the holder of a particular aggregate face amount of such Certificates (the **Accountholders**) (in which regard any certificate or other document issued by a clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the Certificateholder in respect of the aggregate face amount of such Certificates standing to its account in the records of Euroclear or Clearstream, Luxembourg, as the case may be, other than for the purpose of payments in respect thereof, the right to which shall be vested solely in the Registered Holder, as against the Trustee and an Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Registered Holder (and such payment obligations of the Trustee will be discharged by payment to the Registered Holder in respect of each amount so paid), and the expressions **Certificateholder** and **holder of Certificates** and related expressions shall be construed accordingly. In addition, holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Cancellation

Cancellation of any Certificate represented by the Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register.

Payments

Payments of any amount in respect of the Certificate represented by the Global Certificate will, in the absence of any provision to the contrary, be made to, or to the order of, the person shown on the Register as the registered holder of the Global Certificate at the close of business on the record date which shall be the Clearing System Business Day immediately prior to the due date for payment (where **Clearing System Business Day** means Monday to Friday inclusive except 25 December and 1 January). Upon payment of any amount in respect of the Certificates represented by the Global Certificate, the details of such payment shall be entered by the Registrar in the Register.

None of the Trustee, the Delegate, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Payments of the Dissolution Distribution Amount in respect of Certificates represented by the Global Certificate will be made upon presentation and surrender of the Global Certificate at the specified office of the Registrar or such other office as may be specified by the Registrar subject to and in accordance with the Conditions and the Declaration of Trust. Distributions of amounts with respect to book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures. A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the Registrar and shall be *prima facie* evidence that payment has been made.

Notices

For so long as all of the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices may be given by delivery of the relevant notice to those clearing systems for communication to entitled Accountholders in substitution for notification as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given to the Certificateholders on the day on which such notice is delivered to the relevant clearing systems.

Whilst any of the Certificates held by a Certificateholder are represented by the Global Certificate, notices to be given by such Certificateholder may be given (where applicable) through Euroclear and/ or Clearstream, Luxembourg and otherwise in such manner as the Principal Paying Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

Registration of Title

The Registrar will not register title to the Certificates in a name other than that of a nominee for the Common Depositary for a period of seven calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Distribution Amount in respect of the Certificates.

Record dates will be determined in accordance with the standard practices of Euroclear and Clearstream, Luxembourg.

Transfers

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear or Clearstream, Luxembourg and their respective direct and indirect participants in accordance with their respective rules and procedures.

Exchange for Definitive Certificates

Interests in the Global Certificate will be exchangeable (free of charge to the holder), in whole but not in part, for Definitive Certificates only upon the occurrence of an Exchange Event. The Trustee will promptly give notice to Certificateholders in accordance with Condition 17 (*Notices*) if an Exchange Event occurs. For these purposes, **Exchange Event** means that: (i) an ADIB Event (as defined in the Conditions) has occurred and a Dissolution Notice has been delivered pursuant to Condition 12.1 (*ADIB Events*); or (ii) Certificates represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, and any such clearing system has been closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no successor or alternative clearing system satisfactory to the Delegate is available. If an Exchange Event occurs, any of the Trustee, the Delegate or Euroclear and/or

Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Global Certificate) may give notice to the Registrar requesting exchange.

In such circumstances, the Global Certificate shall be exchanged in full for Definitive Certificates and the Trustee will, at the cost of the Trustee (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion and dispatch to the Certificateholders. Any exchange shall occur no later than ten days after the date of receipt of the first relevant notice by the Registrar. A person having an interest in the Global Certificate must provide the Registrar with a written order containing instructions (and such other information as the Trustee and the Registrar may require) to complete, execute and deliver such Definitive Certificates.

In this Prospectus, **Definitive Certificate** means a trust certificate in definitive registered form issued by the Trustee in accordance with the provisions of the Declaration of Trust in exchange for the Global Certificate, such trust certificate substantially in the form set out in the Schedules to the Declaration of Trust.

Electronic Consent and Written Resolution

While any Global Certificate is registered in the name of any nominee for Euroclear or Clearstream, Luxembourg, then:

(a) approval of a resolution proposed by the Trustee, ADIB or the Delegate (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates then outstanding (an **Electronic Consent** as defined in the Declaration of Trust) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the special quorum (as specified in the Declaration of Trust) was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held, and shall be binding on all Certificateholders whether or not they participated in such Electronic Consent; and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Declaration of Trust) has been validly passed, the Trustee, the Delegate and ADIB shall be entitled to rely on consent or instructions given in writing directly to the Trustee, the Delegate and/or ADIB, as the case may be, by Accountholders in the clearing system with entitlements to such Global Certificate or, where the Accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, ADIB, the Trustee and/or the Delegate, as the case may be, have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting or implementation of such consent or instructions. Any resolution passed in such manner shall be binding on all Certificateholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, **commercially reasonable evidence** includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Certificates. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Certificates is clearly identified together with the amount of such holding. None of the Trustee, ADIB and/or the Delegate shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

The net proceeds of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to ADIB (as Mudareb) as Mudaraba Capital pursuant to the terms of the Mudaraba Agreement and will be used by ADIB to enhance its tier 1 capital as well as for general corporate purposes, all in accordance with the investment plan set out in the Mudaraba Agreement.

DESCRIPTION OF THE TRUSTEE

General

ADIB Capital Invest 2 Ltd., a Cayman Islands exempted company with limited liability, was incorporated on 12 January 2015 under the Companies Law (2013 Revision) of the Cayman Islands with company registration number 295506. The Trustee has been established as a company for the sole purpose of issuing the Certificates and entering into the transactions contemplated by the Transaction Documents. The registered office of the Trustee is at P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands, and its telephone number is +1 345 945 7099.

The authorised share capital of the Trustee is U.S.$50,000 ordinary shares of U.S.$1.00 each, 250 of which have been issued. All of the issued shares (the **Shares**) are fully-paid and are held by MaplesFS Limited as share trustee (the **Share Trustee**) under the terms of a share declaration of trust (the **Share Declaration of Trust**) under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Share Declaration of Trust) and may only dispose or otherwise deal with the Shares with the approval of the Delegate for so long as there are any Certificates outstanding. Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has the power to benefit the Qualified Charities (as defined in the Share Declaration of Trust). It is not anticipated that any distribution will be made whilst any Certificate is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from its holding of, the Shares.

Business of the Trustee

The Trustee will not have any substantial liabilities other than in connection with the Certificates and any further certificates issued pursuant to the Conditions. The Certificates are the obligations of the Trustee alone and not the Share Trustee.

The objects for which the Trustee is established are set out in clause 3 of its Memorandum of Association as registered or adopted on 12 January 2015.

Financial Statements

Since the date of incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements.

Directors of the Trustee

The directors of the Trustee are as follows:

Name	Principal Occupation
John Curran	Assistant Vice President at Maples Fund Services (Middle East) Limited
Cleveland Stewart	Senior Vice President at MaplesFS Limited

The business address of John Curran is c/o Maples Fund Services (Middle East) Limited, Liberty House, 6th Floor, Office 616, P.O. Box 506734, Dubai, UAE.

The business address of Cleveland Stewart is c/o MaplesFS Limited, P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

There are no potential conflicts of interest between the private interests or other duties of the directors listed above and their duties to the Trustee.

The Trustee Administrator

MaplesFS Limited also acts as Trustee Administrator. The office of the Trustee Administrator serves as the general business office of the Trustee. Through the office, and pursuant to the terms of an amended and restated corporate services agreement entered into between the Trustee and the Trustee Administrator (the **Corporate Services Agreement**), the Trustee Administrator has agreed to perform in the Cayman Islands, the UAE and/or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Trustee and to provide certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Trustee and the Trustee Administrator have also entered into a registered office agreement (the **Registered Office Agreement**) for the provision of registered office facilities to the Trustee. In consideration of the foregoing, the Trustee Administrator will receive various fees payable by the Trustee at rates agreed upon from time to time, plus expenses.

The terms of the Corporate Services Agreement and Registered Office Agreement provide that either the Trustee or the Trustee Administrator may terminate such agreements upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Corporate Services Agreement and the Registered Office Agreement provide that either party shall be entitled to terminate such agreements by giving at least three months' notice in writing to the other party with a copy to any applicable rating agency.

The Trustee Administrator will be subject to the overview of the Trustee's Board of Directors.

The Trustee Administrator's principal office is P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

The directors of the Trustee are all employees or officers of the Trustee Administrator or an affiliate thereof. The Trustee has no employees and is not expected to have any employees in the future.

The AML Services Provider

Maples Compliance Services (Cayman) Limited will provide certain services to the Trustee in connection with the Trustee's obligations under the Cayman AML Regulations (the **AML Services Provider**) pursuant to the terms of an AML services agreement to be entered into between the Trustee and the AML Services Provider (the **AML Services Agreement**). Under the terms of the AML Services Agreement, the AML Services Provider, either by itself or through an affiliate, will provide the services set out in the AML Services Agreement until termination of the AML Services Agreement. The terms of the AML Services Agreement provide that either the Trustee or the AML Services Provider may terminate the AML Services Agreement upon the occurrence of certain stated events, including any breach by the other party of its obligations thereunder. In addition, the AML Services Agreement provides that either party shall be entitled to terminate the AML Services Agreement by giving at least one month prior notice in writing to the other party. In consideration of the foregoing, the AML Services Provider will receive various fees payable by the Trustee at rates agreed upon from time to time, plus expenses.

The AML Services Provider will be subject to the overview of the Trustee's Board of Directors.

The AML Services Provider is an affiliate of the Trustee Administrator and its principal office is P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

SELECTED FINANCIAL INFORMATION

The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and the other information contained in this Prospectus. The Audited Financial Statements have been prepared in accordance with International Financial Reporting Standards and the Interim Financial Statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Investors should not rely on interim results as being indicative of results ADIB may expect for the full year.

The following table sets forth selected financial information for ADIB as at, and for the six-month periods ended, 30 June 2017 and 30 June 2018, and the years ended 31 December 2015, 31 December 2016 and 31 December 2017, in accordance with the methodology set out in the "Presentation of certain financial and other information" section of this Prospectus.

The income statement data and statement of financial position data appearing below have been presented in AED and, for convenience only, in United States of America dollars using an exchange rate of US$ 1.00 = AED 3.6725.

	As at, and for the period/year ended				
	30 June 2017	***30 June 2018***	***31 December 2015***	***31 December 2016***	***31 December 2017***
Income Statement Data *(in AED millions)*					
Total Operating Income	3,059.7	3,030.7	5,751.0	5,993.3	6,214.3
Total Operating Expenses	(1,636.1)	(1,563.4)	(3,194.0)	(3,417.8)	(3,299.5)
Net Profit[(1)]	1,129.1	1,163.0	1,934.0	1,953.6	2,300.1
Statement of Financial Position Data *(in AED millions)*					
Total Assets	122,227.3	122,938.1	118,377.7	122,289.7	123,277.6
Total Liabilities	106,646.9	106,397.0	103,302.4	106,831.1	106,704.4
Equity attributable to ordinary shareholders[(2)]	9,907.9	10,868.7	9,403.2	9,786.1	10,900.7
Income Statement Data *(in US$ millions)*					
Total Operating Income	833.1	825.2	1,566.0	1,631.9	1,692.1
Total Operating Expenses	(445.5)	(425.7)	(869.7)	(930.7)	(898.4)
Net Profit[(1)]	307.4	316.7	526.6	531.9	626.3
Statement of Financial Position Data *(in US$ millions)*					
Total Assets	33,281.8	33,475.3	32,233.5	33,298.8	33,567.8
Total Liabilities	29,039.3	28,971.3	28,128.6	29,089.5	29,055.0
Equity attributable to ordinary shareholders[(2)]	2,697.9	2,959.5	2,560.4	2,664.7	2,968.2
Profitability					
Return on Average Assets (%)[(3)]	0.92%	0.94%	1.68%	1.62%	1.87%
Return on Average equity attributable to ordinary shareholders (%)[(4)]	11.5%	10.7%	22.2%	20.4%	22.2%
Basic and diluted earnings Per Share (in AED)	0.307	0.317	0.529	0.520	0.627
Capital					
Equity attributable to ordinary shareholders to Total Assets (%)	8.11%	8.84%	7.94%	8.00%	8.84%
Tier 1 capital expressed as a percentage of total risk weighted assets (Basel II)	15.00%	-	14.59%	14.61%	16.18%
Capital Adequacy Ratio (Basel II)	15.61%	-	15.14%	15.25%	16.71%
Tier 1 capital expressed as a percentage of total risk	-	15.74%	-	-	15.06%

	As at, and for the period/year ended				
	30 June 2017	***30 June 2018***	***31 December 2015***	***31 December 2016***	***31 December 2017***
weighted assets (Basel III)					
Capital Adequacy Ratio (Basel III)	-	16.83%	-	-	17.02%
Liquidity & Business Indicators					
Due from banks[5]/Due to financial institutions...........	132.9%	191.7%	152.7%	116.6%	132.6%
Liquid Assets[6]/Total Assets......................................	7.2%	6.2%	10.6%	9.8%	11.8%
Financing[7]/Total Deposits[8]	74.3%	73.8%	80.0%	75.2%	73.8%
Depositors' accounts/Total Deposits[8]........................	96.8%	97.9%	96.8%	95.0%	96.4%
Non-performing financing assets (**NPA**)[9]/Gross Financing[10]...	4.70%	5.51%	3.30%	3.98%	5.03%
Provision for financing assets[11]/NPA	79.4%	75.7%	111.4%	97.5%	80.2%
Financing/Depositors' accounts..................................	76.7%	75.4%	82.6%	79.1%	76.5%

(1) "Net Profit" means profit for the period or profit for the year, as applicable.

(2) "Equity attributable to ordinary shareholders" comprises the sum of equity attributable to the equity holders of ADIB and non-controlling interest excluding tier 1 sukuk.

(3) The Return on Average Assets (%) figures determined for the six-month periods ended 30 June 2017 and 30 June 2018 are not annualised figures. The Return on Average Assets (%) figures are determined by dividing Net Profit for the period by average assets for the period. For the years ended 31 December 2015, 2016 and 2017, average assets are determined by adding the Total Assets at the beginning and at the end of the year and dividing by two which amounted to AED 115,140.7 million in 2015, AED 120,333.7 million in 2016 and AED 122,783.7 million in 2017. For the six-month periods ended 30 June 2017 and 30 June 2018, average assets are determined by adding total assets at the beginning and at the end of the period and dividing by two which amounted to AED 122,258.5 million for the six-month period ended 30 June 2017 and AED 123,107.9 million for the six-month period ended 30 June 2018.

(4) The Return on Average equity attributed to equity shareholders (%) figures determined for the six-month periods ended 30 June 2017 and 30 June 2018 are not annualised figures. The Return on Average equity attributable to ordinary shareholders figures are determined by dividing Net Profit for the period by average equity attributable to ordinary shareholders for the period. For the years ended 31 December 2015, 2016 and 2017, average equity attributable to ordinary shareholders is determined by adding total equity attributable to ordinary shareholders at the beginning and at the end of the year and dividing by two which amounted to AED 8,723.4 million in 2015, AED 9,594.7 million in 2016 and AED 10,343.4 million in 2017. For the six-month periods ended 30 June 2017 and 30 June 2018, average equity attributed to equity shareholders is determined by adding equity attributed to equity shareholders at the beginning and at the end of the period and dividing by two which amounted to AED 9,847.0 million for the six-month period ended 30 June 2017 and AED 10,884.7 million for the six-month period ended 30 June 2018.

(5) "Due from banks" comprises balances and *wakala* deposits with Islamic banks and other financial institutions and *murabaha* and *mudaraba* with financial institutions.

(6) "Liquid Assets" comprises short-term cash and balances with central banks, short-term balances and *wakala* deposits with Islamic banks and other financial institutions and short-term *murabaha* and *mudaraba* with financial institutions.

(7) "Financing" comprises the sum of *murabaha* and other Islamic financing and *ijara* financing.

(8) "Total Deposits" comprises the sum of depositors' accounts and due to financial institutions.

(9) "Non-performing financing assets" comprises individually impaired financing assets under *murabaha* and other Islamic financing and *ijara* financings.

(10) "Gross Financing" is determined by adding back provision for impairment against *murabaha* and other Islamic financing and *ijara* financing to the financing portfolio. The financing portfolio comprises the sum of *murabaha* and other Islamic financing and *ijara* financing.

(11) "Provision for financing assets" comprises the sum of total provision for impairment on *murabaha* and other Islamic financing and total provision for impairment on *ijara* financing.

DESCRIPTION OF ABU DHABI ISLAMIC BANK PJSC

History and overview

Abu Dhabi Islamic Bank PJSC (**ADIB**) was established in the Emirate of Abu Dhabi by virtue of Amiri Decree No. 9 of 1997 and pursuant to commercial license no. CN-1001923 dated 3 November 1997 issued by the Abu Dhabi Department of Economic Development in accordance with Federal Law No. 8 of 1984 Concerning Commercial Companies and the laws amending the same. ADIB's registered office is Al Bateen Building, King Abdullah bin Abdulaziz Street, P.O. Box 313, Abu Dhabi, UAE (telephone: +971 26 100 600). ADIB's shares are traded on the ADX.

ADIB was established by the Government of Abu Dhabi with the purpose of being the leading Islamic bank in Abu Dhabi and the UAE and on 18 October 1998, ADIB was licensed as an Islamic bank by the Central Bank pursuant to the UAE Federal Banking Law and the UAE Federal Islamic Banking Law. At the time of its incorporation, ADIB was the first Islamic bank to be established in Abu Dhabi and only the second Islamic bank in the UAE. ADIB commenced its operations on 11 November 1998 from its headquarters in Abu Dhabi and was formally inaugurated by His Highness Sheikh Abdullah bin Zayed Al Nahyan, the then UAE Minister of Culture, on 18 April 1999.

ADIB was listed on the ADX on 15 November 2000 and, as at 30 June 2018, the issued and fully paid share capital of ADIB was AED 3,168,000,000 (corresponding to US$ 862,627,637.8). As at close of trading on 30 June 2018, ADIB's market capitalisation was AED 12.2 billion.

As at 30 June 2018, ADIB had total assets of AED 122.9 billion and total equity of AED 16.5 billion, while for the purposes of reporting its regulatory capital ratios, ADIB had common equity tier 1 capital of AED 10.0 billion, total tier 1 capital of AED 15.3 billion and total regulatory capital of AED 16.4 billion. During the year ended 31 December 2017, ADIB had total net revenues (total operating income net of distribution to depositors and sukuk holders) of AED 5.63 billion and a Net Profit of AED 2.30 billion.

As one of the leading Islamic banks in the Middle East, ADIB provides retail, business, corporate and private banking products and services as well as wealth management solutions to more than one million customers. In its UAE home market, ADIB has one of the largest distribution networks with 86 retail branches and 714 automated teller machines (**ATMs**) and also offers world-class online, mobile and telephone banking services, providing clients with digital access to their accounts.

Outside of the UAE, ADIB is present in six strategic markets: Egypt, where it has 70 branches, the Kingdom of Saudi Arabia, the United Kingdom, Sudan, Iraq and Qatar.

In recent years, ADIB has been awarded numerous accolades, including:

- *World's Best Islamic Bank*, *Islamic Bank of the Year – Middle East* and *Islamic Bank of the Year – UAE,* by the Banker Magazine;
- *Best UAE Islamic Bank*, *Best Islamic Bank in the Middle East* and *Innovation in Islamic Finance*, by Euromoney;
- *Best Islamic Bank in the UAE*, by the EMEA Finance Magazine;
- *Best Islamic Bank in the UAE, Best Overall Islamic Retail Bank Globally* and *Best Islamic Digital Bank*, by the Global Finance Magazine;
- *Best Overall Islamic Bank*, *Best Islamic Bank in the UAE* and *Best Global Islamic Retail Bank*, by the Islamic Finance News Awards;

- *Best Overall Islamic Bank* and *Best Islamic Bank in the UAE*, by the International Financial Law Review Magazine;
- *Global Islamic Business Award*, by the Department of Economic Development;
- *Excellence in Digital Banking Award*, by Lafferty Global Awards; *Best Overall Bank in Customer Experience*, by Ethos Consultancy; and
- *Best Private Bank in the UAE*, by the Banker Magazine.

In addition to operating its own business divisions, ADIB has also established a number of subsidiaries, including: (i) Abu Dhabi Islamic Securities Company LLC (**ADIB Securities**) to carry on brokerage operations; (ii) Burooj Properties to hold investment and development properties; (iii) MPM Properties LLC (**MPM Properties**) to provide real estate property management, agency and valuation services to ADIB's banking business, its customers and other third parties; and (iv) Kawader Services Company LLC (**Kawader Services**), an outsource staffing office exclusively dedicated to assisting ADIB in its recruitment of non-professional manpower.

In recent years, ADIB has also invested in a number of associates, joint ventures and external growth opportunities, including: (i) the acquisition of a 51 per cent. equity stake in Saudi Finance Company JSC(C) (**SFC**) as part of ADIB's international expansion and to tap into the large consumer finance market in the Kingdom of Saudi Arabia; (ii) the establishment of a wholly owned banking subsidiary, ADIB (UK) Limited, in the United Kingdom to offer a range of banking services to ADIB's Priority and Private Banking clients, whose interests are increasingly international, and who often choose London as their base for business and personal transactions; (iii) the acquisition of a 51 per cent. stake in Arab Link Money Transfer PSC (**Arab Link**), a UAE-based currency exchange house offering a range of currency exchange and money transfer services for individuals and businesses (now in liquidation – see the "*Description of Abu Dhabi Islamic Bank PJSC – Investments in associates and joint ventures*" section of this Prospectus); (iv) the establishment of a joint venture by acquiring a 51 per cent. stake in Abu Dhabi Islamic Merchant Acquiring Company LLC (**ADIMAC**), which provides payment solutions to retail and other merchants in the UAE; and (v) the *Shari'a*-compliant acquisition of Barclays' UAE retail banking business, comprising approximately 110,000 customers, a portfolio of home finance, personal finance, business covered cards (*Shari'a* compliant substitute) and deposits, as well as 145 UAE-based staff.

ADIB is also a major investor in: (i) Bosna Bank International D.D. (**BBI**), which provides Islamic banking services in Bosnia and Herzegovina; (ii) Abu Dhabi National Takaful Company PJSC (**ADNTC**), which provides Islamic insurance products in the UAE; and (iii) ADIB Egypt, which provides banking services in Egypt and which is in the process of being converted into an Islamic bank.

See "*Subsidiaries*" and "*Investments in associates and joint ventures*" for a full description of ADIB's subsidiaries, associates and joint ventures.

Share capital and shareholder structure

At incorporation, the authorised and issued share capital of ADIB was AED 1 billion (corresponding to US$ 272.3 million) divided into 100 million fully paid shares with a nominal value of AED 10 each. Since incorporation, the share capital of ADIB has undergone seven changes:

- on 26 March 2006, the shareholders approved a 20 per cent. share dividend, resulting in an increase to the issued and fully paid share capital of ADIB from AED 1 billion to AED 1.2 billion;
- on 26 March 2006, the shareholders approved an AED 300 million rights issue, resulting in an increase to the issued and fully paid share capital of ADIB from AED 1.2 billion to AED 1.5 billion;

- on 29 March 2007, ADIB issued an AED 2 billion convertible sukuk to EIIC which was convertible into ordinary shares on or before 28 March 2008. On 26 February 2008, EIIC exercised its rights to convert the sukuk into approximately 47.059 million ordinary shares of AED 10 each at the rate of AED 42.50 per share. Accordingly, with effect from 26 February 2008, the issued and fully paid share capital of ADIB was increased by approximately AED 470.588 million (corresponding to US$ 128.1 million) to AED 1.971 billion, with the balance of approximately AED 1.529 billion (corresponding to US$ 416.4 million) being credited to the legal reserve;

- on 18 March 2008, the Board of Directors approved a share split of 10 shares of AED 1 each for each ordinary share of AED 10;

- on 21 April 2010, the shareholders approved a 20 per cent. share dividend, resulting in an increase in the issued and fully paid share capital of ADIB from AED 1.971 billion to AED 2.365 billion;

- on 26 March 2014, the shareholders approved a 26.87 per cent. share dividend, resulting in an increase in the issued and fully paid share capital of ADIB from AED 2.365 billion to AED 3.0 billion; and

- on 21 September 2015, ADIB conducted an AED 504 million rights issue, resulting in an increase to the issued and fully paid share capital of ADIB from AED 3.0 billion to AED 3.168 billion, with the balance of AED 336 million allocated to the legal reserve.

As at 30 June 2018, the authorised share capital of ADIB was AED 4 billion and the issued and fully paid share capital of ADIB was 3.168 billion shares of AED 1 each amounting to AED 3.168 billion (corresponding to US$ 862.6 million).

On 19 August 2018, the shareholders of ADIB authorised an increase in ADIB's issued share capital from AED 3,168,000,000 to AED 3,632,000,000 with the issuance of 464,000,000 new shares, to be issued at an issue price of AED 2.16 per new share, reflecting a nominal value of AED 1.00 per new share and a share premium of AED 1.16 per new share. These new shares are offered to (i) registered shareholders of ADIB as at 13 September 2018 and (ii) those persons purchasing rights to ADIB shares during the trading period from 25 September 2018 until the close of trading on 9 October 2018.

As at 30 June 2018, the shareholder structure of ADIB was as follows: EIIC, an Abu Dhabi-based investment company wholly owned by National Holding LLC (a privately-owned holding company based in Abu Dhabi and controlled by members of the Ruling Family of Abu Dhabi), held approximately 40.23 per cent. of the share capital of ADIB; Abu Dhabi Investment Council held approximately 7.62 per cent. of the share capital of ADIB; members and associates of the Ruling Family of Abu Dhabi held approximately 9.50 per cent. of the share capital of ADIB; and the UAE General Pension and Social Security Authority held approximately 1.54 per cent. of the share capital of ADIB.

The remaining shares, amounting to approximately 1,271 million shares (representing approximately 40.13 per cent. of the share capital of ADIB), were held by over 45,000 UAE nationals and UAE companies.

The 10 largest shareholders (by percentage holding) of ADIB and details of their respective shareholdings as at 30 June 2018 are set out below:

Investor name	*No. of Shares*	*Percentage of total share capital*
EIIC	1,274,630,118	40.23%
Abu Dhabi Investment Council	241,258,754	7.62%
H.H. Sheikh Khaled Bin Zayed Bin Sultan Al-Nahyan...................	79,036,190	2.49%
H.H. Sheikh Hammed Bin Zayed Bin Sultan Al-Nahyan	64,389,367	2.03%
H.E. Jawaan Awaidha Suhail Al Khaili..	55,962,133	1.77%
UAE General Pension and Social Security Authority	48,910,786	1.54%

H.H. Sheikh Nasser Bin Zayed Bin Sultan Al-Nahyan	35,628,675	1.12%
H.H. Suroor Bin Muhammad Bin Khalifa Al-Nahyan	33,942,317	1.07%
H.E. Mohammad Bin Sultan Bin Suroor Al-Dhaheri	32,000,000	1.01%
Emirates Development Bank	30,953,903	0.98%
Total	1,896,712,243	59.87%

The rights of the shareholders of ADIB are contained in its Articles of Association. ADIB is managed in accordance with the Articles of Association and the relevant provisions of UAE law.

The Articles of Association of ADIB impose foreign ownership restrictions on the shareholdings of ADIB. Article 7 of the Articles of Association of ADIB provides that 75 per cent. of the shares of ADIB must be owned by UAE nationals and while non-UAE nationals are permitted to own shares, they must not own more than 25 per cent. of the shares of ADIB. The shareholders of ADIB have authorised the Board of Directors to set a period of time to implement Article 7. As at the date of this Prospectus, the Board of Directors has not fixed a period of time by which it intends to implement Article 7.

In addition, the Articles of Association of ADIB also provides that no dealing or assignment of any share of ADIB shall be registered if the transferee is, or would become as a result of such dealing, the owner, directly or indirectly, of more than 5 per cent. of the capital of ADIB, unless the transferee is EIIC in its capacity as the strategic shareholder of ADIB.

Objective and strategy

ADIB's primary objective is to retain its position as a top tier regional bank providing a diverse range of *Shari'a*-compliant financial services. In order to achieve this, ADIB continues to pursue strategies to build on its strengths in the retail and corporate banking sectors, focussing on excellence in customer service, technological advancement and an expanding range of products and services.

ADIB's overall strategy is based on three pillars: (i) build market leadership in the UAE; (ii) create an integrated financial services group; and (iii) pursue international growth opportunities.

Build market leadership in the UAE

ADIB's core strength in the UAE market has traditionally been its retail presence, which continues to remain ADIB's key area for growth and development. The acquisition of Barclays' UAE retail banking business in 2014 has helped ADIB to supplement its core Emirati customer base by developing its expatriate business segment. ADIB continues to expand its products and services offering in the UAE through its distribution channels including mobile, online and branch. This has helped ADIB's retail business in the UAE to maintain its market-leading position in *Shari'a*-compliant banking and its third-ranked position overall. ADIB's retail business has received awards for being the best retail bank in the UAE.

The second key area for ADIB is wholesale banking, where ADIB has well-established business lines in corporate banking, commercial real estate, corporate finance, investment banking and global transaction services. ADIB has retained its prominent position in the commercial real estate sector by offering integrated, comprehensive service packages including advisory, valuation, financing and syndication. ADIB has invested heavily in the development of its transaction banking services to complete the range of services offered to its corporate, financial and government sector customer base. ADIB's objective is to become the best-in-class provider of transaction banking services including cash management, trade finance and treasury.

Customer service excellence is a key priority for ADIB. In response to changes in technology, regulation and customer behaviour, ADIB has made significant investments in digital technology. ADIB has conducted a wide-ranging digital transformation to establish its UAE leadership position and build mechanisms for continuous differentiation in both retail and wholesale banking. The digital strategy is focussed on a superior customer experience, using technology to analyse customers' needs and respond quickly with market-leading innovations. ADIB has also launched the region's first Islamic digital bank, called "*Smartbanking*". *Smartbanking* is focussed on the millennial demographic and features digital onboarding and a range of innovative products, such as instant finance and financial advisory, delivered through a dedicated and intuitive smartphone banking application and online banking platform. *Smartbanking* is fully-integrated with the "*moneysmart*" community launched by ADIB in 2017, which is aimed at offering a simple and personalised banking experience that meets the financial and lifestyle needs of the new generation. ADIB continues to enhance its mobile and online banking channels to provide a world-class customer experience and convenient methods to execute transactions.

Create an integrated financial services group

ADIB continues to expand into complementary *Shari'a*-compliant financial services to increase customer acquisition and cross-selling opportunities, and to bolster an increasingly diversified earnings base. Complementary business areas currently include takaful (through ADNTC), stockbroking (through ADIB Securities), merchant acquiring (through ADIMAC), as well as property management, agency and valuation (through MPM Properties).

Pursue international growth opportunities

In view of the growing awareness of ethical banking practices and the acceptance of Islamic banking worldwide, ADIB is increasingly turning its attention to replicating its business model in related markets and importing service and product innovation into the UAE through a systematic approach to geographic expansion. ADIB is developing a core international business and building a platform for integrated value-added services for financial institutions and multi-nationals doing business in and out of the MENA region. ADIB's international expansion commenced in Egypt, followed by the establishment of ADIB businesses in the United Kingdom, Saudi Arabia, Qatar, Iraq and Sudan.

Competitive strengths

ADIB's management believes that it enjoys a number of competitive advantages in terms of its history, management and shareholders, market presence, financial portfolio, growth, products and services, as set out below:

(i) **Strong and influential shareholders**: ADIB's strategic shareholder, EIIC, provides ADIB with the necessary support and public profile to take advantage of growth opportunities. ADIB also has approximately 45,000 minority shareholders, all of whom are UAE nationals or UAE companies.

(ii) **Experienced management**: The senior management team of ADIB has considerable and diverse experience in the banking industry and extensive skills in the operation of Islamic financial institutions in the local, regional and international markets.

(iii) **Historical presence**: As the second oldest Islamic bank in the UAE, ADIB is well-established and has the necessary track record and credibility in developing and offering Islamic finance products to meet the increasingly sophisticated needs of its customers.

(iv) ***Shari'a* Supervisory Board**: The *Shari'a* Supervisory Board comprises pre-eminent scholars in Islamic finance who have significant experience and standing in Islamic banking. The *Shari'a* Supervisory Board's involvement with ADIB's *Shari'a* processes and practices reaffirms ADIB's credibility and has contributed significantly to ADIB's standing in the Islamic banking industry globally.

(v) **Strong and established brand**: ADIB is a recognised and strong brand in the Islamic finance market throughout the MENA region. ADIB's deep affiliation to the local UAE culture has enabled it to be an attractive brand for UAE consumers, which has helped ADIB to gain a significant share of the UAE market and to successfully launch innovative products and services across multiple customer segments.

(vi) **Extensive channel distribution network**: ADIB has the fourth largest branch network of any bank in the UAE, with 86 operating branches as at 30 June 2018. ADIB's customer service is further enhanced by its increasing focus on alternative distribution channels, including a large ATM network of 714 ATMs in the UAE as at 30 June 2018, 24/7 call centres, telephone, internet and mobile banking facilities and a nationwide direct sales unit that operates independently of its branch network.

(vii) **Innovative products and services**: ADIB provides a wide range of innovative products to its customers in order to meet their diverse and sophisticated needs. ADIB was the first Islamic bank to launch and promote an Islamic covered card and the first to launch an Islamic digital bank targeted at millennials, with features such as instant account opening and instant online finance. Other innovative products offered to meet customers' specific needs include: Islamic covered drawings (the *Shari'a* solution for conventional bank overdrafts); "Al Khair" (consumer finance for debt consolidation and *Shari'a* cleansing); and educational finance, travel finance and "Tadawul" (financing the purchase of *Shari'a*-compliant shares). ADIB was also the first Islamic bank in the world to issue an alternative tier 1 capital instrument (in 2012) and was the first UAE bank to conduct a tradeable rights issue (in 2015).

(viii) **Steady growth**: As at 30 June 2018, ADIB had more than one million customers in the UAE, an increase of 5.9 per cent. from 951,284 customers as at 30 June 2017. Total assets grew 0.6 per cent. from AED 122.2 billion (US$ 33.3 billion) as at 30 June 2017 to AED 122.9 billion (US$ 33.5 billion) as at 30 June 2018. During the same period, depositors' accounts grew from AED 100.0 billion (US$ 27.2 billion) to AED 101.2 billion (US$ 27.6 billion), representing an increase of 1.2 per cent.

(ix) **Liquidity**: ADIB remains one of the most liquid banks in the UAE. As at 30 June 2018, ADIB's financing to stable funds ratio was 81.5 per cent. (as compared to 81.0 per cent. as at 30 June 2017 and 80.0 per cent. as at 31 December 2017) and its financing to deposits ratio was 75.4 per cent. (as compared to 76.7 per cent. as at 30 June 2017 and 76.5 per cent. as at 31 December 2017).

Bank operations

ADIB is organised into six customer-focussed business divisions which are led by experienced management teams under the direction of group heads:

(i) *Global Retail Banking* – principally services the banking needs of retail customers and small and medium sized businesses through its large branch network and leading digital capabilities. The Global Retail Banking Group provides a diversified range of products and services, including cards, personal and business finance, account facilities and wealth management.

(ii) *Global Wholesale Banking* – principally services large corporations and public institutions by offering a comprehensive set of innovative products, services and solutions, including transaction banking, corporate finance and investment banking.

(iii) *Private Banking* – dedicated to ultra-high net worth individuals and families. Private Banking offers an entirely bespoke service with access to a comprehensive range of products and services.

(iv) *Treasury* – provides treasury and trade finance services to customers and utilises investment deposits to manage ADIB's funding requirements.

(v) *Real Estate* – principally manages, through MPM Properties and Burooj Properties, the acquisition, sale, leasing, development and ongoing management of land and buildings and all associated activities (see the "*Description of Abu Dhabi Islamic Bank PJSC – Subsidiaries*" section of this Prospectus for further details on MPM Properties and Burooj Properties); and

(vi) *Other Operations* – principally manages ADIB's head office, subsidiaries, associates and joint ventures (save for as set out above), including unallocated costs.

These business divisions are managed from ADIB's headquarters in Abu Dhabi and operated through an extensive network of branches located across the UAE and in ADIB's six strategic markets outside the UAE. Cross-selling of products amongst the divisions is encouraged where relevant to provide customers with solutions to their investment and banking needs.

The divisions are supported by both a risk management unit, which focusses on credit, market and operational risks and which is overseen by the Group Governance and Risk Policy Committee, and by back and middle office units, which provide support in the areas of operations, information technology, *Shari'a*, legal, compliance and human resources. Liquidity risk is managed directly by the Treasury division with oversight from the Asset and Liability Committee. A description of the main divisions is provided below.

Global Retail Banking

Global Retail Banking is mainly comprised of two divisions: (i) "Retail Banking"; and (ii) "Business Banking".

Retail Banking

ADIB aims to become one of the largest retail banks in the UAE and during 2017 it continued to expand into new customer segments, including the expatriates segment, whilst retaining focus on the core UAE national customer base. A continued emphasis on long-term customer relationships and selected industry segments, while remaining loyal to core UAE nationals, saw the number of active customers served by ADIB increase by over 62,000 to 980,000 customers in 2017 (with approximately half representing the UAE national segment and approximately half representing the expatriate segment).

Although 2017 was a year of significant competitor activity, ADIB produced a strong set of results with gains over 2016 in all key measures: total retail banking revenue increased by 5 per cent. (AED 170 million); total retail financing assets increased by 3 per cent. (AED 1,387 million); and total retail deposits rose by 3 per cent. (AED 1,697 million).

ADIB has 86 retail branches, and a network of 714 ATMs. 2017 also saw increased adoption of digital channels including the ADIB smartphone banking application which allows customers to perform a variety of transactions, apply for a number of services and was voted by customers as one of the most popular banking applications in the UAE. The application is now widely used by a large number of ADIB's customers.

ADIB continues to invest in staff training programmes to strengthen the skills of its retail banking staff with respect to customer service, product development, processes and procedures and policies. This not only supports the growth of its people and the quality of the services it provides, but also reflects its commitment to ensure that its services are properly and ethically structured and delivered.

ADIB's performance was reflected in the number of awards won by ADIB during 2017: "*Best Overall Bank for Customer Experience in the UAE*" for the seventh consecutive year and '*Best Overall Call Centre in UAE*" for the fourth consecutive year by Ethos Consultancy.

During 2018, ADIB has continued with its successful retail strategy and has focussed on strengthening its presence in the core UAE nationals segment. ADIB aims to maintain its leading position in key products such as home finance, personal finance and vehicle finance, whilst enhancing customer service and acquiring new customers via digital channels.

ADIB has also launched its ground-breaking digital bank "*Smartbanking*", the region's first Islamic bank targeted at millennial customers. Please refer to the "*Description of Abu Dhabi Islamic Bank PJSC – Objective and strategy*" section for further information on *Smartbanking*.

Business Banking

ADIB's Business Banking strategy is mainly focussed on three areas: growing non-assets income, growing digital channels growth and enhancing customer service. Business Banking achieved growth in non-assets income of 30 per cent. during 2017 driven by higher fees and foreign exchange income, an increase in customers' transactions via electronic channels by 54 per cent. during 2017 and the launch of "ADIB Business Branches" to provide dedicated branch services by experienced staff offering a wide range of services and transactional capabilities. Business Banking has been operating for over 10 years in the UAE market.

Business Banking will focus on growing its share of the SME market in selected business sectors with a greater emphasis on trade and working capital finance, transactional banking and cash management services. Additionally, as part of its corporate social responsibility strategy, Business Banking plans to offer financial education services for startups and SMEs in the UAE to educate business owners and entrepreneurs on a range of relevant subjects.

Global Wholesale Banking

Global Wholesale Banking manages the banking needs of public and private sector institutional customers by offering a comprehensive set of innovative products, services and solutions, including finance, advisory, cash management and trade solutions.

Global Wholesale Banking remains committed to its "2020 strategy" which includes greater capital efficiency, product cross-selling, tighter controls on the cost of credit and a strong expense control culture. In addition:

- ADIB continues to demonstrate a strong track record in financing and advising its clients on capital markets, mergers and acquisitions advisory, syndicated financing, cash management and global trade services;

- ADIB's corporate finance and investment banking credentials remain two of its core strengths in attracting clients;

- ADIB's dedicated team of real estate finance professionals continues to offer a full range of Islamic financing and advisory services;

- ADIB continues to organise its coverage model along industry lines in order to better serve its client base through industry specialisation; and

- ADIB remains on track to implement the "Project LEAP" initiative, which delivers enhanced product offerings to clients such as trade and cash management services. As part of this initiative, ADIB is undertaking a major shift in its processes and procedures to streamline the management of customers' trade finance needs. ADIB is also investing in new technologies to reduce paper usage and to support clients' day-to-day activities. These shifts will expedite turnaround times, create a seamless interaction between ADIB and its customers, improve efficiency and ensure regulatory compliance.

Two key divisions within Global Wholesale Banking – (i) Corporate Finance and Investment Banking (**CFIB**); and (ii) Global Transaction Banking (**GTB**) – are further described below.

Corporate Finance & Investment Banking

The CFIB team advises on transactions ranging from structured and syndicated finance, sukuk, mergers and acquisitions to advisory products. CFIB arranges structured and syndicated finance deals on behalf of government related enterprises (**GREs**), major corporates and financial institutions.

In the Islamic capital markets, ADIB advises on sukuk issues for corporates, GREs and sovereigns. CFIB also advises on equity capital markets transactions such as initial public offerings, for which ADIB provides advisory, valuation and distribution expertise.

Global Transaction Banking

GTB caters to large and mid-size corporates, SMEs and financial institutions by providing cash management and trade finance products and solutions across the MENA region. GTB offers a host of efficient and cost-effective solutions for payments, collection, liquidity management and financing solutions for letters of credit and open account invoices that meet the working capital requirements of corporate and financial institutions, both domestically and globally across all industry segments. GTB also provides mobile and web access for the institutional customers that enable it to monitor and manage their accounts.

GTB focusses on:

- achieving strong revenue growth across various client segments. Recently, GTB launched an export finance product that will support both the corporate and financial institutions businesses;

- Project LEAP, which on completion will enable the launch of over 100 new products that will deliver *Shari'a*-compliant solutions. This is a major initiative that requires a multi-disciplinary approach to change the back-end, operations and online and mobile banking offerings of cash management and trade finance. As part of this project ADIB's relationship managers, GTB sales and service personnel, will have access to the latest customer relationship management software, which will enable ADIB to better serve its clients and support their needs in a more efficient manner;

- mobile banking, which has quickly become a pivotal product offering for ADIB's customers, as evident from its rapid popularity across multiple business segments; and

- other initiatives, including the launch of 'liquidity sweeping' and trade risk participation sell downs.

Private Banking

Private Banking offers investment advisory and securities trading, deposits and financing services to high and ultra-high net worth individuals and families. Private Banking also offers wealth and bespoke investment products that are either developed by ADIB or sourced from external investment product providers.

Private Banking saw significant activity in 2017. Private Banking maintained a healthy financing portfolio whilst growing the wealth management side of the business through increased levels of client investments and the build-up of assets under management.

During 2017, Private Banking launched a series of initiatives to further its objective of positioning ADIB as the leading onshore-based private banking service provider in the UAE, while initiating discussions with the management of other ADIB footprint countries, such as the United Kingdom and Egypt, to evaluate the possibility of developing an integrated international private banking offering.

As Private Banking's business has grown, ADIB has focussed on enhancing its clients' experience and growing profitability and fee income. Private Banking has also sought to further diversify the business asset book, moving beyond traditional real estate financing and into investment finance solutions.

During 2017, ADIB's *sukuk* leverage programme and margin trading products were further refined to improve client experiences. Such efforts complemented ADIB's leading expertise and strength in local real estate financing and structuring. The business continues to expand its offering to high net worth individuals and family offices in the GCC region.

Treasury

ADIB Treasury provides its customers with access to global markets and exposure management solutions, invests funds for ADIB's own account and manages ADIB's market risk. ADIB Treasury is also responsible for managing ADIB's assets and liabilities and its overall financial structure.

ADIB Treasury continued its strong performance in 2017, through enhanced product capability and a close working relationship with the corporate and retail coverage teams. This led to yet another year of growth with higher volumes in profit rate hedging, foreign exchange and sukuk sales, resulting in a 22 per cent. increase in customer flow business. The trading desk also experienced a 35 per cent. increase over 2016 on the back of sukuk trading.

Subsidiaries

As at 30 June 2018, ADIB's consolidated subsidiaries comprised:

Entity	*Principal activity*	*Place of incorporation*	*Proportion of ownership interest*
ADIB Securities................................	Equity Brokerage Services	UAE	95%
Burooj Properties	Real Estate Investments	UAE	100%
MPM Properties	Real Estate Services	UAE	100%
ADIB Invest I	Equity Brokerage Service	British Virgin Islands	100%
Kawader Services	Manpower supply	UAE	100%
ADIB (UK) Limited	Islamic Banking	United Kingdom	100%
ADIB Holdings (Jersey) Ltd.* (under liquidation)	Special Purpose Vehicle	British Channel Islands	-
ADIB Sukuk Company Ltd.*	Special Purpose Vehicle	Cayman Islands	-
ADIB Sukuk Company II Ltd.*	Special Purpose Vehicle	Cayman Islands	-
ADIB Capital Invest 1 Ltd.*	Special Purpose Vehicle	Cayman Islands	-
ADIB Capital Invest 2 Ltd.*	Special Purpose Vehicle	Cayman Islands	-
ADIB Alternatives Ltd.*	Special Purpose Vehicle	Cayman Islands	-

* ADIB does not have any direct holding in ADIB Holdings (Jersey) Ltd., ADIB Sukuk Company Ltd., ADIB Sukuk Company II Ltd., ADIB Capital Invest 1 Ltd., ADIB Capital Invest 2 Ltd. or ADIB Alternatives Ltd. and each is considered to be a subsidiary by virtue of control.

ADIB Securities: originally established in February 2005 as Abu Dhabi Islamic Financial Services LLC and rebranded as ADIB Securities in 2010, the company operates in the UAE and provides brokerage services to the full range of investors on the ADX, the Dubai Financial Market and Nasdaq Dubai. ADIB Securities is currently an agency-only business, which also offers share finance to a select group of Private Banking clients, and its performance reflects its commitment to building a strong customer-orientated franchise. ADIB Securities produced a Net Profit of AED 27.4 million during the year ended 31 December 2017 (as compared with a Net Profit of AED 25.9 million during the year ended 31 December 2016). As at 30 June 2018, ADIB Securities was, by market share, both one of the largest share brokerage houses in the UAE (with a 5 per cent. share of the brokerage market) and the largest *Shari'a*-compliant broker in the UAE (based on its trading volume as a percentage of the combined trading volume of the ADX and Dubai Financial Market). As at 30 June 2018, ADIB held 95 per cent. of the share capital of ADIB Securities, with the remaining 5 per cent. held by ADNTC.

Burooj Properties: a real estate company focussed on proprietary property development and investment, established in October 2005, which operates in the UAE and is 100 per cent. owned by ADIB (as at 30 June 2018). As at 30 June 2018, Burooj Properties had AED 1,090.2 million of investment properties and AED 837.4 million of land for development purposes in its property portfolio and had outstanding commitments of AED 4.4 million. The real estate investment and development property business of Burooj Properties is not an aligned financial services business and, in line with the Central Bank's guidelines, ADIB will ultimately reduce its holding in Burooj Properties. No specific date has been set for the reduction of ADIB's investment in Burooj Properties, since this is contingent upon: (i) ADIB being satisfied that the recovery of the UAE real estate market is sustainable and allows for either the profitable development or sale of the land portfolio; and (ii) the investment properties delivering sustainable positive yields.

MPM Properties: a wholly owned subsidiary which is part of the integrated financial service group and provides ADIB customers with access to real estate management, agency and valuation services. MPM Properties posted a Net Profit of AED 8.6 million for 2017, as compared to a Net Profit of AED 9.9 million in 2016.

ADIB Invest I: an open-ended fund incorporated and registered in the British Virgin Islands in accordance with the Companies Law of the British Virgin Islands. The fund was established on 2 November 2004 and is currently dormant.

Kawader Services: a limited liability company, established in 2007, which operates in the UAE and which is 100 per cent. owned by ADIB as at 30 June 2018. Kawader Services is an outsource staffing office exclusively dedicated to assisting ADIB in its recruitment of non-professional manpower.

ADIB (UK) Limited: a limited liability company incorporated in the United Kingdom which is 100 per cent. owned by ADIB as at 30 June 2018. ADIB (UK) Limited has been granted a banking operations licence from the UK Financial Conduct Authority and offers a range of services to high-net-worth individuals from its office in Hyde Park, London.

ADIB Holdings (Jersey) Ltd.: a special purpose vehicle established in the British Channel Islands in anticipation of establishing a non-UAE Dirham-based trust business. The entity is currently dormant. ADIB does not have any direct holding in ADIB Holdings (Jersey) Ltd. and it is considered a subsidiary by virtue of control. As at 30 June 2018, ADIB Holdings (Jersey) Ltd. is in the process of liquidation.

ADIB Sukuk Company Ltd.: a special purpose vehicle established in the Cayman Islands for the purpose of ADIB's US$ 5,000,000,000 trust certificates issuance programme. ADIB does not have any direct holding in ADIB Sukuk Company Ltd. and it is considered a subsidiary by virtue of control.

ADIB Sukuk Company II Ltd.: a special purpose vehicle established in the Cayman Islands for the purpose of ADIB's MYR 1,500,000,000 Malaysian trust certificates issuance programme. ADIB does not have any direct holding in ADIB Sukuk Company II Ltd. and it is considered a subsidiary by virtue of control.

ADIB Capital Invest 1 Ltd.: a special purpose vehicle established in the Cayman Islands for the purpose of the offering of US$ 1,000,000,000 additional tier 1 capital certificates. ADIB does not have any direct holding in ADIB Capital Invest 1 Ltd. and is considered a subsidiary by virtue of control.

ADIB Capital Invest 2 Ltd.: a special purpose vehicle established in the Cayman Islands for the purpose of the offering of further additional tier 1 capital certificates. ADIB does not have any direct holding in ADIB Capital Invest 2 Ltd. and is considered a subsidiary by virtue of control.

ADIB Alternatives Ltd.: a special purpose vehicle established in the Cayman Islands for the purpose of dealing in *Shari'a*-compliant alternatives to derivative financial instruments with European and US counterparties. ADIB does not have any direct holding in ADIB Alternatives Ltd. and it is considered a subsidiary by virtue of control.

Investments in associates and joint ventures

As at 30 June 2018, ADIB's investments in associates and joint ventures amounted to AED 1,003.1 million. As at 30 June 2018, placements with associates and joint ventures amounting to AED 562.0 million related to future capital and sukuk issues.

As at 30 June 2018, the ownership percentages of ADIB's associates and joint ventures were as follows:

Entity	*Place of incorporation*	*Proportion of ownership interest*	*Principal activity*
Associates			
ADNTC..	UAE	42%	Islamic insurance
BBI..	Bosnia and Herzegovina	27%	Islamic banking
Residential REIT......................................	UAE	30%	Real estate fund
Joint Ventures			
ADIB Egypt...	Egypt	49%	Banking (under conversion to Islamic bank)
SFC..	Kingdom of Saudi Arabia	51%	Islamic retail finance
Arab Link (in liquidation)........................	UAE	51%	Currency exchange
ADIMAC...	UAE	51%	Merchant acquiring

Associates

ADNTC: ADIB acquired a stake in ADNTC on 21 June 2003 and, as at 30 June 2018, held 42 per cent. of the shares of ADNTC, which represented an aggregate market value of AED 183.3 million as at 30 June 2018. ADNTC was listed on the ADX in 2005 (stock symbol: TKFL) and is headquartered in Abu Dhabi. ADNTC provides Islamic insurance products and services to its customers in the UAE.

BBI: ADIB acquired 27 per cent. of the shares of BBI in 2001. BBI provides Islamic banking services to its customers in Bosnia and Herzegovina.

The Residential REIT (IC) Limited (Residential REIT): ADIB acquired a stake in Residential REIT on 20 June 2017 and, as of 30 June 2018, ADIB held a 30 per cent. stake in Residential REIT. Residential REIT is a real estate fund established for investment in primarily residential real estate properties in a *Shari'a*-compliant manner. The Residential REIT's key objective is to generate stable *Shari'a* income from its property investments and has invested in properties situated in Abu Dhabi, Dubai and Ras Al Khaimah.

Joint ventures

ADIB Egypt: ADIB acquired 49 per cent. of the shares in the National Bank Development SAE on 29 July 2007 and its name was subsequently changed to "Abu Dhabi Islamic Bank – Egypt (S.A.E.)" on 4 April 2013. As at 30 June 2018, ADIB Egypt provided banking services in Egypt through 70 branches and is in the process of internal restructuring and conversion into an Islamic bank. ADIB is providing support and assistance in the restructuring and conversion process including, amongst other initiatives: (i) ongoing strategic development, which will result in ADIB Egypt's business model being aligned with that of ADIB; (ii) the introduction of a suite of *Shari'a*-compliant retail and commercial banking customer financing and transacting products; and (iii) the development of a range of *Shari'a*-compliant deposit products, including retail sukuk. While significant progress has been made in converting ADIB Egypt to an Islamic banking institution, the process will not be completed until there are adequate liquidity management tools available to it, such as government-issued *Shari'a*-compliant treasury bills. While ADIB is actively engaged with the necessary regulatory authorities in Egypt to assist with the introduction of such products, there is no certainty as to when these may be introduced.

SFC: As at 30 June 2018, ADIB owns 51 per cent. of the share capital of SFC, a closed joint stock company incorporated in the Kingdom of Saudi Arabia and regulated by the Saudi Arabian Monetary Agency. SFC is a consumer finance company engaged in leasing, commercial financing, small and medium business financing and retail financing. Effective from 1 January 2014, ADIB has entered into a joint venture agreement to manage SFC.

Arab Link (in liquidation): On 17 February 2014, ADIB acquired a 51 per cent. stake in Arab Link, a private joint stock company incorporated in the UAE. Arab Link was a UAE-based currency exchange house offering a range of currency exchange and money transfer services for individuals and businesses. Whilst the original rationale for the acquisition was to help Arab Link to build scale and to allow ADIB to offer complementary services to its customers, this strategy was impacted by the challenging operating environment for the exchange and remittance industry, resulting from a slowing regional economy and intense competition driving down fees and profitability. Having explored its strategic options, including a trade sale and restructuring, Arab Link's directors decided that liquidation would be the most appropriate course of action. As such, as at 30 June 2018, Arab Link is in the process of liquidation.

ADIMAC: As at 30 June 2018, ADIB holds 51 per cent. of the shares of ADIMAC, a limited liability company incorporated in the UAE which commenced operations in August 2014. The company provides payment solutions to the retail and other merchants in the UAE.

Operating performance and financial position

Basis of presentation

This section sets forth selected financial information for ADIB for the six-month periods ended 30 June 2017 and 30 June 2018, and the years ended 31 December 2015, 31 December 2016 and 31 December 2017 as follows:

- the selected financial data as at, and for the six-month period ended, 30 June 2018 appearing below have been extracted from the 2018 Interim Financial Statements;
- the selected financial data for the six-month period ended 30 June 2017 appearing below have been extracted from the comparative financial information for the six-month period ended 30 June 2017 included in the 2018 Interim Financial Statements, and the selected financial data as at 30 June 2017 appearing below have been extracted from the 2017 Interim Financial Statements;
- the selected financial data as at, and for the year ended, 31 December 2017 appearing below have been extracted from the 2017 Financial Statements;
- the selected financial data as at, and for the year ended, 31 December 2016 appearing below have been extracted from the comparative financial information as at, and for the year ended, 31 December 2016 included in the 2017 Financial Statements; and
- the selected financial data as at, and for the year ended, 31 December 2015 appearing below have been extracted from the comparative financial information as at, and for the year ended, 31 December 2015 included in the 2016 Financial Statements.

Adoption of International Financial Reporting Standard 9

ADIB has adopted International Financial Reporting Standard 9 (Financial Instruments) (**IFRS 9**), which is effective for annual periods beginning on or after 1 January 2018. IFRS 9 addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets.

The new impairment model under IFRS 9 replaces the International Accounting Standard 39 "incurred loss" model and introduces an "expected credit loss" model for the measurement of the impairment of financial assets. In contrast to the incurred loss model, under the expected credit loss model it is not necessary for a credit event to have occurred before a credit loss is recognised.

As at 1 January 2018, ADIB's transition adjustment to comply with IFRS 9 amounted to a positive increase of AED 21.4 million in ADIB's opening equity, which was equal to 0.017 per cent. of ADIB's total assets. ADIB continues to refine the impairment model under IFRS 9 and the related processes.

IFRS 9 also introduces increased disclosure requirements, which may vary the nature and extent of ADIB's disclosures regarding its financial instruments in 2018.

Operating segments of business

ADIB is primarily organised into five operating segments of business corresponding to the following five business divisions: (i) Global Retail Banking; (ii) Global Wholesale Banking; (iii) Private Banking; (iv) Treasury; and (v) Real Estate (including income received from Burooj Properties and MPM Properties, ADIB's real estate-focussed subsidiaries). Income received from activities conducted by ADIB's head office (such as any income received from associate companies), foreign branches and subsidiaries is allocated to "other operations".

The table below shows the contribution that each of these operating segments made to consolidated Net Profit and consolidated total assets as at, and for the six-month periods ended, 30 June 2017 and 30 June 2018:

	Global Retail banking	**Global Wholesale banking**	**Private banking**	**Treasury**	**Real estate**	**Other operations**	**Total**
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*	*AED '000*	*AED '000*
As at, and for the six months ended, 30 June 2018							
Segment revenues, net	1,719,756	509,618	71,642	221,358	41,263	165,159	2,728,796
Operating expenses excluding provision for impairment, net	(921,433)	(194,141)	(30,781)	(23,077)	(39,422)	(41,677)	(1,250,531)
Operating profit	798,323	315,477	40,861	198,281	1,841	123,482	1,478,265
Provision for impairment, net	(140,123)	(86,488)	(2,833)	4,805	-	(90,583)	(315,222)
Profit for the period	658,200	228,989	38,028	203,086	1,841	32,899	1,163,043
Non-controlling interest	-	-	-	-	-	(341)	(341)
Profit for the period attributable to equity holders of ADIB	658,200	228,989	38,028	203,086	1,841	32,558	1,162,702
Assets							
Segmental assets	57,518,097	30,501,100	3,410,571	21,723,085	2,659,059	7,126,236	122,938,148
Liabilities							
Segmental liabilities	65,014,956	25,622,364	3,535,321	8,436,798	312,443	3,475,112	106,396,994
As at, and for the six months ended, 30 June 2017							
Segment revenues, net	1,685,834	605,165	68,053	265,101	48,829	109,116	2,782,098
Operating expenses excluding provision for impairment, net	(871,685)	(196,990)	(27,512)	(20,551)	(40,261)	(115,257)	(1,272,256)
Operating profit	814,149	408,175	40,541	244,550	8,568	(6,141)	1,509,842
Provision for impairment, net	(286,772)	(77,010)	(2,161)	-	-	(14,826)	(380,769)
Profit (loss) for the period	527,377	331,165	38,380	244,550	8,568	(20,967)	1,129,073
Non-controlling interest	-	-	-	-	-	(834)	(834)
Profit (loss) for the period attributable to equity holders of ADIB	527,377	331,165	38,380	244,550	8,568	(21,801)	1,128,239
Assets							
Segmental assets	55,983,049	33,742,116	3,135,670	19,708,684	2,605,937	7,051,856	122,227,312
Liabilities							
Segmental liabilities	63,747,511	26,552,457	3,404,662	9,258,724	287,654	3,395,937	106,646,945

The table below shows the contribution that each of these operating segments made to consolidated Net Profit and consolidated total assets as at, and for the years ended, 31 December 2015, 2016 and 2017.

	Global Retail banking	Global Wholesale banking	Private banking	Treasury	Real estate	Other operations	Total
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*	*AED '000*	*AED '000*
As at, and for the year ended, 31 December 2017							
Segment revenues, net	3,406,214	1,262,587	139,236	530,731	111,612	181,932	5,632,312
Operating expenses excluding provision for impairment, net	(1,752,896)	(398,257)	(57,091)	(42,131)	(79,718)	(211,736)	(2,541,829)
Operating profit	1,653,318	864,330	82,145	488,600	31,894	(29,804)	3,090,483
Provision for impairment, net	(520,552)	(221,504)	99	-	(1,962)	(46,441)	(790,360)
Profit (loss) for the year	1,132,766	642,826	82,244	488,600	29,932	(76,245)	2,300,123
Non-controlling interest	-	-	-	-	-	(1,369)	(1,369)
Profit (loss) for the year attributable to equity holders of ADIB	1,132,766	642,826	82,244	488,600	29,932	(77,614)	2,298,754
Assets							
Segmental assets	56,883,659	32,278,505	3,031,995	21,051,686	2,632,381	7,399,373	123,277,599
Liabilities							
Segmental liabilities	61,838,840	26,152,414	3,362,854	11,788,985	300,368	3,260,974	106,704,435
As at, and for the year ended, 31 December 2016							
Segment revenues, net	3,236,624	1,222,807	121,456	562,886	101,296	140,454	5,385,523
Operating expenses excluding provision for impairment, net	(1,744,378)	(380,998)	(53,997)	(41,832)	(82,146)	(158,649)	(2,462,000)
Operating profit	1,492,246	841,809	67,459	521,054	19,150	(18,195)	2,923,523
Provision for impairment, net	(621,225)	(372,359)	8,348	-	(6,231)	21,502	(969,965)
Profit for the year	871,021	469,450	75,807	521,054	12,919	3,307	1,953,558
Non-controlling interest	-	-	-	-	-	(1,294)	(1,294)
Profit for the year attributable to equity holders of ADIB	871,021	469,450	75,807	521,054	12,919	2,013	1,952,264
Assets							
Segmental assets	54,865,153	35,469,626	2,536,021	19,368,458	2,680,915	7,369,552	122,289,725
Liabilities							
Segmental liabilities	60,059,215	27,971,848	2,702,223	12,102,311	349,531	3,645,956	106,831,084
As at, and for the year ended, 31 December 2015							
Segment revenues, net	3,043,279	1,330,625	108,682	444,569	118,382	88,838	5,134,375
Operating expenses excluding provision for impairment, net	(1,619,242)	(360,448)	(59,346)	(42,765)	(86,262)	(212,315)	(2,380,378)
Operating profit	1,424,037	970,177	49,336	401,804	32,120	(123,477)	2,753,997
Provision for impairment, net	(501,687)	(187,768)	(11,862)	-	(5,156)	(113,481)	(819,954)
Profit (loss) for the year	922,350	782,409	37,474	401,804	26,964	(236,958)	1,934,043
Non-controlling interest	-	-	-	-	-	(2,348)	(2,348)
Profit (loss) for the year attributable to equity holders of ADIB	922,350	782,409	37,474	401,804	26,964	(239,306)	1,931,695
Assets							
Segmental assets	52,418,734	35,058,966	3,061,715	16,539,451	2,671,626	8,627,170	118,377,662
Liabilities							
Segmental liabilities	54,655,766	28,770,951	2,492,733	13,473,886	373,318	3,535,777	103,302,431

Set forth below is a brief discussion of ADIB's consolidated operating performance and financial position as at, and for the six months ended, 30 June 2018, as compared to the corresponding six months ended 30 June 2017, as well as ADIB's consolidated operating performance and financial position as at, and for the year ended, 31 December 2017, as compared to the years ended 31 December 2016 and 31 December 2015.

Six months ended 30 June 2018 as compared to six months ended 30 June 2017

Operating income

Operating income decreased by AED 29.0 million (US$ 7.9 million), or 0.9 per cent., to AED 3,030.7 million (US$ 825.2 million) for the six months ended 30 June 2018 from AED 3,059.7 million (US$ 833.1 million) for the six months ended 30 June 2017.

The following factors contributed to this decrease:

(i) a decrease in foreign exchange income of AED 28.9 million (US$ 7.9 million), or 19.5 per cent., to AED 119.4 million (US$ 32.5 million) for the six months ended 30 June 2018 from AED 148.3 million (US$ 40.4 million) for the six months ended 30 June 2017;

(ii) a decrease in fees and commissions income, net of AED 21.3 million (US$ 5.8 million), or 4.3 per cent., to AED 477.7 million (US$ 130.1 million) for the six months ended 30 June 2018 from AED 499.0 million (US$ 135.9 million) for the six months ended 30 June 2017, primarily due to a decrease in risk participation and arrangement fees of AED 28.8 million (US$ 7.9 million), or 31.3 per cent.; and

(iii) a decrease in income from Islamic sukuk measured at amortised cost of AED 24.9 million (US$ 6.8 million), or 13.8 per cent., to AED 155.3 million (US$ 42.3 million) for the six months ended 30 June 2018 from AED 180.2 million (US$ 49.1 million) for the six months ended 30 June 2017.

This decrease was partially offset by an increase in income from murabaha, mudaraba and wakala with financial institutions of AED 24.0 million (US$ 6.5 million), or 90.7 per cent., to AED 50.4 million (US$ 13.7 million) for the six months ended 30 June 2018 from AED 26.4 million (US$ 7.2 million) for the six months ended 30 June 2017.

Operating expenses

Operating expenses (including provisions for impairment, net) decreased by AED 72.8 million (US$ 19.8 million), or 4.4 per cent., to AED 1,563.4 million (US$ 425.7 million) for the six months ended 30 June 2018 from AED 1,636.1 million (US$ 445.5 million) for the six months ended 30 June 2017.

This decrease was primarily due to:

(i) a decrease in general and administrative expenses of AED 51.0 million (US$ 13.9 million), or 11.5 per cent., to AED 394.2 million (US$ 107.3 million) for the six months ended 30 June 2018 from AED 445.2 million (US$ 121.2 million) for the six months ended 30 June 2017; and

(ii) a decrease in provision for impairment, net of AED 65.5 million (US$ 17.8 million), or 17.2 per cent., to AED 315.2 million (US$ 85.8 million) for the six months ended 30 June 2018 from AED 380.8 million (US$ 103.7 million) for the six months ended 30 June 2017.

This decrease was partially offset by:

(i) an increase in employees' costs of AED 24.8 million (US$ 6.8 million), or 3.5 per cent., to AED 724.3 million (US$ 197.2 million) for the six months ended 30 June 2018 from AED 699.5 million (US$ 190.5 million) for the six months ended 30 June 2017; and

(ii) an increase in depreciation of AED 19.1 million (US$ 5.2 million), or 22.8 per cent., to AED 102.5 million (US$ 27.9 million) for the six months ended 30 June 2018 from AED 83.5 million (US$ 22.7 million) for the six months ended 30 June 2017.

Net Profit

Net Profit increased by AED 34.0 million (US$ 9.2 million), or 3.0 per cent., to AED 1,163.0 million (US$ 316.7 million) for the six months ended 30 June 2018 from AED 1,129.1 million (US$ 307.4 million) for the six months ended 30 June 2017.

This increase was primarily due to a decrease in operating expenses (including provisions for impairment, net) which was partially offset by a decrease in operating income, each as described above.

Financial position

Total assets increased by AED 710.8 million (US$ 193.6 million), or 0.6 per cent., to AED 122,938.1 million (US$ 33,475.3 million) as at 30 June 2018 from AED 122,227.3 million (US$ 33,281.8 million) as at 30 June 2017.

This increase in total assets was primarily due to:

(i) an increase in investments measured at fair value of AED 936.6 million (US$ 255.0 million), or 44.6 per cent., to AED 3,036.6 million (US$ 826.8 million) as at 30 June 2018 from AED 2,099.9 million (US$ 571.8 million) as at 30 June 2017;

(ii) an increase in *ijara* financing of AED 799.2 million (US$ 217.6 million), or 1.9 per cent., to AED 43,751.3 million (US$ 11,913.2 million) as at 30 June 2018 from AED 42,952.0 million (US$ 11,695.6 million) as at 30 June 2017;

(iii) an increase in *murabaha and mudaraba* with financial institutions of AED 649.5 million (US$ 176.9 million), or 70.3 per cent., to AED 1,573 million (US$ 428.3 million) as at 30 June 2018 from AED 923.4 million (US$ 251.4 million) as at 30 June 2017; and

(iv) an increase in other assets of AED 594.1 million (US$ 161.8 million), or 18.9 per cent., to AED 3,744.3 million (US$ 1,019.6 million) as at 30 June 2018 from AED 3,150.2 million (US$ 857.8 million) as at 30 June 2017.

This increase was partially offset by:

(i) a decrease in *murabaha* and other Islamic financing of AED 1,253.9 million (US$ 341.4 million), or 3.7 per cent., to AED 32,552.1 million (US$ 8,863.7 million) as at 30 June 2018 from AED 33,806.0 million (US$ 9,205.2 million) as at 30 June 2017;

(ii) a decrease in balances and *wakala* deposits with Islamic banks and other financial institutions of AED 849.5 million (US$ 231.3 million), or 24.5 per cent., to AED 2,622.7 million (US$ 714.1 million) as at 30 June 2018 from AED 3,472.2 million (US$ 945.5 million) as at 30 June 2017; and

(iii) a decrease in investment in Islamic sukuk measured at amortised cost of AED 774.6 million (US$ 210.9 million), or 7.3 per cent., to AED 9,817.5 million (US$ 2,673.2 million) as at 30 June 2018 from AED 10,592.1 million (US$ 2,884.2 million) as at 30 June 2017.

Total liabilities decreased by AED 250.0 million (US$ 68.1million), or 0.2 per cent., to AED 106,397.0 million (US$ 28,971.3 million) as at 30 June 2018 from AED 106,646.9 million (US$ 29,039.3 million) as at 30 June 2017.

This decrease in total liabilities was primarily due to a decrease in amounts due to financial institutions of AED 1,118.6 million (US$ 304.6 million), or 33.8 per cent., to AED 2,189.1 million (US$ 596.1 million) as at 30 June 2018 from AED 3,307.6 million (US$ 900.7 million) as at 30 June 2017.

This decrease was partially offset by an increase in amounts due to depositors' accounts of AED 1,151.2 million (US$ 313.5 million), or 1.2 per cent., to AED 101,184.4 million (US$ 27,551.9 million) as at 30 June 2018 from AED 100,033.1 million (US$ 27,238.4 million) as at 30 June 2017.

Year ended 31 December 2017 as compared to year ended 31 December 2016

Operating income

Operating income increased by AED 221.0 million (US$ 60.2 million), or 3.7 per cent., to AED 6,214.3

million (US$ 1,692.1 million) for the year ended 31 December 2017 from AED 5,993.3 million (US$ 1,631.9 million) for the year ended 31 December 2016.

The following factors contributed to this increase:

(i) an increase in fees and commissions income, net of AED 189.9 million (US$ 51.7 million), or 22.6 per cent., to AED 1,030.3 million (US$ 280.5 million) for the year ended 31 December 2017 from AED 840.4 million (US$ 228.8 million) for the year ended 31 December 2016, primarily due to an increase in fees and net commission income on cards of AED 100.8 million (US$ 27.5 million), or 64.9 per cent., an increase in *takaful* related fees of AED 25.9 million (US$ 7.1 million), or 28.1 per cent., an increase in trade related fees and commission of AED 5.1 million (US$ 1.4 million), or 4.6 per cent., an increase in risk participation and arrangement fees of AED 6.1 million (US$ 1.7 million), or 3.6 per cent., and an increase in account services fees of AED 15.4 million (US$ 4.2 million), or 33.6 per cent;

(ii) an increase in foreign exchange income of AED 131.1 million (US$ 35.7 million), or 94.2 per cent., to AED 270.3 million (US$ 73.6 million) for the year ended 31 December 2017 from AED 139.2 million (US$ 37.9 million) for the year ended 31 December 2016; and

(iii) an increase in income from Islamic sukuk measured at amortised cost of AED 66.8 million (US$ 18.2 million), or 20.1 per cent., to AED 398.8 million (US$ 108.6 million) for the year ended 31 December 2017 from AED 332.0 million (US$ 90.4 million) for the year ended 31 December 2016.

