IMPORTANT NOTICE

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THE ATTACHED DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON WITHOUT THE PRIOR WRITTEN CONSENT OF THE JOINT LEAD MANAGERS (AS DEFINED BELOW) AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS.

THIS DOCUMENT IS NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM. RATHER, THE COMMUNICATION OF THIS DOCUMENT (A) IF EFFECTED BY A PERSON WHO IS NOT AN AUTHORISED PERSON UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 ("**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**"), AND (II) PERSONS FALLING WITHIN ANY OF THE CATEGORIES OF PERSONS DESCRIBED IN ARTICLE 49(2) OF 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(a)-(d) OF THE PROMOTION OF CIS ORDER AND (III) ANY OTHER PERSON TO WHOM IT MAY OTHERWISE BE LAWFULLY BE MADE IN ACCORDANCE WITH THE PROMOTION OF CIS ORDER. THIS COMMUNICATION IS BEING DIRECTED ONLY AT PERSONS HAVING PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS AND ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES WILL BE ENGAGED IN ONLY WITH SUCH PERSONS. NO OTHER PERSON SHOULD RELY ON IT.

Confirmation of your representation: The attached document is delivered to you at your request and on the basis that you have confirmed to Abu Dhabi Islamic Bank P.J.S.C., Al Hilal Bank P.J.S.C., Al Rayan Investment LLC, Citigroup Global Markets Limited, Emirates NBD Capital Limited, HSBC Bank plc, National Bank of Abu Dhabi P.J.S.C., Sharjah Islamic Bank P.J.S.C. and Standard Chartered Bank (together, the "**Joint Lead Managers**"), and Al Hilal Bank P.J.S.C. ("**AHB**") and AHB Tier 1 Sukuk Limited (the "**Trustee**") that (i) you are located outside the United States and not a U.S. person, or acting for the account or benefit of any U.S. person; (ii) you consent to delivery by electronic transmission; (iii) you will not transmit the attached document (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the prior written consent of the Joint Lead Managers; and (iv) you acknowledge that you will make your own assessment regarding any credit, investment, legal, taxation or other economic considerations with respect to your decision to subscribe or purchase any of the Certificates.

This document has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of AHB, the Trustee, the Joint Lead Managers nor any person who controls or is a director, officer, employee or agent of AHB, the Trustee, the Joint Lead Managers nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version. By accessing this document, you consent to receiving it in electronic form. A hard copy of the document will be made available to you only upon request to the Joint Lead Managers.

You are reminded that the attached document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions. Neither the Joint Lead Managers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of this document or for any statement made or purported to be made by any of them, or on any of their behalf, in connection with AHB, the Trustee or the offer. The Joint Lead Managers and their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty, express or implied, is made by any of the Joint Lead Managers or their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in this document. The Joint Lead Managers are acting exclusively for AHB and the Trustee and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of this document) as their client in relation to the offer and will not be responsible to anyone other than AHB and the Trustee for providing the protections afforded to its clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of AHB and the Trustee in such jurisdiction.

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مصرف الهلال
al hilal bank

AHB Tier 1 Sukuk Limited

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

U.S.$500,000,000 Additional Tier 1 Capital Certificates

The U.S.$500,000,000 Additional Tier 1 Capital Certificates (the "**Certificates**") of AHB Tier 1 Sukuk Limited (in its capacity as issuer and trustee, the "**Trustee**") will be constituted by a declaration of trust (the "**Declaration of Trust**") dated 30 June 2014 (the "**Issue Date**") entered into between the Trustee, Al Hilal Bank P.J.S.C. ("**AHB**") and Deutsche Trustee Company Limited as the delegate of the Trustee (the "**Delegate**"). The Certificates confer on the holders of the Certificates from time to time (the "**Certificateholders**") the conditional right to receive certain payments (as more particularly described herein) arising from an undivided ownership interest in the assets of a trust declared by the Trustee pursuant to the Declaration of Trust (the "**Trust**") over the Trust Assets (as defined herein) and the Trustee will hold such Trust Assets 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. In such circumstances, the Certificateholders' rights to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally written-down in whole and the Certificates shall be cancelled. See "*Risk Factors—Certificateholders' right to receive repayment of the principal amount of the Certificates and the Certificateholders' right for any further profit will be fully and permanently written-down upon the occurrence of a Non-Viability Event*"**.**

Periodic Distribution Amounts (as defined herein) shall be payable subject to and in accordance with the Conditions on the outstanding face amount of the Certificates from (and including) the Issue Date to (but excluding) 30 June 2019 (the "**First Call Date**") at a rate of 5.500 per cent. per annum from amounts of Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (as further described below). 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 3.730 per cent. per annum. Periodic Distribution Amounts will, if payable pursuant to the Conditions, be payable (except where a Non-Payment Event occurs) semi-annually in arrear on 30 June and 30 December in each year, commencing on 30 December 2014. Payments on the Certificates will be made free and clear of, and without deduction for, or on account of, taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed, levied, collected, withheld or assessed by any Relevant Jurisdiction (as defined herein) (the "**Taxes**") to the extent described under Condition 13. Each payment of a Periodic Distribution Amount will be made by the Trustee provided that AHB (as Mudareb) shall have paid Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (as applicable) (each as defined in the Conditions) 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 (including if AHB elects in its sole discretion that profit will not be paid on any Periodic Distribution Date). 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.

The Certificates will constitute perpetual subordinated instruments with no fixed redemption date. Unless the Certificates have previously been redeemed or purchased and cancelled as provided in the Conditions, the Trustee (but only upon the instructions of AHB (acting in its sole and absolute discretion)) 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 10.1.2. In addition, upon the occurrence of a Tax Event or a Capital Event (each as defined in the Conditions), the Certificates may be redeemed in whole (but not in part), or the terms thereof may be varied (at the option of the Trustee (but only upon the instructions of AHB (acting in its sole and absolute discretion)), in each case at any time on or after the Issue Date in accordance with Conditions 10.1.3 and 10.l.4. Any redemption or variation is subject to the conditions described in Condition 10.1.1. The payment obligations of AHB under the Mudaraba Agreement will constitute direct, unsecured, conditional and subordinated obligations of AHB, rank subordinate and junior to all Senior Obligations but not further or otherwise, rank *pari passu* with all Pari Passu Obligations and rank senior only to all Junior Obligations (each as defined in the Conditions), all as more particularly described in Condition 4.2.

The Certificates will be limited recourse obligations of the Trustee.

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 (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State) (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. Application has been made to the Irish Stock Exchange for the Certificates to be admitted to the official list (the "**Official List**") and trading on its regulated market (the "**Regulated Market**"). The Regulated Market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC) ("**MiFID**").

References in this Prospectus to Certificates being listed (and all related references) shall mean that such Certificates have been admitted to listing on the Official List and admitted to trading on the Regulated Market.

AHB has been assigned long term ratings of A1 by Moody's Investors Service Ltd ("**Moody's**") and A+ by Fitch Ratings Limited ("**Fitch**"). The Emirate of Abu Dhabi has been assigned a rating of AA by Fitch, Aa2 by Moody's and AA by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**"), each with a "stable outlook". The United Arab Emirates has been assigned a credit rating of Aa2 with a "stable outlook" by Moody's Investors Service Singapore Pte. Ltd.

Moody's Investors Service Singapore Pte. Ltd. is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). The rating has been endorsed by Moody's in accordance with the CRA Regulation. Each of Fitch, Moody's and Standard & Poor's is established in the European Union and is registered under the CRA Regulation. As such, each of Fitch, Moody's and Standard & Poor's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

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, *société anonyme* ("**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 (as defined herein) 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) has been approved by the Fatwa and Sharia Supervisory Board of AHB, the Shari'a Supervisory Board of Citi Islamic Investment Bank E.C., the HSBC Saudi Arabia Shariah Executive 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.

Joint Lead Managers and Joint Bookrunners

Al Hilal Bank P.J.S.C. | **Citigroup** | **Emirates NBD Capital**
HSBC | **National Bank of Abu Dhabi** | **Standard Chartered Bank**

Joint Lead Managers

Abu Dhabi Islamic Bank P.J.S.C. | **Al Rayan Investment** | **Sharjah Islamic Bank P.J.S.C.**

The date of this Prospectus is 26 June 2014

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Trustee, AHB, AHB and its subsidiaries and affiliates taken as a whole (the "**Group**") and the Certificates which, according to the particular nature of the Trustee, AHB, the Group and 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 AHB.

The Trustee and AHB accept responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Trustee and AHB, 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.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Trustee, AHB or any of the Joint Lead Managers to subscribe or purchase, any of the Certificates. None of the Joint Lead Managers, the Trustee, the Delegate or AHB 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 or sale of the Certificates in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Trustee, AHB and the Joint Lead Managers to inform themselves about and to observe any such restrictions. None of the Trustee, the Delegate, AHB or the Joint Lead Managers represent that this Prospectus may be lawfully distributed, or that the 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 assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Trustee, the Delegate, AHB or any of the Joint Lead Managers 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. 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. 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.

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.

For a description of further restrictions on offers and sales of Certificates and distribution of this Prospectus, see "*Subscription and Sale*".

No person is or has been authorised by the Trustee, AHB, the Delegate or any of the Joint Lead Managers to give any information or to make any representation not contained in or not consistent with this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Trustee, AHB, the Delegate or any of the Joint Lead Managers. None of the Joint Lead Managers, nor any of their directors, affiliates, advisers, agents, the Delegate nor the Paying Agents or any of their respective affiliates make any representation or warranty or accept any liability as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Trustee or AHB since 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 in the financial position of the Trustee or AHB since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Certificates is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

To the fullest extent permitted by law, the Joint Lead Managers accept 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 or on its behalf in connection with the Trustee, AHB or the issue and offering of the Certificates. Each Joint Lead Manager 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 representation, warranty or undertaking, express or implied, is made or given by or on behalf of any of the Joint Lead Managers, nor any person who controls them or any director, officer, employee or agent of them, or affiliate of any such person as to the accuracy, completeness or fairness of the information or opinions contained in this Prospectus and such persons do not accept responsibility or liability for any such information or opinions.

Neither this Prospectus nor any other information supplied in connection with the issue of the Certificates (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Trustee, the Delegate, AHB or any of the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the issue of the Certificates should purchase any Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Trustee and AHB. None of the Joint Lead Managers undertakes to review the financial condition or affairs of the Trustee or AHB 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 such investment 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.

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.

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: (i) Certificates are legal investments for it; (ii) Certificates can be used as collateral for various types of financing; and (iii) other restrictions apply to its purchase or pledge of 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.

No comment is made or advice given by the Trustee, AHB, the Delegate, the Joint Lead Managers or the Paying 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.

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.

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Fatwa and Sharia Supervisory Board of AHB, the Shari'a Supervisory Board of Citi Islamic Investment Bank E.C., the HSBC Saudi Arabia Shariah Executive 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.

Stabilisation

In connection with the issue of the Certificates, Standard Chartered Bank (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over-allot Certificates or 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 Stabilising Manager shall act as principal and not as agent of the Trustee or AHB. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the Issue Date and, if begun, may be ended at 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. The Stabilising Manager (or persons acting on behalf of the Stabilising Manager) must conduct such stabilisation in accordance with all applicable laws and rules.

Cautionary note regarding forward looking statements

This Prospectus contains "forward-looking statements"—that is, statements related to future, not past, events. In this context, forward-looking statements often address AHB's and the Group's expected future business and financial performance, and often contain words such as "expect", "anticipate", "intend", "may", "plan", "believe", "seek" or "will". Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For the Group, particular uncertainties that could adversely affect its future results include: the behaviour of financial markets and macro-economic conditions, including fluctuations in interest, profit and exchange rates, commodity and equity prices and the value of financial assets; continued volatility and further deterioration of the capital markets; the commercial and consumer credit environment including credit risks and, in particular, the impact of a higher level of credit defaults arising from adverse economic conditions, the impact of provisions and impairments and concentration of AHB's portfolio of financing and investment assets; liquidity risks, including the ability of AHB to meet its contractual and contingent cash flow obligations or the inability to fund its operations; the impact of laws and regulation (including any change thereto) and regulatory, investigative and legal actions; strategic actions, including acquisitions and future integration of acquired businesses and government policy affecting AHB's business activities; future financial performance of the banking, financial services and Islamic finance industries; and numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive nature. These uncertainties may cause AHB's actual future results to be materially different than those expressed in its forward-looking statements. Although AHB believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise including those which AHB has identified in this Prospectus, or if any of AHB's underlying assumptions prove to be incomplete or inaccurate, AHB's actual future results may be materially different than those expressed in its forward-looking statements.

The forward-looking statements in this Prospectus speak only as at the date of this Prospectus. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors". Without prejudice to any requirements under applicable laws and regulations, AHB expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any forward-looking statement is based.

Presentation of certain financial information

The Trustee is a special purpose company established in the Cayman Islands. No financial statements for any period have been prepared in respect of the Trustee.

Unless otherwise indicated, the financial information herein has been derived from the unaudited reviewed interim condensed consolidated financial statements of AHB as at, and for the three months ended, 31 March 2014 (together with the notes thereto and the review report in respect thereof, the "**Interim Financial Statements**") and from the audited consolidated financial statements of AHB as at and for the year ended 31 December 2013 (together with the notes thereto and the audit report in respect thereof, the "**2013 Financial Statements**") and as at and for the year ended 31 December 2012 (together with the notes thereto and the audit report in respect thereof, the "**2012 Financial Statements**" and together with the 2013 Financial Statements and the Interim Financial Statements, the "**Financial Statements**"). The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board, and relevant federal laws of the UAE, consistently applied.

Certain comparative information appearing in the Financial Statements has been re-classified by AHB to conform to the presentation for the current period shown therein in order to more appropriately disclose the financial information contained therein. None of these re-classifications represented a change in accounting policies applied by AHB. In the case of the 2012 Financial Statements, in its consolidated statement of cash flows, AHB re-classified: (i) the "Unrealised transaction gain" in its cash flows from operating activities of AED 3.0 million under "Change in: Receivables from Islamic financing activities", (ii) the "Unrealised valuation loss on investments" in its cash flows from operating activities of AED 16.9 million under "Cash flows from investing activities" and (iii) the "Change in Wakala deposits from banks" of AED 390.4 million under "Cash flows from financing activities", in each case as at 31 December 2011.

Presentation of other information

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 "**Dubai**" herein are to the Emirate of Dubai;
- references to "**GCC**" are to the Gulf Co-Operation Council;
- references to a "**Member State**" herein are references to a Member State of the European Economic Area;
- references to the "**MENA region**" are to the Middle East and North Africa region;
- references to the "**UAE**" herein are to the United Arab Emirates;
- references to "**U.S. dollars**", "**U.S.$**", "**USD**" and "**$**" are to the lawful currency of the United States of America;
- "**£**", "**Pounds Sterling**" and "**Sterling**" are to the legal currency for the time being of the United Kingdom;
- references to "**AED**", "dirham" and "**UAE Dirham**" are to the lawful currency of the United Arab Emirates; and
- 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.

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 U.S. dollar translations of dirham amounts appearing in this Prospectus have been translated at this fixed exchange rate. Such translations should not be construed as representations that dirham amounts have been or could be converted into U.S. dollars at this or at any other rate of exchange.

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.

Information contained in any website referred to herein does not form part of this Prospectus.

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Certain Publicly Available Information

Certain information under the headings "*Risk Factors*", "*Description of the Group*", "*Overview of the UAE and Abu Dhabi*" and "*The UAE Banking Sector and Regulations*" has been extracted from information provided by: (i) the UAE Central Bank, the UAE National Statistics Bureau, the Organisation of Oil Exporting Countries ("**OPEC**") and the government of Abu Dhabi, in the case of "Risk Factors"; (ii) the UAE Central Bank, in the case of "*Description of the Group*"; (iii) the UAE National Statistics Bureau, the International Monetary Fund, OPEC and the UAE Central Bank, in the case of "*Overview of the UAE and Abu Dhabi*"; and (iv) the UAE National Statistics Bureau, the Abu Dhabi Securities Exchange, the Dubai Financial Market, the UAE Central Bank and the governments of Abu Dhabi and Dubai, in the case of "*The UAE Banking Sector and Regulations*" and, in each case, the relevant source of such information is specified where it appears under those headings. None of the Joint Lead Managers, the Trustee nor AHB accepts responsibility for the factual correctness of any such statistics or information but both the Trustee and AHB accept responsibility for accurately reproducing such statistics and, so far as the Trustee and AHB are aware and have been able to ascertain from such statistics, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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) 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 CISs Order**"), (ii) persons falling within any of the categories of person described in Article 22(a)-(d) (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Prospectus or any other marketing materials in relation to the Certificates.

Potential 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 individual 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 of 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 Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Capital Market Authority**").

The Capital Market Authority does not make any representations 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 Certificates should conduct their own due diligence on the accuracy of the information relating to the Certificates. If a prospective purchaser does not understand the contents of this Prospectus he or she 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 ("**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 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 Prospectus and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this Prospectus. 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

The Certificates have not been and will not be offered, sold or delivered at any time, directly or indirectly, in the State of Qatar in a manner that would constitute a public offering. This Prospectus has not been and will not be reviewed or approved by, or registered with, the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority, the Qatar Exchange or the Qatar Central Bank in accordance with their regulations and any other regulations in the State of Qatar. The Certificates are not and will not be traded on the Qatar Exchange.

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.

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

TABLE OF CONTENTS

RISK FACTORS

Each of the Trustee and AHB believes that the following factors may affect both the Trustee's ability to pay amounts owing under the Certificates and AHB's ability to satisfy its obligations under the relevant Transaction Documents relating to the Certificates. All of these factors are contingencies which may or may not occur and neither the Trustee nor AHB is in a position to express a view on the likelihood of any such contingency occurring.

Factors which each of the Trustee and AHB believes may be material for the purpose of assessing the market risks associated with the Certificates are also described below.

Each of the Trustee and AHB believes that the non-exhaustive list of factors described below represent the material risks inherent in investing in the Certificates, but the inability of the Trustee to pay Periodic Distribution Amounts, Dissolution Distribution Amounts or other amounts on or in connection with any Certificates may occur for other reasons which may not be considered significant risks by the Trustee and/or AHB based on information currently available to them or which they may not currently be able to anticipate. Neither the Trustee nor AHB represents that the statements below regarding the risks of holding any Certificates are exhaustive. 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.

Risks relating to the Trustee

The Trustee has no operating history and no material assets and will depend on receipt of payments from AHB to make payments to Certificateholders

The Trustee was incorporated under the laws of the Cayman Islands on 7 May 2014 as an exempted company with limited liability and has no operating history. The Trustee has not 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, the issuance of shares in its capital and other activities incidental or related to the foregoing as required under the Transaction Documents. Because 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 obligation of AHB to make payments to the Trustee under the Transaction Documents to which it is a party. Therefore, the Trustee is subject to all the risks to which AHB is subject to the extent that such risks could limit AHB'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 therefore be dependent upon receipt by the Trustee from AHB of amounts to be paid pursuant to the Transaction Documents (which in aggregate may not be sufficient to meet all claims under the Certificates and the Transaction Documents). See "—*Risks relating to AHB and its ability to fulfil its obligations under the Transaction Documents*".

Risks relating to AHB and its ability to fulfil its obligations under the Transaction Documents

General

Investors should note that AHB is a UAE company and is incorporated, and the significant majority of its operations and assets are located, in the UAE. Accordingly, AHB is likely to have insufficient assets located outside the UAE to satisfy in whole or part any judgment obtained from an English court relating to amounts owing in connection with 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—Investors may experience difficulty in enforcing arbitration awards and foreign judgments in Abu Dhabi*" below).

Majority of business in the UAE

AHB has the majority of its operations and the majority of its assets in the UAE and, accordingly, its 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 generally.

These markets are subject to greater risks than more developed markets, including in some cases greater levels of legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, an investment in the Certificates is only suitable for sophisticated investors who fully appreciate the significance of the risk involved. See "*Risks relating to the UAE and Abu Dhabi*" below.

Short Operating History

AHB commenced operations on 19 June 2008. Accordingly, AHB's business and prospects must be considered in light of the risks, uncertainties, expenses and difficulties encountered by a business with a short operating history. There can be no assurance AHB will be successful in implementing its strategy and a failure to do so could have an adverse effect on AHB's business, results of operations, financial condition and prospects and its ability to perform its obligations under the Transaction Documents to which it is a party.

AHB's financial performance is affected by general economic conditions

Risks arising from changes in credit quality and the recoverability of amounts due from obligors and counterparties are inherent in banking businesses. Adverse changes in global economic conditions, or arising from systemic risks in the financial systems, could affect the recovery and value of AHB's assets and require an increase in AHB's provisions. AHB uses different strategies to minimise risk, including the taking of collateral to reduce the credit risk level and hedging financial assets in order to mitigate any profit rate risk, so that it is within AHB's strategy and level of risk tolerance. However, there can be no guarantee that such measures will eliminate or reduce such risks.

Credit, market, liquidity, operational and legal risk

In the course of its business activities, AHB is exposed to a variety of risks, some of the most significant of which are credit, market, liquidity, operational and legal risks. While AHB believes it has implemented the appropriate policies, systems and procedures to control and mitigate these risks, its risk management techniques may not be fully effective in mitigating its exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of AHB's methods of managing risk are based upon its use of historical market behaviour, setting appropriate risk appetite and maximum tolerance levels to determine and monitor risk exposures. In addition, stress testing techniques using forward-looking scenarios assist AHB in analysing the impact of risk on AHB's capital, profitability, liquidity and funding position, which in turn helps to shape AHB's strategy. These methods assist in predicting possible impacts on AHB's risk exposures, but actual outcomes may vary and could be significantly greater than historical measures indicate. AHB has implemented various internal models and has increased levels of delegated approvals (through several management level committees such as AHB's Management Credit Risk Committee, Assets and Liabilities Committee, Management Risk Committee, Management Operational Risk Committee and Remedial Management Committee) to effectively manage, measure and monitor risk exposures and the risk profile of AHB. Investors should note that any failure to adequately control these risks, including as a result of any failure of AHB to successfully implement such new systems, could be greater than anticipated and could have a material adverse effect on AHB's reputation, business, results of operations, financial condition or prospects, and its ability to make payments due under the Transaction Documents to which it is a party.

Credit risk

Credit risk is the risk of financial loss to AHB if a customer or counterparty to a financial exposure or instrument fails to meet its contractual obligations. Credit risks arising from adverse changes in the credit quality and recoverability of financings and amounts due from counterparties are inherent in a wide range of AHB's businesses. Credit risks could arise from a deterioration in the credit quality of specific counterparties of AHB, from a general deterioration in local or global economic conditions or from systemic risks within the financial systems in which AHB operates, all of which could affect the recoverability and value of AHB's assets and require an increase in AHB's provisions for the impairment of its assets and other credit exposures which could have a material adverse effect on AHB's business, results of operations, financial condition or prospects, and its ability to make payments due under the Transaction Documents to which it is a party. See "*Description of the Group—Risk Management—Credit Risk*" for a description of AHB's exposure to, and the policies, systems and procedures it has in place to manage, credit risk.

Market risk

Market risk is the current or potential risk that changes in financial market prices and rates will cause fluctuations in the fair value or future cash flows of financial instruments. The risk arises from imbalances in AHB's balance sheet as well as from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements (such as profit rates, credit spreads, foreign exchange rates and equity prices) and changes in the level of volatility of market rates or prices. Any significant market movements contrary to any open profit rate, currency or equity positions of AHB could have a material adverse effect on AHB's business, results of operations, financial condition or prospects, and its ability to make payments due under the Transaction Documents to which it is a party. See "*Description of the Group—Risk Management—Market Risk*" for a description of AHB's exposure to, and the policies, systems and procedures it has in place to manage, market risk.

Foreign exchange risk

AHB maintains its accounts, and reports its results, in UAE Dirham. The UAE Dirham, along with the currencies of most of the other GCC countries (comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE), is pegged at a fixed exchange rate to the U.S. dollar. In the case of the UAE, this currency peg has existed since 22 November 1980. However, there can be no assurance that the UAE Government will not de-peg the UAE Dirham in the future or that the existing peg will not be adjusted in a manner that materially adversely affects AHB's results of operations and financial condition, notwithstanding AHB's pro-active and conservative management of its currency positions (open positions for which are maintained on a day-end basis). Any such de-pegging or adjustment, particularly if the UAE Dirham weakens against the U.S. dollar could have a material adverse effect on AHB's business, results of operation, financial condition or prospects, and its ability to make payments due under the Transaction Documents to which it is a party.

Liquidity risk

Liquidity risk is the risk that AHB will not be able to honour its obligations when they fall due or will only be able to secure funding at excessive cost. Liquidity risk arises from the inability to manage unplanned decreases or changes in funding sources. As is the normal practice in the UAE banking industry, AHB accepts deposits from its customers which are short-term in nature. However, it is also normal in the UAE banking industry for these short-term deposits to be rolled over on maturity such that, in practice, a significant portion have actual maturities of a longer duration. By contrast, AHB's advances have more diversified maturities. Accordingly, there is a risk that, if a significant number of AHB's customers did not choose to roll over their deposits at any time or, because AHB receives a significant portion of its funding from deposits, if customers withdraw their deposits at a rate faster than the rate at which obligors pay financing provided by AHB, AHB could experience difficulties in paying those deposits. In addition, AHB only has limited *Sharia-compliant* products that could be used for short-term liquidity management.

AHB's customers' accounts (comprising both deposit and savings accounts) constituted 84 per cent. of its total liabilities, or AED 29.4 billion, as at 31 March 2014 of which more than 99 per cent. are located in the UAE. As at 31 March 2014, deposits made by customers of AHB's Wholesale Banking Group accounted for 78 per cent., or AED 22.9 billion, of its total customers' accounts and of the deposits made by such customers, Government sector deposits accounted for 31 per cent., or AED 9.2 billion, of its total customers' accounts.

Although AHB considers that it has adequate access to sources of funding, the withdrawal of a significant portion of these large deposits may have an adverse effect on the financial condition and results of operations of AHB as well as its ability to meet the UAE Central Bank target ratio for financings to stable resources of 100 per cent.

A downturn in the fortunes of any of AHB's depositors, or in the sectors in which they operate or as a result of the concentration of AHB's financing portfolio and its deposit bases in the UAE, a general downturn or sustained deterioration in the economy of the UAE or any failure of AHB to effectively manage its risk concentrations could have a material adverse effect on AHB's business, results of operations, financial condition and prospects and its ability to perform its obligations under the Transaction Documents to which it is a party.

There is, accordingly, no assurance that AHB will not experience significant liquidity constraints in the future and any such constraints could have a material adverse effect on AHB's business, results of operations, financial condition or prospects, and its ability to make payments due under the Transaction Documents to which it is a party. See "*Description of the Group—Risk Management—Liquidity Risk*" for a description of AHB's exposure to, and the policies, systems and procedures it has in place to manage, liquidity risk.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems (including as a result of external events). Operational risks and losses can result from fraud, error by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, the failure of internal systems, equipment and external systems (e.g. those of AHB's counterparties or vendors) and occurrence of natural disasters. Although AHB has implemented risk controls and loss mitigation strategies and substantial resources are devoted to developing efficient procedures (including operational manuals, internal controls, and periodic reviews and audits), it is not possible to entirely eliminate operational risk. Accordingly, there is no assurance that AHB will not experience significant lapses in operational controls in the future and any such lapses could have a material adverse effect on AHB's business, results of operations, financial condition or prospects, and its ability to make payments due under the Transaction Documents to which it is a party. See "*Description of the Group—Risk Management—Operational Risk*" for a description of AHB's exposure to, and the policies, systems and procedures it has in place to manage, operational risk.

Legal risk

AHB may face certain legal risks from private and regulatory actions brought against it. Generally as a participant in the financial services industry, it is likely that AHB may experience, from time to time, a certain level of litigation and regulatory scrutiny related to its businesses and operations. AHB seeks to mitigate this risk through the use of standardised documentation and related policies, systems and procedures (including similar steps to those taken to mitigate operational risk as outlined above), together with internal and external legal advice, as appropriate. Should AHB fail to identify and adequately control any legal or regulatory risk this could have a material adverse effect on AHB's reputation, business, results of operations, financial condition or prospects, and its ability to make payments due under the Transaction Documents to which it is a party.

Rapid financing portfolio growth

AHB's total financing portfolio has grown rapidly since its establishment to AED 28.1 billion as at 31 March 2014 compared to AED 27.1 billion as at 31 December 2013, an increase of 4 per cent. This significant increase in credit exposure will require continued emphasis by AHB on credit quality, the adequacy of its provisioning levels and the continued development of financial and management controls. In addition, the offering of a wider range of products by AHB as part of its strategy of continuing to grow its core banking activities organically within the UAE may also increase the credit risk exposure in AHB's financing portfolio. Failure to successfully manage growth and development and to maintain the quality of its financing assets could have a material adverse effect on AHB's business, results of operations, financial condition and prospects, and its ability to make payments due under the Transaction Documents to which it is a party.

Financing portfolio and geographic concentration risks

AHB's financing portfolio is concentrated geographically in the UAE (and AHB's strategy is to retain such concentration over the short to medium term). In the UAE, certain sectors (including the real estate sector) and certain regions (including Dubai) have been more significantly affected than others by the global financial crisis that commenced in early 2008. See "*Risks relating to the UAE and Abu Dhabi – AHB is subject to political and economic conditions in Abu Dhabi, the UAE and the Middle East*" below. Similarly, concentrations in the financing and deposit portfolios of AHB subject it to risks from default by its larger obligors, from exposure to particular sectors of the UAE economy and from withdrawal of large deposits. The financing and receivables portfolio of AHB shows country, industry and obligor concentrations.

AHB's total financings constituted 72 per cent. of its total assets, or AED 28.1 billion, as at 31 March 2014. Of such total financings, approximately 99 per cent. are located in the UAE. AHB's financing portfolio is also concentrated in particular industry sectors. In terms of the industry concentration of AHB's total financing portfolio, as at 31 March 2014, the retail/consumer banking sector accounted for approximately 38.4 per cent., the Trade sector accounted for approximately 14.7 per cent., the Electricity and Water sector accounted for approximately 8.1 per cent., the Construction and Real Estate sector accounted for approximately 8.0 per cent., the Transport, Storage & Communication sector accounted for approximately 6.0 per cent., the Financial Institutions sector accounted for approximately 5.1 per cent., the Manufacturing sector accounted for approximately 4.6 per cent., the

Services sector accounted for approximately 3.6 per cent., the Government sector accounted for approximately 0.4 per cent., whilst other sectors accounted for the remaining 11.1 per cent.

AHB's ten largest financings represented 24.5 per cent. of its total financings as at 31 March 2014 and were entered into in respect of the following sectors: Electricity and Water at 27.3 per cent., Trade at 29.8 per cent., Financial Services at 8 per cent., Transport, Storage and Communication at 6.6 per cent., Services at 6.8 per cent., with other sectors accounting for the remaining 21.5 per cent. AHB's largest funded exposure to a private sector obligor (such obligor being in the wholesale trade sector) was AED 1.03 billion as at 31 March 2014, which constituted 3.7 per cent. of AHB's total financings as at 31 March 2014 and approximately 23.8 per cent. of its total regulatory capital of AED 4.3 billion.

Sole shareholder

AHB is 100 per cent. owned by the Abu Dhabi Investment Council (the ''Council''), the investment arm of the Government of Abu Dhabi (the ''Government''). The Government's objectives in establishing AHB were for it to contribute to the UAE's national growth and prosperity while raising the positive profile of Islamic banking globally. By virtue of its shareholding, the Council has the ability to influence AHB's business significantly through its ability to control actions that require shareholder approval and also has the ability to approve the election of all members of AHB's board of directors (the ''Board'') and thus influence Board decisions. AHB also has significant exposure to the Government through its deposit and financing portfolios.

The interests of the Government and the Council may be different from those of Certificateholders. For example, decisions made by the Council and the Board may be influenced by the need to consider the Government's objectives in establishing AHB. Such considerations may result in decisions that are less commercially beneficial to AHB than those that might otherwise have been made. In addition, although AHB has not paid any dividends to the Council to date, there can be no assurance that dividends will not be paid in future years.

AHB may not receive future support from the Government and the Council, or it may not receive future support that is commensurate with the support that it has received in the past

Since its establishment, AHB has received capital contributions from the Council totalling AED 3.09 billion and significantly less direct support through deposits by the Government and Government-related entities and other financing opportunities. While the Government and the Council have historically provided adequate cash and other contributions (by way of deposits) to AHB, neither the Government nor the Council is legally obligated to fund any of AHB's capital requirements or investments and accordingly there can be no assurance that AHB will continue to receive such contributions or support from the Government or the Council.

Further, the Government and the Council may, whether directly or indirectly, at any time and for any reason, dispose of its investments in, withdraw its deposits from, cease to do business with or otherwise cease to support AHB. The reduction or elimination of governmental support could have a material adverse effect on AHB's business, results of operations, financial condition and prospects and its ability to perform its obligations under the Transaction Documents to which it is a party.

Neither the Government nor the Council explicitly or implicitly guarantee the financial obligations of AHB (including in respect of the Certificates to be issued) nor do they, like any other shareholder, have any legal obligation to provide any support or additional funding for AHB's future operations.

In addition, although the Government has supported the Abu Dhabi banking industry during the recent global economic crisis, there can be no assurance that the Government will continue to support the domestic banking industry in response to the recent crisis or initiate support if another major economic disruption were to occur in the future.

If AHB does not receive adequate financial support from the Council and alternative sources of financing are not available, this could have a material adverse effect on AHB's business, financial condition, results of operations and prospects and its ability to perform its obligations under the Transaction Documents to which it is a party.

Dependence on Key Personnel

Revenues of AHB will depend, in part, on AHB's ability to continue to attract, retain and motivate qualified and skilled personnel. AHB relies on its senior management for the implementation of its strategy and its day-to-day operations. There is intense competition in the UAE for 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 AHB 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 AHB.

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/or (iii) an inability to identify and execute potential strategic initiatives. These adverse results could, among other things, reduce potential revenue, which could materially adversely affect AHB's business, results of operations, financial condition and prospects and ability to make payments due under the Transaction Documents to which it is a party.

Competition

AHB faces competition in all of its business areas from domestic and foreign banks operating in the UAE. AHB faces competition from both Islamic banks and conventional banks. There were 51 banks (23 domestic and 28 foreign) licensed to operate inside the UAE (excluding the Dubai International Financial Centre) as at 31 December 2013 (source: the UAE Central Bank Annual Report). There are also an increasing number of Islamic banks and other institutions offering Islamic financial products and services within the UAE. As at 31 December 2013, there were eight Islamic banks and a number of other financial institutions offering Islamic products and solutions. Additional financial institutions may consider offering *Sharia-compliant* products in the future. A number of the other banks operating in the UAE have significantly larger operations than AHB, which may make it difficult for AHB to compete with those banks on certain financing opportunities.

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 AHB and other domestic financial institutions. Increased competition could have a material adverse effect on AHB's business, results of operations, financial condition and prospects, and its ability to make payments due under the Transaction Documents to which it is a party.

Non-performing financings may increase

AHB's non-performing financings ("NPFs") as at 31 March 2014 represented 1.3 per cent. of AHB's total gross financings. AHB's NPF levels are approximately equal to the average NPF levels applicable to banks operating in the UAE more generally. AHB continues to actively manage and monitor its financing portfolio but there can be no assurance that in the future AHB will be able to maintain its NPFs at such levels. Factors which may contribute to an increase in the amount of AHB's NPFs include the expected growth in its financing portfolio and generally any further slowdown in the UAE economy. Should AHB incur any significant losses in respect of its financings, this could have a material adverse effect on AHB's business, results of operations, financial condition or prospects, and its ability to make payments due under the Transaction Documents to which it is a party.

Growth management

AHB's growth strategy is predicated on organic growth opportunities (including those resulting from the increased consumer demand for Islamic banking services and *Sharia-compliant* banking products), supplemented by strategic sectoral and/or geographic acquisitions, if management identifies appropriate opportunities. AHB cannot give any assurance that its recent rate of growth will be maintained in the future or that it will be successful in expanding into any other jurisdictions in which it may identify growth opportunities. Management of growth requires, among other things, stringent control of financial systems and operations, including increased risk management and internal control policies and procedures as well as credit analysis and reporting, the continued development of such controls, policies and procedures, the hiring and training of new personnel and continued access to funds to finance the relevant growth. It also significantly increases costs, including the cost of recruiting, training and retaining a sufficient number of suitably qualified personnel and the cost of compliance arising from exposure to additional activities and jurisdictions. A failure on AHB's part to manage its future growth efficiently and effectively or to successfully implement any expansion opportunities management may identify could have a material adverse effect on AHB's business, results of operations, financial condition or prospects, and its ability to make payments due under the Transaction Documents to which it is a party.

Limited availability of equivalent Sharia-compliant hedging instruments to those available to conventional banks

AHB'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, AHB does not have the full range of hedging products available to it in order to manage certain credit, market and liquidity risks. The fact that the return payable on AHB'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 *Sharia-compliant* derivative products which could be used for hedging purposes. However, there can be no assurances that the limited availability of hedging products will be sufficient to manage risks, which may have a material adverse effect on AHB's business, results of operations, financial condition or prospects, and its ability to make payments due under the Transaction Documents to which it is a party.

Impact of Regulatory Changes

AHB is subject to the laws, regulations, administrative actions and policies of the UAE and each other jurisdiction in which it operates. These regulations may limit AHB's activities and changes in supervision and regulation, particularly in the UAE, could materially adversely affect AHB's business, the products or services it is able to offer and the value of its assets, as well as its results of operations, financial condition or prospects. In particular, AHB has implemented the Basel II standardised approach-related guidelines issued by the UAE Central Bank and will adopt the Basel III guidelines as and when the UAE Central Bank communicates its requirements in this regard. Although AHB works closely with its regulators, regulatory, fiscal or other policies affecting AHB's business, the products or services it is able to offer, the value of its assets or its results of operations, financial condition or prospects cannot always be predicted and are beyond the control of AHB. A description of the legal and regulatory environment applicable to banks generally in the UAE is set out below under "*The UAE Banking Sector and Regulations*".

AHB is subject to risks relating to its information technology systems and loss of business continuity

AHB depends on its information technology systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of AHB's business and operating data. The proper functioning of AHB's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between its branches and main data processing centres, are critical to AHB's business and ability to compete effectively. AHB's business activities would be materially disrupted if there is a partial or complete failure of any of the information technology systems or communications networks. Such failures can be caused by a variety of factors, including natural disasters, extended power outages and computer viruses. The proper functioning of AHB's information technology systems also depends on accurate and reliable data and other system input, which are subject to human error. Any failure or delay in recording or processing AHB's transaction data could subject it to claims for losses and regulatory fines and penalties. AHB has implemented and tested detailed business continuity plans and processes as well as disaster recovery procedures, but there can be no assurance that these safeguards will be fully effective.

No Guarantees

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

Risks relating to the Certificates

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, 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) against AHB to perform its obligations under the Transaction Documents.

Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets), the Delegate or (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is party) AHB in respect of any shortfall in the expected amounts due on the Certificates.

AHB 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 AHB 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 and the Declaration of Trust, the obligations of the Trustee and/or the Delegate 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 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 contemplated in the Transaction Documents. The sole right of the Trustee, the Delegate and the Certificateholders against AHB shall be to enforce the obligation of AHB to perform its obligations under the Transaction Documents.

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

The payment obligations of AHB under the Mudaraba Agreement rank subordinate and junior to all Senior Obligations (as defined in the Conditions) and rank *pari passu* with all Pari Passu Obligations, as more particularly described in Condition 4.2. Potential investors should note that payment of all amounts by AHB under the Mudaraba Agreement (and consequently, the corresponding payments by the Trustee under the Conditions) are conditional upon:

(i) AHB being Solvent at the time of payment of the Relevant Obligations; and

(ii) AHB being capable of making payment of the Relevant Obligations and any other payment required to be made to a creditor in respect of all Senior Obligations and all Pari Passu Obligations and still be Solvent immediately thereafter.

Further, the payment obligations of AHB under the Mudaraba Agreement are unsecured and no collateral is or will be given by AHB 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. Accordingly, if a winding-up, bankruptcy, dissolution or liquidation of AHB occurs, or an analogous process under the laws of the Cayman Islands, the rights and claims of the Trustee will be contractually subordinated to those of the Senior Creditors, and the relevant liquidator, applying the contractual terms, would first apply the assets of AHB to satisfy all claims of the Senior Creditors.

AHB's payment obligations under the Mudaraba Agreement will share equally in payment with the Pari Passu Obligations if AHB does not have sufficient funds to make full payment on both obligations in their entirety. In either such situation, and if the condition as to solvency set out above is not satisfied, the Certificateholders could lose all or some of their investment.

No limitation on issuing senior securities

Other than the limitations in relation to the issue of further Tier 1 Capital by AHB as set out in Condition 4.3 which limits the circumstances in which Tier 1 Capital of AHB 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 AHB (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, or *pari passu* with, the obligations of AHB under the Mudaraba Agreement. The incurrence of any such additional financing or the issue of or the creation of any such securities, guarantee or contractual support arrangement may reduce the amount (if any) recoverable by Certificateholders on a winding-up of AHB. See also "—*The payment obligations of AHB under the Mudaraba Agreement are subordinated and unsecured obligations*" above.

Payments of Periodic Distribution Amounts may be cancelled and are non-cumulative

AHB may elect, in its sole and absolute 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 Dissolution Date.

In addition, if a Non-Payment Event (as defined in the Conditions) occurs, AHB (in its capacity as Mudareb) shall be prohibited from paying Mudaraba Profit or 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.

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 Event, then, from the date of such non-payment, AHB will be prohibited from declaring or paying certain distributions or dividends and from redeeming, purchasing, cancelling, reducing or otherwise acquiring certain securities as more particularly described in Condition 8.3. However, Certificateholders will 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 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 a circumstance shall not constitute a Dissolution Event. AHB will 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) 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 may not receive Periodic Distribution Amounts on their investment in the Certificates and neither the Trustee nor the Certificateholders will have any claim in respect thereof.

The Certificates are perpetual securities

The Certificates are perpetual securities which have no scheduled repayment 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 a Dissolution Event occurs.

The Trustee is required to redeem the Certificates (acting only upon the instructions of AHB (acting in its sole and absolute discretion)) in certain circumstances, 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 10.1.

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 exercises its rights to redeem the Certificates in accordance with Condition 10.1;

(ii) the Trustee is directed by an Extraordinary Resolution of the Certificateholders following a Dissolution Event to redeem the Certificates; or

(iii) they sell their Certificates.

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.

Minimum regulatory capital and liquidity requirements

AHB 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 AHB's opportunities for expansion. Under Basel III (as defined in the Conditions), 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. On 16 December 2010, the Basel Committee issued its final guidance on Basel III in ''Basel III: A global regulatory framework for more resilient banks and banking systems''. A revised version was subsequently published in June 2011 (''**Basel III June 2011 Guidance**'').

The Basel Committee's package of reforms includes increasing the minimum common equity (or equivalent) requirement from 2 per cent. (before the application of regulatory adjustments) to 4.5 per cent. (after the application of stricter regulatory adjustments) of risk weighted assets. The total Tier 1 capital requirement will increase from 4 per cent. to 6 per cent. of risk weighted assets. In addition, banks will be required to maintain, in the form of common equity (or equivalent), a capital conservation buffer of 2.5 per cent. to withstand future periods of stress, bringing the total common equity (or equivalent) requirements to 7.0 per cent. of risk weighted assets. If there is excess credit growth in any given country resulting in a system-wide build-up of risk, a countercyclical buffer within a range of 0 per cent. to 2.5 per cent. of common equity (or other fully loss absorbing capital) is to be applied as an extension of the conservation buffer. Furthermore, systemically important banks are required to have loss-absorbing capacity beyond these standards (see "*Basel III Reforms—Future UAE legislation on loss absorbency at the point of non-viability may have adverse effects for Certificateholders*" and "*Certificateholders' right to receive repayment of the principal amount of the Certificates and the Certificateholders' right for any further profit will be fully and permanently written-down upon the occurrence of a Non-Viability Event*").

The Basel III reforms also require Tier 1 and Tier 2 capital instruments to be more loss-absorbing. The Basel III capital requirements have been implemented from 1 January 2013 by Basel Committee members globally and are subject to a series of transitional arrangements, which will be phased in over a period of time, and are expected to be fully effective by 2019. They are also supplemented by a leverage ratio, a liquidity coverage ratio and a net stable funding ratio.

As at the date of this Prospectus, the UAE has not implemented the Basel III reforms. Although it is expected that the UAE Central Bank will issue specific guidelines regarding Basel III in due course, it is not possible to predict the timing or substance of the legislative and rulemaking process. Basel III may be implemented in the UAE in a manner that is different from that which is currently envisaged, or regulations may be introduced in the UAE which impose additional capital requirements on, or otherwise affect the capital adequacy requirements relating to, UAE banks. If the regulatory capital requirements, liquidity restrictions or ratios applied to AHB are increased in the future, any failure by AHB to maintain such increased regulatory capital ratios could result in administrative actions or sanctions, which may have an adverse effect on AHB's business, financial condition, results of operations and prospects.

Basel III reforms – Future UAE legislation on loss absorbency at the point of non-viability may have adverse effects for Certificateholders

On 13 January 2011, the Basel Committee expanded on the Basel III capital rules with additional non-viability requirements (the "**January 13 Annex**"). The January 13 Annex requires non-common Tier 1 or Tier 2 instruments issued by an internationally active bank to have a provision in their terms and conditions, or to be subject to a statutory legal framework, that requires such instruments, at the option of the relevant authority, to either be written off or converted to common equity upon the occurrence a "trigger event" (being the earlier of: (1) a decision that a write-off, without which the bank 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 bank would have become non-viable, as determined by the relevant authority).

As at the date of this Prospectus, the UAE has not implemented a law that would require loss absorbency for Tier 1 bank capital instruments on the occurrence of any such trigger event. If the regulatory requirements for capital instruments applicable to AHB are modified in the future it is possible that authorities could use their powers in such a way as to result in the Certificates absorbing losses in the manner described in the paragraph above. Accordingly, the operation of any such future legislation may have an adverse effect on the positions of Certificateholders.

The Conditions currently cater for principal loss absorption, as set out in Condition 11, by providing for the full and permanent write-down of the Certificates if a trigger event occurs on or after the Effective Date (as defined below) – see "*Certificateholders' right to receive repayment of the principal amount of the Certificates and the Certificateholders' right for any further profit will be fully and permanently written-down upon the occurrence of a Non-Viability Event*". However, Basel III may be implemented in the UAE in a manner that is different from that which is currently envisaged (see "*Minimum regulatory capital and liquidity requirements*"). If in the future a law is implemented in the UAE requiring loss absorbency for bank capital instruments as described above, there can be no assurances that Condition 11 would satisfy the requirements of any such law for the purposes of the UAE Central Bank and, accordingly, the implementation of such law may give rise to a Capital Event in respect of the Certificates. In such a case, the Certificates may be redeemed or varied pursuant to Condition 10.1.4 without the consent of the Certificateholders at any time after the applicable notice period to the Certificateholders. See "*—Variation upon the occurrence of a Capital Event or a Tax Event*" and "*—The Certificates may be subject to early redemption; redemptions conditional*".

Certificateholders' right to receive repayment of the principal amount of the Certificates and the Certificateholders' right for any further profit will be fully and permanently written-down upon the occurrence of a Non-Viability Event

If a Non-Viability Event occurs at any time on or after the Effective Date, the Certificates will be cancelled and 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 AHB Event) 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. A Write-down shall not constitute a Dissolution Event. As a result, Certificateholders will lose the entire amount of their investment in the Certificates.

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

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 AHB'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 AHB and with which AHB may not agree.

Due to the deeply subordinated nature of the obligations arising under the Certificates, 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 repay the face amount of the Certificates other than in accordance with the exercise of a call option in accordance with Condition 10.1.2 or following the occurrence of an AHB Event in accordance with Condition 12.1. In addition, the Trustee may be prohibited from making, or instructed by AHB not to make, payments of Periodic Distribution Amounts on the Certificates in accordance with Condition 8 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) AHB Events (being (i) a default by the Mudareb for a period of seven days or more in the payment of any principal or fourteen days or more in the payment of any profit amount due and payable by it under the Mudaraba Agreement; (ii) a final determination is made by a court or other official body that AHB is insolvent or bankrupt or unable to pay its debts; (iii) an administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of AHB or AHB 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 analogous event under the laws of the United Arab Emirates to those described above, and (b) Trustee Events (being similar in nature to AHB Events in respect of the Trustee), all as more fully described in the Conditions.