This increase was partially offset by a decrease in income from *murabaha*, *mudaraba*, *ijara* and other Islamic financing from customers of AED 197.2 million (US$ 53.7 million), or 4.4 per cent., to AED 4,291.5 million (US$ 1,168.6 million) for the year ended 31 December 2017 from AED 4,488.7 million (US$ 1,222.3 million) for the year ended 31 December 2016.

Operating expenses

Operating expenses (including provisions for impairment, net) decreased by AED 118.3 million (US$ 32.2 million), or 3.5 per cent., to AED 3,299.5 million (US$ 898.4 million) for the year ended 31 December 2017 from AED 3,417.8 million (US$ 930.7 million) for the year ended 31 December 2016.

This decrease was primarily due to:

(i) a decrease in provision for impairment net of AED 179.6 million (US$ 48.9 million), or 18.5 per cent., to AED 790.4 million (US$ 215.2 million) for the year ended 31 December 2017 from AED 970.0 million (US$ 264.1 million) for the year ended 31 December 2016; and

(ii) a decrease in depreciation of AED 17.9 million (US$ 4.9 million), or 9.7 per cent., to AED 167.9 million (US$ 45.7 million) for the year ended 31 December 2017 from AED 185.9 million (US$ 50.6 million) for the year ended 31 December 2016.

This decrease was partially offset by an increase in general and administrative expenses of AED 69.8 million (US$ 19.0 million), or 9.1 per cent., to AED 840.1 million (US$ 228.8 million) for the year ended 31 December 2017 from AED 770.4 million (US$ 209.8 million) for the year ended 31 December 2016.

Net Profit

Net Profit increased by AED 346.6 million (US$ 94.4 million), or 17.7 per cent., to AED 2,300.1 million (US$ 626.3 million) for the year ended 31 December 2017 from AED 1,953.6 million (US$ 531.9 million) for the year ended 31 December 2016.

This increase was primarily due to an increase in operating income and a decrease in operating expenses (including provisions for impairment, net), each as described above.

Financial position

Total assets increased by AED 987.9 million (US$ 269.0 million), or 0.8 per cent., to AED 123.277.6 million (US$ 33,567.8 million) as at 31 December 2017 from AED 122,289.7 million (US$ 33,298.8 million) as at 31 December 2016.

This increase in total assets was primarily due to:

(i) an increase in cash and balances with central banks of AED 1,688.9 million (US$ 459.9 million), or 8.5 per cent., to AED 21,467.2 million (US$ 5,845.4 million) as at 31 December 2017 from AED 19,778.3 million (US$ 5,385.5 million) as at 31 December 2016;

(ii) an increase in *ijara* financing of AED 1,415.9 million (US$ 385.5 million), or 3.4 per cent., to AED 43,280.3 million (US$ 11,785.0 million) as at 31 December 2017 from AED 41,864.4 million (US$ 11,399.4 million) as at 31 December 2016;

(iii) an increase in investment in Islamic sukuk measured at amortised cost of AED 988.7 million (US$ 269.2 million), or 10.9 per cent., to AED 10,052.0 million (US$ 2,737.1 million) as at 31 December 2017 from AED 9,063.3 million (US$ 2,467.9 million) as at 31 December 2016;

(iv) an increase in other assets of AED 767.9 million (US$ 209.1 million), or 28.5 per cent., to AED 3,463.5 million (US$ 943.1 million) as at 31 December 2017 from AED 2,695.7 million (US$ 734.0 million) as at 31 December 2016; and

(v) an increase in *murabaha* and *mudaraba* with financial institutions of AED 362.5 million (US$ 98.7 million), or 20.6 per cent., to AED 2,125.2 million (US$ 578.7 million) as at 31 December 2017 from AED 1,762.8 million (US$ 480.0 million) as at 31 December 2016.

This increase was partially offset by:

(i) a decrease in *murabaha* and other Islamic financing of AED 3,096.8 million (US$ 843.2 million), or 8.5 per cent., to AED 33,249.3 million (US$ 9,053.6 million) as at 31 December 2017 from AED 36,346.1 million (US$ 9,896.8 million) as at 31 December 2016.; and

(ii) a decrease in balances and *wakala* deposits with Islamic banks and other financial institutions of AED 1,480.3 million (US$ 403.1 million), or 34.9 per cent., to AED 2,765.9 million (US$ 753.1 million) as at 31 December 2017 from AED 4,246.2 million (US$ 1,156.2 million) as at 31 December 2016.

Total liabilities decreased by AED 126.6 million (US$ 34.5 million), or 0.1 per cent., to AED 106,704.4 million (US$ 29,055.0 million) as at 31 December 2017 from AED 106,831.1 million (US$ 29,089.5 million) as at 31 December 2016.

This decrease in total liabilities was primarily due to a decrease in amounts due to financial institutions of AED 1,465.7 million (US$ 399.1 million), or 28.4 per cent., to AED 3,688.6 million (US$ 1,004.4 million) as at 31 December 2017 from AED 5,154.2 million (US$ 1,403.5 million) as at 31 December 2016.

This decrease was partially offset by an increase in depositors' accounts of AED 1,189.9 million (US$ 324.0 million), or 1.2 per cent., to AED 100,003.6 million (US$ 27,230.4 million) as at 31 December 2017 from AED 98,813.8 million (US$ 26,906.4 million) as at 31 December 2016.

Year ended 31 December 2016 as compared to year ended 31 December 2015

Operating income

Operating income increased by AED 242.3 million (US$ 66.0 million), or 4.2 per cent., to AED 5,993.3 million (US$ 1,631.9 million) for the year ended 31 December 2016 from AED 5,751.0 million (US$ 1,566.0 million) for the year ended 31 December 2015.

The following factors contributed to this increase:

(i) an increase in income from *murabaha*, *mudaraba*, *ijara* and other Islamic financing from customers of AED 126.2 million (US$ 34.4 million), or 2.9 per cent., to AED 4,488.7 million (US$ 1,222.3 million) for the year ended 31 December 2016 from AED 4,362.5 million (US$ 1,187.9 million) for the year ended 31 December 2015;

(ii) an increase in income from Islamic sukuk measured at amortised cost of AED 82.8 million (US$ 22.6 million), or 33.2 per cent., to AED 332.0 million (US$ 90.4 million) for the year ended 31 December 2016 from AED 249.2 million (US$ 67.9 million) for the year ended 31 December 2015; and

(iii) an increase in foreign exchange income, net of AED 59.5 million (US$ 16.2 million), or 74.8 per cent., to AED 139.2 million (US$ 37.9 million) for the year ended 31 December 2016 from AED 79.6 million (US$ 21.7 million) for the year ended 31 December 2015.

This increase was partially offset by a decrease in fees and commission income, net of AED 70.9 million (US$ 19.3 million), or 7.8 per cent., to AED 840.4 million (US$ 228.8 million) for the year ended 31 December 2016 from AED 911.3 million (US$ 248.1 million) for the year ended 31 December 2015, primarily due to a decrease in trade related fees and commission of AED 41.8 million (US$ 11.4 million), or 27.6 per cent., and a decrease in risk participation and arrangement fees of AED 43.0 million (US$ 11.7 million), or 20.2 per cent.

Operating expenses

Operating expenses (including provisions for impairment, net) increased by AED 223.8 million (US$ 60.9 million), or 7.0 per cent., to AED 3,417.8 million (US$ 930.7 million) for the year ended 31 December 2016 from AED 3,194.0 million (US$ 869.7 million) for the year ended 31 December 2015.

This increase was primarily due to:

(i) an increase in provision for impairment, net of AED 150.0 million (US$ 40.8 million), or 18.3 per cent., to AED 970.0 million (US$ 264.1 million) for the year ended 31 December 2016 from AED 820.0 million (US$ 223.3 million) for the year ended 31 December 2015;

(ii) an increase in depreciation of AED 40.3 million (US$ 11.0 million), or 27.7 per cent., to AED 185.9 million (US$ 50.6 million) for the year ended 31 December 2016 from AED 145.6 million (US$ 39.6 million) for the year ended 31 December 2015; and

(iii) an increase in employees' costs of AED 33.4 million (US$ 9.1 million), or 2.4 per cent, to AED 1,436.9 million (US$ 391.3 million) for the year ended 31 December 2016 from AED 1,403.5 million (US$ 382.2 million) for the year ended 31 December 2015.

Net Profit

Net Profit increased by AED 19.5 million (US$ 5.3 million), or 1.0 per cent., to AED 1,953.6 million (US$ 531.9 million) for the year ended 31 December 2016 from AED 1,934.0 million (US$ 526.6 million) for the year ended 31 December 2015.

This increase was primarily due to an increase in operating income, which was partially offset by an increase in operating expenses (including provisions for impairment, net), each as described above.

Financial position

Total assets increased by AED 3,912.1 million (US$ 1,065.2 million), or 3.3 per cent., to AED 122,289.7 million (US$ 33,298.8 million) as at 31 December 2016 from AED 118,377.7 million (US$ 32,233.5 million) as at 31 December 2015.

This increase in total assets was primarily due to:

(i) an increase in *ijara* financing of AED 1,862.0 million (US$ 507.0 million), or 4.7 per cent., to AED 41,864.4 million (US$ 11,399.4 million) as at 31 December 2016, from AED 40,002.5 million (US$ 10,892.4 million) as at 31 December 2015;

(ii) an increase in investment in Islamic sukuk measured at amortised cost of AED 1,780.9 million (US$ 484.9 million), or 24.5 per cent., to AED 9,063.3 million (US$ 2,467.9 million) as at 31 December 2016, from AED 7,282.4 million (US$ 1,983.0 million) as at 31 December 2015;

(iii) an increase in cash and balances with central banks of AED 1,149.0 million (US$ 312.9 million) or 6.2 per cent., to AED 19,778.3 million (US$ 5,385.5 million) as at 31 December 2016, from AED 18,629.4 million (US$ 5,072.7 million) as at 31 December 2015; and

(iv) an increase in balances and *wakala* deposits with Islamic banks and other financial institutions of AED 1,121.8 million (US$ 305.5 million) or 35.9 per cent., to AED 4,246.2 million (US$ 1,156.2 million) as at 31 December 2016, from AED 3,124.3 million (US$ 850.7 million) as at 31 December 2015.

This increase was partially offset by a decrease in *murabaha* and other Islamic financing of AED 2,054.7 million (US$ 559.5 million), or 5.4 per cent., to AED 36,346.1 million (US$ 9,896.8 million) as at 31 December 2016, from AED 38,400.8 million (US$ 10,456.3 million) as at 31 December 2015.

Total liabilities increased by AED 3,528.7 million (US$ 960.8 million), or 3.4 per cent., to AED 106,831.1 million (US$ 29,089.5 million) as at 31 December 2016 from AED 103,302.4 million (US$ 28,128.6 million) as at 31 December 2015.

This increase in total liabilities was primarily due to:

(i) an increase in amounts due to financial institutions of AED 2,048.6 million (US$ 557.8 million), or 66.0 per cent., to AED 5,154.2 million (US$ 1,403.5 million) as at 31 December 2016, from AED 3,105.6 million (US$ 845.6 million) as at 31 December 2015; and

(ii) an increase in depositors' accounts of AED 3,886.6 million (US$ 1,058.3 million), or 4.1 per cent., to AED 98,813.8 million (US$ 26,906.4 million) as at 31 December 2016, from AED 94,927.2 million (US$ 25,848.1 million) as at 31 December 2015.

This increase was partially offset by a decrease in sukuk financing instruments of AED 1,836.3 million (US$ 500.0 million), or 100 per cent., to AED 0.0 (US$ 0.0) as at 31 December 2016, from AED 1,836.3 million (US$ 500.0 million) as at 31 December 2015.

Funding

ADIB's main sources of funding are depositors' accounts and sukuk financing instruments issued under ADIB's AED 18.4 billion (US$ 5,000,000,000) sukuk issuance programme, established in 2006.

In the first issuance under this programme in 2006, ADIB raised AED 2.9 billion through the issuance of US$ 800,000,000 trust certificates due in 2011, the largest bank sukuk ever issued at that time. These trust certificates matured in 2011 and certificate holders were paid in full in December 2011.

In November 2010, ADIB raised AED 2.8 billion through the issuance of US$ 750,000,000 trust certificates due in 2015, the second issuance under the sukuk programme. These trust certificates matured in 2015 and certificate holders were paid in full in November 2015.

In November 2011, ADIB raised an additional AED 1.8 billion through the issuance of US$ 500,000,000 trust certificates due in 2016, the third issuance under the sukuk programme. These trust certificates matured in 2016 and certificate holders were paid in full in November 2016.

The trust certificates for each issuance have been listed on the London Stock Exchange.

In November 2012, ADIB raised AED 3.7 billion, through the issuance of US$ 1 billion additional tier 1 capital certificates (the **Tier 1 Sukuk (2012)**). The Tier 1 Sukuk (2012) is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations of ADIB. The Tier 1 Sukuk (2012) is callable by ADIB on 16 October 2018 or any profit payment date thereafter subject to certain conditions. From (and including) the issue date to (but excluding) 16 October 2018 the Tier 1 Sukuk (2012) bears an initial expected profit rate of 6.375 per cent. per annum payable semi-annually in arrear. On 16 October 2018 and every sixth year thereafter, the profit rate resets to a new expected profit rate based on the then six-year LIBOR rate plus an expected margin of 5.393 per cent.

The Tier 1 Sukuk (2012) is listed on the London Stock Exchange.

As at 30 June 2018, the aggregate amount of ADIB's liabilities totalled AED 106.4 billion, including depositors' accounts of AED 101.2 billion, respectively, compared to total liabilities of AED 106.6 billion, including depositors' accounts of AED 100.0 billion, as at 30 June 2017.

The following table sets out the sources of funding for ADIB as at 30 June 2017 and 2018 and, 31 December 2015, 2016 and 2017.

Depositors' accounts

	30 June 2017	**30 June 2018**	**31 December 2015**	**31 December 2016**	**31 December 2017**
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
Current accounts	32,398,613	33,479,747	30,140,475	31,225,114	32,738,664
Investment accounts	67,144,303	67,142,640	64,392,321	67,134,219	66,743,153
Profit equalisation provision(1)	490,232	561,995	394,364	454,419	521,802
Total	100,033,148	101,184,382	94,927,160	98,813,752	100,003,619

(1) The "profit equalisation provision" is a reserve account created for certain types of deposit established in accordance with *Shari'a*, which can be used to pay profit to a depositor in specific circumstances, based on an agreed methodology.

As at 30 June 2018, ADIB's 20 largest depositors accounted for 16.4 per cent. of ADIB's total depositors' accounts at that date (compared to 16.6 per cent. as at 30 June 2017). In accordance with *Shari'a*, returns cannot be paid or received for all types of current accounts. Therefore, deposit accounts (other than current accounts) are granted a profit distribution (from the actual generated profit, subject to the pre-agreed profit distribution percentages). Distributions of profit to depositors for the six months ended 30 June 2018 amounted to AED 301.9 million (as compared to AED 277.6 million for the six months ended 30 June 2017).

Amounts due to financial institutions

	30 June 2017	30 June 2018	31 December 2015	31 December 2016	31 December 2017
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
Current accounts	1,242,166	810,637	1,404,404	1,027,616	1,538,954
Investment deposits	1,758,771	1,345,094	1,659,598	3,758,330	2,149,604
	3,000,937	2,155,731	3,064,002	4,785,946	3,688,558
Current account - Central Bank of UAE	306,705	33,319	41,608	368,269	-
Total	3,307,642	2,189,050	3,105,610	5,154,215	3,688,558

Sukuk financing instruments

	30 June 2017	30 June 2018	31 December 2015	31 December 2016	31 December 2017
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
Sukuk financing instruments	-		1,836,250	-	-

Other liabilities

	30 June 2017	30 June 2018	31 December 2015	31 December 2016	31 December 2017
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
Other liabilities	3,306,155	3,023,562	3,433,411	2,863,117	3,012,258

Balance sheet maturity profile

The maturity profile of ADIB's assets and liabilities at the end of each financial year is based on contractual payment arrangements. The contractual maturities of assets and liabilities are based on the remaining period of the contractual payment obligations as at the date of the applicable balance sheet and do not take into account the behavioural maturities as indicated by ADIB's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure that adequate liquidity is maintained.

The tables below summarise the maturity profile of the Group's financial assets and liabilities at 31 December 2017, based on contractual maturities.

	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
31 December 2017					
ASSETS					
Cash and balances with Central Banks .	21,467,205	-	-	-	21,467,205
Balances and *wakala* deposits with Islamic banks and other financial institutions	1,585,102	147,182	967,480	66,139	2,765,903
Murabaha and *mudaraba* with financial institutions..........................	1,957,846	167,403	-	-	2,125,249
Murabaha and other Islamic financing.	2,739,342	8,825,479	15,025,234	6,659,260	33,249,315
Ijara financing.....................................	1,802,608	3,443,869	16,305,233	21,728,609	43,280,319

	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Investments in Islamic sukuk measured at amortised cost	613,001	742,326	5,090,151	3,606,550	10,052,028
Investment measured at fair value	-	1,519,282	7,208	-	1,526,490
Investment in associates and joint ventures..	-	-	-	988,788	988,788
Other assets..	2,267,267	55,427	189,486	12,964	2,525,144
Financial assets	32,432,371	14,900,968	37,584,792	33,062,310	117,980,441
Non-financial assets.............................					5,297,158
Total assets					123,277,599
LIABILITIES					
Due to financial institutions.................	3,681,580	6,978	-	-	3,688,558
Depositors' accounts	95,379,969	4,129,724	493,926	-	100,003,619
Other liabilities	1,907,644	339,150	765,464	-	3,012,258
Total liabilities	100,969,193	4,475,852	1,259,390	-	106,704,435

Gross financing portfolio

The following table summarises the types of ADIB's financing activities as at 30 June 2017 and 2018, and 31 December 2015, 2016 and 2017.

Financing Type	**30 June 2017**	**30 June 2018**	**31 December 2015**	**31 December 2016**	**31 December 2017**
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
Murabaha	56,219,360	54,616,668	60,636,447	58,552,824	55,436,844
Mudaraba	60,581	40,487	1,213,861	1,128,518	46,681
Istisna'a..............................	137,667	122,083	146,377	136,097	130,322
Ijara	62,393,575	64,661,711	52,314,321	57,040,714	63,196,179
Other financing receivables	313,975	328,841	338,683	245,146	281,810
	119,125,158	119,769,790	114,649,689	117,103,299	119,091,836
Less: deferred income.........	(39,388,786)	(40,147,640)	(33,251,319)	(35,734,114)	(39,341,841)
Total Customer Financing (Gross)	79,736,372	79,622,150	81,398,370	81,369,185	79,749,995
Less: provisions for impairment......................	(2,978,319)	(3,318,812)	(2,995,139)	(3,158,663)	(3,220,361)
Total Customer Financing (Net)................................	76,758,053	76,303,338	78,403,231	78,210,522	76,529,634

As at 30 June 2018, ADIB's 20 largest financings accounted for 20.0 per cent. of ADIB's total net financing at that date (compared to 19.1 per cent. as at 30 June 2017).

Concentration of financial assets

The following tables set out the allocation by geographic region and industry sector of ADIB's portfolio of financial assets as at 31 December 2015, 2016 and 2017. The concentration of assets by geographical region is based primarily upon the location of the counterparty.

The distribution of the Group's financial assets subject to credit risk by geographic region and industry sector is as follows:

	31 December 2015	**31 December 2016**	**31 December 2017**
	AED '000	*AED '000*	*AED '000*
Geographic region:			
UAE...	78,088,963	77,739,965	76,553,696

	31 December 2015	31 December 2016	31 December 2017
	AED '000	AED '000	AED '000
Rest of the Middle East	2,179,364	2,016,732	1,808,971
Europe	245,582	523,676	597,335
Others	884,461	1,088,812	789,993
Financial assets subject to credit risk	81,398,370	81,369,185	79,749,995
Industry sector:			
Government	451,890	-	752,339
Public sector	4,744,922	5,605,432	5,462,229
Corporates	26,661,976	25,500,849	22,564,139
Financial institutions	619,316	162,150	234,315
Individuals	46,113,645	48,330,588	49,766,164
Small and medium enterprises	2,615,442	1,467,632	862,828
Non-profit organizations	191,179	302,534	107,981
Financial assets subject to credit risk	81,398,370	81,369,185	79,749,995

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 ADIB'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 ADIB to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of contracts.

ADIB had the following credit-related commitments, contingencies and other capital commitments as at 30 June 2017 and 2018, and 31 December 2015, 2016 and 2017.

	30 June 2017	30 June 2018	31 December 2015	31 December 2016	31 December 2017
	AED '000	AED '000	AED '000	AED '000	AED '000
Contingent Liabilities					
Letters of credit	2,686,549	2,582,369	2,083,463	2,025,680	3,215,199
Letters of guarantee	9,541,987	7,159,641	11,276,968	9,747,282	8,572,858
Total Contingent Liabilities	12,228,536	9,742,010	13,360,431	11,772,962	11,788,057
Commitments					
Undrawn facilities commitments	482,972	801,019	583,032	386,939	666,945
Future capital expenditure	318,722	125,026	70,776	312,738	174,699
Investment and development properties	9,183	4,384	74,057	11,436	6,108
Total Commitments	810,877	930,429	727,865	711,113	847,752
Total	13,039,413	10,672,439	14,088,296	12,484,075	12,635,809

The table below shows the contractual expiry by maturity of ADIB's contingent liabilities and commitments as at 31 December 2015, 2016 and 2017.

	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
As at 31 December 2015					
Contingent liabilities	10,470,928	2,123,571	759,606	6,326	13,360,431
Commitments	-	52,439	92,394	-	144,833
Total................................	10,470,928	2,176,010	852,000	6,326	13,505,264
As at 31 December 2016					
Contingent liabilities	9,848,151	1,109,949	808,550	6,312	11,772,962
Commitments	-	11,436	125,292	-	136,728
Total................................	9,848,151	1,121,385	933,842	6,312	11,909,690
As at 31 December 2017					
Contingent liabilities	8,223,107	1,334,464	2,217,544	12,942	11,788,057
Commitments	-	180,807	-	-	180,807
Total................................	8,223,107	1,515,271	2,217,544	12,942	11,968,864

ADIB does not expect that all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Provisions for credit losses

The following table sets out the movements in provisions for credit losses as at 31 December 2015, 31 December 2016, 30 June 2017, 31 December 2017, and 30 June 2018.

	Murabaha **and Other Islamic Financing**	***Ijara*** **Financing**	**Total**
	AED '000	*AED '000*	*AED '000*
Balance as at 1 January 2015.......................................	1,402,030	1,351,313	2,753,343
Additional provision (reversal) during 2015................	884,000	(113,359)	770,641
Written off during 2015...	(425,180)	(103,665)	(528,845)
Balance as at 31 December 2015.................................	1,860,850	1,134,289	2,995,139
Additional provision during 2016................................	755,636	212,934	968,570
Written off during 2016...	(794,717)	(10,329)	(805,046)
Balance as 31 December 2016....................................	1,821,769	1,336,894	3,158,663
Additional provision during the first six months of 2017	348,299	25,948	374,247
Other adjustments during the first six months of 2017	(124,900)	-	(124,900)
Written off during the first six months of 2017	(315,751)	(113,940)	(429,691)
Balance as at 30 June 2017..	1,729,417	1,248,902	2,978,319
Additional provision during the last six months of 2017	313,073	78,618	391,691
Written off during the last six months of 2017............	(146,353)	(3,296)	(149,649)
Balance as at 31 December 2017.................................	1,896,137	1,324,224	3,220,361
Transition adjustment for IFRS 9	210,804	(258,406)	(47,602)
Balance as at 1 January 2018.......................................	2,106,941	1,065,818	3,172,759
Additional provision during the first six months of	229,453	81,199	310,652

	Murabaha and Other Islamic Financing	*Ijara* Financing	Total
	AED '000	*AED '000*	*AED '000*
2018			
Written off during the first six months of 2018	(158,480)	(6,119)	(164,599)
Balance as at 30 June 2018	2,177,914	1,140,898	3,318,812

Investments

The fair value of the investments as at 30 June 2017 and 2018, and 31 December 2015, 2016 and 2017 is comprised of the following:

	30 June 2017	**30 June 2018**	**31 December 2015**	**31 December 2016**	**31 December 2017**
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
Investment carried at fair value through profit or loss					
Equities	-	-	11,319	244	-
Sukuk	1,951,749	1,829,909	1,258,537	1,263,230	1,377,491
Total investment carried at fair value through profit or loss	1,951,749	1,829,909	1,269,856	1,263,474	1,377,491
Investment carried at fair value through other comprehensive income					
Quoted investments					
Equities	570	40,647	846	756	42,307
Sukuk	-	1,058,163	-	-	-
	570	1,098,810	846	756	42,307
Unquoted investments					
Funds	54,559	50,896	51,363	52,088	53,619
Private equities	93,051	60,030	131,494	80,610	53,073
	147,610	110,926	182,857	132,698	106,692
Total investment carried at fair value through other comprehensive income	148,180	1,209,736	183,703	133,454	148,999
	2,099,929	3,039,645	1,453,559	1,396,928	1,526,490
Less: provisions for impairment	-	(3,069)	-	-	-
Total investment carried at fair value	2,099,929	3,036,576	1,453,559	1,396,928	1,526,490
Investment carried at amortised cost					
Sukuk	10,592,065	9,817,473	7,282,409	9,063,314	10,052,028
	12,691,994	12,854,049	8,735,968	10,460,242	11,578,518

Related parties transactions

In the ordinary course of its activities, ADIB enters into transactions with related parties, comprising associates, directors, major shareholders, key management and their related concerns at commercial profits and commission rates. ADIB obtains collateral, including charges over real estate properties and securities, the extent of which is dependent on ADIB's assessment of the credit risk of the related party. All financing to related parties are performing financings and free of any provision for impaired financing. A related party exposure that is currently in excess of the regulatory limit, but is not in regulatory breach, is to be regularised by the end of 2018. Work is currently under way to achieve this.

During the six months ended 30 June 2017 and 2018, and the years ended 31 December 2015, 2016 and 2017, significant transactions with related parties included in the consolidated income statement are as follows:

	30 June 2017	30 June 2018	31 December 2015	31 December 2016	31 December 2017
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
Income from *murabaha*, *mudaraba* and *wakala* with financial institutions..........	7,201	4,900	4,835	9,290	14,394
Income from *murabaha*, *mudaraba*, *ijara* and other Islamic financing from customers..........................	72,658	67,523	196,473	142,855	135,117
Income from investments measured at fair value.......		-	63	-	-
Fees and commissions income, net........................	2,160	2,759	11,287	3,541	3,734
Operating expenses.............	216	216	432	432	687
Distribution to depositors and sukuk holders....................	570	965	748	893	1,471

As at 30 June 2017 and 2018, and 31 December 2015, 2016 and 2017, balances with related parties included in the consolidated statement of financial position were as follows:

	30 June 2017	30 June 2018	31 December 2015	31 December 2016	31 December 2017
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
Balances and *wakala* deposits with Islamic banks and other financial institutions	1,088,253	771,392	1,354,353	1,087,153	918,817
Murabaha and *mudaraba* with financial institutions	135,459	167,723	171,611	163,765	167,059
Murabaha, *mudaraba*, *ijara* and other Islamic financing	6,167,020	6,137,498	6,261,045	6,194,935	6,098,086
Other assets..........................	262,297	293,148	197,241	248,978	272,474
	7,653,029	7,369,761	7,984,250	7,694,831	7,456,436
Due to financial institutions.	22,415	21,200	30,180	47,457	31,019
Depositors' accounts	305,914	216,262	334,635	413,883	326,955
Other liabilities	4,543	8,368	267	2,537	3,633
	332,872	245,830	365,082	463,877	361,607

Risk management

The role of risk management is to support business growth while ensuring the quality of ADIB's portfolios in accordance with the defined risk appetite and risk policies of ADIB. The objective is to control earnings volatility and protect the bank's capital base, which is achieved by setting clear risk-taking parameters and institutionalising robust risk management processes. Risk management is one of the core focus areas for ADIB and ADIB is working to ensure that it adopts global best practices in all risk management areas. This commitment is pursued by investing both in systems and people.

ADIB faces a variety of risks in its operations (including credit, market, liquidity, operational and legal risks) in respect of which it has established risk management functions to identify, evaluate and manage such risks.

Credit risk management

CRM ensures an objective risk-based assessment of opportunities, supervises efficient allocation of capital and ensures earnings are predictable and sustainable. Risk is managed at the transaction, obligor and portfolio levels. Related policies are regularly evaluated against market and regulatory requirements.

Credit approval process

ADIB maintains documented risk management procedures and controls. Proposals for credit approvals are originated by the respective business unit, assigned a risk rating and are initially considered by the business unit. Credit applications above set limits and credit parameters are independently evaluated by CRM. All proposals above a specified limit require the approval of the Group Risk and Investment Approval Committee. Proposals entailing significant amounts or exposure are submitted to the Board of Directors.

ADIB strictly complies with Central Bank regulations relating to large exposures, which provide for the maximum total exposure per counterparty (and its related Group exposures) in relation to any bank's prevailing capital base.

Collateral management

In respect of collateralised financings, CRM, together with the respective business units, are responsible for the evaluation and maintenance of collateral. Customers will be contacted by ADIB when the value of its collateral falls below the required level of coverage in order to remedy such shortfall.

Limits on financing

ADIB has established country and geographic limits, as well as obligor and industry limits on financing. The limit for any country or sector may be increased or decreased by the Group Risk and Investment Approval Committee in accordance with specific business requirements or due to any significant development in the respective country or sector (e.g. changes in the outlook or growth prospects of that country or sector).

Finance portfolio

Corporate facilities are reviewed regularly by CRM, at least annually. This review includes an analysis of the customer (based on its latest financial statements, its compliance with any covenants and its payment and facility usage patterns), its industry and its business, and also uses external data.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio to facilitate focussed risk management and comparison of credit exposures across all products, business lines and geographic regions. Financial and qualitative analysis and processed market information provide the primary inputs for measuring counterparty risk.

All internal risk ratings are tailored to the relevant category and calculated in accordance with the Group's risk rating policy. Risk ratings models are assessed and updated regularly and ADIB introduced a number of new ratings models aligned to specific business segments during the course of the year. Moody's equivalent risk ratings are relevant only for certain exposures in each class.

ADIB uses a 22-grade risk rating system ranging from AAA to D/10. Risk ratings AAA to B+ are considered good credit, although reducing in quality from "Investment Grade" (AAA) to "Speculative Grade" (B+). Risk ratings B to CCC+ are considered higher risk credit, but with a limited margin of safety. Risk ratings CCC to D/10 are considered vulnerable and comprise classified credits reducing in quality from "Watch-list" (CCC) to "Loss" (D/10). Although Loss is considered uncollectible under the risk rating system, it does not imply that the assets have zero recovery or salvage value.

The table below shows a breakdown of ADIB's gross finance portfolio as at 30 June 2018 (in AED thousands):

Business Group	*Performing Financing Assets*	*Non-Performing Financing Assets*	*Total*
Corporate/Government..............................	26,544,935	1,709,432	28,254,367
Retail..	44,927,659	1,670,003	46,597,662
Private Banking...	3,766,273	1,003,848	4,770,121
Total..	75,238,867	4,383,283	79,622,150

ADIB's 20 largest non-performing exposures classified as Stage 3 under International Financial Reporting Standards, as at 30 June 2018, amounted to AED 2.1 billion. Profit in suspense relating to these accounts amounted to AED 157 million and provisions for impairment against these accounts amounted to AED 600 million. The financial data in this paragraph is derived from ADIB's unaudited management data.

Financing and recovery

ADIB adopts a rigorous approach to managing its bad and doubtful customer financings. Its managers maintain effective contact with non-performing customers with a view to maximising recoveries. The Group Special Asset Management team (**GSAM**) within CRM is responsible for recovery of the financing through either negotiation with the customer or by litigation with the support and involvement of ADIB's Legal Department. GSAM is headed by a senior executive who is supported by a team of recovery officers and recovery supervisors.

Retail portfolio

ADIB has adopted a simplified approach to approving retail credit applications, which comprise the bulk of finance applications received by ADIB. As a preliminary step, the applicant's credit history (if any) with ADIB and any records relating to the applicant held by the Central Bank are checked. The Central Bank has established an online "Risk Bureau Customer Rating System" for individuals seeking financing of up to AED 250,000. ADIB reviews the credit history and credit exposure information available therein to ensure compliance with Central Bank regulations.

ADIB has developed various retail products which have specific parameters which, *inter alia*, define the maximum level of permitted finance. Such parameters may depend on salary, credit score and debt service ratio (defined as the ratio of total of monthly instalments to net monthly salary received in the customer's account with ADIB), among other things.

ADIB offers both secured financing schemes (such as real estate and car financing, secured against the asset being financed) and unsecured financing schemes (such as personal financings and covered cards).

Market risk management

Market risk is ADIB's exposure to adverse changes in the market value of its portfolios and positions in financial instruments caused by changes in market prices. Market risk management is an independent risk function. The aim is to make the market risk profile transparent to the senior management and regulators. The market risk governance structure includes two policy making committees, the Asset Liability Committee and the Market Risk Policy Committee, which set appropriate limits in line with defined risk appetite and allocated capital.

Liquidity risk management

Liquidity risk is the risk that ADIB will be unable to meet its funding requirements, which can be caused by a number of factors, such as political uncertainty, market disruptions or a downgrade in ADIB's credit rating.

To address this risk, ADIB's liquidity risk management function seeks to diversify funding sources and to match the growth of its assets with funding.

Operational risk management

Operational risk for ADIB is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Whilst ADIB cannot expect to eliminate all operational risks, ADIB's operational risk management function aims to manage risks through regular assessment of its processes, including the use of process review tools, mitigation, monitoring, reporting and staff education. Further, in order to mitigate this risk and to ensure continued growth, ADIB aims to further enhance and upgrade its production environment capabilities to manage capacity, scalability and business continuity.

Legal risk management

Legal risk is the risk of losses occurring due to legal or regulatory action that precludes performance by ADIB or its counterparty under the terms of its contractual agreements. ADIB's legal risk management function aims to mitigate this risk through properly reviewed documentation and by seeking legal advice when appropriate. ADIB has a highly qualified full-time in-house legal team which deals with both routine and more complex legal issues. Situations of higher complexity and sensitivity are referred to external firms of lawyers, either in the UAE or overseas, as appropriate.

Recent developments

In June 2018, the Central Bank published "*Risk Management Regulation*" and "*Risk Management Standards*" for UAE banks. The purpose of these regulations and standards is to establish a prudential framework for risk management in banks and to strengthen risk management across the banking sector. The areas covered by these regulations and standards are: (i) the risk management function; (ii) risk measurement and use of models; (iii) stress testing; (iv) information systems; (v) strategic and operational decisions; (vi) group risk management; (vii) disclosures; and (viii) Islamic banking.

ADIB conducted a self-assessment against these regulations and standards and concluded that its policies and procedures are largely compliant. ADIB identified two areas where further enhancements may be required: (i) ADIB's group risk management function, including the introduction of the role of the Chief Risk Officer; and (ii) ADIB's policies and systems in relation to risk data aggregation and reporting. The Board of Directors is aware of the findings of ADIB's self-assessment and a plan is being formulated to resolve the areas where ADIB is not in full compliance.

Capital management/adequacy

Basel III

ADIB's capital adequacy ratio is calculated in accordance with its internal guidelines and the Central Bank's instructions. The Central Bank has issued Basel III capital adequacy regulations (the **Basel III Regulations**), which came into effect from 1 February 2017, introducing minimum capital requirements at three levels: common equity tier 1, tier 1 and total capital.

The Central Bank has also introduced capital buffers which must be maintained in addition to the minimum common equity tier 1 requirement of 7 per cent.: (i) the capital conservation buffer which, following transitional arrangements, must be maintained at 2.5 per cent. of risk weighted assets and (ii) the countercyclical capital buffer which, following transitional arrangements, must be maintained at a level determined by the Central Bank, between 0 – 2.5 per cent. of risk weighted assets.

The Basel III Regulations provide for transitional arrangements for 2017 and 2018. During 2017, the capital conservation buffer was required to be maintained at 1.25 per cent. of risk weighted assets. During 2018, the capital conservation buffer is required to be maintained at 1.875 per cent. and from 2019 it will be required to be maintained at 2.5 per cent. of risk weighted assets. The countercyclical capital buffer is not yet in effect and was not required to be maintained for 2017. Therefore, the combined buffer requirement applicable to ADIB as at the date of this Prospectus comprises only the capital conservation buffer.

The minimum capital requirements for 2017, 2018, 2019 and onward under the Basel III Regulations are set out below:

Capital Ratio	*Minimum requirements as of 1 January 2017*	*Minimum requirements as of 1 January 2018*	*Minimum requirements as of 1 January 2019 and onward*
Total capital adequacy ratio...	11.75%	12.375%	13.0%
Total Tier 1..............................	9.75%	10.375%	11.0%
Common Equity Tier 1 including capital conservation buffer..............	8.25%	8.875%	9.50%

The following table shows ADIB's risk assets and their risk-weighted values for capital adequacy ratio purposes under Basel III as at 30 June 2018 and 31 December 2017:

	30 June 2018	31 December 2017
	AED '000	*AED '000*
Capital Base	16,376,131	15,905,909
Risk-weighted Assets..............................		
Credit Risk	85,169,332	87,382,347
Market Risk	2,256,125	2,211,598
Operational Risk.....................................	9,887,839	9,259,729
Total risk-weighted assets.......................	97,313,296	98,853,674
Total common equity Tier 1 capital*......	10.28%	9.40%
Total Tier 1 capital*................................	15.74%	15.06%
Total regulatory capital*.........................	16.83%	16.09%

* Expressed as a percentage of total risk weighted assets.

Therefore, as at 30 June 2018, ADIB fulfilled its capital conservation buffer requirement with a margin of 1.41 per cent.

Basel II

Basel II, which was replaced by Basel III, was in effect until 31 December 2017. The minimum requirements prescribed by the Central Bank under Basel II for the capital adequacy ratio and tier 1 ratio were 12 per cent. and 8 per cent. respectively.

The following table shows the risk assets and their risk-weighted values for capital adequacy ratio purposes under Basel II as at 30 June 2017, and 31 December 2015, 2016 and 2017:

	30 June 2017	*31 December 2015*	*31 December 2016*	*31 December 2017*
	AED '000	**AED '000**	**AED '000**	**AED '000**
Capital Base	15,307,892	14,754,386	15,211,575	16,192,983
Risk-weighted Assets...............				
Credit Risk...............................	86,852,244	87,712,261	89,544,880	85,419,783
Market Risk	1,983,673	2,218,921	1,802,581	2,211,598
Operational Risk......................	9,259,729	7,549,954	8,402,813	9,259,729

	30 June 2017	*31 December 2015*	*31 December 2016*	*31 December 2017*
	AED '000	**AED '000**	**AED '000**	**AED '000**
Total risk-weighted assets.......	98,095,646	97,481,136	99,750,274	96,891,110
Total Tier 1 capital*................	15.00%	14.59%	14.61%	16.18%
Total regulatory capital*	15.61%	15.14%	15.25%	16.71%

* Expressed as a percentage of total risk weighted assets.

Tier 1 sukuk – Government of Abu Dhabi

In Abu Dhabi, government-owned institutions assisted certain Abu Dhabi banks during 2008 in strengthening their capital base through the subscription of mandatory convertible securities. In April 2009, the Abu Dhabi Government (acting through its Department of Finance) subscribed for an AED 2 billion tier 1 sukuk issued by ADIB. In aggregate, the Abu Dhabi Government subscribed for a sum of AED 16 billion in subordinated tier 1 capital notes/sukuk issued by the five largest Abu Dhabi banks: National Bank of Abu Dhabi (now First Abu Dhabi Bank following its merger with First Gulf Bank), Abu Dhabi Commercial Bank, First Gulf Bank (now First Abu Dhabi Bank following its merger with National Bank of Abu Dhabi), Union National Bank and ADIB.

Operations and technology

The Operations and Technology team acts as an enabler for the Group in its pursuit of achieving ADIB's strategic objective for its customers, shareholders and employees (see the "*Description of Abu Dhabi Islamic Bank PJSC – Objective and strategy*" section of this Prospectus).

The Operations and Technology team provides consistent operational support to the Group and enacts strong governance and control mechanisms across the business lines, with a focus on delivering lower operational costs, building digital capabilities and increasing efficiency, automation and customer-centric processes to deliver an enhanced customer experience.

The Operations and Technology team establishes, develops and implements technology refresh programmes to upgrade ADIB's systems and technologies and enable its digital transformation. Recent initiatives include: (i) an information security transformation programme – aimed at centralising and comprehensively managing ADIB's information and cyber-security controls to build resilience to internal and external security threats; (ii) the introduction of a business continuity management team – a team and robust platform to enhance automation and data integrity in the context of business continuity management; and (iii) digitalisation programmes – investments in several strategic programmes to improve time to market for innovative ways of banking.

Competition

ADIB faces competition in all of its business areas from both domestic and foreign banks operating in the UAE. As at 30 December 2017, there were 49 banks holding full commercial banking licences in the UAE.

As at 30 June 2018, the Islamic banking sector in the UAE included seven Islamic banks, comprising ADIB, Dubai Islamic Bank, Sharjah Islamic Bank, Emirates Islamic Bank, Noor Bank, Al Hilal Bank and Ajman Bank. In addition, a number of conventional banks have established Islamic windows through which they provide *Shari'a*-compliant products and services establishing Islamic banking offerings, including First Abu Dhabi Bank, Abu Dhabi Commercial Bank, Mashreq Bank, Union National Bank and Standard Chartered Bank.

Property

During 2018, ADIB moved into its new headquarters, occupying one tower of a 12-storey twin-tower building. The other tower has been leased to a third party. The building conforms to the standard for a new construction within the "LEED Green Building Rating System", which encourages global adoption of sustainable green building and development practices.

As at 30 June 2018, ADIB's property and equipment had a total net book value of AED 2,159 million.

Industry regulation and supervision

ADIB is licensed and regulated by the Central Bank, which is the principal source of banking regulation in the UAE. The Central Bank provides prudential supervision to each bank's capital adequacy, liquidity and anti-money laundering measures. Monitoring by the Central Bank is undertaken by way of regular inspections of banks and their records and the requirement for regular submission of data, including, but not limited to, deposited funds, financing business, liquidity status, risk profile and suspicious reports filing.

As a public joint stock company listed on the ADX, ADIB is subject to the rules and regulations of the ADX including the disclosure requirements of both SCA and the ADX.

Regulatory compliance

The Group is committed to building and maintaining a culture of ethical behaviour, corporate governance and regulatory compliance. ADIB's Global Head of Compliance, who reports directly to the Group Audit Committee, manages the Group Compliance Department (**GCD**) to identify, assess and monitor compliance risk faced by the Group and to advise and report directly to senior management. The GCD, which comprises a team of qualified professionals, ensures the preservation of the reputation and integrity of ADIB and its subsidiaries through compliance with applicable laws, regulations and ethical standards in each market in which it operates.

In 2014 ADIB became aware of certain financial transactions relating to U.S. dollar payments that potentially breached U.S. sanctions laws in effect at that time. After learning of these potential breaches, ADIB appointed external legal advisers to assist it in reviewing these transactions and reviewing its compliance with U.S. sanctions laws and its compliance processes generally. Following this review, ADIB submitted its findings to relevant regulators in the UAE and the USA in early 2017. This review also assisted ADIB in identifying additional steps to ensure compliance with applicable sanctions laws, and ADIB enhanced its processes accordingly. As at the date of this Prospectus, the relevant regulators have not responded following receipt of ADIB's findings and, as such, the likely outcome of their review remains unknown.

Anti-money laundering policies

The GCD has established a separate anti-money laundering unit and implemented a transaction monitoring system to identify and continually review suspicious transactions, as well as to establish anti-money laundering and "know your client" policies (as per the Central Bank's requirements and internationally accepted standards). The anti-money laundering unit conducts regular training to ensure that ADIB and its subsidiaries are always in compliance with requisite policies.

ADIB believes that it is in compliance with the Central Bank's requirements in relation to anti-money laundering and counter-terrorism financing. To date, neither ADIB, nor any of its subsidiaries has been subject to sanctions or punitive actions related to anti-money laundering or counter-terrorism financing by any regulator or law enforcement authorities. In support of its determination to remain compliant with any applicable economic sanctions laws and to ensure that it takes full advantage of control mechanisms in respect to dealing with sanctioned persons, entities, and countries, ADIB undertakes comprehensive reviews, with the assistance of external parties, of its US dollar-denominated transactions involving countries or parties subject to US economic sanctions. To the extent that these reviews assist ADIB in the identification of any additional steps that can be taken to ensure compliance with applicable sanctions laws, ADIB enhances its processes accordingly.

Internal audit

The Group Audit and Risk Review division (**GARR**) comprises a team of qualified auditors who perform internal audits of all of the branches and departments of ADIB and provide an independent appraisal function. It advises the Board of Directors, the Group Audit Committee, the management team and ADIB's subsidiaries and associated companies. GARR has a direct reporting line to the Group Audit Committee. Each internal audit function within each of ADIB's subsidiary companies reports to or coordinates with GARR.

GARR adopts the Internal Audit Standards requirements, including the risk-based approach in line with the best practices in the financial industry.

Ratings

Fitch Ratings Ltd. (**Fitch**) has assigned ADIB a long-term issuer default rating of 'A+' with stable outlook and a short-term rating of F1. Moody's Investors Service Ltd. (**Moody's**) has assigned ADIB a long-term rating of A2 with stable outlook and a short-term rating of P1.

Fitch is established in the European Union and was registered under Regulation 1060/2009/EC of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the **CRA Regulation**) on 31 October 2011. Moody's was registered under the CRA Regulation on 31 October 2011. A list, published by the European Securities and Markets Authority, of credit rating agencies registered or certified in accordance with the CRA Regulation can be found at the following website: *https://www.esma.europa.eu/supervision/credit-rating-agencies/risk*.

DIRECTORS, MANAGEMENT AND EMPLOYEES

In accordance with applicable federal UAE and Abu Dhabi laws and ADIB's by-laws, ADIB's executive management is currently comprised of a Board of Directors and a number of appointed committees.

Board of Directors

The Board of Directors derives its authority to act from ADIB's Articles of Association and the laws governing companies and banks in the UAE and Abu Dhabi. Its responsibilities include:

- the supervision of the management of the business affairs of ADIB;
- providing leadership in the development and implementation of ADIB's vision and mission, both within the UAE and as ADIB expands abroad; and
- the establishment and oversight of ADIB's risk management framework and ensuring that business is conducted within this framework.

The Board of Directors is comprised of a chairman, vice chairman and five other members (each a **Director** and together the **Directors**). The majority of the Directors are UAE nationals (as required by the UAE Federal Law No. 2 of 2015 on Commercial Companies and ADIB's Articles of Association).

The Board of Directors is appointed for three-year renewable terms and is required to meet at least four times per annum. The details of the current Directors, elected or re-elected by the General Assembly on 21 April 2016, are set out below.

Name	*Positions*	*Appointment*
H.E. Jawaan Awaidha Suhail Al Khaili	Chairman of the Board of Directors since March 2008 and Director since February 2008.	Appointed by the Board of Directors and appointment confirmed by the General Assembly.
Mr. Khamis Mohamed Buharoon	Director since August 2007 and has been the Acting Chief Executive Officer of ADIB since March 2017 (the **Acting CEO**). He is also the Chairman of both ADNTC and ADIB Securities.	Appointed by the Board of Directors and appointment confirmed by the General Assembly.
Mr. Juma Khamis Al Khaili	Director since April 2004.	Elected by the General Assembly.
Mr. Ragheed Najeeb Al Shanti	Director since April 2007.	Elected by the General Assembly.
Dr. Sami Ali Al Amri	Director since March 2009.	Elected by the General Assembly.
Mr. Abdulla Bin Aqueeda Al Muhairi	Director since April 2010.	Elected by the General Assembly.
Mr. Khalifa Matar Al Mheiri	Director since April 2016.	Elected by the General Assembly.

The Board of Directors carries out its responsibilities and duties either directly or indirectly, through its Board Committees (as set out below). ADIB also has a *Shari'a* Supervisory Board, of which the members are nominated by the Board of Directors and appointed by the shareholders.

Board Committees

As part of ADIB's corporate governance programme, the Board of Directors has appointed six committees which have specific mandates, consisting of certain Directors, the Acting CEO, group heads and external independent experts in their relevant fields (**Subject Matter Experts**), as follows:

(i) Group Audit Committee;

(ii) Group Strategy Committee;

(iii) Group Governance and Risk Policy Committee;

(iv) Group Remuneration Committee;

(v) Group Nomination Committee; and

(vi) Group Risk and Investment Approval Committee.

(together, the **Board Committees**).

The Subject Matter Experts have a diversity of backgrounds aimed at ensuring that undue reliance is not placed on any one individual.

The purpose of the Board Committees and their members are set out below.

Group Audit Committee

The Group Audit Committee is comprised of the following members: Mr. Abdulla Bin Aqueeda Al Muhairi, Chairman; Mr. Khamis Mohamed Buharoon, Member; Dr. Sami Ali Al Amri, Member; and Munther Dajani, Subject Matter Expert.

The Group Audit Committee's mandate is to:

- assist the Board of Directors in fulfilling its oversight responsibilities relating to the integrity of the Group's consolidated financial statements and financial reporting process;
- review the financial and internal control systems, quality assurance and risk management framework;
- review the performance of the internal audit function;
- review the internal controls over financial reporting and annual independent audit of the Group's consolidated financial statements;
- recommend to the Board of Directors the engagement of the external auditors and evaluation of their qualifications, independence and performance; and
- ensure compliance by the Group with legal and regulatory requirements as pertaining to its business activities.

Group Strategy Committee

The Group Strategy Committee is comprised of the following members: Dr. Sami Ali Al Amri, Chairman; Mr. Khamis Mohamed Buharoon, Member; and Mr. Khalifa Matar Al Mheiri, Member.

The Group Strategy Committee's mandate is to:

- review, consider, discuss and challenge the recommendations submitted by the executive management with regard to business strategy, budgets and annual plans;
- work with management to make recommendations to the Board of Directors on the business strategy and long term strategic objectives of ADIB, including all subsidiaries and associates;
- review the financial performance of each business group on a quarterly basis and make recommendations should action be required;
- review and recommend capital allocation within the Group to the Board of Directors;
- review the organisational structure of ADIB and make recommendations to the Board of Directors on any changes deemed necessary; and
- review proposals from management for the establishment or disposal of branches, subsidiaries and new joint ventures, referring them to the Group Risk and Investment Approval Committee for final decision.

Group Governance and Risk Policy Committee

The Group Governance and Risk Policy Committee is comprised of the following members: Mr. Khalifa Matar Al Mheiri, Chairman; Mr. Juma Khamis Al Khaili, Member; Dr. Sami Ali Al Amri, Member; Mr. Abdulla Bin Aqueeda Al Muhairi, Member; and Mr. Brian Belcher, Non-voting member.

The Group Governance and Risk Policy Committee's mandate is to:

- review the risk profile of the Group at the enterprise level;
- make recommendations to optimise the risk profile of the Group at the enterprise level, in accordance with applicable regulations, ratings considerations and overall business strategy;
- review the corporate governance and risk management frameworks for the Group; and
- make recommendations on these matters to the Board of Directors, in alignment with the requirements of the Basel Committee on Banking Supervision, and in compliance with all local regulatory requirements.

Group Remuneration Committee

The Group Remuneration Committee is comprised of the following members: Mr. Juma Khamis Al Khaili, Chairman; Dr. Sami Ali Al Amri, Member; and Mr. Khalifa Matar Al Mheiri, Member.

The Group Remuneration Committee's mandate is to:

- review the selection criteria and number of executive and employee positions required by ADIB;
- approve the overall manpower of ADIB based on reports submitted by the Acting CEO, taking into consideration the advice of an independent and recognised consulting firm; and

- review on an annual basis the policy for the remuneration, benefits, incentives and salaries of all ADIB employees, including bank and non-bank subsidiaries and affiliates, as submitted by the Acting CEO, taking into consideration the advice of an independent and recognised consulting firm.

Group Nomination Committee

The Group Nomination Committee is comprised of the following members: H.E. Jawaan Awaidha Suhail Al Khaili, Chairman; Mr. Juma Khamis Al Khaili, Member; and Dr. Sami Ali Al Amri, Member.

The Group Nomination Committee's mandate is to:

- identify and nominate, for approval of the Board of Directors, candidates for appointment to the Board of Directors;

- make recommendations on succession plans for Directors;

- provide input on the renewal of the terms of office of non-executive Directors;

- assist with membership of Board of Directors' committees, in consultation with the Board of Directors' Chairman and the Chairmen of such committees;

- guide on matters relating to the continuation in office of any Director at any time;

- make recommendations on appointments and re-appointments to the boards of major subsidiaries and controlled affiliated companies;

- ensure the independence of the independent directors and any qualified subject matter expert appointed to a Board Subcommittee; and

- regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board of Directors and make recommendations to the Board of Directors with regard to any changes.

Group Risk and Investment Approval Committee

The Group Risk and Investment Approval Committee is comprised of the following members: H.E. Jawaan Awaidha Suhail Al Khaili, Chairman; Mr. Juma Khamis Al Khaili, Member; Mr. Khalifa Matar Al Mheiri, Member; and Mr. Ragheed Najeeb Al Shanti, Member.

The Group Risk and Investment Approval Committee's mandate is to:

- review and approve significant credit and other risk exposures;

- review the credit portfolio on a periodic basis in order to assess alignment with the approved credit strategy and risk appetite of the Group;

- review actions undertaken by management with regard to remedial activities;

- monitor general and specific provisions;

- approve significant and high value transactions with regard to acquisitions and divestures, new business initiatives and proprietary investments, international business and mergers and acquisitions;

- review and recommend to the Board of Directors approval for those investment proposals requiring such approval due to regulations;

- approve high value transactions in respect of capital expenditure, IT projects and procurement of equipment and materials for ADIB's operations; and

- review and make recommendations to the Board of Directors on any material non-credit related party transactions.

Senior management

ADIB's senior management structure comprises senior members heading different divisions and departments within ADIB. With the exception of ADIB's Group Financial Controller, who reports to ADIB's Chief of Staff, they all report to the Acting CEO who in turn reports to the Board of Directors. The senior managers and their positions are as follows:

Name	*Position*
Khamis Mohamed Buharoon	Acting CEO
Abdul Hakim Kanan	Group Head – Audit and Risk Review
Abdul Qadir Khanani	Group Treasurer
Abdul Rahman Abdulla	Head of Strategic Clients and Community Banking
Adel Ahmed Al Zarouni	General Manager, Real Estate and Administration
Ahsan Ahmed Akhtar	Group Financial Controller
Sami Al Afghani	Group Head – Wholesale Banking
Ghaith Mismar	Global Head – Legal Services and General Counsel
Brian Belcher	Global Head – Risk
Martin Roland Corfe	Global Head – Human Resources
Abdulla Al Shehhi	Global Head – International Banking and Financial Institutions
Osaid M.A. Kailani	Global Head – *Shari'a*
Hassan Adel Khalifa	Head of Operations
Philip King	Global Head – Retail Banking
Syed Aamir Zahidi	Chief of Staff and Group Governance
Hasan Abdullah Al Zaabi	Head of Human Resources, UAE
Mamoun Alhomssey	Chief Information Officer
Sarhat Yildirim	Chief Digital Officer

The address of each of the Directors and the members of senior management named above is P.O. Box 313, Abu Dhabi, UAE.

As at the date of this Prospectus, none of the Directors, the Acting CEO, or any member of senior management or member of any supervisory body stated above has any actual or potential conflict of interest between his duties to ADIB and his private interest or other duties.

The registered office of ADIB is Al Bateen Building, King Abdullah bin Abdulaziz Street, P.O. Box 313, Abu Dhabi, UAE. ADIB's headquarters are currently located at Sheikh Rashid Bin Saeed Al Maktoum Street (Old Airport Road), opposite Hilton Capital Grand Hotel, Tower 1, P.O. Box 313, Abu Dhabi, UAE (telephone: +971 2 610 0000).

Below is a brief summary of the qualifications and experience of ADIB's key senior management:

Khamis Mohamed Buharoon – Acting CEO: Mr. Buharoon is the Acting CEO and Vice Chairman of ADIB. Mr. Buharoon holds a Bachelor of Arts in Business and Accounting. He was appointed Acting CEO in March 2017 after holding various leadership positions for more than 30 years in the banking and finance sector.

Mr. Buharoon currently holds various positions in the UAE and MENA region, including as Chairman of ADNTC and ADIB Securities and as a board member of Etihad Capital, Naeem Holding Company in Egypt and Agthia Group. Mr. Buharoon has held key positions in the banking sector, including Chief Executive Officer of Commercial Bank International, where his role was to establish and oversee the implementation of strategy, and Managing Director of two of its group companies, Takamul Real Estate Company and International Brokerage Company; Head of Domestic Banking at National Bank of Abu Dhabi; and General Auditor of First Gulf Bank. Mr. Buharoon was also previously Chairman of Abu Dhabi National Leasing Company and National Development Bank in Egypt; a board member of Abu Dhabi National Hotels Company, the Emirates Institute for Banking and Financial Studies (and a member of its human resources committee), CEMEA VISA International, Seera Bank (Bahrain) and the General Council for Islamic Banks and Financial Institutions. Mr. Buharoon began his career in 1987 as an accountant and auditor in the Central Bank, becoming Assistant Director of the finance and internal audit divisions.

Abdul Hakim Kanan – Global Head – Audit and Risk Review: Mr. Kanan joined ADIB on 18 April 2010. He holds a Certified Public Accountant designation from the State Board of Accountancy, New Hampshire, United States of America. Mr. Kanan also holds the following professional qualifications: Certified Internal Auditor, Certified Information Systems Auditor, Certified Information Technology Professional, Certified Financial Services Auditor and Certified Fraud Examiner and is certified in the Governance of Enterprise IT. Mr. Kanan has over 30 years' experience in internal audit. His previous position was Group Chief Internal Auditor of Dubai Islamic Bank.

Abdul Qadir Khanani – Group Treasurer: Mr. Khanani joined ADIB on 28 August 2012 and has over 25 years' experience in treasury and financial markets. He holds a Bachelor of Commerce degree from the University of Karachi and is a Chartered Financial Analyst and a Certified Financial Risk Manager. Mr. Khanani previously worked for National Commercial Bank, Saudi Arabia's largest bank and one of the largest banking groups in the Middle East, where he was Head of Investment and responsible for money market, anti-money laundering, foreign exchange and treasury operations for Bahrain and Beirut. Prior to working at National Commercial Bank, Mr. Khanani headed several treasury business units at Samba Financial Group.

Abdul Rahman Abdulla – Head of Strategic Clients and Community Banking: Mr. Abdulla joined ADIB on 12 September 1998. He holds an undergraduate degree in science and his previous position was Deputy Head of the Private Banking Department at the National Bank of Abu Dhabi (now First Abu Dhabi Bank) (1980-1998).

Adel Ahmed Al Zarouni – General Manager, Real Estate and Administration: Mr. Al Zarouni joined ADIB in November 1998. He holds a certificate of Master Financial Professional from the American Academy of Financial Management. Mr. Al Zarouni also holds a Master's Certificate in Project Management from The George Washington University. Mr. Al Zarouni has 20 years of banking experience across different divisions and projects.

Ahsan Ahmed Akhtar – Group Financial Controller: Mr. Akhtar joined ADIB on 9 April 2008. He is a Chartered Accountant from the United Kingdom and holds a Bachelor of Science degree in Accounting and Finance from the London School of Economics and Political Science. He has previously worked with PricewaterhouseCoopers (1991-1998) and more recently Citibank (1998-2008), where he was Chief Financial Officer (Pakistan).

Sami Al Afghani – Group Head – Wholesale Banking: Mr. Al Afghani joined ADIB on 25 December 2017 as the Global Head of the Wholesale Banking Division. He is responsible for driving the growth of the division by building on its track record of innovation and banking excellence. He joined ADIB with over 30 years' experience in the financial services and banking industry, occupying leadership roles in several banks in the Middle East and Asia. He has extensive experience in risk management, corporate finance, capital markets and transaction banking. Prior to joining ADIB, from 2009 Mr. Al Afghani was the Chief Executive Officer of Al Safwa Islamic Bank in Jordan, where he contributed to the growth of the bank towards achieving a leading position in the Jordanian market. Mr. Al Afghani is a graduate of University of Southern California and has a Master of Business Administration degree from Northrop University.

Dr. Ghaith Mismar – Global Head – Legal Services and General Counsel: Dr. Mismar joined ADIB in September 2014. He holds a PhD in law from the University of London. He has over 28 years' legal experience, of which he served 15 years as a judge in the civil and commercial courts in Jordan. Subsequently, he worked at Arab Bank as the Group General Counsel and Company Secretary for 13 years, which enabled him to gain extensive legal knowledge and experience in the civil law, common law and *Shari'a* law legal systems.

Brian Belcher – Group Head – Risk Management: Mr. Belcher joined ADIB on 1 April 2014 as Head of Risk Management. He joined ADIB from National Commercial Bank, Saudi Arabia's largest bank and one of the largest banking groups in the Middle East, where he was the Chief Risk Officer. Prior to working at National Commercial Bank, Mr. Belcher spent almost 20 years at Citibank working in the United Kingdom, Poland, Norway, Africa and the United States of America in a variety of risk management roles in the Corporate and Investment Banking Unit.

Martin Roland Corfe – Group Head – Human Resources: Mr. Corfe joined ADIB on 24 June 2018 and is responsible for the strategy, development and management of ADIB's human resources division across all markets. He has extensive international human resources experience across financial services, having worked for Standard Chartered Bank, Nomura International, GE Capital and in professional services. Prior to joining ADIB he was the Global Head of Human Resources for commercial and private banking, wealth management, risk, compliance and legal at Standard Chartered, based in Singapore. Mr. Corfe is qualified with the Chartered Institute of Personnel and Development and holds a Bachelor of Arts in Organisational Behaviour from Lancaster Management School, a Master of Arts in Organisation Studies from Warwick Business School and a Master of Arts in Personnel and Development from Westminster Business School in the United Kingdom.

Abdulla Al Shehhi – Global Head – International Banking and Financial Institutions: Mr. Al Shehhi joined ADIB in November 1998 and holds a Master of Business Administration degree from UAE University. Mr. Al Shehhi is also a board member of the Council of Islamic Banks and Financial Institutions and is a director of the Emirates Banking Association. His previous position was a branch manager for Oman Housing Bank.

Dr. Osaid M.A. Kailani – Global Head – Shari'a: Dr. Kailani has a PhD in comparative Islamic jurisprudence, a postgraduate diploma in Islamic *Shari'a* and a Bachelor of Arts in *Shari'a* and Law. In addition to law generally, Dr. Kailani specialises in *Shari'a* law, Islamic banking, Islamic finance, Islamic insurance and *Shari'a* auditing. He worked for the Faculty of *Shari'a* and Law in UAE University, before joining ADIB. He has 19 years' experience in Islamic banking, particularly in structuring Islamic finance transactions including syndications and sukuk, developing Islamic products and investment tools, in addition to training in the field of Islamic banking. He is a member of the *Shari'a* Council of Accounting and Auditing Organisation for Islamic Financial Institutions (**AAOIFI**) in Bahrain, the Higher *Shari'a* Authority of the UAE, the Advisory Board of International Centre of Islamic Economy in Dubai, the *Shari'a* Supervisory Board of International Islamic Liquidity Management in Malaysia, the *Shari'a* Supervisory Board of BBI, and the *Shari'a* Standards Committee of AAOIFI. He is also serving as an expert in the International Islamic Fiqh Academy (Jeddah), and as an executive member of the *Shari'a* Committee of ADNTC. Dr. Kailani has authored several research papers and presentations in the field of Islamic banking and Takaful, in addition to his participation in many regional and international conferences and seminars especially on Islamic banking and Takaful.

Hassan Adel Khalifa – Head of Operations: Mr. Khalifa joined ADIB in September 2014. He holds a Bachelor of Commerce Certificate with Accounting as major from Cairo University, Egypt. Mr. Khalifa has over 38 years' experience across various banking fields. His position prior to joining ADIB was the Regional Senior Country Operations Officer, Managing Director at Citibank based in Dubai, UAE.

Philip King – Group Head – Retail Banking: Mr. King joined ADIB on 3 June 2013 with over 30 years' banking experience across Europe, the Americas and the Middle East. He leads ADIB's full retail banking proposition comprising liabilities and wealth management, assets, distribution, cards, SMEs, e-channels, UAE marketing, expat strategic business unit, segments and customer experience. Prior to joining ADIB, Mr. King managed various retail franchises for Citibank (including five years in Poland, which had over 86 branches), ABN Amro (which included Saudi Hollandi Bank in Saudi Arabia with 41 branches) and ABN Amro Latin America. Most recently, he was responsible for the start-up and growth of retail banking for International Bank of Qatar, based in Doha. Mr. King is a graduate of Bristol University in the United Kingdom and has a Master of Business Administration from London Business School.

Syed Aamir Zahidi – Chief of Staff and Group Governance: Mr. Zahidi joined ADIB on 7 October 2014. He is a member of the Institute of Chartered Accountants in England & Wales, and he has over 30 years of experience in international banking. Prior to joining ADIB, he spent seven years with Fullerton Financial Holdings, Singapore (2006-2013), as Executive Vice President Corporate Development and Chief Financial Officer. During this period, he helped Fullerton Financial Holdings establish a banking presence in seven countries in South East Asia, China and the UAE. He joined Fullerton Financial Holdings from Gulf Banking Consultants (2002-2006), a consulting and advisory firm, focusing on mergers and acquisitions advisory services to commercial banks and sovereign wealth funds. He has also worked with Citibank (1982-2002) as Chief Financial Officer and M&A Head (Citibank CEEMEA Group) and Head of Planning for Citibank Emerging Markets.

Hasan Abdullah Al Zaabi – Head of Human Resources, UAE: Mr. Al Zaabi joined ADIB in March 2018 from ADNOC where he was the SVP of Administration for ADNOC Fertilizers (a joint venture between ADNOC and Total). He worked for ADNOC Fertilizers from 1987, designing and implementing human resources strategies and policies in partnership with the Chief Executive Officer. At ADIB, he is responsible for further enhancing ADIB's recruiting, training and professional development programmes, including ADIB's local talent management strategy. He is also the Chairman and Chief Executive Officer of Kawader Services, ADIB's manpower outsourcing company. Mr. Al Zaabi is qualified with the Chartered Institute of Personnel and Development and graduated from the UAE University in Accounting and Business Administration.

Mamoun Taisir Salim Alhomssey – Chief Information Officer: Mr. Alhomssey has been associated with ADIB since 4 March 2006. His experience spans over 25 years of working with local and global financial institutions such as Citibank and Standard Chartered Bank at various offices in the region. His professional experience includes: integrating expertise in banking information technology and e-solutions; consulting, managing and implementing advanced technology projects, including core banking solutions and financial management; and leading various information technology projects in the MENA region. Mr. Alhomssey holds an undergraduate degree in Computer Science (Programming & Systems Analysis) from the University of Jordan.

Serhat Yildirim – Chief Digital Officer: Mr. Yildirim joined ADIB on 28 June 2018 with over 20 years' experience in digital banking. Prior to joining, he was the digital strategy consultant for Finansbank, one of the largest banks in Turkey, where he was responsible for leading a payment systems and processes digitalisation project. His previous experience includes managing Akbank Direct, Turkey's fastest growing digital banking platform, with primary responsibility for managing and developing self-service banking channels including ATM, internet and mobile platforms. He also spent over 10 years with Finansbank presiding over channel development, customer acquisition and digital. Mr. Yildirim holds a degree in Finance Management from Istanbul University.

Shari'a Supervisory Board

The Board of Directors nominates at least three and no more than five members to the *Shari'a* Supervisory Board and they are appointed by the General Assembly for one-year terms. The responsibilities of the *Shari'a* Supervisory Board comprise:

(a) the supervision and control of ADIB's activities to ensure that they comply with Islamic principles and rules;

(b) issuing Fatwas pertaining to ADIB's activities at the request of ADIB's executive management or Board of Directors;

(c) the submission of any objections in writing to the Board of Directors with respect to any of ADIB's activities not complying with Islamic principles;

(d) the review of all forms of contracts and agreements pertaining to any of ADIB's transactions to ensure their compliance with Islamic principles; and

(e) the review from a *Shari'a* compliance perspective at any time of all of ADIB's transactions and all of ADIB's books, records and documents, the status of ADIB's assets and liabilities and the ability, at any time, to request any information deemed necessary to ensure compliance with Islamic *Shari'a* principles.

A majority of the members of the Shari'a Supervisory Board should be present by principal or by proxy to constitute a quorate meeting. In the event that the *Shari'a* Supervisory Board's is unable to discharge its duties, it reports this in writing to the Board of Directors.

A brief summary of the members and their main qualifications and experience is set out below:

Sheikh Muhammad Taqi Al Uthmani (Chairman): Sheikh Al Uthmani is an expert in the fields of Islamic Jurisprudence (fiqh), economics and hadith. He graduated from Punjab University, Pakistan in 1970 and also holds a Law Degree (LL.B.) from Karachi University, Pakistan. Prior to these, he completed the specialisation course of Islamic Fiqh and Fatwa (Islamic Jurisprudence) from Jamia Darul Uloom, Pakistan. He served as a judge on the Federal Shariat Court of Pakistan from 1981 to 1982 and the Shariat Appellate Bench of the Supreme Court of Pakistan between 1982 and 2002. He is the Chairman of *Shari'a* Council of AAOIFI, Bahrain. He is also Chairman of other institutions, financial and non-financial, including of the *Shari'a* Board of Arcapita Investment Fund, Bahrain, the *Shari'a* Board of Meezan Bank Ltd. Pakistan, the *Shari'a* Board of Pak-Kuwait Takaful Pakistan, the *Shari'a* Board of Pak-Qatar Takaful Pakistan, and the Centre for Islamic Economics Pakistan. He is a Board member of the Unified *Shari'a* Board of Islamic Development Bank Jeddah, the *Shari'a* Board Guidance Financial Group, USA, the Islamic Fiqh Academy of Rabita-al-'Alam-e-Islami, Makkah, and a Permanent Member of the International Islamic Fiqh Academy, Jeddah, sponsored by OIC (Organisation of Islamic Countries). He is also Vice President and Shaikul-Hadith of Jamia Darul Uloom, Pakistan. Sheikh Al Uthmani has authored many books and articles on Islamic Finance and other *Shari'a* subjects in Arabic, English and Urdu languages.

Professor Jasem Ali Al Shamsi (Vice Chairman): Professor Al Shamsi is the former Dean of the Faculty of *Shari'a* and Law and former Professor of Civil Law at UAE University, a member of the Higher *Shari'a* Authority – UAE, a practising lawyer and an ex-member of the *Shari'a* Standards Committee of AAOIFI in Bahrain. He is the Chairman of the *Shari'a* Supervisory Board of Sharjah Islamic Bank – UAE, and of Arab Bank for Investment & Foreign Trade (Al Masraf) – UAE. Professor Al Shamsi is also Deputy Chairman of the *Shari'a* Supervisory Board of Ajman Bank, UAE. Professor Al Shamsi holds a Diploma in *Shari'a* and in Private Law from Ein Shams University and a PhD. in Law from Cairo University.

Sheikh Dr. Nizam Muhammad Ya'koubi (member): Dr. Nizam is a PhD candidate at the University of Wales (*Shari'a* & Law) and has a Masters degree from the University of McGill, Montreal, Canada (Economics and Comparative Religion). Dr. Nizam holds several academic degrees under the guidance of a number of *Shari'a* scholars within and outside Bahrain. He is a Member of the AAOIFI *Shari'a* Council, Chairman of the *Shari'a* Board of Mawarid Finance Company Dubai, Member of the Higher *Shari'a* Board of Central Bank of Bahrain, Member of the *Shari'a* Committee of Saadiq (Standard Chartered Bank), Member of the Central *Shari'a* Committee of HSBC (Saudi), Member of the Islamic Supervisory Boards for the Islamic Investment Banking Unit of The Ahli United Bank (UK) PLC, London, and several other Islamic banks and institutions. He has also authored a number of publications such as *Risalah fi al Tawbah* and *Irshad al Uqala ila Hukm al Qira h min al Mushaf fi al Salah*. The numerous awards received by Dr. Nizam include the First Degree Award of Capability for Islamic services within and outside Bahrain 2007 from the King of Bahrain, the Euro Money Award for innovation in Islamic banking supervision, and the 2007 Malaysia Award for contribution to Islamic banking.

Sheikh Dr. Muhamed Elqari (member): Dr. Elqari is a member of the Board of Trustees of AAOIFI and of numerous *Shari'a* Boards of Islamic Banks including those of Arab National Bank, Banque Saudi Fransi, Bank Al Jazira, Citi Islamic Investment Bank, HSBC, Islamic Development Bank, National Commercial Bank, Riyad Bank, Samba Financial Group, Saudi British Bank and Saudi Holland Bank. Dr. Elqari also sits on the *Shari'a* Boards of International Islamic Fund Market, Islamic Dow Jones Index, Merrill Lynch and Saudi American Bank and is an expert at the Islamic Jurisprudence Academy of OIC and the Islamic Jurisprudence Academy of the Islamic World League and an ex- member of the *Shari'a* Council of AAOIFI. Dr. Elqari is a member of the editorial board of several academic publications in the field of Islamic finance and jurisprudence and has written several books and published numerous articles on Islamic finance. Dr. Elqari holds a PhD in Economics from the University of California, USA, was a former professor of Islamic Economics, director of the Centre for Research in Islamic Economics at King Abdulaziz University, Jeddah, the Kingdom of Saudi Arabia, and is the recipient of many Islamic finance awards including KLIFF Award and Euromoney's Award for most outstanding contribution to Islamic finance.

Sheikh Esam Mohamed Ishaq (member): Sheikh Esam is the Deputy Chairman of the Governance and Ethics Board of AAOIFI. He graduated from McGill University, Montreal, Canada in 1983 and has been a member of the *Shari'a* supervisory boards of various financial institutions including: Al Baraka Islamic Bank, Al Hilal Bank (Abu Dhabi), Al Meezan Islamic Bank, ADNTC, Al Hilal Takaful, Islamic Finance House (Abu Dhabi), and the Maldives Monetary Authority. Sheik Esam is a member of the *Shari'a* Panel of International Islamic Financial Markets and Chairman of the *Shari'a* Supervisory Boards of Seerah Investment Bank, Investment Dar Bank, Family Bank and EcoIslamic Bank.

Litigation Statement about Directors and Senior Management

Within the period of five years preceding the date of this Prospectus, none of the Directors or members of senior management of ADIB:

- has any convictions in relation to fraudulent offences;
- save as set out below, has been a director or senior manager of any company at the time of any bankruptcy, receivership or liquidation of such company; or
- has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

Certain of ADIB's Directors and members of senior management currently hold, or have previously held, equivalent roles at Arab Link, which is undergoing voluntary liquidation. Please refer to the "*Description of Abu Dhabi Islamic Bank PJSC – Joint ventures*" section of this Prospectus for further information on the circumstances leading to the voluntary liquidation of Arab Link.

Human resources

ADIB aims to attract, develop and retain highly skilled, motivated and experienced staff. ADIB's human resources function works to formulate and execute relevant strategies, policies and processes that enable ADIB to engage its workforce in order to achieve ADIB's strategic ambitions. Following its internal restructuring in 2008, ADIB has brought together a strong senior management team of bankers with extensive expertise in banking and finance both at ADIB and domestic, regional and international banks.

As at 31 December 2017, ADIB employed 2,039 staff members. Learning and development training is a priority within ADIB and, in addition to the mandatory core skills training programmes, a major focus is placed on customer service and relationship management training in all areas of business. Training programmes are mainly delivered via ADIB's banking academy to cover corporate finance, credit, anti-money laundering, compliance, governance and ethics, and product training as well as various areas of Islamic banking, interpersonal skills and use of the core banking system of ADIB. As part of the Banking Academy, ADIB also provides in depth training for branch staff in its "virtual branch". Other entry level courses are provided to call centre and sales staff. External training programmes are sourced in line with business requirements and include formal training courses, conferences, workshops and seminars, conducted both locally and overseas.

ADIB received the talent management award at the "GCC HR Awards" in 2017, recognising its commitment to providing ongoing training and development programmes, coaching and mentoring, assessing and developing leadership capabilities, monitoring talent and measuring talent development.

Performance and reward

ADIB operates a variable bonus scheme for eligible employees under which performance bonuses are awarded against annual performance criteria. The bonuses paid to employees are based on a combination of their performance in line with their objectives and appraisals, the performance of their respective business unit and the overall performance of ADIB. Numerous variable incentive plans are in place for sales managers, team leaders, sales agents and related support staff, based on the product and segment focus of the teams. Collections and branch staff also participate in incentive programmes based on the achievement of key metrics.

ADIB applies recognition schemes such as promotions, salary increments, bonuses, recognition certificates and other rewards for teams. ADIB has an annual performance appraisal scheme for all staff. The general compensation and remuneration policy, as well as senior management compensation and remuneration, are approved by the Group Remuneration Committee.

Pension scheme

For all employees who are UAE nationals, the pension scheme is governed by the Abu Dhabi Retirement Pensions and Benefits Fund. ADIB contributes 15 per cent. of the salary of each eligible employee, and along with the 5 per cent. of salary contribution from the concerned employee, submits this sum to the relevant authority. For the purpose of calculating contributions, an individual's salary is deemed to comprise basic salary, housing allowance and national allowance.

Employees who are not UAE nationals are covered by a fully funded end-of-service benefits scheme that is accrued on the basis of 30 days' basic salary for each year for the first five years of continuous service and 45 days' basic salary for each year of service thereafter.

There are no pension liabilities accrued to date since ADIB makes the required payment on a monthly basis.

Emiratisation

ADIB has adopted an "Emiratisation" scheme in the UAE which is intended to attract talented UAE national candidates at all professional levels. Although ADIB provides equal employment opportunities to all nationalities, it is required to achieve certain UAE national recruitment targets set by external regulatory bodies and these are incorporated into an annual strategic plan.

The proportion of UAE nationals employed in its UAE banking business was 37.2 per cent. of ADIB's workforce as of 30 June 2018, and ADIB is on target in terms of the Central Bank's current Emiratisation points system. A centralised Emiratisation team within the human resources function manages the Emiratisation process and priorities under the supervision of the Head of Human Resources for the UAE and the guidance of the Global Head of Human Resources. The Emiratisation plan is prepared in conjunction with the annual plan after the staffing requirements for all divisions have been determined. The annual targets for Emiratisation are proportionately broken down for and communicated to each division for implementation.

In addition to hiring experienced UAE national staff for all positions in ADIB, there is also a focus on hiring undergraduate and graduate candidates for relevant positions. ADIB has long-term relationships with a number of universities and educational institutions in an ongoing effort to recruit local graduates and introduce undergraduates to the attractions of a career in banking. ADIB has been sponsoring UAE national candidates in higher education within the UAE by paying them a monthly stipend from their second year of university study and by providing them with one month of vocational training and a work placement.

ADIB has established the "Abu Dhabi Islamic Bank Leadership Programme" to offer talented UAE staff a structured training programme. Examples include the "Tamkeen" programme for Emirati female talent and the "Qiyadat" programme for male and female Emirati talent. The aim is to prepare these employees to advance in Islamic banking with a clear understanding of the industry and role and leadership requirements within a *Shari'a*-inspired organisation such as ADIB.

ADIB has been recognised for its continued commitment to Emiratisation and for the training and development of UAE nationals, both through ADIB's internal training programmes as well as through the Emirates Institute of Banking and Financial Studies. For example, in 2017 ADIB was presented with the "Human Resource Excellence" award and in 2018 received the "Human Resource Development" award, both recognising ADIB's efforts and achievements in the field of Emiratisation and UAE national employment, training and development.

THE UAE BANKING SECTOR AND REGULATIONS

SUMMARY

According to data published by the Central Bank, as at 31 December 2017 there were a total of 49 banks (22 locally incorporated banks and 27 foreign banks) licensed to operate in the UAE, to serve a national population of approximately 9.4 million people at the end of 2017 (source: Statistical Yearbook 2017 edition, United Nations Department of Economic and Social Affairs, Statistics Division). As a result, the UAE could be, and has historically been, viewed as an over-banked market, even by regional standards and there has traditionally been little impetus for consolidation. However, following the consummation of the merger between First Gulf Bank and National Bank of Abu Dhabi on 30 March 2017, it is anticipated that this may act as a catalyst for further consolidation amongst locally incorporated banks.

The UAE's membership of the World Trade Organization will likely require greater economic liberalisation, but it is unclear to what extent this will encourage foreign banks to further expand their presence in the market. In the long-term, however, it is likely to lead to increased competition, which should spur consolidation, both within the UAE and across the region generally.

According to the Statistics Centre (Statistical Yearbook of Abu Dhabi 2017), the financial and insurance sectors in Abu Dhabi contributed approximately AED 71.3 billion (or 9.8 per cent.) to Abu Dhabi's nominal GDP in 2016. Within the UAE as a whole, the financial sector was estimated to have contributed approximately 6.9 per cent. of real GDP in 2016 (according to the FCSA).

As a banking regulator, the Central Bank, established in 1980, has grown in stature over the years and is the governing body that regulates and supervises all banks operating in the UAE. The Central Bank monitors banks through its Banking Supervision and Examination Department. It conducts reviews of banks periodically based on the risk profile of each bank. It also reviews all of the returns submitted by the banks to the Central Bank.

Historically, the Central Bank does not act as a "lender of last resort", instead this role tends to fall on the individual Emirs of each Emirate. However, the Interim Marginal Lending Facility (the **IMLF**), introduced by the Central Bank in 2014, enables non-Islamic UAE banks to use certain rated or UAE federal government entity issued assets as collateral to access Central Bank liquidity overnight in order to help their liquidity management.

CHARACTERISTICS OF THE BANKING SYSTEM

Historic lack of Consolidation

The UAE may be, and has historically been, seen as being over-banked with 49 different banks (comprising 22 locally incorporated banks and 27 foreign banks) licensed to operate inside the UAE as at 30 December 2017 (excluding the Dubai International Financial Centre (**DIFC**)) (source: Central Bank), serving a population estimated to be in the region of approximately 9.4 million people at the end of 2017 (source: Statistical Yearbook 2017 edition, United Nations Department of Economic and Social Affairs, Statistics Division). Traditionally there has been little impetus for consolidation, with the federal structure of the UAE encouraging, to some extent, the fragmented nature of the banking sector, with the individual Emirates wishing to retain their own national banks. Rivalries between large local business families and a desire not to dilute shareholdings have also historically hampered the process of consolidation. As a result, since the October 2007 merger of Emirates Bank International and National Bank of Dubai which created Emirates NBD, there has been very limited merger activity domestically in the sector. However, commentators have suggested that the merger between First Gulf Bank and National Bank of Abu Dhabi, consummated on 30 March 2017, may stimulate further moves towards greater consolidation amongst UAE banks.

While the anticipated attempts at consolidation would reduce the level of concentration in the domestic banking sector, they would also likely lead to a significant alteration of the competitive environment with fewer, larger locally incorporated banks competing for the larger financing transactions in the region with the foreign banks, which have tended to have comparatively larger franchises, with greater infrastructure and resources with which to absorb capital costs, such as information technology system development.

Going forward, the advent of World Trade Organization liberalisation should allow greater competition from foreign banks, both from new entrants to the market and from existing banks expanding their operations, which may eventually result in more mergers, with the possibility of creating banks with pan-Gulf franchises.

Domestic Focus

The UAE-incorporated banks are predominantly focused on the domestic market but a number have small operations overseas and are showing growing interest in cross-border business, a trend which is likely to continue in the event of further merger activity in the sector.

With a large number of banks competing for a limited number of wholesale lending opportunities, most banks historically turned to retail banking, a previously untapped market. However, increasing competition in this area has gradually eroded margins and encouraged a relaxation of lending criteria. As the market has been tested only to a limited extent under adverse conditions, it is difficult to predict the future likelihood of asset quality problems.

Expansion of retail operations has required heavy investment in distribution channels, particularly ATM networks, kiosks and telephone and Internet banking services. As a consequence, information technology costs have been a prominent feature of many UAE banks' expenses.

Limited Foreign Ownership

In 1987, the UAE federal government placed a freeze on new foreign banks opening operations in the UAE. At the same time, existing foreign banks were limited to a maximum of eight branches, which restricted their ability to develop any retail potential. However, three banks of GCC state origin, the National Bank of Kuwait, SAMBA and Doha Bank, were awarded licences by the Central Bank following an agreement to permit market access to banks of GCC state origin in line with continuing efforts in regional integration.

During 2002, the Government of Dubai issued a decree establishing the DIFC. The DIFC, located in the Emirate of Dubai, is a free trade zone and financial services centre focusing on private banking, asset management, investment banking, re-insurance activities, Islamic finance, securities trading and back office operations. The DIFC has its own civil and commercial laws and has been granted authority to self-legislate in civil and commercial cases. The opening of the DIFC has enabled international banks to establish a presence and compete in the wholesale banking market and this has seen new entities entering the market place.

In 2013, the Government sought to replicate the success of the DIFC by announcing its intention to establish the Abu Dhabi Global Market in Abu Dhabi (the **ADGM**), as an international financial free zone with its own legal framework (closely based on English common law). The ADGM became operational in mid-2015 and, as at the date of this Prospectus, it is unclear to what extent this will impact the competitive and regulatory landscape in the domestic banking sector.

Exposure to the Oil Sector

With much of the economy directly or indirectly dependent on the oil sector, UAE banks are potentially vulnerable to business erosion during long periods of low oil prices (see the "*Risk Factors – Political, economic and related risk*" section of this Prospectus). In particular, oil revenues tend to drive levels of liquidity and government infrastructure investment. Gradually, however, private non-oil sectors are gaining ground and the UAE economy is becoming less susceptible to oil price movements. For example, according to the Statistics Centre (Statistical Yearbook of Abu Dhabi 2017), the oil and gas industry contributed 29.2 per cent. to nominal GDP in Abu Dhabi in 2016 as compared with a contribution of 37.1 per cent. in 2015.

Islamic Banking

Shari'a (Islamic) law forbids the charging of interest on any financial transaction. A number of banks have developed in the Islamic world to serve customers who wish to observe this principle. These institutions offer a range of products which, whilst broadly corresponding with conventional banking transactions, are structured in a way which avoids the application of interest (see the "*Description of Abu Dhabi Islamic Bank PJSC – Competition*" section of this Prospectus for details of Islamic banking institutions in the UAE).

Legal Environment

There are three primary sources of law in the UAE: (i) federal laws and decrees; (ii) local laws; and (iii) *Shari'a* (Islamic) law. In addition, Emiri decrees can be issued by the Rulers of each of the Emirates which, when issued, have full legal effect and operation in such Emirate. The secondary form of law is trade custom or practice. In the absence of federal legislation on areas specifically reserved to federal authority, the Ruler of a given Emirate or local government will apply his or its own rules, regulations and practices.

Supervision of Banks

The main piece of legislation applicable to the banking system is Union Law No. 10 of 1980 (the **Union Law**) which established the Central Bank. The Central Bank's primary roles are to formulate and implement banking, credit, monetary and fiscal policy and to be responsible for ensuring price and currency stability with free convertibility to foreign currencies. It is also the "bank for banks" within the UAE, although it is not the "lender of last resort". In the event of a bank experiencing financial difficulties or a solvency crisis, rescue funds – such as long-term liquidity or equity support – have historically come from the Emirate in which the institution is based. However, in the event of a run on the currency or a major banking crisis, it is likely that the UAE federal government would ultimately stand as *de facto* defender of the currency and the "lender of last resort".

The Union Law grants the Central Bank powers to:

- exercise currency issue, stabilisation, valuation and free convertibility;
- direct credit policy for balanced growth of the economy;
- organise and promote an effective banking system with private banks and institutions;
- advise the UAE federal government on financial and monetary issues;
- maintain the UAE federal government's reserves of gold and foreign currencies;
- act as a bank for the UAE federal government and other banks operating in the UAE; and
- act as the UAE federal government's financial agent with the International Monetary Fund (the **IMF**), the World Bank and other international financial organisations.

Historically, income from overseas investments has been used to fund fiscal deficits, obviating the need for the Central Bank to issue UAE federal government debt. However, the Central Bank does issue certificates of deposit (**CDs**) to UAE banks, denominated in both US dollars and UAE Dirhams, in order to absorb excess liquidity rather than to meet a specific funding need. There is presently no active secondary market in these securities, but they can be redeemed at face value at the Central Bank at any time. In 2007, the Central Bank introduced an auction system which allows US dollar drawings against UAE Dirham CD holdings.

The UAE Dirham is linked to the IMF's Special Drawing Right. However, the US dollar is the intervention currency and, in practice, the UAE Dirham is pegged to the US dollar. This pegged exchange rate has been in place since the 1980s and has proved to be resilient both to political tensions in the region and to fluctuations in oil prices. However, see the "*Risk Factors – Foreign exchange risk*" section of this Prospectus regarding the risk associated with a re-peg or de-peg of the UAE Dirham).

The Central Bank is also responsible for regulating financial institutions in relation to money laundering controls and enforcing Federal Law No. 4 of 2002 regarding the Criminalisation of Money Laundering. It has established an Anti-Money Laundering and Suspicious Cases Unit which acts as the financial intelligence unit and has issued a number of detailed regulatory instructions in pursuit of anti-money laundering policies and procedures. The UAE has also established a National Anti-Money Laundering Committee, which is responsible for coordinating anti-money laundering policy.

The UAE further strengthened its legal authority to combat terrorism and terrorist financing, by passing Federal Law No. 1 of 2004 on Combating Terrorism Offences, which provided for the establishment of a National Anti-Terror Committee, which serves as a UAE interagency liaison.

Although the Central Bank is responsible for regulating all banks, exchange houses, investment companies and other financial institutions in the UAE, the Dubai Financial Services Authority regulates all banking and financial services activities in the DIFC, while the ADGM Financial Services Regulatory Authority regulates activity in the financial services sector in the ADGM. The Central Bank has also been growing in stature as a banking supervisor. However, it is hampered in its role by the level of legal autonomy afforded to the individual Emirates, which at times makes it difficult to enforce directives uniformly across the banking sector.

Lack of Developed Capital Markets

The absence of mature bond or equity markets in the UAE means that banks have often shouldered the burden of long-term financing. This has tended to create a maturity mismatch in their balance sheets, as most of their liabilities are short-term customer deposits. Although the two stock markets, the Dubai Financial Market and the ADX (both of which were established in 2000), have grown over recent years and have benefitted from the inclusion of the UAE in the MSCI Emerging Markets Index since 2014, they continue to experience bouts of volatility.

Nasdaq Dubai (formerly known as the Dubai International Financial Exchange) is a securities exchange located in the DIFC which commenced operations on 26 September 2005. In December 2009 the Dubai Financial Market announced its intention to acquire Nasdaq Dubai, with completion of the acquisition having occurred in July 2010. The Dubai Financial Market and the ADX were upgraded to the MSCI Emerging Markets Index with effect from 1 June 2014 which has led to an increase in interest and investment from international institutional investors in the UAE.

Government Involvement

There is a high degree of state involvement in the UAE banking sector. Most of the larger banks have some degree of government ownership. Privatisation, though advocated in principle, has been slow to manifest in practice. The state and its related entities are together the banking sector's largest customers, in terms of both deposits and project financing.

Expatriate Workforce

An unusual feature of the UAE economy is its reliance on overseas labour, with expatriates making up approximately 81 per cent. of the workforce according to estimates published by the Statistics Centre in mid-2016. The banking sector is no exception to this and expatriates are employed in the senior management of most of the major banks. This has brought expertise from more developed markets to the sector. However, the high level of expatriates in the UAE has been an increasing concern for the UAE federal government and as part of a policy of "Emiratisation", banks were instructed, in 1999, to increase the percentage of UAE nationals on their payroll by at least 4 per cent. per annum. This policy has now been supplemented by, and operates in tandem with, the Emiratisation Circular which has introduced a scoring system which takes into account the employment and progression of Emirati employees in the organisation. The minimum threshold for Emirati employees for each institution is dependent on a number of factors. The Emiratisation Circular does not set any upper limit at which the policy would no longer be applicable. If UAE banks are not able to achieve their targets for recruiting and progressing UAE nationals through their organisation, they will be subject to penalties to be computed in accordance with a specific formula set out in the Emiratisation Circular.

Accounting Standards

Since 1 January 1999, all UAE banks have been required to prepare their financial statements in accordance with IFRS (formerly International Accounting Standards (IAS)). Although this has led to a substantial improvement in disclosure standards, there remains some variability in the quality and depth of disclosure across the banking sector.

Structure of the Banking System

Banking institutions in the UAE fall into a number of categories, as defined by the Union Law. Domestic commercial banks, also known as "National" banks, of which there were 22 as at 31 December 2017 (source: Central Bank), are required to be public shareholding companies with a minimum share capital of AED 40.0 million and must be majority owned by UAE nationals. Licensed foreign banks, of which there were 27 as at

30 December 2017 (source: Central Bank), need to demonstrate that at least AED 40.0 million has been allocated as capital funds for their operations in the UAE. The Union Law also licenses "financial institutions" (institutions whose principal functions are to extend credit, carry out financial transactions, invest in moveable property and other activities, but which are not permitted to accept funds by way of deposits) and financial and monetary intermediaries (money and stockbrokers).

RECENT TRENDS IN BANKING

Profitability

The performance of the UAE economy is influenced by oil prices, which directly affect fiscal revenues and hence determine the level of investment in government projects in the country. The high oil prices and strong economic conditions experienced in the UAE between 2004 and 2008 allowed UAE banks to expand significantly.

However, much of this growth focused on the real estate sector and equity financing which, in the context of the 2008 global financial crisis, represented a significant risk to the UAE banking system. Equity prices declined generally in the UAE from 2008 to 2011 in response to the global 2008 financial crisis but rebounded between 2012 and 2016, with the ADX's General Index declining from 2,719.9 at 31 December 2010 to 2,402.3 at 31 December 2011 before increasing to 2,630.9 at 31 December 2012, 4,290.3 at 31 December 2013, 4,528.9 at 31 December 2014, declining to 4,307.2 at 31 December 2015, and increasing to 4,546.4 at 31 December 2016, before declining again to 4,398.4 at 31 December 2017, and the Dubai Financial Market index declining from 1,630.5 at 31 December 2010 to 1,353.4 at 31 December 2011 before increasing to 1,622.53 at 31 December 2012, 3,369.81 at 31 December 2013, 3,774.0 at 31 December 2014, declining to 3,151.0 at 31 December 2015, and increasing to 3,530.88 at 31 December 2016, before declining again to 3,370.0 at 31 December 2017 (source: Bloomberg).

During 2008 to 2010, a number of banks were also affected by the impact of mark to market accounting rules on their international investment portfolios. Additionally, during the same period, the UAE economy was negatively impacted by the global economic downturn and, in particular, by the sharp correction in the price of oil, which affected a number of key economic sectors including trade, tourism, real estate and commerce. This economic slowdown, along with reduced levels of liquidity in the market, constrained lending and resulted in the majority of UAE banks being less profitable in this period than in previous years.

Liquidity

The Central Bank closely monitors the level of liquidity in the banking system. It also requires that banks have in place adequate systems and controls to manage their liquidity positions, as well as contingency funding plans to cope with periods of liquidity stress.

Banks must also adhere to a maximum loan to deposit ratio of 100 per cent. set by the Central Bank. In this context, loans comprise loans and advances to customers and interbank assets maturing after three months.

UAE banks are mostly funded through on demand or time-based customer deposits made by private individuals or private sector companies. According to data made available by the Central Bank, together, these deposits constituted approximately 75.1 per cent. of total deposits of the UAE banking sector as at 31 December 2017. The UAE federal government and the public sector constituted approximately 24.7 per cent. of total deposits within the UAE banking sector as at 31 December 2017. Non-resident and other sources contributed approximately 11.7 per cent. as at the same date (source: Central Bank Statistical Bulletin December 2017).

In response to the global 2008 financial crisis, the Central Bank announced a number of measures aimed at ensuring that adequate liquidity is available to banks operating in the UAE. In September 2008, the Central Bank established an AED 50.0 billion liquidity facility which banks can draw upon subject to posting eligible debt securities as collateral. The liquidity facility is available only for the purpose of funding existing commitments. New lending is required to be based on growth in the customer deposit base. The Central Bank also established a CD repo facility under which banks can use CDs as collateral for UAE Dirham or US dollar funding from the Central Bank.

In addition to these measures, the UAE federal government also provided AED 50.0 billion in deposits to UAE banks (as part of a larger AED 70.0 billion package) which, at the option of the banks, can be converted into Tier II capital in order to enhance capital adequacy ratios. A number of banks in the UAE exercised this option and converted the UAE federal government deposits made with them into Tier II capital.

In Abu Dhabi, government-owned institutions assisted certain Abu Dhabi banks during 2008 in strengthening their capital base through the subscription of mandatory convertible securities. In April 2009, the Abu Dhabi Government (acting through its Department of Finance) subscribed for an AED 2 billion Tier 1 sukuk issued by ADIB. In aggregate, the Abu Dhabi Government subscribed for a sum of AED 16 billion in subordinated Tier 1 Capital Notes/Sukuk issued by the five largest Abu Dhabi banks: National Bank of Abu Dhabi (now First Abu Dhabi Bank following its merger with First Gulf Bank), Abu Dhabi Commercial Bank, First Gulf Bank (now First Abu Dhabi Bank following its merger with National Bank of Abu Dhabi), Union National Bank and ADIB.

In 2009, the Department of Finance of the Government of Dubai established a US$ 20.0 billion funding programme and the first tranche, valued at US$ 10.0 billion with a five year tenure and paying a coupon rate of four per cent. per annum, was issued in its entirety to the Central Bank. In November 2009, a second US$ 5.0 billion tranche was fully subscribed equally by National Bank of Abu Dhabi and Al Hilal Bank.

In line with Basel III requirements, the Central Bank has issued UAE Central Bank Notice No. 33/2015 on liquidity requirements (the **Liquidity Notice**) which entered into force in the UAE on 1 July 2015 and which includes a set of qualitative and quantitative liquidity requirements for UAE banks. The qualitative requirements set out in the Liquidity Notice elaborate on the responsibilities of a UAE bank's board of directors and senior management as well as the overall liquidity risk framework. The new regulations are intended to ensure that liquidity risks are well managed at banks operating in the UAE and are in line with the Basel Committee's recommendations and international best practices. These requirements include the following:

Responsibilities of the board of directors:

- to bear ultimate responsibility for liquidity risk management within the relevant UAE bank;
- to be familiar with liquidity risk management with at least one board member having a detailed understanding of liquidity risk management; and
- to ensure the clear articulation of liquidity risk tolerance in line with the relevant UAE bank's objectives, strategy and risk appetite.

Responsibilities of Senior Management:

- to develop strategies, policies and practices to manage liquidity risk in accordance with the liquidity risk tolerance set by the board of directors;
- to review the UAE bank's strategy and to report to the board of directors on regulatory compliance on a regular basis; and
- to manage liquidity risk in a prudent manner using all available liquidity risk management tools.

Liquidity risk framework:

The Liquidity Notice requires each UAE bank to have a robust liquidity risk framework which comprises the following elements:

- sound processes and systems to identify, measure, monitor and control liquidity risk in a timely and accurate manner;
- a robust liquidity risk management framework (which must be shared with the Central Bank upon request) with limits, warning indicators, communication and escalation procedures;
- regular internal stress testing of the portfolio for a variety of scenarios (both institution-specific and market-wide); results being communicated to the board of directors and the Central Bank on request;

- incorporation of liquidity costs, benefits and risks into product pricing and approval processes;
- establishment of a forward-looking funding strategy with effective diversification of funding sources and tenors;
- setting of formal contingency funding plans which clearly set out strategies for addressing liquidity shortfalls in emergency situations (and which must be shared with the Central Bank upon request);
- establishment of an adequate cushion of unencumbered, highly liquid assets as insurance against a range of liquidity stress scenarios; and
- a transfer pricing framework (which is commensurate with the bank's liquidity risk tolerance and complexity) developed to reflect the actual cost of funding.

The quantitative requirements set out in the Liquidity Notice are intended to ensure that each UAE bank holds a minimum level of liquid assets which allow it to sustain a short-term liquidity stress (in circumstances both specific to that bank and market-wide). In particular, the requirements include two interim ratios, intended to apply until the Basel III LCR and NSFR (each as defined below) come into effect. These include the following:

	Ratio	Applicability Period
Interim ratios:	Eligible Liquid Assets Ratio (**ELAR**) > = 10%	1 July 2015 until LCR implementation for approved banks
	Advances to Stable Resources Ratio (**ASRR**) < 100%	30 September 1986 until NSFR implementation for approved banks
Basel III ratios:	Liquidity Coverage Ratio (**LCR**) > 100%	Effective transition from 1 January 2016 for approved banks
	Net Stable Funding Ratio (**NSFR**) < 100%	Effective 1 January 2018 for approved banks

The Central Bank's ELAR is an interim ratio which was designed to apply pending the LCR becoming effective (as described below). Under the ELAR, UAE banks are required to hold an amount equivalent to at least 10 per cent. of their liabilities in high quality liquid assets (**HQLAs**) (including cash held with the Central Bank, Central Bank CDs and certain UAE local government and public sector entity publicly traded instruments).

The Liquidity Notice also included the option for UAE banks to apply to the Central Bank to move to assessment and reporting of bank liquidity to the Central Bank as against the LCR, in addition to the ELAR, with effect from 1 January 2016. Any UAE banks taking up this option were required to comply only with the ELAR until 1 January 2016, after which date they are required to move to a dual-compliance regime as to liquidity as against the ELAR and the LCR (subject to receipt of Central Bank approval). As at the date of this Prospectus, the ELAR continues to apply to ADIB and ADIB is not subject to the LCR.

The LCR represents a 30-day stress scenario with combined assumptions covering both bank specific and market wide stresses. These assumptions are applied to contractual data representing the main liquidity risk drivers at banks to determine cash outflows within the 30-day stress scenario. The LCR requires that UAE banks should always be able to cover the net cash outflow with HQLAs at the minimum LCR determined by the Central Bank. The Basel III accord requires that this minimum is 100 per cent. The Liquidity Notice describes in detail eligible HQLAs for this purpose.

As part of the UAE Central Bank's gradual implementation of the Basel III Reforms in the UAE, the UAE Central Bank has introduced LCR in a phased manner, setting an initial benchmark of 60 per cent. upon commencement of LCR compliance, increasing to 100 per cent. by 2019. This graduated approach was designed to ensure that the LCR could be introduced without disruption to the orderly strengthening of banking systems or the ongoing financing of economic activity in the UAE.

The ASRR is an interim ratio which applies to UAE banks until they become subject to the NSFR (as described below). The ASRR recognises both the actual uses as well as the likely uses of funds in terms of the contractual maturity and behavioural profile of the sources of funds available to the relevant bank, in order to ensure that there are limited maturity mismatches and cliff effects.

The NSFR is a structural ratio that aims to ensure that banks have adequate stable funding to fund the assets on their balance sheets. It came into effect in January 2018, but only applies to UAE banks which have moved to assessment under the LCR. Therefore, as at the date of this Prospectus, ADIB is not subject to the NSFR and remains subject to the ASRR. The NSFR requires an amount of stable funding to cover a portion of the relevant UAE bank's contingent liabilities. It mirrors the Basel III NSFR standard. The NSFR identifies the key uses of funds and the different types of funding sources used by the UAE banks. It assigns available stable funding (**ASF**) factors to the sources of funds and required stable funding (usage) factors to asset classes and off balance sheet contingent exposures. The assigned ASF factor depends on the terms of funding and the perceived stability of the funding sources. The assigned ASF factor will depend on the liquidity of the asset being funded under a market-wide stress. Both factors will follow the Basel III NSFR standard.

Interim Marginal Lending Facility

On 15 April 2014, the Central Bank introduced the IMLF which allows non-Islamic UAE banks to use certain rated or UAE federal government entity-issued assets to access Central Bank liquidity overnight in order to help their liquidity management during times of market stress. On 1 April 2015, the Central Bank also introduced the "Collateralized Murabaha Facility", which is a *Shari'a*-compliant alternative to the IMLF for UAE Islamic banks.

The IMLF allows lenders to use certain assets as collateral to obtain one-day overnight loans from the Central Bank. Eligible assets that can be used as collateral must be tradeable and include bonds, sukuk and securities issued by the UAE federal government or government-related entities in individual Emirates, as well as by UAE banks and corporations. Securities issued by foreign governments, banks, corporates and supranational agencies can also be used as collateral, but must carry a minimum 'A' credit rating from one of the three main international rating agencies. Banks accessing the IMLF must borrow a minimum of AED 10 million and will be charged 100 basis points over the official UAE "Repo Rate".

Position of Depositors

There is no formal deposit protection scheme in the UAE. While no bank has, so far, been permitted to fail, during the 1980s and early 1990s a number were restructured by the relevant government authorities. In October 2008, in response to the global financial crisis, the UAE federal government announced that it intended to guarantee the deposits of all UAE banks and foreign banks with core operations in the UAE. Following therefrom, in May 2009 the UAE's National Federal Council approved a draft law guaranteeing federal deposits. However, until such time as the law is passed, there is no guaranteed government support.

Prudential Regulations

The Central Bank has supervisory responsibility for banking institutions in the UAE. Supervision is carried out through on-site inspections and review of periodic submissions from banks. The frequency of inspection depends on the perceived risk of the relevant bank, but inspections are carried out in all banks at least once every 18 months. Prudential returns are made monthly, quarterly, semi-annually or annually, depending on the nature of the information they contain. An improved risk management framework has been implemented, aimed at providing the Central Bank with more up to date information on credit, market and operational risks within the banking sector.

Capital Adequacy

All banks are required to follow the principles of the Basel accord in calculating their capital adequacy ratios. Basel II was introduced effective 17 November 2009 by way of Central Bank Circular Number 27/2009. Since 1993, the Central Bank had imposed a 10 per cent. minimum total capital ratio on all UAE banks. In a circular dated 30 August 2009, the Central Bank announced amendments to its capital adequacy requirements, such that UAE banks were required to have a total capital adequacy ratio of at least 11 per cent., with a Tier I ratio of not less than 7 per cent., by 30 September 2009. Furthermore, the Central Bank required banks operating in the UAE to increase their Tier I capital adequacy ratio to at least 8 per cent., with a minimum total capital adequacy ratio of at least 12 per cent., by 30 June 2010. Thereafter, through its circular dated 17 November 2009 introducing Basel II, the Central Bank stated that it was expected that the main banks in the UAE would move to the Foundation Internal Rating Based approach under Basel II in due course. Through this circular, the Central Bank reiterated that all banks operating in the UAE were required to maintain a minimum capital adequacy ratio of 11 per cent. at all times, increasing to 12 per cent. by 30 June 2010 and also laid out its expectations in relation to Pillar II and Pillar III of the Basel II framework. Profits for the current period, goodwill, other intangibles, unrealised gains on investments and any shortfall in loan loss provisions are deducted from regulatory capital. Whilst the calculation of capital adequacy ratios in the UAE follows the Bank of International Settlements guidelines, claims on or guaranteed by GCC central governments and central banks are risk-weighted at zero per cent. and claims on GCC government non-commercial public sector entities are risk-weighted at 50 per cent. Under the Union Law, banks are required to transfer 10 per cent. of profit each year into a statutory reserve until this reaches 50 per cent. of capital. Distributions cannot be made from this reserve, except in special legally defined circumstances. All dividends paid by UAE banks have to be authorised in advance by the Central Bank.

The Basel Committee has put forward a number of fundamental reforms to the regulatory capital framework for internationally active banks. On 16 December 2010 and on 13 January 2011, the Basel Committee issued the Basel III Reforms, constituting guidance on the eligibility criteria for Tier I and Tier II capital instruments as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions. The implementation of the Basel III reforms began on 1 January 2013. However, the requirements are subject to a series of transitional arrangements and will be phased in over a period of time. The Basel Committee's press release dated 13 January 2011 entitled "Minimum requirements to ensure loss absorbency at the point of non-viability" (the **January 2011 Press Release**) included an additional Basel III requirement (the **Non-Viability Requirement**) as follows:

"The terms and conditions of all non-common Tier I and Tier II instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of the trigger event unless:

(i) the governing jurisdiction of the bank has in place laws that:

  (a) require such Tier I and Tier II instruments to be written off upon such event; or

  (b) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss;

(ii) a peer group review confirms that the jurisdiction conforms with clause (i); and

(iii) it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under clause (i).

The trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority."

The January 2011 Press Release states that instruments issued after 1 January 2013 must meet the Non-Viability Requirement in order to be recognised as Tier I or Tier II instruments for regulatory capital purposes. The recognition of instruments issued before 1 January 2013 which do not meet these requirements will be phased out from 1 January 2013.

The Basel III Regulations and the supporting accompanying standards which were published by the UAE Central Bank on 17 January 2018 in its Circular No. 28/2018 entitled "Standard re Capital Supply" (the **Accompanying Standards**) confirm that the Non-Viability Requirement is a pre-requisite for any capital instruments issued by UAE banks to achieve Regulatory Capital classification from the Central Bank. The Non-Viability Requirement must be provided for contractually in the absence of a statutory loss absorption framework in the UAE as at the date of this Prospectus. See "*Risk Factors – Risks Relating to the Certificates – Certificateholders' right to receive payment of the face amount of the Certificates and the*

Certificateholders' right to any profit will be permanently written-down upon the occurrence of a Non-Viability Event".

In May 2016, the Central Bank published a consultation document entitled "Capital Adequacy Regulation" (the **Consultation Document**) detailing the Basel III requirements expected to be followed by banks operating in the UAE, once applicable legislation has been implemented domestically. In particular, the Consultation Document outlines the general quantitative requirements expected to be followed by UAE banks, with regards to regulatory capital. It also outlines, amongst other things, the regulatory capital ratios that UAE banks will be expected to follow and adhere to, the individual UAE bank minimum capital conservation standards and the required disclosure standards expected to be made available by UAE banks with respect to regulatory capital.

On 23 February 2017, the Central Bank published the Basel III Regulations, which are effective from 1 February 2017. The Basel III Regulations are intended to ensure that the capital adequacy of all banks operating in the UAE is in line with the Basel III requirements, whilst implementing the measures contained in the Consultation Document. The Basel III Regulations are supported by the Accompanying Standards which were published on 17 January 2018 and which elaborate on the supervisory expectations of the Central Bank with respect to the relevant Basel III capital adequacy requirements. Banks which are classified as "domestic systemically important banks" by the Central Bank will be required to hold additional capital buffers as notified to it by the Central Bank (ADIB is not at the time of this Prospectus classified as such). In addition, a bank may also be subject to additional capital add-on requirements following a supervisory review and evaluation process of the Central Bank.

Distributable items

The Central Bank's Standard Re Tier Capital Instruments dated 29 March 2018 (the **TCI Standard**) requires that a periodic distribution on an additional tier 1 instrument should be cancelled if the relevant UAE bank does not have sufficient "Distributable Items" on the relevant date for payment of (i) such periodic distribution and (ii) certain other payment obligations (see the "*Risk Factors – Risks Relating to the Certificates – Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative*" section of this Prospectus for details of how this restriction applies in the context of the Certificates). As at 30 June 2018, ADIB's Distributable Items (as defined in the TCI Standard) amounted to AED 5,587.787 million.

Reserve Requirements

Reserve requirements are used by the Central Bank as a means of prudential supervision and to control credit expansion. The reserve requirements are 1 per cent. for term deposits and 14 per cent. for all other customer balances.

Credit Controls

Banks are required by the Central Bank to establish credit policies and procedures commensurate with their size and activities. They must also have a proper credit assessment and approval process and adequate controls in place to monitor credit concentrations to, among others, individual borrowers, economic sectors and foreign countries.

The Central Bank's Retail Circular introduced regulations regarding bank loans and other services offered to individual customers. These regulations, among other things, impose maximum loan/income and loan to value ratios for retail products. For example, the regulations require that the amount of any personal consumer loan shall not exceed 20 times the salary or total income of the borrower with the repayment period not exceeding 48 months. These regulations may be amended in the future in accordance with the Mortgage Regulations (which were published in the Official Gazette on 28 November 2013 and entered into force on 28 December 2013, superseding Central Bank notice no. 3871/2012 dated 30 December 2012), which specify that the amount of mortgage loans for non-UAE nationals should not exceed 75 per cent. of the property value for a first purchase of a home (with a value of less than or equal to AED 5 million), 65 per cent. of the property value for a first purchase of a home (with a value greater than AED 5 million) and 60 per cent. of the property value (irrespective of the value of the property) for second and subsequent homes.

For UAE nationals, the corresponding limits are set at 80 per cent. in respect of a first purchase of a home with a value less than or equal to AED 5 million, 70 per cent. for a first home with a value greater than AED 5 million and 65 per cent. of the property value for a second or subsequent purchase (irrespective of the value of the property).

Large Exposures

The Central Bank defines large exposures as any funded or unfunded exposures (less provisions, cash collaterals and deposits under lien) to a single borrower or group of related borrowers exceeding prescribed limits. The large exposure limits (defined as a percentage of the relevant bank's capital base) were previously as follows:

- to a single borrower or group of borrowers – 7 per cent.;
- to a shareholder of the bank holding more than 5 per cent. of the bank's capital – 7 per cent.;
- overseas interbank exposures – 30 per cent. (UAE interbank exposures are subject to a 25 per cent. limit if their maturity is over one year, otherwise they are exempt from the regulations);
- to the bank's parent company, subsidiaries or affiliates – 20 per cent. (60 per cent. for all such exposures in aggregate); and
- to board members – 5 per cent. (25 per cent. for all such exposures in aggregate).

On 11 November 2013, the Central Bank published the Large Exposure Notice amending certain of the large exposure limits set out above. The Large Exposure Notice was published in the Official Gazette on 30 December 2013 and entered into force on 30 January 2014. The Large Exposure Notice introduced new limits of 100 per cent. of the bank's capital base for all lending to UAE local governments and their non-commercial entities, together with a 25 per cent. limit to any single such non-commercial entity. Exposures above these limits are subject to approval by the Central Bank. Set out below is a table showing a summary of the changes introduced by the Large Exposure Notice (defined as a percentage of the bank's capital base calculated under Basel II):

	New Limit		**Old Limit**	
	Individual	**Aggregate**	**Individual**	**Aggregate**
UAE federal government and their non-commercial entities	Exempt	Exempt	Exempt	Exempt
UAE local government and their non-commercial entities	No cap for UAE local government 25% for each non-commercial entity	100%	Exempt	Exempt
Commercial entities of UAE federal government and UAE local government	25%	100%	25%	None
Commercial or other (non-commercial) private sector entities and individuals	25% max	None	7%	None
Shareholders who own 5 per cent. or more of the bank's capital and related entities	20%	50%	7%	None
Exposure to bank's subsidiaries and affiliates	10%	25%	20%	60%

Board members	5%	25%	5%	25%

Provisions for Loan Losses

The Central Bank stipulates that non-performing credits should be classified as either substandard, doubtful or loss depending on the likelihood of recovery, with provisions charged at a minimum of 25 per cent., 50 per cent. and 100 per cent. on the relevant amount (net of any eligible credit protection), respectively. Any retail and consumer loans with either interest or principal in arrears by more than 90 days must be placed on a non-accrual basis and classified as non-performing. In addition, pursuant to Circular 28/2010 concerning regulations for classification of loans and their provisions issued by the Central Bank on 11 November 2010, all banks in the UAE are required to make general provisions for unclassified loans and advances equal to 1.5 per cent. of their risk-weighted assets by 2014. In practice, several banks operate more stringent policies and place loans on a non-accrual basis as soon as their recovery is in doubt.

Banks in the UAE generally do not write off non-performing loans from their books until all legal avenues of recovery have been exhausted. This factor tends to inflate the level of impaired loans and/or financings carried on the balance sheets of UAE banks when compared to banks operating in other economies.

In this context, the beginning of the year saw the formal adoption in the UAE of IFRS 9 for reporting periods commencing on 1 January 2018. IFRS 9 replaces the IAS 39 "incurred loss" model and introduced an "expected credit loss" model for the measurement of the impairment of financial assets, such that it is no longer necessary for a credit event to have occurred before a credit loss is recognised. As at 1 January 2018, the initial transitional impact from IAS 39 to IFRS 9 was assessed by each UAE bank. Banks elected to record the initial transitional impact in the consolidated statement of changes in equity, following which the impact has been and will be recorded to each bank's consolidated income statement.

Establishing a Credit Bureau in the UAE

Al Etihad Credit Bureau (**AECB**) is a federal government company specialised in providing UAE based credit reports and other financial information. AECB commenced operations in 2014 upon receiving formal approval from the UAE Cabinet of its regulations and its charges for producing credit reports. AECB has approached all UAE-based banks to sign data sharing agreements to enable the provision of customer credit information, with the majority having entered into such agreements and/or made successful initial data submissions to AECB by the time AECB commenced operations. As at the date of this Prospectus, ADIB has entered into a data and credit information supply agreement with AECB.

The implementation of regulations for the sharing of credit report data and the commercial operation of the UAE's first credit bureau is expected to reduce the risk involved in the origination of customer lending and banking business generally.

Risk management framework

In June 2018, the Central Bank published its "*Risk Management Regulation*" and "*Risk Management Standards*" for UAE banks. The purpose of these regulations and standards is to establish a prudential framework for risk management in banks and to strengthen risk management across the banking sector. The areas covered by these standards are (a) risk management function, (b) risk measurement and use of models, (c) stress testing, (d) information systems, (e) strategic and operational decisions, (f) group risk management, (g) disclosures, and (h) Islamic banking. For details of ADIB's implementation of these regulations and standards, please see the "*Description of Abu Dhabi Islamic Bank PJSC – Risk management – Recent developments*" section of this Prospectus.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection and/or collection by Certificateholders at the offices of the Principal Paying Agent (as defined in the Conditions).

Declaration of Trust

The Declaration of Trust will be entered into on 20 September 2018 between ADIB, the Trustee and the Delegate and will be governed by English law.

Pursuant to the Declaration of Trust, the Trustee will declare a trust for the benefit of the Certificateholders over the Trust Assets.

The Trust Assets will comprise (i) the cash proceeds of the issuance of the Certificates pending application thereof in accordance with the terms of the Transaction Documents; (ii) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets; (ii) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by ADIB (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee pursuant to clause 14.1 of the Declaration of Trust); and (iii) all amounts standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing.

The Declaration of Trust shall provide that the rights of recourse in respect of Certificates shall be limited to the amounts from time to time available therefor from the Trust Assets, subject to the priority of payments set out in Condition 5.3. After enforcing or realising the Trust Assets and distributing the net proceeds of the Trust Assets in accordance with the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished.

Pursuant to the Declaration of Trust, the Trustee will, *inter alia*:

(a) hold the Trust Assets on trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the provisions of the Declaration of Trust and the Conditions; and

(b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust and the Conditions.

In the Declaration of Trust, the Trustee shall irrevocably and unconditionally appoint the Delegate to be its delegate and attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of the present and future powers (including the power to sub-delegate), trusts, rights, authorities (including but not limited to the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, exercise all of the rights of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the provisions of the Declaration of Trust and the Conditions. The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and, subject to certain provisions of the Declaration of Trust, shall not affect the Trustee's continuing role and obligations as trustee.

Pursuant to the Declaration of Trust:

(a) if an ADIB Event occurs and a Dissolution Notice is delivered by the Delegate to the Trustee, the Delegate may at its discretion, or shall, if so requested in writing by Certificateholders holding at least 20 per cent. of the aggregate face amount of the Certificates then outstanding, in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*) take one or more of the following steps: (i) institute any steps, actions or proceedings for the winding-up of ADIB and/or (ii) prove in the winding-up of ADIB and/or (iii) institute steps, actions or proceedings for the bankruptcy of ADIB; and/or (iv) claim in the liquidation of ADIB and/or (v) take such other steps, actions or proceedings which, under the laws of the UAE, have an analogous effect to the actions referred to (i) to (iv) above, in each case for (subject to the provisos contained in Condition 12.3(a) (*Proceedings for Winding-up*), all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents); and

(b) without prejudice to Conditions 12.1 (*ADIB Events*), 12.3 (*Winding-up, dissolution or liquidation*) and the provisions of clause 19 of the Declaration of Trust, the Trustee (or the Delegate) may at its discretion or the Delegate shall if so requested in writing by Certificateholders holding at least 20 per cent. of the aggregate face amount of the Certificates then outstanding and without further notice (subject in each case to Condition 12.3(e)(i) (*Realisation of Trust Assets*)) institute such steps, actions or proceedings against ADIB, and the Delegate may at its discretion and without further notice institute such steps, actions or proceedings against the Trustee, as it may think fit to enforce any term or condition binding on ADIB or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of ADIB under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations) including, without limitation, any failure by ADIB to procure the substitution of the Trustee in the circumstances described in Condition 12.2 (*Trustee Events*), and in no event shall ADIB, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents.

A Transaction Account will be established in London in the name of the Trustee. Monies received in the Transaction Account will, *inter alia*, comprise payments of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and Premium immediately prior to each Periodic Distribution Date (see "*Summary of the Principal Transaction Documents – Mudaraba Agreement*" below). The Declaration of Trust shall provide that all monies credited to the Transaction Account from time to time will be applied in the order of priority set out in Condition 5.3.

Mudaraba Agreement

The Mudaraba Agreement will be entered into on 20 September 2018 between ADIB (as the Mudareb) and ADIB Capital Invest 2 Ltd. (as Rab-al-Maal and Trustee) and will be governed by English Law.

The Mudaraba will commence on the date of payment of the Mudaraba Capital to the Mudareb and will end (i) on the date on which the Certificates are redeemed in whole but not in part in accordance with the Conditions following the actual liquidation of the Mudaraba in accordance with the terms of the Mudaraba Agreement (the **Mudaraba End Date**) or (ii) (if earlier) (A) in the case of a Write-down resulting in the reduction of the Prevailing Face Amount of each Certificate then outstanding to nil, on the Non-Viability Event Write-down Date or (B) on the date on which any Relevant Obligation is due and on such payment date any of the Solvency Conditions are not satisfied or a bankruptcy order in respect of the Mudareb has been issued by a court in the UAE.

Pursuant to the Mudaraba Agreement the proceeds of the issue of the Certificates will be contributed by the Trustee to the Mudareb and shall form the Mudaraba Capital. The Mudaraba Capital shall be invested in the general pool of ADIB comprising: (i) ADIB's shareholders' equity and all sources of funds (including the Mudaraba Capital) that are constructively considered as such; (ii) the invested amounts in ADIB's various investment accounts (including all savings accounts, investment deposit accounts and any other investment accounts); (iii) current accounts; and (iv) the invested amounts in ADIB's wakala-for-investment accounts (the **General Pool**) in accordance with the investment plan prepared by the Mudareb and scheduled to the Mudaraba Agreement (the **Investment Plan**). The Mudareb will acknowledge and agree in the Mudaraba Agreement that the Investment Plan was prepared by it with due skill, care and attention, and acknowledge that the Trustee has entered into the Mudaraba and the Mudaraba Agreement in reliance on the Investment Plan.

The Mudareb is expressly authorised to co-mingle any of its own assets from time to time with the Mudaraba Assets during the Mudaraba Term on a basis proportionate to the rights and obligations of holders of equity of ADIB, provided that prior to the calculation of any Mudaraba Profit or Final Mudaraba Profit the Mudareb shall deduct a proportion of any profit earned for its own account.

The Mudaraba Agreement provides that the profit (if any) generated by the Mudaraba will be distributed by the Mudareb on each Mudaraba Profit Distribution Date on the basis of an actual liquidation of the Mudaraba by the Mudareb in accordance with the following profit sharing ratio:

(a) the Trustee (as Rab-al-Maal) 90 per cent; and

(b) the Mudareb 10 per cent.

If the Mudareb elects to make a payment of Mudaraba Profit or Final Mudaraba Profit is otherwise payable pursuant to the Mudaraba Agreement, and the Trustee's share of the Mudaraba Profit (the **Rab-al-Maal Mudaraba Profit**) or the Trustee's share of the Final Mudaraba Profit (the **Rab-al-Maal Final Mudaraba Profit**) (as applicable) payable to the Trustee is (i) greater than the then applicable Periodic Distribution Amount, the amount of any excess shall be credited to a reserve account (the **Mudaraba Reserve**) for and on behalf of the Rab-al-Maal and the Rab-al-Maal Mudaraba Profit or the Rab-al-Maal Final Mudaraba Profit (as applicable) payable to the Trustee shall be reduced accordingly; or (ii) less than the then applicable Periodic Distribution Amount, the Mudareb shall first utilise any amounts standing to the credit of the Mudaraba Reserve and, if a shortfall still exists, it may (at its sole discretion) elect (but shall not be obliged) to make one or more payments from its own cash resources in order to cover such shortfall. If the Mudareb elects to make payments from its own cash resources in order to cover such shortfall, it shall be entitled to recover such amounts at a later date from the Mudaraba Reserve. The Mudareb shall invest amounts standing to the credit of the Mudaraba Reserve in the same manner as it invested in the Mudaraba Capital for and on behalf of the Trustee in accordance with the Investment Plan.

The Mudaraba Agreement does not require the Mudareb to make payments to the Trustee of amounts equal to, or sufficient to enable the Trustee to pay, any amounts due under the Certificates irrespective of the amount of Mudaraba Profit generated by the Mudaraba Assets at the relevant time or (as the case may be) irrespective of the amount of Dissolution Mudaraba Capital generated by any liquidation of the Mudaraba, and the Trustee acknowledges in the Mudaraba Agreement that there is no guarantee of any return from the Mudaraba Assets.

If the Mudareb makes a Non-Payment Election or a Non-Payment Event occurs, then the Mudareb shall give notice to the Trustee, the Principal Paying Agent, the Delegate and the Certificateholders, in each case providing details of such Non-Payment Election or Non-Payment Event in accordance with the notice periods set out in the Mudaraba Agreement. In the absence of notice of such Non-Payment Election or a Non-Payment Event, as the case may be, having been given in accordance with the Mudaraba Agreement, the fact of non-payment of the relevant Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit on the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, respectively, shall be evidence of the occurrence of a Non-Payment Election or Non-Payment Event, as the case may be. The Trustee shall have no claim in respect of any Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit due but not paid as a result of either (in the case of Rab-al-Maal Mudaraba Profit only) a Non-Payment Election or (in the case of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit) a Non-Payment Event (in each case irrespective of whether notice of such Non-Payment Election or Non-Payment Event, as the case may be, has been given) and such non-payment in such circumstance will not constitute a Dissolution Event. Any such Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit which is not paid to the Trustee in such circumstances shall be credited by the Mudareb to the Mudaraba Reserve, and the Mudareb shall be entitled to re-invest such profit standing to the credit of the Mudaraba Reserve in the same manner as it invested the Mudaraba Capital for and on behalf of the Trustee in accordance with the Investment Plan.

If any amount of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit is not paid as a consequence of a Non-Payment Election or Non-Payment Event (the **Dividend Stopper Date**), the Mudareb shall be prohibited from declaring or paying certain distributions or dividends, declaring or paying profit or other distributions on certain of its securities, or redeeming, purchasing, cancelling, reducing or otherwise acquiring certain of its share capital and securities, in each case unless or until the next following payment of Rab-al-Maal Mudaraba Profit or, as the case may be, Rab-al-Maal Final Mudaraba Profit following a Dividend Stopper Date, is made in full to the Trustee following such Non-Payment Election or Non-Payment Event (or an amount equal to that amount has been duly set aside or provided for in full for the benefit of the Trustee).

Subject to certain conditions as set out in the Mudaraba Agreement, ADIB (as Mudareb) may (in its sole discretion) liquidate the Mudaraba in whole, but not in part, on the basis of an actual liquidation of the Mudaraba in the following circumstances:

(a) on the First Call Date or any Periodic Distribution Date thereafter by giving not less than 15 nor more than 20 days' prior notice to the Trustee and the Delegate; or

(b) on any date, on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 15 nor more than 20 days' prior notice to the Trustee and the Delegate:

    (i) upon the occurrence of a Tax Event; or

    (ii) upon the occurrence of a Capital Event.

If the Mudareb exercises its option to liquidate in accordance with paragraph (a) or (b)(i) above and the capital to be returned to the Trustee which would be generated upon such liquidation (the **Dissolution Mudaraba Capital**) is less than the Mudaraba Capital, the Mudareb shall either continue investing the Dissolution Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or shall indemnify the Trustee in respect of such shortfall and shall pay an amount equal to the aggregate of the Dissolution Mudaraba Capital and such shortfall to the Trustee in which case there shall be an actual liquidation of the Mudaraba.

If the Mudareb exercises its option to liquidate in accordance with paragraph (b)(ii) above and the Dissolution Mudaraba Capital which would be generated upon such liquidation is less than the Mudaraba Capital plus the Premium, the Mudareb shall either continue investing the Dissolution Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or shall indemnify the Trustee in respect of such shortfall and shall pay an amount equal to the aggregate of the Dissolution Mudaraba Capital and such shortfall to the Trustee in which case there shall be an actual liquidation of the Mudaraba.

Under the terms of the Mudaraba Agreement, the Mudaraba will automatically be liquidated in whole but not in part if at any time an order is made, or an effective resolution is passed, for the winding-up, bankruptcy, dissolution or liquidation (or other analogous event) of the Mudareb and/or if an ADIB Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1 (*ADIB Events*). The Mudareb acknowledges under the Mudaraba Agreement that the Trustee shall in such case be entitled to claim for all amounts due in accordance with the terms of the Mudaraba Agreement in such winding-up, bankruptcy, dissolution or liquidation (or analogous event) subject to certain conditions being satisfied.

The Mudaraba Agreement also provides that if a Non-Viability Event occurs at any time on or after the Effective Date, a Write-down will take place. In the case of a Write-down resulting in:

(a) the partial reduction of the Prevailing Face Amount of each Certificate then outstanding, the Mudaraba Capital shall be reduced by the relevant Write-down Amount with effect from the Non-Viability Event Write-down Date; and

(b) the reduction of the Prevailing Face Amount of each Certificate then outstanding to nil, the Mudaraba Agreement will be automatically terminated with effect from the Non-Viability Event Write-down Date and the Trustee shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets.

ADIB (as Mudareb) and the Trustee undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by ADIB to be varied upon the occurrence of a Tax Event or a Capital Event pursuant to the Conditions, to take such steps and make such variations to the Mudaraba Agreement as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Tier 1 Instruments.

The Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by (i) the Mudareb's breach of the Mudaraba Agreement or (ii) the Mudareb's negligence, misconduct or fraud.

The Mudareb shall exercise its rights, powers and discretions under the Mudaraba Agreement and take such action as it deems appropriate in accordance with material applicable laws, with the degree of skill and care that it would exercise in respect of its own assets and in a manner that is not repugnant to *Shari'a*.

Under the Mudaraba Agreement, the Trustee and the Mudareb agree that, on the Mudaraba End Date, the Mudareb will calculate and distribute the Final Mudaraba Profit (if any) in accordance with the Mudaraba Agreement and in doing so: (i) the Rab-al-Maal Final Mudaraba Profit payable to the Trustee will (if generated) be an amount equal to the final Periodic Distribution Amount, provided however that payment of the same shall be prohibited in circumstances where a Non-Payment Event has occurred or where a Non-Payment Event will occur as a result of such payment; and (ii) subject to the Mudaraba Agreement, the balance of amounts standing to the credit of the Mudaraba Reserve, after paying all amounts due to the Trustee pursuant to the Mudaraba Agreement, shall be paid to the Mudareb as an incentive fee for its performance under the Mudaraba Agreement.

Other than its share of profit from the Mudaraba and any incentive fee payable in accordance with the Mudaraba Agreement, the Mudareb shall not be entitled to receive any remuneration from the Mudaraba.

The Mudareb will agree in the Mudaraba Agreement that all payments by it under the Mudaraba Agreement will be made free and clear of and without any withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction unless required by law. In the event there is any such withholding or deduction in relation to any Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as the case may be, the Mudareb shall pay Additional Amounts as shall result in the receipt by the Trustee of such net amounts of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as the case may be, as would have been receivable by it if no such withholding or deduction had been required. To the extent that any such Additional Amounts are paid by the Mudareb, the Mudareb shall be entitled to recover amounts equal to such Additional Amounts from the amounts (if any) standing to the credit of the Mudaraba Reserve and if, following such recovery a shortfall remains between the amounts standing to the credit of the Mudaraba Reserve and such Additional Amounts paid by the Mudareb (such shortfall, the **Additional Amounts Shortfall**), the Mudareb shall be entitled to recover amounts equal to such Additional Amounts Shortfall from any Excess Liquidation Proceeds. Any taxes incurred in connection with the operation of the Mudaraba (including in connection with any transfer, sale or disposal of any Mudaraba Asset during the Mudaraba Term) will be borne by the Mudaraba itself.

Agency Agreement

The Agency Agreement will be entered into on 20 September 2018 between the Trustee, ADIB, the Delegate, the Principal Paying Agent, the Calculation Agent, the Registrar and the Transfer Agent.

Pursuant to the Agency Agreement, the Registrar has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to authenticate (or procure the authentication of) and deliver the Global Certificate and, if any, each Definitive Certificate; the Principal Paying Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to pay all sums due under such Global Certificate; the Calculation Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to calculate the Profit Rate in respect of each Reset Period commencing on the relevant Reset Date, subject to and in accordance with the Conditions; and the Transfer Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to effect requests to transfer all or part of the Definitive Certificate and issue Definitive Certificates in accordance with each request.

On the Issue Date, the Registrar will (i) authenticate (or procure the authentication of) the Global Certificate and, if any, each Definitive Certificate in accordance with the terms of the Declaration of Trust; and (ii) deliver the Global Certificate to the Common Depositary.

ADIB shall cause to be deposited into the Transaction Account opened by the Trustee with the Principal Paying Agent in London, in same day freely transferable, cleared funds, any payment which may be due under the Certificates in accordance with the Conditions.

The Principal Paying Agent agrees that it shall, on each Periodic Distribution Date and on the date fixed for payment of the Dissolution Distribution Amount, or any earlier date specified for the liquidation of the Mudaraba, apply the monies standing to the credit of the Transaction Account in accordance with the order of priority set out in Condition 5.3.

***Shari'a* Compliance**

Each Transaction Document provides that each of ADIB Capital Invest 2 Ltd. and Abu Dhabi Islamic Bank PJSC agrees that it has accepted the *Shari'a* compliant nature of the Transaction Documents to which it is a party and, to the extent permitted by law, further agrees that:

(a) it shall not claim that any of its obligations under the Transaction Documents to which it is a party (or any provision thereof) is *ultra vires* or not compliant with the principles of *Shari'a*;

(b) it shall not take any steps or bring any proceedings in any forum to challenge the *Shari'a* compliance of the Transaction Documents to which it is a party; and

(c) none of its obligations under the Transaction Documents to which it is a party shall in any way be diminished, abrogated, impaired, invalidated or otherwise adversely affected by any finding, declaration, pronouncement, order or judgment of any court, tribunal or other body that the Transaction Documents to which it is a party are not compliant with the principles of *Shari'a*.

TAXATION

The following is a general description of certain tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates and does not constitute legal or tax advice. Prospective purchasers of the Certificates should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes of acquiring, holding and disposing of Certificates and receiving payments under the Certificates. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Cayman Islands

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Certificates. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws, payments by the Trustee on the Certificates will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of principal or profit to any holder of the Certificates, nor will gains derived from the disposal of the Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

The Trustee has received an undertaking from the Governor in Cabinet of the Cayman Islands pursuant to the Tax Concessions Law (2011 Revision) of the Cayman Islands that, for a period of twenty years from the date of the undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Trustee or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on or in respect of the shares, debentures or other obligations (which includes the Certificates) of the Trustee, or (ii) by way of the withholding in whole or part, of any relevant payment (as defined in the Tax Concessions Law (2011 Revision)). Subject as set out below, no capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Certificates. An instrument transferring title to any Certificates, if executed in or brought into the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies which is calculated by reference to the nominal amount of its authorised share capital. At current rates, this annual registration fee is approximately U.S.$853.66.

UAE

The following summary of the anticipated tax treatment in the UAE in relation to payments on the Certificates and pursuant to the Mudaraba Agreement is based on the taxation law in force at the date of this Prospectus, and does not constitute legal or tax advice. Prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change.

There is currently in force in the Emirate of Abu Dhabi legislation establishing a general corporate taxation regime (the Abu Dhabi Income Tax Decree 1965 (as amended)). The regime is, however, not enforced save in respect of companies active in the hydrocarbon industry, some related service industries and branches of foreign banks operating in the UAE. It is not known whether the legislation will or will not be enforced more generally or within other industry sectors in the future. Under current legislation, there is no requirement for withholding or deduction for or on account of UAE or Abu Dhabi taxation in respect of payments by the Trustee under the Certificates and/or ADIB under the Mudaraba Agreement (including Periodic Distribution Amounts or Dissolution Distribution Amounts in relation to the Certificates). If any such withholding or deduction is required to be made in respect of payments due by ADIB under the Mudaraba Agreement, ADIB has undertaken in the Mudaraba Agreement to gross-up the payments due by it accordingly. If any such withholding or deduction is required to be made in respect of payments due by the Trustee under the Certificates, (i) the Trustee has undertaken to gross-up the payment(s) accordingly (subject to certain limited exceptions) under Condition 13 and (ii) ADIB has undertaken in the Declaration of Trust to pay such additional amounts to the Trustee to enable the Trustee to discharge such obligation.

The Constitution of the UAE specifically reserves to the Federal Government of the UAE the right to raise taxes on a federal basis for purposes of funding its budget. It is not known whether this right will be exercised in the future.

The UAE has entered into double taxation arrangements with certain other countries, but these are not extensive in number.

The Proposed Financial Transactions Tax

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common financial transaction tax (**FTT**) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Certificates (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, **established** in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Certificates are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting, or related requirements. The Trustee may be a foreign financial institution for these purposes. A number of jurisdictions (including the Cayman Islands) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Certificates, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, such withholding would not apply prior to 1 January 2019 and Certificates characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Certificates. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Certificates, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement (the **Subscription Agreement**) dated 19 September 2018 between the Trustee, ADIB, Abu Dhabi Islamic Bank PJSC, Citigroup Global Markets Limited, Emirates NBD Bank PJSC, First Abu Dhabi Bank PJSC, HSBC Bank plc, J.P. Morgan Securities plc, Sharjah Islamic Bank P.J.S.C. and Standard Chartered Bank (together, the **Joint Lead Managers**), the Trustee has agreed to issue and sell to the Joint Lead Managers (other than ADIB in its capacity as such) U.S.$750,000,000 in aggregate face amount of the Certificates and, subject to certain conditions, the Joint Lead Managers (other than ADIB in its capacity as such) have jointly and severally agreed to subscribe for the Certificates.

The Subscription Agreement provides that the obligations of the Joint Lead Managers (other than ADIB in its capacity as such) to pay for and accept delivery of the Certificates are subject to the approval of certain legal matters by their counsel and certain other conditions. The Joint Lead Managers (other than ADIB in its capacity as such) will be paid certain commissions in respect of their services for managing the issue and sale of the Certificates and a further placing commission will be paid to third parties. The Joint Lead Managers (other than ADIB in its capacity as such) will also be reimbursed in respect of certain of their expenses, and each of the Trustee and ADIB has agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue and offering of the Certificates.

Certain of the Joint Lead Managers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to ADIB and/or their affiliates in the ordinary course of business.

Selling Restrictions

United States

The Certificates have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Certificates (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Certificates and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells the Certificates during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Certificates within the United States or to, or for the account or benefit of, U.S. persons.

The Certificates are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Certificates, an offer or sale of Certificates within the United States by a dealer (whether or not participating in the offering of the Certificates) may violate the registration requirements of the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Certificates to any retail investor in the European Economic Area. For the purposes of this provision, the expression **retail investor** means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(b) a customer within the meaning of Directive 2002/92/EC (as amended, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Trustee or ADIB; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

UAE (excluding the Dubai International Financial Centre)

Each Joint Lead Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

Cayman Islands

Each Joint Lead Manager has represented and agreed that it has not made and will not make, whether directly or indirectly, any offer or invitation to the public in the Cayman Islands to subscribe for the Certificates.

Dubai International Financial Centre

Each Joint Lead Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

(a) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority (**DFSA**) rulebook; and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module of the DFSA rulebook.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Certificates. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires any Certificates pursuant to an offering should note that the offer of Certificates is a private placement under Article 9 or Article 10 of the "Rules on the Offer of Securities and Continuing Obligations" as issued by the Board of the Capital Market Authority resolution number 3-123-2017 dated 27 December 2017 (the **KSA Regulations**), made through an authorised person licensed to carry out arranging activities by the Capital Market Authority and following a notification to the Capital Market Authority under Article 11 of the KSA Regulations.

The Certificates may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 9 of the KSA Regulations or by way of a limited offer under Article 10 of the KSA Regulations. Each Joint Lead Manager has represented and agreed that any offer of Certificates to a Saudi Investor will be made in compliance with Article 11 and either Article 9 or Article 10 of the KSA Regulations.

The offer of Certificates shall not therefore constitute a "public offer", an "exempt offer" or a "parallel market offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 15 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 9 or Article 10 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the Capital Market Authority and: (a) the Certificates are offered or sold to a Sophisticated Investor (as defined in Article 9 of the KSA Regulations); (b) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyals 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 15 of the KSA Regulations.

Kingdom of Bahrain

Each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Certificates except on a private placement basis to persons in the Kingdom of Bahrain who are accredited investors.

For this purpose, an **accredited investor** means:

(a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more excluding that person's principal place of business;

(b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

State of Qatar (including the Qatar Financial Centre)

Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered, and will not offer or sell or deliver at any time, directly or indirectly, any Certificates in the State of Qatar, including the Qatar Financial Centre, except: (a) in compliance with all applicable laws and regulations of the State of Qatar, (including the Qatar Financial Centre); and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar (including the Qatar Financial Centre).

Hong Kong

Each Joint Lead Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong by means of any document, any Certificates other than: (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**) and any rules made under the SFO; or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, in each case whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Joint Lead Manager has acknowledged that this Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the SFA. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Certificates or caused such Certificates to be made the subject of an invitation for subscription or purchase, and will not offer or sell such Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Certificates, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) under Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Where the Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

In connection with Section 309B of the SFA and the CMP Regulations 2018, the Trustee has determined, and hereby notifies all relevant persons (as defined in Section 309(A)(1) of the SFA), that the Certificates are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Malaysia

Each Joint Lead Manager acknowledges that this Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia (the **SC**) under the Capital Markets and Services Act 2007 (the **CMSA**).