Moreover, pursuant to Condition 12, upon the occurrence of any AHB 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 AHB that the Certificates are, and shall immediately become, due and payable at the applicable Dissolution Distribution Amount together with any Outstanding Payments and thereafter: (a) instituting steps, actions or proceedings for the winding-up, bankruptcy, dissolution or liquidation (or analogous event) of AHB; and/or (b) proving or claiming in the winding-up, bankruptcy, dissolution or liquidation (or analogous event) of AHB; and/or (c) taking such other steps, actions or proceedings which, under the laws of the United Arab Emirates, have an analogous effect to the actions referred to in (a) or (b) above, in each case, for the payment of amounts due under the Mudaraba Agreement. Therefore, it will only be possible for the Certificateholders 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 AHB 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.

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 Profit 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 of a Capital Event or a Tax Event, the Trustee shall (but acting only upon the instructions of AHB (acting in its sole and absolute discretion)), subject as provided in Condition 10.1.3 or 10.1.4 (as the case may be) and without any requirement for consent or approval of the Certificateholders, vary the terms of the Mudaraba Agreement and the Certificates such that the Certificates remain or become (as appropriate) Qualifying Tier 1 Instruments (as defined in the Conditions).

A Capital Event is deemed to have occurred if AHB 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 AHB or whose purchase is funded by AHB) of the Certificates is excluded (in full or in part) from the consolidated Tier 1 Capital of AHB (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital). A Tax Event will arise if AHB or the Trustee (as the case may be) would, as a result of a Tax Law Change (as defined in the Conditions), 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 AHB or the Trustee (as the case may be) taking reasonable measures available to it). The tax and stamp duty consequences of holding the Certificates following variation as contemplated in Condition 10.1.5 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 AHB 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 may be subject to early redemption; redemptions conditional

Upon the occurrence of a Tax Event or a Capital Event, the Trustee shall (acting only upon the instructions of AHB (acting in its sole and absolute discretion)), at any time, having given not less than 10 nor more than 15 days' prior notice to the Certificateholders in accordance with Condition 17 (which notice shall be irrevocable) 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 10.1.3 in relation to a Tax Event, and Condition 10.1.4 in relation to a Capital Event).

Any redemption of the Certificates is subject to the requirements in Condition 10.1.1, 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 AHB 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.

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, can 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 AHB under the Mudaraba Agreement are subordinated and unsecured obligations*") and payments of Periodic Distribution Amounts may be restricted in certain circumstances (see "*—Payments of Periodic Distribution Amounts may be cancelled and are non-cumulative*").

Application has been made for the Certificates to be admitted to the official list of, and to trading on, the Irish Stock Exchange. 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.

Risks relating to the Trust Assets

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 Mudaraba Capital. The Mudaraba Capital will be invested by AHB, on an unrestricted co-mingling basis, in its general business activities carried out through the General Pool (as defined in the Conditions) and, following investment of the Mudaraba Capital, the Mudaraba Capital shall constitute *pro rata* undivided assets in the General Pool (the "**Mudaraba Assets**") 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 AHB, and the Certificateholders shall have no ability to influence such activities.

If any of the risks relating to the business of AHB mentioned above (see "*—Risks relating to AHB*") materialise or otherwise impact AHB'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 AHB'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, wilful 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, wilful misconduct or fraud. If the Mudareb is able to do so, 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.

Risks relating to enforcement

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

In the event of AHB's insolvency, UAE bankruptcy laws may adversely affect AHB's ability to perform its obligations under the Mudaraba Agreement and, in turn, may adversely affect the Trustee's ability to perform its obligations in respect of the Certificates. There is little precedent to predict how a claims by or on behalf of Certificateholders, the Trustee and/or the Delegate 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.

Change of law

The structure of the issue of the Certificates is based on English law, the laws of the Emirate of Abu Dhabi and, to the extent applicable in Abu Dhabi, the federal laws of the UAE and administrative practices in effect 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, the laws of Abu Dhabi and, to the extent applicable in Abu Dhabi, the federal laws of the UAE or administrative practices in any such jurisdiction 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 AHB to make payments under the Transaction Documents or the ability of the Trustee or AHB to otherwise comply with their respective obligations under the Transaction Documents.

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

Ultimately the payments under the Certificates are dependent upon AHB making payments to the Trustee in the manner contemplated under the Transaction Documents. If AHB fails to do so, it may be necessary for an investor to bring an action against AHB to enforce its obligations (subject to the provisions of Condition 12.3) and/or to claim damages, as appropriate, 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.

The parties to the Transaction Documents have agreed to refer any unresolved dispute in relation to such Transaction Documents to arbitration under the LCIA Rules, with an arbitral tribunal with its seat in London (or, subject to the exercise of an option to litigate given to certain parties, the courts of England and Wales are stated to have jurisdiction to settle any disputes in respect of the Declaration of Trust and the Agency Agreement). Notwithstanding that an arbitral award may be obtained from an arbitral tribunal in London or that a judgment may be obtained in an English court, there is no assurance that AHB has, or would at the relevant time have, assets in the United Kingdom against which such arbitral award or judgment could be enforced, and it is therefore likely that proceedings would need to be commenced for the enforcement of any such award or judgment in Abu Dhabi (where the substantial majority of AHB's assets are located).

Under current Abu Dhabi law, the Abu Dhabi courts are unlikely to enforce an English judgment without re-examining the merits of the claim and may not observe the parties' choice of English law as the governing law of the relevant Transaction Document 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 an appropriate connection exists between the relevant transaction agreement and the foreign law which has been chosen. They will not, however, honour any provision of foreign law which is contrary to public policy, order or morals in the UAE, or to any mandatory law of, or applicable in, the UAE.

The UAE is a civil law jurisdiction and judicial precedents in Abu Dhabi have no binding effect on subsequent decisions. In addition, court decisions in Abu Dhabi are generally not recorded. These factors create greater judicial uncertainty.

The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**") entered into force in the UAE on 19 November 2006. 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.

In practice, however, whether the Abu Dhabi courts will enforce a foreign arbitration award in accordance with the terms of the New York Convention has yet to be tested. 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.

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. In practice, therefore, how the New York Convention provisions would be interpreted and applied by the Abu Dhabi courts, and whether the Abu Dhabi courts will enforce a foreign arbitration award in accordance with the New York Convention, remains largely untested.

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.

A court may not grant an order for specific enforcement

If AHB 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 AHB'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 on the level of damages which a court may award if AHB fails to perform its obligations set out in the Transaction Documents.

Waivers of immunity may not be effective under UAE law

Under the Transaction Documents, AHB has acknowledged that the transactions contemplated by the Transaction Documents are commercial transactions and, to the extent that AHB may claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed to AHB or any of its respective assets or revenues, AHB has agreed not to claim and has irrevocably and unconditionally waived such immunity in relation to any legal or arbitral proceedings or Disputes (as defined in the Conditions). In addition, AHB has 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 of its assets whatsoever of any award, order or judgment made or given in connection with any legal or arbitral proceedings or Disputes.

However, there can be no assurance as to whether such waivers of immunity given by AHB under the Transaction Documents are valid and binding under the laws of the Abu Dhabi and, to the extent applicable therein, the federal laws of the UAE.

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. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Certificate. While the Certificates are represented by the Global Certificate, investors will be able to trade their beneficial 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 beneficial 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, beneficial interests in the Global Certificate.

Holders of beneficial 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.

Investors must make their own determination as to Shari'a compliance

The Fatwa and Sharia Supervisory Board of AHB, the Shari'a Supervisory Board of Citi Islamic Investment Bank E.C., the HSBC Saudi Arabia Shariah Executive Committee and the Shariah Supervisory Committee of Standard Chartered Bank have each confirmed that the Transaction Documents are, in their view, in compliance with *Shari'a* principles. 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, AHB, the Delegate or any of the Joint Lead Managers 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.

Potential investors should obtain their own independent *Shari'a* advice as to whether the Transaction Documents and any issue of Certificates will meet their individual standards of compliance and should also make their own determination as to the future tradeability 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 Transaction Documents would be, if in dispute, either the subject of arbitration in London under the LCIA Rules or court proceedings under the laws of Abu Dhabi, the UAE or England and Wales. In such circumstances, the arbitrator or judge (as applicable) will first apply the governing law of the relevant Transaction Document rather than *Shari'a* principles in determining the obligations 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 the AHB, 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 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 denomination of the Certificates is 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 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 U.S.$200,000 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 U.S.$200,000 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 U.S.$200,000 may be illiquid and difficult to trade.

The Certificates are subject to modification by a majority of Certificateholders without the consent of all Certificateholders

The Declaration of Trust contains provisions for calling meetings of the Certificateholders to consider matters affecting their interests 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 for the time being 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, AHB and the Delegate (as the case may be) 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 Trustee, the Delegate or AHB (as the case may be) 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 AHB (as the case may be) 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, AHB and the Delegate (as the case may be) have 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 as well as Certificateholders who voted in a manner contrary to the majority.

The Declaration of Trust also provides that the Delegate may, without the consent or sanction of Certificateholders, agree to the substitution of another company as trustee under the Certificates in place of the Trustee, in the circumstances described in Condition 12.2.

The Declaration of Trust also provides that the Delegate may, without the consent or sanction of the Certificateholders, agree to the variation of the terms of the Certificates so that they become or, as appropriate, remain, Qualifying Tier 1 Instruments, as provided in Conditions 10.1.3 and 10.1.4.

The Declaration of Trust also provides that the Delegate may, without the consent or sanction of Certificateholders, (i) agree to any modification of any of the provisions of the Declaration of Trust or any other Transaction Document that is of a formal, minor or technical nature or is made to correct a manifest error, or (ii)(a) agree to any other modification of any provisions of the Declaration of Trust or any other Transaction Document, or to any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Declaration of Trust or any other Transaction Document, or (b) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such provided that such modification, waiver, authorisation or determination is in the opinion of the Delegate not materially prejudicial to the interests of the Certificateholders and 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 outstanding aggregate face amount of the Certificates and, in the case of modifications referred to in paragraph (ii)(a) above, other than in respect of a matter which requires a special quorum resolution (as defined in the Declaration of Trust). Any such modification, authorisation, determination or waiver shall be binding on the Certificateholders and, unless the Delegate agrees otherwise, such modification shall be notified by the Trustee to the Certificateholder as soon as practicable thereafter.

The Certificates may be subject to exchange rate risks and exchange controls

Neither AHB nor the Trustee has any control over the factors that generally affect these risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and volatility between such currencies or with other currencies may be expected in the future.

The Trustee will make all payments on the Certificates in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease: (i) the Investor's Currency-equivalent yield on the Certificates; (ii) the Investor's Currency equivalent value of the principal payable on the Certificates (to the extent that any Dissolution Distribution Amount becomes payable as provided in the Conditions); and (iii) the Investor's Currency equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of any payment of any amount on a Certificate. As a result, investors may receive less amounts under the Certificates than expected, or no payment at all. Even if there are no actual exchange controls, it is possible that U.S. dollars may not be available at the date of redemption of the Certificates.

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.

Risks relating to taxation

Payments made on or with respect to the Certificates may be subject to U.S. withholding tax

Sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to: (a) certain payments from sources within the United States; (b) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime; and (c) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution.

Whilst the Certificates are in global form and held within Euroclear and Clearstream, Luxembourg, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by Euroclear and Clearstream, Luxembourg. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Trustee's obligations under the Certificates and AHB's obligations under the Transaction Documents are discharged once it has paid the common depositary for Euroclear and Clearstream, Luxembourg (as registered holder of the Certificates), and neither the Trustee nor AHB has therefore any responsibility for any amount thereafter transmitted through Euroclear and Clearstream, Luxembourg and custodians or intermediaries. Prospective investors should refer to the section "*Taxation—Foreign Account Tax Compliance Act*".

Taxation risks on payments

Payments made by AHB 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 AHB to pay additional amounts if any withholding or deduction is required by UAE law to be made in respect of payments made by it to the Trustee under that document. Furthermore, Condition 13 provides that the Trustee is required to pay additional amounts in respect of any such withholdings or deductions imposed by the Cayman Islands or any other jurisdiction in which the Trustee is domiciled or any political sub-division or authority thereof or therein having the power to tax, in certain circumstances. If the Trustee fails to gross-up for any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, AHB 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 the Trustee (for the benefit of the Certificateholders) an amount equal to the liabilities of the Trustee in respect of any and all additional amounts required to be paid in respect of the Certificates pursuant to Condition 13 in respect of any withholding or deduction in respect of any tax as set out in that Condition.

The circumstances described above may entitle AHB to instruct the Trustee to redeem or vary the Certificates pursuant to Condition 10.1.3. See "*—The Certificates may be subject to early redemption; redemptions conditional*" and "*—Variation upon the occurrence of a Capital Event or a Tax Event*" for a description of the consequences thereof.

EU Savings Directive

EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**") requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual resident, or certain types of entity established, in that other EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015. A number of third countries and territories including Switzerland have adopted similar measures to the Savings Directive. The precise scope of what constitutes interest or similar income for the purposes of the Savings Directive is unclear and accordingly it is possible that certain payments which are made in respect of the Certificates (such as the Periodic Distribution Amounts) could be within the scope of the Savings Directive.

The Council of the European Union has adopted a Directive (the "**Amending Directive**") which will, when implemented, amend and broaden the scope of the requirements described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive will increase the likelihood of certain payments which are made in respect of the Certificates being within the scope of the Savings Directive. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Certificate as a result of the imposition of such withholding tax. Furthermore, once the Amending Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above.

The Issuer is required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any law implementing or complying with, or introduced in order to conform to, any such Directive, which may mitigate an element of this risk if the Certificateholder is able to arrange for payment through such a Paying Agent. However, investors should choose their custodians and intermediaries with care, and provide each custodian and intermediary with any information that may be necessary to enable such persons to make payments free from withholding and in compliance with the Savings Directive (as amended).

Investors who are in any doubt as to their position should consult their professional advisers.

Risks relating to the UAE and Abu Dhabi

AHB is subject to political and economic conditions in Abu Dhabi, the UAE and the Middle East

The majority of AHB's current operations and assets are located in the UAE. AHB's results of operations are, and will continue to be, generally affected by financial, economic and political developments in or affecting Abu Dhabi, the UAE and the Middle East and, in particular, by the level of economic activity in the UAE. It is not possible to predict the occurrence of events or circumstances, such as war or hostilities, or the impact of such occurrences, and no assurance can be given that AHB would be able to sustain the operation of its business if adverse political events or circumstances were to occur. A general downturn or instability in certain sectors of the UAE or the regional economy could have an adverse effect on AHB's business, results of operations, financial condition and prospects.

The UAE has seen significant economic growth and relative political stability. However, there can be no assurance that such growth or stability will continue, particularly in light of the significant adverse financial and economic conditions experienced worldwide commencing in early 2008. Since that time, there has been a slowdown or reversal of the high rates of growth that had been experienced by many countries within the GCC and the UAE, especially in Dubai and, to a lesser extent, Abu Dhabi. Consequently, certain sectors of the GCC economy, such as financial institutions that had benefitted from previous high rates of growth, have been materially adversely affected since 2008. Unlike other financial institutions in the UAE, AHB only commenced operations during the financial crisis and has been able to establish and maintain a high rate of growth within conservative risk parameters which are approved by AHB's Board Risk Committee, despite the adverse financial and economic conditions prevailing in the UAE over this period. It is the strategy of AHB to continue to achieve above average market growth levels. However, there can be no assurance that it will be able to continue to maintain its current growth rate.

Investors should also note that AHB's business and financial performance could be adversely affected by political, economic or related developments both within and outside the Middle East because of interrelationships within the global financial markets. Moreover, while the UAE federal government's policies have generally resulted in improved economic performance, there can be no assurance that such level of performance can be sustained. No assurance can be given that the Government or the UAE federal government will not implement restrictive fiscal or monetary policies or regulations, including changes with respect to interest/profit rates, new legal interpretations of existing regulations or the introduction of taxation or exchange controls which could have a material adverse effect on AHB's business, financial condition and results of operations and thereby affect its ability to perform its obligations in respect of the Transaction Documents.

AHB's business may be affected if there are regional, geo-political or economic events that prevent AHB from delivering its services. While the UAE is seen as a relatively stable political environment, certain other jurisdictions in the Middle East are not. Instability in the Middle East may result from a number of factors, including government or military regime change, civil unrest or terrorism. In particular, since early 2011 there has been political unrest in a range of countries in the MENA region, including Algeria, Bahrain, Egypt, Libya, Oman, the Kingdom of Saudi Arabia, Syria, Tunisia and Yemen. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and the overthrow of existing leadership and has given rise to increased political uncertainty across the region while at the same time highlighting the relative political and economic stability of the UAE. There can be no assurance that extremists or terrorist groups will not escalate violent activities in the Middle East or that the governments of the Middle East will be successful in maintaining the prevailing levels of domestic order and stability. Any of the foregoing circumstances could have a material adverse effect on the political and economic stability of the Middle East and, in particular, could impact the numbers of tourists that choose to visit the UAE and the number of businesses interested in doing business in the UAE and, consequently, could have an adverse effect on AHB's business, results of operations, financial condition and prospects, and thereby affect its ability to perform its obligations in respect of the Transaction Documents.

The UAE's economy is highly dependent upon its oil revenue

The UAE's economy, and the economy of Abu Dhabi in particular, is highly dependent upon oil revenue. While Abu Dhabi is actively promoting tourism and real estate and undertaking several large scale development projects, the oil and gas industry dominates Abu Dhabi's economy and contributed approximately 56.5 per cent. to nominal GDP in 2012. AHB has historically received significant funding and other support from the Government through its sole shareholder, the Abu Dhabi Investment Council. In the case of the Government, such funding and other support has been largely derived from the Government's significant oil revenues. According to OPEC data, as at 31 December 2012, the UAE had 6.6 per cent. of proven global oil reserves which generated 30.8 per cent. of its nominal GDP in 2012 (source: UAE National Bureau of Statistics). During the second half of 2008 and into 2009, world oil prices fell approximately 70 per cent. from their peak level of U.S.$137 per barrel of Murban crude reached in July 2008 to an average of approximately U.S.$62.7 per barrel for the year ended 31 December 2009, before returning to an average of approximately U.S.$109.7 per barrel for the year ended 31 December 2012. Oil prices are expected to continue to fluctuate in the future in response to changes in many factors over which AHB has no control. Factors that may affect the price of oil include, but are not limited to:

- economic and political developments in oil producing regions, particularly in the Middle East;
- global and regional supply and demand, and expectations regarding future supply and demand, for oil products;
- the ability of members of OPEC and other crude oil producing nations to agree upon and maintain specified global production levels and prices;
- the impact of international environmental regulations designed to reduce carbon emissions;
- other actions taken by major crude oil producing or consuming countries;
- prices and availability of alternative fuels, global economic and political conditions, prices and availability of new technologies using alternative fuels; and
- global weather and environmental conditions.

Declines in international prices for hydrocarbon products in the future could therefore adversely affect the UAE's economy which, in turn, could have an adverse effect on AHB's business, financial condition and results of operations and thereby affect its ability to perform its obligations in respect of the Transaction Documents.

The GCC may enter into a monetary union

There is the possibility that Bahrain, Kuwait, the Kingdom of Saudi Arabia and Qatar may each abandon their respective national currencies in favour of a single GCC currency within the next few years. If a single GCC currency is adopted, the necessary convergence of laws, policies and procedure will bring significant changes to the economic and political infrastructure in each of the GCC states. As yet there has been no announcement of an official timetable for the progression of monetary union and there are currently no details of new legislation or policies. Investors should, however, be aware that new legislation and any resulting shift in policy and procedure in the UAE could affect the ability of AHB to perform its obligations in respect of the Transaction Documents.

Emerging markets

Investors should be aware that investments in emerging markets are subject to greater risks than those in more developed markets, including risks such as:

- political, social and economic instability;
- external acts of warfare and civil clashes;
- governments' actions or interventions, including tariffs, protectionism, subsidies, expropriation of assets and cancellation of contractual rights;
- regulatory, taxation and other changes in law;
- difficulties and delays in obtaining new permits and consents for business operations or renewing existing ones; and
- potential lack of reliability as to title to real property, lack of infrastructure and inability to repatriate profits and/or dividends.

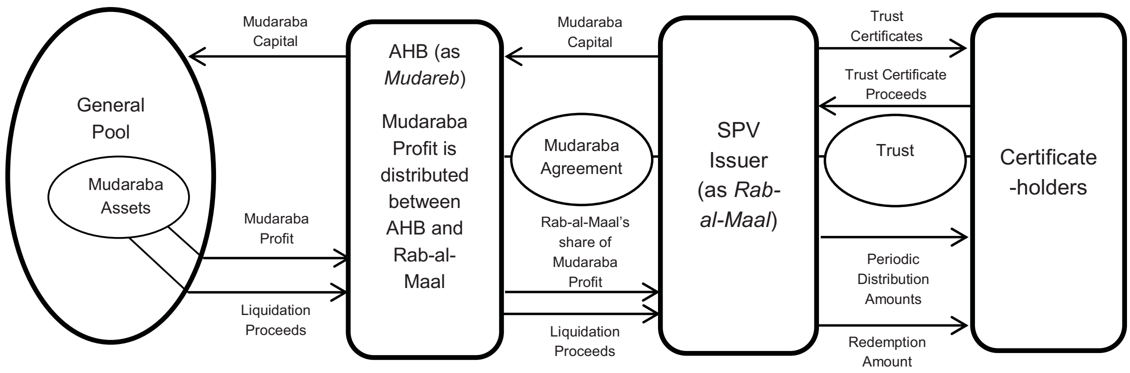
Any of the foregoing could have an adverse effect on AHB's business, financial condition and results of operations and thereby affect its ability to perform its obligations in respect of the Transaction Documents.

Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment in the Certificates is appropriate. Generally, investment in emerging markets (such as an investment in the Certificates) is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

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 issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

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

(c) any and all of the rights, title, interest, benefit and entitlements, present and future, of the Trustee, in, to and under the Transaction Documents (excluding any representations given by AHB (acting in any capacity) pursuant to any of the Transaction Documents and the covenant to indemnify the Trustee given by AHB pursuant to the Declaration of Trust); and

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

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. The Mudaraba Capital will be invested, on an unrestricted co-mingling Mudaraba basis, by AHB in its general business activities carried out through the General Pool and, following investment of the Mudaraba Capital, the Mudaraba Capital shall constitute *pro rata* undivided assets in the General Pool (the "**Mudaraba Assets**").

Periodic payments by the Trustee

Unless a Non-Payment Event has occurred, prior to each Periodic Distribution Date, the Mudareb shall distribute the profit generated by the Mudaraba (if any) to both the Trustee and the Mudareb in accordance with an agreed profit sharing ratio (99 per cent. to the Trustee (as Rab-al-Maal) and 1 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 Mudaraba Profit (as defined in the Mudaraba Agreement) by AHB (as Mudareb) may only be made in circumstances where a Non-Payment Event has not occurred. 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).

Under the terms of the Mudaraba Agreement, the Mudareb shall be expressly entitled to co-mingle its assets with the General Pool assets (provided that the calculation of any Mudaraba Profit or Final Mudaraba Profit shall exclude any profit earned for the Mudareb's own account).

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 6 of the Mudaraba Agreement, AHB (as Mudareb) may (in its sole and absolute discretion) elect to liquidate the Mudaraba, in whole but not in part, on the basis of a final constructive 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; 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:

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

    (ii) upon the occurrence of a Capital Event.

The Trustee (acting only upon the instructions of AHB (acting in its sole and absolute discretion)) shall, upon receipt of notice in accordance with paragraph (i) above, redeem all, but not some only, of the Certificates, and upon receipt of notice in accordance with paragraph (ii) above redeem all, but not some only, 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 Condition 10, and in each case following final constructive liquidation of the Mudaraba, as described above.

AHB (as Mudareb) and the Trustee undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by AHB 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 become or, as appropriate, remain 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$500,000,000 Additional Tier 1 Capital Certificates
Trustee	AHB Tier 1 Sukuk Limited, as issuer of the Certificates and as trustee for and on behalf of the Certificateholders, an exempted company with limited liability incorporated on 7 May 2014 in accordance with the Companies Law (2013 Revision) of the Cayman Islands with company registration number 287756 with its registered office at c/o MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands. The Trustee has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents (as defined below) to which it is a party.
Ownership of the Trustee	The authorised share capital of the Trustee is U.S.$50,000 consisting of 50,000 shares of U.S.$1.00 each, of which 250 shares are fully paid up and issued. The Trustee's entire issued share capital is held on trust by MaplesFS Limited under the terms of a trust for charitable purposes.
Administration of the Trustee	The affairs of the Trustee are managed by MaplesFS Limited, a licensed trust company in the Cayman Islands (the "**Trustee Administrator**"), with registered office at P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands, who will provide, amongst other things, corporate administrative services, director services and act as share trustee for and on behalf of the Trustee pursuant to the corporate services agreement dated 12 June 2014 made between the Trustee and the Trustee Administrator (the "**Corporate Services Agreement**").
Mudareb	Al Hilal Bank P.J.S.C., incorporated in Abu Dhabi on 18 June 2007 as a public joint stock company pursuant to the resolution of the Executive Council of the Emirate of Abu Dhabi No. 2 of 2007 and Emiri Decree No. 21 of 2007.
Rab-al-Maal	AHB Tier 1 Sukuk Limited
Risk Factors	Certain factors may affect the Trustee's ability to fulfil its obligations under the Certificates and AHB's ability to fulfil its obligations under the Transaction Documents. 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*".
Joint Lead Managers	Abu Dhabi Islamic Bank P.J.S.C., Al Hilal Bank P.J.S.C., Al Rayan Investment LLC, Citigroup Global Markets Limited, Emirates NBD Capital Limited, HSBC Bank plc, National Bank of Abu Dhabi P.J.S.C., Sharjah Islamic Bank P.J.S.C. and Standard Chartered Bank.
Delegate	Deutsche Trustee Company Limited Pursuant to the Declaration of Trust, the Trustee shall delegate to the Delegate certain of the present and future duties, 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 indemnified and/or secured and/or pre-funded to its

	satisfaction, be obliged to) take enforcement action in the name of the Trustee against AHB (in its capacity as Mudareb or otherwise) following an AHB Event.
Principal Paying Agent and Calculation Agent	Deutsche Bank AG, London Branch
Registrar and Transfer Agent	Deutsche Bank Luxembourg S.A.
Listing Agent	Arthur Cox Listing Services Limited
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 Cashflows*" 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	30 June 2014
Issue Price	100 per cent.
Periodic Distribution Dates	30 June and 30 December in each year, commencing on 30 December 2014.
Periodic Distributions	Subject to Condition 8, Periodic Distribution Amounts shall be payable on each Periodic Distribution Date up to and including the First Call Date at a rate of 5.500 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 3.730 per cent. per annum. If a Non-Payment Event occurs, the Trustee shall not pay the corresponding Periodic Distribution Amounts and neither AHB 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.
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 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, will constitute unsecured obligations of the Trustee and will rank *pari passu* without any preference or priority with all other Certificates; see Condition 4.1.

The payment obligations of AHB under the Mudaraba Agreement will (a) constitute Tier 1 Capital of AHB, (b) constitute direct, unsecured, conditional and subordinated obligations of AHB, (c) rank subordinate and junior to all Senior Obligations (as defined in the Conditions) but not further or otherwise, (d) rank *pari passu* with all other Pari Passu Obligations (as defined in the Conditions) and (e) rank in priority only to all Junior Obligations (as defined in the Conditions); see Condition 4.2.

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

(c) any and all of the Trustee's rights, title, interest, benefit and entitlements, present and future, in, to and under the Transaction Documents (excluding any representations given by AHB (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee pursuant to clause 17 of the Declaration of Trust); and

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

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 such 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 AHB (acting in its sole and absolute discretion)) only in accordance with the provisions of Condition 10.

Pursuant to Condition 10.1.2, the Trustee shall (but only upon the instructions of AHB (acting in its sole and absolute discretion)), 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 10.1.3 and 10.1.4.

Any redemption of the Certificates is subject to the conditions described in Condition 10.1.

Dissolution Events

Subject to Condition 12, if an AHB Event occurs and, if so requested in writing by the Certificateholders of at least one-fifth of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of the Certificateholders in accordance with Condition 12.1, the Trustee and/or the Delegate shall, subject to Condition 12.3, take the actions referred to therein.

Withholding Tax	Subject to Condition 9.2 and Condition 13, 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), unless such withholding or deduction is required by law. In such event, the Trustee will pay Additional Amounts (as defined in the Conditions) as shall result in receipt by the Certificateholders of such amounts as would have been received by them had no such withholding or deduction been required. In addition, the Transaction Documents provide that payments thereunder by AHB (in its capacity as the Mudareb) shall be made free and clear of, and without withholding or deduction for, or on account of, any Taxes, unless such withholding or deduction is required by law and, in such case, provide for the payment by AHB of additional amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.
Trustee Covenants	The Trustee has agreed to certain restrictive covenants as set out in Condition 6.
Ratings	AHB has been assigned long term ratings of A1 by Moody's and A+ by Fitch. The Emirate of Abu Dhabi has been assigned a rating of AA by Fitch, Aa2 by Moody's and AA by Standard & Poor's, each with a "stable outlook". The United Arab Emirates has been assigned a credit rating of Aa2 with a stable outlook by Moody's Investors Service Singapore Pte. Ltd. Moody's Investors Service Singapore Pte. Ltd. is not established in the European Union and has not applied for registration under the CRA Regulation. The rating has been endorsed by Moody's in accordance with the CRA Regulation. Each of Fitch, Moody's and Standard & Poor's is established in the European Union and is registered under the CRA Regulation. As such, each of Fitch, Moody's and Standard & Poor's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. The Certificates will not be rated by any rating organisation upon their issue. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
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.
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 the Irish Stock Exchange for the Certificates to be admitted to listing on the Official List and to trading on the Regulated 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 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 Mudaraba Agreement will be governed by, and construed in accordance with, the laws of the Emirate of Abu Dhabi and, to the extent applicable in Abu Dhabi, the federal laws of the UAE.

Waiver of Immunity	AHB has agreed in each of the Transaction Documents to which it is a party that, to the extent that it may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed to AHB or any of its assets or revenues, it will not claim and has irrevocably and unconditionally waived such immunity in relation to any legal or arbitral proceedings or Disputes (as defined in the Conditions). In addition, AHB has 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 of its assets whatsoever of any award, order or judgement made or given in connection with any legal or arbitral proceedings or Disputes.
Limited Recourse	Proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as otherwise provided in Condition 4.4, the Certificates do not represent an interest in or obligations of any of the Trustee, the Delegate, AHB, any of the Agents or any of their respective affiliates. Certificateholders will have no recourse to any assets of the Trustee (and/or its directors, officers, shareholders or corporate services provider in each of their respective capacities as such) (other than the Trust Assets) or of the Delegate or any Agent or any of their respective directors, officers, employees, shareholders or affiliates, in each case, in respect of any shortfall in the expected amounts from the Trust Assets to the extent the Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished. See Condition 4.4 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 United Kingdom, the United Arab Emirates (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, Hong Kong, Singapore, Malaysia and Switzerland. See "*Subscription and Sale*".
Use of Proceeds	The proceeds of the issue of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to AHB (as Mudareb) as Mudaraba Capital pursuant to the terms of 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:

AHB Tier 1 Sukuk Limited (in its capacity as issuer and in its capacity as trustee, as applicable, the "**Trustee**") has issued Tier 1 Capital Certificates (the "**Certificates**") in an aggregate face amount of U.S.$500,000,000.

The Certificates are constituted by a declaration of trust (the "**Declaration of Trust**") dated 30 June 2014 (the "**Issue Date**") made between the Trustee, Al Hilal Bank P.J.S.C. ("**AHB**") and Deutsche Trustee Company Limited as the delegate of the Trustee (the "**Delegate**", which expression shall include all persons for the time being the delegate or delegates under the Declaration of 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, AHB, the Delegate, Deutsche Bank AG, London Branch 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**"), Deutsche Bank Luxembourg S.A. 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 Deutsche Bank AG, London Branch as calculation agent (the "**Calculation Agent**", which expression includes the Calculation Agent for the time being). The Paying Agents, the Calculation Agent and the Transfer Agents 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). Copies of the Transaction Documents are available for inspection and/or collection during normal business hours at the specified offices of the Delegate and 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: (i) to contribute the sums paid by it in respect of its Certificate(s) to the Mudareb (as defined in Condition 5) in accordance with the Mudaraba Agreement (as defined in Condition 5); (ii) 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 (iii) to enter into each Transaction Document, subject to the provisions of the Declaration of Trust and these Conditions.

1 Interpretation

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

"**Additional Amounts**" has the meaning given to it in Condition 13;

"**Additional Tier 1 Capital**" means capital qualifying as, and approved by the Financial Regulator as, additional tier 1 capital, or (as the case may be) innovative tier 1 capital, with respect to AHB;

"**AHB Event**" means:

(i) **Non-payment:** AHB (in its capacity as Mudareb) fails to pay an amount in the nature of principal or profit (in each case, including Additional Amounts) due and payable by it pursuant to the Mudaraba Agreement and such failure continues for a period of (in the case of principal) 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 Event); or

(ii) **Insolvency:** a final determination is made by a court or other official body that AHB is insolvent or bankrupt or unable to pay its debts; or

(iii) **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 AHB or AHB 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) **Analogous Event**: any event occurs which under the laws of the UAE has an analogous effect to any of the events referred to in paragraph (ii) or (iii) above.

References in subparagraph (ii) (*Insolvency*) above to "**debts**" shall be deemed to include any debt or other 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 AHB;

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

"**Assets**" means the consolidated gross assets of AHB as shown in the latest audited or (as the case may be) reviewed balance sheet of AHB, 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 AHB) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine;

"**Auditors**" means, at any time, the statutory independent auditors to AHB at the relevant time or such other auditor as may be appointed for the purpose of these Conditions and the Mudaraba Agreement;

"**Authorised Signatory**" has the meaning given to it in the Declaration of Trust;

"**Basel III**" means the reforms to the international regulatory capital framework issued by the Basel Committee as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for international credit institutions (including guidance on the eligibility criteria for tier 1 capital and tier 2 capital instruments);

"**Basel III Documents**" means the Basel Committee document "A global regulatory framework for more resilient banks and banking systems" released by the Basel Committee 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;

"**Basel III Implementation Date**" means the date from which legislation, rules or other measures implementing Basel III in the UAE (or, if the Central Bank of the UAE ceases to have primary bank supervisory authority with respect to AHB, in the jurisdiction of the relevant entity having primary bank supervisory authority with respect to AHB) are applied to AHB;

"**Basel Committee**" means the Basel Committee on Banking Supervision;

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

"**Capital Event**" is deemed to have occurred if AHB 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 AHB or whose purchase is funded by AHB) of the Certificates is excluded (in full or in part) from the consolidated Tier 1 Capital of AHB (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital);

"**Capital Event Amount**" in relation to a Certificate means 101 per cent. of its outstanding face amount together with any Outstanding Payments;

"**Capital Regulations**" means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect in the UAE, including those of the Financial Regulator;

"**Certificateholder**" means the 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**" means capital qualifying, and approved by the Financial Regulator, as core tier 1 capital in accordance with the Capital Regulations and, from the Basel III Implementation Date, as common equity tier 1 as implemented in Applicable Regulatory Capital Requirements at such time;

"**Day-count Fraction**" means the 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 Profit Reset Period, the third Business Day prior to the commencement of such Profit Reset Period;

"**Directors**" means the executive and non-executive directors of AHB who make up its board of directors;

"**Dispute**" has the meaning given to it in Condition 20.2;

"**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 AHB Event and/or a Trustee Event;

"**Dissolution Notice**" has the meaning given to it in Condition 12.1.2;

"**Dissolution Request**" has the meaning given to it in Condition 12.1.1;

"**Distributable Profits**" means the amount of AHB's consolidated retained earnings and 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 the most recent consolidated financial statements of AHB;

"**Effective Date**" means the date on which the Financial Regulator delivers a written notification to AHB which has the effect that a Capital Event would arise if the provisions of Condition 11 are, at the relevant time, not effective;

"**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 of the UAE and/or any successor entity having primary bank supervisory authority with respect to AHB in the UAE;

"**First Call Date**" means 30 June 2019;

"**First Mudaraba Profit Distribution Date**" means 30 December 2014;

"**General Pool**" means the general pool of AHB comprising: (i) AHB's shareholder's equity together with, following contribution of the Mudaraba Capital on the commencement date of the Mudaraba, the Mudaraba Capital; and (ii) any other sources of funds included in the general pool by AHB from time to time;

"**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 7.2;

"**Junior Obligations**" means all rights and claims of the holders of Ordinary Shares and all payment obligations of AHB in respect of its other Common Equity Tier 1;

"**LCIA**" means the London Court of International Arbitration;

"**Liabilities**" means the consolidated gross liabilities of AHB as shown in the latest audited or (as the case may be) reviewed balance sheet of AHB, 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 AHB) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine;

"**Margin**" means 3.730 per cent. per annum;

"**Mudaraba**" has the meaning given to it in Condition 5;

"**Mudaraba Agreement**" has the meaning given to it in Condition 5;

"**Mudaraba Assets**" has the meaning given to it in Condition 5;

"**Mudaraba Capital**" has the meaning given to it in Condition 5;

"**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 that term in the Mudaraba Agreement;

"**Mudaraba Profit Distribution Date**" means 30 June and 30 December 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;

"**Non-Payment Election**" has the meaning given to it in Condition 8.1;

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

"**Non-Viability Event**" means that the Financial Regulator has notified AHB in writing that it has determined that AHB is, or will become, Non-Viable without:

(i) a Write-down; or

(ii) 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 no later than 10 Business Days (or such earlier date as determined by the Financial Regulator) after the date of the Non-Viability Notice;

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

"**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 occurs which is specified as constituting non-viability by the Financial Regulator or in applicable banking regulations;

"**Ordinary Shares**" means ordinary shares of AHB, having on the Issue Date a par value of AED 1.00 each;

"**Other Common Equity Tier 1 Instruments**" means securities issued by AHB that qualify as Common Equity Tier 1 of AHB (other than Ordinary Shares), if any;

"**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 obligations of AHB which rank, or are expressed to rank, *pari passu* with the Relevant Obligations;

"**Payment Business Day**" means a day on which commercial banks and foreign exchange markets in London and New York City are open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented;

"**Periodic Distribution Amount**" has the meaning given to it in Condition 7.1;

"**Periodic Distribution Date**" means 30 June and 30 December in each year, starting on (and including) 30 December 2014;

"**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 any condition, event or act which, with the giving of notice, lapse of time, declaration, demand, determination or fulfilment of any other applicable condition (or any combination of the foregoing) would constitute a Dissolution Event;

"**Proceedings**" has the meaning given to it in Condition 20.5(c);

"**Profit Rate**" means, in respect of the Initial Period, the Initial Periodic Distribution Rate, and, in respect of each Profit Reset Period thereafter, the rate calculated in accordance with the provisions of Condition 7.2;

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

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

"**Qualifying Tier 1 Instruments**" means instruments (whether securities, trust certificates, interests in limited partnerships or otherwise) other than Ordinary Shares or other equity securities, issued directly or indirectly by AHB that:

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

(ii) 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 AHB (provided that in making this determination AHB 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 and the Delegate prior to the variation of the terms of the Certificates in accordance with Condition 10.1.3 or Condition 10.1.4 (as the case may be);

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

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

(v) have at least the same face value amount and profit distribution dates as the Certificates and at least equal profit or distribution rate or rate of return as the Certificates;

(vi) (where the instruments are varied prior to the First Call Date) have the same first call date as the Certificates; and

(vii) have the same optional redemption dates as the Certificates,

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

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

"**Rab-al-Maal Final 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;

"**Registered Account**" has the meaning given to it in Condition 9.1;

"**Relevant Date**" in respect of any Certificate means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Certificateholders that, upon further presentation of the Certificate being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation;

"**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 AHB) 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;

"**Relevant Five Year Reset Rate**" means the mid-swap rate for U.S. dollar swap transactions with a maturity of five years displayed on Reuters 3000 page "**ISDAFIX1**" (or such other page as may replace that page on Bloomberg, or such other service as may be nominated by the person providing or sponsoring the information appearing there for the purposes of displaying comparable rates) at or around 11.00 a.m. (New York time) on the Determination Date. If the correct mid swap rate does not appear on that page, the five year U.S. dollar mid swap rate shall instead be determined by the Calculation Agent on the basis of the arithmetic mean of quotations provided by the principal office of each of four major banks in the U.S. dollar swap market of the rates at which swaps in U.S. dollars are offered by it at approximately 11.00 a.m. (New York time) on the Determination Date to participants in the U.S. dollar swap market for a five-year period, expressed as a percentage and rounded, if necessary, to the nearest 0.0001 per cent. (0.00005 per cent. being rounded upwards);

"**Rules**" has the meaning given to it in Condition 20.2;

"**Senior Creditors**" means creditors of AHB (including depositors (in respect of their due claims) and, for this purpose, holders of any instrument issued by, or other obligation of, AHB 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 AHB (including payment obligations to AHB's depositors) and all subordinated payment obligations (if any) of AHB which rank, or are expressed to rank, senior to the Relevant Obligations;

"**Solvent**" means that: (i) AHB is able to pay its debts as they fall due; and (ii) its Assets exceed its Liabilities;

"**Substituted Territory**" has the meaning given to it in Condition 12.2.1(b);

"**Substituted Trustee**" has the meaning given to it in Condition 12.2.1;

"**Taxes**" has the meaning given to it in Condition 13;

"**Tax Event**" means AHB 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 AHB) 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), be required to pay Additional Amounts (and such requirement cannot be avoided by AHB or the Trustee (as the case may be) taking reasonable measures available to it);

"**Tax Law Change**" means any change in, or amendment to, the laws affecting taxation (or regulations or rulings promulgated thereunder) 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 outstanding face amount together with any Outstanding Payments;

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

"**Tier 2 Capital**" means capital qualifying as, and approved by the Financial Regulator as, tier 2 capital in accordance with the Capital Regulations;

"**Transaction Account**" has the meaning given to it in Condition 5.1;

"**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 5.2;

"**Trustee Call Amount**" in relation to a Certificate, means its outstanding face amount together with any Outstanding Payments;

"**Trustee Event**" means any of the following events:

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

(ii) **Insolvency**: the Trustee is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, or 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, or 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

(iii) **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, except, in each case, 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

(iv) **Analogous Events**: any event occurs that under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraphs (ii) or (iii) above;

For the purpose of subparagraph (i) 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) notwithstanding that the Trustee has at the relevant time insufficient funds or Trust Assets to pay such amounts including, without limitation, as a result of the matters described in Condition 4.4 (save in each case where such insufficient funds arise solely as a result of the occurrence of a Non-Payment Event);

"**Trustee's Territory**" has the meaning given to it in Condition 12.2.1(b);

"**UAE**" means the United Arab Emirates; and

"**Write-down**" means:

(i) the Certificateholders' rights to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally written-down in whole;

(ii) the Certificates shall be cancelled; and

(iii) 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, a Dissolution Event) 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.

It is the Mudareb's current intention that a Write-down will take place: (1) after the common shares in the Mudareb absorb losses (if and to the extent such loss absorption is permitted at the relevant time under all relevant rules and regulations applicable to the Mudareb at such time) and the Financial Regulator has not notified the Mudareb in writing that the relevant Non-Viability Event has been cured as a result of such loss absorption; and (2) prior to the write-down or write-off of any of the Mudareb's other obligations in respect of Tier 2 Capital and any other trust certificates and other instruments related to the Mudareb's other obligations constituting Tier 2 Capital. However, the Mudareb may at any time depart from this policy at its sole discretion.

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

2 Form, Denomination and Title

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.

Certificates are represented by registered certificates and, save as provided in Condition 3.1, each Certificate shall represent the entire holding of Certificates by the same holder.

Title to the Certificates passes only by registration in the register that the Trustee shall procure to be kept by the Registrar outside the United Kingdom in accordance with the provisions of the Agency Agreement (the "**Register**"). Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the Register. Except as ordered by a court of competent jurisdiction or as required by law, the registered holder of any Certificate shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no person shall be liable for so treating the holder. 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.

*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, société anonyme ("**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. The 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".*

3 Transfers of Certificates

3.1 Transfers

Subject to Conditions 3.4 and 3.5 and the provisions of the Agency Agreement, one or more Certificates may be transferred upon the surrender, at the specified office of the Registrar or any Transfer Agent, of the Certificate representing such Certificates to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Trustee), duly completed and executed and any other evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Certificates represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Certificates to a person who is already a holder of Certificates, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

3.2 Delivery of New Certificates

Each new Certificate to be issued pursuant to Condition 3.1 shall be available for delivery within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. For the purposes of this Condition, "**business day**" shall mean a day, other than a Saturday or Sunday, on which banks are open for business in the city in which the specified office of the relevant Transfer Agent or Registrar is located.

3.3 Formalities Free of Charge

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

3.4 Closed Periods

No Certificateholder may require the transfer of a Certificate to be registered (i) during the period of 15 days ending on (and including) the due date for payment of any Dissolution Distribution Amount or Periodic Distribution Amount 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, (ii) during the period of 15 days prior to any date on which Certificates may be called for redemption pursuant to Condition 10.1.2, (iii) after any such Certificate has been called for redemption pursuant to Conditions 10.1.2, 10.1.3 or 10.1.4 or (iv) during the period of seven days ending on and including any Record Date.

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 Agency Agreement. The regulations may be changed by the Trustee from time to time with the prior written approval of the Delegate and the Registrar, provided that any such change is not materially prejudicial to the interests of the Certificateholders. A copy of the current regulations will be made available by the Registrar to any Certificateholder upon request.

4 Status, Subordination and Limited Recourse

4.1 Status

The Certificates represent an undivided beneficial 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 AHB in respect of the Relevant Obligations are subordinated as described in Condition 4.2.

4.2 Subordination

4.2.1 The payment obligations of AHB under the Mudaraba Agreement (the "**Relevant Obligations**") will (a) constitute Tier 1 Capital of AHB, (b) constitute direct, unsecured, conditional and subordinated obligations of AHB, (c) rank subordinate and junior to all Senior Obligations but not further or otherwise, (d) rank *pari passu* with all other Pari Passu Obligations and (e) rank in priority only to all Junior Obligations.

4.2.2 The rights and claims of the Trustee against AHB in respect of the Relevant Obligations are subordinated in right of payment to the claims of Senior Creditors that are due, in that the Trustee's rights and claims to payments in respect of the Relevant Obligations are conditional upon the following:

(a) AHB (in its capacity as Mudareb or otherwise) being Solvent at the time of payment of the Relevant Obligations; and

(b) AHB (in its capacity as Mudareb or otherwise) being capable of making payment of the Relevant Obligations and any other payment that is due and required 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.

4.2.3 The Trustee has agreed in the Mudaraba Agreement that AHB shall be entitled (in its capacity as Mudareb or otherwise) to (i) utilise the Mudaraba Profit (or any part thereof) to make payments in respect of the claims of Senior Creditors that are due where AHB (in its capacity as Mudareb or otherwise) is Solvent and/or (ii) utilise the General Pool (including the Mudaraba Assets (or any part thereof) and/or the Mudaraba Profit (or any part thereof) to make payments in respect of the claims of Senior Creditors that are due 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 AHB (in its capacity as Mudareb or otherwise).

4.2.4 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 12.3.1.

4.2.5 The Trustee shall not be permitted to exercise, claim or plead any right of set-off, counterclaim, abatement or other similar remedy in respect of any amount owed to it under or in connection with the Transaction Documents and the Trustee will, in each relevant Transaction Document, unconditionally and irrevocably waive all such rights of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, to the fullest extent permitted by applicable law, in respect of the Relevant Obligations. No collateral is or will be given by AHB for the Relevant Obligations and any collateral that may have been or may in the future be given in connection with other obligations of AHB shall not secure the Relevant Obligations.

4.3 Other Issues

So long as any of the Certificates remain outstanding, AHB (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 Additional Tier 1 Capital of AHB 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 these Conditions and (to the extent applicable) the Transaction Documents are amended to the satisfaction of the Delegate to ensure that the Trustee (on behalf of the Certificateholders) obtains and/or the Relevant Obligations have, in each case, 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, the Certificates do not represent an interest in or obligation of any of the Trustee, the Delegate, AHB, any of the Agents or any of their respective affiliates.