Accordingly, each Joint Lead Manager has represented and agreed that the Certificates have not been and will not be offered, sold or delivered and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed by it in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 (or Section 229(1)(b), Schedule 7 (or Section 230(1)(b)) and Schedule 8 (or Section 275(3)) of the CMSA, read together with, Schedule 9 (or Section 257(3)) of the CMSA, subject to any law, order, regulation, or official directive of the Central Bank of Malaysia, the SC and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Joint Lead Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

General

None of the Trustee, ADIB nor any Joint Lead Manager has made any representation that any action will be taken in any jurisdiction by the Joint Lead Managers or the Trustee or ADIB that would permit a public offering of the Certificates, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Certificates (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers any Certificates or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other offering or publicity material relating to the Certificates, in all cases at its own expense.

GENERAL INFORMATION

Listing

Application has been made to Euronext Dublin for the Certificates to be admitted to listing on the Official List and to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of MiFID II. It is expected that the listing of the Certificates on the Official List and admission of the Certificates to trading on the Main Securities Market will be granted on or around 20 September 2018.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Trustee in relation to the Certificates and is not itself seeking admission of the Certificates to the Official List of the Irish Stock Exchange or to trading on the regulated market of Euronext Dublin for the purposes of the Prospectus Directive.

The expenses in relation to the admission of the Certificates to trading on the Main Securities Market will be approximately €6,790.

Authorisation

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Trustee dated 28 August 2018. ADIB Capital Invest 2 Ltd, in its capacity as issuer and trustee has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of the Certificates and the execution and performance of the Transaction Documents to which it is a party. The entry by ADIB into the Transaction Documents was authorised by the shareholders of ADIB on 19 August 2018 and by the directors of ADIB on 19 August 2018.

Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records) under common code 187037344 and ISIN XS1870373443.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, LI 855 Luxembourg.

Significant or Material Change

There has been no significant change in the financial or trading position of ADIB and its subsidiaries since 30 June 2018 and there has been no material adverse change in the prospects of ADIB and its subsidiaries since 31 December 2017. There has been no significant change in the financial or trading position of the Trustee and no material adverse change in the prospects of the Trustee, in each case since the date of its incorporation.

Litigation

The Trustee is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee is aware) since the date of its incorporation which may have or have in such period had a significant effect on the financial position or profitability of the Trustee.

Neither ADIB nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the ADIB is aware) in the 12 months preceding the date of this Prospectus which may have or have in such period had a significant effect on the financial position or profitability of ADIB or any of its subsidiaries.

Auditors

Since the date of its incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

The Audited Financial Statements have been audited in accordance with International Standards on Auditing by Ernst & Young as stated in their reports appearing herein. The 2017 Interim Financial Statements and the 2018 Interim Financial Statements have been reviewed in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" by Ernst & Young as stated in their reports appearing herein.

Ernst & Young are independent auditors regulated by and registered to practice as auditors with the Ministry of Economy in the UAE. There is no professional institute of auditors in the UAE and, accordingly, Ernst & Young is not a member of a professional body in the UAE. All of Ernst & Young's partners are members of the institutes from which they received their professional qualification.

Documents Available

For as long as any Certificates remain outstanding, copies of the following documents will be available in electronic and physical format and in English to be inspected and/or collected during normal business hours at the specified office for the time being of the Principal Paying Agent on any weekday (excluding Saturdays, Sundays and public holidays):

(a) the constitutional documents of the Trustee and ADIB;

(b) the Financial Statements;

(c) a copy of this Prospectus; and

(d) the Transaction Documents.

Joint Lead Managers transacting with ADIB

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, ADIB (and its affiliates) in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or, in the case of Joint Lead Managers other than ADIB, related derivative securities) and financial instruments (including bank financings) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ADIB or ADIB's affiliates. Certain of the Joint Lead Managers (other than ADIB) or their affiliates that have a financing relationship with ADIB routinely hedge their credit exposure to ADIB consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Certificates. Any such short positions could adversely affect future trading prices of the Certificates. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may, in the case of Joint Lead Managers other than ADIB, hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Shari'a Approvals

The transaction structure relating to the Certificates (as described in this Prospectus) and the Transaction Documents have been approved by each of the Executive Committee of the Fatwa & Shari'a Supervisory Board of ADIB, the Shari'a Advisory Board of Citi Islamic Investment Bank E.C., the Fatwa and Shari'a Supervisory Board of First Abu Dhabi Bank PJSC, the Central Shariah Committee of HSBC Bank Middle East Limited, the J.P. Morgan Shariah Supervisory Committee and the Shariah Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on any of the approvals referred to above in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction is in compliance with *Shari'a* principles.

INDEX TO FINANCIAL STATEMENTS

Abu Dhabi Islamic Bank PJSC

INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

30 JUNE 2018 (UNAUDITED)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2018 (unaudited)

Contents | ***Page***

Building a better working world

Ernst & Young
P.O. Box: 136
27th Floor, Nation Tower 2
Abu Dhabi Corniche
Abu Dhabi, United Arab Emirates

Tel: +971 2 417 4400
Fax: +971 2 627 3383
abudhabi@ae.ey.com
ey.com/mena

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 2018, comprising of the interim consolidated statement of financial position as at 30 June 2018 and the related interim condensed consolidated statement of income and interim condensed consolidated statement of comprehensive income for the three month and six month periods then ended and the interim condensed 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.

Signed by
Raed Ahmad
Partner
Ernst & Young
Registration No. 811

15 July 2018
Abu Dhabi

INTERIM CONSOLIDATED INCOME STATEMENT
Three months and six months ended 30 June 2018 (Unaudited)

	Notes	*Three months ended 30 June* **2018** AED '000	2017 AED '000	*Six months ended 30 June* **2018** AED '000	2017 AED '000
OPERATING INCOME					
Income from murabaha, mudaraba and wakala with financial institutions		**25,751**	14,241	**50,384**	26,424
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	5	**1,063,645**	1,041,542	**2,129,030**	2,123,880
Income from Islamic sukuk measured at amortised cost		**85,948**	92,916	**155,288**	180,206
Income from investments measured at fair value	6	**21,523**	20,550	**57,042**	49,016
Share of results of associates and joint ventures		**13,627**	10,231	**23,935**	13,358
Fees and commission income, net	7	**246,444**	273,657	**477,742**	499,027
Foreign exchange income		**58,888**	76,823	**119,380**	148,268
Income from investment properties		**2,736**	5,503	**5,252**	9,649
Other income		**6,597**	9,782	**12,655**	9,861
		1,525,159	1,545,245	**3,030,708**	3,059,689
OPERATING EXPENSES					
Employees' costs	8	**(365,790)**	(349,673)	**(724,279)**	(699,488)
General and administrative expenses	9	**(193,745)**	(222,163)	**(394,177)**	(445,195)
Depreciation		**(51,520)**	(41,731)	**(102,530)**	(83,473)
Amortisation of intangibles	24	**(13,651)**	(13,651)	**(27,151)**	(27,192)
Provision for impairment, net	10	**(165,333)**	(216,418)	**(315,222)**	(380,769)
		(790,039)	(843,636)	**(1,563,359)**	(1,636,117)
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS		**735,120**	701,609	**1,467,349**	1,423,572
Distribution to depositors and sukuk holders	11	**(160,296)**	(137,263)	**(301,912)**	(277,591)
PROFIT FOR THE PERIOD BEFORE ZAKAT AND TAX		**574,824**	564,346	**1,165,437**	1,145,981
Zakat and tax		**(2,139)**	(12,744)	**(2,394)**	(16,908)
PROFIT FOR THE PERIOD AFTER ZAKAT AND TAX		**572,685**	551,602	**1,163,043**	1,129,073
Attributable to:					
Equity holders of the Bank		**572,530**	551,312	**1,162,702**	1,128,239
Non-controlling interest		**155**	290	**341**	834
		572,685	551,602	**1,163,043**	1,129,073
Basic and diluted earnings per share attributable to ordinary shares (AED)	12	**0.131**	0.125	**0.317**	0.307

The attached notes 1 to 39 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three months and six months ended 30 June 2018 (Unaudited)

	Notes	*Three months ended 30 June* **2018** **AED '000**	*2017* *AED '000*	*Six months ended 30 June* **2018** **AED '000**	*2017* *AED '000*
PROFIT FOR THE PERIOD AFTER ZAKAT AND TAX		**572,685**	551,602	**1,163,043**	1,129,073
Other comprehensive income (loss)					
Items that will not be reclassified to consolidated income statement					
Net movement on valuation of investments carried at fair value through other comprehensive income	29	**(1,693)**	-	**(1,693)**	(177)
Directors' remuneration paid	34	**-**	(4,900)	**(4,900)**	(4,900)
Items that may be subsequently reclassified to consolidated income statement					
Net movement in valuation of investment in Islamic sukuk carried at fair value through other comprehensive income	29	**(8,637)**	-	**(33,309)**	-
Exchange differences arising on translation of foreign operations	29	**(6,757)**	10,918	**(78,274)**	(22,302)
Gain (loss) on hedge of foreign operations	29	**20,869**	(14,736)	**8,369**	(18,403)
Fair value (loss) gain on cash flow hedge	29	**(583)**	(537)	**(2,954)**	1,841
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		**3,199**	(9,255)	**(112,761)**	(43,941)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**575,884**	542,347	**1,050,282**	1,085,132
Attributable to:					
Equity holders of the Bank		**575,729**	542,057	**1,049,941**	1,084,298
Non-controlling interest		**155**	290	**341**	834
		575,884	542,347	**1,050,282**	1,085,132

The attached notes 1 to 39 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2018 (Unaudited)

	Notes	*30 June 2018 AED '000*	*Audited 31 December 2017 AED '000*
ASSETS			
Cash and balances with central banks	13	**20,412,179**	21,467,205
Balances and wakala deposits with Islamic banks and other financial institutions	14	**2,622,714**	2,765,903
Murabaha and mudaraba with financial institutions	15	**1,572,954**	2,125,249
Murabaha and other Islamic financing	16	**32,552,072**	33,249,315
Ijara financing	17	**43,751,266**	43,280,319
Investment in Islamic sukuk measured at amortised cost	18	**9,817,473**	10,052,028
Investments measured at fair value	19	**3,036,576**	1,526,490
Investment in associates and joint ventures	20	**1,003,120**	988,788
Investment properties	21	**1,090,151**	1,093,383
Development properties	22	**837,381**	837,381
Other assets	23	**3,744,318**	3,463,518
Property and equipment		**2,159,752**	2,062,677
Goodwill and intangibles	24	**338,192**	365,343
TOTAL ASSETS		**122,938,148**	123,277,599
LIABILITIES			
Due to financial institutions	25	**2,189,050**	3,688,558
Depositors' accounts	26	**101,184,382**	100,003,619
Other liabilities	27	**3,023,562**	3,012,258
Total liabilities		**106,396,994**	106,704,435
EQUITY			
Share capital	28	**3,168,000**	3,168,000
Legal reserve		**2,102,465**	2,102,465
General reserve		**1,716,447**	1,716,447
Credit risk reserve		**400,000**	400,000
Retained earnings		**4,300,404**	3,301,713
Proposed dividend	37	**-**	914,530
Proposed dividend to charity		**-**	29,230
Other reserves	29	**(829,064)**	(743,182)
Tier 1 sukuk	30	**5,672,500**	5,672,500
Equity attributable to the equity and Tier 1 sukuk holders of the Bank		**16,530,752**	16,561,703
Non-controlling interest		**10,402**	11,461
Total equity		**16,541,154**	16,573,164
TOTAL LIABILITIES AND EQUITY		**122,938,148**	123,277,599
CONTINGENT LIABILITIES AND COMMITMENTS	31	**10,672,439**	12,635,809

Director

Vice Chairman &
Acting Chief Executive Officer

The attached notes 1 to 39 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2018 (Unaudited)

		Attributable to the equity and Tier 1 sukuk holders of the Bank											
	Notes	*Share capital AED '000*	*Legal reserve AED '000*	*General reserve AED '000*	*Credit risk reserve AED '000*	*Retained earnings AED '000*	*Proposed dividend AED '000*	*Proposed dividend to charity AED '000*	*Other reserves AED '000*	*Tier 1 sukuk AED '000*	*Total AED '000*	*Non-controlling interest AED '000*	*Total equity AED '000*
Balance at 1 January 2018 - audited		3,168,000	2,102,465	1,716,447	400,000	3,301,713	914,530	29,230	(743,182)	5,672,500	16,561,703	11,461	16,573,164
Transition adjustment on adoption of IFRS 9 (note 4)	4	-	-	-	-	(588)	-	-	21,979	-	21,391	-	21,391
Balance at 1 January 2018 - adjusted		3,168,000	2,102,465	1,716,447	400,000	3,301,125	914,530	29,230	(721,203)	5,672,500	16,583,094	11,461	16,594,555
Profit for the period		-	-	-	-	1,162,702	-	-	-	-	1,162,702	341	1,163,043
Other comprehensive loss		-		-	-	(4,900)	-	-	(107,861)	-	(112,761)	-	(112,761)
Profit paid on Tier 1 sukuk – Listed	30	-	-	-	-	(117,079)	-	-	-	-	(117,079)	-	(117,079)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	30	-	-	-	-	(41,444)	-	-	-	-	(41,444)	-	(41,444)
Dividends paid	37	-	-	-	-		(914,530)	-	-	-	(914,530)	(1,400)	(915,930)
Dividends paid to charity		-	-	-	-	-	-	(29,230)	-	-	(29,230)	-	(29,230)
Balance at 30 June 2018 - unaudited		**3,168,000**	**2,102,465**	**1,716,447**	**400,000**	**4,300,404**	**-**	**-**	**(829,064)**	**5,672,500**	**16,530,752**	**10,402**	**16,541,154**
Balance at 1 January 2017 - audited		3,168,000	2,102,465	1,494,721	400,000	2,487,099	776,782	30,000	(683,768)	5,672,500	15,447,799	10,842	15,458,641
Profit for the period		-	-	-	-	1,128,239	-	-	-	-	1,128,239	834	1,129,073
Other comprehensive loss		-	-	-	-	(4,900)	-	-	(39,041)	-	(43,941)	-	(43,941)
Loss on disposal of investments carried at fair value through other comprehensive income	29	-	-	-	-	(177)	-	-	177	-	-	-	-
Profit paid on Tier 1 sukuk - Listed	30	-	-	-	-	(117,079)	-	-	-	-	(117,079)	-	(117,079)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	30	-	-	-	-	(38,795)	-	-	-	-	(38,795)	-	(38,795)
Dividends paid	37	-	-	-	-	-	(776,782)	-	-	-	(776,782)	(750)	(777,532)
Dividends paid to charity		-	-	-	-	-	-	(30,000)	-	-	(30,000)	-	(30,000)
Balance at 30 June 2017 - unaudited		3,168,000	2,102,465	1,494,721	400,000	3,454,387	-	-	(722,632)	5,672,500	15,569,441	10,926	15,580,367

The attached notes 1 to 39 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2018 (Unaudited)

	Notes	***Six months ended 30 June 2018 AED '000***	*Six months ended 30 June 2017 AED '000*
OPERATING ACTIVITIES			
Profit for the period		**1,163,043**	1,129,073
Adjustments for:			
Depreciation on investment properties	21	**3,232**	5,660
Depreciation on property and equipment		**99,298**	77,813
Amortisation of intangibles	24	**27,151**	27,192
Share of results of associates and joint ventures		**(23,935)**	(13,358)
Dividend income	6	**(590)**	(286)
Realised loss (gain) on sale of investments carried at fair value through profit or loss	6	**5,229**	(13,642)
Unrealised loss (gain) on investments carried at fair value through profit or loss	6	**18,856**	(4,585)
Realised gain on islamic sukuk carried at fair value through other comprehensive income	6	**(8,045)**	-
Provision for impairment, net	10	**315,222**	380,769
Gain on sale of investment properties		**-**	(1,965)
Operating profit before changes in operating assets and liabilities		**1,599,461**	1,586,671
Increase in balances with central banks		**(4,273,891)**	(1,795,771)
Decrease (increase) in balances and wakala deposits with Islamic banks and other financial institutions		**55,934**	(65,076)
(Increase) decrease in murabaha and mudaraba with financial institutions		**(944,102)**	3,375
Decrease in murabaha and other Islamic financing		**445,001**	2,191,585
Increase in ijara financing		**(552,146)**	(1,113,547)
Purchase of investments carried at fair value through profit or loss		**(4,228,675)**	(6,521,874)
Proceeds from sale of investments carried at fair value through profit or loss		**3,752,172**	5,851,826
Increase in other assets		**(271,749)**	(454,555)
Increase in due to financial institutions		**1,014,187**	1,055
Increase in depositors' accounts		**1,182,672**	1,214,006
(Decrease) increase in other liabilities		**(87,801)**	377,338
Cash (used in) from operations		**(2,308,937)**	1,275,033
Directors' remuneration paid		**(4,900)**	(4,900)
Net cash (used in) from operating activities		**(2,313,837)**	1,270,133
INVESTING ACTIVITIES			
Dividend received	6	**590**	286
Net movement in investments carried at fair value through other comprehensive income		**806,181**	(14,903)
Net movement in investments carried at amortised cost		**(1,636,647)**	(1,535,089)
Net movement in associates and joint ventures		**5,148**	-
Proceeds from sale of investment properties		**-**	7,400
Purchase of property and equipment		**(196,373)**	(126,633)
Net cash used in investing activities		**(1,021,101)**	(1,668,939)
FINANCING ACTIVITIES			
Profit paid on Tier 1 sukuk – Listed	30	**(117,079)**	(117,079)
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	30	**(41,444)**	(38,795)
Dividends paid		**(916,956)**	(780,891)
Net cash used in financing activities		**(1,075,479)**	(936,765)
DECREASE IN CASH AND CASH EQUIVALENTS		**(4,410,417)**	(1,335,571)
Cash and cash equivalents at 1 January		**10,888,469**	6,945,518
CASH AND CASH EQUIVALENTS AT 30 JUNE	33	**6,478,052**	5,609,947

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:

Profit received		**2,382,908**	2,489,095
Profit paid to depositors and sukuk holders		**384,955**	231,462

The attached notes 1 to 39 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 Federal Law No. 2 of 2015, concerning Commercial Companies has replaced the existing Federal Law No. 8 of 1984.

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 as determined by the Fatwa and Shari'a Supervisory Board of the Bank, 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 82 branches in UAE (2017: 81 branches) and 3 overseas branches in Iraq, Qatar and Sudan and subsidiaries in the UAE and the United Kingdom. The interim condensed consolidated financial statements combine the activities of the Bank's head office, its branches and subsidiaries.

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 issue by the Board of Directors on 15 July 2018.

2 DEFINITIONS

The following terms are used in the 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 that consists of the purchase 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 that 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.

2 DEFINITIONS continued

Musharaka
A contract between the Group and a customer to entering 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.

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 Accounting Standard 34 Interim Financial Reporting and in compliance with general principles of the Shari'a as determined by the Group's Fatwa and Shari'a Supervisory Board.

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, Shari'a compliant alternatives of derivative financial instruments which have been measured at fair value and land, held as property and equipment, which has been carried at revalued 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* **2018**	*2017*
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%
MPM Properties LLC	Real estate services	United Arab Emirates	**100%**	100%
ADIB Invest 1	Equity brokerage services	BVI	**100%**	100%
Kawader Services Company LLC	Manpower supply	United Arab Emirates	**100%**	100%
ADIB (UK) Limited	Islamic banking	United Kingdom	**100%**	100%
ADIB Holdings (Jersey) Ltd* (under liquidation)	Special purpose vehicle	British Channel Islands	-	-
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Sukuk Company II Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 1 Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 2 Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Alternatives Ltd*	Special purpose vehicle	Cayman Island	-	-

*The Bank does not have any direct holding in these entities and they are considered to be a subsidiary by virtue of control.

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 financial statements of the subsidiaries are prepared for the same reporting year 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 interest represent the portion of the net income or loss and net assets of the subsidiaries not held by the Group and are presented separately in the interim consolidated statement of comprehensive and within equity in the interim consolidated statement of financial position, separately shareholders' equity of the Bank.

3.2 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 years. Estimates and judgments are currently evaluated and are based on historical experience and other factors. 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.

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 2017, except the following estimates and judgements which are applicable from 1 January 2018.

3 BASIS OF PREPARATION continued

3.2 Significant judgements and estimates continued

Changes to judgements made in applying accounting policies that have most significant effects on the amounts recognized in the condensed consolidated interim financial statements of the period ended 30 June 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.

- Calculation of expected credit loss: changes to the assumptions and estimation uncertainties that have a significant impact on expected credit losses for the period ended 30 June 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Key Considerations: Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk: The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes.

The assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

(i) The Group have established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition as well as PD thresholds.
(ii) Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
(iii) IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit impaired as at the reporting date. The determination of credit impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

3 BASIS OF PREPARATION continued

3.2 Significant judgements and estimates continued

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios: The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

Estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios.

Base-case, Upside and Downside scenarios, will be based on macroeconomic forecasts received from an external reputable source. These scenarios will be updated on a quarterly basis and more frequently if conditions warrant.

All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

Definition of default: The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected Life: When measuring ECL, the Group considers the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Governance: The Group have established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance and Risk Management and will be responsible for reviewing and approving key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in our financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial statements do not contain all information and disclosures required 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 2017. In addition, results for the six months ended 30 June 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

As required by Securities and Commodities Authority of UAE (“SCA”) notification no. 2635/2008 dated 12 October 2008, accounting policies related to financial instruments as disclosed in the annual consolidated financial statements are provided below:

4 SIGNIFICANT ACCOUNTING POLICIES continued

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017.

During the period, the Group has applied, for the first time, certain standards and amendments that require restatement of previous financial statements. The nature and the impact of each new standard or amendment are described below:

IFRS 9 Financial Instruments: In July 2014, the IASB issued IFRS 9 Financial Instruments ("IFRS 9"), which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 addresses all aspects of financial instruments including classification and measurement, impairment and hedge accounting.

(a) Classification and measurement: The standard requires the Group to consider two criteria when determining the measurement basis for sukuk instruments (e.g. financing, sukuk) held as financial assets:

(i) its business model for managing those financial assets; and
(ii) cash flow characteristics of the assets.

Based on these criteria, sukuk instruments are measured at amortized cost, fair value through OCI, or fair value through profit or loss.

Equity instruments are measured at fair value through profit or loss. However, the Group may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as fair value through OCI, with no subsequent recycling to profit and loss, while recognizing dividend income in profit and loss.

In addition, the Group may, at initial recognition, irrevocably elect to designate a financial asset as fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. This designation is also available to existing financial assets.

For financial liabilities, there were no changes to classification and measurement.

Effective 1 January 2011, the Group early adopted IFRS 9 'Financial Instruments' in line with the provisions of IFRS 9.

(b) Impairment: The standard introduces a new single model for the measurement of impairment losses on all financial assets including financing and sukuk measured at amortized cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

Stage 1: 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months and Loss Given Default (LGD).

4 SIGNIFICANT ACCOUNTING POLICIES continued

(b) Impairment: continued
Stage 2: Under Stage 2, where there has been a SICR since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the lifetime ECL will be recorded which is computed using lifetime PD, LGD and Exposure at Default (EAD) measures. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3: Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

(c) Hedging: IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9.

(d) Transition impact: In line with the IFRS 9 transition provisions, the Group has elected to record an adjustment to its opening 1 January 2018 retained earnings to reflect the application of the new requirements of Impairment, Classification and Measurement at the adoption date without restating comparative information.

For classification and measurement, the combined application of the contractual cash flow characteristics and business model tests as at January 1, 2018 is expected to result in certain differences in the classification of financial assets when compared to our current classification under IAS 39.

The impact of the adoption on the opening retained earnings and cumulative changes in fair value reserve classified in equity at the beginning of the current year (1 January 2018) is as follows:

	Retained earnings AED '000	*Cumulative Changes in fair value reserve AED '000*
Fair value movement of investments is Islamic sukuk carried at amortised cost transferred to investment at FVTOCI	**-**	**21,979**
Shortfall of provision on re-measurement under IFRS 9	**(588)**	**-**
	(588)	**21,979**

4 SIGNIFICANT ACCOUNTING POLICIES continued

(d) Transition impact: continued

The following table reconciles the closing balance of financial assets under IFRS 9 to the opening balance of financial assets on 1 January 2018.

	As at 31 December 2017 (IFRS 9) AED '000	*Re-classification of financial assets and liabilities AED '000*	*Re-measurement of impairment AED '000*	***As at 1 January 2018 (IFRS 9) AED '000***
Cash and Balances with Central Banks	21,467,205	-	-	**21,467,205**
Balances and wakala deposits with banks and financial institutions	2,765,903	-	(28,811)	**2,737,092**
Murabaha and Mudaraba with financial institutions	2,125,249	-	(28)	**2,125,221**
Murabaha and other Islamic financing	33,249,315	-	(210,804)	**33,038,511**
Ijara financing	43,280,319	-	258,406	**43,538,725**
Investment in Islamic sukuk measured at amortised cost	10,052,028	(1,871,896)	(9,759)	**8,170,373**
Investment measured at fair value	1,526,490	1,893,875	-	**3,420,365**
Other assets	3,463,518	-	(9,592)	**3,453,926**
	117,930,027	21,979	(588)	**117,951,418**

(e) Financial instruments: disclosures (IFRS 7): The Group has amended the disclosures for the current period to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

IFRS 15: Revenue from Contracts with Customers was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. The Group has assessed that the impact of IFRS 15 is not material on the condensed consolidated financial statements of the Group as at the reporting date.

Financial Instruments

Recognition and Measurement

Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group are further analysed as:

- Customer financing;
- Balances and wakala deposits Islamic banks and other financial institutions;
- Murabaha and mudaraba with financial institutions;
- Investment in sukuk;
- Investment in equity instruments;
- Trade and other receivables; and
- Sharia compliant alternatives of derivatives.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued
Recognition and Measurement continued
The Group's customer financing comprise the following:

- Murabaha and other Islamic financing; and
- Ijara financing.

Effective 1 January 2011, the Group early adopted classification and measurement principles of IFRS 9 'Financial Instruments' in issue at that time in line with the provisions of IFRS 9.

Financial assets are classified in their entirety on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

Classification
Financial assets at amortised cost
Murahaba and other Islamic financing and Ijara financing i.e. customer financing and investment in sukuk, 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.

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.

Other financial assets that do not meet the amortised cost criteria are classified as FVTPL. In addition, certain financial assets that meet the amortised cost criteria but at initial recognition are designated as FVTPL in line with the business model of the Group. A financial asset 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.

Financial asset are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financial assets 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.

A financial asset is FVTPL if:
- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is 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 Shari'a compliant alternatives of derivative financial instruments and not designated and effective as a hedging instrument or a financial guarantee.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued
Measurement
Financial assets or financial liabilities carried at amortised cost
Financial assets at amortised cost including customer financing and investment in sukuk 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.

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 (which excludes deferred income or expected profits) less provisions for impairment.

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 (which excludes deferred income) less any provisions for impairment.

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.

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued
Measurement continued
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.

For Islamic sukuk measured at FVTOCI, any 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. When the Islamic sukuk measured at FVTOCI, is derecognised, the cumulative gain or loss previously recognised in the consolidated statement of other comprehensive income is reclassified from equity to consolidated income statement.

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

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 market transactions

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.

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

	Three months ended 30 June		***Six months ended 30 June***	
	2018	*2017*	***2018***	*2017*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Vehicle murabaha	**67,316**	76,645	**138,860**	156,370
Goods murabaha	**40,709**	54,657	**96,100**	115,967
Share murabaha	**258,067**	277,508	**512,852**	559,997
Commodities murabaha – Al Khair	**98,469**	102,320	**195,703**	203,300
Islamic covered cards (murabaha)	**80,585**	83,509	**164,863**	172,071
Other murabaha	**22,400**	11,687	**43,449**	19,175
Total murabaha	**567,546**	606,326	**1,151,827**	1,226,880
Mudaraba	**609**	2,570	**2,064**	14,583
Ijara	**493,768**	430,706	**971,735**	878,612
Istisna'a	**1,722**	1,940	**3,404**	3,805
	1,063,645	1,041,542	**2,129,030**	2,123,880

6 INCOME FROM INVESTMENTS MEASURED AT FAIR VALUE

	Three months ended 30 June		*Six months ended 30 June*	
	2018	*2017*	***2018***	*2017*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Income from Islamic sukuk measured at fair value through profit or loss	**24,570**	14,245	**45,652**	25,943
Income from Islamic sukuk measured at fair value through other comprehensive income	**10,317**	-	**26,931**	-
Realised (loss) gain on sale of investments carried at fair value through profit or loss	**(473)**	5,483	**(5,229)**	13,642
Unrealised (loss) gain on investments carried at fair value through profit or loss	**(11,881)**	(2,641)	**(18,856)**	4,585
Realised gain on sale of Islamic sukuk carried at fair value through other comprehensive income	**345**	-	**8,045**	-
(Loss) income from other investment assets	**(1,945)**	3,177	**(91)**	4,560
Dividend income	**590**	286	**590**	286
	21,523	20,550	**57,042**	49,016

7 FEES AND COMMISSION INCOME, NET

	Three months ended 30 June		*Six months ended 30 June*	
	2018	*2017*	***2018***	*2017*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Fees and commission income				
Fees and commission income on cards	**190,086**	170,153	**360,125**	321,103
Trade related fees and commission	**26,383**	28,313	**53,617**	55,161
Takaful related fees	**31,193**	34,850	**64,565**	58,621
Accounts services fees	**14,987**	18,208	**36,025**	30,255
Projects and property management fees	**14,547**	15,948	**30,319**	32,952
Risk participation and arrangement fees	**35,571**	48,665	**63,323**	92,160
Brokerage fees and commission	**2,786**	4,882	**6,071**	15,506
Other fees and commissions	**75,215**	81,879	**143,778**	159,047
Total fees and commission income	**390,768**	402,898	**757,823**	764,805
Fees and commission expenses				
Card related fees and commission expenses	**(124,208)**	(113,342)	**(241,123)**	(206,263)
Other fees and commission expenses	**(20,116)**	(15,899)	**(38,958)**	(59,515)
Total fees and commission expenses	**(144,324)**	(129,241)	**(280,081)**	(265,778)
Fees and commission income, net	**246,444**	273,657	**477,742**	499,027

8 EMPLOYEES' COSTS

	Three months ended 30 June		Six months ended 30 June	
	2018	*2017*	***2018***	*2017*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Salaries and wages	**329,464**	321,708	**654,823**	639,131
End of service benefits	**15,518**	15,485	**30,455**	31,055
Other staff expenses	**20,808**	12,480	**39,001**	29,302
	365,790	349,673	**724,279**	699,488

9 GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 30 June		Six months ended 30 June	
	2018	*2017*	***2018***	*2017*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Legal and professional expenses	**15,337**	35,173	**37,032**	76,525
Premises expenses	**67,248**	67,373	**139,482**	133,994
Marketing and advertising expenses	**20,551**	26,507	**36,526**	48,483
Communication expenses	**19,951**	15,567	**39,929**	31,270
Technology related expenses	**31,957**	34,402	**59,917**	68,479
Other operating expenses	**38,701**	43,141	**81,291**	86,444
	193,745	222,163	**394,177**	445,195

10 PROVISION FOR IMPAIRMENT, NET

		Three months ended 30 June		Six months ended 30 June	
		2018	*2017*	***2018***	*2017*
		AED '000	*AED '000*	***AED '000***	*AED '000*
Murabaha and other Islamic financing	16	**148,142**	220,495	**229,453**	348,299
Ijara financing	17	**17,632**	1,197	**81,199**	25,948
Direct write-off, net (recoveries)		**1,362**	(5,274)	**22,789**	184
Others		**(1,803)**	-	**(18,219)**	6,338
		165,333	216,418	**315,222**	380,769

11 DISTRIBUTION TO DEPOSITORS

	Three months ended 30 June		Six months ended 30 June	
	2018	*2017*	**2018**	*2017*
	AED '000	*AED '000*	**AED '000**	*AED '000*
Saving accounts	**46,482**	41,586	**88,889**	82,525
Investment accounts	**113,814**	95,677	**213,023**	195,066
	160,296	137,263	**301,912**	277,591

12 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 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, adjusted for the effects of any financial instruments with dilutive effects.

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

	Notes	Three months ended 30 June		Six months ended 30 June	
		2018	*2017*	**2018**	*2017*
Profit for the period attributable to equity holders (AED '000)		**572,530**	551,312	**1,162,702**	1,128,239
Less: profit attributable to Tier 1 sukuk - Listed (AED '000)	30	**(117,079)**	(117,079)	**(117,079)**	(117,079)
Less: profit attributable to Tier 1 sukuk – Government of Abu Dhabi (AED '000)	30	**(41,444)**	(38,795)	**(41,444)**	(38,795)
Profit for the period attributable to ordinary shareholders after deducting profit relating to Tier 1 sukuk (AED '000)		**414,007**	395,438	**1,004,179**	972,365
Weighted average number of ordinary shares in issue (000's)		**3,168,000**	3,168,000	**3,168,000**	3,168,000
Basic and diluted earnings per share (AED)		**0.131**	0.125	**0.317**	0.307

The Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised. Profit on Tier 1 sukuk is reflected in the EPS computation on the payment of such profit.

13 CASH AND BALANCES WITH CENTRAL BANKS

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Cash on hand	**1,680,118**	1,993,397
Balances with central banks:		
- Current accounts	**682,045**	1,694,913
- Statutory reserve	**12,234,740**	11,475,757
- Islamic certificate of deposits	**5,815,276**	6,303,138
	20,412,179	21,467,205

The Bank is required to maintain statutory reserves with the Central Bank of the UAE, Iraq and Sudan 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. 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.

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

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
UAE	**19,303,321**	19,944,008
Rest of the Middle East	**1,033,742**	1,300,979
Europe	**777**	1,063
Others	**74,339**	221,155
	20,412,179	21,467,205

14 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Current accounts	**436,533**	831,167
Wakala deposits	**2,203,424**	1,934,736
	2,639,957	2,765,903
Less: provision for impairment	**(17,243)**	-
	2,622,714	2,765,903

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.

14 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS continued

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

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
UAE	**964,577**	684,125
Rest of the Middle East	**156,945**	274,483
Europe	**102,699**	163,146
Others	**1,415,736**	1,644,149
	2,639,957	2,765,903

15 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Murabaha	**1,534,686**	2,125,249
Mudaraba	**38,321**	-
	1,573,007	2,125,249
Less: provision for impairment	**(53)**	-
	1,572,954	2,125,249

In accordance with Shari'a principles, Mudaraba are with Islamic financial institutions or provided for the activities that are entirely Sharia' compliant.

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

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
UAE	**1,366,813**	1,957,846
Rest of the Middle East	**167,873**	167,403
Others	**38,321**	-
	1,573,007	2,125,249

16 MURABAHA AND OTHER ISLAMIC FINANCING

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Vehicle murabaha	**6,092,981**	6,437,197
Goods murabaha	**5,119,693**	5,473,305
Share murabaha	**16,970,918**	17,359,249
Commodities murabaha – Al Khair	**8,238,988**	7,965,182
Islamic covered cards (murabaha)	**16,336,787**	16,558,534
Other murabaha	**1,857,301**	1,643,377
Total murabaha	**54,616,668**	55,436,844
Mudaraba	**40,487**	46,681
Istisna'a	**122,083**	130,322
Other financing receivables	**328,841**	281,810
Total murabaha and other Islamic financing	**55,108,079**	55,895,657
Less: deferred income on murabaha	**(20,378,093)**	(20,750,205)
	34,729,986	35,145,452
Less: provision for impairment	**(2,177,914)**	(1,896,137)
	32,552,072	33,249,315
Total of impaired Murabaha and other Islamic financing	**2,418,727**	2,036,283

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

	IFRS 9 (ECL) 30 June 2018 AED '000	*Audited 31 December 2017 – IAS 39*		
		Individual impairment AED '000	*Collective impairment AED '000*	*Total AED '000*
At the beginning of the period – audited (IAS 39)	**1,896,137**	853,154	968,615	1,821,769
Transition adjustment for IFRS 9	**210,804**	-	-	-
At the beginning of the period – adjusted (IFRS 9)	**2,106,941**	853,154	968,615	1,821,769
Charge for the period (note 10)	**229,453**	652,146	9,226	661,372
Other adjustments	-	-	(124,900)	(124,900)
Written off during the period	**(158,480)**	(462,104)	-	(462,104)
At the end of the period	**2,177,914**	1,043,196	852,941	1,896,137

16 MURABAHA AND OTHER ISLAMIC FINANCING continued

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

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Industry sector:		
Public sector	**566,094**	981,415
Corporates	**3,675,712**	3,855,948
Financial institutions	**253,314**	234,315
Individuals	**29,696,985**	29,399,301
Small and medium enterprises	**537,881**	674,473
	34,729,986	35,145,452
Geographic region:		
UAE	**33,375,378**	33,885,343
Rest of the Middle East	**842,466**	783,768
Europe	**372,363**	210,679
Others	**139,779**	265,662
	34,729,986	35,145,452

17 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 includes a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
The aggregate future lease receivables are as follows:		
Due within one year	**7,655,378**	8,636,632
Due in the second to fifth year	**22,560,977**	21,876,793
Due after five years	**34,445,356**	32,682,754
Total ijara financing	**64,661,711**	63,196,179
Less: deferred income	**(19,769,547)**	(18,591,636)
Net present value of minimum lease payments receivable	**44,892,164**	44,604,543
Less: provision for impairment	**(1,140,898)**	(1,324,224)
	43,751,266	43,280,319
Total of impaired ijara financing	**1,964,556**	1,977,285

17 IJARA FINANCING continued

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

	IFRS 9 (ECL)	*Audited 31 December2017 – IAS 39*		
	30 June 2018 AED '000	*Individual impairment AED '000*	*Collective impairment AED '000*	*Total AED '000*
At the beginning of the period – audited (IAS 39)	**1,324,224**	409,186	927,708	1,336,894
Transition adjustment for IFRS 9	**(258,406)**	-	-	-
At the beginning of the period – adjusted (IFRS 9)	**1,065,818**	409,186	927,708	1,336,894
Charge (reversal) for the period (note 10)	**81,199**	172,101	(67,535)	104,566
Written off during the period	**(6,119)**	(117,236)	-	(117,236)
At the end of the period	**1,140,898**	464,051	860,173	1,324,224

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

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Industry sector:		
Government	**752,892**	752,339
Public sector	**4,781,325**	4,480,814
Corporates	**18,394,740**	18,708,191
Individuals	**20,718,486**	20,366,863
Small and medium enterprises	**171,577**	188,355
Non-profit organisations	**73,144**	107,981
	44,892,164	44,604,543
Geographic region:		
UAE	**43,134,288**	42,668,353
Rest of the Middle East	**915,238**	1,025,203
Europe	**382,241**	386,656
Others	**460,397**	524,331
	44,892,164	44,604,543

18 INVESTMENT IN ISLAMIC SUKUK MEASURED AT AMORTISED COST

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Sukuk	**9,817,473**	10,052,028

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

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
UAE	**7,267,249**	7,443,468
Rest of the Middle East	**1,323,509**	1,365,455
Europe	**-**	100,372
Others	**1,248,582**	1,155,535
	9,839,340	10,064,830

19 INVESTMENTS MEASURED AT FAIR VALUE

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Investments carried at fair value through profit or loss		
Quoted investments		
Sukuk	**1,829,909**	1,377,491
Investments carried at fair value through other comprehensive income		
Quoted investments		
Equities	**40,647**	42,307
Sukuk	**1,058,163**	-
	1,098,810	42,307
Unquoted investments		
Funds	**50,896**	53,619
Private equities	**60,030**	53,073
	110,926	106,692
	1,209,736	148,999
	3,039,645	1,526,490
Less: provision for impairment	**(3,069)**	-
	3,036,576	1,526,490

19 INVESTMENTS MEASURED AT FAIR VALUE continued

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
The distribution of the gross investments by geographic region was as follows:		
UAE	**1,914,330**	915,534
Rest of the Middle East	**146,456**	89,221
Europe	**99,470**	170
Others	**879,389**	521,565
	3,039,645	1,526,490

20 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Investment in associates and joint ventures	**1,003,120**	988,788

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

At the beginning of the period	**15,156**	-
Charge for the period	**-**	15,156
At the end of the period	**15,156**	15,156

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

	Place of incorporation	*Proportion of ownership interest 2018 %*	*Proportion of ownership interest 2017 %*	*Principal activity*
Associates				
Abu Dhabi National Takaful PJSC	UAE	**42**	42	Islamic insurance
Bosna Bank International D.D	Bosnia	**27**	27	Islamic banking
The Residential REIT (IC) Limited	UAE	**30**	-	Real estate fund
Joint ventures				
Abu Dhabi Islamic Bank – Egypt (S.A.E.)	Egypt	**49**	49	Banking (under conversion to Islamic bank)
Saudi Finance Company CSJC	Kingdom of Saudi Arabia	**51**	51	Islamic retail finance
Arab Link Money Transfer PSC (under liquidation)	UAE	**51**	51	Currency exchange
Abu Dhabi Islamic Merchant Acquiring Company LLC	UAE	**51**	51	Merchant acquiring

21 INVESTMENT PROPERTIES

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

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Cost:		
Balance at the beginning of the period	**1,161,268**	1,291,643
Disposals	**-**	(130,375)
Gross balance at the end of the period	**1,161,268**	1,161,268
Less: provision for impairment	**(24,737)**	(24,737)
Net balance at the end of the period	**1,136,531**	1,136,531
Accumulated depreciation:		
Balance at the beginning of the period	**43,148**	55,464
Charge for the period	**3,232**	9,345
Relating to disposals	**-**	(21,661)
Balance at the end of the period	**46,380**	43,148
Net book value at the end of the period	**1,090,151**	1,093,383

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 5,252 thousand (30 June 2017: AED 7,684 thousand) for the six months period ended 30 June 2018.

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

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Balance at the beginning of the period	**24,737**	28,188
Charge for the period	-	462
Relating to disposal	-	(3,913)
Balance at the end of the period	**24,737**	24,737

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

UAE	**1,106,674**	1,109,906
Rest of the Middle East	**8,214**	8,214
	1,114,888	1,118,120

22 DEVELOPMENT PROPERTIES

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Development properties	**837,381**	837,381

Development properties include land with a carrying value of AED 800,000 thousand (2017: AED 800,000 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

23 OTHER ASSETS

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Advances against purchase of properties	**54,423**	53,071
Acceptances	**453,952**	418,157
Assets acquired in satisfaction of claims	**207,825**	186,825
Trade receivables	**269,311**	301,347
Prepaid expenses	**1,024,528**	698,478
Accrued profit	**156,438**	149,256
Advance to contractors	**42,939**	47,837
Advance for investment	**183,625**	183,625
Others	**1,386,563**	1,459,667
	3,779,604	3,498,263
Less: provision for impairment	**(35,286)**	(34,745)
	3,744,318	3,463,518

Assets acquired in exchange for claims in order to achieve an orderly realization are recorded as “Assets acquired in satisfaction of claims”. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the claim (net of provision for impairment) at the date of exchange.

24 GOODWILL AND INTANGIBLES

		Other intangible assets		
	Goodwill AED '000	*Customer relationships AED '000*	*Core deposit AED '000*	*Total AED '000*
At 1 January 2018 - audited	**109,888**	**212,757**	**42,698**	**365,343**
Amortisation during the period	**-**	**(22,613)**	**(4,538)**	**(27,151)**
At 30 June 2018 - unaudited	**109,888**	**190,144**	**38,160**	**338,192**
At 1 January 2017 - audited	109,888	258,397	51,851	420,136
Amortisation during the year	-	(45,640)	(9,153)	(54,793)
At 31 December 2017 - audited	109,888	212,757	42,698	365,343

Goodwill
For the purpose of impairment testing, goodwill is allocated to the Bank's operating divisions which represent the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

Other intangible assets

Customer relationships: Customer relationship intangible asset represents the value attributable to the business expected to be generated from customers that existed at the acquisition date. In determining the fair value of customer relationships, covered cards customers were considered separately, given their differing risk profiles, relationships and loyalty. The relationships are expected to generate material recurring income in the form of customer revenues, fees and commissions.

Core deposit: The value of core deposit intangible asset arises from the fact that the expected profit distribution on these deposits, governed by their contractual terms, are expected to be lower than other wholesale or treasury sukuk instruments' expected profit distributions. The spread between the expected profit distributions on these deposits and sukuk instruments represents the value of the core deposit intangible.

25 DUE TO FINANCIAL INSTITUTIONS

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Current accounts	**810,637**	1,538,954
Investment deposits	**1,345,094**	2,149,604
	2,155,731	3,688,558
Current account – Central Bank of UAE	**33,319**	-
	2,189,050	3,688,558

26 DEPOSITORS' ACCOUNTS

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Current accounts	**33,479,747**	32,738,664
Investment accounts	**67,142,640**	66,743,153
Profit equalisation reserve	**561,995**	521,802
	101,184,382	100,003,619

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

At the beginning of the period	**521,802**	454,419
Share of profit for the period	**40,193**	67,383
At the end of the period	**561,995**	521,802

The distribution of the gross depositors' accounts by industry sector was as follows:

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Government	**7,506,300**	6,648,994
Public sector	**8,675,812**	8,318,185
Corporates	**13,699,192**	14,965,482
Financial institutions	**1,318,776**	1,449,801
Individuals	**55,481,795**	54,269,920
Small and medium enterprises	**11,961,266**	11,832,026
Non-profit organisations	**2,541,241**	2,519,211
	101,184,382	100,003,619

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

With respect to investment deposits, the Bank is liable only in case of misconduct, negligence or breach of contract otherwise it is on the account of the fund's provider (Rab Al Mal) or the principal (the Muwakkil).

27 OTHER LIABILITIES

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Accounts payable	**405,831**	432,385
Acceptances	**453,952**	418,157
Accrued profit for distribution to depositors and sukuk holders	**162,249**	285,485
Bankers' cheques	**365,051**	365,415
Provision for staff benefits and other expenses	**349,222**	387,896
Retentions payable	**21,187**	63,483
Advances from customers	**148,611**	136,890
Accrued expenses	**379,115**	205,613
Unclaimed dividends	**109,815**	110,841
Deferred income	**150,276**	163,054
Charity account	**1,927**	4,905
Donation account	**34,586**	13,523
Negative fair value of Shari'a compliant alternatives of derivative financial instruments	**9,484**	4,901
Others	**432,256**	419,710
	3,023,562	3,012,258

28 SHARE CAPITAL

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Authorised share capital:		
4,000,000 thousand (2017: 4,000,000 thousand) ordinary shares of AED 1 each (2017: AED 1 each)	**4,000,000**	4,000,000
Issued and fully paid share capital:		
3,168,000 thousand (2017: 3,168,000 thousand) ordinary shares of AED 1 each (2017: AED 1 each)	**3,168,000**	3,168,000

29 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 2018 - audited	**(161,269)**	**192,700**	**(769,732)**	**(4,881)**	**(743,182)**
Transition adjustment on adoption of IFRS 9	**21,979**	**-**	**-**	**-**	**21,979**
At 1 January 2018 - revised	**(139,290)**	**192,700**	**(769,732)**	**(4,881)**	**(721,203)**
Net movement in valuation of investment carried at FVTOCI	**(1,693)**	**-**	**-**	**-**	**(1,693)**
Net movement in valuation of investment in Islamic sukuk carried at FVTOCI	**(25,264)**	**-**	**-**	**-**	**(25,264)**
Net fair value changes for investment in Islamic sukuk carried at FVTOCI released to income statement (note 6)	**(8,045)**	**-**	**-**	**-**	**(8,045)**
Exchange differences arising on translation of foreign operations, net	**-**	**-**	**(78,274)**	**-**	**(78,274)**
Gain on hedge of foreign operations	**-**	**-**	**8,369**	**-**	**8,369**
Fair value loss on cash flow hedges	**-**	**-**	**-**	**(2,954)**	**(2,954)**
At 30 June 2018 - unaudited	**(174,292)**	**192,700**	**(839,637)**	**(7,835)**	**(829,064)**
At 1 January 2017 - audited	(163,080)	192,700	(711,664)	(1,724)	(683,768)
Net movement in valuation of investment carried at FVTOCI	(177)	-	-	-	(177)
Loss on disposal of investments carried at FVTOCI	177	-	-	-	177
Exchange differences arising on translation of foreign operations, net	-	-	(22,302)	-	(22,302)
Loss on hedge of foreign operations	-	-	(18,403)	-	(18,403)
Fair value gain on cash flow hedges	-	-	-	1,841	1,841
At 30 June 2017 - unaudited	(163,080)	192,700	(752,369)	117	(722,632)

30 TIER 1 SUKUK

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
Tier 1 sukuk – Listed	**3,672,500**	3,672,500
Tier 1 sukuk – Government of Abu Dhabi	**2,000,000**	2,000,000
	5,672,500	5,672,500

30 TIER 1 SUKUK continued

Tier 1 sukuk – Listed
On 19 November 2012, the Bank through a Shari'a compliant sukuk arrangement has issued Tier 1 sukuk – Listed (the "Sukuk") amounting to AED 3,672,500 thousand (USD 1 billion). This Sukuk was issued under the authorities approved by the shareholders of the Bank in the Extraordinary General Meeting held on 21 October 2012. Issuance costs amounting to AED 37,281 thousand were incurred at the time of issuance.

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 listed on the London stock exchange and is callable by the Bank after period ending on 16 October 2018 (the “First Call Date”) or any profit payment date thereafter subject to certain conditions. The Sukuk bear an expected mudaraba profit rate of 6.375% payable during the initial period of six years semi-annually in arrears. After the initial period, and for every 6th year thereafter, resets to a new expected mudaraba profit rate based on the then 6 year LIBOR rate plus an expected margin of 5.393% Profit distributions will be reported in the consolidated statement of changes in equity.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

Tier 1 sukuk – Government of Abu Dhabi
On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk-Gov") 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-Gov was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

This Sukuk-Gov 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-Gov is callable by the Bank subject to certain conditions. The Sukuk-Gov 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.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

31 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments include commitments to extend Islamic credit facilities, standby letters of credit, guarantees, 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 and guarantees 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 2018 AED '000	*Audited 31 December 2017 AED '000*
Contingent liabilities		
Letters of credit	**2,582,369**	3,215,199
Letters of guarantee	**7,159,641**	8,572,858
	9,742,010	11,788,057
Commitments		
Undrawn facilities commitments	**801,019**	666,945
Future capital expenditure	**125,026**	174,699
Investment and development properties	**4,384**	6,108
	930,429	847,752
	10,672,439	12,635,809

32 COMPLIANCE RISK REVIEW

Given its commitment to best practice governance, in 2014 the Bank appointed external legal counsel to assist in reviewing its compliance with sanctions laws, and its compliance processes generally. The external legal counsel is yet to complete its review, and to the extent that this review assists the Bank in the identification of any additional steps that can be taken to ensure compliance with applicable sanctions laws, the Bank will enhance its processes accordingly. The Bank is continuing its internal review, and it is premature to speculate on any potential impact on the Bank. The Bank will share the outcome of the internal review with the relevant regulator once it is finalized.

33 CASH AND CASH EQUIVALENTS

	30 June 2018 AED '000	*30 June 2017 AED '000*
Cash and balances with central banks, short term	**4,662,531**	6,698,560
Balances and wakala deposits with Islamic banks and other financial institutions, short term	**2,478,588**	1,628,442
Murabaha and mudaraba with financial institutions, short term	**461,474**	473,916
Due to financial institutions, short term	**(1,124,541)**	(3,190,971)
	6,478,052	5,609,947

34 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank enters into transactions with related parties, comprising associates, directors, major shareholders, 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 financial assets are performing and free of any provision for impairment.

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

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

	Major shareholder AED '000	*Directors AED '000*	*Associates and joint ventures AED '000*	*Others AED '000*	*Total AED '000*
30 June 2018 - unaudited					
Income from murabaha, mudaraba and wakala with financial institutions	**-**	**-**	**4,900**	**-**	**4,900**
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	**26,091**	**196**	**-**	**41,236**	**67,523**
Fees and commission income, net	**-**	**14**	**1,005**	**1,740**	**2,759**
Operating expenses	**-**	**216**	**-**	**-**	**216**
Distribution to depositors and sukuk holders	**549**	**38**	**358**	**20**	**965**
30 June 2017 - unaudited					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	7,201	-	7,201
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	30,924	231	-	41,503	72,658
Fees and commission income, net	-	31	87	2,042	2,160
Operating expenses	-	216	-	-	216
Distribution to depositors and sukuk holders	90	35	266	179	570

34 RELATED PARTY TRANSACTIONS continued

Profit rates earned on balances and wakala deposits with banks and financial institutions and customer financing extended to related parties during the period has ranged from 0% to 6.1% (2017: 0% to 6.0% per annum).

Profit rates paid on due to financial institution and customers' deposits placed by related parties during the period have ranged from 0% to 0.8% per annum (2017: 0% to 0.8% per annum).

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

	Major shareholder AED '000	*Directors AED '000*	*Associates and joint ventures AED '000*	*Others AED '000*	*Total AED '000*
30 June 2018 - unaudited					
Balances and wakala deposits with Islamic banks and other financial institutions	**-**	**-**	**771,392**	**-**	**771,392**
Murabaha and mudaraba with financial institutions	**-**	**-**	**167,723**	**-**	**167,723**
Murabaha, mudaraba, ijara and other Islamic financing	**2,584,703**	**8,100**	**-**	**3,544,695**	**6,137,498**
Other assets	**-**	**-**	**101,352**	**191,796**	**293,148**
	2,584,703	**8,100**	**1,040,467**	**3,736,491**	**7,369,761**
Due to financial institutions	**-**	**-**	**21,200**	**-**	**21,200**
Depositors' accounts	**67,982**	**27,672**	**73,539**	**47,069**	**216,262**
Other liabilities	**116**	**20**	**61**	**8,171**	**8,368**
	68,098	**27,692**	**94,800**	**55,240**	**245,830**
31 December 2017- audited					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	918,817	-	918,817
Murabaha and Mudaraba with financial institutions	-	-	167,059	-	167,059
Murabaha, mudaraba, ijara and other Islamic financing	2,611,227	10,060	-	3,476,799	6,098,086
Other assets	-	-	85,933	186,541	272,474
	2,611,227	10,060	1,171,809	3,663,340	7,456,436
Due to financial institutions	-	-	31,019	-	31,019
Depositors' accounts	67,382	24,781	216,824	17,968	326,955
Other liabilities	625	18	29	2,961	3,633
	68,007	24,799	247,872	20,929	361,607

The Bank and its major shareholder jointly own a controlling stake in Abu Dhabi Islamic Bank – Egypt (S.A.E.) ("ADIB-Egypt") and have a formal joint control arrangement for their investment in ADIB-Egypt (note 20).

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

	Six months ended 30 June 2018 AED '000	*Six months ended 30 June 2017 AED '000*
Salaries and other benefits	**16,293**	17,649
Employees' end of service benefits	**1,288**	1,781
	17,581	19,430

34 RELATED PARTY TRANSACTIONS continued

In accordance with the Ministry of Economy and Commerce interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), Directors' remuneration is recognised in the consolidated statement of comprehensive income.

During 2018, AED 4,900 thousand was paid to Board of Directors pertaining to the year ended 31 December 2017 after the approval by the shareholders in the Annual General Assembly held on 21 March 2018. During 2017, AED 4,900 thousand was paid to Board of Directors pertaining to the year ended 31 December 2016 after the approval by the shareholders in the Annual General Assembly held on 2 April 2017.

35 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.

Global 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.

Global 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.

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

Real estate – Subsidiaries 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, associates and joint ventures 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.

35 SEGMENT INFORMATION continued

	Global Retail banking AED '000	*Global Wholesale banking AED '000*	*Private banking AED '000*	*Treasury AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
30 June 2018 - unaudited							
Revenue and results							
Segment revenues, net	**1,719,756**	**509,618**	**71,642**	**221,358**	**41,263**	**165,159**	**2,728,796**
Operating expenses excluding provision for impairment, net	**(921,433)**	**(194,141)**	**(30,781)**	**(23,077)**	**(39,422)**	**(41,677)**	**(1,250,531)**
Operating profit	**798,323**	**315,477**	**40,861**	**198,281**	**1,841**	**123,482**	**1,478,265**
Provision for impairment, net	**(140,123)**	**(86,488)**	**(2,833)**	**4,805**	**-**	**(90,583)**	**(315,222)**
Profit for the period	**658,200**	**228,989**	**38,028**	**203,086**	**1,841**	**32,899**	**1,163,043**
Non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(341)**	**(341)**
Profit for the period attributable to equity holders of the Bank	**658,200**	**228,989**	**38,028**	**203,086**	**1,841**	**32,558**	**1,162,702**
Assets							
Segmental assets	**57,518,097**	**30,501,100**	**3,410,571**	**21,723,085**	**2,659,059**	**7,126,236**	**122,938,148**
Liabilities							
Segmental liabilities	**65,014,956**	**25,622,364**	**3,535,321**	**8,436,798**	**312,443**	**3,475,112**	**106,396,994**
30 June 2017 - unaudited							
Revenue and results							
Segment revenues, net	1,685,834	605,165	68,053	265,101	48,829	109,116	2,782,098
Operating expenses excluding provision for impairment, net	(871,685)	(196,990)	(27,512)	(20,551)	(40,261)	(115,257)	(1,272,256)
Operating profit	814,149	408,175	40,541	244,550	8,568	(6,141)	1,509,842
Provision for impairment, net	(286,772)	(77,010)	(2,161)	-	-	(14,826)	(380,769)
Profit (loss) for the period	527,377	331,165	38,380	244,550	8,568	(20,967)	1,129,073
Non-controlling interest	-	-	-	-	-	(834)	(834)
Profit (loss) for the period attributable to equity holders of the Bank	527,377	331,165	38,380	244,550	8,568	(21,801)	1,128,239
31 December 2017 - audited							
Assets							
Segmental assets	56,883,659	32,278,505	3,031,995	21,051,686	2,632,381	7,399,373	123,277,599
Liabilities							
Segmental liabilities	61,838,840	26,152,414	3,362,854	11,788,985	300,368	3,260,974	106,704,435

Geographical information

The Group operates in two principal geographic areas that are domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the U.A.E. branches, associates and subsidiaries; and international area represents the operations of the Bank that originates from its branches in Iraq, Qatar and Sudan and through its subsidiaries and associates outside U.A.E. Given that, UAE contributes the majority of the revenues and the Group's total assets in UAE represent a significant portion of its total assets and liabilities, hence no further geographical analysis of segment revenues, expenses, operating profit (margin), assets and liabilities is presented.

36 CAPITAL ADEQUACY RATIO

The Central Bank of UAE ('CBUAE') issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Tier 1 ('T1') and Total Capital.

The capital adequacy ratio as per Basel III capital regulation is given below:

	Basel III	
	30 June 2018	*Audited 31 December 2017*
	AED '000	*AED '000*
Common Equity Tier 1 (CET 1) Capital		
Share capital	**3,168,000**	3,168,000
Legal reserve	**2,085,788**	2,085,788
General reserve	**1,694,486**	1,694,486
Credit risk reserve	**400,000**	400,000
Retained earnings	**4,248,170**	3,280,191
Foreign currency translation reserve	**(807,648)**	(737,565)
	10,788,796	9,890,900
Regulatory deductions:		
Goodwill and intangibles	**(338,192)**	(292,274)
Cumulative changes in fair value and hedging reserve	**(124,019)**	(87,142)
	10,326,585	9,511,484
Threshold deductions:		
Significant minority investments	**(320,321)**	(220,400)
Total Common Equity Tier 1	**10,006,264**	9,291,084
Additional Tier 1 (AT 1) Capital		
Tier 1 sukuk	**5,672,500**	5,672,500
Regulatory and threshold deductions for additional Tier 1 capital	**(367,250)**	(74,977)
Total Additional Tier 1	**5,305,250**	5,597,523
Total Tier 1 capital	**15,311,514**	14,888,607
Tier 2 capital		
Collective impairment provision for financing assets	**1,064,617**	1,092,279
Regulatory and threshold deductions for Tier 2 capital	**-**	(74,977)
Total Tier 2	**1,064,617**	1,017,302
Total capital base	**16,376,131**	15,905,909

36 CAPITAL ADEQUACY RATIO continued

	Basel III	
	30 June 2018 AED'000	*Audited 31 December 2017 AED'000*
Risk weighted assets		
Credit risk	**85,169,332**	87,382,347
Market risk	**2,256,125**	2,211,598
Operational risk	**9,887,839**	9,259,729
Total risk weighted assets	**97,313,296**	98,853,674
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**16.83%**	16.09%
Total Tier 1 regulatory capital expressed as a percentage of total risk weighted assets	**15.74%**	15.06%
Common Equity Tier 1 capital expressed as a percentage of total risk weighted assets	**10.28%**	9.40%

37 DIVIDENDS

During 2018, cash dividend of 28.87% of the paid up capital relating to year ended 31 December 2017 amounting to AED 914,530 thousand has been paid after the approval by the shareholders at the Annual General Assembly held on 21 March 2018.

During 2017, cash dividend of 24.52% of the paid up capital relating to year ended 31 December 2016 amounting to AED 776,782 thousand has been paid after the approval by the shareholders at the Annual General Assembly held on 2 April 2017.

38 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.

39 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurement recognized in the interim consolidated statement of financial position
The Group uses the following hierarchy for determining and disclosing the fair value of financial instrument by valuation technique:

Level 1: quoted (unadjusted prices in active markets for identical assets or liabilities).

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable.

	Level 1 AED '000	*Level 2 AED '000*	*Level 3 AED '000*	*Total AED '000*
30 June 2018 - unaudited				
Assets and liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit or loss				
Quoted investments				
Sukuk	**1,829,909**	**-**	**-**	**1,829,909**
	1,829,909	**-**	**-**	**1,829,909**
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	**40,647**	**-**	**-**	**40,647**
Sukuk	**1,058,163**	**-**	**-**	**1,058,163**
	1,098,810	**-**	**-**	**1,098,810**
Unquoted investments				
Funds	**-**	**-**	**50,896**	**50,896**
Private equities	**-**	**-**	**60,030**	**60,030**
	1,098,810	**-**	**110,926**	**1,209,736**
	2,928,719	**-**	**110,926**	**3,039,645**
Financial liabilities				
Shari'a compliant alternatives of swap (note 27)	**-**	**9,484**	**-**	**9,484**
Assets for which fair values are disclosed:				
Investment properties	**-**	**-**	**1,334,262**	**1,334,262**
Investment carried at amortised cost- Sukuk	**9,630,443**	**-**	**-**	**9,630,443**

39 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Fair value measurement recognized in the interim consolidated statement of financial position continued

31 December 2017- audited	*Level 1 AED '000*	*Level 2 AED '000*	*Level 3 AED '000*	*Total AED '000*
Assets and liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit or loss				
Sukuk	1,377,491	-	-	1,377,491
	1,377,491	-	-	1,377,491
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	42,307	-	-	42,307
Unquoted investments				
Funds	-	-	53,619	53,619
Private equities	-	-	53,073	53,073
	-	-	106,692	106,692
	42,307	-	106,692	148,999
Financial liabilities				
Shari'a compliant alternatives of swap (note 27)	-	4,901	-	4,901
Assets for which fair values are disclosed:				
Investment properties	-	-	1,334,262	1,334,262
Investment carried at amortised cost- Sukuk	10,104,476	-	264,000	10,368,476

There were no transfers between level 1, 2 and 3 during the current period (2017: quoted equity investments amounting to AED 41,362 thousand were transferred from level 3 to level 1).

The following table shows a reconciliation of the opening and closing amount of level 3 of financial assets which are recorded at fair value:

	30 June 2018 AED '000	*Audited 31 December 2017 AED '000*
At the beginning of the period	**106,692**	132,698
Transfer to level 1	**-**	(41,362)
Net purchase	**4,234**	13,940
Gain recorded in equity	**-**	1,416
At the end of the period	**110,926**	106,692

Abu Dhabi Islamic Bank PJSC

INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

30 JUNE 2017 (UNAUDITED)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017 (unaudited)

Contents	***Page***

EY
Building a better working world

Ernst & Young
P.O. Box: 136
27th Floor, Nation Tower 2
Abu Dhabi Corniche
Abu Dhabi, United Arab Emirates

Tel: +971 2 417 4400
Fax: +971 2 627 3383
abudhabi@ae.ey.com
ey.com/mena

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 2017, comprising of the interim condensed consolidated statement of financial position as at 30 June 2017 and the related interim condensed consolidated statement of income and interim condensed consolidated statement of comprehensive income for the three month and six month periods then ended and the interim condensed 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.

Signed by
Raed Ahmad
Partner
Ernst & Young
Registration No. 811

23 July 2017
Abu Dhabi

INTERIM CONSOLIDATED INCOME STATEMENT
Three months and six months ended 30 June 2017 (Unaudited)

		Three months ended 30 June		***Six months ended 30 June***	
		2017	*2016*	***2017***	*2016*
	Notes	***AED ‘000***	*AED ‘000*	***AED ‘000***	*AED ‘000*
OPERATING INCOME					
Income from murabaha, mudaraba and wakala with financial institutions		**14,241**	8,284	**26,424**	18,757
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	5	**1,041,542**	1,124,053	**2,123,880**	2,237,483
Income from Islamic sukuk measured at amortised cost		**92,916**	70,405	**180,206**	181,183
Income from investments measured at fair value	6	**20,550**	25,373	**49,016**	50,127
Share of results of associates and joint ventures		**10,231**	7,446	**13,358**	13,448
Fees and commission income, net	7	**273,657**	215,672	**499,027**	432,555
Foreign exchange income		**76,823**	43,695	**148,268**	20,103
Income from investment properties		**5,503**	9,119	**9,649**	17,810
Other income		**9,782**	918	**9,861**	1,729
		1,545,245	1,504,965	**3,059,689**	2,973,195
OPERATING EXPENSES					
Employees’ costs	8	**(349,673)**	(357,034)	**(699,488)**	(720,892)
General and administrative expenses	9	**(222,163)**	(202,012)	**(445,195)**	(402,436)
Depreciation		**(41,731)**	(37,200)	**(83,473)**	(74,203)
Amortisation of intangibles	24	**(13,651)**	(13,689)	**(27,192)**	(27,378)
Provision for impairment, net	10	**(216,418)**	(233,989)	**(380,769)**	(450,140)
		(843,636)	(843,924)	**(1,636,117)**	(1,675,049)
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS		**701,609**	661,041	**1,423,572**	1,298,146
Distribution to depositors and sukuk holders	11	**(137,263)**	(149,991)	**(277,591)**	(300,928)
PROFIT FOR THE PERIOD BEFORE ZAKAT AND TAX		**564,346**	511,050	**1,145,981**	997,218
Zakat and tax		**(12,744)**	(3,533)	**(16,908)**	(7,684)
PROFIT FOR THE PERIOD AFTER ZAKAT AND TAX		**551,602**	507,517	**1,129,073**	989,534
Attributable to:					
Equity holders of the Bank		**551,312**	507,296	**1,128,239**	988,737
Non-controlling interest		**290**	221	**834**	797
		551,602	507,517	**1,129,073**	989,534
Basic and diluted earnings per share attributable to ordinary shares (AED)	12	**0.125**	0.113	**0.307**	0.265

The attached notes 1 to 40 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three months and six months ended 30 June 2017 (Unaudited)

		Three months ended 30 June		*Six months ended 30 June*	
	Notes	***2017 AED '000***	*2016 AED '000*	***2017 AED '000***	*2016 AED '000*
PROFIT FOR THE PERIOD AFTER ZAKAT AND TAX		**551,602**	507,517	**1,129,073**	989,534
Other comprehensive (loss) income					
Items that will not be reclassified to consolidated income statement					
Net gain (loss) on valuation of investments carried at fair value through other comprehensive income	29	**-**	6	**(177)**	393
Directors' remuneration paid	34	**(4,900)**	(4,200)	**(4,900)**	(4,200)
Items that may be subsequently reclassified to consolidated income statement					
Exchange differences arising on translation of foreign operations	29	**10,918**	(17,863)	**(22,302)**	(78,593)
(Loss) gain on hedge of foreign operations	29	**(14,736)**	23,426	**(18,403)**	29,700
Fair value (loss) gain on cash flow hedge	29	**(537)**	1,728	**1,841**	8,376
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD		**(9,255)**	3,097	**(43,941)**	(44,324)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**542,347**	510,614	**1,085,132**	945,210
Attributable to:					
Equity holders of the Bank		**542,057**	510,393	**1,084,298**	944,413
Non-controlling interest		**290**	221	**834**	797
		542,347	510,614	**1,085,132**	945,210

The attached notes 1 to 40 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2017 (Unaudited)

	Notes	*30 June 2017 AED '000*	*Audited 31 December 2016 AED '000*
ASSETS			
Cash and balances with central banks	13	**20,065,929**	19,778,339
Balances and wakala deposits with Islamic banks and other financial institutions	14	**3,472,206**	4,246,158
Murabaha and mudaraba with financial institutions	15	**923,416**	1,762,781
Murabaha and other Islamic financing	16	**33,806,018**	36,346,086
Ijara financing	17	**42,952,035**	41,864,436
Investment in Islamic sukuk measured at amortised cost	18	**10,592,065**	9,063,314
Investments measured at fair value	19	**2,099,929**	1,396,928
Investment in associates and joint ventures	20	**772,484**	753,541
Investment properties	21	**1,196,896**	1,207,991
Development properties	22	**837,381**	837,381
Other assets	23	**3,150,222**	2,695,667
Property and equipment		**1,965,787**	1,916,967
Goodwill and intangibles	24	**392,944**	420,136
TOTAL ASSETS		**122,227,312**	122,289,725
LIABILITIES			
Due to financial institutions	25	**3,307,642**	5,154,215
Depositors' accounts	26	**100,033,148**	98,813,752
Other liabilities	27	**3,306,155**	2,863,117
Total liabilities		**106,646,945**	106,831,084
EQUITY			
Share capital	28	**3,168,000**	3,168,000
Legal reserve		**2,102,465**	2,102,465
General reserve		**1,494,721**	1,494,721
Credit risk reserve		**400,000**	400,000
Retained earnings		**3,454,387**	2,487,099
Proposed dividend	38	**-**	776,782
Proposed dividend to charity		**-**	30,000
Other reserves	29	**(722,632)**	(683,768)
Tier 1 sukuk	30	**5,672,500**	5,672,500
Equity attributable to the equity and Tier 1 sukuk holders of the Bank		**15,569,441**	15,447,799
Non-controlling interest		**10,926**	10,842
Total equity		**15,580,367**	15,458,641
TOTAL LIABILITIES AND EQUITY		**122,227,312**	122,289,725
CONTINGENT LIABILITIES AND COMMITMENTS	31	**13,039,413**	12,484,075

Vice Chairman &
Acting Chief Executive Officer

Director

The attached notes 1 to 40 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2017 (Unaudited)

		Attributable to the equity and Tier 1 sukuk holders of the Bank											
	Notes	*Share capital AED '000*	*Legal reserve AED '000*	*General reserve AED '000*	*Credit risk reserve AED '000*	*Retained earnings AED '000*	*Proposed dividend AED '000*	*Proposed dividend to charity AED '000*	*Other reserves AED '000*	*Tier 1 sukuk AED '000*	*Total AED '000*	*Non-controlling interest AED '000*	*Total equity AED '000*
Balance at 1 January 2017 - audited		3,168,000	2,102,465	1,494,721	400,000	2,487,099	776,782	30,000	(683,768)	5,672,500	15,447,799	10,842	15,458,641
Profit for the period		-	-	-	-	1,128,239	-	-	-	-	1,128,239	834	1,129,073
Other comprehensive loss		-	-	-	-	(4,900)	-	-	(39,041)	-	(43,941)	-	(43,941)
Loss on disposal of investments carried at fair value through other comprehensive income	29	-		-	-	(177)	-	-	177	-	-	-	-
Profit paid on Tier 1 sukuk - Listed	30	-	-	-	-	(117,079)	-	-	-	-	(117,079)	-	(117,079)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	30	-	-	-	-	(38,795)	-	-	-	-	(38,795)	-	(38,795)
Dividends paid	38	-	-	-	-	-	(776,782)	-	-	-	(776,782)	(750)	(777,532)
Dividends paid to charity		-	-	-	-	-	-	(30,000)	-	-	(30,000)	-	(30,000)
Balance at 30 June 2017 - unaudited		**3,168,000**	**2,102,465**	**1,494,721**	**400,000**	**3,454,387**	**-**	**-**	**(722,632)**	**5,672,500**	**15,569,441**	**10,926**	**15,580,367**
Balance at 1 January 2016 - audited		3,168,000	2,102,465	1,293,820	400,000	1,858,899	769,022	20,000	(219,557)	5,672,034	15,064,683	10,548	15,075,231
Profit for the period		-	-	-	-	988,737	-	-	-	-	988,737	797	989,534
Other comprehensive loss		-	-	-	-	(4,200)	-	-	(40,124)	-	(44,324)	-	(44,324)
Profit paid on Tier 1 sukuk - Listed	30	-	-	-	-	(117,079)	-	-	-	-	(117,079)	-	(117,079)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	30	-	-	-	-	(33,136)	-	-	-	-	(33,136)	-	(33,136)
Movement in Tier 1 sukuk		-	-	-	-	-	-	-	-	466	466	-	466
Dividends paid	38	-	-	-	-	-	(769,022)	-	-	-	(769,022)	(1,000)	(770,022)
Dividends paid to charity		-	-	-	-	-	-	(20,000)	-	-	(20,000)	-	(20,000)
Balance at 30 June 2016 - unaudited		3,168,000	2,102,465	1,293,820	400,000	2,693,221	-	-	(259,681)	5,672,500	15,070,325	10,345	15,080,670

The attached notes 1 to 40 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
Six months ended 30 June 2017 (Unaudited)

	Notes	*Six months ended 30 June 2017 AED '000*	*Six months ended 30 June 2016 AED '000*
OPERATING ACTIVITIES			
Profit for the period		**1,129,073**	989,534
Adjustments for:			
Depreciation on investment properties	21	**5,660**	6,152
Depreciation on property and equipment		**77,813**	68,051
Amortisation of intangibles	24	**27,192**	27,378
Share of results of associates and joint ventures		**(13,358)**	(13,448)
Dividend income	6	**(286)**	(344)
Realised gains on sale of investments carried at fair value through profit or loss	6	**(13,642)**	(19,880)
Unrealised gain on investments carried at fair value through profit or loss	6	**(4,585)**	(6,010)
Provision for impairment, net	10	**380,769**	450,140
Gain on sale on investment properties		**(1,965)**	(9,548)
Operating profit before changes in operating assets and liabilities		**1,586,671**	1,492,025
Increase in balances with central banks		**(1,795,771)**	(948,290)
Increase in balances and wakala deposits with Islamic banks and other financial institutions		**(65,076)**	(898,315)
Decrease (increase) in murabaha and mudaraba with financial institutions		**3,375**	(1,929)
Decrease (increase) in murabaha and other Islamic financing		**2,191,585**	(528,509)
Increase in ijara financing		**(1,113,547)**	(1,203,255)
Purchase of investments carried at fair value through profit or loss		**(6,521,874)**	(5,254,393)
Proceeds from sale of investments carried at fair value through profit or loss		**5,851,826**	5,360,470
Increase in other assets		**(454,555)**	(152,089)
Increase in due to financial institutions		**1,055**	129,651
Increase in depositors' accounts		**1,214,006**	2,447,559
Increase (decrease) in other liabilities		**377,338**	(137,842)
Cash from operations		**1,275,033**	305,083
Directors' remuneration paid	34	**(4,900)**	(4,200)
Net cash from operating activities		**1,270,133**	300,883
INVESTING ACTIVITIES			
Dividend received	6	**286**	344
Net movement in investments carried at fair value through other comprehensive income		**(14,903)**	648
Net movement in investments carried at amortised cost		**(1,535,089)**	(393,848)
Additions in investment in associates and joint ventures		**-**	(17,395)
Dividend received from an associate		**-**	6,667
Proceeds from sale of investment properties		**7,400**	23,975
Purchase of property and equipment		**(126,633)**	(160,992)
Net cash used in investing activities		**(1,668,939)**	(540,601)
FINANCING ACTIVITIES			
Profit paid on Tier 1 sukuk – Listed	30	**(117,079)**	(117,079)
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	30	**(38,795)**	(33,136)
Proceeds from sale of own Tier 1 sukuk - Listed		**-**	466
Dividends paid		**(780,891)**	(773,212)
Net cash used in financing activities		**(936,765)**	(922,961)
DECREASE IN CASH AND CASH EQUIVALENTS		**(1,335,571)**	(1,162,679)
Cash and cash equivalents at 1 January		**6,945,518**	9,484,193
CASH AND CASH EQUIVALENTS AT 30 JUNE	33	**5,609,947**	8,321,514

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:

Profit received		**2,489,095**	2,425,737
Profit paid to depositors and sukuk holders		**231,462**	250,794

The attached notes 1 to 40 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 Federal Law No. 2 of 2015, concerning Commercial Companies has replaced the existing Federal Law No. 8 of 1984.

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 as determined by the Fatwa and Shari'a Supervisory Board of the Bank, 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 81 branches in UAE (2016: 86 branches) and 3 overseas branches in Iraq, Qatar and Sudan and subsidiaries in the UAE and the United Kingdom. The interim condensed consolidated financial statements combine the activities of the Bank's head office, its branches and subsidiaries.

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 issue by the Board of Directors on 23 July 2017.

2 DEFINITIONS

The following terms are used in the 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 that consists of the purchase 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 that 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.

2 DEFINITIONS continued

Musharaka
A contract between the Group and a customer to entering 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.

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 Accounting Standard 34 Interim Financial Reporting and in compliance with general principles of the Shari'a as determined by the Group's Fatwa and Shari'a Supervisory Board.

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, Shari'a compliant alternatives of derivative financial instruments which have been measured at fair value and land, held as property and equipment, which has been carried at revalued 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* **2017**	*2016*
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%
MPM Properties LLC	Real estate services	United Arab Emirates	**100%**	100%
ADIB Invest 1	Equity brokerage services	BVI	**100%**	100%
Kawader Services Company LLC	Manpower supply	United Arab Emirates	**100%**	100%
ADIB (UK) Limited	Islamic banking	United Kingdom	**100%**	100%
ADIB Holdings (Jersey) Ltd*	Special purpose vehicle	British Channel Islands	-	-
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Sukuk Company II Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 1 Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 2 Ltd*	Special purpose vehicle	Cayman Island	-	-

*The Bank does not have any direct holding in these entities and they are considered to be a subsidiary by virtue of control.

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 financial statements of the subsidiaries are prepared for the same reporting year 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 interest represent the portion of the net income or loss and net assets of the subsidiaries not held by the Group and are presented separately in the interim consolidated statement of comprehensive and within equity in the interim consolidated statement of financial position, separately shareholders' equity of the Bank.

3.2 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 years. Estimates and judgments are currently evaluated and are based on historical experience and other factors. 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.

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 2016.

4 SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial statements do not contain all information and disclosures required 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 2016. In addition, results for the six months ended 30 June 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

As required by Securities and Commodities Authority of UAE ("SCA") notification no. 2635/2008 dated 12 October 2008, accounting policies related to financial instruments as disclosed in the annual consolidated financial statements are provided below:

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016.

During the period, the Group has applied, for the first time, certain standards and amendments that require restatement of previous financial statements. However, they do not impact the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

IAS 7: Statement of Cash Flows (Amendment) was issued with the intention to improve disclosers of financing activities and help users to better understand reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their liabilities as a result of financing activities such as changes from cash flows and non-cash items. The amendment does not impact the consolidated financial statements of the Group.

IAS 12: Income Taxes (Amendment) clarifies the accounting treatment of deferred tax assets of Sukuk measured at fair value for accounting, but measured at cost for tax purposes The amendment does not impact the consolidated financial statements of the Group.

Annual Improvements 2014-2016 Cycle
These improvements are effective for annual periods beginning on or after 1 January 2017. The improvements did not impact the consolidated financial statements of the Group. They include:

IFRS 12 Disclosure of Interest in Other Entities (Amendment) clarifies that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendment does not impact the consolidated financial statements of the Group.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments
Recognition and Measurement
Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group are further analysed as:

- Customer financing;
- Balances and wakala deposits Islamic banks and other financial institutions;
- Murabaha and mudaraba with financial institutions;
- Investment in sukuk;
- Investment in equity instruments;
- Trade and other receiveables; and
- Sharia compliant alternatives of derivatives.

The Group's customer financing comprise the following:

- Murabaha and other Islamic financing; and
- Ijara financing.

Effective 1 January 2011, the Group early adopted classification and measurement principles of IFRS 9 'Financial Instruments' in issue at that time in line with the transitional provisions of IFRS 9.

Financial assets are classified in their entirety on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

Classification
Financial assets at amortised cost
Murahaba and other Islamic financing and Ijara financing i.e. customer financing and investment in sukuk, 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.

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.

Other financial assets that do not meet the amortised cost criteria are classified as FVTPL. In addition, certain financial assets that meet the amortised cost criteria but at initial recognition are designated as FVTPL in line with the business model of the Group. A financial asset 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.

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued
Classification continued
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.

A financial asset is FVTPL if:
- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is 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 Shari'a compliant alternatives of derivative financial instruments and not designated and effective as a hedging instrument or a financial guarantee.

Measurement
Financial assets or financial liabilities carried at amortised cost
Financial assets at amortised cost including customer financing and investment in sukuk 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.

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 (which excludes deferred income or expected profits) less provisions for impairment.

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 (which excludes deferred income) less any provisions for impairment.

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued
Measurement continued
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. Financial assets measured at FVTOCI are not required to be tested for impairment.

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

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 market transactions

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.

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

	Three months ended 30 June		***Six months ended 30 June***	
	2017	*2016*	***2017***	*2016*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Vehicle murabaha	**76,645**	84,812	**156,370**	172,132
Goods murabaha	**54,657**	99,208	**115,967**	207,266
Share murabaha	**277,508**	290,631	**559,997**	577,181
Commodities murabaha – Al Khair	**102,320**	92,291	**203,300**	178,598
Islamic covered cards (murabaha)	**83,509**	89,062	**172,071**	181,117
Other murabaha	**11,687**	12,302	**19,175**	24,151
Total murabaha	**606,326**	668,306	**1,226,880**	1,340,445
Mudaraba	**2,570**	10,593	**14,583**	22,709
Ijara	**430,706**	443,019	**878,612**	869,880
Istisna'a	**1,940**	2,135	**3,805**	4,449
	1,041,542	1,124,053	**2,123,880**	2,237,483

6 INCOME FROM INVESTMENTS MEASURED AT FAIR VALUE

	Three months ended 30 June		*Six months ended 30 June*	
	2017	*2016*	***2017***	*2016*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Income from Islamic sukuk measured at fair value through profit or loss	**14,245**	12,337	**25,943**	23,030
Realised gain on sale of investments carried at fair value through profit or loss	**5,483**	16,726	**13,642**	19,880
Unrealised (loss) gain on investments carried at fair value through profit or loss	**(2,641)**	(4,471)	**4,585**	6,010
Income from other investment assets	**3,177**	437	**4,560**	863
Dividend income	**286**	344	**286**	344
	20,550	25,373	**49,016**	50,127

7 FEES AND COMMISSION INCOME, NET

	Three months ended 30 June		*Six months ended 30 June*	
	2017	*2016*	***2017***	*2016*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Fees and commission income				
Fees and commission income on cards	**170,153**	143,164	**321,103**	273,677
Trade related fees and commission	**28,313**	31,859	**55,161**	59,471
Accounts services fees	**18,208**	11,450	**30,255**	22,827
Projects and property management fees	**15,948**	17,279	**32,952**	36,062
Risk participation and arrangement fees	**48,665**	37,061	**92,160**	77,589
Brokerage fees and commission	**4,882**	5,373	**15,506**	17,980
Other fees and commissions	**116,729**	82,714	**217,668**	164,767
Total fees and commission income	**402,898**	328,900	**764,805**	652,373
Fees and commission expenses				
Card related fees and commission expenses	**(113,342)**	(97,855)	**(206,263)**	(187,664)
Other fees and commission expenses	**(15,899)**	(15,373)	**(59,515)**	(32,154)
Total fees and commission expenses	**(129,241)**	(113,228)	**(265,778)**	(219,818)
Fees and commission income, net	**273,657**	215,672	**499,027**	432,555

8 EMPLOYEES' COSTS

	Three months ended 30 June		Six months ended 30 June	
	2017	*2016*	***2017***	*2016*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Salaries and wages	**321,708**	320,632	**639,131**	651,972
End of service benefits	**15,485**	18,287	**31,055**	36,394
Other staff expenses	**12,480**	18,115	**29,302**	32,526
	349,673	357,034	**699,488**	720,892

9 GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 30 June		Six months ended 30 June	
	2017	*2016*	***2017***	*2016*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Legal and professional expenses	**35,173**	40,499	**76,525**	80,859
Premises expenses	**67,373**	55,096	**133,994**	113,498
Marketing and advertising expenses	**26,507**	33,435	**48,483**	60,148
Communication expenses	**15,567**	17,567	**31,270**	36,281
Technology related expenses	**34,402**	23,949	**68,479**	49,213
Other operating expenses	**43,141**	31,466	**86,444**	62,437
	222,163	202,012	**445,195**	402,436

10 PROVISION FOR IMPAIRMENT, NET

		Three months ended 30 June		Six months ended 30 June	
		2017	*2016*	***2017***	*2016*
		AED '000	*AED '000*	***AED '000***	*AED '000*
Murabaha and other Islamic financing	16	**220,495**	413,516	**348,299**	362,530
Ijara financing	17	**1,197**	(160,387)	**25,948**	97,492
Recoveries, net of direct write-off		**(5,274)**	(19,140)	**184**	(9,882)
Investments measured at amortised cost	18	**-**	-	**6,338**	-
		216,418	233,989	**380,769**	450,140

11 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

	Three months ended 30 June		*Six months ended 30 June*	
	2017	*2016*	***2017***	*2016*
	AED ‘000	*AED ‘000*	***AED ‘000***	*AED ‘000*
Saving accounts	**41,586**	36,555	**82,525**	73,495
Investment accounts	**95,677**	96,150	**195,066**	192,794
Sukuk holders	**-**	17,286	**-**	34,639
	137,263	149,991	**277,591**	300,928

12 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 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, adjusted for the effects of any financial instruments with dilutive effects.

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*	
	Notes	***2017***	*2016*	***2017***	*2016*
Profit for the period attributable to equity holders (AED ‘000)		**551,312**	507,296	**1,128,239**	988,737
Less: profit attributable to Tier 1 sukuk - Listed (AED ‘000)	30	**(117,079)**	(117,079)	**(117,079)**	(117,079)
Less: profit attributable to Tier 1 sukuk – Government of Abu Dhabi (AED ‘000)	30	**(38,795)**	(33,136)	**(38,795)**	(33,136)
Profit for the period attributable to ordinary shareholders after deducting profit relating to Tier 1 sukuk (AED ‘000)		**395,438**	357,081	**972,365**	838,522
Weighted average number of ordinary shares in issue (000’s)		**3,168,000**	3,168,000	**3,168,000**	3,168,000
Basic and diluted earnings per share (AED)		**0.125**	0.113	**0.307**	0.265

The Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised. Profit on Tier 1 sukuk is reflected in the EPS computation on the payment of such profit.

13 CASH AND BALANCES WITH CENTRAL BANKS

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Cash on hand	**2,185,968**	1,745,906
Balances with central banks:		
- Current accounts	**911,326**	860,295
- Statutory reserve	**11,763,408**	11,071,193
- Islamic certificate of deposits	**5,205,227**	6,100,945
	20,065,929	19,778,339

The Bank is required to maintain statutory reserves with the Central Bank of the UAE, Iraq and Sudan 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. 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.

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

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
UAE	**18,733,764**	18,613,626
Rest of the Middle East	**1,143,194**	1,077,353
Europe	**614**	656
Others	**188,357**	86,704
	20,065,929	19,778,339

14 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Current accounts	**234,949**	277,485
Wakala deposits	**3,237,257**	3,968,673
	3,472,206	4,246,158

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.

14 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS continued

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

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
UAE	**2,158,501**	2,132,487
Rest of the Middle East	**36,302**	784,535
Europe	**46,446**	113,844
Others	**1,230,957**	1,215,292
	3,472,206	4,246,158

15 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Murabaha	**922,907**	1,570,407
Mudaraba	**509**	257,303
	923,416	1,827,710
Less: provision for impairment	**-**	(64,929)
	923,416	1,762,781

In accordance with Shari'a principles, Mudaraba are with Islamic financial institutions or provided for the activities that are entirely Sharia' compliant.

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

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
At the beginning of the period	**64,929**	194,740
Reversal for the period	**-**	(23,330)
Written-off during the period	**(64,929)**	(106,481)
At the end of the period	**-**	64,929

15 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS continued

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

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
UAE	**787,427**	1,561,341
Rest of the Middle East	**135,480**	228,153
Europe	**-**	9,066
Others	**509**	29,150
	923,416	1,827,710

16 MURABAHA AND OTHER ISLAMIC FINANCING

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Vehicle murabaha	**6,313,868**	6,544,017
Goods murabaha	**5,992,614**	6,788,344
Share murabaha	**17,519,503**	18,369,604
Commodities murabaha – Al Khair	**8,155,855**	8,277,850
Islamic covered cards (murabaha)	**16,277,757**	16,540,838
Other murabaha	**1,959,763**	2,032,171
Total murabaha	**56,219,360**	58,552,824
Mudaraba	**60,581**	1,128,518
Istisna'a	**137,667**	136,097
Other financing receivables	**313,975**	245,146
Total murabaha and other Islamic financing	**56,731,583**	60,062,585
Less: deferred income on murabaha	**(21,196,148)**	(21,894,730)
	35,535,435	38,167,855
Less: provision for impairment	**(1,729,417)**	(1,821,769)
	33,806,018	36,346,086

16 MURABAHA AND OTHER ISLAMIC FINANCING continued

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

	30 June 2017			*Audited 31 December2016*		
	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	**853,154**	**968,615**	**1,821,769**	693,670	1,167,180	1,860,850
Charge (reversals) for the period (note 10)	**355,050**	**(6,751)**	**348,299**	954,201	(198,565)	755,636
Other adjustments	-	**(124,900)**	**(124,900)**	-	-	-
Written off during the period	**(315,751)**	**-**	**(315,751)**	(794,717)	-	(794,717)
At the end of the period	**892,453**	**836,964**	**1,729,417**	853,154	968,615	1,821,769

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

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Industry sector:		
Public sector	**619,071**	674,674
Corporates	**4,151,114**	6,275,968
Financial institutions	**180,088**	162,150
Individuals	**29,721,581**	29,868,184
Small and medium enterprises	**863,581**	1,186,879
	35,535,435	38,167,855
Geographic region:		
UAE	**34,135,484**	36,641,855
Rest of the Middle East	**944,662**	950,297
Europe	**206,236**	201,865
Others	**249,053**	373,838
	35,535,435	38,167,855

17 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 includes a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
The aggregate future lease receivables are as follows:		
Due within one year	**8,659,441**	8,952,793
Due in the second to fifth year	**20,911,302**	22,046,466
Due after five years	**32,822,832**	26,041,455
Total ijara financing	**62,393,575**	57,040,714
Less: deferred income	**(18,192,638)**	(13,839,384)
Net present value of minimum lease payments receivable	**44,200,937**	43,201,330
Less: provision for impairment	**(1,248,902)**	(1,336,894)
	42,952,035	41,864,436

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

	30 June 2017			*Audited 31 December2016*		
	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	**409,186**	**927,708**	**1,336,894**	287,041	847,248	1,134,289
Charge (reversals) for the period (note 10)	**86,200**	**(60,252)**	**25,948**	132,474	80,460	212,934
Written off during the period	**(113,940)**	**-**	**(113,940)**	(10,329)	-	(10,329)
At the end of the period	**381,446**	**867,456**	**1,248,902**	409,186	927,708	1,336,894

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

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Industry sector:		
Government	**377,101**	-
Public sector	**4,525,929**	4,930,758
Corporates	**19,524,638**	19,224,881
Individuals	**19,433,000**	18,462,404
Small and medium enterprises	**209,137**	280,753
Non-profit organisations	**131,132**	302,534
	44,200,937	43,201,330

17 IJARA FINANCING continued

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Geographic region:		
UAE	**42,160,207**	41,098,110
Rest of the Middle East	**1,072,309**	1,066,435
Europe	**339,306**	321,811
Others	**629,115**	714,974
	44,200,937	43,201,330

18 INVESTMENT IN ISLAMIC SUKUK MEASURED AT AMORTISED COST

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Sukuk	**10,592,065**	9,063,314

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

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
At the beginning of the period	**98,277**	98,277
Charge for the period (note 10)	**6,338**	-
At the end of the period	**104,615**	98,277

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

UAE	**7,579,994**	6,685,617
Rest of the Middle East	**1,745,742**	1,295,254
Europe	**96,519**	92,284
Others	**1,274,425**	1,088,436
	10,696,680	9,161,591

19 INVESTMENTS MEASURED AT FAIR VALUE

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Investments carried at fair value through profit or loss		
Quoted investments		
Equities	-	244
Sukuk	**1,951,749**	1,263,230
	1,951,749	1,263,474
Investments carried at fair value through other comprehensive income		
Quoted investments		
Equities	**570**	756
Unquoted investments		
Funds	**54,559**	52,088
Private equities	**93,051**	80,610
	147,610	132,698
	148,180	133,454
	2,099,929	1,396,928

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

UAE	**946,836**	909,689
Rest of the Middle East	**90,635**	84,038
Europe	**166**	159
Others	**1,062,292**	403,042
	2,099,929	1,396,928

20 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Investment in associates and joint ventures	**772,484**	753,541

20 INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

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

	Place of incorporation	*Proportion of ownership interest*		*Principal activity*
		2017	*2016*	
		%	*%*	
Associates				
Abu Dhabi National Takaful PJSC	UAE	**42**	42	Islamic insurance
Bosna Bank International D.D	Bosnia	**27**	27	Islamic banking
Joint ventures				
Abu Dhabi Islamic Bank – Egypt (S.A.E.)	Egypt	**49**	49	Banking (under conversion to Islamic bank)
Saudi Finance Company CSJC	Kingdom of Saudi Arabia	**51**	51	Islamic retail finance
Arab Link Money Transfer PSC	UAE	**51**	51	Currency exchange
Abu Dhabi Islamic Merchant Acquiring Company LLC	UAE	**51**	51	Merchant acquiring

21 INVESTMENT PROPERTIES

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

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Cost:		
Gross balance at the beginning of the period	**1,291,643**	316,237
Transfer from other assets	**-**	994,485
Disposals	**(9,348)**	(19,079)
Gross balance at the end of the period	**1,282,295**	1,291,643
Less: provision for impairment	**(24,275)**	(28,188)
Net balance at the end of the period	**1,258,020**	1,263,455
Accumulated depreciation:		
Balance at the beginning of the period	**55,464**	46,791
Charge for the period	**5,660**	11,749
Relating to disposals	**-**	(3,076)
Balance at the end of the period	**61,124**	55,464
Net book value at the end of the period	**1,196,896**	1,207,991

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 7,684 thousand (30 June 2016: AED 8,262 thousand) for the six months period ended 30 June 2017.

21 INVESTMENT PROPERTIES continued

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

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Balance at the beginning of the period	**28,188**	23,325
Charge for the period	-	4,981
Relating to disposals	**(3,913)**	(118)
Balance at the end of the period	**24,275**	28,188

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

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
UAE	**1,212,957**	1,227,965
Rest of the Middle East	**8,214**	8,214
	1,221,171	1,236,179

22 DEVELOPMENT PROPERTIES

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Development properties	**837,381**	837,381

Development properties include land with a carrying value of AED 800,000 thousand (2016: AED 800,000 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

23 OTHER ASSETS

	30 June 2017 AED '000	Audited 31 December 2016 AED '000
Advances against purchase of properties	**48,869**	129,336
Acceptances	**399,985**	283,804
Assets acquired in satisfaction of claims	**299,094**	295,193
Trade receivables	**326,232**	278,580
Prepaid expenses	**748,703**	736,798
Accrued profit	**171,145**	128,046
Advance to contractors	**29,352**	17,000
Advance for investment	**183,625**	183,625
Positive fair value of Shari'a compliant alternatives of derivative financial instruments	**304**	-
Others	**975,855**	676,227
	3,183,164	2,728,609
Less: provision for impairment	**(32,942)**	(32,942)
	3,150,222	2,695,667

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

	Advances against purchase of properties AED '000	*Assets acquired against satisfaction of claims AED '000*	*Trade receivables AED '000*	*Others AED '000*	*Total AED '000*
At 1 January 2017 - audited	-	-	**7,809**	**25,133**	**32,942**
Charge for the period	-	-	-	-	-
At 30 June 2017 - unaudited	-	-	**7,809**	**25,133**	**32,942**
At 1 January 2016 - audited	255,810	-	10,950	23,883	290,643
Charge for the year	-	16,651	-	1,250	17,901
Written off during the year	(255,810)	(16,651)	(3,141)	-	(275,602)
At 31 December 2016 - audited	-	-	7,809	25,133	32,942

Assets acquired in exchange for claims in order to achieve an orderly realization are recorded as "Assets acquired in satisfaction of claims". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the claim (net of provision for impairment) at the date of exchange.

24 GOODWILL AND INTANGIBLES

		Other intangible assets		
	Goodwill AED '000	*Customer relationships AED '000*	*Core deposit AED '000*	*Total AED '000*
At 1 January 2017 - audited	**109,888**	**258,397**	**51,851**	**420,136**
Amortisation during the period	**-**	**(22,653)**	**(4,539)**	**(27,192)**
At 30 June 2017 - unaudited	**109,888**	**235,744**	**47,312**	**392,944**
At 1 January 2016 - audited	109,888	303,997	61,007	474,892
Amortisation during the year	-	(45,600)	(9,156)	(54,756)
At 31 December 2016 - audited	109,888	258,397	51,851	420,136

Goodwill

For the purpose of impairment testing, goodwill is allocated to the Bank's operating divisions which represent the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

Other intangible assets

Customer relationships — Customer relationship intangible asset represents the value attributable to the business expected to be generated from customers that existed at the acquisition date. In determining the fair value of customer relationships, covered cards customers were considered separately, given their differing risk profiles, relationships and loyalty. The relationships are expected to generate material recurring income in the form of customer revenues, fees and commissions.

Core deposit — The value of core deposit intangible asset arises from the fact that the expected profit distribution on these deposits, governed by their contractual terms, are expected to be lower than other wholesale or treasury sukuk instruments' expected profit distributions. The spread between the expected profit distributions on these deposits and sukuk instruments represents the value of the core deposit intangible.

25 DUE TO FINANCIAL INSTITUTIONS

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Current accounts	**1,242,166**	1,027,616
Investment deposits	**1,758,771**	3,758,330
	3,000,937	4,785,946
Current account – Central Bank of the UAE	**306,705**	368,269
	3,307,642	5,154,215

26 DEPOSITORS' ACCOUNTS

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Current accounts	**32,398,613**	31,225,114
Investment accounts	**67,144,303**	67,134,219
Profit equalisation reserve	**490,232**	454,419
	100,033,148	98,813,752

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

At the beginning of the period	**454,419**	394,364
Share of profit for the period	**35,813**	60,055
At the end of the period	**490,232**	454,419

The distribution of the gross depositors' accounts by industry sector was as follows:

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Government	**7,006,379**	6,695,441
Public sector	**5,944,195**	8,506,133
Corporates	**15,275,506**	16,248,174
Financial institutions	**1,288,718**	694,197
Individuals	**55,522,485**	53,105,753
Small and medium enterprises	**12,455,976**	10,638,653
Non-profit organisations	**2,539,889**	2,925,401
	100,033,148	98,813,752

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

With respect to investment deposits, the Bank is liable only in case of misconduct, negligence or breach of contract otherwise it is on the account of the fund's provider (Rab Al Mal) or the principal (the Muwakkil).

27 OTHER LIABILITIES

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Accounts payable	**531,504**	406,128
Acceptances	**399,985**	283,804
Accrued profit for distribution to depositors and sukuk holders	**248,049**	237,733
Bankers' cheques	**469,900**	461,617
Provision for staff benefits and other expenses	**322,081**	364,029
Retentions payable	**28,364**	28,889
Advances from customers	**129,715**	187,492
Accrued expenses	**381,551**	269,299
Unclaimed dividends	**111,508**	114,867
Deferred income	**159,352**	164,995
Charity account	**4,389**	5,873
Donation account	**22,733**	7,206
Negative fair value of Shari'a compliant alternatives of derivative financial instruments	**-**	1,645
Others	**497,024**	329,540
	3,306,155	2,863,117

28 SHARE CAPITAL

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Authorised share capital:		
4,000,000 thousand (2016: 4,000,000 thousand) ordinary shares of AED 1 each (2016: AED 1 each)	**4,000,000**	4,000,000
Issued and fully paid share capital:		
3,168,000 thousand (2016: 3,168,000 thousand) ordinary shares of AED 1 each (2016: AED 1 each)	**3,168,000**	3,168,000

29 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 2017 - audited	**(163,080)**	**192,700**	**(711,664)**	**(1,724)**	**(683,768)**
Net movement in valuation of investment carried at FVTOCI	**(177)**	-	-	-	**(177)**
Loss on disposal of investments carried at FVTOCI	**177**	-	-	-	**177**
Exchange differences arising on translation of foreign operations, net	-	-	**(22,302)**	-	**(22,302)**
Loss on hedge of foreign operations	-	-	**(18,403)**	-	**(18,403)**
Fair value gain on cash flow hedges	-	-	-	**1,841**	**1,841**
At 30 June 2017 - unaudited	**(163,080)**	**192,700**	**(752,369)**	**117**	**(722,632)**
At 1 January 2016 - audited	(154,787)	143,000	(196,113)	(11,657)	(219,557)
Net movement in valuation of investment at FVTOCI	393	-	-	-	393
Exchange differences arising on translation of foreign operations, net	-	-	(78,593)	-	(78,593)
Gain on hedge of foreign operations	-	-	29,700	-	29,700
Fair value gain on cash flow hedges	-	-	-	8,376	8,376
At 30 June 2016 - unaudited	(154,394)	143,000	(245,006)	(3,281)	(259,681)

30 TIER 1 SUKUK

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Tier 1 sukuk – Listed	**3,672,500**	3,672,500
Tier 1 sukuk – Government of Abu Dhabi	**2,000,000**	2,000,000
	5,672,500	5,672,500

Tier 1 sukuk – Listed

On 19 November 2012, the Bank through a Shari'a compliant sukuk arrangement has issued Tier 1 sukuk – Listed (the "Sukuk") amounting to AED 3,672,500 thousand (USD 1 billion). This Sukuk was issued under the authorities approved by the shareholders of the Bank in the Extraordinary General Meeting held on 21 October 2012. Issuance costs amounting to AED 37,281 thousand were incurred.

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 listed on the London stock exchange and is callable by the Bank after period ending on 16 October 2018 (the "First Call Date") or any profit payment date thereafter subject to certain conditions. The Sukuk bear an expected mudaraba profit rate of 6.375% payable during the initial period of six years semi-annually in arrears. After the initial period, and for every 6th year thereafter, resets to a new expected mudaraba profit rate based on the then 6 year LIBOR rate plus an expected margin of 5.393% Profit distributions will be reported in the consolidated statement of changes in equity.

30 TIER 1 SUKUK continued

Tier 1 sukuk – Listed continued
The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

Tier 1 sukuk – Government of Abu Dhabi
On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk-Gov") 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-Gov was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

This Sukuk-Gov 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-Gov is callable by the Bank subject to certain conditions. The Sukuk-Gov 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.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

31 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments include commitments to extend Islamic credit facilities, standby letters of credit, guarantees, 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 and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of contracts.

31 CONTINGENT LIABILITIES AND COMMITMENTS continued

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

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Contingent liabilities		
Letters of credit	**2,686,549**	2,025,680
Letters of guarantee	**9,541,987**	9,747,282
	12,228,536	11,772,962
Commitments		
Undrawn facilities commitments	**482,972**	386,939
Future capital expenditure	**318,722**	312,738
Investment and development properties	**9,183**	11,436
	810,877	711,113
	13,039,413	12,484,075

32 COMPLIANCE RISK REVIEW

Given its commitment to best practice governance, in 2014 the Bank appointed external legal counsel to assist in reviewing its compliance with sanctions laws, and its compliance processes generally. The external legal counsel is yet to complete its review, and to the extent that this review assists the Bank in the identification of any additional steps that can be taken to ensure compliance with applicable sanctions laws, the Bank will enhance its processes accordingly. The Bank is continuing its internal review, and it is premature to speculate on any potential impact on the Bank. The Bank will share the outcome of the internal review with the relevant regulator once it is finalized.

33 CASH AND CASH EQUIVALENTS

	30 June 2017 AED '000	*30 June 2016 AED '000*
Cash and balances with central banks, short term	**6,698,560**	8,007,502
Balances and wakala deposits with Islamic banks and other financial institutions, short term	**1,628,442**	1,819,268
Murabaha and mudaraba with financial institutions, short term	**473,916**	2,255,869
Due to financial institutions, short term	**(3,190,971)**	(3,761,125)
	5,609,947	8,321,514

34 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank enters into transactions with related parties, comprising associates, directors, major shareholders, 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. During last year, related party financing were renegotiated based on terms approved by the Board of Directors. All financial assets are performing and free of any provision for impairment. Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

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

	Major shareholder AED '000	*Directors AED '000*	*Associates and joint ventures AED '000*	*Others AED '000*	*Total AED '000*
30 June 2017 - unaudited					
Income from murabaha, mudaraba and wakala with financial institutions	**-**	**-**	**7,201**	**-**	**7,201**
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	**30,924**	**231**	**-**	**41,503**	**72,658**
Fees and commission income, net	**-**	**31**	**87**	**2,042**	**2,160**
Operating expenses	**-**	**216**	**-**	**-**	**216**
Distribution to depositors and sukuk holders	**90**	**35**	**266**	**179**	**570**
30 June 2016 - unaudited					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	3,926	-	3,926
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	25,045	238	75	39,649	65,007
Fees and commission income, net	-	23	685	1,720	2,428
Operating expenses	-	185	-	-	185
Distribution to depositors and sukuk holders	-	31	233	156	420

Profit rates earned on balances and wakala deposits with banks and financial institutions and customer financing extended to related parties during the period has ranged from 0% to 6% (2016: 0% to 6% per annum).

Profit rates paid on due to financial institution and customers' deposits placed by related parties during the period have ranged from 0% to 0.8% per annum (2016: 0% to 0.8% per annum).

34 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 and joint ventures AED '000*	*Others AED '000*	*Total AED '000*
30 June 2017 - unaudited					
Balances and wakala deposits with Islamic banks and other financial institutions	**-**	**-**	**1,088,253**	**-**	**1,088,253**
Murabaha and mudaraba with financial institutions	**-**	**-**	**135,459**	**-**	**135,459**
Murabaha, mudaraba, ijara and other Islamic financing	**2,584,703**	**10,800**	**-**	**3,571,517**	**6,167,020**
Other assets	**-**	**-**	**74,453**	**187,844**	**262,297**
	2,584,703	**10,800**	**1,298,165**	**3,759,361**	**7,653,029**
Due to financial institutions	**-**	**-**	**22,415**	**-**	**22,415**
Depositors' accounts	**107,495**	**28,417**	**114,266**	**55,736**	**305,914**
Other liabilities	**90**	**22**	**58**	**4,373**	**4,543**
	107,585	**28,439**	**136,739**	**60,109**	**332,872**
31 December 2016 - audited					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	1,087,153	-	1,087,153
Murabaha and Mudaraba with financial institutions	-	-	163,765	-	163,765
Murabaha, mudaraba, ijara and other Islamic financing	2,641,162	11,346	-	3,542,427	6,194,935
Other assets	-	-	63,065	185,913	248,978
	2,641,162	11,346	1,313,983	3,728,340	7,694,831
Due to financial institutions	-	-	47,457	-	47,457
Depositors' accounts	125,620	31,890	119,106	137,267	413,883
Other liabilities	-	-	24	2,513	2,537
	125,620	31,890	166,587	139,780	463,877

The Bank and its major shareholder jointly own a controlling stake in Abu Dhabi Islamic Bank – Egypt (S.A.E.) ("ADIB-Egypt") and have a formal joint control arrangement for their investment in ADIB-Egypt (note 20).

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

	Six months ended 30 June 2017 AED '000	*Six months ended 30 June 2016 AED '000*
Salaries and other benefits	**17,649**	16,152
Employees' end of service benefits	**1,781**	1,762
	19,430	17,914

34 RELATED PARTY TRANSACTIONS continued

In accordance with the Ministry of Economy and Commerce interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), Directors' remuneration is recognised in the consolidated statement of comprehensive income.

Board of Directors remuneration for the year ended 31 December 2016 amounting to AED 4,900 thousand has been paid to Board of Directors after the approval by the shareholders at the Annual General Assembly held on 2nd April 2017. During 2016, AED 4,200 thousand was paid to Board of Directors pertaining to the year ended 31 December 2015 after the approval by the shareholders in the Annual General Assembly held on 21 April 2016.

35 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.

Global 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.

Global 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.

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

Real estate – Subsidiaries 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, associates and joint ventures 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.

35 SEGMENT INFORMATION continued

	Global Retail banking AED '000	*Global Wholesale banking AED '000*	*Private banking AED '000*	*Treasury AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
30 June 2017 - unaudited							
Revenue and results							
Segment revenues, net	**1,685,834**	**680,165**	**68,053**	**265,101**	**48,829**	**34,116**	**2,782,098**
Operating expenses excluding provision for impairment, net	**(871,685)**	**(196,990)**	**(27,512)**	**(20,551)**	**(40,261)**	**(115,257)**	**(1,272,256)**
Operating profit (margin)	**814,149**	**483,175**	**40,541**	**244,550**	**8,568**	**(81,141)**	**1,509,842**
Provision for impairment, net	**(286,772)**	**(77,010)**	**(2,161)**	**-**	**-**	**(14,826)**	**(380,769)**
Profit (loss) for the period	**527,377**	**406,165**	**38,380**	**244,550**	**8,568**	**(95,967)**	**1,129,073**
Non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(834)**	**(834)**
Profit (loss) for the period attributable to equity holders of the Bank	**527,377**	**406,165**	**38,380**	**244,550**	**8,568**	**(96,801)**	**1,128,239**
Assets							
Segmental assets	**55,983,049**	**33,742,116**	**3,135,670**	**19,708,684**	**2,605,937**	**7,051,856**	**122,227,312**
Liabilities							
Segmental liabilities	**63,747,511**	**26,552,457**	**3,404,662**	**9,258,724**	**287,654**	**3,395,937**	**106,646,945**
30 June 2016 - unaudited							
Revenue and results							
Segment revenues, net	1,612,736	642,435	62,788	310,753	57,670	(14,115)	2,672,267
Operating expenses excluding provision for impairment, net	(857,223)	(190,544)	(28,188)	(21,164)	(41,163)	(94,311)	(1,232,593)
Operating profit (margin)	755,513	451,891	34,600	289,589	16,507	(108,426)	1,439,674
Provision for impairment, net	(309,510)	(172,747)	5,791	-	-	26,326	(450,140)
Profit (loss) for the period	446,003	279,144	40,391	289,589	16,507	(82,100)	989,534
Non-controlling interest	-	-	-	-	-	(797)	(797)
Profit (loss) for the period attributable to equity holders of the Bank	446,003	279,144	40,391	289,589	16,507	(82,897)	988,737
31 December 2016 - audited							
Assets							
Segmental assets	54,865,153	35,469,626	2,536,021	19,368,458	2,680,915	7,369,552	122,289,725
Liabilities							
Segmental liabilities	60,059,215	27,971,848	2,702,223	12,102,311	349,531	3,645,956	106,831,084

Geographical information

The Group operates in two principal geographic areas that are domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the U.A.E. branches, associates and subsidiaries; and international area represents the operations of the Bank that originates from its branches in Iraq, Qatar and Sudan and through its subsidiaries and associates outside U.A.E. Given that, UAE contributes the majority of the revenues and the Group's total assets in UAE represent a significant portion of its total assets and liabilities, hence no further geographical analysis of segment revenues, expenses, operating profit (margin), assets and liabilities is presented.

36 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 are disclosed in note 31 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*		*Investment in islamic sukuk measured at amortised cost*	
		Audited		*Audited*		*Audited*		*Audited*		*Audited*
	30 June 2017 AED '000	*31 December 2016 AED '000*	***30 June 2017 AED '000***	*31 December 2016 AED '000*	***30 June 2017 AED '000***	*31 December 2016 AED '000*	***30 June 2017 AED '000***	*31 December 2016 AED '000*	***30 June 2017 AED '000***	*31 December 2016 AED '000*
Individually impaired										
Substandard	-	-	-	-	**605,689**	691,864	**1,007,412**	559,457	-	-
Doubtful	-	-	-	-	**660,123**	556,356	**649,075**	671,012	-	12,802
Loss	-	-	-	64,929	**519,774**	483,614	**308,183**	277,741	**104,615**	91,813
Gross amount	-	-	-	64,929	**1,785,586**	1,731,834	**1,964,670**	1,508,210	**104,615**	104,615
Provision for individual impairment	-	-	-	(64,929)	**(892,453)**	(853,154)	**(381,446)**	(409,186)	**(104,615)**	(98,277)
	-	-	-	-	**893,133**	878,680	**1,583,224**	1,099,024	-	6,338
Past due but not impaired										
Less than 90 days	-	-	-	-	**383,413**	445,261	**169,134**	296,228	-	-
More than 90 days	-	-	-	-	**64,529**	102,073	**339,465**	353,044	-	-
	-	-	-	-	**447,942**	547,334	**508,599**	649,272	-	-
Neither past due nor impaired	**3,472,206**	4,246,158	**923,416**	1,762,781	**33,301,907**	35,888,687	**41,727,668**	41,043,848	**10,592,065**	9,056,976
Collective allowance for impairment	-	-	-	-	**(836,964)**	(968,615)	**(867,456)**	(927,708)	-	-
Carrying amount	**3,472,206**	4,246,158	**923,416**	1,762,781	**33,806,018**	36,346,086	**42,952,035**	41,864,436	**10,592,065**	9,063,314

37 CAPITAL ADEQUACY RATIO

The table below summarises the composition of regulatory capital and the ratios of the Group for the period and year ended 30 June 2017 and 31 December 2016 respectively. During those two periods, the Group has complied with all of the externally imposed capital requirements to which it is subject to:

	Basel II	
	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
Tier 1 capital		
Share capital	**3,168,000**	3,168,000
Legal reserve	**2,085,788**	2,085,788
General reserve	**1,472,760**	1,472,760
Credit risk reserve	**400,000**	400,000
Retained earnings	**3,404,163**	2,469,256
Proposed dividends	**-**	776,782
Proposed dividends to charity	**-**	30,000
Foreign currency translation reserve	**(719,683)**	(711,172)
Tier 1 sukuk	**5,672,500**	5,672,500
Non-controlling interest	**10,926**	10,842
	15,494,454	15,374,756
Goodwill and intangibles	**(392,944)**	(420,136)
Deductions for Tier 1 capital	**(386,242)**	(376,770)
Total Tier 1	**14,715,268**	14,577,850
Tier 2 capital		
Cumulative changes in fair value and hedging reserve	**(106,787)**	(108,815)
Collective impairment provision for financing assets	**1,085,653**	1,119,311
	978,866	1,010,496
Deductions for Tier 2 capital	**(386,242)**	(376,771)
Total Tier 2	**592,624**	633,725
Total capital base	**15,307,892**	15,211,575
Risk weighted assets		
Credit risk	**86,852,244**	89,544,880
Market risk	**1,983,673**	1,802,581
Operational risk	**9,259,729**	8,402,813
Total risk weighted assets	**98,095,646**	99,750,274
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**15.61%**	15.25%
Tier 1 capital expressed as a percentage of total risk weighted assets	**15.00%**	14.61%

38 DIVIDENDS

Cash dividend of 24.52% of the paid up capital relating to year ended 31 December 2016 amounting to AED 776,782 thousand was paid to the shareholders after the approval by the shareholders in the Annual General Assembly held on 2nd April 2017.

Cash dividend of 24.27% of the paid up capital amounting to AED 769,022 thousand relating to the year ended 31 December 2015 was paid to the shareholders after the approval by the shareholders in the Annual General Assembly held on 21 April 2016.

39 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.

40 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurement recognized in the interim consolidated statement of financial position
The Group uses the following hierarchy for determining and disclosing the fair value of financial instrument by valuation technique:

Level 1: quoted (unadjusted prices in active markets for identical assets or liabilities).

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

40 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Fair value measurement recognized in the interim consolidated statement of financial position continued
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable.

	Level 1 AED '000	*Level 2 AED '000*	*Level 3 AED '000*	*Total AED '000*
30 June 2017 - unaudited				
Assets and liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit or loss				
Quoted investments				
Sukuk	**1,951,749**	**-**	**-**	**1,951,749**
	1,951,749	**-**	**-**	**1,951,749**
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	**570**	**-**	**-**	**570**
Unquoted investments				
Funds	-	-	**54,559**	**54,559**
Private equities	**-**	**-**	**93,051**	**93,051**
	-	**-**	**147,610**	**147,610**
	570	**-**	**147,610**	**148,180**
Shari'a compliant alternatives of swap (note 23)	**-**	**304**	**-**	**304**
Assets for which fair values are disclosed:				
Investment properties	**-**	**-**	**1,588,672**	**1,588,672**
Investment carried at amortised cost- Sukuk	**10,520,543**	**-**	**273,000**	**10,793,543**
31 December 2016 - audited				
Assets and liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit or loss				
Equities	244	-	-	244
Sukuk	1,263,230	-	-	1,263,230
	1,263,474	-	-	1,263,474
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	756	-	-	756
Unquoted investments				
Funds	-	-	52,088	52,088
Private equities	-	-	80,610	80,610
	-	-	132,698	132,698
	756	-	132,698	133,454
Financial liabilities				
Shari'a compliant alternatives of swap (note 27)	-	1,645	-	1,645
Assets for which fair values are disclosed:				
Investment properties	-	-	1,595,972	1,595,972
Investment carried at amortised cost- Sukuk	8,944,315	-	282,000	9,226,315

There were no transfers between level 1, 2 and 3 during the current period and in the prior year.

40 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The following table shows a reconciliation of the opening and closing amount of level 3 of financial assets which are recorded at fair value:

	30 June 2017 AED '000	*Audited 31 December 2016 AED '000*
At the beginning of the period	**132,698**	182,857
Net additions (disposals)	**15,089**	(37,860)
Loss recorded in equity	**(177)**	(12,299)
At the end of the period	**147,610**	132,698

Abu Dhabi Islamic Bank PJSC

REPORT OF THE BOARD OF DIRECTORS AND
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2017

Contents | ***Page***

Abu Dhabi Islamic Bank PJSC

REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2017

BOARD OF DIRECTORS' REPORT
Year ended 31 December 2017

The Board of Directors have pleasure in submitting their report together with the consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries (collectively known as the "the Group") for the year ended 31 December 2017.

Incorporation and registered office
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 and applicable requirements of the laws of the UAE and the Amiri Decree No. 9 of 1997.

Principal activity
The activities of the Bank are conducted in accordance with Islamic Shari'a, which prohibits usury as determined by the Fatwa and Shari'a Supervisory Board of the Bank, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

Basis of preparation of consolidated financial statements
The 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 the laws of the UAE.

Financial commentary
The Group net profit reached a record AED 2,300.1 million (2016: AED 1,953.6 million) for 2017 up 17.7%. The financial highlights of the full year results are as follows:

- Group net revenue (total operating income net of distribution to depositors and sukuk holders) for 2017 was AED 5,632.3 million (2016: AED 5,385.5 million) increased by 4.6%.
- Group operating profit ("margin") for 2017 increased by 6.3% to reach at AED 3,123.1 million (2016: AED 2,937.6 million).
- Total provisions for impairment for 2017 were AED 790.4 million (2016: AED 970.0 million).
- Group net profit for 2017 was AED 2,300.1 million (2016: AED 1,953.6 million) up 17.7%.
- Group earnings per share increased to AED 0.627 compared to AED 0.520 in 2016.
- Total assets as of 31 December 2017 were AED 123.3 billion (2016: AED 122.3 billion).
- Net customer financing (murabaha, ijara and other Islamic financing) as of 31 December 2017 was AED 76.5 billion (2016: AED 78.2 billion).
- Customer deposits as of 31 December 2017 were AED 100.0 billion (2016: AED 98.8 billion).

Dividends and proposed appropriations
The Board of Directors have recommended a cash dividend of 39.76% and the following appropriations from retained earnings:

	AED '000
▸ Transfer to general reserves	(221,726)
▸ Proposed dividends to charity for the year ended 31 December 2017	(29,230)
▸ Proposed cash dividend to shareholders for the year ended 31 December 2017	(914,530)
▸ Profit paid on Tier 1 sukuk – Listed during the year	(234,158)
▸ Profit paid on Tier 1 sukuk – Government of Abu Dhabi during the year	(79,419)

BOARD OF DIRECTORS' REPORT continued
Year ended 31 December 2017

Board of Directors
The directors during the year were as follows:

1.	H.E. Jawaan Awaidha Suhail Al Khaili	Chairman
2.	Khamis Mohamed Buharoon	Vice Chairman & Acting Chief Executive Officer
3.	Juma Khamis Mugheer Al Khaili	Board Member
4.	Ragheed Najeeb Shanti	Board Member
5.	Dr. Sami Ali Al Amri	Board Member
6.	Abdulla Bin Aqeeda Al Muhairi	Board Member
7.	Khalifa Matar Al Mheiri	Board Member

On behalf of the Board of Directors
H.E. Jawaan Awaidha Suhail Al Khaili
Chairman

04 February 2018
Abu Dhabi

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

EY
Building a better working world

Ernst & Young
P.O. Box: 136
27th Floor, Nation Tower 2
Abu Dhabi Corniche
Abu Dhabi, United Arab Emirates

Tel: +971 2 417 4400
Fax: +971 2 627 3383
abudhabi@ae.ey.com
ey.com/mena

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI ISLAMIC BANK PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Abu Dhabi Islamic Bank PJSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRS').

Basis of our opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Building a better
working world

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI ISLAMIC BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Provision for impairment of financing assets
Financing assets comprise Murabaha and other Islamic financing, and Ijara financing. Provision of impairment of financing assets is an area that requires management of the Group to make complex and significant judgments. Such areas of judgment include the identification of exposures, which are considered to be impaired, assessment of the recoverable amount of the financing asset and the size of the impairment loss to be recorded. We have therefore identified provisions for impairment of financing assets to be a key audit matter. At 31 December 2017, gross financing assets amounted to AED 79,749,995 thousand against which provisions for impairment amounting to AED 3,220,361 thousand were recorded (see Notes 17 & 18 to the consolidated financial statements).

The Group reviews its financing assets on a regular basis to assess whether a provision for impairment should be recorded. Judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment provision. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. In addition, the Bank also makes collective impairment provisions against portfolios of financing assets with common features, which have not been identified as individually impaired. This collective provision is based on any deterioration in the internal rating of the asset since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

We assessed and tested the design and operating effectiveness of key controls over the Group's credit management and monitoring procedures. In addition, we performed substantive audit procedures covering the identification by the Bank of impaired financing assets and the calculation of the impairment provisions. Such procedures included reviewing the minutes of key meetings held that form part of the approval for provisions of impairment of financing assets, past due reports and impairment assessments prepared by management of the Bank. In addition, for a sample of individual receivables from customer financing, we performed a review of these exposures and evaluated management's assessment of the recoverable amount.

For the collective impairment provisions, we obtained an understanding of the methodology used by the Group to determine the collective impairment provisions, assessed the underlying assumptions and the sufficiency of the data used by management, and reviewed the management assessment of the level of collective provisions as of 31 December 2017.

Other information
Other information consists of the information included in the Annual Report and Board of Directors report, other than the consolidated financial statements and our auditor's report thereon. We obtained the Board of Directors Report prior to the date of our audit report, and we expect to obtain the other sections of the Annual Report after the date of our auditor's opinion. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Building a better working world

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI ISLAMIC BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Responsibilities of management and those charged with governance for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Building a better
working world

Report on the Audit of the Consolidated Financial Statements continued

Auditor's responsibilities for the audit of the consolidated financial statements continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Building a better
working world

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI ISLAMIC BANK PJSC continued

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

(i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;

(ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015, and the Memorandum and Articles of Association of the Bank;

(iii) the Group has maintained proper books of account;

(iv) the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;

(v) investments in shares and stocks are included in note 20 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2017;

(vi) note 40 reflects material related party transactions and the terms under which they were conducted;

(vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2017, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would have a material impact on its activities or its consolidated financial position as at 31 December 2017; and

(viii) note 44 reflects the social contributions made during the year.

Signed by:
Raed Ahmad
Partner
Ernst & Young
Registration No. 811

4 February 2018
Abu Dhabi

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2017

	Notes	*2017* *AED '000*	*2016* *AED '000*
OPERATING INCOME			
Income from murabaha, mudaraba and wakala with financial institutions		**60,068**	40,087
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	5	**4,291,541**	4,488,747
Income from Islamic sukuk measured at amortised cost		**398,844**	332,033
Income from investments measured at fair value	6	**82,158**	74,025
Share of results of associates and joint ventures		**28,580**	35,233
Fees and commission income, net	7	**1,030,268**	840,415
Foreign exchange income		**270,292**	139,162
Income from investment properties	8	**36,397**	27,236
Other income		**16,146**	16,378
		6,214,294	5,993,316
OPERATING EXPENSES			
Employees' costs	9	**(1,446,329)**	(1,436,880)
General and administrative expenses	10	**(840,145)**	(770,393)
Depreciation	22 & 25	**(167,901)**	(185,850)
Amortisation of intangibles	26	**(54,793)**	(54,756)
Provision for impairment, net	11	**(790,360)**	(969,965)
		(3,299,528)	(3,417,844)
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS		**2,914,766**	2,575,472
Distribution to depositors and sukuk holders	12	**(581,982)**	(607,793)
PROFIT FOR THE YEAR BEFORE ZAKAT AND TAX		**2,332,784**	1,967,679
Zakat and tax		**(32,661)**	(14,121)
PROFIT FOR THE YEAR AFTER ZAKAT AND TAX		**2,300,123**	1,953,558
Attributable to:			
Equity holders of the Bank		**2,298,754**	1,952,264
Non-controlling interest		**1,369**	1,294
		2,300,123	1,953,558
Basic and diluted earnings per share attributable to ordinary shares (AED)	13	**0.627**	0.520

The attached notes 1 to 44 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2017

	Notes	**2017** **AED '000**	2016 AED '000
PROFIT FOR THE YEAR AFTER ZAKAT AND TAX		**2,300,123**	1,953,558
Other comprehensive loss			
Items that will not be reclassified to consolidated income statement			
Net gain (loss) on valuation of investments carried at fair value through other comprehensive income	33	**1,634**	(16,783)
Surplus on revaluation of land	33	**-**	49,700
Directors' remuneration paid	40	**(4,900)**	(4,200)
Items that may subsequently be reclassified to consolidated income statement			
Exchange differences arising on translation of foreign operations	33	**(24,060)**	(571,244)
(Loss) gain on hedge of foreign operations	33	**(34,008)**	55,693
Fair value (loss) gain on cash flow hedges	33	**(3,157)**	9,933
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(64,491)**	(476,901)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,235,632**	1,476,657
Attributable to:			
Equity holders of the Bank		**2,234,263**	1,475,363
Non-controlling interest		**1,369**	1,294
		2,235,632	1,476,657

The attached notes 1 to 44 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	Notes	*2017* *AED '000*	*2016* *AED '000*
ASSETS			
Cash and balances with central banks	14	**21,467,205**	19,778,339
Balances and wakala deposits with Islamic banks and other financial institutions	15	**2,765,903**	4,246,158
Murabaha and mudaraba with financial institutions	16	**2,125,249**	1,762,781
Murabaha and other Islamic financing	17	**33,249,315**	36,346,086
Ijara financing	18	**43,280,319**	41,864,436
Investment in Islamic sukuk measured at amortised cost	19	**10,052,028**	9,063,314
Investments measured at fair value	20	**1,526,490**	1,396,928
Investment in associates and joint ventures	21	**988,788**	753,541
Investment properties	22	**1,093,383**	1,207,991
Development properties	23	**837,381**	837,381
Other assets	24	**3,463,518**	2,695,667
Property and equipment	25	**2,062,677**	1,916,967
Goodwill and intangibles	26	**365,343**	420,136
TOTAL ASSETS		**123,277,599**	122,289,725
LIABILITIES			
Due to financial institutions	27	**3,688,558**	5,154,215
Depositors' accounts	28	**100,003,619**	98,813,752
Other liabilities	29	**3,012,258**	2,863,117
Total liabilities		**106,704,435**	106,831,084
EQUITY			
Share capital	30	**3,168,000**	3,168,000
Legal reserve	31	**2,102,465**	2,102,465
General reserve	31	**1,716,447**	1,494,721
Credit risk reserve	31	**400,000**	400,000
Retained earnings		**3,301,713**	2,487,099
Proposed dividend	32	**914,530**	776,782
Proposed dividend to charity		**29,230**	30,000
Other reserves	33	**(743,182)**	(683,768)
Tier 1 sukuk	34	**5,672,500**	5,672,500
Equity attributable to the equity and Tier 1 sukuk holders of the Bank		**16,561,703**	15,447,799
Non-controlling interest	35	**11,461**	10,842
Total equity		**16,573,164**	15,458,641
TOTAL LIABILITIES AND EQUITY		**123,277,599**	122,289,725
CONTINGENT LIABILITIES AND COMMITMENTS	36	**12,635,809**	12,484,075

H.E. Jawaan Awaidha Suhail Al Khaili
Chairman

Khamis Mohamed Buharoon
Vice Chairman &
Acting Chief Executive Officer

The attached notes 1 to 44 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2017

		Attributable to the equity and Tier 1 sukuk holders of the Bank											
	Notes	*Share capital AED '000*	*Legal reserve AED '000*	*General reserve AED '000*	*Credit risk reserve AED '000*	*Retained earnings AED '000*	*Proposed dividend AED '000*	*Proposed dividend to charity AED '000*	*Other reserves AED '000*	*Tier 1 sukuk AED '000*	*Total AED '000*	*Non-controlling interest AED '000*	*Total equity AED '000*
Balance at 1 January 2016		3,168,000	2,102,465	1,293,820	400,000	1,858,899	769,022	20,000	(219,557)	5,672,034	15,064,683	10,548	15,075,231
Profit for the year		-	-	-	-	1,952,264	-	-	-	-	1,952,264	1,294	1,953,558
Other comprehensive loss		-	-	-	-	(4,200)	-	-	(472,701)	-	(476,901)	-	(476,901)
Loss on disposal of investments carried at fair value through other comprehensive income	33	-	-	-	-	(8,490)	-	-	8,490	-	-	-	-
Profit paid on Tier 1 sukuk – Listed	34	-	-	-	-	(234,158)	-	-	-	-	(234,158)	-	(234,158)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	34	-	-	-	-	(69,533)	-	-	-	-	(69,533)	-	(69,533)
Movement in Tier 1 sukuk - Listed		-	-	-	-	-	-	-	-	466	466	-	466
Dividends paid	32	-	-	-	-	-	(769,022)	-	-	-	(769,022)	(1,000)	(770,022)
Dividends paid to charity		-	-	-	-	-	-	(20,000)	-	-	(20,000)	-	(20,000)
Transfer to reserves	31	-	-	200,901	-	(200,901)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	-	(30,000)	-	30,000	-	-	-	-	-
Proposed cash dividend to shareholders	32	-	-	-	-	(776,782)	776,782	-	-	-	-	-	-
Balance at 1 January 2017		3,168,000	2,102,465	1,494,721	400,000	2,487,099	776,782	30,000	(683,768)	5,672,500	15,447,799	10,842	15,458,641
Profit for the year		-	-	-	-	2,298,754	-	-	-	-	2,298,754	1,369	2,300,123
Other comprehensive loss		-	-	-	-	(4,900)	-	-	(59,591)	-	(64,491)	-	(64,491)
Loss on disposal of investments carried at fair value through other comprehensive income	33	-	-	-	-	(177)	-	-	177	-	-	-	-
Profit paid on Tier 1 sukuk – Listed	34	-	-	-	-	(234,158)	-	-	-	-	(234,158)	-	(234,158)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	34	-	-	-	-	(79,419)	-	-	-	-	(79,419)	-	(79,419)
Dividends paid	32	-	-	-	-	-	(776,782)	-	-	-	(776,782)	(750)	(777,532)
Dividends paid to charity		-	-	-	-	-	-	(30,000)	-	-	(30,000)	-	(30,000)
Transfer to reserves	31	-	-	221,726	-	(221,726)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	-	(29,230)	-	29,230	-	-	-	-	-
Proposed cash dividend to shareholders	32	-	-	-	-	(914,530)	914,530	-	-	-	-	-	-
Balance at 31 December 2017		**3,168,000**	**2,102,465**	**1,716,447**	**400,000**	**3,301,713**	**914,530**	**29,230**	**(743,182)**	**5,672,500**	**16,561,703**	**11,461**	**16,573,164**

The attached notes 1 to 44 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2017

	Notes	*2017* *AED '000*	*2016* *AED '000*
OPERATING ACTIVITIES			
Profit for the year		**2,300,123**	1,953,558
Adjustments for:			
Depreciation on investment properties	22	**9,345**	11,749
Depreciation on property and equipment	25	**158,556**	174,101
Amortisation of intangibles	26	**54,793**	54,756
Share of results of associates and joint ventures		**(28,580)**	(35,233)
Dividend income	6	**(3,149)**	(868)
Realised loss (gain) on investments carried at fair value through profit or loss	6	**13,439**	(23,860)
Unrealised (gain) loss on investments carried at fair value through profit or loss	6	**(30,144)**	4,858
Gain on disposal of property and equipment		**(175)**	(214)
Provision for impairment, net	11	**790,360**	969,965
Gain on sale of investment properties	8	**(23,182)**	(10,497)
Operating profit before changes in operating assets and liabilities		**3,241,386**	3,098,315
Decrease (increase) in balances with central banks		**95,841**	(1,719,748)
Decrease (increase) in balances and wakala deposits with Islamic banks and other financial institutions		**1,590,196**	(1,442,747)
Decrease (increase) in murabaha and mudaraba with financial institutions		**285,472**	(240,815)
Decrease in murabaha and other Islamic financing		**2,435,443**	1,297,212
Increase in ijara financing		**(1,520,449)**	(2,074,916)
Purchase of investments carried at fair value through profit or loss		**(10,301,488)**	(10,507,194)
Proceeds from sale of investments carried at fair value through profit or loss		**10,204,176**	10,532,578
(Increase) decrease in other assets		**(881,851)**	59,371
(Decrease) increase in due to financial institutions		**(65,294)**	87,410
Increase in depositors' accounts		**1,180,840**	3,889,613
Increase (decrease) in other liabilities		**54,447**	(567,752)
Cash from operations		**6,318,719**	2,411,327
Directors' remuneration paid	40	**(4,900)**	(4,200)
Net cash from operating activities		**6,313,819**	2,407,127
INVESTING ACTIVITIES			
Dividend received	6	**3,149**	868
Net movement in investments carried at fair value through other comprehensive income		**(13,911)**	33,466
Net movement in investments carried at amortised cost		**(995,052)**	(1,780,905)
Dividends received from an associate		**6,667**	6,667
Additions in investment in associates and joint ventures		**-**	(17,395)
Proceeds from sale of investment properties		**27,846**	26,382
Purchase of property and equipment	25	**(304,915)**	(301,620)
Proceeds from disposal of property and equipment		**483**	267
Net cash used in investing activities		**(1,275,733)**	(2,032,270)
FINANCING ACTIVITIES			
Profit paid on Tier 1 sukuk – Listed	34	**(234,158)**	(234,158)
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	34	**(79,419)**	(69,533)
Proceeds from own Tier 1 sukuk – Listed		**-**	466
Repurchase of sukuk assets – third issue		**-**	(1,836,250)
Dividends paid		**(781,558)**	(774,057)
Net cash used in financing activities		**(1,095,135)**	(2,913,532)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**3,942,951**	(2,538,675)
Cash and cash equivalents at 1 January		**6,945,518**	9,484,193
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	39	**10,888,469**	6,945,518

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:

Profit received		**4,859,943**	4,727,121
Profit paid to depositors and sukuk holders		**471,378**	501,556

The attached notes 1 to 44 form part of these 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 Federal Law No. 2 of 2015, concerning Commercial Companies has replaced the existing Federal Law No. 8 of 1984.

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 as determined by the Fatwa and Shari'a Supervisory Board of the Bank, 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 81 branches in UAE (2016: 86 branches) and 3 overseas branches in Iraq, Qatar and Sudan and subsidiaries in the UAE and the United Kingdom. The consolidated financial statements combine the activities of the Bank's head office, its branches and subsidiaries.

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

The consolidated financial statements of the Group were authorised for issue by the Board of Directors on 4 February 2018.

2 DEFINITIONS

The following terms are used in the 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 that consists of the purchase 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 that 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 that enables the borrower to use the borrowed amount for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

2 DEFINITIONS continued

Musharaka
A contract between the Group and a customer to entering 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.

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 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 the laws of the UAE.

3.1 (b) Accounting convention
The 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, Shari'a compliant alternatives of derivative financial instruments which have been measured at fair value and land, held as property and equipment, which has been carried at revalued amount.

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

	Activity	*Country of incorporation*	*Percentage of holding* ***2017***	*2016*
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%
MPM Properties LLC	Real estate services	United Arab Emirates	**100%**	100%
ADIB Invest 1	Equity brokerage services	BVI	**100%**	100%
Kawader Services LLC	Manpower supply	United Arab Emirates	**100%**	100%
ADIB (UK) Limited	Islamic banking	United Kingdom	**100%**	100%
ADIB Holdings (Jersey) Ltd*	Special purpose vehicle	British Channel Islands	-	-
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Sukuk Company II Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 1 Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 2 Ltd*	Special purpose vehicle	Cayman Island	-	-

*The Bank does not have any direct holding in these entities and they are considered to be a subsidiary by virtue of control.

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

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

3.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except as noted below.

During the year the Group has adopted the following new standards / amendments to the standards effective for the annual period beginning on or after 1 January 2017:

IAS 7: Statement of Cash Flows (Amendment) was issued in January 2016 with the intention to improve disclosers of financing activities and help users to better understand reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their liabilities as a result of financing activities such as changes from cash flows and non-cash items. The amendment does not impact the consolidated financial statements of the Group.

IAS 12: Income Taxes (Amendment) was issued In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of Sukuk measured at fair value for accounting, but measured at cost for tax purposes. The amendment does not impact the consolidated financial statements of the Group.

3 BASIS OF PREPARATION continued

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 15: Revenue from Contracts with Customers was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is in the process of assessing the impact of the new standard on its consolidated financial statements.

Interpretation 22 – Foreign Currency Transactions and Advance Consideration the interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts. For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration.

If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt. Entities can choose to apply the interpretation retrospectively for each period presented or prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or prospectively from the beginning of a prior reporting period presented as comparative information. An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2018. The Group is in the process of assessing the impact of the new standard on its consolidated financial statements.

IFRS 16: Leases was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, it substantially carries forward the requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of this Standard." The Group is in the process of assessing the impact of IFRS 16 on its consolidated financial statements.

3 BASIS OF PREPARATION continued

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

IFRS 9 Financial Instruments: In July 2014, the IASB issued IFRS 9 Financial Instruments (“IFRS 9”), which replaces IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 addresses all aspects of financial instruments including classification and measurement, impairment and hedge accounting.

(a) Classification and measurement: The standard requires the Group to consider two criteria when determining the measurement basis for sukuk instruments (e.g. financing, sukuk) held as financial assets:

(i) its business model for managing those financial assets; and
(ii) cash flow characteristics of the assets.

Based on these criteria, sukuk instruments are measured at amortized cost, fair value through OCI, or fair value through profit or loss.

Equity instruments are measured at fair value through profit or loss. However, the Group may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as fair value through OCI, with no subsequent recycling to profit and loss, while recognizing dividend income in profit and loss.

In addition, the Group may, at initial recognition, irrevocably elect to designate a financial asset as fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. This designation is also available to existing financial assets.

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

Effective 1 January 2011, the Group early adopted IFRS 9 ‘Financial Instruments’ in line with the transitional provisions of IFRS 9.

(b) Impairment: The standard introduces a new single model for the measurement of impairment losses on all financial assets including financing and sukuk measured at amortized cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current “incurred loss” model of IAS 39. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

Stage 1: 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months and Loss Given Default (LGD).

Stage 2: Under Stage 2, where there has been a SICR since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the lifetime ECL will be recorded which is computed using lifetime PD, LGD and Exposure at Default (EAD) measures. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3: Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

3 BASIS OF PREPARATION continued

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

Key Considerations: Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk: The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes.

Our assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

(i) We have established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition as well as PD thresholds.
(ii) Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
(iii) IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit impaired as at the reporting date. The determination of credit impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios: The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios.

Our Base-case, Upside and Downside scenarios, will be based on macroeconomic forecasts received from an external reputable source. These scenarios will be updated on a quarterly basis and more frequently if conditions warrant.

All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

Definition of default: The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

3 BASIS OF PREPARATION continued

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

Expected Life: When measuring ECL, the Group considers the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Governance: We have established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance and Risk Management and will be responsible for reviewing and approving key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in our financial statements.

(c) Hedging: IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9.

(d) Transition impact: In line with the IFRS 9 transition provisions, the Group has elected to record an adjustment to its opening 1 January 2018 retained earnings to reflect the application of the new requirements of Impairment, Classification and Measurement at the adoption date without restating comparative information.

For classification and measurement, the combined application of the contractual cash flow characteristics and business model tests as at January 1, 2018 is expected to result in certain differences in the classification of financial assets when compared to our current classification under IAS 39. Based on the assessment performed by the Group, these differences are not expected to have a material impact on the classification of Group's financial assets nor their carrying value.

The existing hedging relationships will continue to qualify and be effective under the IFRS 9 hedge accounting provisions and will not have any transition impact on the Group financial statements.

With regards to the impairment requirements of IFRS 9, the Group has estimated the transition impact including the ECL on those financial assets (such as Cash and balances with central banks, balances and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, acceptances and off balance sheet items) which were not considered under the incurred loss model in IAS 39. The combined impact of the IFRS 9 transitional adjustments is not expected to have material impact on Equity.

The Group continues to refine the impairment models and related processes leading up to March 31, 2018 reporting.

(e) Financial instruments: disclosures (IFRS 7): The Group will be amending the disclosures for 2018 to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements in conformity with the International Financial Reporting Standards requires management to make judgments, 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 years. Estimates and judgments are currently evaluated and are based on historical experience and other factors. 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.

Going concern
The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Impairment losses on financing assets and investments carried at amortised cost
The Group reviews its financing assets and investments carried at amortised cost on a regular basis to assess whether a provision for impairment should be recorded in the consolidated financial statement in relation to any non-performing assets. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment provision. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on financing assets
In addition to specific provisions against individually impaired financing assets, the Bank also makes collective impairment provisions against portfolio of financing assets with common features which have not been identified as individually impaired. This collective provision is based on any deterioration in the internal rating of the asset or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of probability of occurrence of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

Operating lease commitments - Group as lessor
The Group has entered into commercial property lease arrangements on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties therefore, accounts for the contracts as operating leases.

Classification and measurement of financial assets
The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. The Group's investments in securities are appropriately classified and measured.