The proceeds of the Trust Assets are the sole source of payments on the Certificates. The net proceeds of the realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Certificates. 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 the Delegate or any of their respective directors, officers, employees or agents on their behalf except to the extent funds are available therefor from the Trust Assets and further acknowledge and agree that no recourse shall be had 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;

(b) the Trustee may not deal with the Mudaraba Assets or realise or deal with its interest, rights, 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) 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;

(d) if the proceeds of the Trust Assets are insufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (and/or its directors, officers, shareholders or corporate services providers in each of their respective capacities as such) (other than the Trust Assets in the manner contemplated by the Transaction Documents) or of the Delegate or the Agents or any of their respective directors, officers, employees, agents, shareholders or affiliates, in each case in respect of any shortfall or otherwise;

(e) no Certificateholders will be able to 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, the Delegate, the Agents or any of their respective 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 or the Delegate arising under or in connection with the Declaration of Trust and/or these Conditions by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, employee, agent, director or corporate services provider of the Trustee in its capacity as such. The obligations of the Trustee and the Delegate under the Certificates and the Transaction Documents are corporate or limited liability obligations of the Trustee and/or the Delegate, as the case may be, and no personal liability shall attach to or be incurred by the shareholders, members, officers, agents, directors or corporate services providers of the Trustee and/or the Delegate (in each of their respective capacities as such), save in the case of their wilful default or actual fraud. Reference 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 such Certificate. No collateral is or will be given for the payment obligations under the Certificates.

Pursuant to the terms of the Transaction Documents, AHB is obliged to make payments in certain circumstances 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 the Delegate will (subject to Conditions 4.2 and 12.3) have direct recourse against AHB to recover payments due to the Trustee from AHB pursuant to such Transaction Documents notwithstanding any other provision of this Condition 4.4. Such right of the Trustee and the Delegate against AHB shall constitute an unsecured claim against AHB. None of the Certificateholders, the Trustee or the Delegate shall be entitled to claim any priority right in respect of any specific assets of AHB in connection with the enforcement of any such claim.

5 The Trust

5.1 AHB Tier 1 Sukuk Limited (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 AHB (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) (the "**Mudaraba Capital**"). The Mudareb will invest the Mudaraba Capital in its general business activities carried out through 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**") 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 transaction account (the "**Transaction Account**") in the name of the Trustee with the Principal Paying Agent (details of which are set out in the Declaration of Trust) 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 12.2.1, the Substituted Trustee will open a new transaction account in its name with the Principal Paying Agent 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:

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

5.2.2 any and all of the rights, title, interest, benefit and entitlements, present and future, of the Trustee in, to and under the assets from time to time constituting the Mudaraba Assets;

5.2.3 any and all of the rights, title, interest, benefit and entitlements, present and future, of the Trustee, in, to and under the Transaction Documents (excluding any representations given by AHB (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee pursuant to clause 17 of the Declaration of Trust); and

5.2.4 any and all amounts from time to time standing to the credit of the Transaction Account,

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):

5.3.1 **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 (including any amounts owing to the Delegate in respect of its Appointees (as defined in the Declaration of Trust)) and to any receiver, manager or administrative receiver or any other analogous officer appointed by the Delegate in accordance with the Declaration of Trust;

5.3.2 **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;

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

5.3.4 **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

5.3.5 **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 AHB.

6 Covenants

The Trustee covenants 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 by 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) and other than under or pursuant to any of the Transaction Documents);

(c) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, 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 interests in any of the Trust Assets except pursuant to any of the Transaction Documents;

(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 of any Certificate or Transaction Document (other than in accordance with the terms thereof) or its constitutional documents, save that it shall be permitted to make such variations to the Transaction Documents and the Conditions as are required pursuant to and in accordance with Condition 10.1;

(f) except as provided in the Declaration of Trust, 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 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 or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; and

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

  (i) as contemplated, provided for or permitted in the Certificates and the Transaction Documents;

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

  (iii) such other matters which are incidental thereto.

7 Periodic Distributions

7.1 Periodic Distribution Amounts

A profit distribution shall be payable (except where a Non-Payment Event occurs) in arrear in respect of the Certificates on each Periodic Distribution Date, in respect of the Periodic Distribution Period ending on such date, and shall accrue at the applicable Profit Rate and the amount of which shall be calculated as provided in this Condition 7.1 and in Condition 7.2 (each such distribution being referred to in these Conditions as a "**Periodic Distribution Amount**"). Subject to Condition 4.4, Condition 8, Condition 9 and Condition 11, Periodic Distribution Amounts shall be distributed to the Certificateholders by the Principal Paying Agent on behalf of the Trustee, *pro rata* to their respective holdings, out of amounts transferred into the Transaction Account.

The Periodic Distribution Amount payable (subject as aforesaid) on each Periodic Distribution Date (i) up to and including the First Call Date shall be U.S.$27.50 per U.S.$1,000 in face amount of the Certificates and (ii) (if the Certificates are not redeemed in full on the First Call Date) falling after the First Call Date shall be the relevant amount calculated pursuant to Condition 7.2.

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 right to receive such Periodic Distribution Amount at any time, even if Periodic Distribution Amounts are paid in the future.

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full 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 face amount of the relevant Certificate; 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).

7.2 Periodic Distribution Rate

For the Initial Period, the Certificates bear profit at the Profit Rate of 5.500 per cent. per annum (the "**Initial Periodic Distribution Rate**").

The Profit Rate will be reset on each Profit Reset Date on the basis of the aggregate of the Margin and the Relevant Five Year Reset Rate on the relevant Determination Date, as determined by the Calculation Agent.

The Calculation Agent will, as soon as practicable upon determination of the Profit Rate which shall apply to the Profit Reset Period commencing on the relevant Profit Reset Date, cause the applicable Profit Rate and the corresponding Periodic Distribution Amount to be notified to each of the Paying Agents and (at the expense of AHB) the Irish Stock Exchange and to be notified to the Certificateholders in accordance with Condition 17 as soon as possible after their determination but in no event later than the second Business Day thereafter.

7.3 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 name of the initial Calculation Agent and its initial specified office is set out at the end of these Conditions.

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) fails duly to determine the Profit Rate in respect of any Profit Reset Period as provided in Condition 7.2, 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.

7.4 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, whether by the Calculation Agent or the Trustee (or its agent), shall (in the absence of manifest error) be binding on the Trustee, AHB, the Calculation Agent, the Paying Agents, the Delegate and all Certificateholders and (in the absence of manifest error) no liability to the Certificateholders or the Trustee shall attach to the Calculation Agent, the Trustee or the Delegate in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

7.5 Entitlement to Profit

Subject to Conditions 8.1, 8.2 and 11, profit shall cease to accumulate in respect of each Certificate on the due date for redemption, unless, upon due presentation, payment is improperly withheld or refused, in which event profit shall, subject to the terms of the Transaction Documents, continue to accumulate (both before and after judgment) at the applicable Profit Rate in the manner provided in this Condition 7 to the Relevant Date.

8 Periodic Distribution Restrictions

8.1 Non-Payment Event

Notwithstanding Condition 7, if any of the following events occurs (each, a "**Non-Payment Event**"), Mudaraba Profit (and, as a result, Rab-al-Maal Mudaraba Profit) shall not be payable on any Mudaraba Profit Distribution Date and (other than in the case of a Non-Payment Election pursuant to Condition 8.1.5 below) Final Mudaraba Profit (and, as a result, Rab-al-Maal Final Mudaraba Profit) shall not be payable on the Mudaraba End Date, in each case by AHB (in its capacity as Mudareb) pursuant to the Mudaraba Agreement, and as a result thereof the Trustee shall not pay Periodic Distribution Amounts on the corresponding Periodic Distribution Date:

8.1.1 the Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit payable by AHB (in its capacity as Mudareb) under the Mudaraba Agreement, when aggregated with any distributions or amounts payable by AHB (whether as Mudareb or otherwise) on the relevant Mudaraba Profit Distribution Date or the Mudaraba End Date, as the case may be, in respect of any Senior Obligations or Pari Passu Obligations, exceeds AHB's (whether as Mudareb or otherwise) Distributable Profits;

8.1.2 AHB (whether 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 capital buffers imposed on AHB by the Financial Regulator) or payment of the relevant Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit (as applicable) to the Trustee would cause it to be in breach thereof;

8.1.3 the Financial Regulator requires AHB not to pay the relevant Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit (as applicable) to the Trustee on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) on account of AHB making a net loss during the relevant financial period or for any other reason as it may deem necessary;

8.1.4 AHB (whether as Mudareb or otherwise) is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), not Solvent or would no longer be Solvent if the relevant Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit (as applicable) was paid; or

8.1.5 AHB in its sole discretion elects 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, provided the foregoing in this Condition 8.1.5 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**").

8.2 Effect of Non-Payment Event

If a Non-Payment Event occurs, the Trustee shall give notice thereof to the Certificateholders in accordance with Condition 17 and to the Delegate and the Principal Paying Agent in accordance with clause 19 of the Agency Agreement, providing details of the Non-Payment Event. Such notice shall be given (i) in the case of a Non-Payment Election, no more than seven and no less than five Business Days prior to the relevant Periodic Distribution Date, and (ii) in the case of a Non-Payment Event other than a Non-Payment Election, as soon as practicable after such occurrence, but in any case no later than five Business Days prior to the relevant Periodic Distribution Date.

Certificateholders shall have no claim in respect of any Periodic Distribution Amount not paid as a result of a Non-Payment Event (and where the corresponding payment of Mudaraba Profit has not been made under the Mudaraba Agreement in accordance with its terms) and any such non-payment shall not constitute a Dissolution Event. AHB shall not have any obligation under the Mudaraba Agreement to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Trustee shall not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts.

8.3 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 Event pursuant to Conditions 8.1 or 8.2 (as the case may be), then, from the date of such non-payment (the "**Dividend Stopper Date**"), AHB (in its capacity as Mudareb or otherwise) will not, so long as any of the Certificates are outstanding:

8.3.1 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 AHB (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or

8.3.2 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 AHB 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 Tier 1 Capital applicable from time to time; or

8.3.3 directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any class of shares issued by AHB; or

8.3.4 directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire Other Common Equity Tier 1 Instruments or any securities issued by AHB ranking, as to the right of payment 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 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, 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, 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 (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 13 and (ii) 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, any official interpretations thereof, or (without prejudice to the provisions of Condition 13) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Certificateholders in respect of such payments.

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 and 8.2, 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.

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); (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 and (c) there will at all times be a Paying Agent (which may be the Principal Paying Agent) located in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, any such Directive. Notice of any termination or appointment and of any changes in specified offices will be given to the Certificateholders promptly by the Trustee in accordance with Condition 17.

10 Redemption and Variation

10.1 Redemption and variation

10.1.1 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 Conditions 4.2, 11 and 12.3 and without prejudice to the provisions of Condition 18) only have the right to redeem the Certificates or vary the terms thereof in accordance with the following provisions of this Condition 10.

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

(a) AHB having obtained the prior consent of the Financial Regulator;

(b) both at the time when the relevant notice of redemption or variation is given and immediately following such redemption or variation (as applicable), AHB being (x) in compliance with the Applicable Regulatory Capital Requirements and (y) Solvent; and

(c) (in the case of a redemption or variation pursuant to Conditions 10.1.3 or 10.1.4 only), the Tax Law Change or Capital Event, as the case may be, becomes, or would become, effective on or after the Issue Date,

provided that the conditions set out in (a) and (b)(x) shall not apply if and to the extent that the Financial Regulator does not require them to apply.

The Mudaraba Agreement provides that any final liquidation of the Mudaraba at the option of the Mudareb (in the circumstances referred to in Conditions 10.1.2, 10.1.3 and 10.1.4) shall be subject to the requirement that the liquidation proceeds (together with certain other sums which may become payable by the Mudareb in such circumstances) be at least equal to the amount required to redeem the Certificates in full. See "Summary of the Principal Transaction Documents" for further details.

10.1.2 Trustee's Call Option

Subject to Condition 10.1.1, the Trustee shall (acting only upon the instructions of AHB (acting in its sole and absolute discretion)), by giving not less than 10 nor more than 15 days' prior notice to the Certificateholders in accordance with Condition 17 and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable, redeem all, but not some only, of the Certificates at the Trustee Call Amount.

Redemption of the Certificates pursuant to this Condition 10.1.2 may only occur on the First Call Date or any Periodic Distribution Date thereafter.

10.1.3 Redemption or Variation due to Taxation

(a) Subject to Condition 10.1.1 and the provisions of this Condition 10.1.3, if a Tax Event occurs, the Trustee shall (acting only upon the instructions of AHB (acting in its sole and absolute discretion)), by giving not less than 10 nor more than 15 days' prior notice to the Certificateholders in accordance with Condition 17 and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable, (i) redeem all, but not some only, of the Certificates at the Tax Redemption Amount; or (ii) vary the terms of the Mudaraba Agreement 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, provided that (x) AHB delivers to the Trustee and the Delegate the certificate referred to in paragraph (c) below (upon which the Trustee and the Delegate shall be entitled to rely, without liability to any person) and (y) in the case of (ii) only, such modifications or any document giving effect to such modifications are approved by the Trustee.

(b) Redemption of the Certificates, or variation of the Conditions, pursuant to this Condition 10.1.3 may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(c) Prior to the giving of any notice of redemption or variation, as the case may be, pursuant to this Condition 10.1.3, AHB shall give to the Trustee and the Delegate a certificate signed by two Directors and/or Authorised Signatories of AHB (upon which the Trustee and the Delegate may rely without liability to any person) stating that (A) the conditions set out in Condition 10.1.1 have been satisfied; (B) a Tax Event has occurred; and (C) in the case of a variation only, (x) the Certificates, as so varied, are Qualifying Tier 1 Instruments and that the Financial Regulator has confirmed that they satisfy limb (i) of the definition of Qualifying Tier 1 Instruments and (y) the terms of the Mudaraba Agreement and Certificates, as so varied, are not materially less favourable to the Certificateholders than the terms of the Mudaraba Agreement and the Certificates prior to such variation. Such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above and the Delegate shall, upon receipt of such certificate in form and substance satisfactory to the Delegate and subject to paragraph (d) below, agree to such modifications to the Mudaraba Agreement and the Certificates or any document giving effect to such modifications referred to in such certificate. Upon expiry of such notice, the Trustee shall redeem or, subject as provided above, vary the terms of the Certificates, as the case may be.

(d) The Delegate will not be obliged to participate in, agree or consent to or assist with any variation of the Certificates or the Mudaraba Agreement under this Condition 10.1.3 if the participation in, agreement or consent to or assistance with such variation would impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its protections.

The Capital Regulations, as in force at the time of implementation of Basel III reforms in the UAE, may oblige AHB to demonstrate to the satisfaction of the Financial Regulator that (among other things) the Tax Event was not reasonably foreseeable at the Issue Date.

10.1.4 Redemption or Variation for Capital Event

(a) Subject to Condition 10.1.1 and the provisions of this Condition 10.1.4, if a Capital Event occurs, the Trustee shall (acting only upon the instructions of AHB (acting in its sole and absolute discretion)), by giving not less than 10 nor more than 15 days' prior notice to the Certificateholders in accordance with Condition 17 and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable, (i) redeem all, but not some only, of the Certificates at the Capital Event Amount; or (ii) solely for the purpose of ensuring compliance with the Applicable Regulatory Capital Requirements, vary the terms of the Mudaraba Agreement 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, provided that (x) AHB delivers to the Trustee and the Delegate the certificate referred to in paragraph (c) below (upon which the Trustee and the Delegate shall be entitled to rely, without liability to any person) and (y) in the case of (ii) only, such modifications or any document giving effect to such modifications are approved by the Trustee.

(b) Redemption of the Certificates, or variation of the Conditions, pursuant to this Condition 10.1.4 may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(c) At the same time as the delivery of any notice of redemption or variation, as the case may be, pursuant to this Condition 10.1.4, AHB shall give to the Trustee and the Delegate a certificate signed by two Directors and/or Authorised Signatories of AHB (upon which the Trustee and the Delegate may rely without liability to any person) stating that (A) the conditions set out in Condition 10.1.1 have been satisfied; (B) a Capital Event has occurred; and (C) in the case of a variation only, (x) the Certificates, as so varied, are Qualifying Tier 1 Instruments and the Financial Regulator has confirmed that they satisfy limb (i) of the definition of Qualifying Tier 1 Instruments and (y) the terms of the Mudaraba Agreement and Certificates, as so varied, are not materially less favourable to the Certificateholders than the terms of the Mudaraba Agreement and the Certificates prior to such variation. Such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above and the Delegate shall, upon receipt of such certificate in form and substance satisfactory to the Delegate and subject to paragraph (d) below, agree to such modifications to the Mudaraba Agreement and the Certificates or any document giving effect to such modifications referred to in such certificate. Upon expiry of such notice the Trustee shall redeem or, subject as provided above, vary the terms of the Certificates, as the case may be.

(d) The Delegate will not be obliged to participate in, agree or consent to or assist with any variation of the Certificates or the Mudaraba Agreement under this Condition 10.1.4 if the participation in, agreement or consent to, or assistance with such variation would impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its protections.

The Capital Regulations, as in force at the time of implementation of Basel III reforms in the UAE, may oblige AHB to demonstrate to the satisfaction of the Financial Regulator that (among other things) the Capital Event was not reasonably foreseeable at the Issue Date.

10.1.5 Taxes upon Variation

In the event of a variation in accordance with Conditions 10.1.3 or 10.1.4, none of the Trustee, the Delegate or AHB 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, in the case of AHB only 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 AHB (A) obtaining the prior written consent of the Financial Regulator, (B) being in compliance with the Applicable Regulatory Capital Requirements, and (C) being Solvent at the time of purchase, AHB or any of its subsidiaries, may at any time after the First Call Date purchase the Certificates in the open market at such price(s) and upon such other conditions as may be agreed upon between AHB or the relevant subsidiary (as the case may be) and the relevant Certificateholder(s). Upon any such purchase, AHB may (in its sole and absolute discretion) deliver (or procure the delivery of) such Certificates to the Trustee 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 and which AHB delivers for cancellation in accordance with Condition 10.2, will forthwith be cancelled and accordingly may not be held, reissued or resold and the obligations of the Trustee in respect of any such Certificates shall be discharged.

11 Write-down at the Point of Non-Viability

11.1 Effectiveness of this Condition 11

The provisions of this Condition 11 will apply with effect from (and including) the Effective Date. Forthwith following the occurrence of the Effective Date, the Trustee shall give notice of such occurrence to the Delegate in accordance with clause 24 of the Declaration of Trust and to the Certificateholders in accordance with Condition 17.

11.2 Non-Viability Event

If a Non-Viability Event occurs, a Write-down will take place in accordance with Condition 11.3.

It is the Mudareb's current intention that a Write-down will take place: (1) after the common shares in the Mudareb absorb losses (if and to the extent such loss absorption is permitted at the relevant time under all relevant rules and regulations applicable to the Mudareb at such time) and the Financial Regulator has not notified the Mudareb in writing that the relevant Non-Viability Event has been cured as a result of such loss absorption; and (2) prior to the write-down or write-off of any of the Mudareb's other obligations in respect of Tier 2 Capital and any other trust certificates and other instruments related to the Mudareb's other obligations constituting Tier 2 Capital. However, the Mudareb may at any time depart from this policy at its sole discretion.

11.3 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 thereof in accordance with the Mudaraba Agreement and the Trustee will then notify the Certificateholders thereof in accordance with Condition 17 (a "**Non-Viability Notice**"). A Write-down will occur on the Non-Viability Event Write-down Date and, with effect from such date, the Mudaraba Agreement will be automatically terminated 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

12.1 AHB Events

If an AHB Event occurs:

12.1.1 the Delegate (provided it shall have been given notice thereof by the Trustee or AHB or otherwise upon becoming aware of the AHB Event) shall (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) promptly give notice of the occurrence of such AHB Event to the Certificateholders in accordance with Condition 17 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**"); and

12.1.2 the Delegate in its sole discretion may and, if so requested in writing by the Certificateholders of at least one fifth of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of Certificateholders, shall (but in each case subject to Condition 12.3.4(a)), give notice (a "**Dissolution Notice**") to the Trustee that the Certificates are immediately due and payable at the aggregate face amount of the outstanding Certificates together with any Outstanding Payments, whereupon the aggregate face amount of the outstanding Certificates together with any Outstanding Payments shall become immediately due and payable. A Dissolution Notice may be given pursuant to this Condition 12.1.2 whether or not notice has been given to the Certificateholders as provided in Condition 12.1.1 above.

12.2 Trustee Events

12.2.1 AHB has undertaken in the Declaration of Trust that, as soon as practicable following the occurrence of a Trustee Event, it will procure, subject to the consent of the Financial Regulator and without the consent of the Certificateholders, 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:

(a) 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;

(b) 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 give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to Condition 13 with the substitution for or the addition to the references in that Condition to the Trustee's Territory of references to the Substituted Territory whereupon the Declaration of Trust and the Certificates shall be read accordingly (and AHB 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, extending its obligations thereunder to the Substituted Territory);

(c) 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;

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

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

12.2.2 Subject to this Condition 12.2, 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).

12.2.3 If AHB fails to comply with the foregoing provisions of this Condition 12.2 within 60 days of the occurrence of the relevant Trustee Event, then Conditions 12.1 and 12.3 shall apply to the relevant Trustee Event.

12.3 Winding-up, dissolution or liquidation

12.3.1 Proceedings for Winding up

If an AHB Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1.2, 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 one fifth of the then aggregate face amount of the Certificates outstanding (subject in each case to Condition 12.3.4(a)) (i) institute any steps, actions or proceedings for the winding-up, bankruptcy, dissolution or liquidation (or analogous event) of AHB and/or (ii) prove or claim in the winding-up, bankruptcy, dissolution or liquidation (or analogous event) of AHB and/or (iii) 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) or (ii) 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 any such steps, actions or proceedings as described in this Condition 12.3.1, 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 AHB with respect to any sum that AHB has paid into the Transaction Account in accordance with the Transaction Documents in circumstances where the Trustee has failed to pay that amount to the Certificateholders in accordance with these Conditions.

12.3.2 Enforcement

Without prejudice to Condition 12.1 and the remaining provisions of this Condition 12.3, the Trustee (or the Delegate) may at its discretion and the Delegate shall, if so requested in writing by the Certificateholders holding at least one fifth of the then aggregate face amount of the Certificates outstanding and without further notice (subject in each case to Condition 12.3.4(a)), institute such steps, actions or proceedings against AHB and/or the Trustee, as it may think fit to enforce any term or condition binding on AHB or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of AHB 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 AHB to procure the substitution of the Trustee in the circumstances described in Condition 12.2. However, in no event shall AHB, 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 12.3.2 shall, however, prevent the Trustee (or the Delegate) from taking any such steps, actions or proceedings as described in Condition 12.3.1 in respect of any payment obligations of AHB arising from the Mudaraba Agreement or any other Transaction Document (including any damages awarded for breach of any obligations).

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 AHB under the Transaction Documents (including, without limitation, any claim in relation to any unsatisfied payment obligation of the Trustee and/or AHB under the Certificates or the Transaction Documents, as the case may be) shall be subject to, and shall be superseded by, the provisions of Condition 11, irrespective of whether the relevant Non-Viability Event occurs prior to or after the event which is the subject matter of the claim.

12.3.3 Extent of Certificateholder remedy

No remedy against AHB, other than as referred to in this Condition 12, 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 AHB of any of its other obligations under or in respect of the Transaction Documents.

12.3.4 Realisation of Trust Assets

(a) 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 take any of the actions, steps or proceedings referred to in these Conditions in respect of AHB 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), unless (1) it shall have been so requested by an Extraordinary Resolution of the Certificateholders or in writing by the Certificateholders holding at least one fifth of the then aggregate face amount of the Certificates outstanding, and (2) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

(b) No Certificateholder shall be entitled to proceed directly against the Trustee or AHB or to take the actions, steps or proceedings referred to in Condition 12.3.1 or 12.3.2 above, unless the Trustee or the Delegate, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing, in which case the Certificateholders shall have only such rights against the Trustee and/or AHB as those which the Trustee or the Delegate (as the case may be) is entitled to exercise as set out in Condition 12.1 and this Condition 12.3.

(c) 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 AHB shall be to enforce their respective obligations under the Transaction Documents.

(d) The foregoing paragraphs in this Condition 12.3.4 are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the net proceeds thereof in accordance with the Declaration of Trust, the obligations of the Trustee and the Delegate 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 any Relevant Jurisdiction ("**Taxes**"), unless such withholding or deduction is required by law. In such event, the Trustee shall pay additional amounts ("**Additional Amounts**") as shall result in receipt by the Certificateholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable:

(a) to, or to a third party on behalf of, a holder of a Certificate who is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate or an interest therein; or

(b) if the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Amounts on surrendering the same for payment on the last day of such 30-day period, irrespective of whether that day is a Payment Business Day; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) if the relevant Certificate is surrendered for payment by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by surrendering the relevant Certificate to another Paying Agent in a different Member State of the European Union.

In these Conditions, references to the Dissolution Distribution Amount or any Periodic Distribution Amounts (and related expressions, including without limitation, the "face amount" of the Certificates and "Outstanding Payments") shall be deemed to include any Additional Amounts payable under this Condition 13 or any undertaking given in addition to or in substitution for it under the Declaration of Trust.

The Mudaraba Agreement provides that payments thereunder by AHB (in its capacity as the Mudareb) to the Trustee shall be made without any withholding or deduction of Taxes unless required by law and, in such case and/or if Additional Amounts are payable by the Trustee in respect of the Certificates, provides for the payment by AHB of such Taxes and/or amounts equal to such Additional Amounts so that the full amount which would otherwise have been due and payable to the Trustee and/or under the Certificates is received by the Trustee.

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.

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 duties, 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, (i) exercise all of the rights of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and (ii) 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 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, and then only if it shall also have been indemnified and/or secured and/or pre-funded to its satisfaction.

15.3 No Liability

The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of AHB 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 AHB 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.

15.4 Reliance on Certificates, Reports and/or Information

The Delegate may rely on any certificate, report or information of the auditors or insolvency officials (as applicable) of the Trustee or AHB 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 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 certificate or report 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 AHB or such other expert or other person in respect thereof and notwithstanding that the scope and/or basis of such certificate, report or information may be limited by an engagement or similar letter or by the terms of the 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 or inconvenience that may be occasioned by its failure to do so.

15.5 Proper performance of duties

Nothing shall, in any case in which the Trustee or the Delegate has failed to show the degree of care and diligence required of it as trustee, 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 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 Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Trustee for the purpose and notice of whose designation is given to Certificateholders, in each case upon payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Certificate is subsequently presented for payment, there shall be paid to the Trustee on demand the amount payable by the Trustee in respect of such Certificates) and otherwise as the Trustee may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

17 Notices

Notices to the holders of Certificates shall be mailed to them 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 fourth day (being a day other than a Saturday or a Sunday) 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).

So long as the Certificates are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, or any other clearing system, notices to the holders of the Certificates may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for mailing as required by Condition 17. Any such notice shall be deemed to have been given to the holders of the Certificates on the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system.

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 two or more persons 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 two or more persons being or representing Certificateholders whatever the face amount of the Certificates held or represented, except that any meeting the business of which includes consideration of proposals, *inter alia*, (i) to reduce or cancel or vary the method for calculating the amount of any payment due in respect of the Certificates, (ii) to change any of the Trustee's and AHB's covenants set out in the Transaction Documents, (iii) to vary the currency of payment or denomination of the Certificates, (iv) to modify the provisions concerning the quorum required at any meeting of Certificateholders or the majority required to pass the Extraordinary Resolution, or (v) to amend the above list), in which case the quorum shall be two or more persons holding or representing in aggregate not less than 75 per cent., or at any adjourned such meeting not less than 25 per cent., in face amount of the Certificates for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Certificateholders (whether or not they were present at the meeting at which such resolution was passed).

18.2 The Declaration of Trust provides that (i) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates then outstanding (a "**Written Resolution**") or (ii) where the Certificates are held by or on behalf of a clearing system or clearing systems, approval of a resolution proposed by the Trustee, AHB 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**") 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, without the consent of the Certificateholders, (i) agree to any modification of any of the provisions of any Certificate, the Declaration of Trust or the other Transaction Documents that is, in the opinion of the Delegate, of a formal, minor or technical nature or is made to correct a manifest error, or (ii) (A) agree to any other modification (except as mentioned in the Declaration of Trust), or to any waiver or authorisation of any breach or proposed breach, of any of the provisions of any Certificate, the Declaration of Trust or the other Transaction Documents or (B) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such, provided that such modification, waiver, authorisation or determination is, in the opinion of the Delegate, not materially prejudicial to the interests of Certificateholders. Any such modification, authorisation or waiver shall be binding on the Certificateholders and, if the Delegate so requires, such modification shall be notified to the Certificateholders in accordance with Condition 17 as soon as practicable

18.4 In connection with the exercise of its functions (including, but not limited to, those referred to in this Condition 19), the Delegate shall have regard to the interests of the Certificateholders as a class and shall not have regard to the consequences of any such exercise for individual Certificateholders and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Trustee, 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.

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), the Agency Agreement 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, 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. 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 appoint a further arbitrator who shall be the chairman 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 one party or both fails to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the LCIA within 15 days of such failure. If the party nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA within 15 days of such failure; and

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

20.3 Option to Litigate

Notwithstanding Condition 20.2 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 AHB in accordance with the Declaration of Trust:

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

(b) if no arbitration is commenced,

require that the Dispute be heard by a court of law. If such notice is given, the Dispute to which such notice refers shall be determined in the manner described in Condition 20.5 and any arbitration commenced under Condition 20.2 in respect of that Dispute will be terminated. With the exception of the Delegate (whose costs will be borne by the Trustee, failing whom AHB), 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 also promptly give notice to the LCIA 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, 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 Effect of Exercise of Option to Litigate

If a notice is issued pursuant to Condition 20.3, 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 AHB submits to the exclusive jurisdiction of such courts;

(b) each of the Trustee, the Delegate and AHB 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 is for the benefit of the Delegate and the Certificateholders (only where permitted to take action in accordance with the terms of the Declaration of Trust) only. As a result, and notwithstanding paragraph (a) above, the Delegate and the Certificateholders (only where permitted to take action in accordance with the terms of the Declaration of Trust) 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

In the Declaration of Trust, each of the Trustee and AHB has irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings or Disputes in England.

20.7 Waiver of Immunity

Under the Declaration of Trust, AHB has agreed that, to the extent that it may claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed to AHB or any of its assets or revenues, it will not claim and has irrevocably and unconditionally waived such immunity in relation to any Proceedings or Disputes. In addition, AHB has 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 of its assets whatsoever of any award, order or judgment made or given in connection with any Proceedings or Disputes.

20.8 Waiver of Interest

(a) Each of the Trustee, the Delegate and AHB has irrevocably agreed in the Declaration of Trust that no interest will be payable or receivable under or in connection therewith and if 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 hold such amount in a suspense account and 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 shall be construed as a waiver of rights in respect of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit, Periodic Distribution Amounts, Outstanding Payments or profit of any kind howsoever described payable by AHB or the Trustee pursuant to the Transaction Documents and/or the 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 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, Luxembourg (the "**Common Depositary**") 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 (as defined below) 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 person (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 treated as 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 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 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 the Business Day (being for this purpose, a day on which Euroclear and Clearstream, Luxembourg are open for business) immediately prior to the relevant due date for such payment.

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

So long as all the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg or any other clearing system, as the case may be, notices may be given by delivery of the relevant notice to those clearing systems for communication to their Accountholders or otherwise to the holder of the Global Certificate rather than by publication as required by the Conditions except that, so long as the Certificates are listed, traded or quoted on any stock exchange or securities market, notices shall also be published in accordance with the rules of the relevant listing authority, stock exchange, securities market and/or quotation system. Any such notice shall be deemed to have been given 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 Registrar and Euroclear and Clearstream, Luxembourg may approve for this purpose.

Electronic Consent and Written Resolution

For so long as the Certificates are in the form of a Global Certificate and while any Global Certificate is registered in the name of any nominee for one or more of Euroclear, Clearstream, Luxembourg or another clearing system, then:

(a) approval of a resolution proposed by the Trustee, AHB or the Delegate given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their respective 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 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 and Condition 18.2) has been validly passed, the Trustee, AHB and the Delegate shall be entitled to rely on consent or instructions given in writing directly to the Trustee, AHB and/or the Delegate, as the case may be, by Accountholders in the relevant clearing system(s) with entitlements to such Global Certificate and/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, the Trustee, AHB and the Delegate, as the case may be, has obtained commercially reasonable evidence to ascertain the validity of such holding and has taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instructions 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 (b), ''commercially reasonable evidence'' includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, and/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 Creation Online system) in accordance with its usual procedures and in which the Accountholder of a particular principal or face amount of the Certificates is clearly identified together with the amount of such holding. None of the Trustee, AHB 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.

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), 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 if an Exchange Event occurs. For these purposes, "**Exchange Event**" means that: the Trustee has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of legal holiday) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Trustee is available. In the event of the occurrence of an Exchange Event, any of the Trustee 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 within 10 days following the request for exchange for completion and dispatch to the Certificateholders. 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.

USE OF PROCEEDS

The net proceeds of the Certificates will be paid by the Trustee (as Rab-al-Maal) to AHB (as Mudareb) as a contribution of the Mudaraba Capital pursuant to the terms of the Mudaraba Agreement.

DESCRIPTION OF THE TRUSTEE

General

AHB Tier 1 Sukuk Limited, a Cayman Islands exempted company with limited liability, was incorporated on 7 May 2014 under the Companies Law (2013 Revision) of the Cayman Islands with company registration number 287756. 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 MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102 Cayman Islands, and its telephone number is +1345 945 7099.

The authorised share capital of the Trustee is US$ 50,000 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 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 Certificates outstanding. Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has the power, with the consent of the Delegate, 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 has no prior operating history or prior business and will not have any substantial assets or liabilities other than in connection with the Certificates. So long as any of the Certificates remain outstanding, the Trustee shall not incur any other indebtedness in respect of financed, borrowed or raised money whatsoever or engage in any business or activity (other than acquiring and holding assets in connection with the Certificates, issuing the Certificates and entering into related agreements and transactions as provided for in the Transaction Documents), or, *inter alia*, redeem any of its shares or pay any dividends or make any other distribution to its shareholders, have any subsidiaries or employees, purchase, own, lease, or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in the Transaction Documents) or issue any shares (other than such Shares as were in issue on the date hereof or as contemplated in the Transaction Documents).

The Trustee has, and will have, no significant assets other than the sum of U.S.$ 50,000 representing the issued and paid-up share capital, such fees (as agreed) payable to it in connection with the issue of the Certificates and the acquisition of assets in connection with the Certificates, the bank account into which such paid-up share capital and fees are deposited and the Trust Assets. Save in respect of fees generated in connection with the issue of the Certificates any related profits and proceeds of any deposits and investments made from such fees or from amounts representing the Trustee's issued and paid-up share capital, the Trustee does not expect to accumulate any surpluses. The Certificates are the obligations of the Trustee alone and not the Share Trustee.

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 or appoint any auditors.

Directors of the Trustee

The Directors of the Trustee are as follows:

	Principal Occupation
Andrew Millar	Regional Head of Fiduciary, Middle East, Maples Fund Services (Middle East) Limited
Cleveland Stewart	Senior Vice President, MaplesFS Limited

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 the administrator of the Trustee (in such capacity, the "**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 a 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 United Arab Emirates 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 the 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.

SELECTED FINANCIAL INFORMATION

The following tables set out in summary form the balance sheet and income statement information relating to AHB. Such information has been extracted from the Financial Statements. The Financial Statements, together with the review or auditor's report, respectively, of KPMG and the accompanying notes, appear elsewhere in this Prospectus. The financial information presented below should be read in conjunction with the Financial Statements, such reports and the notes thereto and the other information contained in this Prospectus.

Income Statement Data

	Three months ended 31 March		**Year ended 31 December**	
	2014	**2013**	**2013**	**2012**
	(AED millions)			
Income from Ijara and Islamic financing activities, net	397.4	378.7	1,527.8	1,498.9
Income from Wakala investments	18.6	26.8	89.8	77.1
Investment income	48.0	46.1	137.2	107.4
Commission, fees and foreign exchange income, net	36.8	39.2	183.2	155.4
Gross income	**500.8**	**490.8**	**1938.0**	**1,838.8**
Personnel costs	(105.8)	(102.0)	(417.5)	(386.3)
General and administrative expenses	(76.0)	(74.8)	(287.8)	(274.0)
Impairment charges on financial assets	(60.2)	(57.2)	(219.2)	(257.3)
Depreciation	(23.5)	(14.6)	(74.7)	(72.1)
Profit before depositors' share of profits	**235.3**	**242.2**	**938.7**	**849.1**
Depositors' share of profits	(113.7)	(137.9)	(496.9)	(583.4)
Profit for period/year	**121.6**	**104.3**	**441.8**	**265.7**
Attributable to:				
Equity holder of AHB	121.6	104.3	441.4	310.3
Non-controlling interest	0.0	0.0	0.4	(44.6)
Net gain on investment in equity instrument designated at fair value through other comprehensive income	1.8	0.8	7.5	15.6
Foreign currency translation reserve	(42.2)	(1.4)	(8.4)	(10.1)
Directors' remunerations and others	0.0	(2.8)	(2.8)	(0.8)
Other comprehensive (expense)/income for the period/year	(40.4)	(3.3)	(3.7)	6.4
Total comprehensive income for the period/year	81.2	100.9	438.1	272.1
Attributable to:				
Equity holder of AHB	81.2	100.9	437.7	316.7
Non-controlling interest	0.0	0.0	0.4	(44.6)
	81.2	**100.9**	**438.1**	**272.1**

Balance Sheet Data

	As at 31 March	As at 31 December	
	2014	2013	2012
	(AED millions)		
ASSETS			
Cash and balances with banks	2,606.9	2,837.2	1,437.2
Wakala deposits with banks and other financial institutions	2,563.7	3,149.5	2,805.8
Receivables from Islamic financing activities	22,031.8	21,119.7	17,859.9
Ijara	6,046.1	5,983.4	5,051.0
Investment securities(1)	3,220.5	2,928.2	2,799.6
Property and equipment	1,463.2	1,459.9	1,369.7
Other assets	1,113.5	1,227.2	798.7
Total assets	**39,045.7**	**38,705.3**	**32,121.9**
LIABILITIES AND EQUITY			
Liabilities			
Customers' accounts	29,423.4	28,178.3	24,956.7
Wakala deposits from banks	2,024.4	3,180.2	2,491.6
Sukuk financing instrument	1836.3	1,836.3	—
Other liabilities	1,746.7	1,576.8	1,178.0
Total liabilities	**35,030.8**	**34,771.5**	**28,626.3**
Equity share capital	3,090.0	3,090.0	3,090.0
Statutory reserve	113.5	113.5	69.4
Other reserves	(54.0)	(13.7)	(11.5)
Retained earnings	838.7	717.2	321.4
	3,988.2	3,907.0	3,469.4
Total equity attributable to the equity holder of AHB Non-controlling interest	26.7	26.7	26.3
Total equity	**4,014.9**	**3,933.7**	**3,495.6**
Total liabilities and equity	**39,045.7**	**38,705.3**	**32,121.9**

Note:

(1) AED 1.8 billion of AHB's investment securities as at 31 March 2014 comprise the investment by AHB in a Government of Dubai sukuk issue in 2009. AHB was the sole investor in this sukuk which matures in November 2014. A matching Government related deposit has been made in connection with this sukuk investment and the investment income derived by AHB from the sukuk is largely offset by the amounts payable in relation to this deposit.

As at each of 31 December 2013 and 2012, approximately 97 per cent., of AHB's AED 38.7 billion and AED 32.1 billion, respectively, of total assets and AED 34.8 billion and AED 28.6 billion, respectively, of total liabilities and approximately 84 per cent. of its AED 13.7 billion and approximately 81 per cent. of its AED 11.6 billion, respectively, of contingencies and commitments, were concentrated in the UAE.

Sources of Funding

AHB's main source of funding is customers' accounts, Wakala deposits from banks and shareholders' equity. The following table sets out certain details of such funding for AHB as at 31 March 2014 and as at 31 December 2013 and 2012:

	As at 31 March	As at 31 December	
	2014	2013	2012
	(AED millions)		
Wakala deposits	20,005.7	19,215.0	18,684.9
Current accounts	3,367.6	3,581.7	2,143.6
Time deposits	2,034.1	1,882.4	1,666.8
Savings accounts	4,016.0	3,499.2	2,461.4
Wakala deposits from banks	2,024.4	3,180.2	2,491.6
Shareholder's equity	3,988.2	3,907.0	3,469.4

Cash and balances with banks

The following table sets out certain details of AHB's cash and balances with Banks as at 31 March 2014 and as at 31 December 2013 and 2012:

	As at 31 March	As at 31 December	
	2014	2013	2012
	(AED millions)		
Cash in hand	182.6	186.0	203.0
Cash reserve deposits with the Central Bank	1,183.3	1,128.3	846.3
Islamic certificates of deposit with the Central Bank	800.3	799.4	0.0
Current account with the Central Bank	325.8	328.7	336.6
Current account with banks	114.9	394.8	51.4
Total	**2,606.9**	**2,837.2**	**1,437.2**

Cash reserve deposits with the UAE Central Bank are not available for the operations of the Group.

Other assets

The following table sets out certain details of AHB's other assets as at 31 March 2014 and as at 31 December 2013 and 2012:

	As at 31 March	As at 31 December	
	2014	2013	2012
	(AED millions)		
Prepaid expenses	75.0	55.0	38.8
Income receivable	44.4	23.2	71.7
Takaful receivable	113.4	111.7	96.4
Murabaha inventory	78.6	127.7	83.2
Prepaid staff allowances	30.9	22.5	22.3
Investment Property	39.1	39.1	39.7
Others	181.7	353.7	169.2
Acceptances	550.4	494.3	277.4
Total other assets	**1,113.5**	**1,227.2**	**798.7**

"Others" in the table above includes promises to buy and sell foreign currencies which are carried at fair value and presented within other assets and other liabilities respectively. The notional amounts of these contracts as at 31 December 2013 and 2012 are disclosed in Note 27 of the 2013 Financial Statements.

Customers' accounts

The following table sets out certain details of AHB's customers' accounts by type of account as at 31 March 2014 and as at 31 December 2013 and 2012:

	As at 31 March	As at 31 December	
	2014	2013	2012
	(AED millions)		
By account:			
Wakala deposits	20,005.7	19,215.0	18,684.9
Current accounts	3,367.6	3,581.7	2,143.6
Time deposits	2,034.1	1,882.4	1,666.8
Savings accounts	4,016.0	3,499.2	2,461.4
Total	**29,423.4**	**28,178.3**	**24,956.7**

The following table sets out certain details of AHB's customers' accounts by sector as at 31 December 2013 and 2012:

	As at 31 December	
	2013	2012
	(AED millions)	
By sector:		
Government	9,872.2	8,753.7
Public	5,706.5	3,539.4
Corporate/private	6,706.4	6,479.7
Retail	5,893.2	6,183.9
Total	**28,178.3**	**24,956.7**

Impairment charges on financial assets

The following table sets out AHB's impairment charges on financial assets as at 31 December 2013 and 2012:

	Wakala deposits with banks and other financial institutions		Ijara		Receivables from Islamic financing activities		Investment securities		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
					(AED millions)					
At 1 January	11.2	11.8	111.3	80.5	601.2	405.4	2.9	8.2	726.7	505.9
Charge for the year	4.5	(0.6)	31.8	30.9	178.3	232.2	4.6	(5.3)	219.2	257.3
Write offs and recoveries	—	—	(0.8)	(0.1)	(22.6)	(30.5)	—	—	(23.4)	(30.5)
Unwinding on renegotiated financings	—	—	—	—	(9.4)	(5.9)	—	—	(9.4)	(5.9)
At 31 December	**15.7**	**11.2**	**142.4**	**111.3**	**747.5**	**601.2**	**7.5**	**2.9**	**913.1**	**726.7**

Consolidated statement of cash flows

The following table sets out certain details of AHB's consolidated statement of cash flows for the three months ended 31 March 2014 and 2013 and the years ended 31 December 2013 and 2012:

	Three months ended 31 March		Year ended 31 December	
	2014	2013	2013	2012
	(AED millions)			
Net cash (used in) / from operating activities	149.6	(1,051.5)	(1,083.6)	666.6
Net cash (used in) / from investing activities	(313.5)	95.7	(307.7)	181.3
Net cash from financing activities	241.9	241.2	1,833.4	500.8
Cash and cash equivalents, beginning of the period/year	1,555.6	1,366.1	1,912.9	564.1
Cash and cash equivalents, end of the period/year	1,633.6	651.5	2,355.0	1,912.9

Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following amounts with original contractual maturities of less than three months. The following table sets out these amounts as at 31 March 2014 and as at 31 December 2013 and 2012:

	As at 31 March	As at 31 December	
	2014	2013	2012
Cash and balances with banks	1,806.6	2,837.2	1,437.2
Wakala deposits with banks and other financial institutions	1,406.9	2,495.5	2,781.5
Wakala deposits from banks	(1,579.9)	(2,977.7)	(2,305.9)
Total	**1,633.6**	**2,355.0**	**1,912.9**

Key Financial Ratios

The following table sets out certain key ratios calculated with results derived from the Financial Statements. These ratios are not calculated on the basis of IFRS and are not IFRS measures of financial performance.

	As at 31 March	As at 31 December	
	2014	2013	2012
	(% unless otherwise stated)		
Key Ratios			
Net profit margin(1)	4.0	4.0	4.1
Total financings/total assets	71.9	70.0	71.3
Customers' accounts/total assets	75.4	72.8	77.7
Total financings to total deposits ratio	95.4	96.2	91.8
Liquid assets ratio(2)	13.6	12.7	13.4
Cost to income ratio(3)	53.0	54.1	58.3
Return on equity(4)	12.3	12.0	10.0
Return on assets(5)	1.3	1.2	1.0
Non performing financings ratio(6)	1.3	1.2	1.3
Non performing financings provisions ratio(7)	242.7	261.0	231.9
Capital adequacy ratio(8)	13.5	14.0	14.7
Earnings per share (*fils*)	16.0	14.0	10.0

Notes:

(1) Net profit income divided by average earning assets (annualised for the three month period to 31 March 2014).

(2) Total liquid assets divided by total liabilities.
(3) Total operating cost divided by total operating income.
(4) Net income divided by average equity.
(5) Net income divided by average assets (annualised for the three month period to 31 March 2014).
(6) Non-performing financings divided by gross financings.
(7) Total accumulated provisions divided by non-performing financings.
(8) Calculated in accordance with UAE Central Bank regulations.

FINANCIAL REVIEW

The following review of AHB's financial condition and results of operations should be read in conjunction with the information set out in "Presentation of Financial and Other Information", "Selected Financial Information" and the Financial Statements.

The review of AHB's financial condition and results of operations is based upon the Financial Statements which have been prepared in accordance with IFRS. This discussion contains forward-looking statements that involve risks and uncertainties. AHB's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under the headings "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors".

Financial information in this section as at and for the three month periods ended 31 March 2014 and 31 March 2013 is unaudited. Save in the case of the financial information for the years ending 31 December 2008, 2009 and 2010 in the section entitled "Overview" below (which has been extracted from the consolidated audited financial statements of AHB for such years) all financial information in this section has been derived from the 2013 Financial Statements, the Interim Financial Statements and the unaudited, unreviewed management accounts of AHB (as applicable). References in this section to 2013 and 2012 are to the 12 months ended 31 December in each such year. AHB's results for the three months ended 31 March 2014 should not be taken as being indicative of its results for the year ending 31 December 2014.

Overview

AHB commenced commercial operations on 19 June 2008 and has grown significantly since that date, notwithstanding the adverse effects of the global financial crisis on the UAE which commenced in late 2008. In 2009, the UAE experienced a significant economic slowdown following a substantial fall in hydrocarbon prices during the second half of 2008 and a slump in the property market from late 2008. In common with most other countries around the world, the UAE financial system experienced a significant liquidity squeeze during 2009 which adversely affected the banking sector.