Investment and development properties
The Group hired services of professional real estate valuer to provide reliable estimates of the market value of investment properties for determining the fair values as of the reporting date, for disclosure purposes and assessing the impairment, if any. The basis of estimate and method used by the valuer has been disclosed in the note 23.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position that cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

Classification of properties
In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, development property or property and equipment. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, development property and property and equipment. In making its judgment, management considers the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, in particular, the intended usage of property as determined by the management.

Impairment of investments in associates and joint ventures
Management regularly reviews its investment in associates and joint venture for indicators of impairment. This determination of whether investments in associates is impaired, entails management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. If managements' review results in impairment, the difference between the estimated recoverable amount and the carrying value of investment in associates and joint venture is recognised as an expense in the consolidated income statement.

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

Impairment review of investment properties, development properties and advances paid against purchase of properties
Investment properties, development properties and advances paid against purchase of properties are assessed for impairment based on assessment of cash flows on individual cash-generating units when there is indication that those assets have suffered an impairment loss. Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets and discounted using a range of discount rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any impairment.

The assessment of current market conditions, including cost of project completion, future rental and occupancy rates and assessment of the projects capital structure and discount rates requires management to exercise its judgment. Management uses internal and external experts to exercise this judgment.

Impairment of goodwill
On an annual basis, the Group determines whether goodwill is impaired. This requires an estimation of the recoverable amount using value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful life of 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.

Business combinations
Accounting for the acquisition of a business requires the allocation of the purchase price to the various assets and liabilities of the acquired business. For most assets and liabilities, the purchase price allocation is accomplished by recording the asset or liability at its estimated fair value. Determining the fair value of assets acquired and liabilities assumed requires estimation by management and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, the useful lives of intangibles other assets and market multiples. The Group's management uses all available information to make these fair value determinations. The Group has, if necessary, up to one year after acquisition closing date to complete these fair value determinations and finalise the purchase price allocation.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition
Murabaha
Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Istisna'a
Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the Bank's total Istisna'a cost) is accounted for on a time apportioned basis.

Ijara
Ijara income is recognised on a time apportioned basis over the lease term.

Musharaka
Income is accounted for on the basis of the reducing balance of Musharaka on a time apportioned basis that reflects the effective yield on the asset.

Mudaraba
Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to the Bank's consolidated income statement on their declaration by the Mudarib.

Sukuk
Income is accounted for on a time apportioned basis over the terms of the Sukuk.

Sale of properties
Revenue on sale of properties is recognised as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property; and
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Revenue on sale of units or apartments is deferred until completion of construction works and when delivery to the buyer takes place.

Fee and commission income
Fee and commission income is recognised when the related services are performed.

Operating lease income
Operating lease income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued
Gain on sale of investments
Gain or loss on disposal of fair value through profit or loss investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs and is recognised through consolidated income statement.

Gain or loss on disposal of fair value through other comprehensive income investments represents the difference between sale proceeds and their original cost less associated selling costs and is recognised through consolidated statement of comprehensive income and are included within cumulative changes in fair value reserve within equity and not recognised in the consolidated income statement.

Dividends
Dividends from investments in equities are recognised when the right to receive the dividend is established.

Cost of sale of properties
Cost of sale of properties includes the cost of development. Development costs include the cost of infrastructure and construction.

Cost of sale of land represents the carrying amount at which it is recorded in the consolidated financial statements of the Group.

Financial instruments
Recognition and measurement
Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group are further analysed as:

- Customer financing;
- Balances and wakala deposits with Islamic banks and other financial institutions;
- Murabaha and mudaraba with financial institutions;
- Investment in sukuk;
- Investment in equity instruments;
- Trade and other receivables; and
- Sharia compliant alternatives of derivatives.

The Group’s customer financing comprise the following:

- Murabaha and other Islamic financing; and
- Ijara financing.

Effective 1 January 2011, the Group early adopted classification and measurement principles of IFRS 9 ‘Financial Instruments’ in issue at that time in line with the transitional provisions of IFRS 9.

Financial assets are classified in their entirety on the basis of the Group’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued
Classification
Financial assets at amortised cost
Murahaba and other Islamic financing and Ijara financing i.e. customer financing and investment in sukuk, 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.

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.

Other financial assets that do not meet the amortised cost criteria are classified as FVTPL. In addition, certain financial assets that meet the amortised cost criteria but at initial recognition are designated as FVTPL in line with the business model of the Group. A financial asset 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.

Financial asset are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financial assets 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.

A financial asset is FVTPL if:
- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is 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 Shari'a compliant alternatives of derivative financial instruments and not designated and effective as a hedging instrument or a financial guarantee.

Measurement
Financial assets or financial liabilities carried at amortised cost
Financial assets at amortised cost including customer financing and investment in sukuk 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.

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued
Measurement continued
Financial assets or financial liabilities carried at amortised cost continued
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 (which excludes deferred income or expected profits) less provisions for impairment.

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 (which excludes deferred income) less any provisions for impairment.

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.

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. Financial assets measured at FVTOCI are not required to be tested for impairment.

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

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 market transactions

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued
Measurement continued
(i) Recognition / De-recognition
The Group initially recognises financial assets at fair value through profit or loss, financial assets at amortised cost and financial assets at fair value through other comprehensive income on the settlement 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 disbursed. A financial liability is recognised on the date the Group becomes a party to contractual provisions of the instrument.

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, and financial assets at fair value through other comprehensive income 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.

(ii) 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 and under Sharia'a framework 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.

(iii) 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. Change in the impairment allowances 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.

Renegotiated financing facilities
Where possible, the Bank seeks to restructure financing facilities rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Once the terms have been renegotiated, any impairment is measured using the original effective profit rate as calculated before the modification of terms and the financing facility is no longer considered past due. Management continually reviews renegotiated facilities to ensure that all future payments are highly expected to occur. The financing facility continue to be subject to an individual or collective impairment assessment, calculated using the financing facilities' original effective profit rate.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, to the extent it is possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data such as market transactions, rental yields and audited financial statements.

Impairment of non-financial assets
The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Fair value measurements
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic benefit.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs (note 43).

Business combinations
Acquisitions of businesses are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Bank, liabilities incurred by the Bank to the former owners of the acquiree and the cash and equity interests issued by the Bank in exchange for control of the acquiree. Acquisition related costs are recognised in consolidated income statement as incurred.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Business combinations continued
At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated income statements as gain on acquiring controlling interest.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Bank in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognised in consolidated income statement.

When a business combination is achieved in stages, the Bank's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Bank obtains control) and the resulting gain or loss, if any, is recognised in consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated income statement where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Bank reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets acquired in a business combination
Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date which is regarded as their cost. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The rates of amortisation are based upon the following estimated useful lives:

- Customer relationship 8 years
- Core deposit intangible 8 years

Goodwill
Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Bank's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units which are expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investment in associates
The Group's investment in associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and that is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The consolidated income statement reflects the share of the results of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Investment in joint ventures
The Group has investment in joint ventures, which are jointly controlled entities, whereby venturers have a contractual arrangement that establishes joint control over the economic activities of the entities. The Group's investment in joint ventures is accounted for using the equity method of accounting.

Under the equity method, the investment in the joint ventures is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture. The consolidated income statement reflects the share of the results of the joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The financial statements of the ventures are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the consolidated income statement.

Investment properties
Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the assets' estimated useful lives. The useful life of buildings is estimated to be 25 years.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated income statement.

Development properties
Properties in the course of construction for sale or completed properties held for sale are classified as development properties. Completed properties held for sale are stated at the lower of cost or net realizable value. Properties in the course of development for sale are stated at lower of cost or net realizable value. The cost of development properties includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

The property is considered to be complete when all related activities, including the infrastructure and facilities for the entire project, have been completed.

Property and equipment
Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Land is recorded at revalued amount in the consolidated financial statements.

Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment, other than freehold land which is deemed to have an indefinite life. The rates of depreciation are based upon the following estimated useful lives:

• Buildings	25 - 40 years
• Furniture and leasehold improvements	3 - 7 years
• Computer and office equipment	3 - 4 years
• Motor vehicles	4 years

4 SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment continued
The carrying values of properties and equipments are reviewed for impairment when events of changes in circumstances indicate the carrying value may not be recoverable. If any such conditions exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Any subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in the consolidated income statement as the expense is incurred.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the consolidated income statement in the year the asset is derecognized.

Capital work-in-progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated.

When an asset is revalued, any increase in the carrying amount arising on revaluation is recorded through other comprehensive income and credited to the revaluation reserve in equity, except to the extent that a revaluation increase merely restores the carrying value of an asset to its original cost, whereby it is recognized as income i.e., to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense. A decrease resulting from a revaluation is initially charged directly against any related revaluation surplus held in respect of that asset and the remaining portion being charged as an expense. On disposal, the related revaluation surplus is credited directly to retained earnings.

Provisions and contingent liabilities
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

Acceptances
Acceptances are recognised as financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

Deposits
Customer deposits and due to banks and other financial institutions are carried at amortised cost.

Sukuk financing instruments
Sukuk financing instruments are initially measured at fair value and then are subsequently measured at amortised cost using the effective profit rate method, with profit distribution recognised on an effective yield basis.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating profit distribution over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Employees' pension and end of service benefits
The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are included within 'other liabilities' in the consolidated statement of financial position.

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are recognised in the consolidated income statement when due.

Shari'a compliant alternatives of derivative financial instruments
The Bank enters into a Shari'a compliant alternatives of derivative financial instruments to manage the exposure to profit rate risks, including unilateral promise which represents Shari'a compliant alternatives of swap. Those financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All these Shari'a compliant alternatives of derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate.

The Bank enters into cash flows hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Cash flow hedges
The effective portion of changes in the fair value of Shari'a compliant alternatives of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognized immediately in the consolidated income statement. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a nonfinancial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to 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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Zakat

As the Bank is not required to dispose Zakat by UAE laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, each shareholder is responsible of his or her own Zakat. In accordance with the Articles and Memorandum of Association of the Bank, Zakat is computed by the Bank and it is approved by the Fatwa and Shari’a Supervisory Board of the Bank. However, in few jurisdictions, Zakat of the Bank’s branches and subsidiaries is mandatory by laws to be paid to a governmental entity responsible of Zakat, therefore, the Bank acts accordingly to these laws and pays the Zakat to these entities on behalf of the Shareholders and deducts the amount paid as Zakat from the total zakat amount and the Zakat amount per each outstanding share.

Zakat per share is calculated in accordance with AAOIFI's Accounting Standard number 9 & Shari’a Standard number 35, and the Group's Fatwa and Shari'a Supervisory Board Resolutions.

In accordance with the Memorandum of Association, the Group communicates the amount of Zakat per share and it is the responsibility of each shareholder to dispose personally his/her own Zakat (note 38).

Profit distribution

Profits or losses of Mudaraba based depositors’ accounts are calculated and distributed in accordance with the Banking Service Agreement between the Bank and the investment account holders. Investment in subsidiaries is funded from the shareholders' funds, hence profit or losses from the subsidiaries are not distributed to the investment account holders. Investment in associates is funded jointly from the shareholders and investment account holders' funds, therefore, profits and losses of the associates are distributed among the shareholders and investment account holders. A part of the deserved profits relating to the Mudaraba based investment accounts profit can be reserved as “Profit Equalization Reserve” and shall be subsequently utilized in order to maintain certain level of profit distribution to the account holders.

The same allocation is applicable to Wakala deposits and any share of profit above the fixed Wakala fee and the initially expected profit agreed with the investment account holder, shall pertain to the Wakil (the Bank).

Cash and cash equivalents

For the purpose of preparation of the consolidated statement of cash flow, cash and cash equivalents are considered to be cash and balances with central banks, due from banks and international murabahat. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

Trade and settlement date accounting

All “regular way” purchase and sales of financial assets are recognized on the settlement date, i.e. the date the asset is delivered to the counterparty. Regular way purchases or sales are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Prohibited income

According to the Fatwa and Shari’a Supervisory Board "FSSB", the Group is required to avoid any transaction or activity deemed to be not acceptable by Shari'a and to identify any income from such source and to set it aside in a separate account (charity account) to be disposed to charity by the Group under the supervision of the FSSB (as purification amount).

4 SIGNIFICANT ACCOUNTING POLICIES continued

Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

Foreign currencies
The Group's consolidated financial statements are presented in AED, which is the Bank's functional currency. That is the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their income statement is translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recorded in the other comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Financial guarantees
In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated income statement in 'net fees and commission income' over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement in 'credit loss expense'. Any financial guarantee liability remaining is recognized in the consolidated income statement in 'net fees and commission income' when the guarantee is discharged, cancelled or expires.

Segment reporting
The Bank has presented the segment information in respect of its business and geographical segments in the same way as it is presented internally to the management.

Dividends on ordinary shares
Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Treasury shares and contracts on own equity instruments
Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognised directly in equity. No gain or loss is recognised in statement of comprehensive income on the purchase, sale, issue or cancellation of own equity instruments.

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

	2017 *AED '000*	*2016* *AED '000*
Vehicle murabaha	**306,576**	340,303
Goods murabaha	**224,553**	364,356
Share murabaha	**1,102,351**	1,155,840
Commodities murabaha – Al Khair	**410,416**	380,142
Islamic covered cards (murabaha)	**342,872**	362,080
Other murabaha	**42,025**	45,177
Total murabaha	**2,428,793**	2,647,898
Mudaraba	**15,960**	49,542
Ijara	**1,839,324**	1,782,697
Istisna'a	**7,464**	8,610
	4,291,541	4,488,747

6 INCOME FROM INVESTMENTS MEASURED AT FAIR VALUE

	2017 *AED '000*	*2016* *AED '000*
Income from Islamic sukuk measured at fair value through profit or loss	**57,462**	49,993
Realised (loss) gain on investments carried at fair value through profit or loss	**(13,439)**	23,860
Unealised gain (loss) on investments carried at fair value through profit or loss	**30,144**	(4,858)
Income from other investment assets	**4,842**	4,162
Dividend income	**3,149**	868
	82,158	74,025

7 FEES AND COMMISSION INCOME, NET

	2017 *AED '000*	*2016* *AED '000*
Fees and commission income		
Fees and commission income on cards	**691,958**	584,184
Trade related fees and commission	**114,934**	109,874
Takaful related fees	**118,155**	92,230
Accounts services fees	**61,466**	46,022
Projects and property management fees	**62,329**	63,969
Risk participation and arrangement fees	**176,341**	170,248
Brokerage fees and commission	**24,782**	29,266
Other fees and commissions	**312,142**	241,996
Total fees and commission income	**1,562,107**	1,337,789
Fees and commission expenses		
Card related fees and commission expenses	**(435,680)**	(428,728)
Other fees and commission expenses	**(96,159)**	(68,646)
Total fees and commission expenses	**(531,839)**	(497,374)
Fees and commission income, net	**1,030,268**	840,415

8 INCOME FROM INVESTMENT PROPERTIES

	2017 *AED '000*	*2016* *AED '000*
Proceeds from sale of investment properties	**127,983**	26,382
Less: net book value of properties sold	**(104,801)**	(15,885)
Gain on sale of investment properties	**23,182**	10,497
Rental income (note 22)	**13,215**	16,739
	36,397	27,236

9 EMPLOYEES' COSTS

	2017 *AED '000*	*2016* *AED '000*
Salaries and wages	**1,310,133**	1,293,179
End of service benefits	**67,215**	69,671
Other staff expenses	**68,981**	74,030
	1,446,329	1,436,880

10 GENERAL AND ADMINISTRATIVE EXPENSES

	2017	*2016*
	AED '000	*AED '000*
Legal and professional expenses	**145,554**	148,058
Premises expenses	**263,633**	236,159
Marketing and advertising expenses	**83,225**	82,839
Communication expenses	**68,793**	70,897
Technology related expenses	**123,425**	99,818
Other operating expenses	**155,515**	132,622
	840,145	770,393

11 PROVISION FOR IMPAIRMENT, NET

	Notes	***2017*** ***AED '000***	*2016* *AED '000*
Murabaha and mudaraba with financial institutions	16	**-**	(23,330)
Murabaha and other Islamic financing	17	**661,372**	755,636
Ijara financing	18	**104,566**	212,934
Recoveries, net of direct write-off		**(44)**	1,843
Investments measured at amortised cost	19	**6,338**	-
Investments in associates and joint ventures	21	**15,156**	-
Investment properties	22	**462**	4,981
Other assets	24	**2,510**	17,901
		790,360	969,965

The above provision for impairment includes AED 1,962 thousand (2016: AED 6,231 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank.

12 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

	2017	*2016*
	AED '000	*AED '000*
Saving accounts	**175,218**	146,531
Investment accounts	**406,764**	397,954
Sukuk holders	**-**	63,308
	581,982	607,793

13 BASIC AND DILUTED EARNINGS PER SHARE

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

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

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

	Notes	***2017***	*2016*
Profit for the year attributable to equity holders (AED '000)		**2,298,754**	1,952,264
Less: profit attributable to Tier 1 sukuk holder – Listed (AED '000)	34	**(234,158)**	(234,158)
Less: profit attributable to Tier 1 sukuk holder - Government of Abu Dhabi (AED '000)	34	**(79,419)**	(69,533)
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000)		**1,985,177**	1,648,573
Weighted average number of ordinary shares at 31 December in issue (000's)		**3,168,000**	3,168,000
Basic and diluted earnings per share (AED)		**0.627**	0.520

The Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised. Profit on Tier 1 sukuk is reflected in the EPS computation on the payment of such profit.

14 CASH AND BALANCES WITH CENTRAL BANKS

	2017 ***AED '000***	*2016* *AED '000*
Cash on hand	**1,993,397**	1,745,906
Balances with central banks:		
- Current accounts	**1,694,913**	860,295
- Statutory reserve	**11,475,757**	11,071,193
- Islamic certificate of deposits	**6,303,138**	6,100,945
	21,467,205	19,778,339

14 CASH AND BALANCES WITH CENTRAL BANKS continued

The Bank is required to maintain statutory reserves with the Central Bank of the UAE, Iraq and Sudan 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. 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.

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

	2017	*2016*
	AED '000	*AED '000*
UAE	**19,944,008**	18,613,626
Rest of the Middle East	**1,300,979**	1,077,353
Europe	**1,063**	656
Others	**221,155**	86,704
	21,467,205	19,778,339

15 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017	*2016*
	AED '000	*AED '000*
Current accounts	**831,167**	277,485
Wakala deposits	**1,934,736**	3,968,673
	2,765,903	4,246,158

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 is as follows:

	2017	*2016*
	AED '000	*AED '000*
UAE	**684,125**	2,132,487
Rest of the Middle East	**274,483**	784,535
Europe	**163,146**	113,844
Others	**1,644,149**	1,215,292
	2,765,903	4,246,158

16 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	2017 ***AED '000***	*2016* *AED '000*
Murabaha	**2,125,249**	1,570,407
Mudaraba	**-**	257,303
	2,125,249	1,827,710
Less: provision for impairment	**-**	(64,929)
	2,125,249	1,762,781

In accordance with Shari'a principles, Mudaraba are with Islamic financial institutions or provided for the activities that are entirely Sharia' compliant.

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

	2017 ***AED '000***	*2016* *AED '000*
At 1 January	**64,929**	194,740
Reversal for the year (note 11)	**-**	(23,330)
Write-off during for the year	**(64,929)**	(106,481)
At 31 December	**-**	64,929

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

	2017 ***AED '000***	*2016* *AED '000*
UAE	**1,957,846**	1,561,341
Rest of the Middle East	**167,403**	228,153
Europe	**-**	9,066
Others	**-**	29,150
	2,125,249	1,827,710

17 MURABAHA AND OTHER ISLAMIC FINANCING

	2017 ***AED '000***	*2016* *AED '000*
Vehicle murabaha	**6,437,197**	6,544,017
Goods murabaha	**5,473,305**	6,788,344
Share murabaha	**17,359,249**	18,369,604
Commodities murabaha – Al Khair	**7,965,182**	8,277,850
Islamic covered cards (murabaha)	**16,558,534**	16,540,838
Other murabaha	**1,643,377**	2,032,171
Total murabaha	**55,436,844**	58,552,824
Mudaraba	**46,681**	1,128,518
Istisna'a	**130,322**	136,097
Other financing receivables	**281,810**	245,146
Total murabaha and other Islamic financing	**55,895,657**	60,062,585
Less: deferred income on murabaha	**(20,750,205)**	(21,894,730)
	35,145,452	38,167,855
Less: provision for impairment	**(1,896,137)**	(1,821,769)
	33,249,315	36,346,086

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

	2017			*2016*		
	Individual impairment AED '000	***Collective impairment AED '000***	***Total AED '000***	*Individual impairment AED '000*	*Collective impairment AED '000*	*Total AED '000*
At 1 January	**853,154**	**968,615**	**1,821,769**	693,670	1,167,180	1,860,850
Charge (reversals) for the year (note 11)	**652,146**	**9,226**	**661,372**	954,201	(198,565)	755,636
Other adjustments	**-**	**(124,900)**	**(124,900)**	-	-	-
Written off during the year	**(462,104)**	**-**	**(462,104)**	(794,717)	-	(794,717)
At 31 December	**1,043,196**	**852,941**	**1,896,137**	853,154	968,615	1,821,769

`

17 MURABAHA AND OTHER ISLAMIC FINANCING continued

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

	2017 ***AED '000***	*2016* *AED '000*
***Industry sector**:*		
Public sector	**981,415**	674,674
Corporates	**3,855,948**	6,275,968
Financial institutions	**234,315**	162,150
Individuals	**29,399,301**	29,868,184
Small and medium enterprises	**674,473**	1,186,879
	35,145,452	38,167,855
Geographic region:		
UAE	**33,885,343**	36,641,855
Rest of the Middle East	**783,768**	950,297
Europe	**210,679**	201,865
Others	**265,662**	373,838
	35,145,452	38,167,855

18 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 includes a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

	2017 ***AED '000***	*2016* *AED '000*
The aggregate future lease receivables are as follows:		
Due within one year	**8,636,632**	8,952,793
Due in the second to fifth year	**21,876,793**	22,046,466
Due after five years	**32,682,754**	26,041,455
Total Ijara financing	**63,196,179**	57,040,714
Less: deferred income	**(18,591,636)**	(13,839,384)
Net present value of minimum lease payments receivable	**44,604,543**	43,201,330
Less: provision for impairment	**(1,324,224)**	(1,336,894)
	43,280,319	41,864,436

18 IJARA FINANCING continued

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

	2017			*2016*		
	Individual impairment AED '000	***Collective impairment AED '000***	***Total AED '000***	*Individual impairment AED '000*	*Collective impairment AED '000*	*Total AED '000*
At 1 January	**409,186**	**927,708**	**1,336,894**	287,041	847,248	1,134,289
Charge (reversals) for the year (note 11)	**172,101**	**(67,535)**	**104,566**	132,474	80,460	212,934
Written off during the year	**(117,236)**	**-**	**(117,236)**	(10,329)	-	(10,329)
At 31 December	**464,051**	**860,173**	**1,324,224**	409,186	927,708	1,336,894

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

	2017 AED '000	*2016 AED '000*
Industry sector:		
Government	**752,339**	-
Public sector	**4,480,814**	4,930,758
Corporates	**18,708,191**	19,224,881
Individuals	**20,366,863**	18,462,404
Small and medium enterprises	**188,355**	280,753
Non-profit organisations	**107,981**	302,534
	44,604,543	43,201,330
Geographic region:		
UAE	**42,668,353**	41,098,110
Rest of the Middle East	**1,025,203**	1,066,435
Europe	**386,656**	321,811
Others	**524,331**	714,974
	44,604,543	43,201,330

19 INVESTMENT IN ISLAMIC SUKUK MEASURED AT AMORTISED COST

	2017 ***AED '000***	*2016* *AED '000*
Sukuk	**10,052,028**	9,063,314

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

	2017 ***AED '000***	*2016* *AED '000*
At 1 January	**98,277**	98,277
Charge for the year (note 11)	**6,338**	-
Written off during the year	**(91,813)**	-
At 31 December	**12,802**	98,277

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

	2017 ***AED '000***	*2016* *AED '000*
UAE	**7,443,468**	6,685,617
Rest of the Middle East	**1,365,455**	1,295,254
Europe	**100,372**	92,284
Others	**1,155,535**	1,088,436
	10,064,830	9,161,591

20 INVESTMENTS MEASURED AT FAIR VALUE

	2017 ***AED '000***	*2016* *AED '000*
Investments carried at fair value through profit or loss		
Quoted investments		
Equities	-	244
Sukuk	**1,377,491**	1,263,230
	1,377,491	1,263,474
Investments carried at fair value through other comprehensive income		
Quoted investments		
Equities	**42,307**	756
Unquoted investments		
Funds	**53,619**	52,088
Private equities	**53,073**	80,610
	106,692	132,698
	148,999	133,454
	1,526,490	1,396,928

20 INVESTMENTS MEASURED AT FAIR VALUE continued

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

	2017 *AED '000*	*2016* *AED '000*
UAE	**915,534**	909,689
Rest of the Middle East	**89,221**	84,038
Europe	**170**	159
Others	**521,565**	403,042
	1,526,490	1,396,928

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	2017 *AED '000*	*2016* *AED '000*
Investment in associates and joint ventures	**988,788**	753,541

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

	2017 *AED '000*	*2016* *AED '000*
At 1 January	**-**	-
Charge for the year (note 11)	**15,156**	-
At 31 December	**15,156**	-

Details of the Bank's investment in associates and joint ventures at 31 December is as follows:

	Place of incorporation	*Proportion of ownership interest*		*Principal activity*
		2017 *%*	*2016* *%*	
Associates				
Abu Dhabi National Takaful PJSC	UAE	**42**	42	Islamic insurance
Bosna Bank International D.D	Bosnia	**27**	27	Islamic banking
The Residential REIT (IC) Limited	UAE	**41**	-	Real estate fund
Joint ventures				
Abu Dhabi Islamic Bank – Egypt (S.A.E.)	Egypt	**49**	49	Banking (under conversion to Islamic bank)
Saudi Finance Company CSJC	Kingdom of Saudi Arabia	**51**	51	Islamic Retail Finance
Arab Link Money Transfer PSC (under liquidation)	UAE	**51**	51	Currency Exchange
Abu Dhabi Islamic Merchant Acquiring Company LLC	UAE	**51**	51	Merchant acquiring

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

Summarised financial information of investment in significant associates and joint venture are set out below:

	2017	*2016*
	AED '000	*AED '000*
1 - Abu Dhabi National Takaful PJSC		
Share of associate's statement of financial position		
Assets	**391,395**	356,459
Liabilities	**(263,753)**	(243,509)
Net assets	**127,642**	112,950
Share of associate's revenue and profits:		
Revenue for the year	**48,418**	39,876
Profit for the year	**21,384**	24,053
Dividends received during the year	**6,667**	6,667
2 - Bosna Bank International D.D		
Share of associate's statement of financial position		
Assets	**509,832**	398,139
Liabilities	**(425,482)**	(327,373)
Net assets	**84,350**	70,766
Share of associate's revenue and profits:		
Revenue for the year	**11,710**	14,607
Profit for the year	**3,444**	4,034
3 - Abu Dhabi Islamic Bank – Egypt (S.A.E.)		
Share of joint venture's statement of financial position		
Assets	**3,740,253**	2,747,306
Liabilities	**(3,518,532)**	(2,601,631)
Net assets	**221,721**	145,675
Share of joint venture's revenue:		
Revenue for the year	**199,950**	266,755

As of 31 December 2017, the Bank's share of the contingent liabilities and commitments of associates and joint ventures amounted to AED 355,344 thousand (2016: AED 192,988 thousand). The equity instruments of Abu Dhabi National Takaful PJSC are quoted in Abu Dhabi Securities Exchange, UAE and the quoted value of the Banks' share of investment at 31 December 2017 amounted to AED 214,570 thousand (2016: AED 177,055 thousand) and its carrying value as of 31 December 2017 amounted to AED 202,929 thousand (2016: AED 188,212 thousand).

22 INVESTMENT PROPERTIES

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

	Land *AED '000*	*Other properties* *AED '000*	*Total* *AED '000*
2017			
Cost:			
Balance at 1 January	997,920	293,723	1,291,643
Disposals	(9,348)	(121,027)	(130,375)
Gross balance at 31 December	988,572	172,696	1,161,268
Less: provision for impairment	(13,339)	(11,398)	(24,737)
Net balance at 31 December	**975,233**	**161,298**	**1,136,531**
Accumulated depreciation:			
Balance at 1 January	-	55,464	55,464
Charge for the year	-	9,345	9,345
Relating to disposals	-	(21,661)	(21,661)
Balance at 31 December	**-**	**43,148**	**43,148**
Net book value at 31 December	**975,233**	**118,150**	**1,093,383**
2016			
Cost:			
Balance at 1 January	26,051	290,186	316,237
Transfers from other assets	971,869	22,616	994,485
Disposals	-	(19,079)	(19,079)
Gross balance at 31 December	997,920	293,723	1,291,643
Less: provision for impairment	(16,790)	(11,398)	(28,188)
Net balance at 31 December	981,130	282,325	1,263,455
Accumulated depreciation:			
Balance at 1 January	-	46,791	46,791
Charge for the year	-	11,749	11,749
Relating to disposals	-	(3,076)	(3,076)
Balance at 31 December	-	55,464	55,464
Net book value at 31 December	981,130	226,861	1,207,991

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 13,215 thousand (2016: AED 16,739 thousand).

22 INVESTMENT PROPERTIES continued

The fair values of investment properties at 31 December 2017 amounted to AED 1,334,262 thousand (2016: AED 1,595,972 thousand) are as per valuation conducted by professional valuers employed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations, and has appropriate qualifications and experience in the valuation of properties in the UAE. The fair value of the properties has been determined either based on transactions observable in the market or valuation models.

The valuation methodologies considered by external valuers include:

a) Comparison method: This method derives the value by analyzing recent sales transactions of similar properties in a similar location.
b) Investment method: This method derives the value by converting the future cash flow to a single current capital value.

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

	Land *AED '000*	*Other properties* *AED '000*	*Total* *AED '000*
At 1 January 2016	12,292	11,033	23,325
Charge for the year (note 11)	4,498	483	4,981
Relating to disposal	-	(118)	(118)
At 1 January 2017	**16,790**	**11,398**	**28,188**
Charge for the year (note 11)	**462**	**-**	**462**
Relating to disposal	**(3,913)**	**-**	**(3,913)**
At 31 December 2017	**13,339**	**11,398**	**24,737**

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

	Land *AED '000*	*Other properties* *AED '000*	*Total* *AED '000*
2017:			
UAE	**980,358**	**129,548**	**1,109,906**
Rest of the Middle East	**8,214**	**-**	**8,214**
	988,572	**129,548**	**1,118,120**
2016:			
UAE	989,706	238,259	1,227,965
Rest of the Middle East	8,214	-	8,214
	997,920	238,259	1,236,179

23 DEVELOPMENT PROPERTIES

	2017	*2016*
	AED '000	*AED '000*
Development properties	**837,381**	837,381

Development properties include land with a carrying value of AED 800,000 thousand (2016: AED 800,000 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

24 OTHER ASSETS

	2017	*2016*
	AED '000	*AED '000*
Advances against purchase of properties	**53,071**	129,336
Acceptances	**418,157**	283,804
Assets acquired in satisfaction of claims	**186,825**	295,193
Trade receivables	**301,347**	278,580
Prepaid expenses	**698,478**	736,798
Accrued profit	**149,256**	128,046
Advance to contractors	**47,837**	17,000
Advance for investments	**183,625**	183,625
Others	**1,459,667**	676,227
	3,498,263	2,728,609
Less: provision for impairment	**(34,745)**	(32,942)
	3,463,518	2,695,667

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

	Advances against purchase of properties AED '000	*Assets acquired against satisfaction of claims AED '000*	*Trade receivables AED '000*	*Others AED '000*	*Total AED '000*
At 1 January 2016	255,810	-	10,950	23,883	290,643
Charge for the year (note 11)	-	16,651	-	1,250	17,901
Written off during the year	(255,810)	(16,651)	(3,141)	-	(275,602)
At 1 January 2017	-	-	7,809	25,133	32,942
Charge for the year (note 11)	-	600	-	1,910	2,510
Written off during the year	-	(600)	(107)	-	(707)
At 31 December 2017	-	-	7,702	27,043	34,745

Assets acquired in exchange for claims in order to achieve an orderly realization are recorded as "Assets acquired in satisfaction of claims". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the claim (net of provision for impairment) at the date of exchange.

25 PROPERTY AND EQUIPMENT

	Land *AED '000*	*Buildings* *AED '000*	*Furniture and fixtures* *AED '000*	*Computer and office equipment* *AED '000*	*Motor vehicles* *AED '000*	*Capital work-in progress* *AED '000*	*Total* *AED '000*
2017							
Cost or revaluation:							
At 1 January	291,178	294,435	390,041	914,162	13,308	954,366	2,857,490
Exchange differences	-	-	(866)	(181)	(162)	(31)	(1,240)
Additions	-	-	326	613	-	303,976	304,915
Transfers from capital work-in-progress	-	-	54,990	216,983	760	(272,733)	-
Disposals	-	-	-	-	(1,074)	-	(1,074)
At 31 December	**291,178**	**294,435**	**444,491**	**1,131,577**	**12,832**	**985,578**	**3,160,091**
Depreciation:							
At 1 January	-	43,656	276,721	610,022	10,124	-	940,523
Exchange differences	-	-	(20)	(720)	(159)	-	(899)
Charge for the year	-	11,743	36,646	108,560	1,607	-	158,556
Relating to disposals	-	-	-	-	(766)	-	(766)
At 31 December	**-**	**55,399**	**313,347**	**717,862**	**10,806**	**-**	**1,097,414**
Net book value:							
At 31 December	**291,178**	**239,036**	**131,144**	**413,715**	**2,026**	**985,578**	**2,062,677**
2016							
Cost or revaluation:							
At 1 January	241,478	243,158	380,999	768,072	13,249	909,845	2,556,801
Exchange differences	-	-	(5,976)	264	(77)	-	(5,789)
Additions	-	518	-	21,689	105	279,308	301,620
Transfers from capital work-in-progress	-	50,759	15,083	168,164	781	(234,787)	-
Surplus on revaluation (note 33)	49,700	-	-	-	-	-	49,700
Disposals	-	-	(65)	(44,027)	(750)	-	(44,842)
At 31 December	291,178	294,435	390,041	914,162	13,308	954,366	2,857,490
Depreciation:							
At 1 January	-	33,810	248,267	523,038	9,634	-	814,749
Exchange differences	-	-	(3,448)	212	(302)	-	(3,538)
Charge for the year	-	9,846	31,967	130,746	1,542	-	174,101
Relating to disposals	-	-	(65)	(43,974)	(750)	-	(44,789)
At 31 December	-	43,656	276,721	610,022	10,124	-	940,523
Net book value:							
At 31 December	291,178	250,779	113,320	304,140	3,184	954,366	1,916,967

26 GOODWILL AND INTANGIBLES

		Other intangible assets		
	Goodwill AED '000	*Customer relationships AED '000*	*Core deposit AED '000*	*Total AED '000*
At 1 January 2016	109,888	303,997	61,007	474,892
Amortisation during the year	-	(45,600)	(9,156)	(54,756)
At 1 January 2017	**109,888**	**258,397**	**51,851**	**420,136**
Amortisation during the year	**-**	**(45,640)**	**(9,153)**	**(54,793)**
At 31 December 2017	**109,888**	**212,757**	**42,698**	**365,343**

On 6 April 2014, the Bank acquired retail banking business of Barclays Bank in the U.A.E. During the second quarter 2014, the acquisition was approved by the Central Bank of the UAE. Based on the purchase price allocation, the Bank has recognized AED 438,012 thousand as intangible asset and AED 109,888 as goodwill.

Goodwill
For the purpose of impairment testing, goodwill is allocated to the Bank's operating divisions which represent the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

Other intangible assets

Customer relationships	Customer relationship intangible asset represents the value attributable to the business expected to be generated from customers that existed at the acquisition date. In determining the fair value of customer relationships, covered cards customers were considered separately, given their differing risk profiles, relationships and loyalty. The relationships are expected to generate material recurring income in the form of customer revenues, fees and commissions.
Core deposit	The value of core deposit intangible asset arises from the fact that the expected profit distribution on these deposits, governed by their contractual terms, are expected to be lower than other wholesale or treasury sukuk instruments' expected profit distributions. The spread between the expected profit distributions on these deposits and sukuk instruments represents the value of the core deposit intangible.

Impairment assessment of goodwill
No impairment losses on goodwill were recognised during the year ended 31 December 2017 (2016: Nil).

The recoverable amounts have been assessed based on their value in use. Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of this operating division.

The recoverable amount of goodwill of cash generating unit, determined on the basis of value in use calculation, uses cash flow projections covering a five year period, with a terminal growth rate of 2% (2016: 2%) applied thereafter. The forecast cash flows have been discounted at a rate of 10.5% (2016: 10.5%).

Sensitivity to a one percentage point changes in the discount rate or the terminal growth rate and based on the results; management believes that no reasonably possible change in any of the above mentioned key assumptions would cause the carrying value to exceed the recoverable amount.

27 DUE TO FINANCIAL INSTITUTIONS

	2017 ***AED '000***	*2016* *AED '000*
Current accounts	**1,538,954**	1,027,616
Investment deposits	**2,149,604**	3,758,330
	3,688,558	4,785,946
Current account – Central Bank of UAE	**-**	368,269
	3,688,558	5,154,215

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

UAE	**1,956,937**	2,199,951
Rest of the Middle East	**455,606**	1,772,817
Europe	**108,186**	139,834
Others	**1,167,829**	1,041,613
	3,688,558	5,154,215

28 DEPOSITORS' ACCOUNTS

	2017 ***AED '000***	*2016* *AED '000*
Current accounts	**32,738,664**	31,225,114
Investment accounts	**66,743,153**	67,134,219
Profit equalisation reserve	**521,802**	454,419
	100,003,619	98,813,752

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

	2017 ***AED '000***	*2016* *AED '000*
At 1 January	**454,419**	394,364
Share of profit for the year	**67,383**	60,055
At 31 December	**521,802**	454,419

28 DEPOSITORS' ACCOUNTS continued

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

	2017 ***AED '000***	*2016* *AED '000*
Industry sector:		
Government	**6,648,994**	6,695,441
Public sector	**8,318,185**	8,506,133
Corporates	**14,965,482**	16,248,174
Financial institutions	**1,449,801**	694,197
Individuals	**54,269,920**	53,105,753
Small and medium enterprises	**11,832,026**	10,638,653
Non-profit organisations	**2,519,211**	2,925,401
	100,003,619	98,813,752
Geographic region:		
UAE	**94,243,953**	92,472,863
Rest of the Middle East	**4,356,973**	4,867,243
Europe	**461,535**	502,618
Others	**941,158**	971,028
	100,003,619	98,813,752
Currencies:		
UAE Dirham	**80,727,844**	81,915,524
US Dollar	**14,866,945**	12,811,388
Euro	**2,134,877**	2,338,706
Sterling Pound	**948,371**	587,757
Others	**1,325,582**	1,160,377
	100,003,619	98,813,752

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

With respect to investment deposits, the Bank is liable only in case of misconduct, negligence or breach of contract otherwise it is on the account of the fund's provider (Rab Al Mal) or the principal (the Muwakkil).

29 OTHER LIABILITIES

	2017	*2016*
	AED '000	*AED '000*
Accounts payable	**432,385**	406,128
Acceptances	**418,157**	283,804
Accrued profit for distribution to depositors and sukuk holders	**285,485**	237,733
Bankers' cheques	**365,415**	461,617
Provision for staff benefits and other expenses	**387,896**	364,029
Retentions payable	**63,483**	28,889
Advances from customers	**136,890**	187,492
Accrued expenses	**205,613**	269,299
Unclaimed dividends	**110,841**	114,867
Deferred income	**163,054**	164,995
Charity account	**4,905**	5,873
Donation account	**13,523**	7,206
Negative fair value of Shari'a compliant alternatives of derivative financial instruments (note 37)	**4,901**	1,645
Others	**419,710**	329,540
	3,012,258	2,863,117

30 SHARE CAPITAL

	2017	*2016*
	AED '000	*AED '000*
Authorised share capital:		
4,000,000 thousand (2016: 4,000,000 thousand) ordinary shares of AED 1 each (2016: AED 1 each)	**4,000,000**	4,000,000
Issued and fully paid share capital:		
3,168,000 thousand (2016: 3,168,000 thousand) ordinary shares of AED 1 each (2016: AED 1 each)	**3,168,000**	3,168,000

31 RESERVES

31.1 Legal reserve

As required by the Federal Law No. 2 of 2015, concerning Commercial Companies and the Articles of Association of the Bank and its subsidiaries, 10% of the profit for the year is transferred to the legal reserve. The Bank shall resolve to discontinue such annual transfers as the reserve equals to or more than 50% of the paid up share capital of the Bank. The legal reserve is not available for distribution to the shareholders.

As per Article 203 of UAE Federal Commercial Companies Law No. 8 of 1984 (as amended), the Bank has transferred the share premium amounting to AED 1,529,412 thousand to the legal reserve. As the balance of the reserve exceeds 50% of the total paid up share capital, no transfer to the legal reserve has been made from the profit during the year for the Bank.

During 2015, the Bank has transferred the share premium amounting to AED 336,000 thousand pertaining to the right share issue of 168,000 to the legal reserve after the shareholders' approval in the extra ordinary general meeting held on 28 June 2015.

31.2 General reserve

Under Article 57(2) of the Bank's Articles of Association, the Annual General Assembly of the Bank, upon recommendation of the Board of Directors, have resolved to transfer 10% of the profit for the year to the general reserve. This reserve shall be used in the future for purposes determined by the shareholders' General Assembly upon the recommendation of the Board of Directors.

31.3 Credit risk reserve

Upon the recommendation of the Board of Directors, the Bank has established a special reserve for credit risk which is subject to the approval by the shareholders in the Annual General Assembly. Contributions to the reserve are voluntary.

32 PROPOSED DIVIDENDS

	2017 ***AED '000***	*2016* *AED '000*
Cash dividend: AED 0.2887 per share of AED 1 each (2016: AED 0.2452 per share of AED 1 each)	**914,530**	776,782

Cash dividend of 28.87% of the paid up capital relating to year ended 31 December 2017 amounting to AED 914,530 thousand shall be paid after the approval by the shareholders in the Annual General Assembly.

Cash dividend of 24.52% of the paid up capital relating to year ended 31 December 2016 amounting to AED 776,782 thousand has been paid after the approval by the shareholders at the Annual General Assembly held on 2nd April 2017.

33 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 2016	(154,787)	143,000	(196,113)	(11,657)	(219,557)
Net loss on valuation of investments carried at FVTOCI	(16,783)	-	-	-	(16,783)
Loss on disposal of investments carried at FVTOCI	8,490	-	-	-	8,490
Surplus on revaluation of land	-	49,700	-	-	49,700
Exchange differences arising on translation of foreign operations	-	-	(571,244)	-	(571,244)
Gain on hedge of foreign operations	-	-	55,693	-	55,693
Fair value gain on cash flow hedges	-	-	-	9,933	9,933
At 1 January 2017	**(163,080)**	**192,700**	**(711,664)**	**(1,724)**	**(683,768)**
Net gain on valuation of investments carried at FVTOCI	**1,634**	**-**	**-**	**-**	**1,634**
Loss on disposal of investments carried at FVTOCI	**177**	**-**	**-**	**-**	**177**
Exchange differences arising on translation of foreign operations	**-**	**-**	**(24,060)**	**-**	**(24,060)**
Loss on hedge of foreign operations	**-**	**-**	**(34,008)**	**-**	**(34,008)**
Fair value loss on cash flow hedges	**-**	**-**	**-**	**(3,157)**	**(3,157)**
At 31 December 2017	**(161,269)**	**192,700**	**(769,732)**	**(4,881)**	**(743,182)**

34 TIER 1 SUKUK

	2017* *AED '000	*2016 AED '000*
Tier 1 sukuk – Listed	**3,672,500**	3,672,500
Tier 1 sukuk – Government of Abu Dhabi	**2,000,000**	2,000,000
	5,672,500	5,672,500

Tier 1 sukuk – Listed

On 19 November 2012, the Bank through a Shari'a compliant sukuk arrangement has issued Tier 1 sukuk – Listed (the "Sukuk") amounting to AED 3,672,500 thousand (USD 1 billion). This Sukuk was issued under the authorities approved by the shareholders of the Bank in the Extraordinary General Meeting held on 21 October 2012. Issuance costs amounting to AED 37,281 thousand were incurred at the time of issuance.

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 listed on the London stock exchange and is callable by the Bank after period ending on 16 October 2018 (the "First Call Date") or any profit payment date thereafter subject to certain conditions. The Sukuk bear an expected Mudaraba profit rate of 6.375% payable during the initial period of six years semi-annually in arrears. After the initial period, and for every 6th year thereafter, resets to a new expected Mudaraba profit rate based on the then 6 year LIBOR rate plus an expected margin of 5.393% Profit distributions will be reported in the consolidated statement of changes in equity.

34 TIER 1 SUKUK continued

Tier 1 sukuk – Listed continued
The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

Tier 1 sukuk – Government of Abu Dhabi
On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk-Gov") 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-Gov was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

This Sukuk-Gov 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-Gov is callable by the Bank subject to certain conditions. The Sukuk-Gov 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.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

35 NON-CONTROLLING INTEREST

Non-controlling interest represents the minority shareholder's proportionate share in the aggregate value of the net assets of subsidiaries.

36 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments include commitments to extend Islamic credit facilities, standby letters of credit, guarantees, 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 and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of contracts.

36 CONTINGENT LIABILITIES AND COMMITMENTS continued

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

	2017 ***AED '000***	*2016* *AED '000*
Contingent liabilities		
Letters of credit	**3,215,199**	2,025,680
Letters of guarantee	**8,572,858**	9,747,282
	11,788,057	11,772,962
Commitments		
Undrawn facilities commitments	**666,945**	386,939
Future capital expenditure	**174,699**	312,738
Investment and development properties	**6,108**	11,436
	847,752	711,113
	12,635,809	12,484,075

37 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

Shari'a compliant alternatives of swaps are based on a unilateral Wa'ad (promise) structure between two parties to buy a specific Shari'a compliant commodity at an agreed price on an agreed date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. For Shari'a complaint alternatives of swap, counter parties enter into two separate and independent Murabaha transactions, the results of which are exchanged between them in a manner that enables one of them to receive the equivalent of the fixed reference rate and the other counterparty to the receive the equivalent of the reference floating rate, where the profit payments are based on a notional value in a single currency.

The table below shows the fair values of Shari'a compliant alternatives of derivative financial instruments, together with the notional amounts analysed by term of maturity. The notional amount is based on the amount of the underlying transaction, reference rate or index and is the basis upon which changes in the value of transactions are measured. The notional amounts indicate the volume of transactions outstanding at the reporting date and are neither indicative of the market risk nor credit risk.

	Negative fair value AED '000	*Notional amount AED '000*	*Less than 3 months AED '000*	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*
31 December 2017: Notional amount by term to maturity						
Shari'a compliant alternatives of swap (note 29)	**4,901**	**2,683,629**	**1,385,321**	**374,228**	**296,467**	**627,613**
31 December 2016: Notional amount by term to maturity						
Shari'a compliant alternatives of swap (note 29)	1,645	2,821,209	1,513,495	266,142	531,482	510,090

38 ZAKAT

As the Bank is not required to pay Zakat by laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the share value, for Zakat purposes based on Gregorian year, was estimated at AED 195,878 thousand (2016: AED 175,666 thousand) and accordingly, Zakat is estimated at AED 0.06183 (2016: AED 0.05545) per outstanding share.

However, in few jurisdictions, Zakat of the Bank’s branches is mandatory by law either by taking provision or paying to a respective governmental entity responsible for Zakat. Therefore, the Bank has acted according to the law and paid the Zakat to these entities on behalf of the Shareholders and deducted the amount paid from the above total Zakat amount and accordingly adjusted the Zakat amount per each outstanding share.

39 CASH AND CASH EQUIVALENTS

	2017	*2016*
	AED ‘000	*AED ‘000*
Cash and balances with central banks, short term	**9,991,448**	8,206,741
Balances and wakala deposits with Islamic banks and other financial institutions, short term	**2,577,411**	2,467,470
Murabaha and mudaraba with financial institutions, short term	**1,957,846**	1,309,906
Due to financial institutions, short term	**(3,638,236)**	(5,038,599)
	10,888,469	6,945,518

The following significant non-cash transactions have been excluded from the consolidated statement of cash flows:

Transfer from other assets to investment properties (note 22)	**-**	994,485

40 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. During last year, related party financing were renegotiated based on terms approved by the Board of Directors. All financial assets are performing and free of any provision for impairment. Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

Profit rates earned on balances and wakala deposits with banks and financial institutions and customer financing extended to related parties during the year has ranged from 0% to 6% (2016: 0% to 6% per annum).

40 RELATED PARTY TRANSACTIONS continued

Profit rates paid on due to financial institution and customers' deposits placed by related parties during the year have ranged from 0% to 0.8% per annum (2016: 0% to 0.9% per annum).

During the year, significant transactions with related parties included in the consolidated income statement were as follows:

	Major shareholder AED '000	*Directors AED '000*	*Associates and joint ventures AED '000*	*Others AED '000*	*Total AED '000*
31 December 2017					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	**14,394**	-	**14,394**
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	**57,447**	**456**	-	**77,214**	**135,117**
Fees and commission income, net	-	**72**	**243**	**3,419**	**3,734**
Operating expenses	-	**687**	-	-	**687**
Distribution to depositors and sukuk holders	**625**	**73**	**630**	**143**	**1,471**
31 December 2016					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	9,290	-	9,290
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	53,277	477	75	89,026	142,855
Fees and commission income, net	-	38	1,034	2,469	3,541
Operating expenses	-	432	-	-	432
Distribution to depositors and sukuk holders	-	67	535	291	893

40 RELATED PARTY TRANSACTIONS continued

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

	Major shareholder AED '000	*Directors AED '000*	*Associates and joint ventures AED '000*	*Others AED '000*	*Total AED '000*
31 December 2017					
Balances and wakala deposits with Islamic banks and other financial institutions	**-**	**-**	**918,817**	**-**	**918,817**
Murabaha and Mudaraba with financial institutions	**-**	**-**	**167,059**	**-**	**167,059**
Murabaha, mudaraba, ijara and other Islamic financing	**2,611,227**	**10,060**	**-**	**3,476,799**	**6,098,086**
Other assets	**-**	**-**	**85,933**	**186,541**	**272,474**
	2,611,227	**10,060**	**1,171,809**	**3,663,340**	**7,456,436**
Due to financial institutions	**-**	**-**	**31,019**	**-**	**31,019**
Depositors' accounts	**67,382**	**24,781**	**216,824**	**17,968**	**326,955**
Other liabilities	**625**	**18**	**29**	**2,961**	**3,633**
	68,007	**24,799**	**247,872**	**20,929**	**361,607**
31 December 2016					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	1,087,153	-	1,087,153
Murabaha and Mudaraba with financial institutions	-	-	163,765	-	163,765
Murabaha, mudaraba, ijara and other Islamic financing	2,641,162	11,346	-	3,542,427	6,194,935
Other assets	-	-	63,065	185,913	248,978
	2,641,162	11,346	1,313,983	3,728,340	7,694,831
Due to financial institutions	-	-	47,457	-	47,457
Depositors' accounts	125,620	31,890	119,106	137,267	413,883
Other liabilities	-		24	2,513	2,537
	125,620	31,890	166,587	139,780	463,877

The Bank and its major shareholder jointly own a controlling stake in Abu Dhabi Islamic Bank – Egypt (S.A.E.) ("ADIB-Egypt") and have a formal joint control arrangement for their investment in ADIB-Egypt (note 21).

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

	2017 AED '000	*2016 AED '000*
Salaries and other benefits	**34,639**	32,076
Employees' end of service benefits	**3,650**	3,420
	38,289	35,496

During 2017, AED 4,900 thousand was paid to Board of Directors pertaining to the year ended 31 December 2016 after the approval by the shareholders in the Annual General Assembly held on 2nd April 2017.

41 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.

Global 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.

Global 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.

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

Real estate – Subsidiaries 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, associates and joint ventures 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.

41 SEGMENT INFORMATION continued

Business segments information for the year ended 31 December 2017 were as follows:

	Global Retail banking AED '000	*Global Wholesale banking AED '000*	*Private banking AED '000*	*Treasury AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
Revenue and results							
Segment revenues, net	**3,406,214**	**1,262,587**	**139,236**	**530,731**	**111,612**	**181,932**	**5,632,312**
Operating expenses excluding provision for impairment, net	**(1,752,896)**	**(398,257)**	**(57,091)**	**(42,131)**	**(79,718)**	**(211,736)**	**(2,541,829)**
Operating profit (margin)	**1,653,318**	**864,330**	**82,145**	**488,600**	**31,894**	**(29,804)**	**3,090,483**
Provision for impairment, net	**(520,552)**	**(221,504)**	**99**	**-**	**(1,962)**	**(46,441)**	**(790,360)**
Profit (loss) for the year	**1,132,766**	**642,826**	**82,244**	**488,600**	**29,932**	**(76,245)**	**2,300,123**
Non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(1,369)**	**(1,369)**
Profit (loss) for the year attributable to equity holders of the Bank	**1,132,766**	**642,826**	**82,244**	**488,600**	**29,932**	**(77,614)**	**2,298,754**
Assets							
Segmental assets	**56,883,659**	**32,278,505**	**3,031,995**	**21,051,686**	**2,632,381**	**7,399,373**	**123,277,599**
Liabilities							
Segmental liabilities	**61,838,840**	**26,152,414**	**3,362,854**	**11,788,985**	**300,368**	**3,260,974**	**106,704,435**

Business segments information for the year ended 31 December 2016 were as follows:

	Global Retail banking AED '000	*Global Wholesale banking AED '000*	*Private banking AED '000*	*Treasury AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
Revenue and results							
Segment revenues, net	3,236,624	1,222,807	121,456	562,886	101,296	140,454	5,385,523
Operating expenses excluding provision for impairment, net	(1,744,378)	(380,998)	(53,997)	(41,832)	(82,146)	(158,649)	(2,462,000)
Operating profit (margin)	1,492,246	841,809	67,459	521,054	19,150	(18,195)	2,923,523
Provision for impairment, net	(621,225)	(372,359)	8,348	-	(6,231)	21,502	(969,965)
Profit (loss) for the year	871,021	469,450	75,807	521,054	12,919	3,307	1,953,558
Non-controlling interest	-	-	-	-	-	(1,294)	(1,294)
Profit (loss) for the year attributable to equity holders of the Bank	871,021	469,450	75,807	521,054	12,919	2,013	1,952,264
Assets							
Segmental assets	54,865,153	35,469,626	2,536,021	19,368,458	2,680,915	7,369,552	122,289,725
Liabilities							
Segmental liabilities	60,059,215	27,971,848	2,702,223	12,102,311	349,531	3,645,956	106,831,084

41 SEGMENT INFORMATION continued

The following is the analysis of the total segment revenues of each segment between revenues from external parties and inter-segment:

	Global Retail banking AED '000	*Global Wholesale banking AED '000*	*Private banking AED '000*	*Treasury AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
2017							
Total segment revenues, net	**3,261,003**	**1,348,475**	**124,816**	**676,990**	**111,612**	**109,416**	**5,632,312**
Inter-segment revenues, net	**145,211**	**(85,888)**	**14,420**	**(146,259)**	**-**	**72,516**	**-**
Segment revenues, net	**3,406,214**	**1,262,587**	**139,236**	**530,731**	**111,612**	**181,932**	**5,632,312**
2016							
Total segment revenues, net	3,209,761	1,264,794	115,203	555,641	101,296	138,828	5,385,523
Inter-segment revenues, net	26,863	(41,987)	6,253	7,245	-	1,626	-
Segment revenues, net	3,236,624	1,222,807	121,456	562,886	101,296	140,454	5,385,523

Geographical information
The Group operates in two principal geographic areas that are domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the U.A.E. branches, associates and subsidiaries; and international area represents the operations of the Bank that originates from its branches in Iraq, Qatar and Sudan and through its subsidiaries and associates outside U.A.E. Given that, UAE contributes the majority of the revenues and the Group's total assets in UAE represent a significant portion of its total assets and liabilities, hence no further geographical analysis of segment revenues, expenses, operating profit (margin), assets and liabilities is presented.

42 RISK MANAGEMENT

42.1 Introduction

The core business of a bank is to manage risk and provide returns to the shareholders in line with the accepted risk profile. Risk is inherent in all of the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls in accordance with regulatory and Board requirements. The Group is exposed principally to credit risk, liquidity risk, market risk and operational risk but other risks such as reputational risk, legal risk and the various risks defined by the Basel accord are also monitored and managed.

42.1.1 Risk management governance structure
The Board of Directors ("Board") continues to have overall responsibility for the establishment and oversight of the Bank's risk management framework, as well as for approving the Bank's overall risk appetite, and ensuring that business is conducted within this framework. The Board is the ultimate sanctioning authority. During 2015, the Board approved a corporate governance framework and refreshed the charters of the various Board committees.

Strategy Committee
The Strategy Committee is appointed by the Board and is responsible to guide the Group's Executive Management to develop the Group's strategic objectives and business strategy, conduct periodic review of the achievement of strategic objectives and business plans and direct corrective actions wherever required. In addition, this committee also acts as a conduit between the Board and senior management on business issues.

42 RISK MANAGEMENT continued

42.1 Introduction continued

42.1.1 Risk management governance structure continued

Risk and Investment Approval Committee

The Risk and Investment Approval Committee is appointed by the Board and is responsible for the approvals of the Group's risk exposures, high value transactions and major items of capital expenditure. In addition, the Committee is also responsible for monitoring credit portfolio quality and provisions.

Governance and Risk Policy Committee

The Governance and Risk Policy Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in respect of the following for the Bank and all of its subsidiaries and material affiliates:

- Review the risk profile of the Group keeping in view the requirement pertaining to enterprise risk management and to make recommendations to calibrate the risk profile of the Group in line with the applicable regulatory requirements, rating considerations and business strategy;
- Assist the Board in overseeing the Group's response to the risks it faces through the approval of the Group's risk policies and standards; and
- Review and recommend the corporate governance and risk management frameworks and risk strategy to the Board in alignment with the business growth requirements of the Group.

Audit Committee

The Audit Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in respect of the following for the Bank and all its subsidiaries and material affiliates:

- Ensuring the integrity of the Group's consolidated financial statements and financial reporting process;
- To review the financial and internal control systems, quality assurance and risk management framework;
- To review the performance of the internal audit function;
- To review the internal controls over financial reporting and annual independent audit of the Group's consolidated financial statements;
- To recommend to the Board the engagement of the external auditors and evaluation of their qualifications, independence and performance; and
- To ensure compliance by the Group with legal and regulatory requirements as pertaining to its business activities.

The duties and responsibilities of the committees are governed by formally approved charters.

42.1.2 The Group Risk Management ("GRM")

The Group Risk Management Group (GRM) is an independent risk organization that works in close partnership with the business units to support their activities, whilst safeguarding the risk profile of the Group as the second line of defense. The GRM is led by the Group Chief Risk Officer (GCRO) and has six main responsibilities:

- Ensure maintenance of an appropriate risk management framework and adherence to risk policies and procedures across the Group
- Ensure compliance with risk-related legal and regulatory guidelines in the UAE and in our overseas markets
- Maintain the primary relationship with local regulators with respect to risk-related issues
- Approve commercial and consumer financing transactions within its delegated authorities
- Maintain prudent risk control systems, models and processes, and
- Ensure a robust credit process is maintained in support of all business lines.

42 RISK MANAGEMENT continued

42.1 Introduction continued

42.1.2 The Group Risk Management ("GRM") continued

Reporting to the GCRO are senior, experienced risk specialists who manage specific areas of risk, including Wholesale Banking, Private Banking, Retail Banking, Operational Risk, Credit Control, Remedial Management, Enterprise Risk Management and Market Risk. GRM responsibilities extend across all the business units of the Bank in all of the geographies in which the Bank operates.

Credit Committee

All customer related business proposals are reviewed and approved by a credit committee with delegated authority approved by the Board. The credit committee consists of designated credit officers and senior credit officers appointed following a rigorous and extended process of qualification. These appointments are made by the Chief Executive Officer upon the recommendation of the GCRO. The credit approval process and the authorities vested with the committee members are laid out in the Bank's Credit Policy & Procedures Manual. The manual is revised periodically.

42.1.3 Risk measurement and reporting systems

In order to effectively monitor and control risks, the GRM maintains a capability that allows it to:

- Prepare portfolio reports across a range of indicators such as portfolio concentrations by geography, industry type, product and risk rating. which are used to analyse and monitor overall portfolio quality;
- Monitor the integrity and consistency of data, including risk ratings, risk migrations, exposures and losses, including the maintenance of a central loss database for the monitoring and analysis of losses;
- Set parameters to be used for the calculation of expected loss and risk capital requirements;
- Consolidate portfolio management data and reports for use by Executive Management and the Board; and
- Establish and maintain a set of early warning indicators to identify emerging risks.

Detailed reporting of industry, customer and geographic risks acquired takes place frequently. These reports are examined and discussed closely in a series of quarterly portfolio reviews held with senior business and risk managers. Decisions on risk appetite, adjustments to financing criteria and other initiatives are taken as a result of these meetings. Risk reports are presented to the Chief Executive Officer, the Governance & Risk Policy Committee and the Board regularly. Senior management assesses the adequacy of the provision for credit losses on a monthly basis.

The Group actively uses collateral to reduce its credit risks.

42.1.4 Risk concentration

The Bank seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers or in specific locations or businesses. It also obtains security when appropriate.

Details of the composition of the financing portfolio are provided in notes 17 and 18.

42 RISK MANAGEMENT continued

42.1 Introduction continued

42.1.5 Group Internal Audit
Risk management processes throughout the Bank are reviewed periodically by the internal audit function that reviews both the adequacy of the procedures and the Bank's compliance with the procedures. Group Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee. The Head of Group Internal Audit has a direct reporting line to the Audit Committee thus demonstrating his independence and objectivity in all audit engagements undertaken within the Bank.

42.1.6 Basel II / Internal Capital Adequacy Assessment Process ("ICAAP")
Since 2009, the UAE Central Bank, as part of the international Basel II regulatory regime, has required each UAE bank to submit a report on its internal capital adequacy assessment process – this is known as the "ICAAP". The Bank has prepared and submitted its ICAAP report in each of the past eight years. The process aligns the Bank's risk appetite with its risk capacity which, in turn, produces an enterprise-wide set of risk limits set within and relevant to the Bank's overall strategy.

42.2 Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by the use of a focused target market discipline which defines who the Bank is prepared to deal with from a risk profile perspective and the use of risk acceptance criteria, which define what type and volume of risk the Bank is prepared to undertake with each counterparty. These critical tools are used in conjunction with close monitoring of credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of all counter-parties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

All commercial credit risk exposures are risk rated using Moody's Risk Analyst system, recognized as an industry wide standard. This platform supports a number of different rating models for various businesses which are now well embedded. Facility Risk Ratings are also applied. Consumer exposures are rated using application and behavioral scorecards.

Credit-related commitments risks
The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of guarantee. They expose the Bank to similar risks as financing and these are mitigated by the same control processes and policies.

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	***Gross maximum exposure 2017 AED '000***	*Gross maximum exposure 2016 AED '000*
Balances and wakala deposits with Islamic banks and other financial institutions	15	**2,765,903**	4,246,158
Murabaha and mudaraba with financial institutions	16	**2,125,249**	1,827,710
Murabaha and other Islamic financing	17	**35,145,452**	38,167,855
Ijara financing	18	**44,604,543**	43,201,330
Investment in Islamic sukuk measured at amortised cost	19	**10,064,830**	9,161,591
Investments measured at fair value	20	**1,377,491**	1,263,230
Other assets		**2,376,264**	1,383,657
		98,459,732	99,251,531
Contingent liabilities	36	**11,788,057**	11,772,962
Commitments		**666,945**	386,939
Total		**12,455,002**	12,159,901
Total credit risk exposure		**110,914,734**	111,411,432

42.2.2 Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The credit exposure to the top 5 customers as of 31 December 2017 was AED 8,104,546 thousand (2016: AED 7,396,572 thousand) before taking account of collateral or other credit enhancements.

The concentration of the Group's assets and liabilities by geographical segment is based primarily upon the location of the counter party.

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.2 Credit risk concentration continued

The distribution of the Group's financial assets which are subject to credit risk by geographic region is as follows:

	Balances and wakala deposits with Islamic banks and other financial institutions AED '000	*Murabaha and mudaraba with financial institutions AED '000*	*Murabaha and other Islamic financing AED '000*	*Ijara financing AED '000*	*Investment in Islamic sukuk measured at amortised cost AED '000*	*Investments measured at fair value AED '000*	*Other assets AED '000*	*Total AED' 000*
31 December 2017								
UAE	**684,125**	**1,957,846**	**33,885,343**	**42,668,353**	**7,443,468**	**842,324**	**2,293,400**	**89,774,859**
Rest of Middle East	**274,483**	**167,403**	**783,768**	**1,025,203**	**1,365,455**	**39,891**	**82,795**	**3,738,998**
Europe	**163,146**	**-**	**210,679**	**386,656**	**100,372**	**-**	**-**	**860,853**
Others	**1,644,149**	**-**	**265,662**	**524,331**	**1,155,535**	**495,276**	**69**	**4,085,022**
Financial assets subject to credit risk	**2,765,903**	**2,125,249**	**35,145,452**	**44,604,543**	**10,064,830**	**1,377,491**	**2,376,264**	**98,459,732**
31 December 2016								
UAE	2,132,487	1,561,341	36,641,855	41,098,110	6,685,617	846,237	1,240,876	90,206,523
Rest of Middle East	784,535	228,153	950,297	1,066,435	1,295,254	34,547	139,412	4,498,633
Europe	113,844	9,066	201,865	321,811	92,284	1	-	738,871
Others	1,215,292	29,150	373,838	714,974	1,088,436	382,445	3,369	3,807,504
Financial assets subject to credit risk	4,246,158	1,827,710	38,167,855	43,201,330	9,161,591	1,263,230	1,383,657	99,251,531

The credit risk arising from off-balance sheet items mentioned in note 42.2.1 are mainly relating to the UAE.

The distribution of the Group's financial assets by industry sector is as follows:

	2017 AED '000	*2016 AED '000*
Government	**4,066,315**	2,342,298
Public sector	**5,462,229**	5,605,401
Financial institutions	**8,911,385**	9,187,616
Trading and manufacturing	**7,130,160**	9,314,703
Construction and real estate	**7,134,045**	8,593,568
Energy	**738,834**	702,786
Personal	**49,968,753**	48,477,967
Others	**15,048,011**	15,027,192
Financial assets subject to credit risk	**98,459,732**	99,251,531

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.3 Impairment assessment

The main consideration for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows of the counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed impairment losses and collective impairment provisions on financing assets.

Individually assessed impairment losses on financing assets

The Group determines the allowances appropriate for each individually significant customer financing on an individual basis. Items considered when determining impairment loss amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated on a monthly basis.

Collective impairment provisions on financing assets

Collective impairment provisions are assessed for losses on customer financing that are not individually significant where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

Write-off of financing assets

Board approved policies are in place covering the timing and amount of provisions and write offs for all the financing portfolios of the bank. These reflect both the UAE Central bank guidelines and rules, accepted international accounting standards, and market and industry best practice and are stringently adhered to.

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.4 Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities;
- For commercial financing, charges over real estate properties, inventory, trade receivables and securities; and
- For retail financing, charge over assets, mortgage of properties and assignment of salaries in favor of the Bank.

The table below shows the lower of the collateral value or the outstanding balance of customer financing as at the reporting date:

	2017 ***AED '000***	*2016* *AED '000*
Against customer financing not impaired		
Property	**24,501,056**	24,324,068
Securities	**179,996**	133,030
Cash margin and lien over deposits	**472,702**	193,901
Others	**6,449,069**	7,121,981
	31,602,823	31,772,980
Against individually impaired		
Property	**1,601,886**	1,283,636
Securities	**47,730**	13,809
Cash margin and lien over deposits	**11,364**	22,362
Others	**104,307**	177,088
	1,765,287	1,496,895
	33,368,110	33,269,875

The Bank also obtains guarantees from parent companies for financing their subsidiaries, but their benefits are not included in the above table.

Management regularly monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and assesses the market value of collateral obtained during its review of the adequacy of the provision for impairment losses.

The Bank also makes use of master netting agreements with counterparties.

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.5 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality for balance and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, murabaha, ijara and other Islamic financing based on the Group's credit rating system.

	Moody's equivalent grade	***2017 AED '000***	*2016 AED '000*
Low risk			
Risk rating class 1	Aaa	**-**	-
Risk rating classes 2 and 3	Aa1-A2	**5,895,985**	4,182,315
Risk rating class 4	A2-Baa3	**8,597,824**	12,545,414
Risk rating classes 5, 6+ and 6	Ba1-B3	**60,029,148**	59,728,304
Fair risk			
Risk rating class 6- and 7	Caa1-Caa3	**6,104,622**	7,682,047
Impaired			
Risk rating class 8, 9 and 10		**4,013,568**	3,304,973
		84,641,147	87,443,053

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial and qualitative analysis, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The risk ratings models are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class. A number of new rating models aligned to specific business segments, were introduced during the course of the year.

Renegotiated murabaha, ijara and other Islamic financings

The total carrying amount of financing to non-related parties whose terms have been renegotiated during the year amounted to AED 2,445,970 thousand (2016: AED 1,057,214 thousand).

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.5 Credit quality per class of financial assets continued

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 investment in islamic sukuk measured at amortised cost.

	Balances and wakala deposits with Islamic banks and other financial institutions 31 December		*Murabaha and mudaraba with financial institutions 31 December*		*Murabaha and other Islamic financing 31 December*		*Ijara financing 31 December*		*Investment in islamic sukuk measured at amortised cost 31 December*	
	2017	*2016*	***2017***	*2016*	***2017***	*2016*	***2017***	*2016*	***2017***	*2016*
	AED '000	*AED '000*	***AED '000***	*AED '000*	***AED '000***	*AED '000*	***AED '000***	*AED '000*	***AED '000***	*AED '000*
Individually impaired										
Substandard	-	-	-	-	**758,517**	691,864	**861,363**	559,457	-	-
Doubtful	-	-	-	-	**622,156**	556,356	**738,202**	671,012	-	12,802
Loss	-	-	-	64,929	**655,610**	483,614	**377,720**	277,741	**12,802**	91,813
Gross amount	-	-	-	64,929	**2,036,283**	1,731,834	**1,977,285**	1,508,210	**12,802**	104,615
Provision for individual impairment	-	-	-	(64,929)	**(1,043,196)**	(853,154)	**(464,051)**	(409,186)	**(12,802)**	(98,277)
	-	-	-	-	**993,087**	878,680	**1,513,234**	1,099,024	-	6,338
Past due but not impaired										
Less than 90 days	-	-	-	-	**302,192**	445,261	**220,260**	296,228	-	-
More than 90 days	-	-	-	-	**23,794**	102,073	**261,730**	353,044	-	-
	-	-	-	-	**325,986**	547,334	**481,990**	649,272	-	-
Neither past due nor impaired	**2,765,903**	4,246,158	**2,125,249**	1,762,781	**32,783,183**	35,888,687	**42,145,268**	41,043,848	**10,052,028**	9,056,976
Collective allowance for impairment	-	-	-	-	**(852,941)**	(968,615)	**(860,173)**	(927,708)	-	-
Carrying amount	**2,765,903**	4,246,158	**2,125,249**	1,762,781	**33,249,315**	36,346,086	**43,280,319**	41,864,436	**10,052,028**	9,063,314

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.5 Credit quality per class of financial assets continued
An analysis of past due financing, by age, is provided below:

Ageing analysis of past due but not impaired

	Less than 30 days AED '000	*31 -60 days AED '000*	*61 -90 days AED '000*	*More than 90 days AED '000*	*Total AED '000*
2017					
Murabaha and other Islamic financing	**240,418**	**37,390**	**24,384**	**23,794**	**325,986**
Ijara financing	**110,314**	**100,456**	**9,490**	**261,730**	**481,990**
	350,732	**137,846**	**33,874**	**285,524**	**807,976**
2016					
Murabaha and other Islamic financing	204,258	137,785	103,218	102,073	547,334
Ijara financing	103,064	38,249	154,915	353,044	649,272
	307,322	176,034	258,133	455,117	1,196,606

More detailed information in respect of the allowance for impairment losses on murabaha and other islamic financing and ijara financing have been disclosed in notes 17 and 18 respectively.

42.3 Liquidity risk and funding management
Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows, the maintenance and monitoring of the inventory of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with the Central Bank. The liquidity position is assessed and managed under a variety of stress scenarios, given due consideration to severe yet plausible stress conditions relating to both the market in general and specifically to the Group.

The high quality of the investment portfolio ensures its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help these form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands. In addition, the Bank monitors various liquidity risk ratios and maintains an up to date contingency funding plan.

42 RISK MANAGEMENT continued

42.3 Liquidity risk and funding management continued

42.3.1 Treasury

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

42.3.2 Asset & Liability Committee ("ALCO")

The Asset & Liability Management ("ALM") process focusses on planning, acquiring, and directing the flow of funds through the organization. The ultimate objective of this process is to generate adequate stable earnings and to steadily build equity over time, while taking measured business risk aligned to the overall risk appetite of the Bank. The Bank has a defined ALM policy which describes the objective, role and function of the ALCO. This process revolves around ALCO, the body within the Bank that holds the responsibility to make strategic decisions relating to the management of financial position related risks. The ALCO consists of the Bank's senior management including the CEO and normally meets once a month.

42.3.3 Liquidity risk management process

The Group's liquidity risk management process, as carried out within the Group and monitored by a separate team in Group Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes reenlistment of funds as they mature or when financing are provided to customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquated as protection against any unforeseen interruption to cash flow;
- Managing statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

42 RISK MANAGEMENT continued

42.3 Liquidity risk and funding management continued

42.3.4 Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets and liabilities at reporting date based on contractual maturities.

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
31 December 2017					
ASSETS					
Cash and balances with central banks	**21,467,205**	**-**	**-**	**-**	**21,467,205**
Balances and wakala deposits with Islamic banks and other financial institutions	**1,585,102**	**147,182**	**967,480**	**66,139**	**2,765,903**
Murabaha and mudaraba with financial institutions	**1,957,846**	**167,403**	**-**	**-**	**2,125,249**
Murabaha and other Islamic financing	**2,739,342**	**8,825,479**	**15,025,234**	**6,659,260**	**33,249,315**
Ijara financing	**1,802,608**	**3,443,869**	**16,305,233**	**21,728,609**	**43,280,319**
Investments in Islamic sukuk measured at amortised cost	**613,001**	**742,326**	**5,090,151**	**3,606,550**	**10,052,028**
Investments measured at fair value	**-**	**1,519,282**	**7,208**	**-**	**1,526,490**
Investment in associates and joint ventures	**-**	**-**	**-**	**988,788**	**988,788**
Other assets	**2,267,267**	**55,427**	**189,486**	**12,964**	**2,525,144**
Financial assets	**32,432,371**	**14,900,968**	**37,584,792**	**33,062,310**	**117,980,441**
Non-financial assets					**5,297,158**
Total assets					**123,277,599**
LIABILITIES					
Due to financial institutions	**3,681,580**	**6,978**	**-**	**-**	**3,688,558**
Depositors' accounts	**95,379,969**	**4,129,724**	**493,926**	**-**	**100,003,619**
Other liabilities	**1,907,644**	**339,150**	**765,464**	**-**	**3,012,258**
Total liabilities	**100,969,193**	**4,475,852**	**1,259,390**	**-**	**106,704,435**
31 December 2016					
ASSETS					
Cash and balances with central banks	19,277,935	500,404	-	-	19,778,339
Balances and wakala deposits with Islamic banks and other financial institutions	1,379,729	1,899,655	900,640	66,134	4,246,158
Murabaha and mudaraba with financial institutions	1,309,905	452,876	-	-	1,762,781
Murabaha and other Islamic financing	2,973,969	7,841,840	19,117,400	6,412,877	36,346,086
Ijara financing	1,851,973	4,449,542	17,491,293	18,071,628	41,864,436
Investments in Islamic sukuk measured at amortised cost	512,337	708,460	4,369,056	3,473,461	9,063,314
Investments measured at fair value	-	1,382,217	14,711	-	1,396,928
Investment in associates and joint ventures	-	-	-	753,541	753,541
Other assets	1,269,570	61,029	190,986	12,755	1,534,340
Financial assets	28,575,418	17,296,023	42,084,086	28,790,396	116,745,923
Non-financial assets					5,543,802
Total assets					122,289,725
LIABILITIES					
Due to financial institutions	5,154,215	-	-	-	5,154,215
Depositors' accounts	90,839,588	5,998,396	1,975,768	-	98,813,752
Other liabilities	1,812,691	308,829	741,597	-	2,863,117
Total liabilities	97,806,494	6,307,225	2,717,365	-	106,831,084

42 RISK MANAGEMENT continued

42.3 Liquidity risk and funding management continued

42.3.4 Analysis of financial assets and financial liabilities by remaining contractual maturities continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations, including cash flows pertaining to principal repayment and profit payable to maturity.

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
31 December 2017					
LIABILITIES					
Due to financial institutions	**3,681,990**	**7,022**	**-**	**-**	**3,689,012**
Depositors' accounts	**95,392,025**	**4,159,191**	**507,323**	**-**	**100,058,539**
Other liabilities	**1,907,644**	**339,150**	**765,464**	**-**	**3,012,258**
Total liabilities	**100,981,659**	**4,505,363**	**1,272,787**	**-**	**106,759,809**
31 December 2016					
LIABILITIES					
Due to financial institutions	5,154,551	-	-	-	5,154,551
Depositors' accounts	90,852,615	6,036,950	2,020,210	-	98,909,775
Other liabilities	1,812,691	308,829	741,597	-	2,863,117
Total liabilities	97,819,857	6,345,779	2,761,807	-	106,927,443

The disclosed financial instruments in the above table are the gross undiscounted cash flows.

The table below shows the contractual expiry of the Bank's contingent liabilities and commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
2017					
Contingent liabilities	**8,223,107**	**1,334,464**	**2,217,544**	**12,942**	**11,788,057**
Commitments	**-**	**180,807**	**-**	**-**	**180,807**
Total	**8,223,107**	**1,515,271**	**2,217,544**	**12,942**	**11,968,864**
2016					
Contingent liabilities	9,848,151	1,109,949	808,550	6,312	11,772,962
Commitments	-	11,436	125,292	-	136,728
Total	9,848,151	1,121,385	933,842	6,312	11,909,690

The Bank does not expect that all of the contingent liabilities or commitments will be drawn before expiry.

42 RISK MANAGEMENT continued

42.4 Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Group is exposed to diverse the financial instruments including securities, foreign currencies, equities and commodities.

The Group pays considerable attention to market risk. The Group uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises of the following elements:

- Limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by the senior management; and
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on timely basis.

The policies and procedures and the trading limits are set to ensure the implementation of the Group's market risk policy in day-to-day operations. These are viewed periodically to ensure they remain in line with the Group's general market risk policy. The ALCO ensure that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Group is required to comply with the guidelines and regulations of the Central Bank.

42.4.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-statement of financial position instruments that mature or re-price in a given period. The Group manages this risk through appropriate limits in place and frequent review of the bank's structural position with regard to profit rate risk and its impact on earnings as well as the economic value of its shareholders' equity.

The following table estimates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's consolidated income statement. The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates (whether increase or decrease) on the net profit for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

Currency	***Increase in basis points 2017***	***Sensitivity of profit on financial assets and liabilities AED '000***	*Increase in basis points 2016*	*Sensitivity of profit on financial assets and liabilities AED '000*
AED	**25**	**44,780**	25	40,523
USD	**25**	**20,919**	25	21,272
Euro	**25**	**(208)**	25	1,702
Other currencies	**25**	**1,036**	25	1,832

42 RISK MANAGEMENT continued

42.4 Market risk continued

42.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The table below indicates the extent to which the Group was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against AED with all other variable held constant on the consolidated income statement (due to the changes in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated in consolidated income statement on investments carried at fair value through other comprehensive income - equity instruments and investment in associates and joint ventures).

	% Increase currency rates	*Effect on net profit AED '000*	*Effect on equity AED '000*
31 December 2017			
Currency			
USD	**5**	**359,233**	**4,170**
Euro	**5**	**(97,213)**	**4,122**
GBP	**5**	**2,962**	**-**
Other currencies	**5**	**28,823**	**23,873**
31 December 2016			
Currency			
USD	5	411,192	3,938
Euro	5	(29,573)	3,499
GBP	5	(3,449)	-
Other currencies	5	13,782	23,349

42 RISK MANAGEMENT continued

42.4 Market risk continued

42.4.2 Currency risk continued

The table below shows the Group's exposure to foreign currencies.

	AED AED '000	USD AED '000	Euro AED '000	GBP AED '000	Others AED '000	Total AED '000
31 December 2017						
Financial assets						
Cash and balances with central banks	**18,895,702**	**1,263,341**	**274**	**1,063**	**1,306,825**	**21,467,205**
Balances and wakala deposits with Islamic banks and other financial institutions	**(330,115)**	**2,346,906**	**110,372**	**454,506**	**184,234**	**2,765,903**
Murabaha and mudaraba with financial institutions	**1,425,248**	**532,598**	**-**	**-**	**167,403**	**2,125,249**
Murabaha and other Islamic financing	**31,156,721**	**1,674,206**	**7,335**	**784**	**410,269**	**33,249,315**
Ijara financing	**36,302,801**	**6,577,302**	**2,326**	**397,890**	**-**	**43,280,319**
Investments in Islamic sukuk measured at amortised cost	**264,000**	**9,685,598**	**-**	**102,430**	**-**	**10,052,028**
Investments measured at fair value	**(221,943)**	**1,427,069**	**(522)**	**288,069**	**33,817**	**1,526,490**
Investment in associates and joint ventures	**428,981**	**-**	**82,338**	**-**	**477,469**	**988,788**
Other assets	**1,749,068**	**245,678**	**153,630**	**178,637**	**198,131**	**2,525,144**
	89,670,463	**23,752,698**	**355,753**	**1,423,379**	**2,778,148**	**117,980,441**
Financial liabilities						
Due to financial institutions	**1,969,111**	**1,171,498**	**64,666**	**397,396**	**85,887**	**3,688,558**
Depositors' accounts	**80,727,844**	**14,866,945**	**2,134,877**	**948,371**	**1,325,582**	**100,003,619**
Other liabilities	**2,216,888**	**446,208**	**18,043**	**18,369**	**312,750**	**3,012,258**
	84,913,843	**16,484,651**	**2,217,586**	**1,364,136**	**1,724,219**	**106,704,435**
31 December 2016						
Financial assets						
Cash and balances with central banks	17,703,406	1,171,030	2,342	664	900,897	19,778,339
Balances and wakala deposits with Islamic banks and other financial institutions	301,934	1,679,638	1,709,453	452,478	102,655	4,246,158
Murabaha and mudaraba with financial institutions	1,055,238	211,150	289,652	9,066	197,675	1,762,781
Murabaha and other Islamic financing	34,322,058	1,619,997	2,850	784	400,397	36,346,086
Ijara financing	33,448,811	7,801,301	21,673	415,185	177,466	41,864,436
Investments in Islamic sukuk measured at amortised cost	282,000	8,689,029	-	92,285	-	9,063,314
Investments measured at fair value	54,851	1,277,506	83	-	64,488	1,396,928
Investment in associates and joint ventures	216,666	-	69,890	-	466,985	753,541
Other assets	29,720	1,506,806	(79,509)	6,428	70,895	1,534,340
	87,414,684	23,956,457	2,016,434	976,890	2,381,458	116,745,923
Financial liabilities						
Due to financial institutions	1,759,510	2,562,731	165,486	444,872	221,616	5,154,215
Depositors' accounts	81,915,524	12,811,388	2,338,706	587,757	1,160,377	98,813,752
Other liabilities	2,279,578	279,737	33,724	13,234	256,844	2,863,117
	85,954,612	15,653,856	2,537,916	1,045,863	1,638,837	106,831,084

42 RISK MANAGEMENT continued

42.4 Market risk continued

42.4.3 Equity price risk
Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's quoted investments in the investment portfolio.

The following table estimates the sensitivity to a possible change in equity markets on the Bank's consolidated income statement. Sensitivity is the effect of the assumed change in the reference equity benchmark in the fair value of investments carried at fair value through profit or loss on the consolidated income statement,

	% Increase in market indices 2017	***Effect on net profit 2017 AED '000***	*%Increase in market indices 2016*	*Effect on net profit 2016 AED '000*
Investments carried at fair value through profit or loss				
Dubai Financial Market	**10**	-	10	24

The effect on equity (as a result of a change in the fair value of equity instruments held as investments carried at fair value through other comprehensive income at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	% Increase in market indices 2017	***Effect on equity 2017 AED '000***	*%Increase in market indices 2016*	*Effect on equity 2016 AED '000*
Investments carried at fair value through other comprehensive income				
Abu Dhabi Stock Market	**10**	4,167	10	-
Dubai Financial Market	**10**	64	10	76

42.4.4 Operational risk
Operational risk is the potential exposure to financial, reputational or other damage arising from inadequate or failed internal processes, people, systems or external events.

The Bank has implemented a detailed operational risk framework in accordance with Basel II guidelines. The framework articulates clearly defined roles and responsibilities of individuals / units and committees across the Group involved in the management of various operational risk elements. The Operational Risk Management Framework ensures that operational risks within the Group are properly identified, monitored, reported and actively managed. Key elements of the framework include Risk Reviews, "Risk & Control self-Assessment", Loss Data Management, key risk indicators, controls testing, Issues & Actions Management and Reporting. The Framework also fully encompasses and integrates elements of Fraud Risk Prevention and Quality Assurance.

Business and support units are responsible for managing operational risks within their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being pro-actively identified, monitored, reported and managed within their scope of work. The day-to-day operational risks are also managed through the adoption of a comprehensive system of internal control with multi-layers of defense and dedicated systems and procedures to monitor transactions, positions and documentation, as well as maintenance of key backup procedures and business contingency plan which are regularly assessed and tested.

42 RISK MANAGEMENT continued

42.4.5 Compliance risk review

Given its commitment to best practice governance, in 2014 the Bank appointed external legal counsel to assist in reviewing its compliance with sanctions laws, and its compliance processes generally. The external legal counsel is yet to complete its review, and to the extent that this review assists the Bank in the identification of any additional steps that can be taken to ensure compliance with applicable sanctions laws, the Bank will enhance its processes accordingly. The Bank is continuing its internal review, and it is premature to speculate on any potential impact on the Bank. The Bank will share the outcome of the internal review with the relevant regulator once it is finalized.

42.5 Capital management

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The Central Bank of the UAE vide circular No. 4004/2009 dated 30 August 2009, requires all banks operating in the UAE to maintain a risk asset ratio at a minimum of 12% (2015: 12%) at all times in which Tier 1 capital should not be less than 8% (2015: 8%) of the total risk weighted assets. In implementing current capital requirements of the Central Bank of the U.A.E, the Group maintains the required ratio of the regulatory capital to total risk weighted assets.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, retained earnings, gains or losses arising on translation of foreign operations, non-controlling interest and Tier 1 sukuk after deductions of goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment provisions on financing assets and the element of the fair value reserve relating to unrealised gains and losses on financial instruments classified as investments carried at fair value through other comprehensive income and unrealised gains or losses arising on Sharia'a compliant financial instruments designated as cash flow hedges.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or to adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The Central Bank of the U.A.E vide its notice 27/2009 dated 17 November 2009, requires all the banks operating in the U.A.E. to implement Standardised approach of Basel II. For credit and market risks, the Central Bank of the U.A.E. has issued guidelines for implementation of Standardised approach. For operational risk, the Central Bank of the U.A.E. has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Basic Indicators approach.

Furthermore, as required by the above circular, certain Basel II pillar 3 disclosures will be included in the annual report issued by the Bank for the year 2017.

42 RISK MANAGEMENT continued

42.5 Capital management continued

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2017 and 2016. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	Basel II	
	2017	*2016*
	AED '000	*AED '000*
Tier 1 capital		
Share capital	**3,168,000**	3,168,000
Legal reserve	**2,085,788**	2,085,788
General reserve	**1,694,486**	1,472,760
Credit risk reserve	**400,000**	400,000
Retained earnings	**3,250,961**	2,469,256
Proposed dividend	**914,530**	776,782
Proposed dividend to charity	**29,230**	30,000
Foreign currency translation reserve	**(737,565)**	(711,172)
Tier 1 sukuk	**5,672,500**	5,672,500
Non-controlling interest	**11,461**	10,842
	16,489,391	15,374,756
Goodwill and intangibles	**(365,343)**	(420,136)
Deductions for Tier 1 capital	**(444,325)**	(376,770)
Total Tier 1	**15,679,723**	14,577,850
Tier 2 capital		
Cumulative changes in fair value and hedging reserve	**(110,161)**	(108,815)
Collective impairment provision for financing assets	**1,067,747**	1,119,311
	957,586	1,010,496
Deductions for Tier 2 capital	**(444,326)**	(376,771)
Total Tier 2	**513,260**	633,725
Total capital base	**16,192,983**	15,211,575
Risk weighted assets		
Credit risk	**85,419,783**	89,544,880
Market risk	**2,211,598**	1,802,581
Operational risk	**9,259,729**	8,402,813
Total risk weighted assets	**96,891,110**	99,750,274
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**16,71%**	15.25%
Tier 1 capital expressed as a percentage of total risk weighted assets	**16.18%**	14.61%

42 RISK MANAGEMENT continued

42.5 Capital management continued

42.5.1 Basel III Capital Ratios

The Central Bank of UAE ('CBUAE') issued Basel III capital regulations, which came into effect from 1 February 2017 (parallel reporting for Q2 2017 and Q3 2017 and Primary reporting from Q4 2017 onwards) introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Tier 1 ('T1') and Total Capital.

The additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced are over and above the minimum CET1 requirement of 7%.

For 2017, CCB is effective in transition arrangement and is required to be maintained at 1.25% of the Capital base. For 2018, CCB will be required at 1.88% and from 2019 it will be required to be maintained at 2.5% of the Capital base. CCyB is not yet in effect and is not required to be maintained for 2017.

The capital adequacy ratio as per Basel III capital regulation is given below:

	2017	*Minimum capital requirement 2017*	*Minimum capital requirement by 2019*
Capital Ratio:			
a. Total for consolidated Group	**17.02%**	**11.75%**	**13.00%**
b. Tier 1 ratio for consolidated Group	**15.99%**	**9.75%**	**11.00%**
c. CET1 ratio for consolidated Group	**10.32%**	**8.25%**	**9.50%**

43 FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted investments – at fair value
Quoted investments represent marketable equities and sukuk that are measured at fair value. The fair values of these investments are based on quoted prices as of the reporting date. For investments carried at fair value through other comprehensive income, the impact of change in fair valuation from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

Unquoted investments – at fair value
The consolidated financial statements include investments in unquoted funds and private equities which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalization of sustainable earnings basis. The valuation models include some assumptions that are not supported by observable market prices or rates. The impact of change in fair value from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

In the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities that are not carried at fair value in the consolidated financial statements are not materially different (except investment carried at amortised cost and investment in associates and joint ventures (note 21), since those financial assets and liabilities are either short term in nature or in the case of deposits and financing asset, are frequently repriced. The fair value of investments carried at amortised cost is disclosed below.

	Carrying value 2017 AED '000	***Fair value 2017 AED '000***	*Carrying value 2016 AED '000*	*Fair value 2016 AED '000*
Fair value of investments - at amortised cost				
Investments carried at amortised cost - sukuk (note 19)	**10,052,028**	**10,368,476**	9,063,314	9,226,315

Fair value measurement recognized in the consolidated statement of financial position
The Group uses the following hierarchy for determining and disclosing the fair value of financial instrument by valuation technique:

Level 1: quoted (unadjusted prices in active markets for identical assets or liabilities).

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

43 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Fair value measurement recognized in the consolidated statement of financial position continued
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable.

	Level 1 AED '000	*Level 2 AED '000*	*Level 3 AED '000*	*Total AED '000*
31 December 2017				
Assets and liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit or loss				
Equities	-	-	-	-
Sukuk	**1,377,491**	-	-	**1,377,491**
	1,377,491	-	-	**1,377,491**
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	**42,307**	-	-	**42,307**
Unquoted investments				
Funds	-	-	**53,619**	**53,619**
Private equities	-	-	**53,073**	**53,073**
	-	-	**106,692**	**106,692**
	42,307	-	**106,692**	**148,999**
Financial liabilities				
Shari'a compliant alternatives of swap (note 37)	-	**4,901**	-	**4,901**
Assets for which fair values are disclosed:				
Investment properties (note 22)	-	-	**1,334,262**	**1,334,262**
Investment carried at amortised cost- Sukuk	**10,104,476**	-	**264,000**	**10,368,476**
31 December 2016				
Assets and liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit or loss				
Equities	244	-	-	244
Sukuk	1,263,230	-	-	1,263,230
	1,263,474	-	-	1,263,474
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	756	-	-	756
Unquoted investments				
Funds	-	-	52,088	52,088
Private equities	-	-	80,610	80,610
	-	-	132,698	132,698
	756	-	132,698	133,454
Financial liabilities				
Shari'a compliant alternatives of swap (note 37)	-	1,645	-	1,645
Assets for which fair values are disclosed:				
Investment properties (note 22)	-	-	1,595,972	1,595,972
Investment carried at amortised cost- Sukuk	8,944,315	-	282,000	9,226,315

During the year, quoted equity investments amounting to AED 41,362 thousand (2016: Nil) were transferred from level 3 to level 1.

43 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Fair value measurement recognized in the consolidated statement of financial position continued
A significant part of the investments classified under Level 3 are valued using inputs from investment managers and in the opinion of the management it is not practical to disclose the sensitivity of inputs to the valuation techniques used.

The following table shows a reconciliation of the opening and closing amount of level 3 of financial assets which are recorded at fair value:

	2017	*2016*
	AED '000	*AED '000*
At 1 January	**132,698**	182,857
Transfer to level 1	**(41,362)**	-
Net purchase (disposals)	**13,940**	(37,860)
Gain (loss) recorded in equity	**1,416**	(12,299)
At 31 December	**106,692**	132,698

44 SOCIAL CONTRIBTUIONS

The social contributions (including donations and charity) made during the year amount to AED 30,000 thousand which were approved by the shareholders at the Annual General Assembly held on 2 April 2017.

During 2016, the social contributions (including donations and charity) were made amounting to AED 20,000 thousand after the approval by the shareholders at the Annual General Assembly held on 21 April 2016.

Abu Dhabi Islamic Bank PJSC

REPORT OF THE BOARD OF DIRECTORS AND
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

Contents ***Page***

Abu Dhabi Islamic Bank PJSC

REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2016

BOARD OF DIRECTORS' REPORT
Year ended 31 December 2016

The Board of Directors have pleasure in submitting their report together with the consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries (collectively known as the "the Group") for the year ended 31 December 2016.

Incorporation and registered office
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 and applicable requirements of the laws of the UAE and the Amiri Decree No. 9 of 1997.

Principal activity
The activities of the Group 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.

Basis of preparation of consolidated financial statements
The 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 the laws of the UAE.

Financial commentary
The Group net profit reached a record AED 1,953.6 million (2015: AED 1,934.0 million) for 2016 up 1.0%. The financial highlights of the full year results are as follows:

- Group net revenue (total operating income net of distribution to depositors and sukuk holders) for 2016 was AED 5,385.5 million (2015: AED 5,134.4 million) increased by 4.9%.
- Group operating profit ("margin") for 2016 increased by 6.4% to reach at AED 2,937.6 million (2015: AED 2,760.3 million).
- Total provisions for impairments for 2016 were AED 970.0 million (2015: AED 820.0 million).
- Group net profit for 2016 AED 1,953.6 million (2015: AED 1,934.0 million) up 1.0%.
- Group earnings per share decreased to AED 0.520 compared to AED 0.529 in 2015.
- Total assets as of 31 December 2016 were AED 122.3 billion (2015: AED 118.4 billion).
- Net customer financing (murabaha, ijara and other Islamic financing) as of 31 December 2016 was AED 78.2 billion (2015: AED 78.4 billion).
- Customer deposits as of 31 December 2016 were AED 98.8 billion (2015: AED 94.9 billion).

Dividends and proposed appropriations
The Board of Directors have recommended a cash dividend of 24.52% and the following appropriations from retained earnings:

	AED '000
▸ Transfer to general reserves	(200,901)
▸ Proposed dividends to charity for the year ended 31 December 2016	(30,000)
▸ Proposed cash dividend to shareholders for the year ended 31 December 2016	(776,782)
▸ Profit paid on Tier 1 sukuk – Listed during the year	(234,158)
▸ Profit paid on Tier 1 sukuk – Government of Abu Dhabi during the year	(69,533)

BOARD OF DIRECTORS' REPORT continued
Year ended 31 December 2016

Board of Directors
The directors during the year were as follows:

1.	H.E. Jawaan Awaidha Suhail Al Khaili	Chairman
2.	Khamis Mohamed Buharoon	Vice Chairman
3.	Juma Khamis Mugheer Al Khaili	Board Member
4.	Ragheed Najeeb Shanti	Board Member
5.	Dr. Sami Ali Al Amri	Board Member
6.	Abdulla Bin Aqeeda Al Muhairi	Board Member
7.	Khalifa Matar Al Mheiri	Board Member

On behalf of the Board of Directors
H.E. Jawaan Awaidha Suhail Al Khaili
Chairman

14 February 2017
Abu Dhabi

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

EY
Building a better working world

Ernst & Young
P.O. Box: 136
27th Floor, Nation Tower 2
Abu Dhabi Corniche
Abu Dhabi, United Arab Emirates

Tel: +971 2 417 4400
Fax: +971 2 627 3383
abudhabi@ae.ey.com
ey.com/mena

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI ISLAMIC BANK PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Abu Dhabi Islamic Bank PJSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRS').

Basis of our opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI ISLAMIC BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Provision for impairment of financing assets
Financing assets comprise Murabaha and other Islamic financing, and Ijara financing. Provision of impairment of financing assets is an area that requires management of the Group to make complex and significant judgments. Such areas of judgment include the identification of exposures, which are considered to be impaired, assessment of the recoverable amount of the financing asset and the size of the impairment loss to be recorded. We have therefore identified provisions for impairment of financing assets to be a key audit matter. At 31 December 2016, gross financing assets amounted to AED 81,369,185 thousand against which provisions for impairment amounting to AED 3,158,663 thousand were recorded (see Notes 17 & 18 to the consolidated financial statements).

The Group reviews its financing assets on a regular basis to assess whether a provision for impairment should be recorded. Judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment provision. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. In addition, the Bank also makes collective impairment provisions against portfolios of financing assets with common features, which have not been identified as individually impaired. This collective provision is based on any deterioration in the internal rating of the asset since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

We assessed and tested the design and operating effectiveness of key controls over the Group's credit management and monitoring procedures. In addition, we performed substantive audit procedures covering the identification by the Bank of impaired financing assets and the calculation of the impairment provisions. Such procedures included reviewing the minutes of key meetings held that form part of the approval for provisions of impairment of financing assets, past due reports and impairment assessments prepared by management of the Bank. In addition, for a sample of individual receivables from customer financing, we performed a review of these exposures and evaluated management's assessment of the recoverable amount.

For the collective impairment provisions, we obtained an understanding of the methodology used by the Group to determine the collective impairment provisions, assessed the underlying assumptions and the sufficiency of the data used by management, and reviewed the management assessment of the level of collective provisions as of 31 December 2016.

Other information
Other information consists of the information included in the Annual Report and Board of Directors report, other than the consolidated financial statements and our auditor's report thereon. We obtained the Board of Directors Report prior to the date of our audit report, and we expect to obtain the other sections of the Annual Report after the date of our auditor's opinion. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Building a better working world

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI ISLAMIC BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Responsibilities of management and those charged with governance for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

EY
Building a better working world

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI ISLAMIC BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Auditor's responsibilities for the audit of the consolidated financial statements continued

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

(i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;

(ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015, and the Memorandum and Articles of Association of the Bank;

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI ISLAMIC BANK PJSC continued

Report on Other Legal and Regulatory Requirements continued

(iii) the Group has maintained proper books of account;

(iv) the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;

(v) investments in shares and stocks are included in note 20 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2016;

(vi) note 41 reflects material related party transactions and the terms under which they were conducted;

(vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2016, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would have a material impact on its activities or its consolidated financial position as at 31 December 2016; and

(viii) note 45 reflects the social contributions made during the year.

Signed by:
Raed Ahmad
Partner
Ernst & Young
Registration No. 811

14 February 2017
Abu Dhabi

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2016

	Notes	2016 AED '000	2015 AED '000
OPERATING INCOME			
Income from murabaha, mudaraba and wakala with financial institutions		**40,087**	25,341
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	5	**4,488,747**	4,362,549
Income from Islamic sukuk measured at amortised cost		**332,033**	249,192
Income from investments measured at fair value	6	**74,025**	37,174
Share of results of associates and joint ventures		**35,233**	20,032
Fees and commission income, net	7	**840,415**	911,291
Foreign exchange income		**139,162**	79,627
Income from investment properties	8	**27,236**	45,705
Other income		**16,378**	20,092
		5,993,316	5,751,003
OPERATING EXPENSES			
Employees' costs	9	**(1,436,880)**	(1,403,458)
General and administrative expenses	10	**(770,393)**	(770,265)
Depreciation	22 & 25	**(185,850)**	(145,584)
Amortisation of intangibles	26	**(54,756)**	(54,756)
Provision for impairment, net	11	**(969,965)**	(819,954)
		(3,417,844)	(3,194,017)
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS		**2,575,472**	2,556,986
Distribution to depositors and sukuk holders	12	**(607,793)**	(616,628)
PROFIT FOR THE YEAR BEFORE ZAKAT AND TAX		**1,967,679**	1,940,358
Zakat and tax		**(14,121)**	(6,315)
PROFIT FOR THE YEAR AFTER ZAKAT AND TAX		**1,953,558**	1,934,043
Attributable to:			
Equity holders of the Bank		**1,952,264**	1,931,695
Non-controlling interest		**1,294**	2,348
		1,953,558	1,934,043
Basic and diluted earnings per share attributable to ordinary shares (AED)	13	**0.520**	0.529

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	**2016** **AED '000**	2015 AED '000
PROFIT FOR THE YEAR AFTER ZAKAT AND TAX		**1,953,558**	1,934,043
Other comprehensive loss			
Items that will not be reclassified to consolidated income statement			
Net loss on valuation of investments carried at fair value through other comprehensive income	34	**(16,783)**	(9,317)
Surplus on revaluation of land	34	**49,700**	-
Directors' remuneration paid	41	**(4,200)**	(4,900)
Items that may subsequently be reclassified to consolidated income statement			
Exchange differences arising on translation of foreign operations	34	**(571,244)**	(66,240)
Gain on hedge of foreign operations	34	**55,693**	21,167
Fair value gain on cash flow hedges	34	**9,933**	2,907
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(476,901)**	(56,383)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,476,657**	1,877,660
Attributable to:			
Equity holders of the Bank		**1,475,363**	1,875,308
Non-controlling interest		**1,294**	2,352
		1,476,657	1,877,660

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2016

	Notes	***2016 AED '000***	*2015 AED '000*
ASSETS			
Cash and balances with central banks	14	**19,778,339**	18,629,361
Balances and wakala deposits with Islamic banks and other financial institutions	15	**4,246,158**	3,124,314
Murabaha and mudaraba with financial institutions	16	**1,762,781**	1,617,562
Murabaha and other Islamic financing	17	**36,346,086**	38,400,777
Ijara financing	18	**41,864,436**	40,002,454
Investment in Islamic sukuk measured at amortised cost	19	**9,063,314**	7,282,409
Investments measured at fair value	20	**1,396,928**	1,453,559
Investment in associates and joint ventures	21	**753,541**	799,356
Investment properties	22	**1,207,991**	246,121
Development properties	23	**837,381**	837,381
Other assets	24	**2,695,667**	3,767,424
Property and equipment	25	**1,916,967**	1,742,052
Goodwill and intangibles	26	**420,136**	474,892
TOTAL ASSETS		**122,289,725**	118,377,662
LIABILITIES			
Due to financial institutions	27	**5,154,215**	3,105,610
Depositors' accounts	28	**98,813,752**	94,927,160
Other liabilities	29	**2,863,117**	3,433,411
Sukuk financing instruments	30	**-**	1,836,250
Total liabilities		**106,831,084**	103,302,431
EQUITY			
Share capital	31	**3,168,000**	3,168,000
Legal reserve	32	**2,102,465**	2,102,465
General reserve	32	**1,494,721**	1,293,820
Credit risk reserve	32	**400,000**	400,000
Retained earnings		**2,487,099**	1,858,899
Proposed dividend	33	**776,782**	769,022
Proposed dividend to charity		**30,000**	20,000
Other reserves	34	**(683,768)**	(219,557)
Tier 1 sukuk	35	**5,672,500**	5,672,034
Equity attributable to the equity and Tier 1 sukuk holders of the Bank		**15,447,799**	15,064,683
Non-controlling interest	36	**10,842**	10,548
Total equity		**15,458,641**	15,075,231
TOTAL LIABILITIES AND EQUITY		**122,289,725**	118,377,662
CONTINGENT LIABILITIES AND COMMITMENTS	37	**12,296,629**	14,088,296

H.E. Jawaan Awaidha Suhail Al Khaili
Chairman

Tirad M. Mahmoud
Chief Executive Officer

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to the equity and Tier 1 sukuk holders of the Bank											
	Notes	*Share capital AED '000*	*Legal reserve AED '000*	*General reserve AED '000*	*Credit risk reserve AED '000*	*Retained earnings AED '000*	*Proposed dividend AED '000*	*Proposed dividend to charity AED '000*	*Other reserves AED '000*	*Tier 1 sukuk AED '000*	*Total AED '000*	*Non-controlling interest AED '000*	*Total equity AED '000*
Balance at 1 January 2015		3,000,000	1,766,465	1,098,560	400,000	1,244,781	700,200	20,000	(194,644)	5,643,109	13,678,471	8,196	13,686,667
Profit for the year		-	-	-	-	1,931,695	-	-	-	-	1,931,695	2,348	1,934,043
Other comprehensive (loss) income		-	-	-	-	(4,900)	-	-	(51,505)	-	(56,405)	22	(56,383)
Loss on disposal of investments carried at fair value through other comprehensive income	34	-	-	-	-	(26,574)	-	-	26,592	-	18	(18)	-
Right shares issued	31	168,000	336,000	-	-	-	-	-	-	-	504,000	-	504,000
Right shares issuance cost	31	-	-	-	-	(3,089)	-	-	-	-	(3,089)	-	(3,089)
Profit paid on Tier 1 sukuk – Listed	35	-	-	-	-	(234,158)	-	-	-	-	(234,158)	-	(234,158)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	35	-	-	-	-	(64,574)	-	-	-	-	(64,574)	-	(64,574)
Movement in Tier 1 sukuk - Listed		-	-	-	-	-	-	-	-	28,925	28,925	-	28,925
Dividends paid		-	-	-	-	-	(700,200)	-	-	-	(700,200)	-	(700,200)
Dividends paid to charity		-	-	-	-	-	-	(20,000)	-	-	(20,000)	-	(20,000)
Transfer to reserves	32	-	-	195,260	-	(195,260)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	-	(20,000)	-	20,000	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	-	(769,022)	769,022	-	-	-	-	-	-
Balance at 1 January 2016		3,168,000	2,102,465	1,293,820	400,000	1,858,899	769,022	20,000	(219,557)	5,672,034	15,064,683	10,548	15,075,231
Profit for the year		-	-	-	-	1,952,264	-	-	-	-	1,952,264	1,294	1,953,558
Other comprehensive loss		-	-	-	-	(4,200)	-	-	(472,701)	-	(476,901)	-	(476,901)
Loss on disposal of investments carried at fair value through other comprehensive income	34	-	-	-	-	(8,490)	-	-	8,490	-	-	-	-
Profit paid on Tier 1 sukuk – Listed	35	-	-	-	-	(234,158)	-	-	-	-	(234,158)	-	(234,158)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	35	-	-	-	-	(69,533)	-	-	-	-	(69,533)	-	(69,533)
Movement in Tier 1 sukuk - Listed		-	-	-	-	-	-	-	-	466	466	-	466
Dividends paid	33	-	-	-	-	-	(769,022)	-	-	-	(769,022)	(1,000)	(770,022)
Dividends paid to charity		-	-	-	-	-	-	(20,000)	-	-	(20,000)	-	(20,000)
Transfer to reserves	32	-	-	200,901	-	(200,901)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	-	(30,000)	-	30,000	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	-	(776,782)	776,782	-	-	-	-	-	-
Balance at 31 December 2016		**3,168,000**	**2,102,465**	**1,494,721**	**400,000**	**2,487,099**	**776,782**	**30,000**	**(683,768)**	**5,672,500**	**15,447,799**	**10,842**	**15,458,641**

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2016

	Notes	2016 AED '000	2015 AED '000
OPERATING ACTIVITIES			
Profit for the year		**1,953,558**	1,934,043
Adjustments for:			
Depreciation on investment properties	22	**11,749**	12,843
Depreciation on property and equipment	25	**174,101**	132,741
Amortisation of intangibles	26	**54,756**	54,756
Share of results of associates and joint ventures		**(35,233)**	(20,032)
Dividend income	6	**(868)**	(5,697)
Realised gain on sale of investments carried at fair value through profit or loss	6	**(23,860)**	(10,289)
Unrealised loss on investments carried at fair value through profit or loss	6	**4,858**	15,488
Gain on disposal of property and equipment		**(214)**	(887)
Provision for impairment, net	11	**969,965**	819,954
Gain on sale of investment properties	8	**(10,497)**	(24,748)
Operating profit before changes in operating assets and liabilities		**3,098,315**	2,908,172
Increase in balances with central banks		**(1,719,748)**	(1,494,536)
(Increase) decrease in balances and wakala deposits with Islamic banks and other financial institutions		**(1,442,747)**	639,652
(Increase) decrease in murabaha and mudaraba with financial institutions		**(240,815)**	180,134
Decrease (increase) in murabaha and other Islamic financing		**1,297,212**	(5,096,667)
Increase in ijara financing		**(2,074,916)**	(1,085,441)
Purchase of investments carried at fair value through profit or loss		**(10,507,194)**	(5,356,057)
Proceeds from sale of investments carried at fair value through profit or loss		**10,532,578**	4,885,995
Decrease (increase) in other assets		**59,371**	(384,052)
Increase (decrease) in due to financial institutions		**87,410**	(376,223)
Increase in depositors' accounts		**3,889,613**	10,156,420
(Decrease) increase in other liabilities		**(567,752)**	77,876
Cash from operations		**2,411,327**	5,055,273
Directors' remuneration paid	41	**(4,200)**	(4,900)
Net cash from operating activities		**2,407,127**	5,050,373
INVESTING ACTIVITIES			
Dividend received	6	**868**	5,697
Net movement in investments carried at fair value through other comprehensive income		**33,466**	9,462
Net movement in investments carried at amortised cost		**(1,780,905)**	(1,860,882)
Dividends received from an associate		**6,667**	6,667
Additions in investment in associates and joint ventures		**(17,395)**	(30,447)
Proceeds from sale of investment properties	8	**26,382**	68,733
Purchase of property and equipment	25	**(301,620)**	(313,922)
Proceeds from disposal of property and equipment		**267**	6,548
Net cash used in investing activities		**(2,032,270)**	(2,108,144)
FINANCING ACTIVITIES			
Profit paid on Tier 1 sukuk – Listed	35	**(234,158)**	(234,158)
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	35	**(69,533)**	(64,574)
Proceeds from own Tier 1 sukuk – Listed		**466**	28,925
Right shares issued	31	**-**	504,000
Issuance cost of right shares	31	**-**	(3,089)
Repurchase of sukuk assets – third issue	30	**(1,836,250)**	-
Repurchase of sukuk assets - second issue		**-**	(2,754,375)
Dividends paid		**(774,057)**	(725,038)
Net cash used in financing activities		**(2,913,532)**	(3,248,309)
DECREASE IN CASH AND CASH EQUIVALENTS		**(2,538,675)**	(306,080)
Cash and cash equivalents at 1 January		**9,484,193**	9,790,273
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	40	**6,945,518**	9,484,193

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:

Profit received		**4,727,121**	5,653,674
Profit paid to depositors and sukuk holders		**501,556**	594,668

The attached notes 1 to 45 form part of these 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 Federal Law No. 2 of 2015, concerning Commercial Companies has replaced the existing Federal Law No. 8 of 1984.

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 as determined by the Fatwa and Shari'a Supervisory Board of the Bank, 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 86 branches in UAE (2015: 88 branches) and 3 overseas branches in Iraq, Qatar and Sudan and subsidiaries in the UAE and the United Kingdom. The consolidated financial statements combine the activities of the Bank's head office, its branches and subsidiaries.

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

The consolidated financial statements of the Group were authorised for issue by the Board of Directors on 14 February 2017.

2 DEFINITIONS

The following terms are used in the 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 that consists of the purchase 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 that 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 that enables the borrower to use the borrowed amount for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

2 DEFINITIONS continued

Musharaka
A contract between the Group and a customer to entering 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.

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 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 the laws of the UAE.

3.1 (b) Accounting convention
The 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, Shari'a compliant alternatives of derivative financial instruments which have been measured at fair value and land, held as property and equipment, which has been carried at revalued amount.

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

	Activity	*Country of incorporation*	*Percentage of holding* ***2016***	*2015*
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%
MPM Properties LLC	Real estate services	United Arab Emirates	**100%**	100%
ADIB Invest 1	Equity brokerage services	BVI	**100%**	100%
Kawader Services Company LLC	Manpower supply	United Arab Emirates	**100%**	100%
ADIB (UK) Limited	Islamic banking	United Kingdom	**100%**	100%
ADIB Holdings (Jersey) Ltd*	Special purpose vehicle	British Channel Islands	-	-
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Sukuk Company II Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 1 Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 2 Ltd*	Special purpose vehicle	Cayman Island	-	-

*The Bank does not have any direct holding in these entities and they are considered to be a subsidiary by virtue of control.

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

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

3.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except as noted below.

During the year the Group has adopted the following new standards / amendments to the standards effective for the annual period beginning on or after 1 January 2016:

IFRS 11: Joint Arrangements (Amendment) require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. This amendment does not have any impact on the Group's consolidated financial statements.

3 BASIS OF PREPARATION continued

3.2 CHANGES IN ACCOUNTING POLICIES continued

IFRS 14: Regulatory Deferral Accounts is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation. Since the Group is an existing IFRS preparer, these amendments do not have any impact on the Group's consolidated financial statements.

IAS 16 and IAS 38: Property, Plant and Equipment and Intangible Assets (Amendment) clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. This amendment does not have any impact on the Group's consolidated financial statements.

Annual Improvements 2012-2014 Cycle
These improvements are effective for annual periods beginning on or after 1 January 2016. The improvements did not impact the consolidated financial statements of the Group. They include:

1 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. The amendment does not impact the consolidated financial statements of the Group.

2 - IFRS 7 Financial Instruments: Disclosures
(i) Servicing contracts amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures do not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendment does not impact the consolidated financial statements of the Group.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. The amendment does not impact the consolidated financial statements of the Group.

3 - IAS 19 Employee Benefits amendment clarifies that market depth of high quality corporate Sukuk is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate Sukuk in that currency, government bond rates must be used. The amendment does not impact the consolidated financial statements of the Group.

4 - IAS 34 Interim Financial Reporting amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. The amendment does not impact the consolidated financial statements of the Group.

3 BASIS OF PREPARATION continued

3.2 CHANGES IN ACCOUNTING POLICIES continued

Annual Improvements 2012-2014 Cycle continued

5 - Amendments to IAS 1 Disclosure Initiative amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

6 - Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments do not impact the consolidated financial statements of the Group.

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9: Financial Instruments - hedge accounting (Amendments to IFRS 9, IFRS 7 and IAS 39) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39. The Group is in the process of assessing the impact of the new amendment.

IFRS 9: Financial Instruments - impairment introduces new requirements for impairment. On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The IASB has addressed the key concern that arose as a result of the financial crisis that the incurred loss model in IAS 39 contributed to the delayed recognition of credit losses, by issuing the new impairment requirements that are based on a more forward-looking expected credit loss model. The requirements of IFRS 9 relating to impairment are for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is in the process of assessing the impact of the new amendment.

3 BASIS OF PREPARATION continued

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

IFRS 15: Revenue from Contracts with Customers was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is in the process of assessing the impact of the new standard on its consolidated financial statements.

IFRS 16: Leases was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, It substantially carries forward the requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of this Standard." The Group is in the process of assessing the impact of IFRS 16 on its consolidated financial statements.

IAS 7: Statement of Cash Flows (Amendment) was issued in January 2016 with the intention to improve disclosers of financing activities and help users to better understand reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their liabilities as a result of financing activities such as changes from cash flows and non-cash items. The amendment is effective from 1 January 2017. The Group is in the process of assessing the impact of the new amendment.

IAS 12: Income Taxes (Amendment) In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of Sukuk measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements in conformity with the International Financial Reporting Standards requires management to make judgments, 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 years. Estimates and judgments are currently evaluated and are based on historical experience and other factors. 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.

Going concern
The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

Impairment losses on financing assets and investments carried at amortised cost
The Group reviews its financing assets and investments carried at amortised cost on a regular basis to assess whether a provision for impairment should be recorded in the consolidated financial statement in relation to any non-performing assets. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment provision. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on financing assets
In addition to specific provisions against individually impaired financing assets, the Bank also makes collective impairment provisions against portfolio of financing assets with common features which have not been identified as individually impaired. This collective provision is based on any deterioration in the internal rating of the asset or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of probability of occurrence of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Classification and measurement of financial assets
The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. The Group's investments in securities are appropriately classified and measured.

Operating lease commitments - Group as lessor
The Group has entered into commercial property lease arrangements on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties therefore, accounts for the contracts as operating leases.

Investment and development properties
The Group hired services of professional real estate valuer to provide reliable estimates of the market value of investment properties for determining the fair values as of the reporting date, for disclosure purposes and assessing the impairment, if any. The basis of estimate and method used by the valuer has been disclosed in the note 22.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position that cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

Classification of properties
In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, development property or property and equipment. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, development property and property and equipment. In making its judgment, management considers the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, in particular, the intended usage of property as determined by the management.

Impairment of investments in associates and joint ventures
Management regularly reviews its investment in associates and joint venture for indicators of impairment. This determination of whether investments in associates is impaired, entails management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. If managements' review results in impairment, the difference between the estimated recoverable amount and the carrying value of investment in associates and joint venture is recognised as an expense in the consolidated income statement.

Impairment review of investment properties, development properties and advances paid against purchase of properties
Investment properties, development properties and advances paid against purchase of properties are assessed for impairment based on assessment of cash flows on individual cash-generating units when there is indication that those assets have suffered an impairment loss. Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets and discounted using a range of discount rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any impairment.

The assessment of current market conditions, including cost of project completion, future rental and occupancy rates and assessment of the projects capital structure and discount rates requires management to exercise its judgment. Management uses internal and external experts to exercise this judgment.

Impairment of goodwill
On an annual basis, the Group determines whether goodwill is impaired. This requires an estimation of the recoverable amount using value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful life of 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.

Business combinations
Accounting for the acquisition of a business requires the allocation of the purchase price to the various assets and liabilities of the acquired business. For most assets and liabilities, the purchase price allocation is accomplished by recording the asset or liability at its estimated fair value. Determining the fair value of assets acquired and liabilities assumed requires estimation by management and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, the useful lives of intangibles other assets and market multiples. The Group's management uses all available information to make these fair value determinations. The Group has, if necessary, up to one year after acquisition closing date to complete these fair value determinations and finalise the purchase price allocation.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition
Murabaha
Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Istisna'a
Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the Bank's total Istisna'a cost) is accounted for on a time apportioned basis.

Ijara
Ijara income is recognised on a time apportioned basis over the lease term.

Musharaka
Income is accounted for on the basis of the reducing balance of Musharaka on a time apportioned basis that reflects the effective yield on the asset.

Mudaraba
Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to the Bank's consolidated income statement on their declaration by the Mudarib.

Sukuk
Income is accounted for on a time apportioned basis over the terms of the Sukuk.

Sale of properties
Revenue on sale of properties is recognised as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property; and
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Revenue on sale of units or apartments is deferred until completion of construction works and when delivery to the buyer takes place.

Fee and commission income
Fee and commission income is recognised when the related services are performed.

Operating lease income
Operating lease income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued
Gain on sale of investments
Gain or loss on disposal of fair value through profit or loss investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs and is recognised through consolidated income statement.

Gain or loss on disposal of fair value through other comprehensive income investments represents the difference between sale proceeds and their original cost less associated selling costs and is recognised through consolidated statement of comprehensive income and are included within cumulative changes in fair value reserve within equity and not recognised in the consolidated income statement.

Dividends
Dividends from investments in equities are recognised when the right to receive the dividend is established.

Cost of sale of properties
Cost of sale of properties includes the cost of development. Development costs include the cost of infrastructure and construction.

Cost of sale of land represents the carrying amount at which it is recorded in the consolidated financial statements of the Group.

Financial instruments
Recognition and measurement
Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group are further analysed as:

- Customer financing;
- Balances and wakala deposits with Islamic banks and other financial institutions;
- Murabaha and mudaraba with financial institutions;
- Investment in sukuk;
- Investment in equity instruments;
- Trade and other receivables; and
- Sharia compliant alternatives of derivatives.

The Group's customer financing comprise the following:

- Murabaha and other Islamic financing; and
- Ijara financing.

Effective 1 January 2011, the Group early adopted classification and measurement principles of IFRS 9 'Financial Instruments' in issue at that time in line with the transitional provisions of IFRS 9.

Financial assets are classified in their entirety on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued
Classification
Financial assets at amortised cost
Murahaba and other Islamic financing and Ijara financing i.e. customer financing and investment in sukuk, 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.

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.

Other financial assets that do not meet the amortised cost criteria are classified as FVTPL. In addition, certain financial assets that meet the amortised cost criteria but at initial recognition are designated as FVTPL in line with the business model of the Group. A financial asset 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.

Financial asset are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financial assets 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.

A financial asset is FVTPL if:
- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is 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 Shari'a compliant alternatives of derivative financial instruments and not designated and effective as a hedging instrument or a financial guarantee.

Measurement
Financial assets or financial liabilities carried at amortised cost
Financial assets at amortised cost including customer financing and investment in sukuk 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.

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued
Measurement continued
Financial assets or financial liabilities carried at amortised cost continued
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 (which excludes deferred income or expected profits) less provisions for impairment.

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 (which excludes deferred income) less any provisions for impairment.

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.

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. Financial assets measured at FVTOCI are not required to be tested for impairment.

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

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 market transactions

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued
Measurement continued
(i) Recognition / De-recognition
The Group initially recognises financial assets at fair value through profit or loss, financial assets at amortised cost and financial assets at fair value through other comprehensive income on the settlement 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 disbursed. A financial liability is recognised on the date the Group becomes a party to contractual provisions of the instrument.

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, and financial assets at fair value through other comprehensive income 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.

(ii) 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 and under Sharia'a framework 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.

(iii) 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. Change in the impairment allowances 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.

Renegotiated financing facilities
Where possible, the Bank seeks to restructure financing facilities rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Once the terms have been renegotiated, any impairment is measured using the original effective profit rate as calculated before the modification of terms and the financing facility is no longer considered past due. Management continually reviews renegotiated facilities to ensure that all future payments are highly expected to occur. The financing facility continue to be subject to an individual or collective impairment assessment, calculated using the financing facilities' original effective profit rate.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, to the extent it is possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data such as market transactions, rental yields and audited financial statements.

Impairment of non-financial assets
The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Fair value measurements
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic benefit.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs (note 44).

Business combinations
Acquisitions of businesses are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Bank, liabilities incurred by the Bank to the former owners of the acquiree and the cash and equity interests issued by the Bank in exchange for control of the acquiree. Acquisition related costs are recognised in consolidated income statement as incurred.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Business combinations continued
At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated income statements as gain on acquiring controlling interest.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Bank in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognised in consolidated income statement.

When a business combination is achieved in stages, the Bank's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Bank obtains control) and the resulting gain or loss, if any, is recognised in consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated income statement where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Bank reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets acquired in a business combination
Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date which is regarded as their cost. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The rates of amortisation are based upon the following estimated useful lives:

- Customer relationship 8 years
- Core deposit intangible 8 years

Goodwill
Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Bank's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units which are expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investment in associates
The Group's investment in associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and that is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The consolidated income statement reflects the share of the results of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Investment in joint ventures
The Group has investment in joint ventures, which are jointly controlled entities, whereby venturers have a contractual arrangement that establishes joint control over the economic activities of the entities. The Group's investment in joint ventures is accounted for using the equity method of accounting.

Under the equity method, the investment in the joint ventures is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture. The consolidated income statement reflects the share of the results of the joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The financial statements of the ventures are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the consolidated income statement.

Investment properties
Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the assets' estimated useful lives. The useful life of buildings is estimated to be 25 years.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated income statement.

Development properties
Properties in the course of construction for sale or completed properties held for sale are classified as development properties. Completed properties held for sale are stated at the lower of cost or net realizable value. Properties in the course of development for sale are stated at lower of cost or net realizable value. The cost of development properties includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

The property is considered to be complete when all related activities, including the infrastructure and facilities for the entire project, have been completed.

Property and equipment
Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Land is recorded at revalued amount in the consolidated financial statements.

Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment, other than freehold land which is deemed to have an indefinite life. The rates of depreciation are based upon the following estimated useful lives:

• Buildings	25 years
• Furniture and leasehold improvements	4 - 7 years
• Computer and office equipment	3 - 4 years
• Motor vehicles	4 years

4 SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment continued
The carrying values of properties and equipments are reviewed for impairment when events of changes in circumstances indicate the carrying value may not be recoverable. If any such conditions exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Any subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in the consolidated income statement as the expense is incurred.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the consolidated income statement in the year the asset is derecognized.

Capital work-in-progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated.

When an asset is revalued, any increase in the carrying amount arising on revaluation is recorded through other comprehensive income and credited to the revaluation reserve in equity, except to the extent that a revaluation increase merely restores the carrying value of an asset to its original cost, whereby it is recognized as income i.e., to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense. A decrease resulting from a revaluation is initially charged directly against any related revaluation surplus held in respect of that asset and the remaining portion being charged as an expense. On disposal, the related revaluation surplus is credited directly to retained earnings.

Provisions and contingent liabilities
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

Acceptances
Acceptances are recognised as financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

Deposits
Customer deposits and due to banks and other financial institutions are carried at amortised cost.

Sukuk financing instruments
Sukuk financing instruments are initially measured at fair value and then are subsequently measured at amortised cost using the effective profit rate method, with profit distribution recognised on an effective yield basis.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating profit distribution over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Employees' pension and end of service benefits
The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are included within 'other liabilities' in the consolidated statement of financial position.

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are recognised in the consolidated income statement when due.

Shari'a compliant alternatives of derivative financial instruments
The Bank enters into a Shari'a compliant alternatives of derivative financial instruments to manage the exposure to profit rate risks, including unilateral promise which represents Shari'a compliant alternatives of swap. Those financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All these Shari'a compliant alternatives of derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate.

The Bank enters into cash flows hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Cash flow hedges
The effective portion of changes in the fair value of Shari'a compliant alternatives of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognized immediately in the consolidated income statement. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a nonfinancial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to 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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Zakat
As the Bank is not required to dispose Zakat by UAE laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, each shareholder is responsible of his or her own Zakat. In accordance with the Articles and Memorandum of Association of the Bank, Zakat is computed by the Bank and it is approved by the Fatwa and Shari'a Supervisory Board of the Bank. However, in few jurisdictions, Zakat of the Bank's branches and subsidiaries is mandatory by laws to be paid to a governmental entity responsible of Zakat, therefore, the Bank acts accordingly to these laws and pays the Zakat to these entities on behalf of the Shareholders and deducts the amount paid as Zakat from the total zakat amount and the Zakat amount per each outstanding share.

Zakat per share is calculated in accordance with AAOIFI's Accounting Standard number 9 & Shari'a Standard number 35, and the Group's Fatwa and Shari'a Supervisory Board Resolutions.

In accordance with the Memorandum of Association, the Group communicates the amount of Zakat per share and it is the responsibility of each shareholder to dispose personally his/her own Zakat (note 39).

Profit distribution
Profits or losses of Mudaraba based depositors' accounts are calculated and distributed in accordance with the Banking Service Agreement between the Bank and the investment account holders. Investment in subsidiaries is funded from the shareholders' funds, hence profit or losses from the subsidiaries are not distributed to the investment account holders. Investment in associates is funded jointly from the shareholders and investment account holders' funds, therefore, profits and losses of the associates are distributed among the shareholders and investment account holders. A part of the deserved profits relating to the Mudaraba based investment accounts profit can be reserved as "Profit Equalization Reserve" and shall be subsequently utilized in order to maintain certain level of profit distribution to the account holders.

The same allocation is applicable to Wakala deposits and any share of profit above the fixed Wakala fee and the initially expected profit agreed with the investment account holder, shall pertain to the Wakil (the Bank).

Cash and cash equivalents
For the purpose of preparation of the consolidated statement of cash flow, cash and cash equivalents are considered to be cash and balances with central banks, due from banks and international murabahat. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

Trade and settlement date accounting
All "regular way" purchase and sales of financial assets are recognized on the settlement date, i.e. the date the asset is delivered to the counterparty. Regular way purchases or sales are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Prohibited income
According to the Fatwa and Shari'a Supervisory Board "FSSB", the Group is required to avoid any transaction or activity deemed to be not acceptable by Shari'a and to identify any income from such source and to set it aside in a separate account (charity account) to be disposed to charity by the Group under the supervision of the FSSB (as purification amount).

4 SIGNIFICANT ACCOUNTING POLICIES continued

Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

Foreign currencies
The Group’s consolidated financial statements are presented in AED, which is the Bank's functional currency. That is the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their income statement is translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recorded in the other comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Financial guarantees
In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value. Subsequent to initial recognition, the Group’s liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated income statement in ‘net fees and commission income’ over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement in ‘credit loss expense’. Any financial guarantee liability remaining is recognized in the consolidated income statement in ‘net fees and commission income’ when the guarantee is discharged, cancelled or expires.

Segment reporting
The Bank has presented the segment information in respect of its business and geographical segments in the same way as it is presented internally to the management.

Dividends on ordinary shares
Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank’s shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Treasury shares and contracts on own equity instruments
Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank’s own equity instruments is recognised directly in equity. No gain or loss is recognised in statement of comprehensive income on the purchase, sale, issue or cancellation of own equity instruments.

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

	2016	*2015*
	AED '000	*AED '000*
Vehicle murabaha	**340,303**	357,160
Goods murabaha	**364,356**	508,060
Share murabaha	**1,155,840**	992,527
Commodities murabaha – Al Khair	**380,142**	279,060
Islamic covered cards (murabaha)	**362,080**	378,475
Other murabaha	**45,177**	97,903
Total murabaha	**2,647,898**	2,613,185
Mudaraba	**49,542**	47,663
Ijara	**1,782,697**	1,692,851
Istisna'a	**8,610**	8,850
	4,488,747	4,362,549

6 INCOME FROM INVESTMENTS MEASURED AT FAIR VALUE

	2016	*2015*
	AED '000	*AED '000*
Income from Islamic sukuk measured at fair value through profit or loss	**49,993**	37,671
Income (loss) from other investment assets	**4,162**	(995)
Realised gain on sale of investments carried at fair value through profit or loss	**23,860**	10,289
Unrealised loss on investments carried at fair value through profit or loss	**(4,858)**	(15,488)
Dividend income	**868**	5,697
	74,025	37,174

7 FEES AND COMMISSION INCOME, NET

	2016 *AED '000*	*2015* *AED '000*
Fees and commission income		
Fees and commission income on cards	**584,184**	521,064
Trade related fees and commission	**109,874**	151,658
Takaful related fees	**92,230**	108,732
Accounts services fees	**46,022**	44,319
Projects and property management fees	**63,969**	60,502
Risk participation and arrangement fees	**170,248**	213,265
Brokerage fees and commission	**29,266**	52,285
Other fees and commissions	**241,996**	171,712
Total fees and commission income	**1,337,789**	1,323,537
Fees and commission expenses		
Card related fees and commission expenses	**(428,728)**	(355,139)
Other fees and commission expenses	**(68,646)**	(57,107)
Total fees and commission expenses	**(497,374)**	(412,246)
Fees and commission income, net	**840,415**	911,291

8 INCOME FROM INVESTMENT PROPERTIES

	2016 *AED '000*	*2015* *AED '000*
Proceeds from sale of investment properties	**26,382**	68,733
Less: net book value of properties sold	**(15,885)**	(43,985)
Gain on sale of investment properties	**10,497**	24,748
Rental income (note 22)	**16,739**	20,957
	27,236	45,705

9 EMPLOYEES' COSTS

	2016 *AED '000*	*2015* *AED '000*
Salaries and wages	**1,293,179**	1,269,301
End of service benefits	**69,671**	74,328
Other staff expenses	**74,030**	59,829
	1,436,880	1,403,458

10 GENERAL AND ADMINISTRATIVE EXPENSES

	2016 AED '000	2015 AED '000
Legal and professional expenses	**148,058**	153,828
Premises expenses	**236,159**	226,221
Marketing and advertising expenses	**82,839**	114,438
Communication expenses	**70,897**	71,661
Technology related expenses	**99,818**	78,431
Other operating expenses	**132,622**	125,686
	770,393	770,265

11 PROVISION FOR IMPAIRMENT, NET

	Notes	2016 AED '000	2015 AED '000
Murabaha and mudaraba with financial institutions	16	**(23,330)**	31,290
Murabaha and other Islamic financing	17	**755,636**	884,000
Ijara financing	18	**212,934**	(113,359)
Direct write-off		**1,843**	14,517
Investment properties	22	**4,981**	-
Other assets	24	**17,901**	3,506
		969,965	819,954

The above provision for impairment includes AED 6,231 thousand (2015: AED 5,156 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank.

12 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

	2016 AED '000	2015 AED '000
Saving accounts	**146,531**	123,750
Investment accounts	**397,954**	336,877
Sukuk holders	**63,308**	156,001
	607,793	616,628

13 BASIC AND DILUTED EARNINGS PER SHARE

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

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

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

	Notes	***2016***	*2015*
Profit for the year attributable to equity holders (AED '000)		**1,952,264**	1,931,695
Less: profit attributable to Tier 1 sukuk holder – Listed (AED '000)	35	**(234,158)**	(234,158)
Less: profit attributable to Tier 1 sukuk holder - Government of Abu Dhabi (AED '000)	35	**(69,533)**	(64,574)
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000)		**1,648,573**	1,632,963
Weighted average number of ordinary shares at 1 January in issue (000's)		**3,168,000**	3,053,247
Effect of new Right shares issued		**-**	32,068
Weighted average number of ordinary shares at 31 December in issue (000's)		**3,168,000**	3,085,315
Basic and diluted earnings per share (AED)		**0.520**	0.529

The Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised. Profit on Tier 1 sukuk is reflected in the EPS computation on the payment of such profit.

14 CASH AND BALANCES WITH CENTRAL BANKS

	2016 ***AED '000***	*2015* *AED '000*
Cash on hand	**1,745,906**	1,835,100
Balances with central banks:		
- Current accounts	**860,295**	192,153
- Statutory reserve	**11,071,193**	9,851,850
- Islamic certificate of deposits	**6,100,945**	6,750,258
	19,778,339	18,629,361

14 CASH AND BALANCES WITH CENTRAL BANKS continued

The Bank is required to maintain statutory reserves with the Central Bank of the UAE, Iraq and Sudan 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. 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.

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

	2016	*2015*
	AED '000	*AED '000*
UAE	**18,613,626**	18,264,069
Rest of the Middle East	**1,077,353**	249,940
Europe	**656**	1,438
Others	**86,704**	113,914
	19,778,339	18,629,361

15 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016	*2015*
	AED '000	*AED '000*
Current accounts	**277,485**	227,331
Wakala deposits	**3,968,673**	2,896,983
	4,246,158	3,124,314

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 is as follows:

	2016	*2015*
	AED '000	*AED '000*
UAE	**2,132,487**	476,614
Rest of the Middle East	**784,535**	1,045,333
Europe	**113,844**	72,093
Others	**1,215,292**	1,530,274
	4,246,158	3,124,314

16 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	2016 ***AED '000***	*2015* *AED '000*
Murabaha	**1,570,407**	1,596,772
Mudaraba	**257,303**	215,530
	1,827,710	1,812,302
Less: provision for impairment	**(64,929)**	(194,740)
	1,762,781	1,617,562

In accordance with Shari'a principles, Mudaraba are with Islamic financial institutions or provided for the activities that are entirely Sharia' compliant.

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

	2016 ***AED '000***	*2015* *AED '000*
At 1 January	**194,740**	163,450
(Reversal) charge for the year (note 11)	**(23,330)**	31,290
Write-off during for the year	**(106,481)**	-
At 31 December	**64,929**	194,740

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

	2016 ***AED '000***	*2015* *AED '000*
UAE	**1,561,341**	1,360,232
Rest of the Middle East	**228,153**	379,711
Europe	**9,066**	-
Others	**29,150**	72,359
	1,827,710	1,812,302

17 MURABAHA AND OTHER ISLAMIC FINANCING

	2016 ***AED '000***	*2015* *AED '000*
Vehicle murabaha	**6,544,017**	6,442,157
Goods murabaha	**6,788,344**	10,250,391
Share murabaha	**18,369,604**	17,945,857
Commodities murabaha – Al Khair	**8,277,850**	6,623,523
Islamic covered cards (murabaha)	**16,540,838**	16,995,176
Other murabaha	**2,032,171**	2,379,343
Total murabaha	**58,552,824**	60,636,447
Mudaraba	**1,128,518**	1,213,861
Istisna'a	**136,097**	146,377
Other financing receivables	**245,146**	338,683
Total murabaha and other Islamic financing	**60,062,585**	62,335,368
Less: deferred income on murabaha	**(21,894,730)**	(22,073,741)
	38,167,855	40,261,627
Less: provision for impairment	**(1,821,769)**	(1,860,850)
	36,346,086	38,400,777

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

	2016			*2015*		
	Individual impairment AED '000	***Collective impairment AED '000***	***Total AED '000***	*Individual impairment AED '000*	*Collective impairment AED '000*	*Total AED '000*
At 1 January	**693,670**	**1,167,180**	**1,860,850**	519,623	882,407	1,402,030
Charge (reversals) for the year (note 11)	**954,201**	**(198,565)**	**755,636**	599,227	284,773	884,000
Written off during the year	**(794,717)**	**-**	**(794,717)**	(425,180)	-	(425,180)
At 31 December	**853,154**	**968,615**	**1,821,769**	693,670	1,167,180	1,860,850

`

17 MURABAHA AND OTHER ISLAMIC FINANCING continued

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

	2016 ***AED '000***	*2015* *AED '000*
***Industry sector**:*		
Government	**-**	77,299
Public sector	**674,674**	952,592
Corporates	**6,275,968**	7,586,931
Financial institutions	**162,150**	405,653
Individuals	**29,868,184**	28,975,566
Small and medium enterprises	**1,186,879**	2,263,586
	38,167,855	40,261,627
Geographic region:		
UAE	**36,641,855**	38,835,151
Rest of the Middle East	**950,297**	959,989
Europe	**201,865**	244,830
Others	**373,838**	221,657
	38,167,855	40,261,627

18 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 includes a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

	2016 ***AED '000***	*2015* *AED '000*
The aggregate future lease receivables are as follows:		
Due within one year	**8,952,793**	9,301,428
Due in the second to fifth year	**22,046,466**	21,521,419
Due after five years	**26,041,455**	21,491,474
Total ijara financing	**57,040,714**	52,314,321
Less: deferred income	**(13,839,384)**	(11,177,578)
Net present value of minimum lease payments receivable	**43,201,330**	41,136,743
Less: provision for impairment	**(1,336,894)**	(1,134,289)
	41,864,436	40,002,454

18 IJARA FINANCING continued

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

	2016			*2015*		
	Individual impairment AED '000	***Collective impairment AED '000***	***Total AED '000***	*Individual impairment AED '000*	*Collective impairment AED '000*	*Total AED '000*
At 1 January	**287,041**	**847,248**	**1,134,289**	558,077	793,236	1,351,313
Charge (reversal) for the year (note 11)	**132,474**	**80,460**	**212,934**	(167,371)	54,012	(113,359)
Written off during the year	**(10,329)**	**-**	**(10,329)**	(103,665)	-	(103,665)
At 31 December	**409,186**	**927,708**	**1,336,894**	287,041	847,248	1,134,289

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

	2016 AED '000	*2015 AED '000*
Industry sector:		
Government	**-**	374,591
Public sector	**4,930,758**	3,792,330
Corporates	**19,224,881**	19,075,045
Financial institutions	**-**	213,663
Individuals	**18,462,404**	17,138,079
Small and medium enterprises	**280,753**	351,856
Non-profit organisations	**302,534**	191,179
	43,201,330	41,136,743
Geographic region:		
UAE	**41,098,110**	39,253,812
Rest of the Middle East	**1,066,435**	1,219,375
Europe	**321,811**	752
Others	**714,974**	662,804
	43,201,330	41,136,743

19 INVESTMENT IN ISLAMIC SUKUK MEASURED AT AMORTISED COST

	2016 ***AED '000***	*2015* *AED '000*
Sukuk	**9,063,314**	7,282,409

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

	2016 ***AED '000***	*2015* *AED '000*
At 1 January	**98,277**	98,277
Charge for the year	**-**	-
At 31 December	**98,277**	98,277

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

	2016 ***AED '000***	*2015* *AED '000*
UAE	**6,685,617**	4,995,579
Rest of the Middle East	**1,295,254**	1,270,127
Europe	**92,284**	111,510
Others	**1,088,436**	1,003,470
	9,161,591	7,380,686

20 INVESTMENTS MEASURED AT FAIR VALUE

	2016 ***AED '000***	*2015* *AED '000*
Investments carried at fair value through profit or loss		
Quoted investments		
Equities	**244**	11,319
Sukuk	**1,263,230**	1,258,537
	1,263,474	1,269,856
Investments carried at fair value through other comprehensive income		
Quoted investments		
Equities	**756**	846
Unquoted investments		
Funds	**52,088**	51,363
Private equities	**80,610**	131,494
	132,698	182,857
	133,454	183,703
	1,396,928	1,453,559

20 INVESTMENTS MEASURED AT FAIR VALUE continued

	2016 **AED '000**	2015 AED '000
The distribution of the gross investments by geographic region was as follows:		
UAE	**909,689**	902,263
Rest of the Middle East	**84,038**	138,347
Europe	**159**	822
Others	**403,042**	412,127
	1,396,928	1,453,559

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	2016 **AED '000**	2015 AED '000
Investment in associates and joint ventures	**753,541**	799,356

Details of the Bank's investment in associates and joint ventures at 31 December is as follows:

	Place of incorporation	*Proportion of ownership interest* **2016** **%**	*2015* *%*	*Principal activity*
Associates				
Abu Dhabi National Takaful PJSC	UAE	**42**	42	Islamic insurance
Bosna Bank International D.D	Bosnia	**27**	27	Islamic banking
Joint ventures				
Abu Dhabi Islamic Bank – Egypt (S.A.E.)	Egypt	**49**	49	Banking (under conversion to Islamic bank)
Saudi Finance Company CSJC	Kingdom of Saudi Arabia	**51**	51	Islamic Retail Finance
Arab Link Money Transfer PSC	UAE	**51**	51	Currency Exchange
Abu Dhabi Islamic Merchant Acquiring Company LLC	UAE	**51**	51	Merchant acquiring

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

Summarised financial information of investment in significant associates and joint venture are set out below:

	2016 ***AED '000***	*2015* *AED '000*
1 - Abu Dhabi National Takaful PJSC		
Share of associate's statement of financial position		
Assets	**356,459**	307,289
Liabilities	**(243,509)**	(210,911)
Net assets	**112,950**	96,378
Share of associate's revenue and profits:		
Revenue for the year	**39,876**	35,430
Profit for the year	**24,053**	16,802
Dividends received during the year	**6,667**	6,667
2 - Bosna Bank International D.D		
Share of associate's statement of financial position		
Assets	**398,139**	353,068
Liabilities	**(327,373)**	(300,419)
Net assets	**70,766**	52,649
Share of associate's revenue and profits:		
Revenue for the year	**14,607**	15,692
Profit for the year	**4,034**	2,850
3 - Abu Dhabi Islamic Bank – Egypt (S.A.E.)		
Share of joint venture's statement of financial position		
Assets	**2,747,306**	5,335,571
Liabilities	**(2,601,631)**	(5,094,716)
Net assets	**145,675**	240,855
Share of joint venture's revenue and profits:		
Revenue for the year	**266,755**	204,446

As of 31 December 2016, the Bank's share of the contingent liabilities and commitments of associates and joint ventures amounted to AED 192,988 thousand (2015: AED 286,836 thousand). The equity instruments of Abu Dhabi National Takaful PJSC are quoted in Abu Dhabi Securities Exchange, UAE and the quoted value of the Banks' share of investment at 31 December 2016 amounted to AED 177,055 thousand (2015: AED 177,472 thousand) and its carrying value as of 31 December 2016 amounted to AED 188,212 thousand (2015: AED 170,825 thousand).