Notwithstanding these adverse economic developments, AHB opened seven branches and 33 automatic teller machines ("ATMs") across the UAE in 2008 and had grown its total assets to AED 5.5 billion as at 31 December 2008. During 2009, AHB opened a further seven branches and 28 ATMs in the UAE and had AED 17.4 billion in total assets as at 31 December 2009. AHB also commenced its takaful product offering and, to complement its auto financing business, vehicle sales operations through its dedicated wholly-owned subsidiaries, Al Hilal Takaful PSC ("Al Hilal Takaful") and Al Hilal Auto LLC ("Al Hilal Auto") in 2009. During 2010, although the effects of the global financial crisis began to subside, the banking sector in the UAE remained subdued. Nevertheless, AHB opened seven more branches and 32 ATMs in the UAE and had grown its total assets to AED 25.7 billion as at 31 December 2010. In 2010, AHB also commenced operations in Kazakhstan as the first Islamic bank in that country, through Al Hilal Islamic Bank JSC, a wholly-owned subsidiary, with its head office in Almaty and two branches in Astana and Shymkent. AHB also recorded its first annual profit in 2010. During 2011, AHB opened 19 ATMs in the UAE and its total assets as at 31 December 2011 were AED 28.3 billion. AHB had 22 UAE branches by the end of 2012. AHB opened a further four ATMs in the UAE during 2012 and as at 31 December 2012 its total assets were AED 32.1 billion. During 2013, AHB closed one branch for renovation, opened one further branch and relocated two ATMs in the UAE, and its total assets as at 31 December 2013 were AED 38.7 billion. During the three months to 31 March 2014, AHB relocated 4 ATMs and did not open any new branches. As at 31 March 2014, AHB had 22 branches and 116 ATMs across the UAE.

This financial review analyses AHB's results of operations in 2013 and 2012 as well as during the two three month periods ended 31 March 2014 and 31 March 2013.

Significant Accounting Policies and Critical Accounting Judgments

The preparation of the Financial Statements requires management to make certain estimates and judgments, some of which are subjective and complex, often as a result of the need to make estimations of future events. AHB's significant accounting policies are set out in Note 3 to the 2013 Financial Statements and Note 3 to the Interim Financial Statements in each case in respect of the periods to which they relate, and a summary of the critical accounting estimates and judgments that are made in preparing the financial statements is set out in Note 5 to the 2013 Financial Statements in respect of the years ended 31 December 2013 and 31 December 2012 and Note 4 to the Interim Financial Statements in respect of the three months ended 31 March 2014 and 31 March 2013.

Results of Operations for the Three Month Periods Ended 31 March 2014 and 31 March 2013

Gross Income

AHB earns income from its financing activities, from investments made by it and from certain services provided by it.

The following table analyses AHB's net income for each of the three month periods ended 31 March 2014 and 31 March 2013

	Three months ended 31 March	
	2014	**2013**
	(AED millions)	
Income from Murabaha – corporate	148.9	145.6
Income from Murabaha – retail	169.8	164.6
Income from Musharaka – corporate	8.0	0.0
Other Islamic financings	1.4	0.0
Income from Ijara – corporate	34.6	31.5
Income from Ijara – retail	34.8	37.0
Total income from Islamic financing activities and Ijara, net	**397.5**	**378.7**
Income from Wakala investments	18.5	26.8
Investment income, net	48.0	46.1
Total investment income	**66.5**	**72.9**
Fee, commission and other income, net	34.3	38.0
Foreign exchange gains, net	2.5	1.2
Total commission, fees and foreign exchange income, net	**36.8**	**39.2**
Gross income	**500.8**	**490.8**

Income from Islamic financing activities and Ijara

AHB's total net income from Islamic financing activities and Ijara was AED 397.5 million in the three months ended 31 March 2014, an increase of AED 18.8 million, or 5.0 per cent., from the AED 378.7 million recorded in the three months ended 31 March 2013. The increase in income from Islamic financing activities and Ijara reflected increases of AED 3.3 million, or 2.3 per cent., in income from Murabaha transactions with corporate clients and of AED 5.2 million, or 3.2 per cent., in income from Murabaha transactions with retail clients and of AED 3.1 million, or 9.8 per cent., in income from Ijara transactions with corporate clients and a decrease of AED 2.2 million, or 5.9 per cent., in income from Ijara transactions with retail clients.

Income from Murabaha transactions principally reflects AHB's profit on Murabaha transactions entered into by it. These transactions are entered into to provide financing to AHB's clients and the increase in the income recorded in the first three months in 2014 compared to the first three months in 2013 principally reflected increased volumes of transactions entered into by AHB with respect to corporate clients as its customer base continued to grow in the first three months of 2014.

Income from Ijara transactions represents rental revenue (net of the costs of leasing the assets concerned) received by AHB in respect of assets (principally real estate, equipment and vehicles) leased by AHB to its customers. The increase in Ijara income recorded in the first three months in 2014 compared to the first three months in 2013 principally reflected the higher level of Ijara transactions entered into by AHB with corporate clients, however this increase was partially offset by a decrease in Ijara income from retail clients.

Investment income

AHB's total investment income was AED 66.5 million in the three months ended 31 March 2014, a decrease of AED 6.4 million, or 8.8 per cent., from the AED 72.9 million recorded in the three months ended 31 March 2013 which principally reflected a decrease in income from Wakala investments.

AHB's Wakala investments comprise certain deposits made by AHB with other financial institutions and the decrease in income from these investments during the first three months in 2014 compared to the first three months in 2013 was principally due to a decrease in the Wakala deposits that AHB placed with other financial institutions.

AHB's other income generating investments comprise a portfolio of equity and *sukuk* instruments and the increase in income from these investments during the first three months in 2014 compared to the first three months in 2013 principally reflected the increase in income from *sukuk* instruments. As at 31 March 2014, AED 1.8 billion of the *sukuk* instruments comprise the investment by AHB in a Government of Dubai *sukuk* issue in 2009. AHB was the sole investor in this *sukuk* which matures in November 2014.

Commission, fees and foreign exchange income

AHB's total net income from commission, fees and foreign exchange was AED 36.8 million in the three months ended 31 March 2014, an decrease of AED 2.4 million, or 6.1 per cent., from the AED 39.1 million recorded in the three months ended 31 March 2013, principally reflecting a decrease of AED 3.7 million, or 9.7 per cent., in fee, commission and other income. AHB earns fees and commissions principally from the issuance of letters of credit and guarantees. This decrease was partially offset by the AED 1.3 million increase in foreign exchange gains, net.

Expenses

AHB's expenses are personnel costs, general and administrative expenses, impairment charges and depreciation.

Personnel costs

AHB's personnel costs were AED 105.8 million in the three months ended 31 March 2014, an increase of AED 3.8 million, or 4 per cent., from the AED 102.0 million recorded in the three months ended 31 March 2013, principally reflecting both staff number increases and increases in remuneration. AHB's average number of full time staff was 766 in the three months ended 31 March 2014 compared to 760 in the three months ended 31 March 2013.

General and administrative expenses

The following table sets forth the details of AHB's general and administrative expenses for the three months ended 31 March 2014 and 31 March 2013:

	Three months ended 31 March	
	2014	**2013**
	(AED millions)	
Rent expenses	17.0	21.2
Marketing and advertising expenses	4.9	7.5
Consultancy fees	1.7	3.8
Repair and maintenance	6.8	1.6
Communication	3.1	3.5
Other expenses	42.5	37.2
Total general and administrative expenses	**76.0**	**74.8**

AHB's general and administrative expenses were AED 76.0 million in the three months ended 31 March 2014, an increase of AED 1.2 million, or 2 per cent., from the AED 74.8 million recorded in the three months ended 31 March 2013. The increase principally reflected increases in repair and maintenance costs (of AED 5.2 million, or 325.0 per cent.) arising out of, and attributable to, AHB's move to its new headquarters in Al Bahar Towers, however the move to the new head office also resulted in a decrease in rental expense of AED 4.2 million or 20 per cent. Increases in other expenses (of AED 5.3 million, or 14.2 per cent.) reflect a variety of different factors commensurate with AHB's growth in operations over the period. These increases were only partially offset by a decrease in consultancy fees (of AED 2.1 million, or 55.3 per cent.) paid to direct sales agents which are contracted by AHB through a third party outsourcing arrangement to provide sales services to AHB's branches. The average number of such direct sales agents contracted by AHB was 160 in the three months ended 31 March 2014 compared to 161 in the three months ended 31 March 2013.

Impairment charges on financial assets

AHB records impairment charges on its financial and other assets where there is objective evidence that the asset has been impaired and the amount of the impairment charge reflects the difference between the carrying value of the asset and its assessed recoverable value or fair value, depending on the asset concerned.

AHB's provisions for impairment charges (net of recoveries) were AED 60.2 million in the three months ended 31 March 2014, an increase of AED 3.0 million, or 5.2 per cent., from the AED 57.2 million charged in the three months ended 31 March 2013. This increase principally reflected an increase in impairment charges on Islamic financing financial assets (of AED 22.8 million, or 83 per cent.) which was partially offset by a decrease in impairment charges on Ijara and other financial assets (of AED 19.8 million, or 66 per cent.). The increases principally reflected the growth in the financial assets of AHB over the period and the implementation of tighter credit risk controls on high risk customer segments by AHB.

Depreciation

AHB depreciates its fixed assets (other than land which is not depreciated) using the straight line method to allocate each asset's cost or re-valued amount to its assessed residual amount over its estimated useful life. AHB's depreciation cost in the three months ended 31 March 2014 was AED 23.5 million, an increase of AED 8.9 million, or 61 per cent., from the AED 14.6 million recorded in the three months ended 31 March 2013. This increase primarily reflected depreciation of AHB's new head office into which AHB moved in September 2013.

Profit before Depositors' Share of Profits

Reflecting the above factors, AHB's profit before depositors' share of profits was AED 235.3 million in the three months ended 31 March 2014, an decrease of AED 6.9 million, or 3 per cent., from the AED 242.2 million recorded in the three months ended 31 March 2013.

Depositors' Share of Profits

Depositors' share of profits represents the amount due to customers who have deposited funds with AHB as a *Mudareb* or as a *Wakil*. The return on the deposit is linked to AHB's performance in the manner specified in the respective *Mudaraba* or *Wakala* contracts entered into between AHB and its customers. The depositors' share of profits in the three months ended 31 March 2014 was AED 113.7 million, a decrease of AED 24.1 million, or 17 per cent., from the AED 137.8 million recorded in the three months ended 31 March 2013. This decrease principally reflects the market trend of declining EIBOR (Emirates interbank offered rate) over the period resulting in reduced returns on deposits, combined with an increase in the proportion of current account and savings account customer deposits held with AHB on which AHB is obliged to pay no profit, or a low rate of profit, respectively.

Profit for the Period

Reflecting the above factors, AHB's profit for the three months ended 31 March 2014 was AED 121.6 million, an increase of AED 17.2 million, or 16 per cent., compared to AED 104.4 million recorded for the three months ended 31 March 2013.

Total Comprehensive Income/(Loss) for the Period

AHB's other comprehensive loss in the three months ended 31 March 2014 was AED 40.4 million, an increase of AED 37.1 million, or 1,106 per cent., from the AED 3.3 million other comprehensive income recorded in the three months ended 31 March 2013. As a result, AHB's total comprehensive income in the three months ended 31 March 2014 was AED 81.2 million, a decrease of AED 19.8 million, or 19.6 per cent., from the total comprehensive income of AED 100.9 million recorded in the three months ended 31 March 2013.

Results of Operations for the Years Ended 31 December 2013 and 31 December 2012

Gross Income

The following table analyses AHB's net income for each of the years ended 31 December 2013 and 2012:

	Year ended 31 December	
	2013	**2012**
	(AED millions)	
Income from Murabaha – corporate	615.1	553.2
Income from Musawama and Murabaha – retail	651.5	663.9
Income from Musharaka – corporate	2.0	—
Other Islamic financing	0.2	—
Income from Ijara – corporate	106.6	134.8
Income from Ijara – retail	152.4	147.0
Total income from Ijara and Islamic financing activities, net	**1,527.8**	**1,498.9**
Income from Wakala investments	89.8	77.1
Investment income	137.2	107.4
Total investment income	226.9	184.5
Fee and commission income	157.0	145.2
Net foreign exchange gains and losses	6.2	6.4
Other income	20.0	3.8
Total commission, fees and foreign exchange income, net	183.2	155.4
Gross income	**1,938.0**	**1,838.8**

Income from Islamic financing activities and Ijara

AHB's total net income from Islamic financing activities and Ijara was AED 1,527.8 million in 2013, an increase of AED 28.9 million, or 1.9 per cent., from the AED 1,498.9 million recorded in 2012. The increase in net income from Islamic financing activities and Ijara reflected an increase of AED 61.9 million, or 11.2 per cent., in income from Murabaha transactions with corporate clients, a decrease of AED 12.4 million, or 1.9 per cent., in income from Musawama and Murabaha transactions with retail clients, a decrease of AED 28.2 million, or 20.9 per cent., in income from Ijara transactions with corporate clients and an increase of AED 5.4 million, or 3.7 per cent., in income from Ijara transactions with retail clients.

Income from Murabaha transactions principally reflects AHB's profit on Murabaha transactions entered into by it. These transactions are entered into to provide financing to AHB's clients and the increase in the income recorded in 2013 compared to 2012 principally reflected increased volumes of transactions entered into by AHB as its customer base continued to grow in 2013.

Income from Ijara transactions represents rental revenue (net of the costs of leasing the assets concerned) received by AHB in respect of assets leased by AHB to its customers. The decrease in Ijara income recorded in 2013 compared to 2012 principally reflected the impact of declining EIBOR over the period, to which the return on these transactions is linked.

Investment income

AHB's total investment income was AED 226.9 million in 2013, an increase of AED 42.4 million, or 23.0 per cent., from the AED 184.5 million recorded in 2012. The increase in total investment income reflected increases of AED 12.7 million, or 16.5 per cent., in income from Wakala investments and AED 29.8 million, or 27.7 per cent., in income from investments.

AHB's Wakala investments comprise certain deposits made by AHB with other financial institutions and the increase in income from these investments in 2013 compared to 2012 principally reflected the increased volumes of Wakala deposits with banks and other financial institutions, over the period.

AHB's other income generating investments comprise a portfolio of equity, *sukuk* instruments and investment property and the increase in income from these investments in 2013 compared to 2012 principally reflected the decrease in unrealised losses on investment property which was partially offset by the decline in EIBOR, to which the return on AHB's *sukuk* investment income is linked, in each case, over the period.

Commission, fees and foreign exchange income

AHB's net income from commission, fees and foreign exchange was AED 183.2 million in 2013, an increase of AED 27.8 million, or 17.9 per cent., from the AED 155.4 million recorded in 2012, principally reflecting an increase of AED 11.8 million, or 8.1 per cent., in fee and commission income. The increase in fee and commission income reflected an increase in the volume of fee and commission income generating activities of AHB. AHB's other income increased by AED 16.2 million, or 428.9 per cent., to AED 183.2 million in 2013 compared to 2012 principally reflecting a gain on the disposal of fixed assets.

Expenses

Personnel costs

AHB's personnel costs were AED 417.5 million in 2013, an increase of AED 31.2 million, or 8.1 per cent., from the AED 386.3 million recorded in 2012, principally reflecting both increased staff numbers and increased remuneration. AHB's average number of full time staff was 765 in 2013 compared to 754 in 2012.

General and administrative expenses

The following table sets forth the details of AHB's general and administrative expenses for each of the years ended 31 December 2013 and 31 December 2012:

	Year ended 31 December	
	2013	**2012**
	(AED millions)	
Rent expenses	83.3	78.1
Marketing and advertising expenses	24.1	30.5
Consultancy fees	9.4	27.2
Repair and maintenance	12.2	16.8
Communication	14.4	12.2
Other expenses	144.4	109.2
Total general and administrative expenses	287.8	274.0

AHB's general and administrative expenses were AED 287.8 million in 2013, an increase of AED 13.8 million, or 5.0 per cent., from the AED 274.0 million recorded in 2012. The increase principally reflected increases in rent expenses (of AED 5.2 million, or 6.7 per cent.) in respect of increased property rentals over the period and other expenses (of AED 35.2 million, or 32.2 per cent.) reflecting a variety of factors commensurate with AHB's growth in operations over the year.

Impairment charges on financial assets

AHB's impairment charges on its financial assets were AED 219.2 million in 2013, a decrease of AED 38.1 million, or 14.8 per cent., from the AED 257.3 million charged in 2012. This decrease principally reflected decreases in impairment charges on receivables from financing activities (of AED 53.9 million, or 23.2 per cent.) which was slightly offset by increases in impairment charges on investment securities (of AED 9.9 million). The decreases in impairment charges principally reflected the implementation of tighter credit risk controls on high risk customer segments by AHB in its receivables from financing activities. This is evidenced by the decrease in AHB's non-performing ratio from 1.3 in 2012 to 1.2 in 2013 and a decrease of 14 per cent. in the past due but not impaired financings from AED 1,615.8 million in 2012 to AED 1,391.2 million in 2013.

Depreciation

AHB's depreciation cost in 2013 was AED 74.7 million, an increase of AED 2.6 million, or 3.6 per cent., from the AED 72.1 million recorded in 2012. The marginal increase in depreciation cost reflected the move to AHB's new head office in September 2013.

Profit before Depositors' Share of Profits

Reflecting the above factors, AHB's profit before depositors' share of profits was AED 938.7 million in 2013, an increase of AED 89.6 million, or 10.6 per cent., from the AED 849.1 million recorded in 2012.

Depositors' Share of Profits

The depositors' share of profits in 2013 was AED 496.9 million, a decrease of AED 86.5 million, or 14.8 per cent., from the AED 583.4 million recorded in 2012. This decrease principally reflected declining EIBOR, to which the profit on the customers' deposits is linked and an increase in the proportion of current and savings account customer deposits held with AHB on which AHB is obliged to pay no profit, or a low rate of profit, respectively.

Profit for the Year

Reflecting the above factors, AHB's profit for 2013 was AED 441.8 million, an increase of AED 176.1 million, or 66.3 per cent., from the profit of AED 265.7 million recorded in 2012.

Total Comprehensive Income/(Loss) for the Year

AHB's other comprehensive loss in 2013 was negative AED 3.7 million, a decrease of AED 10.1 million, from the AED 6.4 million other comprehensive income recorded in 2012. As a result, AHB's total comprehensive income in 2013 was AED 438.1 million, an increase of AED 166.0 million, or 61.0 per cent., from the AED 272.1 million total comprehensive income recorded in 2012.

Segmental Information

AHB classifies its activities into two main segments: Wholesale Banking and Personal Banking. AHB's other business groups are Investment Banking and Treasury. AHB's Investment Banking business first commenced operations in 2011 and, together with its Treasury business, does not, at this early stage in the development of these business lines, make a material contribution to AHB's total assets, total liabilities or net profit.

The tables below show AHB's total assets and total liabilities for the period by the above two main segments as at, and for the year ended 31 December 2013:

	As at and for the year ended 31 December 2013			
	Wholesale Banking	**Personal Banking**	**Unallocated(1)**	**Total**
		(AED millions)		
Total assets	16,709.9	10,097.2	11,898.1	38,705.3
Total liabilities	20,421.0	5,993.5	8,357.0	34,771.5

Note:

(9) "Unallocated" refers to the total assets/total liabilities of AHB's Investment Banking Group and Treasury Banking Group and those total assets/total liabilities of AHB which AHB does not apportion amongst its principal business groups. The liabilities exclude equity of AHB.

2013 is the first segment reporting period therefore no comparative information is presented. Segment information is based on the management reports reviewed by AHB's Assets and Liabilities Committee ("ALCO") that are used to measure the performance of each segment.

AHB classifies as Wholesale Banking assets and liabilities the funds which it applies to, and receives from, respectively, the customers of its Wholesale Banking Group. Similarly, AHB classifies as Personal Banking assets and liabilities the funds which it applies to, and receives from, respectively, the customers of its Personal Banking Group.

Commitments and Contingencies

AHB's principal commitments comprise commitments to extend credit and sell foreign currencies, capital commitments and operating lease commitments whilst its contingencies comprise guarantees provided and letters of credit issued.

The following table sets forth AHB's commitments and contingencies as at 31 December 2013 and 2012:

	As at 31 December	
	2013	2012
	(AED millions)	
Letters of credit	902.6	806.5
Letters of guarantee	6,769.8	5,593.3
Irrevocable commitments to extend credit	735.9	1,244.5
Revocable commitments to extend credit	4,700.9	3,198.0
Capital commitments	453.0	563.9
Operating lease commitments	143.9	165.5
Total commitments and contingencies	**13,706.1**	**11,571.7**

Cash Flow Statements

The following table summarises the consolidated cash flows of AHB for the three months ended 31 March 2014 and 31 March 2013:

	Three months ended 31 March	
	2014	2013
	(AED millions)	
Net cash from / (used in) operating activities	149.6	(1,051.5)
Net cash from / (used in) investing activities	(313.5)	95.7
Net cash used in financing activities	241.9	241.2
Net (decrease) / increase in cash and cash equivalents	**78.0**	**(714.6)**
Cash and cash equivalents, beginning of the period	1,555.6	1,366.1
Cash and cash equivalents, end of the period	**1,633.6**	**651.5**

Net cash from / (used in) operating activities

AHB's net cash from operating activities was AED 149.6 million in the three month period to 31 March 2014 compared to net cash used in operating activities of AED 1,051.5 million in the three month period to 31 March 2013. The principal reason for the change was an increase in funding from customers' accounts in the three month period to 31 March 2014 compared to the three month period to 31 March 2013.

Net cash from / (used in) investing activities

AHB's net cash used in investing activities was AED 313.5 million in the three month period to 31 March 2014 compared to net cash used in investing activities of AED 95.7 million in the three month period to 31 March 2013. The principal reason for the change was the net sale of securities which was partially offset by the purchase of property and equipment, in each case over the period.

Net cash from / (used in) financing activities

AHB's net cash from financing activities was AED 241.9 million in the three month period to 31 March 2014 compared to net cash used in financing activities of AED 241.2 million in the three month period to 31 March 2013. The principal reason for the change was due to the decrease in the level of Wakala deposits received from other banks which was largely offset by the increase in AHB's share capital in the three month period to 31 March 2013.

The following table summarises the consolidated cash flows of AHB for the years ended 31 December 2013 and 2012:

	Year ended 31 December	
	2013	**2012**
	(AED millions)	
Net cash (used in) /from operating activities	(1,083.6)	666.6
Net cash (used in) / from investing activities	(307.7)	181.3
Net cash from financing activities	1,833.4	500.8
Net increase in cash and cash equivalents	**442.1**	**1,348.8**
Cash and cash equivalents, beginning of the year	1,912.9	564.1
Cash and cash equivalents, end of the year	**2,355.0**	**1,912.9**

Net cash (used in)/from operating activities

AHB's net cash used in operating activities was AED 1,083.6 million in 2013 compared to net cash from operating activities of AED 666.6 million in 2012. The principal reason for the change was the increased levels of receivables from financing activities of AHB in particular, sukuk financing obtained by AHB, in each case, over the period.

Net cash from/(used in) investing activities

AHB's net cash used in investing activities was AED 307.7 million in 2013 compared to net cash from investing activities of AED 181.3 million in 2012. The principal reason for the change was the net sale of securities which was partially offset by the purchase of property and equipment, in each case over the period.

Net cash from financing activities

AHB's net cash from financing activities was AED 1,833.4 million in 2013 compared to net cash from financing activities of AED 500.8 million in 2012. The principal reason for the change was due to AHB obtaining sukuk financing during the period.

Sources of Funding

AHB's main source of funding is customers' accounts, Wakala deposits from banks, sukuk financing obtained by AHB and shareholders' equity. Please see "*Selected Financial Information-Sources of Funding*" for details of such funding as at 31 March 2014 and as at 31 December 2013 and 2012.

DESCRIPTION OF THE GROUP

Overview

AHB was established by the Council as an Islamic bank on 18 June 2007 and commenced commercial operations on 19 June 2008. The Council is an investment arm of the Government and remains AHB's sole shareholder. AHB's registered number is CN1012299.

As at 31 December 2013, AHB was the 11th largest bank in the UAE by total assets, the tenth largest by total financings and the 11th largest by total deposits. AHB was the fourth largest Islamic bank in the UAE by total assets and by total deposits, and the third largest by total financings, in each case, as at the same date. There were a total of 51 banks in the UAE as at 31 December 2013 (source: the UAE Central Bank), eight of which were Islamic banks (in each case including AHB). There were also a number of conventional banks with Islamic banking operations.

AHB's total assets, financings and deposits as at 31 March 2014, 31 December 2013 and 31 December 2012 were as follows:

	As at 31 March	As at 31 December	
	2014	2013	2012
		(AED millions)	
Total assets	39,045.7	38,705.3	32,121.9
Total financings(1)	28,077.9	27,103.2	22,910.9
Total deposits	29,423.4	28,178.3	24,956.7

Note:

(1) Total financings comprises (i) Receivables from Islamic financing activities and (ii) Ijara assets.

The four business groups through which AHB conducts its operations are Wholesale Banking, Personal Banking, Investment Banking and Treasury. AHB also provides Islamic insurance or *takaful* services through its wholly-owned subsidiary, Al Hilal Takaful, which commenced operations on 11 November 2008. AHB also operates a vehicle sales business through its wholly-owned subsidiary, Al Hilal Auto, in addition to the auto financing operations of its Personal Banking Group. Al Hilal Auto commenced operations on 16 February 2009.

As at 31 March 2014, AHB had 22 branches and 116 ATMs across the UAE in Abu Dhabi, Dubai, the Emirate of Al Ain ("Al Ain"), the Emirate of Ras Al Khaimah ("Ras Al Khaimah") and the Emirate of Sharjah ("Sharjah"). It was the first Islamic bank to commence operations in Kazakhstan and did so on 17 March 2010 through its wholly-owned subsidiary, Al Hilal Islamic Bank JSC ("Al Hilal Kazakhstan"), which has its head office in Almaty and operates two additional branches in Astana and Shymkent.

Despite commencing commercial operations in the midst of the global financial crisis, which significantly impacted sectors of the UAE economy such as real estate and regions such as Dubai, AHB's operations became profitable in its second full year of operations, when it made a net profit of AED 131.1 million for the year ended 31 December 2010 as compared to a net loss of AED 73.2 million for the year ended 31 December 2009. Its net profit for the three months ended 31 March 2014 and 31 March 2013 and the years ended 31 December 2013 and 31 December 2012 was AED 121.6 million, AED 104.3 million, AED 441.8 million and AED 265.7 million, respectively.

History and Background

AHB was incorporated in Abu Dhabi on 18 June 2007 as a public joint stock company pursuant to the resolution of the Executive Council of the Emirate of Abu Dhabi No. 2 of 2007 and Emiri Decree No. 21 of 2007. The operations of AHB are subject to (i) Federal Law No. 8 of 1984, as amended, concerning commercial companies, (ii) Federal Law No. 10, as amended, concerning the Central Bank of the UAE (the "UAE Central Bank"), the monetary system and the organisation of the banking profession and (iii) Federal Law No. 6 of 1985, as amended, concerning Islamic banks, investment institutions and investment companies.

In accordance with AHB's Articles of Association (the "Articles"), AHB may carry on all *Sharia-compliant* banking, investment, commercial and service activities. Supervision of the activities of AHB and the review of such activities to ensure their compliance with Islamic principles and rules is the responsibility of AHB's *Fatwa* and *Sharia* Supervisory Board (the "*Sharia* Board"), which is appointed by the Board. AHB's registered office is P.O. Box 63111, Abu Dhabi, UAE and its telephone number is +971 (0) 2 499 4444.

Sole Government Related Shareholder and Capital Contributions

AHB's sole shareholder is the Council, which has consistently supported AHB's development. The Council made an initial capital contribution of AED 1 billion in 2008 for the commencement of AHB's operations, and invested a further AED 1 billion in 2009, AED 590 million in March 2011 and AED 250 million in each of April and September 2012. As at 31 March 2014, the total capital contributions of the Council and fully paid share capital of AHB was AED 3.09 billion. The authorised share capital of AHB is AED 4 billion, comprised of 4 billion shares of AED 1 each. The shares of AHB are not listed.

The Council commenced operations in 2007 and is responsible for investing the Government's surplus financial resources through a globally diversified investment strategy. The Council is also empowered with a direct investment mandate to broaden Abu Dhabi's economic base and facilitate the international development of domestic companies. The Council's board of directors currently has eight board members, one of whom also sits on the Board.

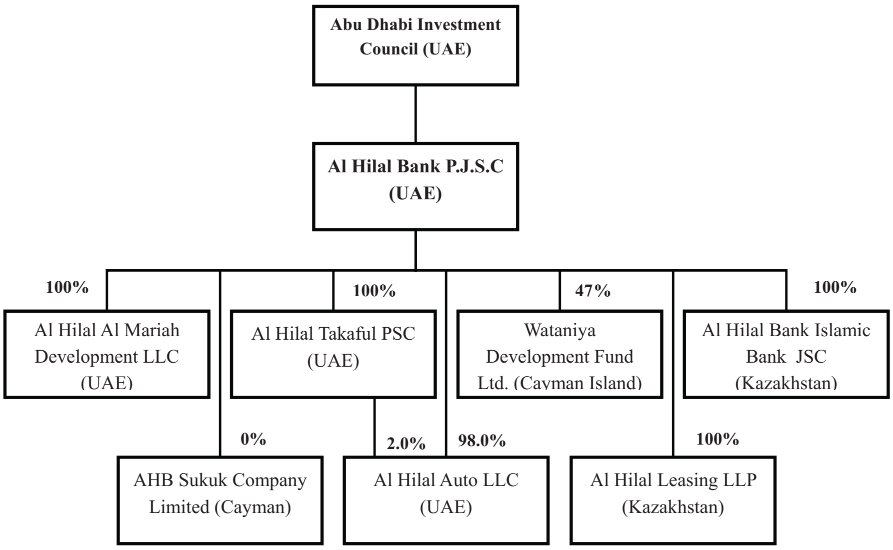
AHB is the only Abu Dhabi based bank to be wholly-owned by the Government. In addition to AHB, the Council has significant shareholdings in three of the six other banks with head offices in Abu Dhabi: National Bank of Abu Dhabi PJSC ("NBAD") (70.18 per cent. as at 31 December 2013), Abu Dhabi Commercial Bank PJSC ("ADCB") (58.08 per cent. as at 31 December 2013) and Union National Bank (50.01 per cent. as at 31 December 2013), as well as a smaller shareholding in Abu Dhabi Islamic Bank PJSC ("ADIB") (7.61 per cent. as at 31 December 2013). ADIB is the only other Abu Dhabi based Islamic bank in which the Council is a shareholder, although NBAD and ADCB also have Islamic banking operations.

The opportunity provided to AHB, together with NBAD, to invest in *sukuk* issues by the Government of Dubai in 2009 is another example of AHB's close relationship with the UAE Government. See "*Financial Review—Results of Operations for the Three Month Periods Ended 31 March 2013 and 31 March 2012—Investment Income*".

The UAE Commercial Companies Law No. 8 of 1984, as amended, and the Articles require 10 per cent. of the annual net profit of AHB to be transferred each year to a statutory reserve until this reserve equals 50 per cent. of AHB's fully paid share capital. As at 31 March 2014, AHB's statutory reserve was AED 113.5 million, which represented 3.7 per cent. of AHB's fully paid share capital.

Corporate Structure

The corporate structure of AHB is as follows:



Competitive Strengths

AHB's management believes that it enjoys a number of advantages over its competitors as set out below.

Strong Government shareholder support

AHB is 100 per cent. owned by the Government, through the Council, and the Council has consistently demonstrated its willingness on behalf of the Government to provide AHB with the necessary capital and support for the implementation of its strategy for continued growth and diversification. The most recent example of this was the Council's capital contribution of AED 250 million in September 2012.

AHB is also able to capitalise on the Council's network of business relationships and its strong ties with other Government-related entities, in addition to the Council's assistance in the strategic direction of AHB through the Council's representation on, and interaction with, the Board as sole shareholder. As a result, AHB believes it is well placed to take advantage of the Government and public sector financing and deposit opportunities represented by the significant investment to be made in the UAE economy by the Government in the implementation of Abu Dhabi Economic Vision 2030. See "*Sole Government Related Shareholder and Capital Contributions*" above.

Sound capital base

As at 31 March 2014, AHB had a capital adequacy ratio of 13.5 per cent. which, although lower than a number of its peers in the UAE, meets and exceeds the capital adequacy ratio regulatory limits set by the UAE Central Bank. This enables AHB to optimise its return on equity. AHB has received AED 3.09 billion in aggregate of capital contributions from the Council since its incorporation in 2008, and approximately AED 1 billion of shareholder capital remains undrawn as at the date of this Prospectus. In addition, AHB has the ability to access the capital markets to raise additional capital as an alternative to seeking further capital contributions from the Council should AHB consider this necessary or desirable from time to time. Accordingly, AHB believes it has a strong capital base from which to conduct its operations.

Experienced management

AHB has a strong management team with substantial regional and global banking experience. The majority of AHB's management joined AHB at its incorporation and were therefore able to use their experience in creating a new bank which is not constrained by historic factors. Management was further able to be selective in identifying financing opportunities and, as a result, AHB did not suffer from the same exposure to distressed entities and sectors which many of AHB's competitors have been exposed to. As a consequence, AHB has a non-performing financings ratio which is below that of its peers in the UAE and which AHB seeks to conserve through the implementation of its stringent risk management framework.

Innovative products and services from a dedicated Islamic banking platform

As a relatively new and growing financial institution, AHB considers itself to be better placed than its more established competitors to provide the innovative products and services required in order to meet the diverse and changing needs of the rapidly growing UAE population (which is estimated by the UAE National Bureau of Statistics to have doubled from 4,106,427 in 2005 to 8,264,070 by mid-2010). AHB believes its ability to provide such innovative products and services is due to its lack of entrenched distribution and product delivery channels, its capability in meeting the ongoing challenge of establishing its point of difference as a relatively recent market entrant and its ability to implement new innovative products and services without the need to align them with an extensive existing product and service range. See "*Strategy—Invest in new products and technology*" below for several examples of some of the innovative products and services offered by AHB.

In addition, by operating a full service Islamic banking business that is dedicated to providing *Sharia-compliant* financing products and solutions to its customers, AHB is able to offer a more focused approach to Islamic banking than conventional banks. Conventional banks which provide Islamic banking products and services generally do so through Islamic banking windows, which represent only a small proportion of the overall business of the relevant bank.

Favourable customer profile and strong brand affinity

AHB's retail customer base comprises primarily high net worth individuals. This customer base profile provides AHB with access to a large and stable deposit base (historically many of AHB's retail customers have not withdrawn their deposits and switched to other financial institutions, a characteristic which AHB describes as 'sticky') with a variety of maturity and re-pricing profiles. The nature of this customer base also presents opportunities for AHB to cross-sell its products and services, both wholesale and retail, across AHB's financing, investment and *takaful* businesses. Accordingly, AHB is able to develop its brand affinity with customers whilst at the same time maintaining the strong financial profile of its retail customer base.

Strategy

AHB's current strategy is based on three overarching principles of equal importance to AHB:

- **Performance**

  AHB has a dual financial performance objective of achieving a substantial return on equity whilst maintaining its ranking in the top ten UAE banks and top three UAE Islamic banks (in each case as measured by financings).

- **Health**

  AHB's financial performance objectives will continue to be underpinned by a robust risk management framework and related systems and controls.

- **Development**

  AHB's vision and mission encompasses the development of Abu Dhabi, the UAE and the global Islamic banking industry.

AHB's strategy is a refinement of the mission and goals with which it began operations in mid-2008 and reinforces AHB's view that it needs to be prepared to participate in a dynamic and evolving banking industry. The current strategy has assisted AHB in becoming the third largest Islamic bank and the tenth largest bank (measured by financings) in the UAE as at 31 December 2013 (source: UAE Central Bank). In furtherance of the strategic pillars discussed above, in 2012 AHB implemented a new five-year strategic plan and the following provides an overview of AHB's core strategic objectives under this plan.

Branch and ATM network expansion programme within the UAE

AHB plans to continue its branch and ATM network expansion programme within the UAE. In the three months to 31 March 2014, AHB relocated two ATMs within the UAE. During the remainder of 2014 AHB plans to open one new branch in Masdar City in Abu Dhabi; and it plans to install a further four ATMs within the UAE in this period. During 2013, AHB closed one branch for renovation, opened one new branch and installed four ATMs.

By expanding its distribution network, AHB aims to improve customer access, thereby broadening its customer base which in turn is expected to lead to further retail financing, deposit and investment opportunities through the development of new client relationships and cross-selling opportunities.

Invest in new products and technology

In addition to expanding its branch network, AHB is focused on investing in new products and technology to provide its customers with greater access to banking services, enhanced security and a wider range of banking products. With respect to customer access, AHB has invested in providing 24 hour banking access to its customers through telephone and mobile short message service ("SMS") banking. AHB introduced online banking in 2011 and continues to improve access for customers with ongoing technological investment and development, having introduced mobile banking and 'smart phone' software applications for a variety of platforms.

AHB has also introduced novel product delivery mechanisms such as "eGrab" (the first mobile eco-friendly bank branch in Abu Dhabi), its "Financial Mall Branch" in Abu Dhabi (which operates as a 'financial mall' providing the full range of products and services offered by AHB segmented by customer type as well as retail outlets and a coffee shop) and the Al Hilal Auto "Walk in. Drive out." auto mall concept. AHB also introduced instant debit card issuance for customers opening an account in its branches and a thumb print verification facility to reduce customer waiting time and improve customer security. AHB plans to enable customers, later this year, to use their UAE national identity card (the "**Emirates ID Card**") to make ATM cash withdrawals. AHB will be the first bank in the UAE to use the advanced functions of the Emirates ID Card in its services across all branches.

With respect to the products offered, AHB has further broadened the range of products by expanding the Wholesale Banking Group's product offering to include trade financing and cash management services. It also offers banking products and services through the Personal Banking Group to businesses with a turnover of less than AED 50 million ("Small Businesses"). Another present initiative of AHB is the expansion of the range of credit cards it offers with a view to significantly growing its credit card business over the next three years. Over time AHB also expects its Investment Banking Group, which it established in 2010, to make a more significant contribution through complementing the operations of its Wholesale Banking Group (ensuring AHB is able to offer a full range of banking products and services to its customers), as well as from the income generated in respect of its investment banking activities. The primary strategic objective of its Investment Banking Group is to complement the businesses of the Personal Banking Group and Wholesale Banking Group by developing a wide range of products and services for high net worth individuals, corporations and financial institutions. This is conducted through the Asset Management and Capital Market departments of the Investment Banking Group. The primary focus of the Investment Banking Group's Asset Management departments is to develop *Sharia-compliant* investment fund products that are prudently managed to achieve substantial risk-adjusted returns while seeking to mitigate risk through diversification. AHB plans to further expand the range of *Sharia-compliant* funds which it currently offers across a range of asset classes in order to meet this objective. Such funds will be offered to customers of both the Personal Banking Group and Wholesale Banking Group according to their risk profiles. The primary focus of the Investment Banking Group's Capital Markets departments is to further enhance its *sukuk* origination and syndicated financing platform by selectively participating in a range of financing opportunities across the UAE and by selectively expanding its *sukuk* origination activities to the wider GCC region to take advantage of strong corporate and financing relations.

By pursuing the above mentioned strategy, AHB plans to both consolidate its relationships with existing customers and to attract new customers by providing a comprehensive and innovative product offering across the full range of Islamic banking and insurance products and services it is able to provide.

Target specific customer sectors in order to maintain growth and profitability

During the recent global financial crisis, the Wholesale Banking Group targeted the Government sector, in particular, for growth in its financing portfolio while limiting its risk exposure. While the Government sector will remain a focus, AHB plans to place greater emphasis on the energy, trading, manufacturing and services sectors, and mid-market to large corporates in growing the financing portfolio of its Wholesale Banking Group over the next three to five years. The Personal Banking

Group intends to continue to focus on Small Businesses and high net worth individuals and to enhance its position in the credit card market

AHB increased its market share of total UAE financings from 2.3 per cent. as at 31 December 2012 to 2.4 per cent. as at 31 December 2013 (source: the UAE Central Bank). AHB intends to ensure it continues to grow its market share of total UAE financings by placing greater emphasis on engaging mid to large corporates and continuing to target the Government and public sector through its Wholesale Banking Group.

In targeting these particular customer segments, AHB is looking to maintain the growth rate of its business while also maintaining profitability.

Capitalise on opportunities to increase its market share by supporting the Government's strategy

AHB is wholly-owned by the Government, through the Council, and as at 31 December 2013 the Government and public sector made up 55.3 per cent. of total customer deposits and 20.7 per cent. of total financings, as compared to 49.3 per cent. and 23.6 per cent., respectively, as at 31 December 2012. This decrease is consistent with AHB's greater focus on other customer segments as the economic outlook for the UAE improves.

The Abu Dhabi Economic Vision 2030 is the Government's long-term plan for the transformation of the Abu Dhabi economy to reduce its high dependence on the oil sector and to establish a more sustainable and diversified economy. This will involve, among other things, significant investment in infrastructure development and the targeted growth of a number of different sectors of the Abu Dhabi economy which AHB believes may give rise to opportunities for it to expand its financing portfolio to customers across a more diversified economy. AHB is supporting this strategic plan through its significant investment in the development of a 23-storey office tower and additional retail amenities as part of the Al Maryah Island development, which will comprise over 34,000 square metres of office space, 700 square metres of retail space and over 1,000 car parking spaces. It is scheduled for completion during the fourth quarter of 2014. See also "*Property*" below.

Management of operating expenditure

As a relatively new bank, AHB has incurred higher than normal operating costs in its early years in order to develop its business and grow its market share. After a number of years of rapid growth, AHB now intends to focus on reducing its cost to income ratio which it expects to achieve through leveraging the economies of scale gained as a result of its increased deposit-taking and financing activities. AHB has initiated a stringent budgetary process across the various business units to assist in achieving this objective.

Organic growth and international expansion

AHB's current five year strategic plan provides for organic growth, which is based on a combination of self-support and capital contributions from the Council. AHB's rapid growth since it began operations in 2008 has allowed AHB to consider overseas expansion opportunities at an early stage in its development. AHB's strategy also incorporates the expansion of its geographical footprint and this has so far been reflected by the opening of AHB's first overseas operations in 2010, Al Hilal Bank Kazakhstan PJSC in Kazakhstan. In doing so, AHB succeeded in establishing the first Islamic bank in this hydrocarbons-rich (and predominantly Muslim) country. Whilst AHB does not have any immediate plans in relation to any other non-organic growth opportunities (for example by way of acquisition or merger) it would consider such growth on an opportunistic basis depending on the level of expected return on equity. Furthermore, AHB will consider further international expansion if appropriate opportunities arose that complemented its existing geographical reach and its objective of raising the profile of Islamic banking globally. Such expansion would be dependent upon a regulatory environment conducive to Islamic banking and, as with AHB's move into Kazakhstan, would most likely be prompted by an opportunity for AHB to capitalise on existing trade flows between the relevant country and the UAE.

Investment in AHB's employees

AHB has identified the training and development of its employees as a key priority. To this end, AHB has implemented a learning and development framework, delivering a range of training and development programmes aimed at the personal and professional development of its employees. These programmes are offered to employees across AHB and its subsidiary companies and AHB has also implemented a number of initiatives to attract university graduates. AHB reviews these programmes on an annual basis.

Competition

Within the UAE, AHB faces competition in all of its principal business areas. AHB's principal competitors include both banks which are locally incorporated and certain foreign banks operating in the UAE, in each case including both conventional and Islamic banking institutions and specialist Islamic financing companies. As at 31 December 2013, there were 51 operating banks holding full commercial banking licences in the UAE, of which 23 were locally incorporated (source: *the UAE Central Bank*) and eight were Islamic banking institutions (in each case, including AHB). See "*The UAE Banking Sector and Regulation*".

Through its investment banking and capital markets activities conducted by its Investment Banking Group, AHB also competes with major international investment banks for mandates on investment banking and capital markets transactions.

It is expected that competition from other banks, both conventional and Islamic, and specialist Islamic financing companies will continue as more financial institutions enter the Islamic banking sector.

Despite the relatively high level of competition in the banking sector in the UAE, AHB expects the continuing growth of the economy to lead to an overall growth in demand for banking services, and Islamic products in particular due to the continued improvement in Islamic banking products and, more generally, an increased understanding and acceptance of Islamic finance.

Al Hilal Auto's main competitors are ADIB, Dubai Islamic Bank PJSC and other Islamic banks, although AHB believes Al Hilal Auto is differentiated from its competitors by offering a range of 'one-stop shop' services to its customers.

Al Hilal Takaful also operates in a competitive environment. As at 31 December 2013, there were 34 UAE-based insurers and 27 international insurers competing actively with Al Hilal Takaful in the UAE. Nine of these insurers (including Al Hilal Takaful) provide solely Islamic insurance products and services.

Al Hilal Kazakhstan operates in a competitive environment in Kazakhstan, where it faces competition from governmental, supranational and privately-owned domestic and foreign banks. The majority of the domestic banks have a strong national presence and provide banking services across the various segments of the Kazakhstan economy. As at 31 December 2013, there were 38 operating banks holding full commercial banking licences in Kazakhstan. Of these, Al Hilal Kazakhstan was the only Islamic banking institution as Islamic banking business must, under the current regulatory position in Kazakhstan, be conducted by Islamic institutions rather than through the Islamic 'windows' of conventional (non-Islamic) banks. Al Hilal Kazakhstan commenced operations in 2010 and does not have a significant market share at this stage.

Business

Overview

AHB's four principal business groups are Wholesale Banking, Personal Banking, Investment Banking and Treasury. These groups are managed from AHB's head office in Abu Dhabi and operated through AHB's branches across the UAE. Al Hilal Kazakhstan undertakes Wholesale Banking business only.

Wholesale Banking Group

The table below sets out certain financial information relating to the Wholesale Banking Group as at, and for the three months ended, 31 March 2014 and as at, and for the years ended 31 December 2013 and 31 December 2012:

	As at three months ended 31 March	As at/year ended 31 December	
	2014	2013	2012
		(AED millions)	
Total assets	16,999.2	16,709.9	14,224.6
Total financings	16,999.2	16,709.9	14,224.6
Total deposits	22,945.6	20,421.0	18,808.0

The Wholesale Banking Group focuses on corporate customers (other than Small Businesses, which are covered by the Personal Banking Group). The Wholesale Banking Group is divided into four departments:

Domestic Corporate Markets Department: this department is further divided into four sub-departments:

- *Corporate Banking Department*: this department provides banking services to AHB's UAE-based corporate customers. Relationship managers with in-depth experience in a range of different sectors and industries work closely together with customers to address both their short-term and long-term banking requirements. These relationship managers engage with corporate customers to offer the latest and most relevant financing and/or cash management products and other products and services of AHB to assist corporate customers in responding to their business requirements.
- *Government Relations Department*: this department provides a full spectrum of banking services to Government and Government-related entities in the UAE by appointing designated Government relationship managers to co-ordinate the involvement of the various product specialists within AHB to provide the relevant services required.
- *Cash Management Department*: this department works closely with the other departments within the Wholesale Banking Group in relation to the cash management requirements of AHB's corporate customers through a broad range of *Sharia-compliant* cash management products covering account and liquidity management, transaction management (payments and collections) and the management of cash delivery channels.
- *Trade Finance Department*: this department provides customised trade finance solutions to customers such as importers and exporters across a range of different sectors and industries.

Institutional and International Banking Department: this department aims to develop relationships with global financial institutions and major international corporates with a view to cross-selling the various services offered by the Wholesale Banking Group. This department also originates, participates in and distributes various syndicated and structured finance products for AHB's corporate customers both on a domestic and international basis.

VVIP Department: this department provides banking services to serve the corporate business needs of the members of the ruling families of the UAE and other prominent high net worth entrepreneurs.

Product and Structuring Department: this department provides support within the Group to develop and design innovative, customer-focused, *Sharia-compliant* financing and cash management solutions. The department's scope also includes 'custom-made' structuring of specific banking facilities and procuring and/or coordinating the relevant *Sharia* and legal approvals if so required by customers. This department also provides advisory services both internally and externally in order to assist the understanding of the structure of transactions and any relevant *Sharia* considerations. The department also develops customised solutions to address the day-to-day banking transactional requirements of corporates customers, Small Businesses, Government entities and non-bank financial institutions including sale support and implementation of cash management products.

The Wholesale Banking Group also offers, through each of the departments described above, various financing and deposits products (together with their related ancillary services) to customers with requirements for project financing, contract financing, export bills financing, assets acquisition, working capital, trade finance (including letters of credit and guarantee) and cash management.

As at 31 March 2014, the Wholesale Banking Group had over 1,000 customers.

Personal Banking Group

The table below sets out certain financial information relating to the Personal Banking Group as at, and for the three months ended, 31 March 2014 and as at, and for the years ended 31 December 2013 and 31 December 2012:

	As at three months ended 31 March	**As at/year ended 31 December**	
	2014	**2013**	**2012**
	(AED millions)		
Total assets	10,796.9	10,097.2	8,686.3
Total financings	10,796.9	10,097.2	8,686.3
Total deposits	6,576.9	5,993.5	6,148.7

The Personal Banking Group has adopted a segmented approach to targeting its different retail banking customers (including by reference to different levels of income and personal wealth, as well as other demographic considerations that reflect differing demands for banking products and services), with a particular focus on high net worth individuals. The Personal Banking Group has focused on growing its deposit base and increasing its range of *Sharia-compliant* deposit and financing products and services. The major retail banking products offered by the Personal Banking Group include:

- *Deposit accounts*

  AHB provides current and saving accounts, including *wakala* and *mudaraba* term deposit accounts, each of which involves AHB investing on the customer's behalf the amounts deposited by a customer. AHB offers innovative features such as allowing customers to reflect their preferred account numbers and instant issuance of debit cards;

- *Finance facilities*

  The finance facilities provided by AHB include personal, real estate and vehicle financing products, as well as other tailored products to address the specific financing requirements of its customers using a variety of Islamic financing structures including *murabaha*, *musawamah*, *istisna'a* and *ijara*;

- *Credit cards*

  AHB offers two different types of credit cards which are based on the Islamic financing structures of "*qard & ujrah*" (a guarantee of payments in return for a fixed fee) and "*commodity murabaha*" and "*tawarruq*" (which both involve a related purchase and sale of commodities on a deferred payment basis with a profit element);

- *Safe deposit lockers*

  AHB has introduced innovative safe deposit lockers available to its customers on a 24 hour basis at its Mall Branch in Abu Dhabi, with such lockers accessible using customers' debit card and thumb print verification for enhanced security;

- *Bancatakaful plan*

  AHB recently launched its first *Sharia-compliant takaful* unit-linked savings plan, in conjunction with FWU A.G. and Dubai Islamic Insurance and Reinsurance (Aman). Customers can invest in the plan by making regular or lump sum contributions. The plan offers 100 per cent. capital protection at maturity; and

- *Investment Funds*

  AHB also offers two major investment funds to its retail customers; the GCC Equity Fund and the Global Sukuk Fund. Each of these funds is managed by AHB's in-house Investment Banking Group (IBG). Invest AD acts as investment advisor in relation to the GCC Equity Fund and CIMB-Principle Islamic Asset Management, Malaysia acts as investment advisor in relation to the Global Sukuk Fund.

The Personal Banking Group also provides banking services to Small Businesses, with similar products and services to those which are offered to AHB's larger corporate customers through the branch and other direct distribution networks of AHB. The main products offered by the Personal Banking Group to Small Business customers include:

- *Operating accounts*

  AHB provides current and savings accounts based on the Islamic structures of "*qard al hasan*" and "*mudaraba*" respectively, to assist Small Business customers in managing their day-to-day transactions (in the case of current accounts) and provide a profit return on customers' surplus funds (in the case of savings accounts);

- *Business finance facilities*

  AHB provides finance facilities, using the Islamic structures of "*commodity murabaha*", "*sukuk murabaha*" "*goods murabaha*" or "*service ijara*", to assist its Small Business customers in the acquisition of goods and equipment and their other short-term or long-term capital needs;

- *Business vehicle finance facilities*

  AHB provides finance facilities, using the Islamic structures of "*vehicle murabaha*" and "*vehicle musawamah*", to assist Small Business customers to purchase vehicles for use in their business. Products being offered include passenger vehicle finance, fleet finance and commercial vehicle finance; and

- *Trade finance facilities*

  AHB provides finance facilities, including letters of credit and guarantees.

In addition, the Personal Banking Group introduced "*Seghaar*" banking to instil and encourage savings habits in children from an early age and educate them on the value of money. *Seghaar* offers children learning and fun activities to increase recognition, understanding and literacy through *Seghaar's* five pillars, "*Learn, Earn, Save, Protect and Donate*". Banking products offered to children under the *Seghaar* segment include savings accounts, term deposits, educational finance and a *bancatakaful* educational savings plan, amongst others. As part of "*Seghaar*" banking, AHB has formed an exclusive alliance with *Kidzania* at *The Dubai Mall* whereby children visiting *Kidzania* are now able to experience a simulated banking experience sponsored by AHB.

As at 31 March 2014, AHB provided its retail banking services to over 80,000 customers through a network of 22 branches and 116 ATMs in the UAE. AHB continues to grow its retail portfolio, having grown by AED 0.7 billion, or 6.7 per cent., between 31 December 2013 and 31 March 2014, compared to growth of AED 1,333.3 million, or 14.7 per cent., in the year to 31 December 2013. In addition to its physical delivery network, AHB has actively sought to expand its alternative distribution channels, including telephone, SMS, online and mobile banking. AHB plans to invest further in technology for the continued expansion of its distribution and access networks. For example, AHB's "Money Station" branch is a full service drive-through branch where customers can use banking facilities (including account opening and cash transactions) without entering the branch. In addition, AHB recently launched the world's first *Qibla* direction (being the direction to Mecca) finder in the form of a credit card. In addition to its wider retail branch network, AHB also services its high net worth customers through five "Wealth Centres" across the UAE, which comprise dedicated facilities and staff within the relevant branches focusing on servicing the particular needs of such customers.

AHB's retail products are supported by the adoption of stringent credit criteria, including specified financing limits for each retail product. See further "—*Risk Management*".

Investment Banking Group

The Investment Banking Group first commenced operations in 2010 and does not, at this early stage in its development, make a material contribution to AHB's net profit.

The services offered by the Investment Banking Group are provided through the two following departments:

- *Corporate Finance Advisory*

  this department provides corporate finance advisory services to AHB's Government-related, corporate and institutional clients as well as financial institutions, including the managing and arranging of *sukuk* and equity capital market issuances, restructuring and mergers and acquisitions. This department has been further strengthened by the establishment of a dedicated capital market and *sukuk* origination function at the start of 2012 which has successfully secured several mandates as a joint bookrunner.

- *Asset Management*

  AHB provides a variety of equity, *sukuk* and structured product investments to AHB's corporate and institutional customers. AHB's "GCC Equity Fund" is the first such product offered by AHB and was launched on 4 April 2011. It is an open ended fund that seeks to provide investors with a long term investment in a diversified portfolio of *Sharia-compliant* equity securities in the GCC region and which, as at 31 March 2014, had AED 70.9 million of assets under management.

AHB's Asset Management department also provides customised investment strategies and solutions for ultra-high net worth individuals and institutional investors. In this respect, AHB's Asset Management department launched a discretionary *sukuk* portfolio management service in June 2011, the objective of which is to preserve capital for AHB's clients and to provide stable returns by investing in global and regional *Sharia-compliant sukuk* with a medium to long term investment horizon. AHB also launched its "Global Sukuk Fund" in March 2012 which is an open-ended fund that aims to generate periodic returns on its investments in addition to achieving long-term capital growth by investing in a diversified portfolio of *Sharia-compliant* global fixed-income securities in the form of *sukuk* and which, as at 31 March 2014, had approximately USD 55.5 million of assets under management.

Recently, AHB's Asset Management department launched a Global Balance Fund, the objectives of which are to generate regular income as well as to achieve medium to long term capital growth whilst minimising risk through diversification across asset classes. The fund will mainly invest in a diversified portfolio of high dividend yield stocks and *Sharia-compliant* fixed income securities.

Treasury Banking Group

AHB's Treasury Banking Group has three roles: (i) managing AHB's liquidity and funding requirements; (ii) executing and managing AHB's proprietary investment activities; and (iii) providing fee-based treasury services to AHB's Government and public sector, institutional and high net worth customers (including foreign exchange, money market, treasury, capital markets and custody services). The provision of such fee-based services is at an early stage and these do not yet make a material contribution to AHB's net profit.

The products and services provided by the Treasury Banking Group include foreign exchange ("**FX**") spot and forward (promise based) swaps, interbank *murabaha* and *wakala* transactions, profit rate swaps, cross currency swaps, *sukuk* trading and *sukuk* custody.

The Treasury Banking Group is also responsible for managing AHB's liquidity requirements and acts under the supervision of the ALCO. This group also manages AHB's profit rate risk, risk profile, asset/liability maturity mismatches and proprietary investment portfolio primarily through inter-bank placements, investments in quoted *sukuk* in conjunction with the Investment Banking Group and *Sharia-compliant* certificates of deposits issued by the Central Bank of the UAE.

The Treasury Banking Group is divided into three main departments:

- *Trading Department*: this department manages AHB's day-to-day trading and liquidity transactions and operates through four main specialised trading desks:

- *Money Markets*: this desk is responsible for monitoring and managing day-to-day liquidity and also provides clients with *Sharia-compliant* products and services aimed at providing competitive profit rates and rates of return on their investments;
- *Asset and Liability Management* ("**ALM**"): this desk is responsible for balance sheet management as guided by the ALCO. ALM manages liquidity risk, profit rate risk and concentration risk while ensuring adherence to internal and regulatory guidelines on liquidity and profit rate risk;
- *FX*: this desk manages AHB's overall FX exposure in order to minimise currency risk and also provides customers with a wide range of *Sharia-compliant* products and services to assist them in managing their FX risks (including FX contracts such as spot, forward *wa'ad* (promise to purchase) and other structured products); and
- *Capital Markets*: this desk is responsible for the trading and management of *sukuk*.

As at 31 March 2014, the total value of AHB's investment portfolio was AED 3.2 billion compared to AED 2.9 billion as at 31 December 2013 and AED 2.8 billion as at 31 December 2012. See "*—Investments*" below in relation to the early adoption of IFRS 9 (*Financial instruments: Classification and measurement*) by AHB and the basis on which financial instruments are valued by AHB.

The primary purpose of AHB's investment portfolio is to assist AHB in its liquidity management. The majority of AHB's investment portfolio consists of quoted *sukuk* investments (comprising *Sharia-compliant* trust certificates (*sukuk*)). As at 31 March 2014, of the total of AED 3.2 billion of investment securities held by AHB, a substantial majority represented quoted *sukuk* investments classified as "held to maturity". Investment by AHB in *sukuk* (quoted and unquoted) and real estate financing is subject to AHB's own internal dual due diligence and credit approval by AHB's Management Credit Risk Committee and its Management Investment Committee and, depending on the size of the relevant investment, its Board Risk Committee. See further "*—Risk Management—Credit Risk—Credit Approval Process*" below. Equity investments are assessed on a case-by-case basis with the requisite internal approval processes and external financial advisory services sought depending on the size and nature of the particular investment.

AHB's real estate investments are principally represented by its 47 per cent. shareholding in Wataniya Development Fund Limited. See further "*—Subsidiaries—Wataniya Development Fund Limited*" below.

- *Treasury Sales Department*: this department comprises three desks which manage the expansion of AHB's relationships with existing corporate and institutional (primarily financial) customers and the development of *Sharia-compliant* treasury products for AHB's customers, as follows:
    - *Corporate Treasury Sales*: this desk complements AHB's existing corporate customer relationships by providing a direct treasury point of contact which AHB can then use to distribute the various treasury products it offers. Through this dedicated corporate treasury team, AHB is able to offer more competitive treasury products, including wakala deposits, FX spot and forward *wa'ad* (promise to purchase) transactions. The desk also executes master treasury agreements with AHB's corporate customers to facilitate the provision of hedging products such as profit rate swaps;
    - *Financial Institutions Treasury Sales*: this desk is involved in the marketing of AHB's treasury products and services to local, regional and international financial institutions. It also manages the relationships, credit limits and legal documentation in respect of the *Sharia-compliant* treasury products of AHB required to facilitate its participation in financial markets. This includes securing sources of liquidity for both money market, FX and hedging transactions; and
    - *Product Development*: this desk is responsible for analysing market trends and developing dynamic banking and financing solutions to meet the needs of AHB's customers in hedging their exposures to FX, money market movements and *Sharia-compliant* assets traded in the financial markets; and
- *Business Application and Support Department*: this department has a control and support function and assists in monitoring and improving the Treasury Banking Group's compliance with the management information systems and risk management, compliance and regulatory policies of AHB. This involves monitoring the limits of the FX, Money Markets and Capital

Markets desks as well as assisting in product evaluation and development. This department also participates in AHB's overall operational risk management development. See "—*Risk Management*" below.

Investments

In relation to AHB's portfolio of *sukuk* and equity investments managed by the Treasury Banking Group, AHB adopted IFRS 9 from 1 October 2010 (it becomes mandatory from 1 January 2015), as well as the related consequential amendments to the other relevant IFRS provisions, as AHB was of the view that this new accounting policy provided more reliable and relevant information for users to assess the new amounts, timing and uncertainty of future cash flows. AHB's management assessed the financial assets held by AHB as at the date of its initial application of IFRS 9 on 1 October 2010 and the main effects resulting from this assessment were as follows:

- investments in *sukuk* instruments, previously classified as available-for-sale, meet the criteria to be classified as at amortised cost in accordance with IFRS 9. They are now therefore classified as financial assets at amortised cost; and
- equity investments not held for trading that were previously measured at fair value and classified as available-for-sale have been designated as at fair value through other comprehensive income and profit and loss.

The table below shows the classification of AHB's investment securities portfolio as at 31 March 2014:

	As at 31 March 2014
	(AED millions)
Financial assets at fair value through profit and loss	
Quoted equity investments	28.3
Sukuk securities	126.4
Financial assets at fair value through other comprehensive income	
Sukuk fund	41.1
Quoted equity securities	43.8
Financial assets at amortised cost	
Sukuk investments	2,986.8
Allowance for impairment	(6.0)
Total investment securities	3,220.4

Subsidiaries

Currently, AHB's active subsidiaries comprise Al Hilal Takaful, Al Hilal Auto, Al Hilal Kazakhstan, Al Hilal Leasing LLP and Wataniya Development Fund Limited. See "—*Corporate Structure*" above for a description of the Group's corporate structure.

As at the date of this Prospectus, Al Hilal Leasing LLP does not have any employees and does not make a material contribution to the net profit of AHB. The remaining active subsidiaries of AHB are described below.

Al Hilal Takaful

Al Hilal Takaful commenced operations in November 2008 and its first full year of operations was 2009. The table below sets out certain financial information relating to Al Hilal Takaful as at, and for the three months ended 31 March 2014 and as at, and for each of the years ended 31 December 2013 and 2012:

	As at three months ended 31 March	As at/year ended 31 December	
	2014	2013	2012
	(AED millions)		
Total assets	570.7	919.4	223.6
Takaful receivables	90.5	89.2	73.9
Re-takaful contract assets	34.0	36.5	26.6
Total liabilities	601.2	843.8	147.9
Takaful contract liabilities	158.6	140.2	105.6
Re-takaful liabilities and takaful payables	20.0	20.3	12.6
Net profit /(loss)	(6.2)	0.1	2.2
Gross revenues	67.3	212.6	174.6

Al Hilal Takaful offers a wide range of Islamic insurance (*takaful*) products covering a range of risks, including property, liability, contractor, equipment and machinery, marine, motor and medical *takaful* to Government, corporate and individual clients.

Al Hilal Takaful uses the following distribution channels to sell its products:

- *Branches*: Al Hilal Takaful has six branches (which are independent of AHB's own branches) within the UAE, three in Abu Dhabi, two in Dubai and one in Al Ain. Each branch has been assigned a specific geographical area and reports to Al Hilal Takaful's head office in Abu Dhabi;

- *Cross-selling*: Al Hilal Takaful has formed a committee together with AHB to target existing and potential customers of AHB for cross-selling purposes;

- *Brokers*: Al Hilal Takaful uses a network of brokers who are licensed to conduct insurance business in favour of their customers; and

- *Direct sales*: Al Hilal Takaful conducts direct sales, although mainly to corporate clients.

As at 31 March 2014 Al Hilal Takaful had 55 employees, of whom 11 were UAE nationals.

Al Hilal Takaful has arranged a comprehensive *re-takaful* programme with reputable *re-takaful* operators and re-insurers which enables it to underwrite all the classes of its business and minimise volatility in earnings from large losses or catastrophic events.

The *Fatwa* and *Sharia* Supervisory Board of Al Hilal Takaful is separate and independent from the *Sharia* Board of AHB and has a separate management team from AHB.

Al Hilal Takaful is regulated by the UAE Insurance Authority (established pursuant to Federal Law No.6 of 2007), which is overseen by the UAE Ministry of Economy. Additionally, in respect of providing health insurance services in Abu Dhabi, Al Hilal Takaful is also regulated by the Health Authority of Abu Dhabi.

Al Hilal Auto

Al Hilal Auto commenced operations in February 2009 and its first full financial year of operations was 2010. As at 31 March 2014, Al Hilal Auto had eight employees of whom one was a UAE national. Al Hilal Auto introduced its new concept "Walk in. Drive out." vehicle showroom in Abu Dhabi. It buys and sells both new and used vehicles, offers trade-in facilities, fleet sales and also selling vehicles on consignment. The purchase, finance, registration and *takaful* (insurance) service elements of Al Hilal Auto's operations are provided by AHB's Personal Banking Group.

Al Hilal Kazakhstan

Al Hilal Kazakhstan, which is monitored by and governed under the rules of the National Bank of Kazakhstan, offers *Sharia-compliant* banking services in Kazakhstan with a focus on government financing and large local and international corporates. It also looks to facilitate investment from the UAE into Kazakhstan. Al Hilal Kazakhstan commenced operations in March 2010. As a relatively new entrant to the financial services market in Kazakhstan, Al Hilal Kazakhstan does not currently make a material contribution to AHB's net profit.

Kazakhstan is looking to establish itself as a centre of Islamic finance in the Central Asia region, which has a significant Muslim population, and AHB is working together with the Kazakhstan authorities to establish an appropriate regulatory framework for Islamic banking operations in Kazakhstan. As the first Islamic bank to operate in Kazakhstan, AHB expects Al Hilal Kazakhstan to be well placed to capitalise on the growth of the Islamic banking industry in Kazakhstan as that industry develops. One of the initial challenges for Al Hilal Kazakhstan has been to raise awareness of the Islamic banking model in general, and more particularly, the products and services it offers. In order to address this it has initiated a series of training and marketing sessions, which have largely been conducted by Sheikh Essam Eshaq, a member of the *Sharia* Board. The *Sharia* Board has conducted several training seminars, for corporate customers, the Kazakhstan Central Bank and the Ministry of Finance of Kazakhstan, mass media, leading universities and the general public.

In addition to furthering the Government's objective for AHB to raise the profile of Islamic banking globally, AHB also expects to be able to capitalise on trade flows between the UAE and Kazakhstan in the oil and gas sector, in particular, through its establishment of Al Hilal Kazakhstan. Examples of this include the significant investments that have already been made in Kazakhstan by Abu Dhabi investment vehicles such as Mubadala Development Company PJSC and the International Petroleum Investment Company PJSC and the announcement by UAE real estate contractor Aldar Properties PJSC of its plans to construct the tallest building in the CIS region in Astana at an estimated cost of around USD 1 billion.

To develop its business in Kazakhstan, Al Hilal Kazakhstan has targeted the three strategically important geographical areas of Almaty, Astana and Shymkent where it has opened branches. Al Hilal Kazakhstan promotes a direct sales strategy through these branches.

Al Hilal Kazakhstan is involved in the financing of government projects and entities owned by Kazakhstan's sovereign wealth fund, Samruk-Kazyna. Al Hilal Kazakhstan intends to continue to focus on such financings for the remainder of 2014. The Group is also a joint venture participant in Kazakhstan Ijara Company with other stakeholders, which will provide finance to small and medium-sized enterprise customers in Kazakhstan.

In addition, Al Hilal Kazakhstan provides financing products to selected private corporate customers in the agricultural, oil and gas, mining and manufacturing, trade, fast moving consumer goods, transport, construction and communication sectors on a case-by-case basis. Services and products in the retail and private sectors are currently limited to maintaining accounts and accepting term deposits.

Islamic finance legislation in Kazakhstan is still being developed and accordingly the financing products offered by Al Hilal Kazakhstan are currently restricted to *murabaha* and *ijara* transactions and *wakala* investments. Al Hilal Kazakhstan also offers demand deposits and term *mudaraba* and *wakala* deposit facilities for corporate and high net worth retail clients.

As at 31 March 2014, Al Hilal Kazakhstan had 60 employees working across its three branches.

Wataniya Development Fund Limited

Wataniya Development Fund Limited (the "**Fund**") represents an investment by AHB in 2009, together with Abu Dhabi Investment House, which is the Fund's manager, as well as two state (Oman and Brunei) pension funds, in the development of a commercial building in Abu Dhabi. AHB owns a 47 per cent. stake in the Fund and 50 per cent. of the Fund's board of directors is comprised of representatives of AHB. As AHB is the largest shareholder of the Fund, the Fund is consolidated into AHB's financial statements.

Finance Portfolio

The table below sets out details of AHB's receivables from Islamic financing activities and *ijara* as at 31 March 2014, 31 December 2013 and 31 December 2012 classified by type of Islamic financing:

	As at 31 March	As at 31 December	
	2014	**2013**	**2012**
	(AED millions)		
Corporate commodity murabaha	13,748.4	13,665.6	11,680.9
Retail musawama and murabaha	8,792.2	12,478.7	10,625.0
Islamic credit card receivable	81.2	80.7	77.5
Other Islamic financings	183.9	183.9	—
Murabaha deferred profit	0.0	(4,541.6)	(3,922.3)
Corporate Ijara Mawsufa Fi-aldhimma	201.4	225.5	288.5
Corporate Musharaka	288.3	212.1	—
Corporate standard Ijara	3,393.3	3,411.1	2,692.5
Retail Ijara Mawsufa Fi-aldhimma	123.1	134.0	220.5
Retail standard Ijara	2,195.5	2,143.1	1,960.8
Total gross receivables from Islamic financing and Ijara	**29,007.3**	**27,993.1**	**23,623.4**
Allowance for impairment	(929.4)	(889.9)	(712.5)
Total net receivables from Islamic financing and Ijara	**28,077.9**	**27,103.2**	**22,910.9**

The table below sets out details of AHB's performing and non-performing financing assets from Islamic financing activities and *ijara* as at 31 December 2013 and 31 December 2012:

	As at 31 December	
	2013	**2012**
	(AED millions)	
Wakala deposits	3,165.2	2,817.0
Allowance for impairment	15.7	(11.2)
Total	3,149.5	2,805.8
Non-performing	340.4[(1)]	308.0[(1)]
Total	27,993.1	23,623.4
Provision for credit losses	(889.9)	(712.5)
Receivables from Islamic financing activities and ijara, net	**27,103.2**	**22,910.9**

Note:

(1) Of this, AED 306.8 million (2012: AED 276.6 million) represents non-performing financings with retail customers, with the remaining AED 33.6 million (2012: AED 31.4 million) with corporate customers.

The table below sets out details of AHB's non-performing financing assets as well as past due but not impaired financing assets from Islamic financing activities and *ijara* as at 31 December 2013 and 31 December 2012:

	As at 31 December	
	2013	**2012**
	(AED millions)	
Past due but not impaired	1,391.2	1,615.8
Impaired	340.4(1)	308.0(1)
Gross	1,731.6	1,923.8
Provision for credit losses	(889.9)	(712.5)
Net	841.7	1,211.3

Note:

(1) Of this, AED 306.8 million (2012: AED 276.6 million) represents non-performing financings with retail customers, with the remaining AED 33.6 million (2012: AED 31.4 million) with corporate customers.

Please see "—*Credit Risk—Exposure to Credit Risk*" below for further discussion on AHB's largest individual exposures.

The table below set out details of AHB's gross financing assets from Islamic financing activities and *ijara* by industry sector as at 31 December 2013 and 31 December 2012:

	As at 31 December	
	2013	**2012**
	(AED millions)	
Agriculture, fishing and related activities	307.9	112.3
Crude oil, gas, mining and quarrying	247.2	152.3
Manufacturing	1,492.1	394.7
Electricity and water	2,324.4	300.0
Construction and Real Estate	2,290.3	394.0
Trade	4,180.4	1,077.8
Transport, storage and communication	1,765.8	692.7
Financial institutions	1,271.5	885.6
Services	897.8	144.1
Government	109.9	4,599.3
Retail/consumer banking	10,347.3	11,850.6
All others	2,758.5	2,307.4
Total	**27,993.1**	**22,910.9**

In addition to its financing assets from Islamic financing activities and *ijara*, AHB has *murabaha* and *wakala* deposits with banks and other financial institutions. The table below sets out details of these deposits as at 31 December 2013 and 31 December 2012:

	As at 31 December	
	2013	**2012**
	(AED millions)	
Wakala deposits	3,165.2	2,817.0
Allowance for impairment	15.7	(11.2)
Total	**3,149.5**	**2,805.8**

Funding and Liquidity

AHB's main source of funding is customer deposits, Wakala deposits from banks and shareholders' equity. See "*Selected Financial Information—Source of Funding*" above.

The table below shows a summary of AHB's maturity profile as at 31 December 2013:

	Less than 3 months	3-12 months	1-5 years	Greater than 5 years	Total
			(AED millions)		
Assets					
Cash and balances with banks	2,019.6	817.5	—	—	2,837.2
Wakala deposits with banks and other financial institutions	2,580.3	385.6	183.6	—	3,149.5
Receivables from Islamic financing activities	3,363.9	3,268.4	8,703.9	5,783.6	21,119.7
Ijara	855.1	807.0	2,472.2	1,849.2	5,983.4
Investment securities	55.7	1,991.3	557.7	323.6	2,928.2
Other assets	—	—	—	982.9	982.9
Total	**8,874.6**	**7,269.7**	**11,917.4**	**8,939.2**	**37,001.0**
Liabilities					
Customers' accounts	18,229.1	9,734.0	213.2	2.0	28,178.3
Wakala deposits from banks	3,176.1	4.2	—	—	3,180.2
Sukuk financing instrument	—	—	1,836.3	—	1,836.3
Other liabilities	—	—	—	1,489.4	1,489.4
Total liabilities	**21,405.1**	**9,738.2**	**2,049.4**	**1,491.4**	**34,684.2**
Net position	**(12,530.5)**	**(2,468.5)**	**9,868.0**	**7,447.8**	**2,316.8**

The table below shows a summary of AHB's maturity profile as at 31 December 2012:

	Less than 3 months	3-12 months	1-5 years	Greater than 5 years	Total
			(AED millions)		
Assets					
Cash and balances with banks	1,437.2	—	—	—	1,437.2
Wakala deposits with banks and other financial institutions	2,651.2	154.6	—	—	2,805.8
Receivables from Islamic financing activities	1,617.0	2,932.5	7,480.9	5,829.4	17,859.9
Ijara	396.7	589.5	2,062.7	2,002.0	5,051.0
Investment securities	103.2	7.0	2,563.5	126.0	2,799.6
Other assets	614.7	—	—	—	614.7
Total	**6,820.0**	**3,683.7**	**12,107.1**	**7,957.4**	**30,568.2**
Liabilities					
Customers' accounts	13,855.4	7,483.1	3,613.2	5.0	24,956.7
Wakala deposits from banks	2,491.6	—	—	—	2,491.6
Other liabilities	1,103.0	—	—	—	1,103.0
Total liabilities	**17,450.0**	**7,483.1**	**3,613.2**	**5.0**	**28,551.3**
Net position	**(10,630.0)**	**(3,799.4)**	**8,493.9**	**7,952.4**	**2,016.9**

Risk Management

AHB faces a variety of financial and other risks in its operations (including credit, market, liquidity, operational and *takaful* and *re-takaful risks*) in respect of which it has implemented a risk management structure to ensure the identification, measurement, monitoring and control of risk in accordance with AHB's risk management policy and the regulatory guidelines provided by the UAE Central Bank.

AHB's risk management policies are designed to identify, analyse and evaluate, set appropriate limits for and monitor risk. The overall responsibility for risk management rests with the Board. Senior management is responsible for the implementation of AHB's risk management framework, as approved by the Board, in accordance with defined policies and procedures focused on mitigating and controlling risks.

AHB's risk management framework is integral to the operations and culture of AHB. Risks are proactively managed within AHB and the framework is sufficiently flexible to incorporate any new operations AHB undertakes. The framework is comprehensive and has been communicated from the Board down to AHB's individual business lines. AHB's business strategy is to achieve the objective of being a strong financial institution with insight and transparency in risk-taking. The risk governance framework supports this objective and promotes transparency within AHB.

The Group Risk Management Division ("GRMD") is responsible for the overall risk management framework of AHB. The GRMD is an independent group comprised of specialist members from the risk units and the risk functions of AHB, is headed by AHB's Chief Risk Officer ("CRO") and reports to AHB's Chief Executive Officer ("CEO") and the Board Risk Committee ("BRC"). The GRMD is responsible for overseeing risk on behalf of the BRC and for reviewing and highlighting all risk issues that require senior management's attention. The GRMD undertakes a group-wide risk assessment for AHB and, where necessary, changes are made to improve processes and procedures in order to further strengthen the risk framework. The GRMD is the primary platform for formulating policies relating to risk issue(s) which are then reviewed and approved by the BRC and the Board. The GRMD is further responsible for ensuring implementation of the Basel regulatory framework across AHB as prescribed by the UAE Central Bank. The GRMD is also responsible for ensuring that the risk organisational structure of AHB is equipped with the appropriate skills, policies and processes to enable it to perform efficiently and effectively and for reviewing, monitoring and managing the risk emanating across AHB's operations in conjunction with the respective business heads for individual business lines.

AHB's approach to risk management revolves around the "Five Pillars of Risk Management" it has identified, which are as follows:

- *Strong Corporate Governance*, consisting of (i) ensuring the presence on the Board of qualified people who have a clear understanding of the roles and responsibilities relating to risk management; (ii) operating oversight committees to oversee risk management; (iii) avoiding conflicts of interest; (iv) compliance with high ethical and *Sharia* principles; and (v) establishing risk tolerance and threshold levels through AHB's risk appetite statement, to manage risk exposures;

- *Robust Risk Architecture*, consisting of (i) establishing and continually reviewing IT platforms to monitor, measure and control risk; (ii) ensuring a comprehensive management information systems ("MIS") risk reporting and monitoring system is in place; and (iii) ensuring that the risk infrastructure systems meet AHB's needs and that a platform for the development and implementation of more advanced risk management systems is in place;

- *Adherence to Globally Accepted Risk Standards*, which involves (i) taking a disciplined approach to the measuring, monitoring and management of risk; (ii) maintaining a disciplined approach to financing portfolio management in line with globally accepted standards; and (iii) continually reviewing and updating AHB's risk management policies and processes;

- *Skilled and Seasoned Employees*, ensuring that (i) AHB's risk personnel consists of those who have the appropriate skills and experience and who provide leadership and team building qualities; and (ii) proper and regular training of staff is provided; and

- *Robust Risk Culture*, (i) emphasising the importance of a prudent approach to risk; (ii) ensuring predictable performance by internal monitoring of consistent risk assessment through the internal audit function; (iii) striking a suitable balance between risk and reward; (iv) compliance with regulatory standards; (v) fraud prevention; and (vi) developing a sound risk strategy for AHB.

AHB operates the following committees to manage risk (see further "—*Management*" for a diagrammatic representation of these committees together with their reporting lines), each of which meets at least on a quarterly basis:

- *Board Risk Committee*. The Board has delegated oversight of AHB's risk and controls to the BRC. The membership of the BRC includes at least three members of the Board. Members of the BRC and its Chairman are nominated by the Board.

  The responsibilities of the BRC include the following:

  - To oversee the development and annual review of risk management policies and plans to recommend for approval to the Board.
  - To make recommendations to the Board concerning the levels of current and future risk tolerance, appetite and strategy.
  - To ensure that risk management frameworks and methodologies are implemented to increase the possibility of anticipating unpredictable risks.
  - To ensure that AHB's management considers and implements appropriate risk controls.
  - To ensure the business continuity plans of AHB are in place.
  - To approve credit proposals beyond the authority of the Management Credit Risk Committee ("MCRC").
  - To regularly review the evolving risk profile of AHB.

The BRC will periodically review and assess the adequacy of the above list of responsibilities as required and recommend any proposed changes to the Board.

- Management Risk Committee ("MRC").

  The main responsibility of the MRC is to oversee risk within AHB and report to the BRC. The membership of the MRC comprises the CEO and executive level management of AHB.

  The responsibilities of the MRC include the following:

  - To review and approve the risk management framework with recommendations to the BRC for approval by the Board.
  - To implement specific limits or tolerance levels that are aligned with those overall limits set by the Board at departmental or functional activity and operational risk levels.
  - To identify and consider different ways that AHB can respond to the risks identified during the risk assessment process. Risks are not only identified for their potential negative impact, but also the positive business opportunities that they may present.
  - To review on a quarterly basis AHB's performance of all Basel II (and, when implemented, Basel III) related issues, including risk rating systems and regulatory capital requirements.
  - To appraise and assess the evolving risk profile of AHB.

  The MRC will periodically review and assess the adequacy of the above list of responsibilities as required and recommend any proposed changes to the BRC for ultimate approval by the Board.

- *Management Operational Risk Committee* (the "MORC").

  The MORC is a subcommittee of the MRC which is dedicated to all operational risks, including fraud and compliance. The MORC is chaired by the CEO (or the CRO in his absence) and attended by all business unit heads, support function heads, the chief executive officer of Al Hilal Takaful (as an invitee) and the Head of Internal Audit. The Head of Operational Risk also attends as the secretary and/or coordinator. The MORC meets four times a year and its purpose is to provide assurance to the BRC that the operational risks facing AHB are being adequately identified, assessed, mitigated or controlled and monitored in a manner commensurate with AHB's risk management policies.

- Management Credit Risk Committee.

  The primary responsibility of the MCRC is the management and oversight of credit risk at AHB.

  The voting members of the MCRC comprise the CEO, CRO, Executive Vice President ("**EVP**") – Treasury Banking Group, EVP – Wholesale Banking Group, EVP – Investment Banking Group and EVP – Personal Banking Group.

  The responsibilities of the MCRC include the following:

  - To approve credit limits and obligor limits within its authority levels as delegated by the Board.
  - To review credit approval cases beyond its delegated authorities for onward recommendation to the BRC.
  - To review and approve credit policies and changes to these policies, within the risk management framework as approved by BRC.
  - To review all debt restructuring and write-off cases and make decisions regarding the reclassifications of AHB's credit assets.

  The MCRC will periodically review and assess the adequacy of the above list of responsibilities as required and recommend any proposed changes to the BRC for ultimate approval by the Board.

- *Management Remedial Committee* (the "Remedial Committee"). The primary responsibility of the Remedial Committee is the management of remedial and past-due customer exposures.

  The membership of the Remedial Committee comprises the CEO, CRO, EVP – Wholesale Banking Group, EVP – Personal Banking Group, EVP – Investment Banking Group and EVP – Treasury Banking Group.

  The responsibilities of the Remedial Committee include the following:

  - To review all legal cases outstanding for defaulted customers including those that have been written-off.
  - To institute various directives to the respective departments with follow-up actions in respect of certain outstanding past due and remedial accounts as may be recommended by the Remedial Committee.
  - To assign adequate provisions to past due customer exposures where required.
  - To approve recommendations for the sale of real estate or other collateral which is provided as collateral against defaulted customer exposures after all measures to recover the defaulted debt have been exhausted.
  - To recommend to the Board write-offs of defaulted debts in accordance with AHB's write-off policy (pertaining to non-performing financings) after all efforts of recovery have been exhausted and where there is little prospect of recovery.
  - To seek the inclusion or removal of a defaulting customer's name from the UAE Central Bank's Risk Bureau database.
  - To recommend and approve rescheduling and restructuring of the customer's debts.

  The Remedial Committee will periodically review and assess the adequacy of its above list of responsibilities as required and recommend any proposed changes to BRC for approval.

- *Assets and Liabilities Committee*. The primary responsibility of the ALCO is AHB's assets / liabilities management and the monitoring of market and liquidity risk to which AHB is exposed.

  The membership of the ALCO comprises the CEO, Chief Financial Officer (the "**CFO**"), CRO, EVP – Treasury Banking Group, EVP – Wholesale Banking Group, EVP – Investment Banking Group and EVP – Personal Banking Group. The ALCO meets on a monthly basis to review the liquidity position of AHB.

  The responsibilities of the ALCO include the following:

  - To develop and submit for approval to the Board AHB's Assets and Liabilities Policy.
  - To review and propose changes to the Assets and Liabilities Policy, including risk limits, measurement, and management and monitoring processes to the Board.

- To review and approve the profit rate forecasts to be used in evaluating the effect of changes in profit rates on AHB's earnings.
- To develop, review and modify the primary asset-liability profile of AHB in line with the profit rate risk management objectives, business plans and operating strategy of AHB.
- To evaluate AHB's current profit rate risk position.
- To review deviations between actual positions and set limits and direct modifications to comply with AHB's risk management guidelines.
- To report AHB's financial risk exposures (profit rate risk, liquidity risk and other market risks) to the Board, comparing AHB's current positions against the policy limits.
- To inform the Board of any regulatory developments that affect asset/liability policies and strategies.
- To review the adequacy of AHB's liquidity position including regulatory limits.

- *Management Investment Committee* (the "MIC"). The primary responsibility of the MIC is the management and monitoring of AHB's investment activity.

  The membership of the MIC comprises the CEO, CFO, EVP – Treasury Banking Group, EVP – Wholesale Banking Group, EVP – Investment Banking Group and CRO.

  The responsibilities of the MIC include the following:

  - To review and recommend to the Board the investment strategy for the financial year.
  - To inform the Board on any breaches of investment limits, the remedial action taken and the immediate and future impact of the breach.
  - To review and approve policy and procedures for matters relating to investment.
  - To review at least annually, if applicable, the performance of each investment manager / custodian and their fees.
  - To review and approve all new investments made by AHB.
  - To review and approve recommendations for the sale of AHB's investments.

- *Finance Committee* (the "FINCO"). The primary responsibility of FINCO is to assess AHB's business performance, monitor capital and operating expenditure, review the annual budget and business plan.

  The membership of the FINCO comprises the CEO, CFO, EVP – Human Capital & Facilities Management, CRO, EVP – Treasury Banking Group, EVP – Wholesale Banking Group, EVP – Investment Banking Group and EVP – Personal Banking Group.

  The responsibilities of the FINCO include the following:

  - To assess business performance at a business line, product and customer level based on established metrics and approaches.
  - To monitor capital and operating expenditure at a business line and overhead level against AHB's budget, and report any transgressions or unusual trends to the Board.
  - To monitor net margins in line with AHB's budget and medium term strategy and report any unusual trends to the Board.
  - To review and provide recommendations to the Board for (i) the annual budget and business plan; and (ii) the medium term strategic plan.

Independent reviews of the credit, risk and compliance management functions of AHB are carried out by internal and external auditors, and the UAE Central Bank maintains proactive oversight and conducts regular inspections.

AHB is exposed to five major areas of risk: credit risk, market risk, liquidity risk, operational risk and *takaful* and *re-takaful* risk.

Credit Risk

Credit risk is the risk of financial loss to AHB if a customer or counterparty fails to meet its contractual obligations to make a payment to AHB. Credit risk arises principally from AHB's receivables from Islamic financing activities, *ijara* assets and investments in *Sharia-compliant* products and structures. AHB is exposed to credit risk through its financing, trading, treasury and investment activities and when it acts as an intermediary on behalf of its customers or third-parties, or issues guarantees.

The GRMD develops and maintains AHB's credit risk grading in order to categorise exposures according to the degree of risk and to alert management to these risks. The risk grading system reflects the probability of an obligor defaulting. Prior to facilities being made available to customers by the relevant business unit, the GRMD assesses all credit exposures which are in excess of designated limits. Facilities are also subject to an annual review process. AHB further manages credit exposure by obtaining security and collateral where this is deemed appropriate and by limiting the duration of AHB's exposure to the relevant customer or counterparty.

AHB provides an allowance for impairment losses on assets carried at amortised cost that represents its estimate of expected losses on its financial assets. The main components of this allowance are a specific loss component (relating to individually significant exposures) and a collective loss allowance (which is calculated at a general level). Any write-off for an impaired facility or investment is approved by the BRC upon determination by the GRMD and/or Remedial Committee that the facility or investment will not be recovered.

As at 31 March 2014, of AHB's total financings of AED 28.1 billion, AED 11.4 billion, or approximately 41 per cent., benefitted from collateral arrangements. Of this percentage, 40 per cent. were granted in respect of real estate, 27 per cent. in respect of deposits or other assets, 13 per cent. in respect of share pledges, 10 per cent. in respect of government guarantees and the remaining 10 per cent. in respect of financial guarantees.

Credit approval process

- *Wholesale Banking*. The credit approval process commences with AHB's relationship manager undertaking a detailed consultation with, and due diligence process in respect of, the customer. AHB's relationship manager then prepares the credit application which incorporates an analysis of the customer's relevant financial, business and/or management factors. This application also incorporates details of the credit lines that have been requested by the customer along with any security/collateral that has been proposed. This application is duly reviewed by AHB's relevant area managers and is then, with the support of the EVP – Wholesale Banking Group, forwarded to the GRMD for its review. Within the GRMD a credit manager will review the credit application and, after clearing all issues with the business applying for credit, prepare a GRMD recommendation. The credit application is then presented to the MCRC for its approval and/or recommendation. After due consideration, the MCRC will either approve and/or recommend the proposal (with or without new conditions) or decline it and request that it is presented again with certain clarifications on issues raised. Any credit application which is in excess of the MCRC's authority, which varies depending on the rating applied to the customer and the amount and term of the financing applied for and level of cash collateralisation, is forwarded to the BRC for approval.
- *Personal Banking*. Applications for retail finance are submitted by the sales team to AHB's credit team in Abu Dhabi or Dubai, depending on the location of the customer. The analyst then reviews the application to ensure (i) all mandatory UAE Central Bank and 'blacklist' checks have been completed, (ii) all required documentation has been provided in accordance with the relevant product manual and (iii) the customer meets the relevant eligibility requirements set out in AHB's Credit Policy. Applications that satisfy all of these criteria are then forwarded for credit approval, with the level at which such approval is to be obtained depending on the total amount and nature of the financing applied for and the total exposure of AHB to the customer. This level of approval authority is determined by the MCRC. Credit applications which exceed the delegation limits for Personal Banking are presented to the MCRC for its approval.

Exposure to credit risk

AHB measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

As at 31 March 2014, 31 December 2013 and 31 December 2012, AHB's maximum exposure to credit risk before collateral held or other credit enhancements was as follows:

	As at 31 March	As at 31 December	
	2014	**2013**	**2012**
	(AED millions)		
Cash and balances with banks	2,424	2,651.2	1,234.2
Murabaha and wakala deposits with banks and other financial institutions	2,564	3,149.5	2,805.8
Receivables from Islamic financing activities	22,032	21,119.7	17,859.9
Ijara	6,046	5,983.4	5,051.0
Investment securities	3,220	2,928.2	2,799.6
Other assets	776	982.9	614.7
	37,062	36,815.0	30,365.2
Contingencies and commitments	12,886.7	13,109.2	10,842.2

Note:
The table above represents a worst case scenario of credit risk exposure of AHB at 31 March 2014, 31 December 2013 and 31 December 2012 without taking account of any collateral held or other credit enhancements. For on-balance-sheet assets, the exposures set out above are based on the gross carrying amounts as reported in the consolidated statement of financial position, at those respective dates.

As at 31 March 2014, 31 December 2013 and 31 December 2012, over 99 per cent. of AHB's AED 28.1 billion, AED 27.1 billion and AED 22.9 billion, respectively, of total financings and over 99 per cent. of its AED 12.9 billion, AED 13.1 billion and AED 10.8 billion, respectively, of contingencies and commitments were concentrated in the UAE.

In terms of the industry concentration of AHB's total financing portfolio, as at 31 March 2014, the retail/consumer banking sector accounted for approximately 38.4 per cent., Trade accounted for approximately 14.7 per cent., Electricity & Water accounted for approximately 8.1 per cent., Construction and Real Estate accounted for approximately 8.0 per cent. whilst the Government sector accounted for approximately 0.4 per cent., as compared to approximately 37.0 per cent., 14.9 per cent., 8.3 per cent., 8.2 per cent. and 0.4 per cent., respectively, as at 31 December 2013 and approximately 51.7 per cent., 4.7 per cent., 1.3 per cent., 1.7 per cent. and 20.1 per cent., respectively as at 31 December 2012.

AHB's ten largest financings represented approximately 24.5 per cent. of its total financings as at 31 March 2014, 26.0 per cent. as at 31 December 2013 and approximately 29.0 per cent. as at 31 December 2012. AHB's largest funded exposure to a private sector obligor was approximately AED 1,030 million as at 31 March 2014, AED 1,015 million as at 31 December 2013 and AED 641 million as at 31 December 2012, which constituted around 3.7 per cent. of AHB's total financings as at 31 March 2014 and as at 31 December 2013 and 2.8 per cent. as at 31 December 2012.

In line with the UAE Central Bank's loan classification and provisioning circular of 11 November 2010, AHB classifies its financings as normal (all information available indicates payment as agreed), watch-list (some weakness in the obligor's financial position and credit worthiness that requires more than normal attention), sub-standard financings (payment are in arrears beyond 90 days or some loss is possible due to adverse factors), doubtful financings (full recovery seems doubtful based on available information, resulting in a loss on part of such financings) and loss financings (possibility of no recovery after AHB has exhausted all available courses of action). In the case of sub-standard financings, a specific provision is made for a minimum of 25 per cent. of the net exposure amount, in the case of doubtful loans this provisioning level is 50 per cent. of the net exposure amount and, in the case of loss financings, full provision for the net exposure amount is made.

In the case of corporate and commercial financings, whether a financing is to be classified as doubtful or a loss is to be determined by an assessment of the particular financing rather than the number of days by which payment is past due. In the case of retail and consumer facilities, a financing will be considered sub-standard when payments are 90 to 120 days past due, doubtful when 121 to 180 days past due and a loss when more than 180 days past due.

Non-performing financings comprise financings which are more than 90 days past their due date and impaired financings. The tables below set out an analysis of past due financings by number of days past due as at 31 December 2013 and 31 December 2012:

	As at 31 December 2013				
	1-29 days	30 to 59 days	60 to 89 days	Above 90 days	Total
	(AED millions)				
Past due but not impaired financings	539.8	104.1	49.7	697.5	1,391.1
Past due and impaired financings	—	—	—	340.4	340.4
Total	539.8	104.1	49.7	1,037.9	1,731.5

	As at 31 December 2012				
	1-29 days	30 to 59 days	60 to 89 days	Above 90 days	Total
	(AED millions)				
Past due but not impaired financings	239.7	332.2	172.8	871.1	1,615.8
Past due and impaired financings	—	—	—	308.0	308.0
Total	239.7	332.2	172.8	1,179.1	1,923.8

The following table sets out AHB's impairment charges on financial assets as at 31 December 2013 and 2012:

	Wakala deposits with banks and other financial institutions		Ijara		Receivables from Islamic financing		Investment securities		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	(AED millions)									
At 1 January	11.2	11.8	111.3	80.5	601.2	405.4	2.9	8.2	726.7	505.9
Charge for the year	4.5	(0.6)	31.8	30.9	178.3	232.2	4.6	(5.3)	219.2	257.3
Write offs and recoveries	—	—	(0.8)	(0.1)	(22.6)	(30.5)	—	—	(23.4)	(30.5)
Unwinding on renegotiated financings	—	—	—	—	(9.4)	(5.9)	—	—	(9.4)	(5.9)
At 31 December	15.7	11.2	142.4	111.3	747.5	601.2	7.5	2.9	913.1	726.7

The total carrying amount of financings that have been renegotiated as at 31 December 2013 was AED 1.0 billion and AED 1.0 billion as at 31 December 2012.

Prior to a financing becoming non-performing it will be placed on a watch-list and monitored by the GRMD, relationship managers within the Wholesale Banking Group and the MCRC for discussion and updates on the account's status. AHB ceases to accrue income on financings that have been provisioned or where payment is overdue by more than 90 days. Impaired financings are written-off by AHB once all reasonable restructuring and collection efforts have been undertaken or where the possibility of any further recovery is considered remote.

Market risk

Market risk is the current or prospective risk that changes in financial market prices and rates will cause fluctuations in the fair value or future cash flows of financial instruments. The risk arises from imbalances in AHB's balance sheet as well as from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

Overall authority for market risk management is vested with the Market Risk Middle Office within the GRMD, which is responsible for monitoring and developing management policies in relation to market risk (with such policies being subject to the review and approval of the BRC).

AHB's market risk exposure comprises exposures in its trading book and banking book.

Trading Book Exposures

AHB's trading book exposures are currently minimal and comprise of open positions in foreign exchange, equity and *sukuk* investments held in the trading book of AHB.