22 INVESTMENT PROPERTIES

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

	Land *AED '000*	*Other properties* *AED '000*	*Total* *AED '000*
2016			
Cost:			
Balance at 1 January	26,051	290,186	316,237
Transfers from other assets	971,869	22,616	994,485
Disposals	-	(19,079)	(19,079)
Gross balance at 31 December	997,920	293,723	1,291,643
Less: provision for impairment	(16,790)	(11,398)	(28,188)
Net balance at 31 December	**981,130**	**282,325**	**1,263,455**
Accumulated depreciation:			
Balance at 1 January	-	46,791	46,791
Charge for the year	-	11,749	11,749
Relating to disposals	-	(3,076)	(3,076)
Balance at 31 December	**-**	**55,464**	**55,464**
Net book value at 31 December	**981,130**	**226,861**	**1,207,991**
2015			
Cost:			
Balance at 1 January	30,131	335,316	365,447
Transfers from other assets	-	13,610	13,610
Other movements	-	(9,979)	(9,979)
Disposals	(4,080)	(48,761)	(52,841)
Gross balance at 31 December	26,051	290,186	316,237
Less: provision for impairment	(12,292)	(11,033)	(23,325)
Net balance at 31 December	13,759	279,153	292,912
Accumulated depreciation:			
Balance at 1 January	-	40,782	40,782
Charge for the year	-	12,843	12,843
Relating to disposals	-	(6,834)	(6,834)
Balance at 31 December	-	46,791	46,791
Net book value at 31 December	13,759	232,362	246,121

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 16,739 thousand (2015: AED 20,957 thousand).

22 INVESTMENT PROPERTIES continued

The fair values of investment properties at 31 December 2016 amounted to AED 1,595,972 thousand (2015: AED 382,955 thousand) are as per valuation conducted by professional valuers employed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations, and has appropriate qualifications and experience in the valuation of properties in the UAE. The fair value of the properties has been determined either based on transactions observable in the market or valuation models.

The valuation methodologies considered by external valuers include:

a) Comparison method: This method derives the value by analyzing recent sales transactions of similar properties in a similar location.
b) Investment method: This method derives the value by converting the future cash flow to a single current capital value.

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

	Land *AED '000*	*Other properties* *AED '000*	*Total* *AED '000*
At 1 January 2015	13,872	11,475	25,347
Relating to disposal	(1,580)	(442)	(2,022)
At 1 January 2016	12,292	11,033	23,325
Charge for the year (note 11)	4,498	483	4,981
Relating to disposal	-	(118)	(118)
At 31 December 2016	**16,790**	**11,398**	**28,188**

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

	Land *AED '000*	*Other properties* *AED '000*	*Total* *AED '000*
2016:			
UAE	**989,706**	**238,259**	**1,227,965**
Rest of the Middle East	**8,214**	**-**	**8,214**
	997,920	**238,259**	**1,236,179**
2015:			
UAE	17,837	243,395	261,232
Rest of the Middle East	8,214	-	8,214
	26,051	243,395	269,446

23 DEVELOPMENT PROPERTIES

	2016	*2015*
	AED '000	*AED '000*
Development properties	**837,381**	837,381

Development properties include land with a carrying value of AED 800,000 thousand (2015: AED 800,000 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

24 OTHER ASSETS

	2016	*2015*
	AED '000	*AED '000*
Advances against purchase of properties	**129,336**	1,330,207
Acceptances	**283,804**	671,346
Assets acquired in satisfaction of claims	**295,193**	172,691
Trade receivables	**278,580**	368,650
Prepaid expenses	**736,798**	692,351
Accrued profit	**128,046**	106,489
Advance to contractors	**17,000**	3,528
Advance for investments	**183,625**	183,625
Others	**676,227**	529,180
	2,728,609	4,058,067
Less: provision for impairment	**(32,942)**	(290,643)
	2,695,667	3,767,424

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

	Advances against purchase of properties	*Assets acquired against satisfaction of claims*	*Trade receivables*	*Others*	*Total*
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
At 1 January 2015	256,415	6,712	10,950	23,883	297,960
Charge for the year (note 11)	5,156	(1,650)	-	-	3,506
Written off during the year	(5,761)	(5,062)	-	-	(10,823)
At 1 January 2016	255,810	-	10,950	23,883	290,643
Charge for the year (note 11)	-	16,651	-	1,250	17,901
Written off during the year	(255,810)	(16,651)	(3,141)	-	(275,602)
At 31 December 2016	-	-	**7,809**	**25,133**	**32,942**

Assets acquired in exchange for claims in order to achieve an orderly realization are recorded as "Assets acquired in satisfaction of claims". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the claim (net of provision for impairment) at the date of exchange.

25 PROPERTY AND EQUIPMENT

	Land *AED '000*	*Buildings* *AED '000*	*Furniture and fixtures* *AED '000*	*Computer and office equipment* *AED '000*	*Motor vehicles* *AED '000*	*Capital work-in progress* *AED '000*	*Total* *AED '000*
2016							
Cost or revaluation:							
At 1 January	241,478	243,158	380,999	768,072	13,249	909,845	2,556,801
Exchange differences	-		(5,976)	264	(77)	-	(5,789)
Additions	-	518	-	21,689	105	279,308	301,620
Transfers from capital work-in-progress	-	50,759	15,083	168,164	781	(234,787)	-
Surplus on revaluation (note 34)	49,700	-	-	-	-	-	49,700
Disposals	-	-	(65)	(44,027)	(750)	-	(44,842)
At 31 December	**291,178**	**294,435**	**390,041**	**914,162**	**13,308**	**954,366**	**2,857,490**
Depreciation:							
At 1 January	-	33,810	248,267	523,038	9,634	-	814,749
Exchange differences	-	-	(3,448)	212	(302)	-	(3,538)
Charge for the year	-	9,846	31,967	130,746	1,542	-	174,101
Relating to disposals	-	-	(65)	(43,974)	(750)	-	(44,789)
At 31 December	**-**	**43,656**	**276,721**	**610,022**	**10,124**	**-**	**940,523**
Net book value:							
At 31 December	**291,178**	**250,779**	**113,320**	**304,140**	**3,184**	**954,366**	**1,916,967**
2015							
Cost or revaluation:							
At 1 January	241,478	226,683	338,660	647,898	14,770	782,196	2,251,685
Additions	-	177	2,776	14,981	2,448	293,540	313,922
Transfers from capital work-in-progress	-	16,298	43,323	106,270	-	(165,891)	-
Disposals	-	-	(3,760)	(1,077)	(3,969)	-	(8,806)
At 31 December	241,478	243,158	380,999	768,072	13,249	909,845	2,556,801
Depreciation:							
At 1 January	-	26,033	210,133	439,125	9,862	-	685,153
Charge for the year	-	7,777	38,434	84,074	2,456	-	132,741
Relating to disposals	-	-	(300)	(161)	(2,684)	-	(3,145)
At 31 December	-	33,810	248,267	523,038	9,634	-	814,749
Net book value:							
At 31 December	241,478	209,348	132,732	245,034	3,615	909,845	1,742,052

25 PROPERTY AND EQUIPMENT continued

During 2016, the Bank revalued plots of land held for its own use to their estimated fair value as per valuation conducted by professional valuers employed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations, and has appropriate qualifications and experience in the valuation of properties in the UAE. The fair value of the properties has been determined either based on transactions observable in the market or valuation models. The surplus on revaluation of land was transferred to the revaluation reserve within equity which is not available for distribution to shareholders.

26 GOODWILL AND INTANGIBLES

		Other intangible assets		
	Goodwill *AED '000*	*Customer relationships* *AED '000*	*Core deposit* *AED '000*	*Total* *AED '000*
At 1 January 2015	109,888	349,597	70,163	529,648
Amortisation during the year	-	(45,600)	(9,156)	(54,756)
At 1 January 2016	109,888	303,997	61,007	474,892
Amortisation during the year	-	(45,600)	(9,156)	(54,756)
At 31 December 2016	**109,888**	**258,397**	**51,851**	**420,136**

On 6 April 2014, the Bank acquired retail banking business of Barclays Bank in the U.A.E. During the second quarter 2014, the acquisition was approved by the Central Bank of the UAE. Based on the purchase price allocation, the Bank has recognized AED 438,012 thousand as intangible asset and AED 109,888 as goodwill.

Goodwill
For the purpose of impairment testing, goodwill is allocated to the Bank's operating divisions which represent the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

Other intangible assets

Customer relationships	Customer relationship intangible asset represents the value attributable to the business expected to be generated from customers that existed at the acquisition date. In determining the fair value of customer relationships, covered cards customers were considered separately, given their differing risk profiles, relationships and loyalty. The relationships are expected to generate material recurring income in the form of customer revenues, fees and commissions.
Core deposit	The value of core deposit intangible asset arises from the fact that the expected profit distribution on these deposits, governed by their contractual terms, are expected to be lower than other wholesale or treasury sukuk instruments' expected profit distributions. The spread between the expected profit distributions on these deposits and sukuk instruments represents the value of the core deposit intangible.

26 GOODWILL AND INTANGIBLES continued

Impairment assessment of goodwill
No impairment losses on goodwill were recognised during the year ended 31 December 2016 (2015: Nil).

The recoverable amounts have been assessed based on their value in use. Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of this operating division.

The recoverable amount of goodwill of cash generating unit, determined on the basis of value in use calculation, uses cash flow projections covering a five year period, with a terminal growth rate of 2% (2015: 2%) applied thereafter. The forecast cash flows have been discounted at a rate of 10.5% (2015: 10.5%).

Sensitivity to a one percentage point changes in the discount rate or the terminal growth rate and based on the results; management believes that no reasonably possible change in any of the above mentioned key assumptions would cause the carrying value to exceed the recoverable amount.

27 DUE TO FINANCIAL INSTITUTIONS

	2016	*2015*
	AED '000	*AED '000*
Current accounts	**1,027,616**	1,404,404
Investment deposits	**3,758,330**	1,659,598
	4,785,946	3,064,002
Current account – Central Bank of UAE	**368,269**	41,608
	5,154,215	3,105,610

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

UAE	**2,199,951**	286,473
Rest of the Middle East	**1,772,817**	1,655,660
Europe	**139,834**	144,330
Others	**1,041,613**	1,019,147
	5,154,215	3,105,610

28 DEPOSITORS' ACCOUNTS

	2016	*2015*
	AED '000	*AED '000*
Current accounts	**31,225,114**	30,140,475
Investment accounts	**67,134,219**	64,392,321
Profit equalisation reserve	**454,419**	394,364
	98,813,752	94,927,160

28 DEPOSITORS' ACCOUNTS continued

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

	2016 ***AED '000***	*2015* *AED '000*
At 1 January	**394,364**	340,159
Share of profit for the year	**60,055**	54,205
At 31 December	**454,419**	394,364

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

	2016 ***AED '000***	*2015* *AED '000*
Industry sector:		
Government	**6,695,441**	8,381,971
Public sector	**8,506,133**	11,819,047
Corporates	**16,248,174**	12,884,064
Financial institutions	**694,197**	820,125
Individuals	**53,105,753**	48,524,233
Small and medium enterprises	**10,638,653**	9,690,842
Non-profit organisations	**2,925,401**	2,806,878
	98,813,752	94,927,160
Geographic region:		
UAE	**92,472,863**	90,779,105
Rest of the Middle East	**4,867,243**	3,237,817
Europe	**502,618**	279,862
Others	**971,028**	630,376
	98,813,752	94,927,160
Currencies:		
UAE Dirham	**81,915,524**	79,995,433
US Dollar	**12,811,388**	12,535,107
Euro	**2,338,706**	1,292,047
Sterling Pound	**587,757**	377,146
Others	**1,160,377**	727,427
	98,813,752	94,927,160

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

With respect to investment deposits, the Bank is liable only in case of misconduct, negligence or breach of contract otherwise it is on the account of the fund's provider (Rab Al Mal) or the principal (the Muwakkil).

29 OTHER LIABILITIES

	2016 *AED '000*	*2015* *AED '000*
Accounts payable	**406,128**	485,248
Acceptances	**283,804**	671,346
Accrued profit for distribution to depositors and sukuk holders	**237,733**	192,695
Bankers' cheques	**461,617**	636,831
Provision for staff benefits and other expenses	**364,029**	380,115
Retentions payable	**28,889**	28,236
Advances from customers	**187,492**	167,086
Accrued expenses	**269,299**	181,747
Unclaimed dividends	**114,867**	119,902
Deferred income	**164,995**	197,555
Charity account	**5,873**	6,530
Donation account	**7,206**	15,239
Negative fair value of Shari'a compliant alternatives of derivative financial instruments (note 38)	**1,645**	18,049
Others	**329,540**	332,832
	2,863,117	3,433,411

30 SUKUK FINANCING INSTRUMENTS

	2016 *AED '000*	*2015* *AED '000*
Third issue	**-**	1,836,250

Third issue - USD 500 million

In November 2016, the Bank purchased back the Sukukholders' entire share in the Co-Owned Assets of the third issue of medium term sukuk from these Sukukholders' amounting to AED 1,836,250 thousand (USD 500 million).

31 SHARE CAPITAL

	2016	*2015*
	AED '000	*AED '000*
Authorised share capital:		
4,000,000 thousand (2015: 4,000,000 thousand) ordinary shares of AED 1 each (2015: AED 1 each)	**4,000,000**	4,000,000
Issued and fully paid share capital:		
At 1 January 3,168,000 thousand (2015: 3,000,000 thousand) ordinary shares of AED 1 each (2015: AED 1 each)	**3,168,000**	3,000,000
Right shares issued: Nil (2015: 0.056 share against each share held of AED 1 each)	**-**	168,000
At 31 December 3,168,000 thousand (2015: 3,168,000 thousand) ordinary shares of AED 1 each (2015: AED 1 each)	**3,168,000**	3,168,000

On 28 June 2015, the shareholders in an extra ordinary general meeting have approved the increase of authorized share capital to AED 4,000,000 thousand. Furthermore, shareholders also approved the right issue of 168,000 thousand shares of AED 1 each representing 5.6% of the paid up capital along with the premium of AED 2 per share. Subsequently, Bank has issued right shares of AED 168,000 thousand. Issuance costs amounting to AED 3,089 thousand were incurred.

32 RESERVES

32.1 Legal reserve

As required by the Federal Law No. 2 of 2015, concerning Commercial Companies and the Articles of Association of the Bank and its subsidiaries, 10% of the profit for the year is transferred to the legal reserve. The Bank shall resolve to discontinue such annual transfers as the reserve equals to or more than 50% of the paid up share capital of the Bank. The legal reserve is not available for distribution to the shareholders.

As per Article 203 of UAE Federal Commercial Companies Law No. 8 of 1984 (as amended), the Bank has transferred the share premium amounting to AED 1,529,412 thousand to the legal reserve. As the balance of the reserve exceeds 50% of the total paid up share capital, no transfer to the legal reserve has been made from the profit during the year for the Bank.

During 2015, the Bank has transferred the share premium amounting to AED 336,000 thousand pertaining to the right share issue of 168,000 to the legal reserve after the shareholders' approval in the extra ordinary general meeting held on 28 June 2015.

32.2 General reserve

Under Article 57(2) of the Bank's Articles of Association, the Annual General Assembly of the Bank, upon recommendation of the Board of Directors, have resolved to transfer 10% of the profit for the year to the general reserve. This reserve shall be used in the future for purposes determined by the shareholders' General Assembly upon the recommendation of the Board of Directors.

32.3 Credit risk reserve

Upon the recommendation of the Board of Directors, the Bank has established a special reserve for credit risk which is subject to the approval by the shareholders in the Annual General Assembly. Contributions to the reserve are voluntary.

33 PROPOSED DIVIDENDS

	2016 ***AED '000***	*2015* *AED '000*
Cash dividend: AED 0.2452 per share of AED 1 each (2015: AED 0.2427 per share of AED 1 each)	**776,782**	769,022

Cash dividend of 24.52% of the paid up capital relating to year ended 31 December 2016 amounting to AED 776,782 thousand shall be paid after the approval by the shareholders in the Annual General Assembly.

Cash dividend of 24.27% of the paid up capital relating to year ended 31 December 2015 amounting to AED 769,022 thousand has been paid after the approval by the shareholders at the Annual General Assembly held on 21 April 2016.

34 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 2015	(172,040)	143,000	(151,040)	(14,564)	(194,644)
Net loss on valuation of investments carried at FVTOCI	(9,321)	-	-	-	(9,321)
Loss on disposal of investments carried at FVTOCI	26,574	-	-	-	26,574
Exchange differences arising on translation of foreign operations	-	-	(66,240)	-	(66,240)
Gain on hedge of foreign operations	-	-	21,167	-	21,167
Fair value gain on cash flow hedges	-	-	-	2,907	2,907
At 1 January 2016	(154,787)	143,000	(196,113)	(11,657)	(219,557)
Net loss on valuation of investments carried at FVTOCI	(16,783)	-	-	-	(16,783)
Loss on disposal of investments carried at FVTOCI	8,490	-	-	-	8,490
Surplus on revaluation of land	-	49,700	-	-	49,700
Exchange differences arising on translation of foreign operations	-	-	(571,244)	-	(571,244)
Gain on hedge of foreign operations	-	-	55,693	-	55,693
Fair value gain on cash flow hedges	-	-	-	9,933	9,933
At 31 December 2016	**(163,080)**	**192,700**	**(711,664)**	**(1,724)**	**(683,768)**

35 TIER 1 SUKUK

	2016 AED '000	2015 AED '000
Tier 1 sukuk – Listed	**3,672,500**	3,672,034
Tier 1 sukuk – Government of Abu Dhabi	**2,000,000**	2,000,000
	5,672,500	5,672,034

Tier 1 sukuk – Listed
On 19 November 2012, the Bank through a Shari'a compliant sukuk arrangement has issued Tier 1 sukuk – Listed (the "Sukuk") amounting to AED 3,672,500 thousand (USD 1 billion). This Sukuk was issued under the authorities approved by the shareholders of the Bank in the Extraordinary General Meeting held on 21 October 2012.

As of 31 December 2016, sukuk with a face value of nil were repurchased by the Bank (31 December 2015: AED 466 thousand (USD 0.1 million). Issuance costs amounting to AED 37,281 thousand were incurred.

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 listed on the London stock exchange and is callable by the Bank after period ending on 16 October 2018 (the "First Call Date") or any profit payment date thereafter subject to certain conditions. The Sukuk bear an expected Mudaraba profit rate of 6.375% payable during the initial period of six years semi-annually in arrears. After the initial period, and for every 6th year thereafter, resets to a new expected Mudaraba profit rate based on the then 6 year LIBOR rate plus an expected margin of 5.393% Profit distributions will be reported in the consolidated statement of changes in equity.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

Tier 1 sukuk – Government of Abu Dhabi
On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk-Gov") 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-Gov was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

This Sukuk-Gov 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-Gov is callable by the Bank subject to certain conditions. The Sukuk-Gov 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.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

36 NON-CONTROLLING INTEREST

Non-controlling interest represents the minority shareholder's proportionate share in the aggregate value of the net assets of subsidiaries.

37 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments include commitments to extend Islamic credit facilities, standby letters of credit, guarantees, 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 and guarantees 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:

	2016	*2015*
	AED '000	*AED '000*
Contingent liabilities		
Letters of credit	**2,025,680**	2,083,463
Letters of guarantee	**9,747,282**	11,276,968
	11,772,962	13,360,431
Commitments		
Undrawn facilities commitments	**386,939**	583,032
Future capital expenditure	**125,292**	70,776
Investment and development properties	**11,436**	74,057
	523,667	727,865
	12,296,629	14,088,296

38 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

Shari'a compliant alternatives of swaps are based on a unilateral Wa'ad (promise) structure between two parties to buy a specific Shari'a compliant commodity at an agreed price on an agreed date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. For Shari'a complaint alternatives of swap, counter parties enter into two separate and independent Murabaha transactions, the results of which are exchanged between them in a manner that enables one of them to receive the equivalent of the fixed reference rate and the other counterparty to the receive the equivalent of the reference floating rate, where the profit payments are based on a notional value in a single currency.

38 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS continued

The table below shows the fair values of Shari'a compliant alternatives of derivative financial instruments, together with the notional amounts analysed by term of maturity. The notional amount is based on the amount of the underlying transaction, reference rate or index and is the basis upon which changes in the value of transactions are measured. The notional amounts indicate the volume of transactions outstanding at the reporting date and are neither indicative of the market risk nor credit risk.

	Negative fair value AED '000	*Notional amount AED '000*	*Less than 3 months AED '000*	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*
31 December 2016: Notional amount by term to maturity						
Shari'a compliant alternatives of swap (note 29)	**1,645**	**2,821,209**	**1,513,495**	**266,142**	**531,482**	**510,090**
31 December 2015: Notional amount by term to maturity						
Shari'a compliant alternatives of swap (note 29)	18,049	2,990,492	1,049,849	678,027	745,527	517,089

39 ZAKAT

As the Bank is not required to pay Zakat by laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the share value, for Zakat purposes based on Gregorian year, was estimated at AED 175,666 thousand (2015: AED 173,361 thousand) and accordingly, Zakat is estimated at AED 0.05545 (2015: AED 0.05472) per outstanding share.

However, in few jurisdictions, Zakat of the Bank's branches is mandatory by law either by taking provision or paying to a respective governmental entity responsible for Zakat. Therefore, the Bank has acted according to the law and paid the Zakat to these entities on behalf of the Shareholders and deducted the amount paid from the above total Zakat amount and accordingly adjusted the Zakat amount per each outstanding share.

40 CASH AND CASH EQUIVALENTS

	2016* *AED '000	*2015 AED '000*
Cash and balances with central banks, short term	**8,206,741**	8,777,511
Balances and wakala deposits with Islamic banks and other financial institutions, short term	**2,467,470**	2,355,254
Murabaha and mudaraba with financial institutions, short term	**1,309,906**	1,428,832
Due to financial institutions, short term	**(5,038,599)**	(3,077,404)
	6,945,518	9,484,193

The following significant non-cash transactions have been excluded from the consolidated statement of cash flows:

Transfer from other assets to investment properties (note 22)	**994,485**	13,610

41 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. During the year, related party financing were renegotiated based on terms approved by the Board of Directors. All financial assets are performing and free of any provision for impairment. Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

Profit rates earned on balances and wakala deposits with banks and financial institutions and customer financing extended to related parties during the year has ranged from 0% to 6% (2015: 0% to 6% per annum).

Profit rates paid on due to financial institution and customers' deposits placed by related parties during the year have ranged from 0% to 0.8% per annum (2015: 0% to 0.9% per annum).

During the year, significant transactions with related parties included in the consolidated income statement were as follows:

	Major shareholder AED '000	*Directors AED '000*	*Associates and joint ventures AED '000*	*Others AED '000*	*Total AED '000*
31 December 2016					
Income from murabaha, mudaraba and wakala with financial institutions	**-**	**-**	**9,290**	**-**	**9,290**
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	**53,277**	**477**	**75**	**89,026**	**142,855**
Fees and commission income, net	**-**	**38**	**1,034**	**2,469**	**3,541**
Operating expenses	**-**	**432**	**-**	**-**	**432**
Distribution to depositors and sukuk holders	**-**	**67**	**535**	**291**	**893**
31 December 2015					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	4,835	-	4,835
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	78,154	1,240	398	116,681	196,473
Income from investments measured at fair value	63	-	-	-	63
Fees and commission income, net	3,201	22	330	7,734	11,287
Operating expenses	-	432	-	-	432
Distribution to depositors and sukuk holders	2	47	356	343	748

41 RELATED PARTY TRANSACTIONS continued

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

	Major shareholder AED '000	*Directors AED '000*	*Associates and joint ventures AED '000*	*Others AED '000*	*Total AED '000*
31 December 2016					
Balances and wakala deposits with Islamic banks and other financial institutions	**-**	**-**	**1,087,153**	**-**	**1,087,153**
Murabaha and Mudaraba with financial institutions	**-**	**-**	**163,765**	**-**	**163,765**
Murabaha, mudaraba, ijara and other Islamic financing	**2,641,162**	**11,346**	**-**	**3,542,427**	**6,194,935**
Other assets	**-**	**-**	**63,065**	**185,913**	**248,978**
	2,641,162	**11,346**	**1,313,983**	**3,728,340**	**7,694,831**
Due to financial institutions	**-**	**-**	**47,457**	**-**	**47,457**
Depositors' accounts	**125,620**	**31,890**	**119,106**	**137,267**	**413,883**
Other liabilities	**-**		**24**	**2,513**	**2,537**
	125,620	**31,890**	**166,587**	**139,780**	**463,877**
31 December 2015					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	1,354,353	-	1,354,353
Murabaha and Mudaraba with financial institutions	-	-	171,611	-	171,611
Murabaha, mudaraba, ijara and other Islamic financing	2,587,925	30,667	30,052	3,612,401	6,261,045
Other assets	-	-	13,616	183,625	197,241
	2,587,925	30,667	1,569,632	3,796,026	7,984,250
Due to financial institutions	-	-	30,180	-	30,180
Depositors' accounts	50	21,479	98,200	214,906	334,635
Other liabilities	-	63	25	179	267
	50	21,542	128,405	215,085	365,082

The Bank and its major shareholder jointly own a controlling stake in Abu Dhabi Islamic Bank – Egypt (S.A.E.) ("ADIB-Egypt") and have a formal joint control arrangement for their investment in ADIB-Egypt (note 21).

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

	2016 AED '000	*2015 AED '000*
Salaries and other benefits	**32,076**	32,778
Employees' end of service benefits	**3,420**	3,684
	35,496	36,462

Board of Directors remuneration for the year ended 31 December 2016 amounting to AED 4,900 thousand is subject to the approval of the shareholders at the forthcoming Annual General Assembly. During 2016, AED 4,200 thousand was paid to Board of Directors pertaining to the year ended 31 December 2015 after the approval by the shareholders in the Annual General Assembly held on 21 April 2016.

42 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.

Global 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.

Global 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.

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

Real estate – Subsidiaries 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, associates and joint ventures 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.

42 SEGMENT INFORMATION continued

Business segments information for the year ended 31 December 2016 were as follows:

	Global Retail banking AED '000	*Global Wholesale banking AED '000*	*Private banking AED '000*	*Treasury AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
Revenue and results							
Segment revenues, net	**3,236,624**	**1,349,807**	**121,456**	**536,486**	**101,296**	**39,854**	**5,385,523**
Operating expenses excluding provision for impairment, net	**(1,744,378)**	**(380,998)**	**(53,997)**	**(41,832)**	**(82,146)**	**(158,649)**	**(2,462,000)**
Operating profit (margin)	**1,492,246**	**968,809**	**67,459**	**494,654**	**19,150**	**(118,795)**	**2,923,523**
Provision for impairment, net	**(621,225)**	**(372,359)**	**8,348**	**-**	**(6,231)**	**21,502**	**(969,965)**
Profit (loss) for the year	**871,021**	**596,450**	**75,807**	**494,654**	**12,919**	**(97,293)**	**1,953,558**
Non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(1,294)**	**(1,294)**
Profit (loss) for the year attributable to equity holders of the Bank	**871,021**	**596,450**	**75,807**	**494,654**	**12,919**	**(98,587)**	**1,952,264**
Assets							
Segmental assets	**54,865,153**	**35,469,626**	**2,536,021**	**19,368,458**	**2,680,915**	**7,369,552**	**122,289,725**
Liabilities							
Segmental liabilities	**60,059,215**	**27,971,848**	**2,702,223**	**12,102,311**	**349,531**	**3,645,956**	**106,831,084**

Business segments information for the year ended 31 December 2015 were as follows:

	Global Retail banking AED '000	*Global Wholesale banking AED '000*	*Private banking AED '000*	*Treasury AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
Revenue and results							
Segment revenues, net	3,043,279	1,330,625	108,682	444,569	118,382	88,838	5,134,375
Operating expenses excluding provision for impairment, net	(1,619,242)	(360,448)	(59,346)	(42,765)	(86,262)	(212,315)	(2,380,378)
Operating profit (margin)	1,424,037	970,177	49,336	401,804	32,120	(123,477)	2,753,997
Provision for impairment, net	(501,687)	(187,768)	(11,862)	-	(5,156)	(113,481)	(819,954)
Profit (loss) for the year	922,350	782,409	37,474	401,804	26,964	(236,958)	1,934,043
Non-controlling interest	-	-	-	-	-	(2,348)	(2,348)
Profit (loss) for the year attributable to equity holders of the Bank	922,350	782,409	37,474	401,804	26,964	(239,306)	1,931,695
Assets							
Segmental assets	52,418,734	35,058,966	3,061,715	16,539,451	2,671,626	8,627,170	118,377,662
Liabilities							
Segmental liabilities	54,655,766	28,770,951	2,492,733	13,473,886	373,318	3,535,777	103,302,431

42 SEGMENT INFORMATION continued

The following is the analysis of the total segment revenues of each segment between revenues from external parties and inter-segment:

	Global Retail banking AED '000	*Global Wholesale banking AED '000*	*Private banking AED '000*	*Treasury AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
2016							
Total segment revenues, net	**3,209,761**	**1,391,794**	**115,203**	**529,241**	**101,296**	**38,228**	**5,385,523**
Inter-segment revenues, net	**26,863**	**(41,987)**	**6,253**	**7,245**	**-**	**1,626**	**-**
Segment revenues, net	**3,236,624**	**1,349,807**	**121,456**	**536,486**	**101,296**	**39,854**	**5,385,523**
2015							
Total segment revenues, net	3,105,203	1,398,736	159,478	314,708	118,382	37,868	5,134,375
Inter-segment revenues, net	(61,924)	(68,111)	(50,796)	129,861	-	50,970	-
Segment revenues, net	3,043,279	1,330,625	108,682	444,569	118,382	88,838	5,134,375

Geographical information
The Group operates in two principal geographic areas that are domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the U.A.E. branches, associates and subsidiaries; and international area represents the operations of the Bank that originates from its branches in Iraq, Qatar and Sudan and through its subsidiaries and associates outside U.A.E. Given that, UAE contributes the majority of the revenues and the Group's total assets in UAE represent a significant portion of its total assets and liabilities, hence no further geographical analysis of segment revenues, expenses, operating profit (margin), assets and liabilities is presented.

43 RISK MANAGEMENT

43.1 Introduction

The core business of a bank is to manage risk and provide returns to the shareholders in line with the accepted risk profile. Risk is inherent in all of the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls in accordance with regulatory and Board requirements. The Group is exposed principally to credit risk, liquidity risk, market risk and operational risk but other risks such as reputational risk, legal risk and the various risks defined by the Basel accord are also monitored and managed.

43.1.1 Risk management governance structure

The Board of Directors ("Board") continues to have overall responsibility for the establishment and oversight of the Bank's risk management framework, as well as for approving the Bank's overall risk appetite, and ensuring that business is conducted within this framework. The Board is the ultimate sanctioning authority. During 2015, the Board approved a corporate governance framework and refreshed the charters of the various Board committees.

Strategy Committee
The Strategy Committee is appointed by the Board and is responsible to guide the Group's Executive Management to develop the Group's strategic objectives and business strategy, conduct periodic review of the achievement of strategic objectives and business plans and direct corrective actions wherever required. In addition, this committee also acts as a conduit between the Board and senior management on business issues.

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.1 Risk management governance structure continued

Risk and Investment Approval Committee

The Risk and Investment Approval Committee is appointed by the Board and is responsible for the approvals of the Group's risk exposures, high value transactions and major items of capital expenditure. In addition, the Committee is also responsible for monitoring credit portfolio quality and provisions.

Governance and Risk Policy Committee

The Governance and Risk Policy Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in respect of the following for the Bank and all of its subsidiaries and material affiliates:

- Review the risk profile of the Group keeping in view the requirement pertaining to enterprise risk management and to make recommendations to calibrate the risk profile of the Group in line with the applicable regulatory requirements, rating considerations and business strategy;
- Assist the Board in overseeing the Group's response to the risks it faces through the approval of the Group's risk policies and standards; and
- Review and recommend the corporate governance and risk management frameworks and risk strategy to the Board in alignment with the business growth requirements of the Group.

Audit Committee

The Audit Committee is appointed by the Board to assist the Board it in fulfilling its oversight responsibilities in respect of the following for the Bank and all its subsidiaries and material affiliates:

- Ensuring the integrity of the Group's consolidated financial statements and financial reporting process;
- To review the financial and internal control systems, quality assurance and risk management framework;
- To review the performance of the internal audit function;
- To review the internal controls over financial reporting and annual independent audit of the Group's consolidated financial statements;
- To recommend to the Board the engagement of the external auditors and evaluation of their qualifications, independence and performance; and
- To ensure compliance by the Group with legal and regulatory requirements as pertaining to its business activities.

The duties and responsibilities of the committees are governed by formally approved charters.

43.1.2 The Group Risk Management ("GRM")

The Risk Management Group is an independent risk organization that works in close partnership with the business units to support their activities, whilst safeguarding the risk profile of the Group. The GRM is led by the Group Chief Risk Officer (GCRO) and has six main responsibilities:

- Ensure adherence to risk policies and procedures across the Group
- Ensure compliance with risk related legal and regulatory guidelines in the UAE and in our overseas markets
- Maintain the primary relationship with local regulators with respect to risk related issues
- Approve commercial and consumer financing transactions with its delegated authorities
- Maintain prudent risk control systems and processes, and
- Ensure a robust credit process is maintained in support of all business lines.

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.2 The Group Risk Management ("GRM") continued
Reporting to the GCRO are senior, experienced risk specialists who manage specific areas of risk, including Wholesale Banking, Private Banking, Retail Banking, Operational Risk, Credit Control, Remedial Management, Enterprise Risk Management and Market Risk. GRM responsibilities extend across all the business units of the Bank in all of the geographies in which the Bank operates.

Credit Committee
All customer related business proposals are reviewed and approved by a credit committee with delegated authority approved by the Board. The credit committee consists of designated credit officers and senior credit officers appointed following a rigorous and extended process of qualification. These appointments are made by the Chief Executive Officer upon the recommendation of the GCRO. The credit approval process and the authorities vested with the committee members are laid out in the Bank's Credit Policy & Procedures Manual. The manual is revised periodically.

43.1.3 Risk measurement and reporting systems
In order to effectively monitor and control risks, the GRM maintains a capability that allows it to:

- Prepare portfolio reports across a range of indicators such as portfolio concentrations by geography, industry type, product and risk rating. which are used to analyse and monitor overall portfolio quality;
- Monitor the integrity and consistency of data, including risk ratings, risk migrations, exposures and losses, including the maintenance of a central loss database for the monitoring and analysis of losses;
- Set parameters to be used for the calculation of expected loss and risk capital requirements;
- Consolidate portfolio management data and reports for use by Executive Management and the Board; and
- Establish and maintain a set of early warning indicators to identify emerging risks.

Detailed reporting of industry, customer and geographic risks acquired takes place frequently. These reports are examined and discussed closely in a series of quarterly portfolio reviews held with senior business and risk managers. Decisions on risk appetite, adjustments to financing criteria and other initiatives are taken as a result of these meetings. Risk reports are presented to the Chief Executive Officer, the Governance & Risk Policy Committee and the Board regularly. Senior management assesses the adequacy of the provision for credit losses on a monthly basis.

The Group actively uses collateral to reduce its credit risks.

43.1.4 Risk concentration
The Bank seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers or in specific locations or businesses. It also obtains security when appropriate.

Details of the composition of the financing portfolio are provided in notes 17 and 18.

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.5 Group Internal Audit

Risk management processes throughout the Bank are reviewed periodically by the internal audit function that reviews both the adequacy of the procedures and the Bank's compliance with the procedures. Group Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee. The Head of Group Internal Audit has a direct reporting line to the Audit Committee thus demonstrating his independence and objectivity in all audit engagements undertaken within the Bank.

43.1.6 Basel II / Internal Capital Adequacy Assessment Process ("ICAAP")

Since 2009, the UAE Central Bank, as part of the international Basel II regulatory regime, has required each UAE bank to submit a report on its internal capital adequacy assessment process – this is known as "ICAAP". The Bank has prepared and submitted its ICAAP report in each of the past seven years. The process aligns the Bank's risk appetite with its risk capacity which, in turn, produces an enterprise-wide set of risk limits set within and relevant to the Bank's overall strategy.

43.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by the use of a focused target market discipline which defines who the Bank is prepared to deal with from a risk profile perspective and the use of risk acceptance criteria, which define what type and volume of risk the Bank is prepared to undertake with each counterparty. These critical tools are used in conjunction with close monitoring of credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of all counter-parties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

All commercial credit risk exposures are risk rated using Moody's Risk Analyst system, recognized as an industry wide standard. This platform supports a number of different rating models for various businesses which are now well embedded. Facility Risk Ratings are also applied. Consumer exposures are rated using a pool concept as required by Basel II.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of guarantee. They expose the Bank to similar risks as financing and these are mitigated by the same control processes and policies.

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	***Gross maximum exposure 2016 AED '000***	*Gross maximum exposure 2015 AED '000*
Balances and wakala deposits with Islamic banks and other financial institutions	15	**4,246,158**	3,124,314
Murabaha and mudaraba with financial institutions	16	**1,827,710**	1,812,302
Murabaha and other Islamic financing	17	**38,167,855**	40,261,627
Ijara financing	18	**43,201,330**	41,136,743
Investment in Islamic sukuk measured at amortised cost	19	**9,161,591**	7,380,686
Investments measured at fair value	20	**1,263,230**	1,258,537
Other assets		**1,383,657**	1,679,193
		99,251,531	96,653,402
Contingent liabilities	37	**11,772,962**	13,360,431
Commitments		**386,939**	583,032
Total		**12,159,901**	13,943,463
Total credit risk exposure		**111,411,432**	110,596,865

43.2.2 Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The credit exposure to the top 5 customers as of 31 December 2016 was AED 7,396,572 thousand (2015: AED 7,472,796 thousand) before taking account of collateral or other credit enhancements.

The concentration of the Group's assets and liabilities by geographical segment is based primarily upon the location of the counter party.

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.2 Credit risk concentration continued

The distribution of the Group's financial assets which are subject to credit risk by geographic region is as follows:

	Balances and wakala deposits with Islamic banks and other financial institutions AED '000	*Murabaha and mudaraba with financial institutions AED '000*	*Murabaha and other Islamic financing AED '000*	*Ijara financing AED '000*	*Investment in Islamic sukuk measured at amortised cost AED '000*	*Investments measured at fair value AED '000*	*Other assets AED '000*	*Total AED' 000*
31 December 2016								
UAE	**2,132,487**	**1,561,341**	**36,641,855**	**41,098,110**	**6,685,617**	**846,237**	**1,240,876**	**90,206,523**
Rest of Middle East	**784,535**	**228,153**	**950,297**	**1,066,435**	**1,295,254**	**34,547**	**139,412**	**4,498,633**
Europe	**113,844**	**9,066**	**201,865**	**321,811**	**92,284**	**1**	**-**	**738,871**
Others	**1,215,292**	**29,150**	**373,838**	**714,974**	**1,088,436**	**382,445**	**3,369**	**3,807,504**
Financial assets subject to credit risk	**4,246,158**	**1,827,710**	**38,167,855**	**43,201,330**	**9,161,591**	**1,263,230**	**1,383,657**	**99,251,531**
31 December 2015								
UAE	476,614	1,360,232	38,835,151	39,253,812	4,995,579	821,726	1,523,258	87,266,372
Rest of Middle East	1,045,333	379,711	959,989	1,219,375	1,270,127	47,529	125,580	5,047,644
Europe	72,093	-	244,830	752	111,510	-	-	429,185
Others	1,530,274	72,359	221,657	662,804	1,003,470	389,282	30,355	3,910,201
Financial assets subject to credit risk	3,124,314	1,812,302	40,261,627	41,136,743	7,380,686	1,258,537	1,679,193	96,653,402

The credit risk arising from off-balance sheet items mentioned in note 43.2.1 are mainly relating to the UAE.

The distribution of the Group's financial assets by industry sector is as follows:

	2016 AED '000	*2015 AED '000*
Government	**2,342,298**	2,871,640
Public sector	**5,605,401**	4,744,922
Financial institutions	**9,187,616**	7,978,492
Trading and manufacturing	**10,120,268**	12,098,417
Construction and real estate	**10,254,507**	9,618,272
Energy	**702,786**	707,336
Personal	**48,477,967**	46,131,487
Others	**12,560,688**	12,502,836
Financial assets subject to credit risk	**99,251,531**	96,653,402

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.3 Impairment assessment
The main consideration for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows of the counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed impairment losses and collective impairment provisions on financing assets.

Individually assessed impairment losses on financing assets
The Group determines the allowances appropriate for each individually significant customer financing on an individual basis. Items considered when determining impairment loss amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated on monthly basis unless unforeseen circumstances require more careful attention.

Collective impairment provisions on financing assets
Collective impairment provisions are assessed for losses on customer financing that are not individually significant where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individual assessed impairment, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

Write-off of financing assets
Board approved policies are in place covering the timing and amount of provisions and write offs for all the financing portfolios of the bank. These reflect both the UAE Central bank guidelines and rules, accepted international accounting standards, and market and industry best practice and are stringently adhered to.

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.4 Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities;
- For commercial financing, charges over real estate properties, inventory, trade receivables and securities; and
- For retail financing, charge over assets, mortgage of properties and assignment of salaries in favor of the Bank.

The table below shows the lower of the collateral value or the outstanding balance of customer financing as at the reporting date:

	2016 ***AED '000***	*2015* *AED '000*
Against customer financing not impaired		
Property	**24,324,068**	24,218,205
Securities	**133,030**	154,687
Cash margin and lien over deposits	**193,901**	277,349
Others	**7,121,981**	7,092,837
	31,772,980	31,743,078
Against individually impaired		
Property	**1,283,636**	1,040,864
Securities	**13,809**	10,116
Cash margin and lien over deposits	**22,362**	8,093
Others	**177,088**	274,034
	1,496,895	1,333,107
	33,269,875	33,076,185

The Bank also obtains guarantees from parent companies for financing their subsidiaries, but their benefits are not included in the above table.

Management regularly monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and assesses the market value of collateral obtained during its review of the adequacy of the provision for impairment losses.

The Bank also makes use of master netting agreements with counterparties.

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality for balance and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, murabaha, ijara and other Islamic financing based on the Group's credit rating system.

	Moody's equivalent grade	***2016 AED '000***	*2015 AED '000*
Low risk			
Risk rating class 1	Aaa	**-**	-
Risk rating classes 2 and 3	Aa1-A3	**4,182,315**	2,963,050
Risk rating class 4	Baa1-Baa3	**12,545,414**	11,649,339
Risk rating classes 5 and 6	Ba1-B3	**61,002,557**	60,901,257
Fair risk			
Risk rating class 7	Caa1-Caa3	**6,407,794**	7,938,762
Impaired			
Risk rating class 8, 9 and 10		**3,304,973**	2,882,578
		87,443,053	86,334,986

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial and qualitative analysis, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The risk ratings models are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class. A number of new rating models aligned to specific business segments, were introduced during the course of the year.

Renegotiated murabaha, ijara and other Islamic financings

The total carrying amount of financing to non-related parties whose terms have been renegotiated during the year amounted to AED 1,057,214 thousand (2015: AED 1,447,960 thousand).

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued

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 investment in islamic sukuk measured at amortised cost.

	Balances and wakala deposits with Islamic banks and other financial institutions 31 December		***Murabaha and mudaraba with financial institutions 31 December***		***Murabaha and other Islamic financing 31 December***		***Ijara financing 31 December***		***Investment in islamic sukuk measured at amortised cost 31 December***	
	2016	*2015*	***2016***	*2015*	***2016***	*2015*	***2016***	*2015*	***2016***	*2015*
	AED '000	*AED '000*	***AED '000***	*AED '000*	***AED '000***	*AED '000*	***AED '000***	*AED '000*	***AED '000***	*AED '000*
Individually impaired										
Substandard	-	-	-	-	**691,864**	604,144	**559,457**	621,604	-	-
Doubtful	-	-	-	-	**556,356**	208,593	**671,012**	644,413	**12,802**	12,802
Loss	-	-	**64,929**	194,740	**483,614**	476,450	**277,741**	132,634	**91,813**	91,813
Gross amount	-	-	**64,929**	194,740	**1,731,834**	1,289,187	**1,508,210**	1,398,651	**104,615**	104,615
Provision for individual impairment	-	-	**(64,929)**	(194,740)	**(853,154)**	(693,670)	**(409,186)**	(287,041)	**(98,277)**	(98,277)
	-	-	-	-	**878,680**	595,517	**1,099,024**	1,111,610	**6,338**	6,338
Past due but not impaired										
Less than 90 days	-	-	-	-	**445,261**	480,196	**296,228**	269,147	-	-
More than 90 days	-	-	-	-	**102,073**	39,794	**353,044**	407,426	-	-
	-	-	-	-	**547,334**	519,990	**649,272**	676,573	-	-
Neither past due nor impaired	**4,246,158**	3,124,314	**1,762,781**	1,617,562	**35,888,687**	38,452,450	**41,043,848**	39,061,519	**9,056,976**	7,276,071
Collective allowance for impairment	-	-	-	-	**(968,615)**	(1,167,180)	**(927,708)**	(847,248)	-	-
Carrying amount	**4,246,158**	3,124,314	**1,762,781**	1,617,562	**36,346,086**	38,400,777	**41,864,436**	40,002,454	**9,063,314**	7,282,409

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued
An analysis of past due financing, by age, is provided below:

Ageing analysis of past due but not impaired

	Less than 30 days AED '000	*31 -60 days AED '000*	*61 -90 days AED '000*	*More than 90 days AED '000*	*Total AED '000*
2016					
Murabaha and other Islamic financing	**204,258**	**137,785**	**103,218**	**102,073**	**547,334**
Ijara financing	**103,064**	**38,249**	**154,915**	**353,044**	**649,272**
	307,322	**176,034**	**258,133**	**455,117**	**1,196,606**
2015					
Murabaha and other Islamic financing	246,329	127,034	106,833	39,794	519,990
Ijara financing	242,485	22,973	3,689	407,426	676,573
	488,814	150,007	110,522	447,220	1,196,563

More detailed information in respect of the allowance for impairment losses on murabaha and other islamic financing and ijara financing have been disclosed in notes 17 and 18 respectively.

43.3 Liquidity risk and funding management
Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows, the maintenance and monitoring of the inventory of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with the Central Bank. The liquidity position is assessed and managed under a variety of stress scenarios, given due consideration to severe yet plausible stress conditions relating to both the market in general and specifically to the Group.

The high quality of the investment portfolio ensures its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help these form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands. In addition, the Bank monitors various liquidity risk ratios and maintains an up to date contingency funding plan.

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.1 Treasury

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

43.3.2 Asset & Liability Committee ("ALCO")

The Asset & Liability Management ("ALM") process focusses on planning, acquiring, and directing the flow of funds through the organization. The ultimate objective of this process is to generate adequate stable earnings and to steadily build equity over time, while taking measured business risk aligned to the overall risk appetite of the Bank. The Bank has a defined ALM policy which describes the objective, role and function of the ALCO. This process revolves around ALCO, the body within the Bank that holds the responsibility to make strategic decisions relating to the management of financial position related risks. The ALCO consists of the Bank's senior management including the CEO and normally meets once a month.

43.3.3 Liquidity risk management process

The Group's liquidity risk management process, as carried out within the Group and monitored by a separate team in Group Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes reenlistment of funds as they mature or when financing are provided to customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquated as protection against any unforeseen interruption to cash flow;
- Managing statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.4 Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets and liabilities at reporting date based on contractual maturities.

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
31 December 2016					
ASSETS					
Cash and balances with central banks	**19,277,935**	**500,404**	**-**	**-**	**19,778,339**
Balances and wakala deposits with Islamic banks and other financial institutions	**1,379,729**	**1,899,655**	**900,640**	**66,134**	**4,246,158**
Murabaha and mudaraba with financial institutions	**1,309,905**	**452,876**	**-**	**-**	**1,762,781**
Murabaha and other Islamic financing	**2,973,969**	**7,841,840**	**19,117,400**	**6,412,877**	**36,346,086**
Ijara financing	**1,851,973**	**4,449,542**	**17,491,293**	**18,071,628**	**41,864,436**
Investments in Islamic sukuk measured at amortised cost	**512,337**	**3,473,461**	**4,369,056**	**708,460**	**9,063,314**
Investments measured at fair value	**-**	**1,382,217**	**14,711**	**-**	**1,396,928**
Investment in associates and joint ventures	**-**	**-**	**-**	**753,541**	**753,541**
Other assets	**1,269,570**	**61,029**	**190,986**	**12,755**	**1,534,340**
Financial assets	**28,575,418**	**20,061,024**	**42,084,086**	**26,025,395**	**116,745,923**
Non-financial assets					**5,543,802**
Total assets					**122,289,725**
LIABILITIES					
Due to financial institutions	**5,154,215**	**-**	**-**	**-**	**5,154,215**
Depositors' accounts	**90,839,588**	**5,998,396**	**1,975,768**	**-**	**98,813,752**
Other liabilities	**1,812,691**	**308,829**	**741,597**	**-**	**2,863,117**
Total liabilities	**97,806,494**	**6,307,225**	**2,717,365**	**-**	**106,831,084**
31 December 2015					
ASSETS					
Cash and balances with central banks	18,629,361	-	-	-	18,629,361
Balances and wakala deposits with Islamic banks and other financial institutions	2,355,253	169,061	600,000	-	3,124,314
Murabaha and mudaraba with financial institutions	1,604,203	13,359	-	-	1,617,562
Murabaha and other Islamic financing	4,296,572	8,300,615	17,787,993	8,015,597	38,400,777
Ijara financing	906,906	4,374,357	17,398,192	17,322,999	40,002,454
Investments in Islamic sukuk measured at amortised cost	16,039	430,548	3,764,602	3,071,220	7,282,409
Investments measured at fair value	-	1,434,589	18,970	-	1,453,559
Investment in associates and joint ventures	-	-	-	799,356	799,356
Other assets	1,487,172	-	328,595	12,218	1,827,985
Financial assets	29,295,506	14,722,529	39,898,352	29,221,390	113,137,777
Non-financial assets					5,239,885
Total assets					118,377,662
LIABILITIES					
Due to financial institutions	3,085,610	20,000	-	-	3,105,610
Depositors' accounts	88,402,326	4,448,332	2,076,502	-	94,927,160
Other liabilities	2,380,455	248,476	804,480	-	3,433,411
Sukuk financing instruments	-	1,836,250	-	-	1,836,250
Total liabilities	93,868,391	6,553,058	2,880,982	-	103,302,431

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.4 Analysis of financial assets and financial liabilities by remaining contractual maturities continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations, including cash flows pertaining to principal repayment and profit payable to maturity.

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
31 December 2016					
LIABILITIES					
Due to financial institutions	**5,154,551**	**-**	**-**	**-**	**5,154,551**
Depositors' accounts	**90,852,615**	**6,036,950**	**2,020,210**	**-**	**98,909,775**
Other liabilities	**1,812,691**	**308,829**	**741,597**	**-**	**2,863,117**
Total liabilities	**97,819,857**	**6,345,779**	**2,761,807**	**-**	**106,927,443**
31 December 2015					
LIABILITIES					
Due to financial institutions	3,044,041	20,024	-	-	3,064,065
Depositors' accounts	88,418,667	4,475,289	2,160,997	-	95,054,953
Other liabilities	2,380,455	248,476	804,480	-	3,433,411
Sukuk financing instruments	-	1,899,765	-	-	1,899,765
Total liabilities	93,843,163	6,643,554	2,965,477	-	103,452,194

The disclosed financial instruments in the above table are the gross undiscounted cash flows.

The table below shows the contractual expiry of the Bank's contingent liabilities and commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
2016					
Contingent liabilities	**9,848,151**	**1,109,949**	**808,550**	**6,312**	**11,772,962**
Commitments	**-**	**11,436**	**125,292**	**-**	**136,728**
Total	**9,848,151**	**1,121,385**	**933,842**	**6,312**	**11,909,690**
2015					
Contingent liabilities	10,470,928	2,123,571	759,606	6,326	13,360,431
Commitments	-	52,439	92,394	-	144,833
Total	10,470,928	2,176,010	852,000	6,326	13,505,264

The Bank does not expect that all of the contingent liabilities or commitments will be drawn before expiry.

43 RISK MANAGEMENT continued

43.4 Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Group is exposed to diverse the financial instruments including securities, foreign currencies, equities and commodities.

The Group pays considerable attention to market risk. The Group uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises of the following elements:

- Limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by the senior management; and
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on timely basis.

The policies and procedures and the trading limits are set to ensure the implementation of the Group's market risk policy in day-to-day operations. These are viewed periodically to ensure they remain in line with the Group's general market risk policy. The ALCO ensure that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Group is required to comply with the guidelines and regulations of the Central Bank.

43.4.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-statement of financial position instruments that mature or re-price in a given period. The Group manages this risk through appropriate limits in place and frequent review of the bank’s structural position with regard to profit rate risk and its impact on earnings as well as the economic value of its shareholders’ equity.

The following table estimates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group’s consolidated income statement. The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates (whether increase or decrease) on the net profit for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

Currency	***Increase in basis points 2016***	***Sensitivity of profit on financial assets and liabilities AED '000***	*Increase in basis points 2015*	*Sensitivity of profit on financial assets and liabilities AED '000*
AED	**25**	**40,523**	25	58,538
USD	**25**	**21,272**	25	12,540
Euro	**25**	**1,702**	25	(1,083)
Other currencies	**25**	**1,832**	25	6,029

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.2 Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The table below indicates the extent to which the Group was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against AED with all other variable held constant on the consolidated income statement (due to the changes in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated in consolidated income statement on investments carried at fair value through other comprehensive income - equity instruments and investment in associates and joint ventures).

	% Increase currency rates	*Effect on net profit AED '000*	*Effect on equity AED '000*
31 December 2016			
Currency			
USD	**5**	**411,192**	**3,938**
Euro	**5**	**(29,573)**	**3,499**
GBP	**5**	**(3,449)**	**-**
Other currencies	**5**	**13,782**	**23,349**
31 December 2015			
Currency			
USD	5	94,426	6,177
Euro	5	(83,479)	2,580
GBP	5	(2,399)	-
Other currencies	5	75,674	27,484

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.2 Currency risk continued

The table below shows the Group's exposure to foreign currencies.

	AED *AED '000*	*USD* *AED '000*	*Euro* *AED '000*	*GBP* *AED '000*	*Others* *AED '000*	*Total* *AED '000*
31 December 2016						
Financial assets						
Cash and balances with central banks	**17,703,406**	**1,171,030**	**2,342**	**664**	**900,897**	**19,778,339**
Balances and wakala deposits with Islamic banks and other financial institutions	**301,934**	**1,679,638**	**1,709,453**	**452,478**	**102,655**	**4,246,158**
Murabaha and mudaraba with financial institutions	**1,055,238**	**211,150**	**289,652**	**9,066**	**197,675**	**1,762,781**
Murabaha and other Islamic financing	**34,322,058**	**1,619,997**	**2,850**	**784**	**400,397**	**36,346,086**
Ijara financing	**33,448,811**	**7,801,301**	**21,673**	**415,185**	**177,466**	**41,864,436**
Investments in Islamic sukuk measured at amortised cost	**282,000**	**8,689,029**	**-**	**92,285**	**-**	**9,063,314**
Investments measured at fair value	**54,851**	**1,277,506**	**83**	**-**	**64,488**	**1,396,928**
Investment in associates and joint ventures	**216,666**	**-**	**69,890**	**-**	**466,985**	**753,541**
Other assets	**29,720**	**1,506,806**	**(79,509)**	**6,428**	**70,895**	**1,534,340**
	87,414,684	**23,956,457**	**2,016,434**	**976,890**	**2,381,458**	**116,745,923**
Financial liabilities						
Due to financial institutions	**1,759,510**	**2,562,731**	**165,486**	**444,872**	**221,616**	**5,154,215**
Depositors' accounts	**81,915,524**	**12,811,388**	**2,338,706**	**587,757**	**1,160,377**	**98,813,752**
Other liabilities	**2,279,578**	**279,737**	**3,724**	**3,234**	**256,844**	**2,863,117**
	85,954,612	**15,653,856**	**2,537,916**	**1,045,863**	**1,638,837**	**106,831,084**
31 December 2015						
Financial assets						
Cash and balances with central banks	17,535,170	864,922	2,362	1,469	225,438	18,629,361
Balances and wakala deposits with Islamic banks and other financial institutions	494,003	478,736	125,985	176,913	1,848,677	3,124,314
Murabaha and mudaraba with financial institutions	1,350,106	195,097	-	-	72,359	1,617,562
Murabaha and other Islamic financing	35,863,954	1,971,818	-	359,338	205,667	38,400,777
Ijara financing	32,054,387	7,484,860	51,271	106,710	305,226	40,002,454
Investments in Islamic sukuk measured at amortised cost	-	7,168,922	-	113,487	-	7,282,409
Investments measured at fair value	71,259	1,317,182	582	6	64,530	1,453,559
Investment in associates and joint ventures	198,166	-	51,511	-	549,679	799,356
Other assets	4,910,073	(2,351,694)	(510,859)	(277,875)	58,340	1,827,985
	92,477,118	17,129,843	(279,148)	480,048	3,329,916	113,137,777
Financial liabilities						
Due to financial institutions	1,474,642	1,258,341	24,775	146,266	201,586	3,105,610
Depositors' accounts	79,995,433	12,535,107	1,292,047	377,146	727,427	94,927,160
Other liabilities	2,585,148	482,880	23,022	4,616	337,745	3,433,411
Sukuk financing instruments	-	1,836,250	-	-	-	1,836,250
	84,055,223	16,112,578	1,339,844	528,028	1,266,758	103,302,431

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.3 Equity price risk
Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's quoted investments in the investment portfolio.

The following table estimates the sensitivity to a possible change in equity markets on the Bank's consolidated income statement. Sensitivity is the effect of the assumed change in the reference equity benchmark in the fair value of investments carried at fair value through profit or loss on the consolidated income statement,

	% Increase in market indices 2016	***Effect on net profit 2016 AED '000***	*%Increase in market indices 2015*	*Effect on net profit 2015 AED '000*
Investments carried at fair value through profit or loss				
Abu Dhabi Stock Market	**10**	**-**	10	483
Dubai Financial Market	**10**	**24**	10	583
Others	**10**	**-**	10	66

The effect on equity (as a result of a change in the fair value of equity instruments held as investments carried at fair value through other comprehensive income at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	% Increase in market indices 2016	***Effect on equity 2016 AED '000***	*%Increase in market indices 2015*	*Effect on equity 2015 AED '000*
Investments carried at fair value through other comprehensive income				
Others	**10**	**76**	10	85

43.4.4 Operational risk
Operational risk is the potential exposure to financial, reputational or other damage arising from inadequate or failed internal processes, people, systems or external events.

The Bank has implemented a detailed operational risk framework in accordance with Basel II guidelines. The framework articulates clearly defined roles and responsibilities of individuals / units and committees across the Group involved in the management of various operational risk elements. The Operational Risk Management Framework ensures that operational risks within the Group are properly identified, monitored, reported and actively managed. Key elements of the framework include Risk Reviews, "Risk & Control self-Assessment", Loss Data Management, key risk indicators, controls testing, Issues & Actions Management and Reporting. The Framework also fully encompasses and integrates elements of Fraud Risk Prevention and Quality Assurance.

Business and support units are responsible for managing operational risks within their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being pro-actively identified, monitored, reported and managed within their scope of work. The day-to-day operational risks are also managed through the adoption of a comprehensive system of internal control with multi-layers of defense and dedicated systems and procedures to monitor transactions, positions and documentation, as well as maintenance of key backup procedures and business contingency plan which are regularly assessed and tested.

43 RISK MANAGEMENT continued

43.4.5 Compliance risk review

Given its commitment to best practice governance, in 2014 the Bank appointed external legal counsel to assist in reviewing its compliance with sanctions laws, and its compliance processes generally. The external legal counsel is yet to complete its review, and to the extent that this review assists the Bank in the identification of any additional steps that can be taken to ensure compliance with applicable sanctions laws, the Bank will enhance its processes accordingly. The Bank is continuing its internal review, and it is premature to speculate on any potential impact on the Bank. The Bank will share the outcome of the internal review with the relevant regulator once it is finalized.

43.5 Capital management

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The Central Bank of the UAE vide circular No. 4004/2009 dated 30 August 2009, requires all banks operating in the UAE to maintain a risk asset ratio at a minimum of 12% (2015: 12%) at all times in which Tier 1 capital should not be less than 8% (2015: 8%) of the total risk weighted assets. In implementing current capital requirements of the Central Bank of the U.A.E, the Group maintains the required ratio of the regulatory capital to total risk weighted assets.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, retained earnings, gains or losses arising on translation of foreign operations, non-controlling interest and Tier 1 sukuk after deductions of goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment provisions on financing assets and the element of the fair value reserve relating to unrealised gains and losses on financial instruments classified as investments carried at fair value through other comprehensive income and unrealised gains or losses arising on Sharia'a compliant financial instruments designated as cash flow hedges.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or to adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The Central Bank of the U.A.E vide its notice 27/2009 dated 17 November 2009, requires all the banks operating in the U.A.E. to implement Standardised approach of Basel II. For credit and market risks, the Central Bank of the U.A.E. has issued guidelines for implementation of Standardised approach. For operational risk, the Central Bank of the U.A.E. has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Basic Indicators approach.

Furthermore, as required by the above circular, certain Basel II pillar 3 disclosures will be included in the annual report issued by the Bank for the year 2016.

43 RISK MANAGEMENT continued

43.5 Capital management continued

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2016 and 2015. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	Basel II	
	2016 *AED '000*	*2015* *AED '000*
Tier 1 capital		
Share capital	**3,168,000**	3,168,000
Legal reserve	**2,085,788**	2,102,465
General reserve	**1,472,760**	1,293,820
Credit risk reserve	**400,000**	400,000
Retained earnings	**2,469,256**	1,858,899
Proposed dividend	**776,782**	769,022
Proposed dividend to charity	**30,000**	20,000
Foreign currency translation reserve	**(711,172)**	(196,113)
Tier 1 sukuk	**5,672,500**	5,672,034
Non-controlling interest	**10,842**	10,548
	15,374,756	15,098,675
Goodwill and intangibles	**(420,136)**	(474,892)
Deductions for Tier 1 capital	**(376,770)**	(399,678)
Total Tier 1	**14,577,850**	14,224,105
Tier 2 capital		
Cumulative changes in fair value and hedging reserve	**(108,815)**	(166,444)
Collective impairment provision for financing assets	**1,119,311**	1,096,403
	1,010,496	929,959
Deductions for Tier 2 capital	**(376,771)**	(399,678)
Total Tier 2	**633,725**	530,281
Total capital base	**15,211,575**	14,754,386
Risk weighted assets		
Credit risk	**89,544,880**	87,712,261
Market risk	**1,802,581**	2,218,921
Operational risk	**8,402,813**	7,549,954
Total risk weighted assets	**99,750,274**	97,481,136
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**15.25%**	15.14%
Tier 1 capital expressed as a percentage of total risk weighted assets	**14.61%**	14.59%

44 FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted investments – at fair value
Quoted investments represent marketable equities and sukuk that are measured at fair value. The fair values of these investments are based on quoted prices as of the reporting date. For investments carried at fair value through other comprehensive income, the impact of change in fair valuation from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

Unquoted investments – at fair value
The consolidated financial statements include investments in unquoted funds and private equities which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalization of sustainable earnings basis. The valuation models include some assumptions that are not supported by observable market prices or rates. The impact of change in fair value from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

In the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities that are not carried at fair value in the consolidated financial statements are not materially different (except investment carried at amortised cost and investment in associates and joint ventures (note 21), since those financial assets and liabilities are either short term in nature or in the case of deposits and financing asset, are frequently repriced. The fair value of investments carried at amortised cost is disclosed below.

	Carrying value 2016 AED '000	***Fair value 2016 AED '000***	*Carrying value 2015 AED '000*	*Fair value 2015 AED '000*
Fair value of investments - at amortised cost				
Investments carried at amortised cost - sukuk (note 19)	**9,063,314**	**9,226,315**	7,282,409	7,453,656

Fair value measurement recognized in the consolidated statement of financial position
The Group uses the following hierarchy for determining and disclosing the fair value of financial instrument by valuation technique:

Level 1: quoted (unadjusted prices in active markets for identical assets or liabilities).

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Fair value measurement recognized in the consolidated statement of financial position continued
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable.

	Level 1 AED '000	*Level 2 AED '000*	*Level 3 AED '000*	*Total AED '000*
31 December 2016				
Assets and liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit or loss				
Equities	**244**	-	-	**244**
Sukuk	**1,263,230**	-	-	**1,263,230**
	1,263,474	-	-	**1,263,474**
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	**756**	-	-	**756**
Unquoted investments				
Funds	-	-	**52,088**	**52,088**
Private equities	-	-	**80,610**	**80,610**
	-	-	**132,698**	**132,698**
	756	-	**132,698**	**133,454**
Financial liabilities				
Shari'a compliant alternatives of swap (note 38)	-	**1,645**	-	**1,645**
Assets for which fair values are disclosed:				
Investment properties (note 22)	-	-	**1,595,972**	**1,595,972**
Investment carried at amortised cost- Sukuk	**8,944,315**	-	**282,000**	**9,226,315**
31 December 2015				
Assets and liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit or loss				
Equities	11,319	-	-	11,319
Sukuk	1,258,537	-	-	1,258,537
	1,269,856	-	-	1,269,856
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	846	-	-	846
Unquoted investments				
Funds	-	-	51,363	51,363
Private equities	-	-	131,494	131,494
	-	-	182,857	182,857
	846	-	182,857	183,703
Financial liabilities				
Shari'a compliant alternatives of swap (note 38)	-	18,049	-	18,049
Assets for which fair values are disclosed:				
Investment properties (note 22)	-	-	382,955	382,955
Investment carried at amortised cost- Sukuk	7,453,656	-	-	7,453,656

There were no transfers between level 1, 2 and 3 during the current year and in the prior year.

44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Fair value measurement recognized in the consolidated statement of financial position continued
A significant part of the investments classified under Level 3 are valued using inputs from investment managers and in the opinion of the management it is not practical to disclose the sensitivity of inputs to the valuation techniques used.

The following table shows a reconciliation of the opening and closing amount of level 3 of financial assets which are recorded at fair value:

	2016 ***AED '000***	*2015* *AED '000*
At 1 January	**182,857**	201,522
Net disposals	**(37,860)**	(8,995)
Loss recorded in equity	**(12,299)**	(9,670)
At 31 December	**132,698**	182,857

45 SOCIAL CONTRIBTUIONS

The social contributions (including donations and charity) made during the year amount to AED 20,000 thousand which were approved by the shareholders at the Annual General Assembly held on 21 April 2016.

During 2015, the social contributions (including donations and charity) were made amounting to AED 20,000 thousand after the approval by the shareholders at the Annual General Assembly held on 1 April 2015.

TRUSTEE AND RAB-AL-MAAL

ADIB Capital Invest 2 Ltd.
MaplesFS Limited
P.O. Box 1093, Queensgate House
Grand Cayman, KY1-1102
Cayman Islands

MUDAREB

Abu Dhabi Islamic Bank PJSC
P.O. Box 313
Abu Dhabi
United Arab Emirates

DELEGATE

HSBC Corporate Trustee Company (UK) Limited
8 Canada Square
London
E14 5HQ
United Kingdom

PRINCIPAL PAYING AGENT, CALCULATION AGENT, REGISTRAR AND TRANSFER AGENT

HSBC Bank plc
8 Canada Square
London
E14 5HQ
United Kingdom

GLOBAL COORDINATORS AND STRUCTURING AGENTS TO THE TRUSTEE AND ADIB

Abu Dhabi Islamic Bank PJSC
P.O. Box 313
Abu Dhabi
United Arab Emirates

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

JOINT LEAD MANAGERS

Abu Dhabi Islamic Bank PJSC
P.O. Box 313
Abu Dhabi
United Arab Emirates

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

Emirates NBD Bank PJSC
P.O. Box 777
Dubai
United Arab Emirates

First Abu Dhabi Bank PJSC
FAB Building
Khalifa Business Park – Al Qurm District
P.O. Box 6316
Abu Dhabi
United Arab Emirates

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Sharjah Islamic Bank P.J.S.C.
2nd Floor, SIB Tower
Al Mamzar Area
P.O. Box 4
Sharjah
United Arab Emirates

Standard Chartered Bank
P.O. Box 999
Dubai
United Arab Emirates

AUDITORS TO ADIB

Ernst & Young Middle East (Abu Dhabi Branch)
P.O. Box 136
27th Floor, Nation Tower
Corniche
Abu Dhabi
United Arab Emirates

LEGAL ADVISERS

To the Trustee
as to Cayman Islands law

Maples and Calder (Dubai) LLP
The Exchange Building, 5th Floor
Dubai International Financial Centre
P.O. Box 119980
Dubai
United Arab Emirates

To ADIB
as to English law and UAE law

Linklaters LLP
Ninth Floor, Currency House
Dubai International Financial Centre
P.O. Box 506516
Dubai
United Arab Emirates

To the Joint Lead Managers
as to English law and UAE law

Allen & Overy LLP
11th Floor
Burj Daman Building
Happiness Street
Dubai International Financial Centre
P.O.Box 506678
Dubai
United Arab Emirates

To the Delegate
as to English law

Allen & Overy LLP
One Bishop Square
London
E1 6AD
United Kingdom

LISTING AGENT

Arthur Cox Listing Services Limited
Ten Earlsfort Terrace
Dublin 2
Ireland