Banking Book Exposures

Banking book exposures include all rate-sensitive assets and liabilities not categorised under trading book exposures. The primary market risk exposure for banking book assets and liabilities is the profit rate risk which will impact the value of rate-sensitive assets and liabilities.

Market risk arising from investment in debt and capital markets

AHB is exposed to market risk arising from its investment securities portfolio, which primarily comprises investments in *sukuk* and investment in publicly traded equities as well as mutual funds. See "—*Treasury Banking Group*" above for further discussion on the components of AHB's investment securities portfolio. The majority of AHB's investment securities are publicly traded. The table below shows the impact that a 10 per cent. increase or decrease in the prices of the major components of AHB's investment securities portfolio would have on AHB's results and equity for the years ended 31 December 2013 and 31 December 2012 (this analysis is based on the assumption that all other variables will remain constant and, where applicable, AHB's investments moved according to the historical correlation of the relevant index):

	Impact on results and equity of AHB	
	As at 31 December	
	2013	2012
	(AED millions)	
+/- 10% change in investment security prices:		
Profit and loss	1.6	9.1
Other Comprehensive Income	5.6	2.7

Currency risk

AHB is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Senior management sets limits on the level of currency exposure, in aggregate for both overnight and intra-day positions, and monitors currency positions on a daily basis.

The table below shows the composition of AHB's foreign currency exposure to significant currencies as at 31 December 2013 and 31 December 2012:

	Net open position	
	As at 31 December	
	2013	2012
	(AED millions)	
Currency		
Euro	(0.1)	—
British Pounds	0.0	0.2
Japanese Yen	0.1	0.1
Omani Riyals	0.1	0.2
Various currencies	(2.8)	0.4

If the exchange rate between the various currencies and the AED increased or decreased by 10 per cent. then, assuming that all other variables remained constant, the impact on the results and equity of AHB would be immaterial due to the fact that AHB's FX open position has remained minimal. The net open position of AHB (excluding US dollar and other GCC currencies which, as at the date of this Prospectus, are pegged to the US dollar) as at 31 December 2013 was AED 2.7 million compared to AED 0.9 million as at 31 December 2012. As at 31 March 2014 the net open position of AHB was AED 3.4 million.

Profit rate risk within the banking book

Profit rate risk reflects the degree of vulnerability of an organisation to adverse changes in profit rates. AHB's net profit income can be significantly affected by the impact of profit rate changes on its balance sheet. Profit rate risk occurs when assets and liabilities mature or reprice at different times. If more liabilities than assets are repriced in a given period and market profit rates are declining, AHB's repriced liabilities (funding cost) will fall. This increases the asset/liability profit rate spread, with a positive impact on AHB's gross margin. Conversely, if more assets than liabilities reprice or mature in a given period, then a decline in market profit rates will reduce the asset/liability profit rate spread, with a negative impact on AHB's gross margin. These fluctuations in gross profit margin are effectively 'neutralised' when assets are funded by identically matching liabilities. To eliminate repricing risk all assets and liabilities will have the same maturity and amortisation profile. Matched funding, however, does not maximise earnings. To increase earnings, AHB's businesses selectively mismatch asset and liability repricing to take advantage of expected profit rate movements and the shape of the expected yield curve. A long-term impact of profit rates is on the net worth of AHB as the economic value of AHB's on-balance sheet assets, liabilities and off-balance sheet positions are affected by variations in market rates. Therefore, each business within AHB is encouraged to accept and manage profit rate risk proactively against defined limits set by AHB depending on each businesses' potential returns and its capacity to absorb the potential losses from the adverse movements described above. These internal limits are assigned as 'best practice', with AHB's Treasury Banking Group being responsible for overall profit rate risk management.

The table below shows the impact that a 200 basis points increase or decrease in profit rates on both the assets and liabilities of AHB would have on AHB's results and equity for the years ended 31 December 2013 and 31 December 2012 (assuming all other variables remain constant). The impact highlighted is calculated using the 'earnings at risk' approach which measures the expected variability over a twelve month period as a result of the plus or minus 200 basis points change in profit rates:

	Impact on results and equity of AHB	
	As at 31 December	
	2013	2012
	(AED millions)	
+/-200 basis points change in profit rates	135.0	98.9

The table below shows a summary of AHB's profit rate re-pricing as at 31 December 2013:

	Less than 3 months	3-6 months	6-12 months	1-5 years	Greater than 5 years	Non-sensitive	Total
			(AED thousand)				
Assets							
Cash and balances with banks	—	—	799,432	—	—	2,037,746	2,837,178
Murabaha and wakala deposits with banks and other financial institutions	2,580,320	372,987	12,603	183,625	—	—	3,149,535
Receivables from Islamic financing activities	8,489,301	4,155,531	712,273	3,126,710	4,525,137	110,772	21,119,724
Ijara	3,259,957	2,134,447	107,823	463,322	17,892	—	5,983,441
Investment securities	170,000	—	1,836,250	542,722	269,560	109,664	2,928,196
Other assets	—	—	—	—	—	982,903	982,903
Total assets	**14,499,578**	**6,662,965**	**3,468,381**	**4,316,379**	**4,812,589**	**3,241,085**	**37,000,977**
Liabilities							
Customers' accounts	15,812,921	4,327,749	4,210,788	90,584	2,000	3,734,265	28,178,307
Wakala deposits from banks	3,175,641	4,160	—	—	—	409	3,180,210
Sukuk financing instrument	—	—	—	1,836,250	—	—	1,836,250
Other liabilities	—	—	—	—	—	1,489,390	1,489,390
Total liabilities	**18,988,562**	**4,331,909**	**4,210,788**	**1,926,834**	**2,000**	**5,224,064**	**34,684,157**
Net position	**(4,488,984)**	**2,331,056**	**(742,407)**	**2,389,545**	**4,810,589**	**(1,982,979)**	**2,316,820**

The table below shows a summary of AHB's profit rate re-pricing as at 31 December 2012:

	Less than 3 months	3-6 months	6-12 months	1-5 years	Greater than 5 years	Non-sensitive	Total
			(AED thousand)				
Assets							
Cash and balances with banks	—	—	—	—	—	1,437.2	1,437.2
Murabaha and wakala deposits with banks and other financial institutions	2,651.2	104.5	50.1	—	—	—	2,805.8
Receivables from Islamic financing activities	8,088.6	2,791.4	706.2	2,340.6	3,753.5	179.4	17,859.9
Ijara	2,934.7	2,027.1	29.1	60.1	—	—	5,051.0
Investment securities	177.0	—	—	2,321.9	126.0	174.7	2,799.6
Other assets	—	—	—	—	—	614.7	614.7
Total assets	**13,851.5**	**4,923.0**	**785.4**	**4,722.6**	**3,879.5**	**2,406.0**	**30,568.2**
Liabilities							
Customers' accounts	13,883.0	3,578.1	2,922.7	2,294.2	5.0	2,273.7	24,956.7
Wakala deposits from banks	2,481.1	—	—	—	—	10.5	2,491.6
Other liabilities	—	—	—	—	—	1,103.0	1,103.0
Total liabilities	**16,364.1**	**3,578.1**	**2,922.7**	**2,294.2**	**5.0**	**3,387.2**	**28,551.3**
Net position	**(2,512.6)**	**1,344.9**	**(2,137.3)**	**2,428.4**	**3,874.5**	**(981.2)**	**2,016.9**

Liquidity risk

Liquidity risk is the risk that AHB will encounter difficulty in repaying its funding or will only be able to secure funding at excessive cost. Liquidity risk arises from the inability to manage unplanned decreases or changes in funding sources.

The management of liquidity risk is driven by the Board. The Board defines the scope of the liquidity risk policy and delegates its authority to the ALCO, which has the responsibility for understanding the risks assumed by AHB and ensuring that these risks are appropriately managed. The delegation of approval authorities is formalised and governed by the ALCO as described above, complemented by the general oversight of the GRMD.

Active liquidity management

AHB's approach to managing liquidity is to ensure, as far as is possible, that it has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring significant losses or risking damage to AHB's reputation. The Treasury Banking Group monitors AHB's significant maturing financings and deposits on a daily basis while a comprehensive liquidity reporting process is conducted on a weekly and monthly basis. The Treasury Banking Group then maintains a portfolio of short-term liquid assets which normally consist of short-term liquid investment securities and inter-bank facilities to ensure that sufficient liquidity is maintained within AHB. The liquidity requirements of business units and subsidiaries are met through short-term financing from the Treasury Banking Group to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. The daily liquidity position is monitored and regular stress testing is conducted under a variety of scenarios covering the normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the ALCO. Daily reports cover the liquidity position of AHB, its operating subsidiaries and its branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to the ALCO.

AHB relies on customers' accounts and wakala deposits from banks as its primary sources of funding. Customers' accounts and wakala deposits from banks generally have shorter maturities and a large proportion of them are repayable on demand, although historically many of AHB's deposits have been 'sticky' and so not withdrawn from AHB. The short-term nature of these deposits increases AHB's liquidity risk and AHB actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

Liquidity management strategy

AHB controls liquidity risk through regular monitoring of a number of key ratios such as advances to stable resources ratio, liquidity asset ratio and sources of funds analysis.

Liquidity shortfall limits for different time periods are also currently being established and any exceptions to these limits are referred to ALCO for remedial action.

AHB's ability to withstand both temporary and longer-term liquidity disruptions and its ability to fund some or all of its activities in a timely manner and at a reasonable cost depend on the adequacy of its formal liquidity contingency plans. AHB therefore has implemented a Contingency Funding Plan ("CFP") to ensure that a comprehensive strategy is instituted in AHB to guide its senior management in handling a liquidity crisis. This includes procedures for meeting cash flow shortfalls in emergency situations as well as setting up the roles and responsibilities to be carried out by various executives and departments. The CFP may be executed in the event of a liquidity crisis, whether it is a Bank-specific or a general-market crisis.

See "—*Funding and Liquidity*" above for a summary of AHB's maturity profiles as at 31 December 2013 and 31 December 2012.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events. AHB has implemented a strategic operational risk management framework and the MORC meets regularly to review AHB's operational risk profile and key areas of risk. AHB also ensures that departmental risk control self-assessments are conducted on a regular basis.

Takaful and re-takaful risk

Takaful risk

Takaful risk is where the *takaful* funds agree to indemnify the insured parties against unforeseen, future insured events. The frequency and severity of claims are the main risk factors. Due to the inherent risk in the *takaful* business, actual claim amounts can vary marginally compared to the outstanding claim reserves but are not expected to have a material impact on the financial performance of the business.

Re-takaful risk

In order to minimise financial exposure arising from large claims, Al Hilal Takaful, in the normal course of business, enters into agreements with other parties for *re-takaful* purposes. Such *re-takaful* arrangements provide for business diversification and enable management to control exposure to potential losses from large claims, thereby providing additional capacity for growth.

To minimise its exposure to significant losses from a reinsurer's insolvency, Al Hilal Takaful evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of reinsurers.

Re-takaful arrangements do not relieve Al Hilal Takaful from its obligations and as a result Al Hilal Takaful remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet its obligations under the relevant *re-takaful* agreement.

Reserve for claims

AHB maintains reserves in respect of its *takaful* business in order to protect against future adverse claims and significant events. Uncertainties around the amount and timing of claim payments are usually resolved within a year.

Capital Adequacy

AHB's policy is to develop and maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development and growth of the business. The GRMD is responsible for ensuring the implementation by, and compliance of AHB with, Basel II and Basel III (once Basel III guidelines are issued by the UAE Central Bank) and other UAE Central Bank regulations. The GRMD ensures this implementation through the following processes:

- assessing the ability of AHB to meet the requirements of the Basel II and Basel III regulations by developing models (where appropriate) of credit risk, market risk and operational risk for analysis of risk exposure for assessing Pillar 1;
- eliminating discrepancies identified during the analysis stage, providing feedback to the senior management on the status of such discrepancies and updating the models accordingly;
- ensuring that AHB complies with the mitigation requirements of Basel II as per the requirements set forth by the UAE Central Bank (including the implementation of ICAAP) (Pillar 2); and
- ensuring that AHB provides adequate disclosure (Pillar 3) to the necessary stakeholders as required by the UAE Central Bank and the Basel requirements.

AHB's regulator is the UAE Central Bank, which sets and monitors capital requirements for AHB. AHB is also required to comply with the provisions of the UAE Central Bank in respect of regulatory capital.

The following table sets forth AHB's regulatory capital position under the Basel II framework as at 31 March 2014 and as at 31 December 2013 and 2012:

	As at 31 March	As at 31 December	
	2014	**2013**	**2012**
	(AED millions, unless otherwise stated)		
Tier 1 capital			
Ordinary share capital	3,090.0	3,090.0	3,090.0
Statutory reserve	113.2	112.2	68.4
Retained earnings and current period/year profit	905.3	780.3	321.4
Total Tier 1 capital	4,108.5	3,982.5	3,537.9
Tier 1 capital ratio (per cent.)	**12.7**	**13.2**	**13.9**
Tier 2 capital			
Undisclosed reserves/general provisions	366.9	360.8	302.5
Asset revaluation reserve	(54.1)	(15.1)	(6.6)
Qualifying Tier 2 capital	312.9	345.7	295.7
Deductions from Tier 1 and Tier 2 capital			
Investments in unconsolidated subsidiaries	97.1	97.8	(97.9)
Total Tier 1 and Tier 2 capital	4,324.2	4,230.4	3,735.8
Risk weighted assets (Pillar 1)			
Credit risk	29,353.4	28,863.1	24,197.3
Market risk	241.5	29.2	265.2
Operational risk	2,369.7	1,339.2	967.6
Total risk weighted assets	31,964.6	30,231.5	25,430.1
Capital adequacy ratio (per cent.)	13.5	**14.0**	**14.7**

Anti-Money Laundering Policies

Anti-Money Laundering ("AML") and Know Your Customer ("KYC") procedures are subject to local regulations, which require conducting customer due diligence, transaction monitoring, the reporting of suspicious activity, record keeping and staff training to form part of such procedures.

Effective AML and KYC procedures form a fundamental part of AHB's anti-money laundering internal control regime. AHB has introduced risk based KYC standards, which apply across retail and corporate services, commercial trade transactions and correspondent banking. AHB's AML policies and procedures have been implemented in accordance with local legislation and regulatory requirements as well as the international sanctions resolutions. Guidelines have also been designed to provide adequate support to the business in minimising the risk of money laundering and terrorist financing, as well as to comply with applicable legislation and regulations. AHB's AML and KYC policies and procedures apply to all countries in which AHB operates.

Ongoing KYC, AML and sanctions training is provided by means of classroom training and e-learning to all of AHB's employees. All new accounts and remittances are screened against UAE Central Bank, the United States Office of Foreign Assets Control ("OFAC") and the United Nations lists of sanctioned persons and entities and AHB's entire customer database is screened periodically to ensure that subsequently sanctioned persons and entities are not present. Financial activities for all accounts are monitored on an automated basis, the systems for which were implemented by AHB in May 2010.

Information Technology

AHB recognises the importance of Information Technology ("IT") in assisting it to reach its objectives of growth, expansion and competitive market positioning. There is strong alignment between AHB's business plans and its IT plans.

AHB's IT department has completed the implementation of many business support systems such as retail and corporate internet banking, mobile banking, anti-money laundering, enterprise content management, customer relationship management, customer liability management, operational risk, customer credit rating, enterprise resource planning, core banking, and various new products in cards systems. All of the systems are online integrated using 'middleware systems'.

In addition to the business support systems described above, AHB's IT department has completed many infrastructure-related projects such as disaster recovery setup, server 'virtualisation' and database consolidation.

AHB has implemented information security systems and procedures to protect and maintain the confidentiality of customer information.

Related Party Transactions

AHB's related parties include its sole shareholder, directors and key management, as well as entities owned and controlled by its key management. All related party transactions are approved by the Management Committee or the Board.

See Note 29 to the 2013 Financial Statements and Note 21 to the Interim Financial Statements for further information in relation to AHB's related party transactions.

Property

AHB's principal fixed assets include premises for its new head office in Abu Dhabi, acquired by it from the Council for AED 755 million in 2011 and its other branch buildings and offices. AHB moved into its new head office in the third quarter of 2013. AHB also owns an office tower development on Sowwah Island (now known as Al Maryah Island) which is expected to be completed during the latter part of 2014. Total planned capital expenditure for the Al Maryah Island Tower development is AED 391 million, of which AED 263 million has been incurred as at the date of this Prospectus. AHB expects to finance the remainder of this capital expenditure through internal sources of funds.

The net book value of AHB's property and equipment was AED 1.5 billion as at 31 31 March 2014, as compared to AED 1.5 billion as at 31 December 2013 and AED 1.4 billion as at 31 December 2012.

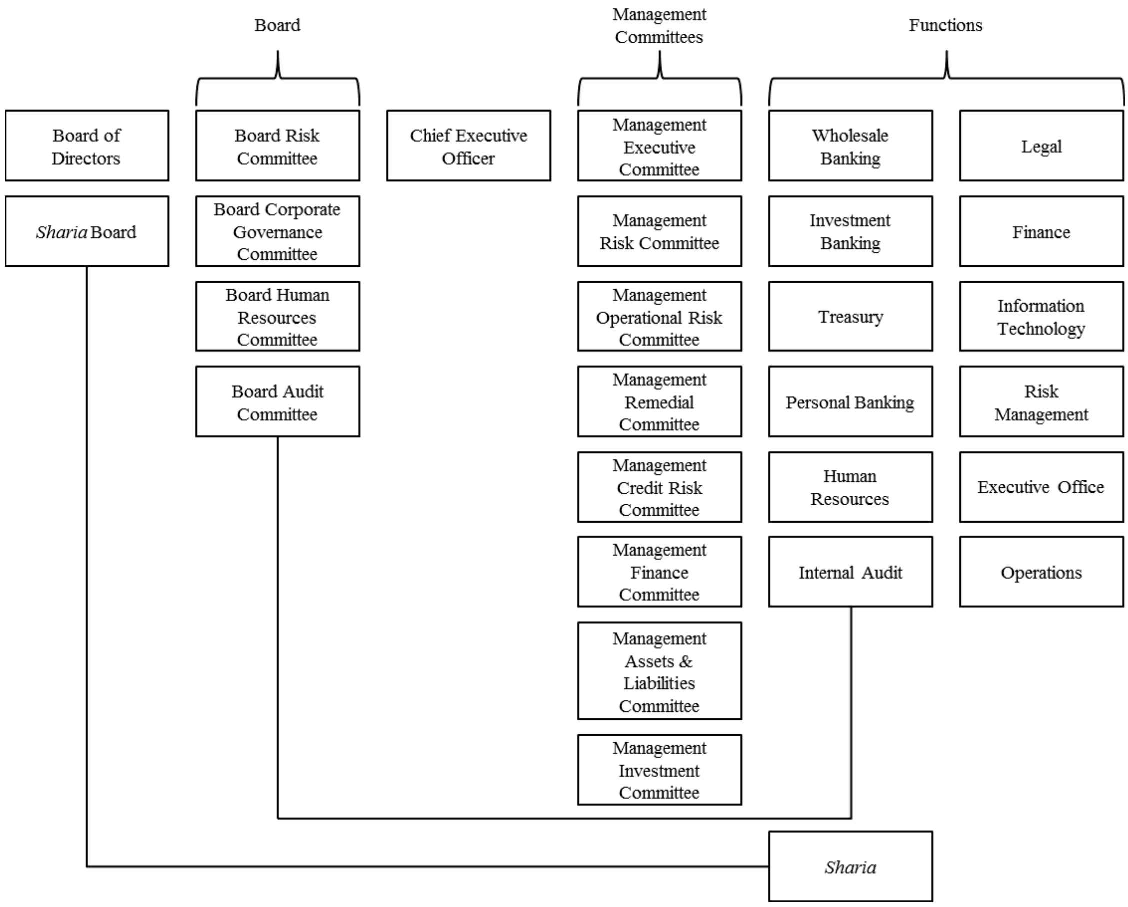
Credit Ratings

As at the date of this Prospectus, AHB's long-term corporate ratings were assessed by Moody's as "A1" (stable) and by Fitch as "A+" (stable).

MANAGEMENT AND EMPLOYEES

Management

The organisational chart of AHB is as follows:



The Board

In line with AHB's Articles of Association, each Board member is appointed by AHB's shareholder for a renewable period of three years. The appointment of the following Board members was effective as of 24 September 2013:

Director	Designation	First Appointment
H.E. Ahmed Ateeq Al Mazrouei (Chairman)	Non-executive	September 2008
H.E. Jassim Ahmed Al Meraikhi (Deputy Chairman)	Independent non-executive	September 2010
H.E. Ali Majid AI-Mansoori	Independent non-executive	September 2010
H.E. Jamal Sultan Al Hameli	Non-executive	September 2010
H.E. Mariam Saeed Ghobash	Non-executive	September 2013

The Board met five times in 2013 and six times in 2012.

The address of each Board member is c/o Al Hilal Bank, Head Office, P.O. Box 63111, Abu Dhabi, UAE. There are no potential conflicts of interest between the private interests or other duties of the directors listed above and their duties to AHB.

Detailed below is brief biographical information on the Board members:

H.E. Ahmed Ateeq Al Mazrouei

Mr Al Mazrouei has served as chairman of the Abu Dhabi Securities Market and as a board member of several financial institutions, including NBAD, Arab Banking Corporation, Arab International Bank and Tunis Emirates Bank. Mr Al Mazrouei started his career with the Abu Dhabi Investment Authority and is currently the head of the Infrastructure Department at the Abu Dhabi Investment Council.

H.E. Jassim Ahmed Al Meraikhi

Mr Al Meraikhi has served as a board member of several financial institutions, including Abu Dhabi Commercial Bank, Abu Dhabi Retirement and Pension Benefits Fund, Oman & Emirates Investment Company, Abu Dhabi Holding, Delma Brokerage and United Brokerage. Mr Al Meraikhi is currently a director of Abu Dhabi Investment Authority.

H.E. Ali Majid Al Mansoori

Mr. Al Mansoori has served as the Director of External Equities Europe at the Abu Dhabi Investment Authority and Deputy Director at External Funds-America. He is currently a member of the Executive Council of Abu Dhabi and the Executive Director at the office of the Vice Chairman at the Executive Council of Abu Dhabi. He is also the Chairman of the Department of Economic Development, the Chairman of Abu Dhabi Airports Company, a member of the Audit Committee at the Abu Dhabi Investment Council, a board member of Aldar Properties, as well as a board member of the Abu Dhabi Global Market

H.E. Jamal Sultan Al Hameli

Mr Al Hameli has held various positions at Abu Dhabi Investment Authority after initially commencing his career in the aviation engineering industry. Mr Al Hameli is the Director of Corporate and Business Communication at the Abu Dhabi Investment Council and is a member of the Council's two main Governance committees.

H.E. Mariam Saeed Ghobash

Ms Ghobash is an investment analyst in the Direct Investments Department at the Abu Dhabi Investment Council dealing with the Council's portfolio of investments in the MENA region. Previously, she worked as an investment professional within HSBC's Investment Banking and Private Equity teams. She serves on the boards of National Takaful Company (Watania) and the Emirates Development Bank.

Board Committees

AHB has four Board committees:

The Board Risk Committee

The BRC advises the Board on AHB's overall current and future risk tolerance and strategy and oversees AHB's implementation of that strategy. The BRC is responsible for monitoring AHB's credit, operational and market risks. It monitors the concentration and diversification of AHB's asset portfolios and is also responsible for establishing a business continuity plan and a disaster recovery plan. See also "-*Risk Management*" above. The BRC's members currently comprise H.E. Ahmed Ateeq Al Mazrouei (Chairman), H.E. Ali Majid Al Mansoori and H.E. Mariam Saeed Ghobash.

The Board Audit Committee

The Board Audit Committee is responsible for ensuring that the overall control environment of AHB is functioning correctly and that AHB is acting in compliance with applicable governing laws and regulations. The Board Audit Committee also oversees the financial reporting processes of AHB and assesses the effectiveness of internal controls. The Board Audit Committee further ensures the independence of internal and external audits of AHB, reviews and recommends internal audit policies and procedures to the Board for approval, reviews internal audit reports and oversees the audit functions. As part of its function, the Board Audit Committee maintains regular interaction with the external auditor so that any relevant issues are discussed and addressed. The Board Audit Committee's members currently comprise H.E. Jassim Ahmed Al Meraikhi (Chairman), H.E. Jamal Sultan Al Hameli and Mr Clive Gallier. Mr. Gallier has extensive experience in the financial sector.

He joined the Abu Dhabi Investment Council (in February 2009) as Director of the Business Assurance Department from Arab Banking Corporation, Bahrain where he was Deputy Head of Global Audit. He holds a First Class Honours degree, a Post Graduate Diploma in Finance (distinction) and an MBA. He is a qualified member of the Chartered Institute of Bankers (UK).

The Board Human Resources Committee

The Board Human Resources Committee is responsible for reviewing and approving AHB's human resources policies and procedures and ensuring that the policy is in compliance with all applicable laws and regulations. The Board Human Resources Committee is also responsible for reviewing, amending and approving the overall remuneration systems, packages and grading structure of AHB. The Board Human Resources Committee further ensures that AHB's training, career development and succession programmes are effective in promoting the skills required by AHB and securing adequate succession at the top management level. The Board Human Resources Committee's members currently comprise H.E. Jamal Sultan Al Hameli (Chairman), H.E. Jassim Ahmed Al Meraikhi and H.E. Mariam Saeed Ghobash.

The Board Corporate Governance Committee

The Board Corporate Governance Committee is responsible for the development and regular update of corporate governance procedures and "best practices" within AHB. It monitors their implementation, ensures compliance with the guidelines and regulatory requirements and performs public reporting on corporate governance matters. The Board Corporate Governance Committee is also accountable for reporting material concerns and violations committed during the year to the Board in addition to proposing developments in and improvements to the corporate governance procedures and structures. The Board Corporate Governance Committee's members currently comprise H.E. Mariam Saeed Ghobash (Chair), H.E. Ali Majid Al Mansoori, Dr. Assem Safieddine and Mr Shawqi Ali Taleb. Dr. Safieddine was appointed as a member of the Board Corporate Governance Committee as a recognised corporate governance expert in the MENA region as well as internationally. Dr Safieddine is Director of the Finance and Corporate Governance Programme at the Olayan School of Business at the American University of Beirut. Mr Shawqi Taleb was appointed as a member of the Board Corporate Governance Committee due to his corporate governance experience. Mr Taleb is a CFA charterholder of the CFA Institute and is a financial advisor at the Abu Dhabi Fund for Development.

Fatwa and Sharia Supervisory Board

The *Sharia* Board is appointed by the Board. The *Sharia* Board comprises Islamic scholars with strong reputations and with extensive experience in *Sharia* rules and principles, economics and banking systems. The *Sharia* Board's responsibilities include directing, reviewing and supervising the activities of AHB in order to ensure that they are in compliance with Islamic *Sharia* rules and principles including, but not limited to, supervising the development and creation of innovative *Sharia-compliant* products, issuing *fatwas* on any matter proposed to it by business units of AHB, ensuring (via *Sharia* auditors) that transactions are carried out in compliance with Islamic *Sharia* principles and analysing contracts and agreements concerning AHB's transactions.

The following table sets out the names of the current members of the *Sharia* Board:

Name	Position	Date joined
Sheikh Dr. Abdussattar Abu Ghuddah	Chairman	2008
Sheikh Nizam M.S. Yaquby	Vice Chairman	2008
Sheikh Esam M. Ishaq	Sharia Board Member	2008
Dr. Mohammad Abdul Rahim Sultan Al Olama	Sharia Board Member	2010

Detailed below is brief biographical information on the members of the *Sharia* Board:

Sheikh Dr. Abdussattar Abu Ghuddah

Dr. Abu Ghuddah holds a PhD in *Sharia* from Al-Azhar University. Dr. Abu Ghuddah is a member of several *Fatwa* and *Sharia* boards, including those of UBS, Standard Chartered Bank, Dow Jones, Calyon Bank, SAMBA Financial Group, Qatar Islamic Bank, Jordan Islamic and Noor Islamic Bank.

Sheikh Nizam M. S. Yaquby

Sheikh Yaquby holds a BA in Economics and Comparative Religion from McGill University in Canada and is currently a candidate for a PhD in Islamic Law at the University of Wales. Sheikh Yaquby is a member of several *Fatwa* and *Sharia* boards, including those of UBS, Standard Chartered Bank, HSBC, Lloyds, BNP Paribas, Dow Jones, Abu Dhabi Islamic Bank and Samba Financial Group.

Sheikh Esam M. Ishaq

Sheikh Esam teaches Fiqh, Aqeeda, and Tafseer courses in Bahrain and holds a BA in Political Science from McGill University in Canada. Sheikh Esam is a member of several *Fatwa* and *Sharia* boards, including those of Al Meezan Investment Management Limited, Al Ritaj Investment Company, Al Baraka Islamic Bank, Bahrain Development Bank and Tadhamon Capital B.S.C. Sheikh Esam is also a member of the Accounting and Auditing Organization for Islamic Financial Institutions, Bahrain.

Dr. Mohammad Abdul Rahim Sultan Al Olama

Dr. Al Olama holds a Bachelor's degree in Sharia from the Islamic University in Al Madina Al Munawarrah and a Masters and Doctorate of Jurisprudence from the University of Umm Al-Qura in Makkah Al Mukarramah. Currently, Dr. Al Olama is an Associate Professor at the Emirates University where he teaches Islamic Studies. Dr. Al Olama is also a member of several Fatwa and Sharia boards, including those of Takaful House, Zakat Fund, Mawarid Finance, Tabarak, Noor Islamic Bank, AlJazira Capital, Minhaj, Awqaf and Islamic Affairs. Dr. Al Olama is also a member of the Accounting and Auditing Organization at Islamic Financial Institutions, Bahrain.

Management Committees

To ensure that AHB conducts its affairs with integrity and in line with best corporate practices, on the authority of the Board, the CEO has established eight executive level management committees, which are as follows:

- Management Executive Committee;
- Management Risk Committee;
- Management Operational Risk Committee;
- Management Remedial Committee;
- Management Credit Risk Committee;
- Management Investment Committee;
- Finance Committee; and
- Assets and Liabilities Committee,

each of which is described above under "—*Risk Management*" save for the Management Executive Committee which is described below.

Management Executive Committee

The Management Executive Committee ("MEC") is responsible for supporting the CEO in the day-to-day management of AHB through the implementation of the strategies and plans approved by the Board from time to time. The MEC meets at least once a month and its membership comprises the executive management of AHB as further described under "—*Executive Management*" below, but excluding the EVP – Internal Audit

Executive Management

The following table sets out the names of the current members of AHB's executive management:

Name	Position	Date joined
Mohamed Jamil Berro	Chief Executive Officer	2008
Nabil Mushahwar	EVP – Finance and Strategic Planning	2010
Saif Al Dhaheri	Chief Operating Officer	2007
Sarie Arar	EVP – Wholesale Banking Group	2008
Aladin Al Khatib	EVP – Treasury Banking Group	2008

Name	Position	Date joined
Lim Say Cheong	EVP – Investment Banking Group	2008
Giuseppe Gianpaulo Montalto	Chief Risk Officer	2011
Hussam Abu Aisheh	EVP – Internal Audit	2012
Prasad Abraham	Chief Executive Officer – Al Hilal Bank Kazakhstan	2007
Khaled Atwan	Senior Vice President – Legal Counsel	2008
Mohammed Zaqout	EVP – Personal Banking Group	2008

The address of each of the members of the executive management is c/o Al Hilal Bank, Head Office, P.O. Box 63111, Abu Dhabi, UAE. There are no potential conflicts of interest between the private interests or other duties of the executive management listed above and their duties to AHB.

Detailed below is brief biographical information on the members of the executive management:

Mohamed Jamil Berro

Mr Mohamad Jamil Berro was appointed to the position of Chief Executive Officer of AHB in February 2008. Prior to this, Mr Berro served as Global Head of the Personal Banking Group at Arab Bank. Mr Berro completed his post-graduate studies receiving a Master of Sciences, began his career with Arthur Andersen in Kuwait and held various senior positions in National Bank of Kuwait before joining Crédit Agricole in Egypt. Mr Berro is board member for Arabian Insurance (Lebanon), Islamic International Arab Bank (Jordan), Al Nisr Insurance (Jordan), Visa (Jordan), Al Hilal Kazakhstan and Al Hilal Takaful.

Nabil Mushahwar

Mr Nabil Mushahwar joined AHB in January 2010 as EVP – Head of Executive Office. In his current role as the CFO, Mr Mushahwar has responsibility for overseeing business development and strategy relating to all segments of AHB's business along with business intelligence, enterprise project management, office, branding and corporate communications.

Mr Mushahwar has 25 years of banking and business experience, including nine years with Arab Bank prior to joining AHB in various roles including Head of Elite Banking, Head of Strategic Planning and Business Development and Head of Retail Banking – Levant region. He also served as a board member representing Arab Bank in various subsidiaries and partnerships. Mr Mushahwar holds a Bachelor's degree in Computer Science from Utah State University in the United States and holds various certificates in management, strategic planning, retail banking and management information systems.

Saif Al Dhaheri

Mr Saif Al Dhaheri has been with AHB since November 2007 and has more than eight years of human resources and administrative experience. Mr Al Dhaheri started his career with Takreer, Abu Dhabi, as a senior officer in public relations and held several senior positions in Takreer prior to joining AHB. Mr Al Dhaheri has a Masters in Business Administration ("MBA") in general management from Zayed University, UAE and completed his political science degree at California State University, United States.

Sarie Arar

Mr Sarie Arar joined AHB in 2008 as EVP – Head of Wholesale Banking Group focused on domestic and international businesses. He possesses more than 22 years of broad banking experience with major financial institutions in the UAE. He serves as a member of several management committees of AHB and a board member of various subsidiaries of the Group. Mr Arar holds an MBA from Aspen University and attended various leading business schools for executive management and leadership programmes.

Aladin Al Khatib

Mr Aladin Al Khatib joined AHB in April 2008 and has over 19 years of experience in treasury and investment banking across different types of markets, products, asset classes, structuring and hedging techniques both regionally and internationally. He was previously with Arab Bank in its London office as head of business development in the global treasury business. He began his career with Bank of Jordan, in the dealing room and moved on to Arab Bank, holding several senior positions in treasury and capital markets. Mr Al Khatib has extensive knowledge of conventional and Islamic treasury products and policies and holds a Bachelor's degree in Accounting from Mutah University in Jordan and an MBA in Accounting from Al Urdunia University in Jordan and is a Certified Investment Manager from SSI, London and is the only executive member of the Arabic traders in the International Islamic ISDA committee in London. He is also a senior executive board member at the International Committee for Professionalism of the Financial Markets.

Mohammad Zaqout

Mohammad Zaqout joined AHB in November 2013 as EVP – Head of Personal Banking Group, and has over 17 years of experience in the global personal banking sector. He was previously the regional head of retail banking, overseeing the Levant and North Africa operations, at Arab Bank based out of Jordan. He began his career with Bank of America, San Francisco in customer service and moved on to hold several senior retail banking positions both in Standard Chartered Bank and Arab Bank across the GCC and the Levant region.

Lim Say Cheong

Mr Lim Say Cheong joined AHB in July 2008. Before joining AHB he worked for Credit Lyonnais Singapore where he spent a number of years advising and executing investment banking and trading strategies for institutional and private banking clients across the Asia Pacific region. Mr Say Cheong then joined Bank of America as head of trading and investments. In 2003, Mr Say Cheong joined EON Bank Malaysia where he was involved in risk analytics. Mr Say Cheong's last position before joining AHB was with Noor Islamic Bank as Director of Global Markets. Mr Say Cheong holds a BSc. with a double major in Mathematics and Economics from the University of Sydney. Mr Say Cheong is also a qualified financial planner holding the Certified Financial Planner (CFP) designation and Masters in Financial Planning from the University of Sunshine Coast, Australia. He also holds the ACI Certificate from the Financial Market Association (UK) and Islamic Finance Diploma from CIMA, UK.

Giuseppe Gianpaolo Montalto

Mr Giuseppe Gianpaolo Montalto was appointed Chief Risk Officer of AHB in August 2011 and has almost 25 years of experience working in both credit and risk management. He has extensive experience in both Islamic and conventional banking, having worked for a number of global banking institutions, including Al Rajhi Bank where he was Chief Risk Officer and prior to that as Senior Vice President Credit and Risk Management for JP Morgan. Mr Montalto has managed a number of risk transformation exercises, in some cases building credit and risk management frameworks from their infancy to best-in-class both from a regional and international perspective. Mr Montalto holds a B.A. (Hons) in Political Sciences/Economics from the University of Melbourne as well as several certificates specialised in banking and risk.

Hussam Abdel Ghaffar B. Abu Aisheh

Mr Hussam Abu Aisheh joined AHB in May 2012 as EVP – Head of Internal Audit. Mr Hussam Abu Aisheh previously worked in Sharjah Islamic Bank as EVP – Chief of Internal Audit. Prior to that, he worked for KPMG and Arthur Andersen in the fields of statutory auditing and forensic accounting. Mr Hussam Abu Aisheh is also qualified and holds a Certified Public Accountant certificate, and is a Certified Internal Auditor, Certified Information Systems Auditor, as well as holding a Certification in Control Self-Assessment. He attained a BSc. degree in Accountancy from Amman Private University.

Prasad Abraham

Mr Prasad Abraham joined AHB as EVP – Support Services in December 2007. In 2007 Mr Abraham was involved in the coordination and the start up efforts to establish Al Hilal Bank in Abu Dhabi. When AHB was launched in June 2008, Mr Abraham was appointed as the Chief Operating Officer. When AHB was granted permission to open a subsidiary in Kazakhstan in 2010, Mr Abraham was appointed as Chairman of Management Board – CEO of Al Hilal Kazakhstan. Mr Abraham's career began at Citibank in 1977 and he subsequently joined Arab Banking Corporation ("ABC") in Bahrain in 1983 (where he was Group Chief Auditor until 2003), serving on the Audit Committee of the parent company and also the audit committees of Banco Atlantico in Spain, ABC

Daus in Frankfurt and ABC International Bank in the UK. In 2004, Mr Abraham was appointed as Deputy CEO of ABC International Bank in London with responsibility for all of ABC's European operations including Germany, France and Italy. Mr Abraham has a Bachelor's degree in Chemistry from the University of Calicut in India. He also has a diploma in Business Studies and is a Certified Information Systems Auditor.

Khaled Atwan

Mr Khaled Atwan has been with AHB since May 2008 as Senior Vice President, General Legal Counsel / Head of Legal Division and has over 12 years of banking and finance experience and private and in-house legal experience. He is also the secretariat of the Board. Prior to joining AHB, Mr Atwan acted as legal counsel to Arab Bank, was a partner and Head of Finance and Privatisation at IBLAW (Jordan) and was a senior associate with Trowers & Hamlins (Riyadh). Khaled obtained his LLB from Jordan University in 1995 and followed with a Master of Law from Case Western Reserve University, Cleveland, Ohio, United States.

Employees

As at 31 March 2014, AHB had 766 full time staff, compared with 765 as at 31 December 2013 and 754 as at 31 December 2012.

The percentage of UAE nationals (as a percentage of total Group full time staff) has also grown from 21 per cent. in 2008 to 34 per cent. in 2013.

AHB offers its employees a range of benefits, including education allowances, air fare and vacation allowances, health club memberships and health insurance. It pays staff performance bonuses and runs short and long term staff incentive schemes, as well as paying end of service benefits.

AHB is committed to the development of its employees and has developed a robust framework to facilitate this process. AHB employs various training and development initiatives and provides a number of training programmes, the highlight of which is the ''Boot Camp Programme'', which is available to all employees up to senior office level. The Boot Camp Programme is designed to last two years and comprises 13 modules which include, amongst others, Islamic Banking, Financial Accounting, Financial Statement Analysis and Investment Banking.

OVERVIEW OF THE UAE AND ABU DHABI

The UAE is a federation of seven Emirates. Formerly known as the Trucial States, the Emirates were a British protectorate until they achieved independence in December 1971 and merged to form the federation of the UAE. Each Emirate – being Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al-Qaiwain, Fujairah and Ras Al Khaimah – has a local government headed by the Ruler of the relevant Emirate. There is a federal government which is headed by the President of the UAE. The federal budget is principally funded by Abu Dhabi.

According to International Monetary Fund ("IMF") data published in April 2013, the UAE is the second-largest economy in the GCC region after the Kingdom of Saudi Arabia. It has a more diversified economy than most of the other countries in the GCC region. According to data gathered by the Organisation of Petroleum Exporting Countries ("OPEC"), at 31 December 2012, the UAE had approximately 6.6 per cent. of the world's proven global oil reserves (giving it the sixth largest oil reserves in the world), generating, according to estimated data produced by the UAE National Bureau of Statistics, 30.8 per cent. of the UAE's GDP and 33.0 per cent. of the total value of the UAE exports in 2012. The UAE National Bureau of Statistics has estimated on a preliminary basis that real GDP in the UAE for 2011 was AED 981.7 billion, reflecting the general economic recovery in the wake of the global economic crisis. Based on IMF data (extracted from the World Economic Outlook (October 2013)) real GDP growth in the UAE increased by 4.4 per cent. in 2012, 3.9 per cent. in 2011 and 1.7 per cent. in 2010, having decreased by 4.8 per cent. in 2009 and is projected to increase by 3.1 per cent. in 2013 and 3.6 per cent. in 2014.

On 11 August 2013, Moody's Investor Service Singapore Pte. Ltd. reaffirmed the UAE's long-term credit rating of Aa2 with a stable outlook. The principal reason cited for this high investment grade rating is the assumption that the obligations of the UAE Federal Government will be fully supported by Abu Dhabi. The UAE is not rated by the other rating agencies. The UAE population was estimated to have reached almost 8.3 million people in mid-2010 according to data released on 31 March 2011 by the UAE National Bureau of Statistics. The current census for 2011 is underway but, as at the date of this Prospectus, census records have not been published.

The UAE enjoys good relations with the other states in the GCC and its regional neighbours. The UAE does have, however, a long-standing territorial dispute with Iran over three islands in the Gulf and is in continuing discussions with the Kingdom of Saudi Arabia over border issues, each of which it is seeking to resolve through negotiation. Accordingly, the UAE is not immune to the political risks and volatility that have over-shadowed the region, particularly in the last few years. The economy remains heavily protected and nearly all utilities and most major industries are state-controlled. However, tight restrictions placed on foreign investment are gradually being relaxed. For example, while foreigners are not permitted to have a controlling interest in UAE businesses and corporates, many of the Emirates have established trade and industry freezones as a means of attracting overseas investment and diversifying the economy. Despite the UAE's membership in the World Trade Organisation (the "WTO"), progress towards economic liberalisation has been slow, but trade agreements with Europe and the United States are being negotiated.

Legal Environment

There are three primary sources of law in the UAE: federal laws and decrees, local laws and *Sharia* 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 or local government will apply his or its own rules, regulations and practices.

UAE Constitution

The original constitution of the UAE (the "Constitution") was initially provisional and provided the legal framework for the UAE. The Constitution was made permanent pursuant to a constitutional amendment in December 1996.

The Constitution apportions powers between the UAE Federal Government (based in Abu Dhabi) and the governments of the constituent Emirates. The UAE Federal Government is entrusted with the task of promulgating substantive legislation concerning and regulating the principal and central aspects of the UAE. The local governments of each Emirate are authorised to regulate local matters not confined to the UAE Federal Government. Articles 120 and 121 of the Constitution specifically state that certain matters, such as foreign affairs, security and defence and public health must be governed by federal law. All other matters not specifically assigned to the exclusive jurisdiction of the UAE Federal Government may be regulated by the local government of each Emirate.

The Constitution also states that the UAE shall form a single economic and customs entity with free movement of capital and goods between the Emirates. The natural resources and wealth in each Emirate shall be considered to be the public property of that Emirate.

Governance of the UAE

The governance of the UAE at the federal level is divided between the Federal Supreme Council (the "Supreme Council"), the Federal Council of Ministers (the "Cabinet") and the Federal National Council.

The Supreme Council is the highest federal governing body and consists of the rulers of the seven Emirates. The Supreme Council elects from its own membership the President and the Vice President of the UAE (for renewable five year terms). Decisions relating to substantive matters are decided by a majority vote of five Emirates, provided that the votes of both Dubai and Abu Dhabi are included in that majority, but matters which are purely procedural are decided by a simple majority vote. The Supreme Council is vested with legislative as well as executive powers. It ratifies federal laws and decrees and sets federal policies.

The Cabinet is described in the Constitution as the executive authority of the UAE and is responsible for implementing policy decisions of the Supreme Council. The Constitution defines the responsibilities of the Cabinet, which include the issuing of regulations, the preparation of draft legislation and the drawing up of the annual federal budget.

The Federal National Council is a parliamentary body and has both a legislative and supervisory role under the Constitution. One of the main duties of the Federal National Council is to discuss the annual budget of the UAE. Although the Federal National Council can monitor and debate government policy, it has no veto or amendment power and cannot initiate any legislation itself.

Legal and Court System

There are three primary sources of law in the UAE, namely: (i) federal laws and decrees (applicable in all seven Emirates); (ii) local laws and decrees (i.e. laws and regulations enacted by the Emirates individually and which, when issued, have full legal effect and operation in such Emirate); and (iii) the *Sharia* (Islamic law). 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 or local government of each Emirate can apply his or its own rules, regulations and practices.

The federal judiciary, whose independence is guaranteed under the Constitution, includes the Federal Supreme Court and Courts of First Instance. The Federal Supreme Court consists of five judges appointed by the Supreme Council. The judges decide on the constitutionality of federal laws and arbitrate on inter Emirate disputes and disputes between the UAE Federal Government and individual Emirates.

In accordance with the Constitution, three of the seven Emirates (Abu Dhabi, Dubai and Ras Al Khaimah) have elected to maintain their own court system, separate from that of the UAE and these courts have sole jurisdiction to hear cases brought in those respective Emirates.

Abu Dhabi

Abu Dhabi is the wealthiest and largest of the seven Emirates and the city of Abu Dhabi is also the capital of the UAE.

Abu Dhabi, with proven crude oil reserves estimated to be in excess of 95 billion barrels, has approximately 94 per cent. of the UAE's total oil reserves and approximately 6.6 per cent. of the world's proven oil reserves (which were 1,481 billion barrels according to OPEC at 31 December 2011). In recent years, Abu Dhabi has produced between 2.2 and 2.5 million barrels of oil per day, which is just over 95 per cent. of total UAE production. At this rate of production, Abu Dhabi's oil reserves would last over 100 years. In Abu Dhabi, the non-associated Khuff natural gas reservoirs beneath the Umm Shaif and Abu al-Bukhush oil fields rank among the world's largest. In total, the UAE has approximately 6,091 billion standard cubic metres of natural gas reserves, representing approximately 3.0 per cent. of the world's natural gas reserves of 200,350 billion standard cubic metres (according to OPEC at 31 December 2012).

The table below shows Abu Dhabi's crude oil production (excluding condensates), exports and average selling prices for each of the years indicated:

	2009	2010	2011	2012
Crude oil production (million b/d)	2.2	2.3	2.5	2.6
Crude oil exports (million b/d)	2.0	2.0	2.3	2.4
Crude oil exports (U.S.$ per barrel)	44.7	58.4	91.2	97.9
Average selling price (U.S.$ per barrel)	62.7	78.5	112.1	112.1

Source: The Statistics Centre (as defined below).

The population of the UAE, based on a census carried out in 2005 and according to the UAE National Bureau of Statistics, was approximately 4.1 million, of whom approximately 1.4 million resided in Abu Dhabi. The UAE National Bureau of Statistics estimated the population of the UAE to be approximately 8.2 million in 2009 and 8.3 million in mid-2010 according to data released on 31 March 2010. The current census for 2011 is underway but, as at the date of this Prospectus, census records have not been published.

The populations of both the UAE and Abu Dhabi have grown significantly since 1975, reflecting an influx of foreign labour, principally from Asia, as the Emirates have developed.

The table below illustrates this growth using official census data since 1975:

	1975	1980	1985	1995	2001	2005
Abu Dhabi population	211,812	451,848	566,036	942,463	1,170,254	1,399,484
Total UAE population	557,887	1,042,099	1,379,303	2,411,041	N/A	4,106,427

Sources: Official census data published by the UAE National Bureau of Statistics, except 2001 figure for Abu Dhabi which is sourced from data published by the Statistics Centre.

Since 2005, the Abu Dhabi Statistics Centre (the "Statistics Centre") has estimated the Emirate's population to have grown by 66.8 per cent. to 2,334,563 in 2012.

In 2012 and based on the Statistics Centre's mid-year estimates, Abu Dhabi had a predominantly young population with 0.9 per cent. being 65 and over and 17.0 per cent. being under the age of 15.

According to the same data, between 2005 and 2012, Abu Dhabi's average annual population growth rate was 8.1 per cent. The Government of Abu Dhabi expects the population to grow at an approximate rate of 5 per cent. per annum for the foreseeable future, a level which it believes should not require any major short-term infrastructure expansion. The population mix in 2012 is estimated by the Statistics Centre to have comprised 20.4 per cent. UAE nationals and 79.6 per cent. non-nationals.

According to the Statistics Centre, Abu Dhabi's nominal gross domestic product ("GDP") per capita was approximately U.S.$106,330 in 2012 which makes it one of the highest in the Gulf region. The oil and gas industry dominates Abu Dhabi's economy and contributed approximately 56.5 per cent., of nominal GDP in 2012. Oil prices declined significantly in the second half of 2008 and this fact was the principal reason for the decline in Abu Dhabi's nominal GDP in 2009. Increases in oil and gas production rates combined with increases in oil prices contributed significantly to the growth in Abu Dhabi's GDP from 2004 to 2008 and again from 2010 onwards. Abu Dhabi's growing non-oil sector, which in 2010 accounted for over 50.0 per cent. of Abu Dhabi's GDP, in comparison to 2008, where it accounted for just over 41.4 per cent., contributed to Abu Dhabi's increase in GDP in 2010, despite the continuing economic financial crisis and declining oil prices. In 2011 and 2012, the non-oil sector accounted for approximately 41.5 per cent. and 43.5 per cent., respectively of Abu Dhabi's GDP.

No meaningful real GDP information is currently available for Abu Dhabi as a result of historic uncertainties surrounding the calculation of inflation for the Emirate.

The tables below show Abu Dhabi's nominal GDP, its percentage growth rate, the UAE's nominal GDP and the percentage contribution of Abu Dhabi's nominal GDP to the UAE's nominal GDP for each of the years indicated:

	2012	2011	2010
Abu Dhabi nominal GDP (current price)	911.6	806.0	620.3
Percentage change in Abu Dhabi nominal GDP	7.7	29.9	15.9
UAE nominal GDP (current prices)	1,409.5	1,049.5	1,049.7
Abu Dhabi as a percentage of UAE	64.7	64.8	59.5

Sources: Statistics Centre (for Abu Dhabi nominal GDP) and UAE National Bureau of Statistics (for UAE nominal GDP only).

Abu Dhabi's GDP is dominated by the oil and gas sector, which contributed 49.7 per cent. of nominal GDP in 2010, 58.7 per cent. in 2011 and 56.5 per cent. in 2012. As per preliminary estimates published by the Statistics Centre, outside the oil and gas sector, the principal contributors to nominal GDP in Abu Dhabi in each of 2010, 2011, 2012 and 2013 have been: construction; real estate; manufacturing; financial and insurance sector; transportation and storage and wholesale; retail trade and repair of motor vehicles and motorcycles, which together accounted for 35.2 per cent. of nominal GDP in 2010, 32.7 per cent. in 2011, 30.3 per cent. in 2012 and 31.5 per cent. in 2013.

In terms of growth, the fastest growing sectors between 2005 and 2012 were human health and social work; real estate; transportation and storage; public administration and defence and compulsory social security; and construction, with compound annual growth rates of 22.6 per cent., 21.2 per cent., 21.0 per cent., 19.0 per cent. and 18.8 per cent., respectively.

Preliminary estimates published by the Statistics Centre indicate that public administration and defence accounted for 3.8 per cent. of GDP in 2012.

The following table shows Abu Dhabi's nominal GDP by economic activity and by percentage contribution, as well as the year on year growth rate, for each of the years indicated:

	2013*			2012			2011		
	(AED millions)	(%)	(2013 compared to 2012,% change)	(AED millions)	(%)	(2012 compared to 2011, % change)	(AED millions)	(%)	(2011 compared to 2010, % change)
Sector									
Agriculture, forestry and fishing	5,451	0.6	1.6	5,365	0.6	4.5	5,136	0.6	12.7
Mining and quarrying (includes crude oil and natural gas)	523,899	55.0	1.0	518,861	57.0	7.0	484,737	57.3	52.8
Manufacturing	54,261	5.7	12.6	48,208	5.3	0.5	47,967	5.7	33.9
Electricity, gas, and water supply; waste management activities	23,857	2.5	7.9	22,100	2.4	16.3	18,996	2.2	14.9
Construction	85,358	9.0	2.7	83,153	9.1	(0.4)	83,516	9.9	0.9
Wholesale and retail trade; repair of motor vehicles and motorcycles	34,782	3.6	9.9	31,639	3.5	12.7	28,086	3.3	(1.5)
Transportation and storage	35,014	3.7	9.3	32,038	3.5	9.6	29,238	3.5	37.7
Accommodation and food service activities	9,672	1.0	11.6	8,665	1.0	2.2	8,477	1.0	12.3
Information and communication	21,601	2.3	15.3	18,736	2.1	(3.1)	19,337	2.3	1.6
Financial and insurance activities	45,799	4.8	12.4	40,742	4.5	23.9	32,885	3.9	12.1
Real estate activities	45,417	4.8	12.6	40,334	4.4	16.3	34,693	4.1	25.9
Professional, scientific and technical activities	20,921	2.2	14.0	18,356	2.0	(4.2)	19,160	2.3	6.3
Administrative and support service activities	11,134	1.2	13.9	9,777	1.1	1.4	9,643	1.1	21.5
Public administration and defence; compulsory social security	43,757	4.6	8.6	40,293	4.4	20.3	33,506	4.0	9.3
Education	11,880	1.2	11.4	10,660	1.2	17.7	9,058	1.1	29.7
Human health and social work activities	9,290	1.0	16.0	8,011	0.9	41.9	5,644	0.7	53.8
Arts, recreation and other service activities	3,351	0.4	18.7	2,822	0.3	13.7	2,483	0.3	27.3
Activities of households as employers	2,358	0.2	13.2	2,084	0.2	16.6	1,787	0.2	13.7
Less Imputed Bank Service Charge	(34,562)	(3.6)	7.6	(32,123)	(3.5)	16.1	(27,665)	(3.3)	23.1
Total GDP	**947,788**	**100**		**904,357**	**100**		**846,684**	**100**	

Notes:

* Preliminary estimates.

Sources: Statistics Centre.

The Government of Abu Dhabi's long-term foreign and local currency issuer ratings were affirmed at Aa2 (with stable outlook) and its short-term foreign and local currency issuer ratings at Prime-1 (with stable outlook) by Moody's Investors Service Singapore Pte. Ltd. on 11 August 2013. The reasons cited for these high investment grade ratings include a very strong government balance sheet, abundant hydrocarbon resources, very high GDP per capita, domestic political stability and strong international relations. On the other hand, Moody's Investors Service Singapore Pte. Ltd. also noted the troubled regional political environment, lower World Bank governance scores than other highly rated sovereigns, volatile GDP caused by a concentration on hydrocarbons and the substantial amount of debt of its government related issuers.

The Government of Abu Dhabi's long-term foreign and local currency issuer default ratings were affirmed at AA (with stable outlook) and its short-term foreign currency issuer default ratings at F1+ (with stable outlook) by Fitch on 22 August 2013. Fitch commented that the affirmation reflected the strong sovereign balance sheet, foreign assets continuing to grow and the continuation of hydrocarbon surpluses and the bolstering of oil security. On the other hand, Fitch noted that contingent liabilities constrain the rating as well as some structural factors.

The Government of Abu Dhabi's long-term sovereign credit ratings were affirmed at AA (with stable outlook) long-term and A-1+ (with stable outlook) short-term by Standard & Poor's on 23December 2013. Standard & Poor's commented that the ratings on Abu Dhabi are anchored by the emirate's strong fiscal and external positions. Standard & Poor's commented that the ratings on Abu Dhabi are anchored by the Emirate's strong fiscal and external positions. Standard & Poor's further commented that, in addition to providing fiscal flexibility, the exceptional strength of the Government's net asset position provides a buffer against the effect of oil price volatility on economic growth and Government revenues, as well as on the external account. On the other hand, Standard & Poor's highlighted the fact that Abu Dhabi has underdeveloped political institutions, limited availability of timely financial and economic data and that it has limited monetary policy flexibility.

Executive authority in Abu Dhabi is derived from the Ruler, H.H. Sheikh Khalifa bin Zayed Al Nahyan, and the Crown Prince, H.H. Sheikh Mohamed bin Zayed Al Nahyan. The Crown Prince is also the chairman of the Abu Dhabi Executive Council (the "Executive Council"), which is the principal executive authority below the Ruler and the Crown Prince. The Executive Council currently comprises 14 members appointed by Emiri Decree issued on 14 December 2010.

Departments, authorities and councils are established by Emiri Decree and are subject to the authority of the Executive Council. Departments manage administration within the Emirate and manage specific portfolios, including, for example, the Department of Finance, the Department of Transport, the Department of Municipal Affairs, the Department of Economy and Planning and the Judicial Department. Authorities manage the Emirate's resources and strategies and include the Executive Affairs Authority, the Abu Dhabi Accountability Authority, the Abu Dhabi Tourism and Culture Authority, the Abu Dhabi Water and Electricity Authority and the Health Authority. Councils act as controlling bodies for certain government initiatives, projects and industry sectors by setting and monitoring policies, regulations and standards, and include the Council for Economic Development, the Education Council, the Urban Planning Council, the Civil Service Council and the Supreme Petroleum Council.

The Government of Abu Dhabi owns or has significant shareholdings in a number of significant companies and institutions, including: Mubadala Development Company P.J.S.C. (which is a business development and investment company mandated by the Government of Abu Dhabi to act as a catalyst in the implementation of the Emirate's development strategy), ADNOC (which manages all aspects of the Emirate's oil and gas industry), International Petroleum Investment Company P.J.S.C. (which principally invests in the Emirate's international oil and gas interests), Tourism Development and Investment Company P.J.S.C. (which as a developer of tourism and real estate assets in Abu Dhabi is charged with fulfilling the Emirate's ambition to become a leading global tourist destination), the Abu Dhabi Investment Authority ("ADIA") and ADIC (both vehicles through which the Government of Abu Dhabi has historically invested its surplus hydrocarbon revenues and, in the case of ADIA, through which the Government of Abu Dhabi has funded budget deficits when they have arisen in the past). Each of these companies and institutions are wholly-owned by the Government of Abu Dhabi and one or more members of the Executive Council sit on the board of each company and/or institution.

THE UAE BANKING SECTOR AND REGULATIONS

Summary

The global financial crisis has had an effect on the UAE banking sector and the key concerns that have recently faced the sector include a liquidity shortage and a fall in real estate and equities prices. Although the UAE could be viewed as an over-banked market, even by regional standards, there has traditionally been little impetus for consolidation. The UAE is a member of the WTO and accordingly greater economic liberalisation is required in the UAE. It is unclear, however, the extent to which WTO liberalisation will encourage foreign banks to 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.

As a banking regulator, the UAE 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 UAE 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 UAE Central Bank.

Historically, the UAE Central Bank has not acted as a ''lender of last resort''; instead this role tends to fall on the individual Emirs of each Emirate.

Characteristics of the Banking System

The table below provides a statistical analysis of the UAE banking sector as at 31 December in each of 2011, 2012 and 2013:

	2011	2012	2013
Total number of banks	51	51	51
Total number of branches(1)	851	890	928
Total number of employees(2)	37,499	36,246	36,087
Total credit facilities(3) *(AED billion)*	1,071	1,099	1,177
Total deposits *(AED billion)*	1,070	1,168	1,227
Total assets(4) *(AED billion)*	1,662	1,792	1,945

Notes:

(1) Excluding pay offices and electronic banking service units.

(2) Excluding auxiliary staff.

(3) Net of provisions and interest in suspense.

(4) UAE Central Bank estimates.

Source: UAE Central Bank

Lack of Consolidation

The UAE may be seen as being ''over-banked'' with 51 different banks (comprised of 23 locally incorporated banks and 28 foreign banks) licensed to operate inside the UAE (excluding the Dubai International Financial Centre (the ''DIFC'')) as at 31 December 2013 (source: the UAE Central Bank Annual Report), serving a population estimated to be in the region of approximately 8.3 million people. Traditionally there has been little impetus for consolidation. However, mergers in the past have tended to come as a result of banks facing financial difficulties. The federal structure of the UAE has, to some extent, encouraged 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 hampered the process of consolidation. However, in October 2007, the UAE's second and fourth largest banks at the time, Emirates Bank International P.J.S.C. and National Bank of Dubai, merged.

In addition, in May 2011, Dubai Bank PJSC was taken over by the Government of Dubai. The objective of this was to ensure the preservation of all of Dubai Bank's depositors' interests and the takeover was designed to ensure that Dubai Bank's business continued uninterrupted while options for the bank's future, whether to be run on a standalone basis or to be potentially merged with another Government of Dubai-owned bank, were assessed. In December 2012, Emirates Islamic Bank (''EIB''), a subsidiary of ENBD, completed its acquisition of Dubai Bank, and Dubai Bank is now a fully-owned subsidiary of EIB.

The relatively small size of most UAE banks has occasionally hindered them from competing for large financing transactions in the region. It also means that they have comparatively small franchises with which to absorb capital costs, such as information technology system development. The advent of WTO liberalisation should allow greater competition from foreign banks, both from new entrants to the market and from existing players 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 of these banks have small operations overseas and are showing growing interest in cross-border business.

With a large number of banks competing for a limited number of wholesale lending opportunities, most banks have turned to the retail banking sector, a previously untapped market. However, increasing competition in this area is gradually eroding margins and encouraging 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, since the freeze was put in place, three banks of GCC state origin, the National Bank of Kuwait, SAMBA and Doha Bank, have been awarded licences to operate in the UAE by the UAE Central Bank following an agreement to allow 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.

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. 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.

Islamic Banking

Sharia (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. The UAE is home to numerous institutions offering Islamic banking and financial products. Such institutions include: Dubai Islamic Bank, Abu Dhabi Islamic Bank, Emirates Islamic Bank, Dubai Bank, Noor Islamic Bank, Sharjah Islamic Bank, Osool Finance and Amlak Finance. The number of Islamic banks continues to rise, with both new entrants to the market and existing conventional banks recasting themselves as Islamic banks. In addition, conventional financial institutions often offer *Sharia-compliant* products.

Supervision of Banks

Banking and financial institutions established or operating in the UAE are subject to supervision and regulation by the competent federal authorities, principally the UAE Central Bank and the Securities and Commodities Authority (the "SCA"), as well as the competent local authority in the Emirate in which they are established or operate. The UAE Central Bank was established under Union Law No.

(10) of 1980 Concerning the UAE Central Bank, the Monetary System and Organization of Banking (the "Union Law"), and the SCA was established by UAE Federal Law No. 4 of 2000.

While the responsibility for regulating and exercising oversight of banks and financial institutions in the UAE has historically rested primarily with the UAE Central Bank, the UAE has begun to transition towards a "twin peaks" regulatory model, with the UAE Central Bank and SCA discharging different responsibilities. Under this model, the UAE Central Bank will continue to be responsible for monetary policy, macro-economic stability, systemic risk management and the licensing of local banks and branches of foreign banks operating in the UAE. In particular, the UAE Central Bank will remain the principal authority responsible for setting and supervising bank capital adequacy requirements.

The SCA, whose role has historically been limited to being the UAE's federal securities regulator, is expected to become increasingly active in more commercial and consumer-oriented areas previously regulated by the UAE Central Bank, including exercising oversight over financial markets and consumer protection in financial services generally, including banking services and the establishment and marketing of investment products in the UAE. The SCA also has responsibility for oversight of certain day-to-day corporate law matters affecting public joint stock companies incorporated in the UAE, such as the conduct of general assembly meetings and the passing of shareholder resolutions.

The UAE 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 Government of Abu Dhabi would ultimately stand as *de facto* defender of the currency and the "lender of last resort".

Historically, income from overseas investments has been used to fund fiscal deficits, obviating the need for the UAE Central Bank to issue government debt. However, the UAE Central Bank does issue certificates of deposit ("CDs") to the banks, denominated in both U.S. 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 UAE Central Bank at any time. In 2007, the UAE Central Bank introduced an auction system and allowed U.S. dollars drawings against UAE dirham CD holdings.

The UAE dirham is linked to the IMF's "Special Drawing Right". However, the U.S. dollar is the intervention currency and, in practice, the UAE dirham is pegged to the U.S. 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.

The UAE 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 (the "NATC"). The NATC serves as a UAE inter-agency liaison.

Although the UAE 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. The UAE 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 in the UAE (other than the DIFC), the Dubai Financial Market and the Abu Dhabi Securities Exchange (both of which were established in 2000), have grown rapidly over recent years, such growth has been affected by the recent global financial crisis.

The 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 May 2011, the DFM acquired two thirds of the shares in NASDAQ Dubai, in accordance with plans announced in December 2009 to consolidate markets. The two markets linked their platforms in July 2010, through the outsourcing by NASDAQ Dubai of its trading, clearing, settlement and custody functions for equities to DFM's systems. Responsibility for maintaining the NASDAQ Dubai's Official List of securities was transferred to the Dubai Financial Services Authority with effect from 1 October 2011.

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 happen in practice. The state is also the banking sector's largest customer, 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 80 per cent. of the workforce. 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 UAE nationals on their payroll to 40 per cent. by 2009. Generally, banks have been moving closer to, or have met, this target, providing better training and compensation for UAE nationals.

Accounting Standards

Since 1 January 1999 all UAE banks have been required to prepare their financial statements in accordance with International Financial Reporting Standards (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 23 as at 31 December 2013 (source: the UAE Central Bank), are required to be public shareholding companies with a minimum share capital of AED 40 million and must be majority owned by UAE nationals. Licensed foreign banks, of which there were 28 as at 31 December 2013 (source: the UAE Central Bank), need to demonstrate that at least AED 40 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 proper 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, and again in 2010, allowed UAE banks to expand significantly.

However, the UAE economy has been negatively impacted by the global economic downturn and, in particular, by the sharp correction in the price of oil, which has also 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, which has constrained lending, has resulted in the majority of UAE banks being less profitable during 2008 to 2010 than in previous years.

Furthermore, much of the growth between 2004 and 2008 focused on the real estate sector and equity financing which, in the context of the global financial crisis, represented a significant risk to the UAE banking system. Equity prices declined generally in the UAE in 2008 but, more recently, have rebounded with the Abu Dhabi Securities Exchange's Abu Dhabi index rising from 2,390.0 at 31 December 2008 to 2,743.6 at 31 December 2011, before falling to 2,630.9 at 31 December 2012. The Dubai Financial Market index has shown greater volatility rising from 1,636.3 at 31 December 2008 to 1,803.6 at 31 December 2009 before falling to 1,630.5 at 31 December 2010 and 1,353.4 at 31 December 2011, then rising to 1,622.5 at 31 December 2012. During 2008 to 2010, a number of banks have also been affected by the impact of mark to market accounting rules on their international investment portfolios. However, according to the IMF country report for the UAE in 2012, profitability of UAE banks, in terms of return on assets, remained stable at around 1.5 per cent. between 2007 and 2011. Furthermore, return on equity for most UAE banks compares well internationally, reflecting the high margins that can be earned, particularly on retail lending and low cost income ratios.

In addition, towards the end of 2008, rents and property values fell significantly. This is expected to put pressure on the asset quality and profitability of banks going forward. These factors may adversely impact the UAE banking sector through 2013 and in later years.

Liquidity

The UAE 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 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 UAE 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. Together, these deposits constituted approximately 60 per cent. of total deposits of the UAE banking sector as at 31 December 2012. The UAE Federal Government and the public sector contributed approximately 25 per cent. as at 31 December 2012. Non-residents and other sources contributed approximately 15 per cent. as at the same date (source: UAE Central Bank Statistical Bulletin).

In response to the global financial crisis, the UAE 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 UAE Central Bank established an AED 50 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 UAE Central Bank also established a CD repo facility (which also includes an Islamic-compliant version) under which banks can use CDs as collateral for dirham or U.S. dollar funding from the UAE Central Bank.

In addition to these measures, the UAE Federal Government also provided AED 50 billion in deposits to UAE banks (as part of a larger AED 70 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 have exercised this option and converted the UAE Federal Government deposits made with them into Tier II capital.

During 2008, Abu Dhabi government-owned institutions assisted certain Abu Dhabi banks in strengthening their capital base through the subscription of mandatory convertible securities and, in February 2009, the Abu Dhabi Government (acting through the Department of Finance) subscribed for, in aggregate, a sum of AED 16 billion in subordinated Tier I capital notes issued by the five largest Abu Dhabi banks: NBAD, ADCB, First Gulf Bank P.J.S.C., Union National Bank P.J.S.C. and ADIB.

A press statement issued by the Department of Finance of the Government of Dubai on 25 February 2009 announced that it had established a U.S.$20 billion funding programme and that the first tranche, valued at U.S.$10 billion with a five year tenure and paying a coupon rate of four per cent. per annum, had been issued in its entirety to the UAE Central Bank. In November 2009, the Department of Finance of the Government of Dubai announced that a second U.S.$5 billion tranche was fully subscribed equally by NBAD and AHB and has been divided according to a specified drawdown schedule. The first amount that was utilised in November 2009 was a U.S.$1 billion issuance that was split equally by: (i) a U.S.$500 million conventional bond issuance that was fully subscribed by NBAD; and (ii) a U.S.$500 million *sukuk* that was fully subscribed by AHB. As at the date of this Prospectus, no further draw-downs have been made under this U.S.$5 billion tranche.

Position of Depositors

There is no formal deposit protection scheme in the UAE. While no UAE bank has, so far, been permitted to fail, during the 1980s and early 1990s a number of banks 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. There can, however, be no assurance that any draft law will subsequently be passed and until such time as the law is passed, there is no guaranteed government support.

Prudential Regulations

The UAE 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 the banks. The frequency of inspection depends on the perceived risk of the 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 UAE 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 framework of the Basel Committee on Banking Supervision (the "**BCBS**") in calculating their capital adequacy ratios, as implemented by the UAE Central Bank.

Basel Framework

The Basel II Accord ("Basel II") is an international capital adequacy framework, originally issued by the BCBS in June 2004, with the objective of strengthening the soundness and stability of the international banking system and providing a baseline of capital adequacy regulation among international banks. Basel II comprises risk-based guidelines on capital adequacy requirements and regulatory standards and are a progression of the original 1988 Basel I Global Capital Adequacy Rules for Banks and Financial Institutions. Basel II is based on three "pillars": minimum capital requirements, supervisory review process and market discipline.

- *Pillar I*

  The minimum capital requirements pillar was based on market, credit and operational risk and was designed to reduce the risk of failure by providing sufficient regulatory capital to enable continued access to financial markets for meeting the banks' liquidity needs as well as providing incentives for prudent risk management through allowing some discretion on the part of banks to utilise their own risk assessment as part of the minimum capital calculations.

- *Pillar II*

  The supervisory review pillar provided national regulators with increased tools to monitor internal bank risk control and capital assessment, and in certain instances, oblige banks to increase their regulatory capital beyond the minimum requirements under Pillar I.

- *Pillar III*

  The market discipline pillar implemented new and improved disclosure requirements with respect to capital adequacy in order to improve the effectiveness of the other two pillars.

Basel II requires banks to maintain a minimum capital adequacy ratio of 8 per cent. calculated as the percentage of total eligible regulatory capital to total risk-weighted assets for credit risks, operational and market risks. In July 2009, BCBS revised the Basel II Accord with respect to trading book capital and market risk framework, informally known as "Basel 2.5" in response to the initial dislocations caused by the financial crisis originating in the internal valuation and classification of re-securitisations such as collateralised debt obligations of asset-backed securities. Basel 2.5 obliged banks to implement more risk and stress-sensitive methodologies in the internal models utilised for calculating trading book and counterparty risk.

The Basel Committee has approved significant changes to Basel II, known as the Basel III Framework which was published by BCBS in December 2010 and January 2011, including new capital and liquidity standards for credit institutions, in response to the global financial crisis (the "Basel III Framework"). The Basel III Framework does not replace Basel II, rather, it implements a series of modifications to the existing regulatory structure.

The Basel III Framework increases the quantity and quality of the regulatory capital banks are required to hold. In particular, the changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit and market exposures arising from certain assets and transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity. The most significant features of the reforms introduced by the Basel III Framework are as follows:

- *Capital base*

  Between 2013 and 2019, the common equity component of capital (known as Core Tier 1) will increase from 2 per cent. of a bank's risk-weighted assets before certain regulatory deductions to 4.5 per cent. after such deductions. In addition, a new capital conservation buffer will be introduced, as well as a zero to 2.5 per cent. countercyclical capital buffer. As a result, the overall capital requirement (Tier I and Tier II) will increase from 8 per cent. at the Basel II baseline to 10.5 per cent. by 2019 with full Basel III Framework implementation.

- *Common equity*

  Common equity will continue to form the basis of Tier I capital, but other hybrid capital instruments permitted under Basel II will be replaced with instruments that are more loss absorbing and do not have incentives to redeem. Non-qualifying instruments issued on or after 12 September 2010 will be derecognised in full from 1 January 2013; certain other instruments issued prior to 12 September 2010 which qualified as Tier 1 capital under Basel II but do not so qualify under Basel III, consisting of, among other instruments, perpetual non-cumulative preference shares, will be gradually derecognised at a rate of 10 per cent. per year from 2013 to 2023.

- *Capital charges*

  Increased capital charges will be introduced with respect to re-securitisation exposures and certain liquidity commitments held in the banking book will require more capital. With respect to a bank's trading books, more robust risk assessment methodologies will be utilised to value assets and increased counterparty and market risk charges will be assessed for exposure to other financial institutions and securitised assets.

- *Leverage ratio*

  A minimum 3 per cent. leverage ratio, measured against a bank's gross (and not risk-weighted) balance sheet, will be adopted on a trial basis until 2018 and definitively adopted in 2019.

- *Liquidity standards*

  A "liquidity coverage ratio" requiring high quality liquid assets to equal or exceed certain cash outflows is expected to be adopted from 2015, thereby ensuring that a bank has sufficient high quality liquid assets to survive a one-month period of market stress. In addition, a "net stable funding ratio" requiring "available" stable funding sources to equal or exceed "required" stable funding will be adopted from 2018, thereby ensuring that a bank has access to capital or high quality funding to survive a one-year period of market stress.

  The UAE Central Bank issued guidelines on the implementation of the Basel III Framework in July 2012 under the heading "Liquidity Regulations at Banks" (see "-*Liquidity*" for further details). Since then, the UAE Central Bank has been preparing local institutions for the implementation of the Basel III standards.

UAE

Since 1993, the UAE Central Bank has imposed a 10 per cent. minimum total capital ratio. In a circular dated 30 August 2009, the UAE Central Bank announced amendments to its capital adequacy requirements stating that UAE banks were required to have total capital adequacy ratios of at least 11 per cent., with a Tier 1 ratio of not less than 7 per cent., by 30 September 2009 and at least 12 per cent., with a Tier 1 ratio of not less than 8 per cent., by 30 June 2010. The circular stated that the new requirements, which were effective on 31 August 2009, apply to national and foreign banks. As at the date of this Prospectus, no further developments have been announced. 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 BCBS guidelines, claims on or guaranteed by GCC central governments and UAE central banks are risk-weighted at zero per cent.; claims on GCC government non-commercial public sector entities are risk-weighted at 50 per cent.; and GCC sovereign debt is risk-weighted at zero per cent.

All UAE banks were required to implement the standardised approach for credit risk proposed under the Basel II Accord by 31 December 2007 and were required to be internal risk-based compliant for credit risk by 1 January 2011.

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 UAE Central Bank.

Reserve Requirements

Reserve requirements are used by the UAE 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 UAE 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.

By a circular dated 23 February 2011 on retail banking, the UAE Central Bank 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. UAE Central Bank notice no. 31/2013 was published in the UAE official gazette on 28 November 2013 and entered into force on 28 December 2013. Notice no. 31/2013 specifies 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 of less than AED 5 million and, for a first purchase of a home with a value greater than AED 5 million, should not exceed 65 per cent. of the property value. For second and subsequent homes, the limit for non-nationals is set at 60 per cent. of the property value (irrespective of the value of the property in question). The corresponding limits for UAE nationals 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

Banks are required 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 UAE Central Bank defines large exposures as any funded or unfunded exposure to a single borrower or group of related borrowers exceeding a prescribed set of limits. Exposures above these prescribed limits are subject to UAE Central Bank approval.

In addition, the following lending limits also apply:

- no commercial bank can hold shares or bonds issued by commercial companies in excess of 25 per cent. of the bank's shareholders' funds; and
- no bank is permitted to grant loans or advances for the purpose of funding construction of commercial or residential buildings in an amount exceeding 20 per cent. of its total deposits, unless it has prior authorisation from the UAE Central Bank as an institution specialising in this type of business.

On 17 November 2013, the UAE Central Bank published a circular (the **2013 Large Exposures Limits Circular**) amending certain large exposure limits. Large exposures are defined as a percentage of the bank's capital base calculated under Basel II. The 2013 Large Exposure Limits Circular was effective as of the date that was one month from the date of its publication in the official gazette. UAE banks will be required to implement the 2013 Large Exposures Limits Circular within 5 years of its effective date. UAE banks are also required to submit a comprehensive plan to comply with the 2013 Large Exposure Limits Circular within three months of its publication. Set out below is a table showing a summary of the changes introduced by the 2013 Large Exposure Limits Circular:

	New Limit		**Old Limit**	
	Individual	**Aggregate**	**Individual**	**Aggregate**
		(%)		
UAE Federal Government and their non-commercial entities	N/A	N/A	Exempt	Exempt
UAE local Government	N/A	100	Exempt	Exempt
UAE local Government non-commercial entities	25	100	Exempt	Exempt
Commercial entities of federal government and UAE local governments	25	100	25	None
Single borrowers or a group of related borrowers	25	N/A	7	N/A
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

Since 2009, a number of UAE banks have announced exposures to well-known GCC-based companies which have become insolvent or have been or are being restructured. These include the Saad and Algosaibi groups of the Kingdom of Saudi Arabia and Tabreed and the Dubai World Group in the UAE. As a result of declining economic conditions since late 2008 and the increasing number of insolvencies and restructurings, the amount of non-performing loans in the UAE banking system has increased steadily, with the UAE Central Bank, in its September 2012 Financial Stability Review, estimating non-performing loans of approximately AED 50 billion at 31 December 2009, approximately AED 65 billion at 31 December 2010 and approximately 82 billion at 31 December 2011. According to the Financial Stability Review, the total specific provisions and interest in suspense of banks in the UAE amounted to approximately AED 55 billion at 31 December 2011, giving rise to a specific provision coverage ratio at that date of approximately 67 per cent.

The UAE 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., respectively. Any retail and consumer loans with either profit or principal in arrears by more than 90 days must be placed on a non-accrual basis and classified as non-performing. In practice, several banks operate more stringent policies and place loans on a nonaccrual basis as soon as their recovery is in doubt.

In November 2010, the UAE Central Bank published a new set of rules making it mandatory for banks and financial institutions to make provisions for their impaired loans on a quarterly basis (banks had previously written-off non-performing/impaired loans from their books after all legal options for recovery have been exhausted). The new guidelines also prescribe specific provisions for three categories of impaired loans and stipulate that lenders should build up general provisions equal to 1.5 per cent. of customer credit risk-weighted assets over a period of four years through to

December 2014 and are intended to improve transparency within the banking industry in accordance with Basel Committee standards.

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 carried on the balance sheets of UAE banks when compared to banks operating in other economies.

Federal Debt Management

In December 2010, the Council approved a draft federal law on public debt (the "Public Debt Law") under which the total value of UAE's public debt should not be more than 25 per cent. of its GDP or AED 200 billion, whichever is lower at the time of issuing public debt. The Public Debt Law is awaiting the approval of the President of the UAE and is therefore yet to be enacted. The Public Debt Law could therefore change before it is enacted.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the Transaction Documents. Copies of the Transaction Documents will be available for inspection and/or collection 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 30 June 2014 between AHB, 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 comprise (i) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents; (ii) any and all of the Trustee's rights, title, interest, benefit and entitlements, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets; (iii) any and all of the Trustee's rights, title, interest, benefit and entitlements, present and future, in, to and under the Transaction Documents (excluding any representations given by AHB (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee pursuant to clause 17 of the Declaration of Trust); and (iv) any and all amounts from time to time standing to the credit of the Transaction Account, 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 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 duties, 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, (i) exercise all of the rights of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and (ii) 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 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 such 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 trustee.

Pursuant to the Declaration of Trust:

(a) upon the occurrence of an AHB Event and the delivery of a Dissolution Notice by the Delegate to the Trustee, the Trustee (or the Delegate) may at its discretion, and the Delegate shall if so requested in writing by Certificateholders holding at least one fifth of the then aggregate face amount of the Certificates outstanding, (in each case, subject to Condition 12.3.4(a)) (i) institute any steps, actions or proceedings for the winding-up, bankruptcy, dissolution or liquidation (or analogous event) of AHB and/or (ii) prove or claim in the winding-up, bankruptcy, dissolution or liquidation (or analogous event) of AHB and/or (iii) take such other steps, actions or proceedings which, under the laws of the United Arab Emirates, have an analogous effect to the actions referred to in (i) or (ii) above; and

(b) the Trustee (or the Delegate) may at its discretion and the Delegate shall, if so requested in writing by Certificateholders holding at least one fifth of the then aggregate face amount of the Certificates outstanding and without further notice (in each case, subject to Condition 12.3.4(a)) institute such steps, actions or proceedings against AHB and/or the Trustee, as it may think fit to enforce any term or condition binding on AHB or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of AHB 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 AHB to procure the substitution of the Trustee in the circumstances described in Condition 12.2, and in no event shall AHB, 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 the name of the Trustee. Monies received in the Transaction Account will, *inter alia*, comprise payments of amounts payable under the Mudaraba Agreement immediately prior to each Periodic Distribution Date (see "*—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 the Issue Date between AHB (as the Mudareb) and the Trustee (as Rab-al-Maal) and will be governed by the laws of the Emirate of Abu Dhabi and, to the extent applicable in Abu Dhabi, the federal laws of the UAE.

The Mudaraba will commence on the date of payment of the Mudaraba Capital and will end on the date on which the Certificates are redeemed in whole but not in part in accordance with the Conditions (the "**Mudaraba End Date**"). Pursuant to the Mudaraba Agreement the proceeds of the issue of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to Mudareb, which shall as a result form the Mudaraba Capital.

The Mudaraba Capital shall be invested, on an unrestricted co-mingling basis, by AHB (as Mudareb) in its general business activities carried out through 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 that the Investment Plan was prepared by it with due skill, care and attention, and acknowledge that the Trustee has entered into the Mudaraba in reliance on the Investment Plan. The General Pool does not include any other investment pool maintained by AHB.

The Mudareb is expressly authorised to co-mingle the Mudaraba Capital in its general business activities carried out through the General Pool, 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 calculated and distributed by the Mudareb on each Mudaraba Profit Distribution Date on the basis of a constructive liquidation of the Mudaraba by the Mudareb in accordance with the following profit sharing ratio:

(a) the Trustee 99 per cent.; and

(b) the Mudareb 1 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 (i) is greater than the corresponding Periodic Distribution Amount, the amount of any excess shall be retained by the Mudareb and credited to a reserve account (the "**Mudaraba Reserve**") and the proposed payment to the Trustee will be reduced accordingly; or (ii) is less than the corresponding Periodic Distribution Amount, the Mudareb shall first utilise any amount available in the Mudaraba Reserve (after recrediting amounts to it in accordance with the terms of the Mudaraba Agreement if there is any such shortfall) and, if a shortfall still exists following such recredit, 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.

On each occasion that the Mudareb elects not to exercise such discretion in the case of a shortfall, there will be a shortfall in funds available to the Trustee, as its sole source of funds are generated by the Mudareb. On each such occasion, therefore, this will result in a Trustee Event being triggered because the Certificateholders will not receive the full Periodic Distribution Amount under the Conditions. Following each such Trustee Event being triggered, and for so long as such Trustee Event shall continue, the Trustee will need to be substituted by AHB within 60 days of the Trustee Event having occurred in accordance with Condition 12.2. On each such occasion, and for so long as such Trustee Event shall continue, any failure by AHB to substitute will lead to the same effect as an AHB Event (as specifically referred to in Condition 12.2.3).

If a Non-Payment Event occurs, then the Mudareb shall give notice to the Trustee, the Delegate and the Certificateholders, in each case providing details of such Non-Payment Event. The Trustee shall have no claim in respect of any Rab-al-Maal Mudaraba Profit not paid as a result of a Non-Payment Event or any Rab-al-Maal Final Mudaraba Profit not paid as a result of a Non-Payment Event other than a Non-Payment Election, and any non-payment of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit in such circumstances shall not constitute a Dissolution Event. 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 Event, then from the date of such non-payment (the "**Dividend Stopper Date**"), the Mudareb shall be prohibited from declaring or paying certain distributions or dividends, 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 is made in full to the Trustee following such Non-Payment Event.

Subject to certain conditions as set out in the Mudaraba Agreement, AHB (as Mudareb) may (in its sole discretion) liquidate the Mudaraba in whole, but not in part, on the basis of a final constructive 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 35 days' prior notice to the Trustee; 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:

    (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) above and the capital to be returned to the Trustee (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 a final constructive 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 a Dissolution Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1. The

Mudareb acknowledges under the Mudaraba Agreement that the Trustee shall in each 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 including whether AHB is Solvent at such time.

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 such circumstances, the Mudaraba Agreement will be automatically terminated (and the Trustee shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets), the Certificateholders' rights to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally written-down in whole and the Certificates shall be cancelled.

AHB (as Mudareb) and the Trustee undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by AHB to be varied upon the occurrence of a Tax Event or a Capital Event pursuant to the Conditions, to 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 gross negligence, wilful misconduct or fraud.

The Mudareb shall exercise its rights, powers and discretions under the Mudaraba Agreement and shall 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.

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 net of withholding or deduction of Taxes where required by law and provide for the payment of Additional Amounts so that the full amount which otherwise would have been due and payable to the Trustee, and/or under the Certificates, is received by the Trustee. 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 the Issue Date between the Trustee, AHB, 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 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 Profit Reset Period commencing on the relevant Profit 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 the Global Certificate in accordance with the terms of the Declaration of Trust; and (ii) deliver the Global Certificate to the Principal Paying Agent.

AHB shall cause to be deposited into the Transaction Account opened by the Trustee with the Principal Paying Agent, 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.

TAXATION

The following is a general description of certain tax considerations relating to the Certificates as in effect on the date of this Prospectus and is subject to any change in law or relevant fiscal rules and practice that may take effect after such date (possibly with retrospective effect). 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 own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Cayman Islands and of the United Arab Emirates of acquiring, holding and disposing of Certificates and receiving payments under the Certificates.

Cayman Islands

Under existing Cayman Islands laws, payments of principal or profit 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. No stamp duty is payable in respect of the issue of the Certificates. An instrument of transfer in respect of a Certificate is stampable if executed in or brought into the Cayman Islands. 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 US$855.

The Trustee has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has obtained 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 Issuer 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 Issuer, or (ii) by way of the withholding in whole or part, of any relevant payment (as defined in Section 6(3) of the Tax Concessions Law (2011 Revision)).

United Arab Emirates

There is currently in force in the emirates of Abu Dhabi and Dubai legislation establishing a general corporate taxation regime (the Abu Dhabi Income Tax Decree 1965 (as amended) and the Dubai Income Tax Decree 1969 (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, Abu Dhabi or Dubai taxation in respect of payments made by AHB under the Mudaraba Agreement and/or the Trustee under the Certificates. If any such withholding or deduction is required to be made in respect of payments due by AHB under the Mudaraba Agreement, AHB 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) and (ii) AHB has undertaken under the Mudaraba Agreement 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.

EU Savings Directive

The Savings Directive requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual resident, or certain types of entity established, in that other EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015. A number of third countries and territories including Switzerland have adopted similar measures to the Savings Directive. The precise scope of what constitutes interest or similar income for the purposes of the Savings Directive is unclear and accordingly it is possible that certain payments which are made in respect of the Certificates (such as the Periodic Distribution Amounts) could be within the scope of the Savings Directive.

The Council of the European Union has adopted the Amending Directive which will, when implemented, amend and broaden the scope of the requirements described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive will increase the likelihood of certain payments which are made in respect of the Certificates being within the scope of the Savings Directive. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

Investors who are in any doubt as to their position should consult their professional advisers.

The Proposed Financial Transactions Tax

On 14 February 2013, the European Commission has published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transactions tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Certificates (including secondary market transactions) in certain circumstances. The issuance and subscription of Certificates should, however, be exempt.

Under the current European Commission 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.

A statement made in May 2014 by the participating Member States (other than Slovenia) indicates that a progressive implementation of the FTT is being considered and that the FTT may initially apply only to transactions involving shares and certain derivatives, with initial implementation occurring by 1 January 2016. However, full details are not available.

The FTT proposal remains subject to negotiation between the participating Member States. Additional EU Member States may decide to participate and participating Member States may withdraw. Prospective holders of Certificates are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "**foreign financial institution**", or "**FFI**" (as defined by FATCA)) that does not become a "Participating FFI" by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States Account" of the Trustee (a "**Recalcitrant Holder**"). The Trustee may be classified as an FFI. The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 1 January 2017.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction generally would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being a "**FATCA Withholding**") from payments it makes. The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS.

The United States has recently concluded several IGAs with jurisdictions in respect of FATCA. The Cayman Islands entered into a Model 1 IGA with the United States on 29 November 2013 (which came into force on 14 April 2014). The terms of the IGA are broadly similar to those agreed with the United Kingdom and the Republic of Ireland. Under the terms of the IGA the Trustee will not be required to enter into an agreement with the IRS, but may instead be required to register with the IRS to obtain a Global Intermediary Identification Number ("**GIIN**") and then comply with Cayman Islands legislation (although the IGA has come into force, local legislation and regulations will be introduced to provide guidance and detail on the application of the IGA). The terms of such legislation and regulations are at this stage still uncertain and it is not yet clear whether the Trustee will be a certified deemed compliant entity with no reporting required or a registered deemed compliant entity which would require the Trustee to report to the Cayman Islands Tax Information Authority, which will exchange such information with the IRS under the terms of the IGA. To the extent the Trustee cannot be treated as a certified deemed compliant entity, the Trustee would be a "Reporting Cayman Islands Financial Institution" (as defined in the IGA). As such, the Trustee can effect registration with the IRS to obtain a GIIN through to the end of 2014. Under the terms of the IGA, withholding will not be imposed on payments made to the Trustee, or on payments made by the Trustee to the Certificateholders (other than perhaps certain passthru withholding), unless the IRS has specifically listed the Trustee as a non-participating financial institution, or the Trustee has otherwise assumed responsibility for withholding under United States tax law. The Trustee and financial institutions through which payments on the Certificates are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Certificates is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Certificates are in global form and held within Euroclear or Clearstream, Luxembourg (together, the "**ICSDs**"), it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Certificates by the Trustee, any Paying Agent and the Common Depositary, given that each of the entities in the payment chain between the Trustee and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Certificates. The documentation in respect of the Certificates expressly contemplates the possibility that the Certificates may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Certificates will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and Model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Trustee and to payments they may receive in connection with the Certificates.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF

AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement (the "**Subscription Agreement**") dated 26 June 2014 between the Trustee, Abu Dhabi Islamic Bank P.J.S.C., AHB (in its capacity as joint lead manager), Al Rayan Investment LLC, Citigroup Global Markets Limited, Emirates NBD Capital Limited, HSBC Bank plc, National Bank of Abu Dhabi P.J.S.C., 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 U.S.$500,000,000 in aggregate face amount of the Certificates and, subject to certain conditions, the Joint Lead Managers have jointly and severally agreed to subscribe for the Certificates.

The Subscription Agreement provides that the obligations of the Joint Lead Managers 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 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 will also be reimbursed in respect of certain of their expenses, and each of the Trustee and AHB 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 affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may provide services to AHB and/or its 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 in certain transactions exempt from 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, sell or deliver the Certificates (i) as part of their distribution at any time or (ii) otherwise until the expiration of 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 the expiration of 40 days after the commencement of the offering of the Certificates, an offer or sale of the Certificates within the United States by any dealer (whether or not participating in the offering of the Certificates) may violate the registration requirements of the Securities Act.

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 Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of any Certificate in circumstances in which section 21(1) of the FSMA does not apply to the Trustee or AHB; 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.

United Arab Emirates (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 United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

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 (the "**DFSA**"); and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Cayman Islands

Each Joint Lead Manager has represented and agreed that it has not made and will not make any offer or invitation (whether directly or indirectly) to any member of the public in the Cayman Islands to subscribe for the Certificates.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia ("**Saudi Arabia**") that would permit a public offering of the Certificates. Any investor in 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 being made as a private placement by way of an "offer restricted to sophisticated investors" pursuant to Article 10 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**KSA Regulations**"), through a person authorised by the Capital Markets Authority ("**CMA**") to carry on the securities activity of arranging and following a notification to the CMA under 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 the KSA Regulations.

The offer of Certificates shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations, including as follows:

(a) a Saudi Investor (referred to as a "**transferor**") who has acquired Certificates pursuant to a private placement may not offer or sell those Certificates to any person (referred to as a "**transferee**") unless the offer or sale is made through an authorised person where one of the following requirements is met:

    (i) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyals one million or an equivalent amount;

    (ii) the Certificates are offered or sold to a sophisticated investor; or

    (iii) the Certificates are being offered or sold in such other circumstances as the CMA may prescribe for these purposes;

(b) if the requirement of paragraph (a)(i) above cannot be fulfilled because the price of the Certificates being offered or sold to the transferee has declined since the date of the original private placement, the transferor may offer or sell the Certificates to the transferee if their purchase price during the period of the original private placement was equal to or exceeded Saudi Riyals 1 million or an equivalent amount;

(c) if the requirement in paragraph (b) above cannot be fulfilled, the transferor may offer or sell Certificates if he/she sells his/her entire holding of Certificates to one transferee; and

(d) the provisions of paragraphs (a), (b) and (c) (inclusive) above shall apply to all subsequent transferees of the Certificates.

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;

(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

Each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, 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.

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, 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 securities laws of Hong Kong) other than with respect to any 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 registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (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 (a) to an institutional investor under Section 274 of the SFA, (b) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where 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 (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Malaysia

Each Joint Lead Manager has represented and agreed that:

(a) this Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia ("**CMSA**"); and

(b) accordingly, the Certificates have not been and will not be offered or sold, 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 in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 or Section 229(l)(b and, Schedule 7 or Section 230(l)(b) read together with Schedule 8 or Section 257(3) of the CMSA, subject to any law, order, regulation, or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia 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.

Switzerland

This Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Certificates. The Certificates may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Certificates constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland and neither this Prospectus nor any other offering or marketing material relating to the Certificates may be publicly distributed or otherwise made publicly available in Switzerland.

General

Neither the Trustee nor AHB 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 AHB 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, 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 with all applicable securities laws and regulations in force 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 the Irish Stock Exchange for the Certificates to be admitted to the Official List and to trading on the Regulated Market. It is expected that the listing of the Certificates on the Official List and admission of the Certificates to trading on the Regulated Market will be granted on or around 30 June 2014, subject only to the issue of the Global Certificate. The total expenses related to the admission to trading are estimated to be €5,190.

This Prospectus has been approved by the Irish Central Bank as competent authority under this Prospectus Directive. Such approval relates only to the Certificates which are to be admitted to trading on the Regulated Market (such market being a regulated market for the purposes of MiFID). The Irish Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive.

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 or to trading on the Regulated Market.

Authorisation

The issue of the Certificates has been duly authorised by a resolution of the board of directors of the Trustee dated 12 June 2014. AHB Tier 1 Sukuk Limited, 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. AHB has obtained all necessary consents, approvals and authorisations in connection with the Transaction Documents; the entry into and performance of the Transaction Documents by AHB was duly authorised by a written resolution of the Board dated 3 June 2014.

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 107321756 and ISIN XS1073217561.

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 AHB or the Group since 31 March 2014 and no material adverse change in the prospects of AHB or the Group since 31 December 2013. 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 AHB nor any member of the Group has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which AHB is aware) during 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 AHB or the Group.

Auditors

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

KPMG Lower Gulf Limited, Abu Dhabi Branch (''**KPMG Lower Gulf**''), of P.O. Box 7613, Abu Dhabi, UAE, is regulated in the UAE by the UAE Ministry of Economy which has issued KPMG

Lower Gulf with a licence to practice as auditors. There is no professional institute of auditors in the UAE and, accordingly, KPMG Lower Gulf is not a member of a professional body in the UAE. All of KPMG Lower Gulf's audit professionals and partners are members of the institutes from which they received their professional qualification. KPMG Lower Gulf have audited, and delivered unqualified audit reports on, the consolidated financial statements of AHB and its subsidiaries as of and for the years ended 31 December 2013 and 2012 included in this Prospectus. The unaudited interim condensed consolidated financial statements of AHB as at and for the three months ended 31 March 2014 have been reviewed by KPMG Lower Gulf, as stated in their review report included in this Prospectus.

Documents Available

For as long as any Certificates remain outstanding, physical copies (and English translations, which will be accurate and direct translations, where the documents in questions are not in English) of the following documents will be available during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection and/or collection at the specified office for the time being of the Principal Paying Agent:

(a) the Memorandum and Articles of Association of the Trustee and the constitutional documents of AHB;

(b) the Financial Statements;

(c) a copy of this Prospectus together with any supplement to this Prospectus; and

(d) the Transaction Documents.

Shari'a Approvals

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Fatwa and Sharia Supervisory Board of AHB, the Shari'a Supervisory Board of Citi Islamic Investment Bank E.C., the HSBC Saudi Arabia Shariah Executive Committee and the Shari'a 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 or compliance with Shari'a principles.

INDEX TO FINANCIAL STATEMENTS

Al Hilal Bank PJSC

Condensed consolidated interim financial statements
31 March 2014

Al Hilal Bank PJSC

Condensed consolidated interim financial statements

KPMG Lower Gulf Limited
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United Arab Emirates

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Telefax +971 (2) 6327 612
Website www.ae-kpmg.com

Independent Auditors' Report on Review of interim condensed consolidated financial statement

The Shareholder
Al Hilal Bank PJSC

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Al Hilal Bank PJSC (the "Bank") and its subsidiaries (together referred to as the "Group") as at 31 March 2014, the interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three month period then ended, and notes to the interim condensed consolidated financial information (the "interim condensed consolidated financial information"). The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this interim condensed consolidated financial information 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 condensed consolidated 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 information as at 31 March 2014 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG

28 May 2014

KPMG Lower Gulf Limited, registered in the UAE and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Al Hilal Bank PJSC

Condensed consolidated interim statement of financial position
as at 31 March 2014

	Note	(Reviewed) 31 Mar 14 AED'000	(Audited) 31 Dec 13 AED'000
Assets			
Cash and balances with banks	5	**2,606,942**	2,837,178
Wakala deposits with banks and other financial institutions		**2,563,675**	3,149,535
Receivables from Islamic financing activities	6	**22,031,805**	21,119,724
Ijara	7	**6,046,107**	5,983,441
Investment securities	8	**3,220,473**	2,928,196
Property and equipment		**1,463,193**	1,459,946
Other assets	9	**1,113,476**	1,227,245
Total assets		**39,045,671**	38,705,265
Liabilities			
Customers' accounts	10	**29,423,366**	28,178,307
Wakala deposits from banks		**2,024,445**	3,180,210
Sukuk financing instrument	11	**1,836,250**	1,836,250
Other liabilities	12	**1,746,695**	1,576,763
Total liabilities		**35,030,756**	34,771,530
Equity			
Share capital	13	**3,090,000**	3,090,000
Statutory reserve	13	**113,521**	113,521
Other reserves		**(54,052)**	(13,694)
Retained earnings		**838,740**	717,202
Total equity attributable to the equity holder of the Bank		**3,988,209**	3,907,029
Non – controlling interest		**26,706**	26,706
Total equity		**4,014,915**	3,933,735
Total liabilities and equity		**39,045,671**	38,705,265

Ahmed Ateeq Al Mazrouei
Chairman

Mohamed Jamil Berro
Chief Executive Officer

Nabil Mushahwar
EVP Finance & Strategic Planning

The accompanying notes 1 to 27 form an integral part of these condensed consolidated interim financial statements.
The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

Al Hilal Bank PJSC

Condensed consolidated interim statement of income
for the three month period ended 31 March 2014

	Note	*(Reviewed)* 31 Mar 14 AED'000	*(Reviewed)* 31 Mar 13 AED'000
Income			
Income from Ijara and Islamic financing activities, net	14	**397,361**	378,698
Income from Wakala investments		**18,565**	26,848
Investment income	15	**47,990**	46,105
Commission, fees and foreign exchange income, net	16	**36,770**	39,156
		500,686	490,807
Expenses			
Personnel costs		**(105,801)**	(101,984)
General and administrative expenses	17	**(75,960)**	(74,809)
Provision for impairment, net		**(60,176)**	(57,199)
Depreciation		**(23,510)**	(14,645)
Profit before depositors' share of profits		**235,239**	242,170
Depositors' share of profits	18	**(113,657)**	(137,848)
Profit for the period		**121,582**	104,322
Attributable to:			
Equity holder of the Bank		**121,582**	104,322
Non-controlling interest		**-**	-

The accompanying notes 1 to 27 form an integral part of these condensed consolidated interim financial statements.
The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

Condensed consolidated interim statement of comprehensive income

for the three month period ended 31 March 2014

	(Reviewed) 31 Mar 14 AED'000	*(Reviewed)* 31 Mar 13 AED'000
Profit for the period	**121,582**	104,322
Other comprehensive income/ (expenses)		
Items that will not be reclassified to profit or loss		
Unrealised valuation gain / (loss) on investment securities	**1,815**	(284)
Gain on sale of investments carried at fair value through OCI	**-**	1,122
Directors' remuneration	**(44)**	(2,831)
	1,771	(1,993)
Items that may be reclassified subsequently to profit or loss		
Exchange difference on translation of foreign operations	**(42,173)**	(1,356)
Other comprehensive expenses for the period	**(40,402)**	(3,349)
Total comprehensive income for the period	**81,180**	100,973
Attributable to:		
Equity holder of the Bank	**81,180**	100,973
Non-controlling interest	**-**	-

The accompanying notes 1 to 27 form an integral part of these condensed consolidated interim financial statements.
The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

Condensed consolidated interim statement of changes in equity
for the three month period ended 31 March 2014

	Attributable to equity holder of the Bank							
	Share capital AED'000	Statutory reserve AED'000	Translation reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000	Non-controlling interest AED'000	Total equity AED'000
Balance at 1 January 2014	3,090,000	113,521	(15,134)	1,440	717,202	3,907,029	26,706	3,933,735
Total comprehensive income for the period:								
Profit for the period	-	-	-	-	121,582	121,582	-	121,582
Other comprehensive income								
Net gain on investment in equity instrument designated at fair value through other comprehensive income	-	-	-	1,815	-	1,815	-	1,815
Foreign currency translation difference for foreign operations	-	-	(42,173)	-	-	(42,173)	-	(42,173)
Directors' remunerations	-	-	-	-	(44)	(44)	-	(44)
Total other comprehensive income	-	-	(42,173)	1,815	(44)	(40,402)	-	(40,402)
Total comprehensive income for the year	-	-	(42,173)	1,815	121,538	81,180	-	81,180
Transaction with owner of the Bank								
Contributions and distributions								
Transfer to statutory reserve	-	-	-	-	-	-	-	-
Total contributions and distributions	-	-	-	-	-	-	-	-
Balance at 31 March 2014	3,090,000	113,521	(57,307)	3,255	838,740	3,988,209	26,706	4,014,915

The accompanying notes 1 to 27 form an integral part of these condensed consolidated interim financial statements.
The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

Condensed consolidated interim statement of changes in equity *(continued)*
for the three month period ended 31 March 2013

	Attributable to equity holder of the Bank							
	Share capital AED'000	Statutory reserve AED'000	Translation reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000	Non-controlling interest AED'000	Total equity AED'000
Balance at 1 January 2013	3,090,000	69,410	(6,747)	(4,705)	321,404	3,469,362	26,280	3,495,642
Total comprehensive income for the period:								
Profit for the period	-	-	-	-	104,322	104,322	-	104,322
Other comprehensive income								
Net gain on investment in equity instrument designated at fair value through other comprehensive income	-	-	-	(284)	1,122	838	-	838
Foreign currency translation difference for foreign operations	-	-	(1,356)	-	-	(1,356)	-	(1,356)
Directors' remunerations and others	-	-	-	-	(2,831)	(2,831)	-	(2,831)
Total other comprehensive income	-	-	(1,356)	(284)	(1,709)	(3,349)	-	(3,349)
Total comprehensive income for the year	-	-	(1,356)	(284)	102,613	100,973	26,280	100,973
Transaction with owner of the Bank								
Contributions and distributions								
Transfer to statutory reserve	-	-	-	-	-	-	-	-
Total contributions and distributions	-	-	-	-	-	-	-	-
Balance at 31 March 2013	3,090,000	69,410	(8,103)	(4,989)	424,017	3,570,335	26,280	3,596,615

The accompanying notes 1 to 27 form an integral part of these condensed consolidated interim financial statements.
The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

Al Hilal Bank PJSC

Condensed consolidated interim statement of cash flows

for the three month period ended 31 March 2014

	(Reviewed) **31 Mar 14** **AED'000**	*(Reviewed)* 31 Mar 13 AED'000
Cash flow from operating activities		
Profit for the period	**121,582**	104,322
Adjustment for:		
Depreciation	**23,510**	14,645
Impairment charges on financial assets	**62,990**	58,495
Unrealised valuation (gain) / loss on investments	**(2,147)**	1,974
Accretion of profit	**(3,323)**	(1,587)
	202,612	177,849
Changes in:		
Islamic certificates of deposit with Central Bank	**(882)**	-
Murabaha and Wakala deposits with banks	**(497,990)**	(829,994)
Receivables from Islamic financing activities	**(1,003,968)**	(927,173)
Ijara	**(78,893)**	100,011
Other assets	**113,770**	(230,030)
Customers' accounts	**1,245,059**	379,460
Other liabilities	**169,932**	278,371
Net cash from / (used in) operating activities	**149,640**	(1,051,506)
Cash flow from investing activities		
Property and equipment	**(26,756)**	(38,238)
Acquisition of investment securities	**(409,442)**	(177,870)
Proceeds from sale of investment securities	**122,665**	311,768
Net cash (used in) / from investing activities	**(313,533)**	95,660
Cash flow from financing activities		
Wakala deposits from banks	**241,932**	244,027
Directors' remuneration and others	**(44)**	(2,831)
Net cash from financing activities	**241,888**	241,196
Net increase / (decrease) in cash and cash equivalents	**77,995**	(714,650)
Cash and cash equivalents, beginning of the period (note 19)	**1,555,567**	1,366,125
Cash and cash equivalents, end of the period (note 19)	**1,633,562**	651,475

The accompanying notes 1 to 27 form an integral part of these condensed consolidated interim financial statements.
The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

1 Legal status and principal activities

Al Hilal Bank PJSC (the "Bank") was incorporated in Abu Dhabi, United Arab Emirates ("UAE") on 18 June 2007 by virtue of Amiri Decree number 21 of 2007, with limited liability, and is registered as a public joint stock company in accordance with the United Arab Emirates Federal Law number 8 of 1984 (as amended), United Arab Emirates Federal Law number 10 of 1980 (as amended) and United Arab Emirates Federal Law number 6 of 1985 regarding Islamic banks, financial institutions and investment companies.

The registered office address of the Bank is P.O. Box 63111, Abu Dhabi, UAE. The condensed consolidated interim financial statements for the three months ended 31 March 2014 comprise the Bank and its subsidiaries set-out below (together referred to as the "Group").

Subsidiaries	Domicile	**Ownership 2014**	Ownership 2013
Al Hilal Takaful PSC	UAE	**100%**	100%
Al Hilal Auto LLC	UAE	**100%**	100%
Al Hilal Islamic Bank PJSC	Kazakhstan	**100%**	100%
Al Hilal Leasing LLP	Kazakhstan	**100%**	100%
Al Wataniya Development Fund Limited	Cayman	**47%**	47%
Al Hilal Al Mariah Development LLC	UAE	**100%**	100%
AHB Sukuk Company Limited	Cayman	**0%**	0%

The Group is primarily involved in Islamic corporate and retail banking activities, sales and purchase of automobiles and Islamic insurance ("Takaful"). The Group carries out its operations in the United Arab Emirates and Kazakhstan.
The Group does not have direct holding in AHB Sukuk Company Limited which is considered to be a subsidiary by virtue of control.

2 Statement of compliance

The condensed consolidated interim financial statements of the Group have been prepared in accordance with International Financial Reporting Standard ("IFRS"), International Accounting Standard 34, 'Interim Financial Reporting'. Accordingly they do not include all the information required for full annual consolidated financial statements and therefore should be read in conjunction with the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards (IFRSs).

These financial statements have been prepared in United Arab Emirates Dirhams (AED) rounded to the nearest thousand, which is the Group's functional currency.

The consolidated financial statements of the Group as at and for the year ended 31 December 2013 are available upon request from the Bank's registered office, P.O. Box 63111, Abu Dhabi, United Arab Emirates or at http://www.alhilalbank.ae.

The interim condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 May 2014

Notes to the condensed consolidated interim financial statements

3 Significant accounting policies

The accounting policies applied by the Group in the presentation of these condensed consolidated interim financial statements are consistent with those applied by the Group in its audited consolidated financial statements as at and for the year ended 31 December 2013.

4 Estimates

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reporting amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that were applied to the consolidated financial statements of the Group as at and for the year ended 31 December 2013.

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Notes to the condensed consolidated interim financial statements

4 Estimates *(continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2014 *(reviewed)*:

	Level 1 AED'000	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Equity and other investments	**239,635**	**-**	**-**	**239,635**
Islamic derivatives(positive value)	**-**	**89,369**	**-**	**89,369**
Islamic derivatives(negative value)	**-**	**(89,369)**	**-**	**(89,369)**
Promise to sell foreign currencies, net	**-**	**1,402**	**-**	**1,402**

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2013 *(audited)*:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Equity and other investments	93,935	-	-	93,935
Islamic derivatives(positive value)	-	100,284	-	100,284
Islamic derivatives(negative value)	-	(100,284)	-	(100,284)
Promise to sell foreign currencies, net	-	3,394	-	3,394

Notes to the condensed consolidated interim financial statements

5 Cash and balances with banks

	(Reviewed)	*(Audited)*
	31 Mar 14	31 Dec 13
	AED'000	AED'000
Cash in hand	**182,630**	185,977
Current account with the Central Banks	**325,787**	328,661
Islamic certificates of deposit with the Central Banks	**800,314**	799,432
Current account with banks	**114,907**	394,831
Cash reserve deposits with the Central Banks	**1,183,304**	1,128,277
	2,606,942	2,837,178

Cash reserve deposits with the Central Bank are not available for the operations of the Group.

6 Receivables from Islamic financing activities

	(Reviewed)	*(Audited)*
	31 Mar 14	31 Dec 13
	AED'000	AED'000
Corporate commodity murabaha	**13,748,430**	13,510,820
Retail musawama and murabaha	**8,792,232**	8,091,853
Islamic credit card receivable	**81,245**	80,700
Other Islamic financings	**183,853**	183,854
Allowance for impairment		
Specific allowance	**(186,895)**	(169,406)
Collective allowance	**(587,060)**	(578,097)
	22,031,805	21,119,724

Movement in allowance for impairment on receivables from Islamic financing activities, during the period / year:

	(Reviewed)	*(Audited)*
	31 Mar 14	31 Dec 13
	AED'000	AED'000
At the beginning of the period / year	**747,503**	601,176
Net charge for the period / year	**26,452**	146,327
At the end of the period / year	**773,955**	747,503

Notes to the condensed consolidated interim financial statements

7 Ijara

	(Reviewed) **31 Mar 14** **AED'000**	*(Audited)* 31 Dec 13 AED'000
Corporate Ijara Mawsufa Fi-aldhimma	**201,395**	225,519
Corporate standard Ijara	**3,393,251**	3,411,169
Corporate Musharaka	**288,307**	212,141
Retail Ijara Mawsufa Fi-aldhimma	**123,082**	133,966
Retail standard Ijara	**2,195,500**	2,143,061
Allowance for impairment		
Specific allowance	**(60,089)**	(54,000)
Collective allowance	**(95,339)**	(88,415)
	6,046,107	5,983,441

Movement in allowance for impairment on Ijara during the period / year:

	(Reviewed) **31 Mar 14** **AED'000**	*(Audited)* 31 Dec 13 AED'000
At the beginning of the period / year	**142,415**	111,336
Charge for the period / year	**13,013**	31,079
At the end of the period / year	**155,428**	142,415

Notes to the condensed consolidated interim financial statements

8 Investment securities

	(Reviewed) 31 Mar 14 AED'000	(Audited) 31 Dec 13 AED'000
Financial assets at fair value through profit and loss		
- Quoted equity securities	**28,349**	15,896
- Sukuk securities	**126,400**	18,657
Financial assets at fair value through other comprehensive income		
- Quoted equity securities	**43,792**	18,288
- Sukuk fund	**41,094**	41,094
Financial assets at amortised cost		
- Sukuk securities	**2,986,837**	2,841,798
- Collective allowance	**(5,999)**	(7,537)
Total investment securities	**3,220,473**	2,928,196

Cash deposits held against investments are presented on gross basis under customers' account.

9 Other assets

	(Reviewed) 31 Mar 14 AED'000	(Audited) 31 Dec 13 AED'000
Financial assets		
Acceptances	**550,417**	494,264
Income receivable	**44,370**	23,209
Others	**181,671**	353,745
	776,458	871,218
Non financial assets		
Takaful receivable	**113,408**	111,685
Murabaha inventory	**78,563**	127,663
Prepaid expenses	**74,976**	55,029
Investment property	**39,128**	39,128
Prepaid staff allowances	**30,943**	22,522
	337,018	356,027
	1,113,476	1,227,245

Notes to the condensed consolidated interim financial statements

10 Customers' accounts

	(Reviewed) **31 Mar 14** **AED'000**	*(Audited)* 31 Dec 13 AED'000
Wakala deposits	**20,005,652**	19,215,013
Savings accounts	**4,016,023**	3,499,186
Current accounts	**3,367,638**	3,581,715
Time deposits	**2,034,053**	1,882,393
	29,423,366	28,178,307

11 Sukuk financing instrument

On 8 October 2013, the Bank raised, through a Shari'a compliant sukuk arrangement, medium term sukuk amounting to AED 1,836,250 thousand (USD 500,000 thousand) under a USD 2,500,000 thousand programme. The sukuk is listed on the Ireland Stock Exchange. The issuance has a contractual maturity of five years and bears an expected fixed profit rate of 3.267%.

12 Other liabilities

	(Reviewed) **31 Mar 14** **AED'000**	*(Audited)* 31 Dec 13 AED'000
Financial liabilities		
Acceptances	**550,417**	494,264
Accounts payable	**468,335**	398,320
Others	**117,347**	107,005
Charity payable	**2,657**	2,537
	1,138,756	1,002,126
Non financial liabilities		
Accrued expenses	**383,563**	346,774
Takaful liabilities	**136,925**	140,490
Advance administrative fees	**87,451**	87,373
	607,939	574,637
	1,746,695	1,576,763

Notes to the condensed consolidated interim financial statements

13 Share capital

The authorised share capital of the Bank is comprised of 4 billion ordinary shares of AED 1 each (31 December 2013: 4 billion ordinary shares of AED 1 each). The issued and fully paid up share capital at 31 March 2014 comprise 3.09 billion ordinary shares (31 December 2013: 3.09 billion ordinary shares).

The Abu Dhabi Investment Council holds 100% of the issued and fully paid share capital. The Bank's shares are not listed on a recognised stock exchange.

Statutory reserve

The UAE Commercial Companies Law No. (8) of 1984 (as amended) and the Bank's Articles of Association require that 10% of the annual net profit to be transferred to a statutory reserve until it equals 50% of the paid-up share capital. Transfers to the statutory reserve, if any, are made at year end.

14 Income from Ijara and Islamic financing activities, net

	(Reviewed)	*(Reviewed)*
	31 Mar 14	31 Mar 13
	AED'000	AED'000
Income from Murabaha - corporate	**148,893**	145,567
Income from Murabaha - retail	**169,760**	164,641
Income from Ijara - corporate	**34,595**	31,511
Income from Ijara - retail	**34,773**	36,979
Income from Musharka - corporate	**7,970**	-
Other Islamic financings	**1,370**	-
	397,361	378,698

15 Investment income

	(Reviewed)	*(Reviewed)*
	31 Mar 14	31 Mar 13
	AED'000	AED'000
Income from sukuk	**30,491**	26,893
Realised gain on sale of investments	**14,693**	19,585
Unrealised gain / (loss) on investments	**2,147**	(1,974)
Dividend income	**659**	1,601
	47,990	46,105

Notes to the condensed consolidated interim financial statements

16 Commission, fees and foreign exchange income, net

	(Reviewed)	*(Reviewed)*
	31 Mar 14	31 Mar 13
	AED'000	AED'000
Fee, commission and other income, net	**34,271**	37,963
Foreign exchange gain, net	**2,499**	1,193
	36,770	39,156

17 General and administrative expenses

	(Reviewed)	*(Reviewed)*
	31 Mar 14	31 Mar 13
	AED'000	AED'000
Rent expense	**16,990**	21,233
Marketing and advertising expense	**4,879**	7,513
Consultancy fees	**1,684**	3,807
Repair and maintenance	**6,807**	1,572
Communication	**3,080**	3,509
Other expenses	**42,520**	37,175
	75,960	74,809

Notes to the condensed consolidated interim financial statements

18 Depositors' share of profits

The depositors' share of profits for three month period ended 31 March 2014 and 31 March 2013 have been authorised by the Bank's Fatwa and Sharia Supervisory Board.

	(Reviewed)	*(Reviewed)*
	31 Mar 14	31 Mar 13
	AED'000	AED'000
Mudaraba	**8,753**	9,784
Wakala	**70,509**	105,017
Profit rate swaps	**18,708**	23,047
Sukuk financing instrument	**15,687**	-
	113,657	137,848

19 Cash and cash equivalents

Cash and cash equivalents included in the condensed consolidated interim statement of cash flows comprise the following amounts with original contractual maturities of less than three month.

	(Reviewed)	*(Audited)*
	31 Mar 14	31 Dec 13
	AED'000	AED'000
Cash and balances with banks	**1,806,628**	2,037,746
Murabaha and Wakala deposits with banks and other financial institutions	**1,406,924**	2,495,509
Wakala deposits from banks	**(1,579,990)**	(2,977,688)
	1,633,562	1,555,567

20 Commitments and contingencies

The Group, in the ordinary course of business, enters into various types of transactions that involve undertaking certain commitments such as letters of credit, guarantees and un-drawn commitments.

Undrawn commitments to extend credit amounted to AED 5,211million (31 December 2013: AED 5,437million).

There were no other significant changes in other contingent liabilities and commitments during the period.

21 Related parties

Identity of related parties

In the normal course of business, the Bank enters into various transactions with the related parties including key management personnel and their related companies. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any directors, executive or otherwise, of the Group. The related party transactions are executed at the terms agreed between the parties, which in opinion of the management are not significantly different from those that could have been obtained from third parties.

Parent and ultimate controlling party

Al Hilal Bank is wholly owned by the Abu Dhabi Investment Council, an investment arm of the Government of Abu Dhabi.

Terms and conditions

	(Reviewed) **31 Mar 14** **annualised**	*(Audited)* 31 Dec 13 annualised
Murabaha financing rates	**0.2%-5.0%**	0.5% - 6.0%
Profit distribution rates	**0.4%-4.0%**	0.2% - 5.0%
Fees and commissions rates	**0.2%-1.2%**	0.2% - 1.2%

Transactions and balances

Transactions and balances with related parties at the reporting date comprise:

	(Reviewed) **31 Mar 14** **AED'000**	*(Audited)* 31 Dec 13 AED'000
Balances		
Receivables from Islamic financing activities and Ijara	**343,829**	298,556
Wakala deposits with banks	**1,894,707**	2,115,323
Investment securities	**55,891**	55,330
Customers' accounts	**24,438**	19,035
Wakala deposits from banks	**726,296**	1,331,272
Wakala deposits	**11,978,286**	11,865,167
Contingent liabilities	**2,967**	3,637

21 Related parties *(continued)*

	(Reviewed) **31 Mar 14** **AED'000**	*(Reviewed)* 31 Mar 13 AED'000
Transactions		
Fee and commission income	**995**	253
Financing income	**1,588**	1,620
Income from wakala investments	**3,203**	4,773
Investment income	**560**	560
Profit distribution	**46,420**	64,466

Compensation of key management personnel and directors' remuneration

Compensation of key management personnel and directors' remuneration at the reporting date comprise:

	(Reviewed) **31 Mar 14** **AED'000**	*(Reviewed)* 31 Mar 13 AED'000
Directors' remuneration	**44**	2,831
Key management employment benefits	**4,558**	4,555
Key management termination benefits	**387**	393

Due to the pervasiveness of the ultimate controlling party and related concerns, it is impractical to fully disclose related party transactions as described by International Accounting Standard 24.

22 Operating Segments

31 March 2014 ***(reviewed)***	**Retail AED'000**	**Corporate AED'000**	**Others AED'000**	**Total AED'000**
Net profit income	**144,153**	**186,787**	**56,089**	**387,029**
Operating expenses	**(128,049)**	**(30,449)**	**(46,773)**	**(205,271)**
Net operating income	**16,104**	**156,338**	**9,316**	**181,758**
Provisions and bad debt charges	**(67,220)**	**1,239**	**5,805**	**(60,176)**
Reportable segment profit	**(51,116)**	**157,577**	**15,121**	**121,582**
Reportable segment assets	**10,796,944**	**16,999,209**	**11,249,518**	**39,045,671**
Reportable segment liabilities	**6,576,881**	**22,945,643**	**9,523,147**	**39,045,671**

22 Operating Segments *(continued)*

31 December 2013 *(audited)*

	Retail AED'000	Corporate AED'000	Others AED'000	Total AED'000
Net profit income	609,881	628,874	202,255	1,441,010
Operating expenses	(471,620)	(119,920)	(188,480)	(780,020)
Net operating income	138,261	508,954	13,775	660,990
Provisions and bad debts charges	(125,698)	(84,513)	(8,992)	(219,203)
Reportable segment profit	12,563	424,441	4,783	441,787
Reportable segment assets	10,097,236	16,709,908	11,898,121	38,705,265
Reportable segment liabilities	5,993,497	20,421,035	12,290,733	38,705,265

23 Islamic derivative financial instruments

31 March 2014 *(reviewed)*

	Positive market value AED'000	**Negative market value AED'000**	**Notional amount AED'000**
Islamic Derivatives to counterparties			
Profit rate swaps	**72,585**	**(72,585)**	**1,618,163**
Promises to sell foreign currencies	**1,415**	**(13)**	**1,637,677**
	74,000	**(72,598)**	**3,255,840**
Islamic Derivatives covering Banking Book:			
Profit rate swaps	**-**	**(16,784)**	**2,331,668**
	-	**(16,784)**	**2,331,668**
	74,000	**(89,382)**	**5,587,508**

Notes to the condensed consolidated interim financial statements

23 Islamic derivative financial instruments *(continued)*

31 December 2013 *(audited)*

	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000
Islamic Derivatives to counterparties			
Profit rate swaps	81,066	(81,066)	1,712,636
Promises to sell foreign currencies	3,457	(63)	1,134,457
	84,523	(81,129)	2,847,093
Islamic Derivatives covering Banking Book:			
Profit rate swaps	-	(19,218)	2,334,055
	-	(19,218)	2,334,055
	84,523	(100,347)	5,181,148

Unrealised valuation losses on Islamic derivatives covering the banking book are matched by unrealised valuation gains on hedged items amounting to AED 16,784 thousand (31 December 2013: AED 19,218 thousand).

Notes to the condensed consolidated interim financial statements

24 Accounting classification and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values

31 March 2014 *(reviewed)*

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets				
Cash and balances with banks	-	-	2,606,942	2,606,942
Wakala deposits with banks and other financial institutions	-	-	2,563,675	2,563,675
Receivables from Islamic financing activities	-	-	22,031,805	22,031,805
Ijara	-	-	6,046,107	6,046,107
Investment securities	154,749	84,886	2,980,838	3,220,473
Other assets	-	-	776,458	776,458
	154,749	84,886	37,005,825	37,245,460
Financial liabilities				
Customers' accounts	-	-	29,423,366	29,423,366
Wakala deposits from banks	-	-	2,024,445	2,024,445
Sukuk financing instrument	-	-	1,836,250	1,836,250
Other liabilities	-	-	1,138,756	1,138,756
	-	-	34,422,817	34,422,817

24 Accounting classification and fair values *(continued)*

31 December 2013 *(audited)*

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets				
Cash and balances with banks	-	-	2,837,178	2,837,178
Wakala deposits with banks and other financial institutions	-	-	3,149,535	3,149,535
Receivables from Islamic financing activities	-	-	21,119,724	21,119,724
Ijara	-	-	5,983,441	5,983,441
Investment securities	34,553	59,382	2,834,261	2,928,196
Other assets	-	-	871,218	871,218
	34,553	59,382	36,795,357	36,889,292
Financial liabilities				
Customers' accounts	-	-	28,178,307	28,178,307
Wakala deposits from banks	-	-	3,180,210	3,180,210
Sukuk financing instrument	-	-	1,836,250	1,836,250
Other liabilities	-	-	1,002,126	1,002,126
	-	-	34,196,893	34,196,893

25 Interim measurement

The nature of the Group's business is such that income and expenses are incurred in a manner, which is not impacted by any form of seasonality. These condensed consolidated interim financial statements were prepared based upon an accrual concept, which requires income and expenses to be recorded as earned or incurred and not as received or paid throughout the period. However, the interim results may not represent a proportionate share of the annual profits due to variability in contributions and investment income and uncertainty of claims occurrences.

26 Zakah

The Articles of Association of the Bank do not require management of the Group to pay Zakah on behalf of the Shareholder. Consequently, the Zakah obligation is to be discharged by the Shareholder.

27 Comparative information

Certain comparative information has been reclassified to conform to the presentation for the current period.

Al Hilal Bank PJSC

Consolidated financial statements

31 December 2013

Principal business address:
Al Hilal Bank PJSC
P O Box: 63111
Abu Dhabi
UAE

Al Hilal Bank PJSC

Consolidated financial statements
for the year ended 31 December 2013

Contents	***Pages***

Chairman's Report

al hilal bank

بسم الله الرحمن الرحيم

In the name of Allah, the Most Gracious, the Most Merciful

On behalf of the Board of Directors, I am honored once again to present the Annual Report of Al Hilal Bank Group, for 2013.

2013 has been a prominent year, notably with the credit rating of A1 and A+ awarded to Al Hilal Bank from Moody's and Fitch, respectively. Only two other Islamic banks hold such status worldwide, and we are pleased to announce that we now have the highest rating among UAE Islamic banks.

Another milestone was achieved with the Bank's debut sukuk issuance. Demand represented the largest order book oversubscription for any senior offering from a GCC bank.

Following six years of steady expansion, results for profitability and growth are reassuring: market share in total assets and financings has expanded substantially, and we maintain our position for financings among the top three UAE Islamic banks.

The business environment in 2013

The international economy has begun a period of recovery following a prolonged downturn, and is expected to strengthen over the medium term. Locally, the announcement of Dubai's award of Expo 2020 is expected to have a positive effect on private sector financing needs; real estate and the stock markets reflect an upturn in sentiment among investors and businesses. Other promising indicators include a stable energy sector and the launch of local government infrastructure projects. With real UAE GDP at AED 1.07 trillion and estimated growth forecasts of over 3 percent, we are optimistic but, as always, we will approach opportunities prudently.

We look forward to strong performance in 2014. Certain regulatory reforms may limit our flexibility and potential business in the short term however they will serve to strengthen the local economy and the banking sector.

Key results

The Group achieved its 2013 business targets, demonstrating commitment to clients, our reputation and track record of planned infrastructure growth and innovation.

- Net revenues of AED 1.4 billion (growth of 15% over 2012)
- Net profit of AED 441 million (growth of 42% over 2012)
- Return on average equity of 12 percent (increase of 2 percent over 2012)
- Total assets of AED 38.7 billion (growth of 20% over 2012)
- Total financings of AED 27.1 billion (growth of 18% over 2012)
- Total funding of AED 33.2 billion (growth of 21% over 2012)
- Return on average assets of 1.2 percent (increase of 0.2 percent over 2012)

Strategy roll-out

While we are pleased to report past business successes, our eyes are always on the future. This year saw the implementation of our medium – term strategic framework. Developed in 2012, the framework is a transformational platform for the Bank's journey as we progress towards greater maturity and strength, and prepare for future generations.

The framework will guide us in setting ambitious targets, responding to opportunities, delivering innovation and value to customers and making business decisions. With three pillars: performance; health and development, it is grounded in our commercial responsibility to our stakeholders and supports our mandate as an agent of change in Islamic banking and contributor to the UAE's society. Furthermore, the framework will guide us in setting benchmark standards in Islamic banking practices and contributing to the achievement of Abu Dhabi's 2030 vision.

Human capital development and social responsibility

Continuing our strategic approach to talent acquisition and development established in previous years, the Bank has invested heavily in employee development programs and the formation of a cadre of professional UAE National bankers. Our work has been recognized with The Training Award – 2013, and our Leadership 2020 project has been created for the structured learning and development of UAE nationals to higher positions at the Bank.

In society, we worked with schools this year to promote Islamic banking and financial education, and we have continued our programs of sponsorship of worthy causes and charitable events.

Board changes

This year we welcomed Mariam Saeed Ghobash to the Board of Directors. She is currently working with Abu Dhabi Investment Council and we will benefit from her insights and depth of experience she brings along with her.

Recognition

On behalf of our shareholder, the Board and Management Team, I express our gratitude to the President His Highness Sheikh Khalifa bin Zayed Al Nahyan and His Highness the Crown Prince of Abu Dhabi, Sheikh Mohammed bin Zayed Al Nahyan, for their guidance and unremitting, inspired leadership; our shareholder for their continued belief in our future; our staff for once again demonstrating enthusiasm, dedication and tireless effort; our customers for their loyalty and trust; finally, to the Abu Dhabi Government and the Central Bank of the UAE for their continued guidance and assistance.

Ahmed Ateeq Al Mazrouei

Fatwa and Shariah Supervisory Board Report – Al Hilal Bank Group
For the Financial Year Ended on 31 December 2013

بسم الله الرحمن الرحيم

Praise be to Allah and peace be upon His Messenger, Mohammed and upon his family and companions.

To: Abu Dhabi Investment Council

السلام عليكم ورحمة الله تعالى وبركاته،

In line with Article No. 44 of the Bank's Articles of Association, the Fatwa and Shariah Supervisory Board (FSSB) is pleased to present its report as follows:

We have examined the policies, procedures and the contracts related to the products and transactions, which the Bank has executed or launched during the period of our required monitoring and supervision, in order to pronounce whether or not the Bank has complied with the Shariah rules and principles as well as with the opinions, resolutions and instructions issued by us taking into consideration the Shariah Standards of Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI), Bahrain.

The FSSB asserts that the responsibility of ensuring the Bank's conformity, in its practice, with Shariah rules and principles rests solely with the Executive Committee and Board of Directors of the Bank. However, the responsibility of FSSB is confined only to express an independent opinion based either on its direct supervision of the Bank's activities or through the Shariah Supervision Group, and to report our findings thereof to you, in light of the details shown by the minutes and reports of our meetings and audit.

We have reviewed all products launched by the Bank during the year in question, including manuals, execution mechanisms and standard contracts as well as non-standard agreements, especially contracts related to syndicated finance which the Bank has concluded with third parties.

With the help of the Shariah Supervision Group, we have planned and performed the Shariah audit on the transactions executed during the year and obtained all the information and explanations which we deem necessary to give us reasonable assurance that the Bank has not violated Shariah rules and principles. Likewise, we have reviewed periodical Shariah audit reports and observations raised to us by the Shariah Supervision Group including different kinds of operations carried out by the Bank. The Shariah audit's findings have been reviewed by us in light of the concerned departments' clarifications and justifications and according to which resolutions and appropriate instructions have been given. This is in addition to our review of the Bank's Consolidated Financial Statements and the associated notes, and also the monthly distribution of profits among the depositors and shareholders.

The FSSB held a total number of five meetings during the year, answered the queries raised to it and approved some new products proposed by the Management. The Executive Member of the Board, Dr. Abdul Sattar Abu Ghuddah has convened three meetings during the year and answered queries received through telephone calls. Likewise, the Executive Member of the Board, Sheikh Nizam Yaqubi has reviewed all corporate transactions presented to him by way of emails, including a number of syndications with other banks. He also answered queries on issues raised to him via telephone calls.

In line with the duty of the Board to promote Shariah awareness of Islamic banking in the society, especially in those communities where Islamic banking is still new, one of the Members of the Board, Sheikh Essam Mohamed Ishaq has delivered highly advanced training programs to a number of senior officials and representatives of government, private institutions, Islamic preachers, Imams and university students in Kazakhstan, in addition to staff of Al Hilal Islamic Bank Kazakhstan.

Accordingly, the FSSB is of the opinion that:

1. The contracts, operations and transactions executed by the Bank (and its subsidiaries), the investments entered into and the activities conducted by it during the financial year ended on 31 December 2013 as presented to us, are overall in accordance with Shariah rules and principles. And whatever discrepancies found in some of the cases, the Management has been guided as to how to correct them and tackle their effects and consequences as required by Shariah.
2. Distribution of profits and sharing of losses on investment accounts (including allocating costs and expenses to these accounts and that of the shareholders) are in conformity with the standards approved by us as per Shariah rules and principles.
3. All the revenues earned through non-Shariah compliant sources and means have been forfeited to the charity account to be spent for charity causes as per our guidelines, far away from being utilized by the Bank in any manner whatsoever.
4. Owing that the Bank is fully owned by the government, its funds become public funds, and hence the Bank is not under an obligation to pay Zakat on them. However, given the Shariah opinion that public funds are subject to Zakat if they are invested or put into business, the Board advises that the Bank should pay Zakat on its funds in support of Zakat beneficiaries. As the Bank has no absolute authority to discharge Zakat directly, the obligation to discharge Zakat falls on the shareholders themselves.

The FSSB extends its thanks to the Management of the Bank, and prays to Allah to enable them to serve the Islamic economy, and to bless the wealth of the Bank's shareholders and its customers and to bestow us all with Halal provision, and sincerity in our words and deeds. Finally praise to Allah and peace be upon His Messenger, Mohammed and upon his family and companions.

والسلام عليكم ورحمة الله تعالى وبركاته.

Shaikh Nedham Mohamed Yaqoobi
Vice-Chairman

Dr. Abdulsattar Abughuddah
Chairman

Dr. Mohammad Abdulrahim Sultan Alolama
Member

Shaikh Esam Mohamed Ishaq
Member

Place: Abu Dhabi, UAE. Date: 17.5.1435 AH, 18.3.2014 C.E

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Abu Dhabi
United Arab Emirates

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Telefax +971 (2) 6327 612
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Independent Auditors' Report
The Shareholder
Al Hilal Bank PJSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Al Hilal 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 2013, the consolidated statements of comprehensive income (comprising a consolidated statement of comprehensive income and a separate consolidated income statement), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law no.8 of 1984 (as amended), Union Law no.10 of 1980 and the Articles of Association of the Bank; that proper financial records have been kept by the Bank; and the contents of the Chairman's report which relate to these consolidated financial statements are in agreement with the Bank's financial records. We are not aware of any violation of the above mentioned Laws and the Articles of Association having occurred during the year ended 31 December 2013, which may have had a material adverse effect on the business of the Bank or its financial position.

KPMG Lower Gulf Limited
Munther Dajani
Registration No. 268

13 March 2014

Al Hilal Bank PJSC

Consolidated statement of financial position

as at 31 December

	Note	2013 AED'000	2012 AED'000
Assets			
Cash and balances with banks	9	**2,837,178**	1,437,223
Wakala deposits with banks and other financial institutions	10	**3,149,535**	2,805,778
Receivables from Islamic financing activities	11	**21,119,724**	17,859,889
Ijara	12	**5,983,441**	5,050,982
Investment securities	13	**2,928,196**	2,799,619
Property and equipment	14	**1,459,946**	1,369,741
Other assets	15	**1,227,245**	798,676
Total assets		**38,705,265**	32,121,908
Liabilities			
Customers' accounts	16	**28,178,307**	24,956,664
Wakala deposits from banks		**3,180,210**	2,491,598
Sukuk financing instrument	17	**1,836,250**	-
Other liabilities	18	**1,576,763**	1,178,004
Total liabilities		**34,771,530**	28,626,266
Equity			
Share capital	19	**3,090,000**	3,090,000
Statutory reserve	19	**113,521**	69,410
Other reserves		**(13,694)**	(11,452)
Retained earnings		**717,202**	321,404
Total equity attributable to the equity holder of the Bank		**3,907,029**	3,469,362
Non - controlling interest		**26,706**	26,280
Total equity		**3,933,735**	3,495,642
Total liabilities and equity		**38,705,265**	32,121,908

Ahmed Ateeq Al Mazrouei
Chairman

Mohamed Jamil Berro
Chief Executive Officer

Nabil Mushahwar
EVP Finance & Strategic Planning

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 5 and 6.

Al Hilal Bank PJSC

Consolidated statement of income
for the year ended 31 December

	Note	2013 AED'000	2012 AED'000
Income			
Income from wakala investments		**89,751**	77,123
Income from Islamic financing activities and Ijara, net	*20*	**1,527,797**	1,498,893
Investment income	*13*	**137,178**	107,427
Commission, fees and foreign exchange income, net	*21*	**183,225**	155,405
		1,937,951	1,838,848
Expenses			
Personnel costs		**(417,480)**	(386,322)
General and administrative expenses	*22*	**(287,822)**	(274,016)
Impairment charges, net	*23*	**(219,203)**	(257,282)
Depreciation	*14*	**(74,718)**	(72,105)
Profit before distribution		**938,728**	849,123
Profit distribution	*24*	**(496,941)**	(583,424)
Profit for the year		**441,787**	265,699
Attributable to:			
Equity holder of the Bank		**441,361**	310,300
Non-controlling interest		**426**	(44,601)

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

The independent auditors" report is set out on pages 5 and 6.

Al Hilal Bank PJSC

Consolidated statement of comprehensive income
for the year ended 31 December

	2013 AED'000	2012 AED'000
Profit for the year	**441,787**	265,699
Other comprehensive income		
Items that will never be reclassified to profit or loss		
Net gain on investment in equity instrument designated at fair value through other comprehensive income	**7,524**	15,621
Directors" remuneration and others	**(2,831)**	821
Items that are or maybe reclassified to profit or loss		
Foreign currency translation difference for foreign operation	**(8,387)**	(10,057)
Other comprehensive (expenses) / income for the year	**(3,694)**	6,385
Total comprehensive income for the year	**438,093**	272,084
Attributable to:		
Equity holder of the Bank	**437,667**	316,685
Non-controlling interest	**426**	(44,601)
Total comprehensive income for the year	**438,093**	272,084

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

The independent auditors" report is set out on pages 5 and 6.

Al Hilal Bank PJSC

Consolidated statement of changes in equity

for the year ended 31 December

	Attributable to equity holder of the Bank							
	Share capital AED'000	Statutory reserve AED'000	Translation reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000	Non-controlling interest AED'000	Total equity AED'000
Balance at 1 January 2013	**3,090,000**	**69,410**	**(6,747)**	**(4,705)**	**321,404**	**3,469,362**	**26,280**	**3,495,642**
Total comprehensive income for the year:								
Profit for the year	-	-	-	-	**441,361**	**441,361**	**426**	**441,787**
Other comprehensive income								
Net gain on investment in equity instrument designated at fair value through other comprehensive income	-	-		**6,145**	**1,379**	**7,524**	-	**7,524**
Foreign currency translation difference for foreign operation	-	-	**(8,387)**	-	-	**(8,387)**	-	**(8,387)**
Directors remunerations and others	-	-	-	-	**(2,831)**	**(2,831)**	-	**(2,831)**
Total other comprehensive income	-	-	**(8,387)**	**6,145**	**(1,452)**	**(3,694)**	-	**(3,694)**
Total comprehensive income for the year	-	-	**(8,387)**	**6,145**	**439,909**	**437,667**	**426**	**438,093**
Transaction with owner of the Bank								
Contributions and distributions								
Transfer to statutory reserve	-	**44,111**	-	-	**(44,111)**	-	-	-
Total contributions and distributions	-	**44,111**	-	-	**(44,111)**	-	-	-
Balance at 31 December 2013	**3,090,000**	**113,521**	**(15,134)**	**1,440**	**717,202**	**3,907,029**	**26,706**	**3,933,735**

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Al Hilal Bank PJSC

Consolidated statement of changes in equity *(continued)*
for the year ended 31 December

	Attributable to equity holder of the Bank							
	Share capital AED'000	Statutory reserve AED'000	Translation reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000	Non-controlling interest AED'000	Total equity AED'000
Balance at 1 January 2012	2,590,000	34,252	3,310	(20,326)	45,441	2,652,677	70,881	2,723,558
Total comprehensive income for the year:								
Profit for the year	-	-	-	-	310,300	310,300	(44,601)	265,699
Other comprehensive income								
Net gain on investment in equity instrument designated at fair value through other comprehensive income	-	-	-	15,621	-	15,621	-	15,621
Foreign currency translation difference for foreign operation	-	-	(10,057)	-	-	(10,057)	-	(10,057)
Directors remunerations and others	-	-	-	-	821	821	-	821
Total other comprehensive income	-	-	(10,057)	15,621	821	6,385	-	6,385
Total comprehensive income for the year	-	-	(10,057)	15,621	311,121	316,685	(44,601)	272,084
Transaction with owner of the Bank								
Contributions and distributions								
Issuance of share capital (note 19)	500,000	-	-	-	-	500,000	-	500,000
Transfer to statutory reserve	-	35,158	-	-	(35,158)	-	-	-
Total contributions and distributions	500,000	35,158	-	-	(35,158)	500,000	-	500,000
Balance at 31 December 2012	3,090,000	69,410	(6,747)	(4,705)	321,404	3,469,362	26,280	3,495,642

Al Hilal Bank PJSC

Consolidated statement of cash flows
for the year ended 31 December

	2013 AED'000	2012 AED'000
Cash flows from operating activities		
Profit for the year	**441,787**	265,699
Adjustment for:		
Depreciation	**74,718**	72,105
Net impairment charges on financial assets	**211,639**	260,417
Unrealised revaluation loss on investment property	**-**	85,775
Unwinding of impairment charge	**(9,362)**	(5,939)
Unrealised revaluation loss / (gain) on investment securities	**17,079**	(22,217)
	735,861	655,840
Changes in:		
Wakala deposits with banks	**(634,236)**	2,296,455
Receivables from Islamic financing activities	**(3,429,607)**	(2,598,021)
Ijara	**(964,302)**	(1,258,424)
Other assets	**(428,568)**	(178,248)
Customers" accounts	**3,221,642**	5,338,835
Wakala deposits from banks	**16,808**	(3,793,949)
Other liabilities	**398,758**	204,144
Net cash (used in) / from operating activities	**(1,083,644)**	666,632
Cash flows from investing activities		
Acquisition of property and equipment, net	**(164,923)**	(222,165)
Acquisition of investment securities	**(959,643)**	(802,801)
Proceeds from sale of investment securities	**816,915**	1,206,265
Net cash (used in) / from investing activities	**(307,651)**	181,299
Cash flows from financing activities		
Issuance of share capital (note 19)	**-**	500,000
Issuance of Sukuk financing instrument (note 17)	**1,836,250**	-
Directors remuneration paid and others	**(2,831)**	821
Net cash from financing activities	**1,833,419**	500,821
Net increase in cash and cash equivalents	**442,124**	1,348,752
Cash and cash equivalents, beginning of the year	**1,912,875**	564,123
Cash and cash equivalents, end of the year (note 25)	**2,354,999**	1,912,875

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

The independent auditors" report is set out on pages 5 and 6.

1 Legal status and principal activities

Al Hilal Bank PJSC (the "Bank") was incorporated in Abu Dhabi, United Arab Emirates ("UAE") on 18 June 2007 by virtue of Amiri Decree number 21 of 2007, with limited liability, and is registered as a Public Joint Stock Company in accordance with the United Arab Emirates Federal Law number 8 of 1984 (as amended), United Arab Emirates Federal Law number 10 of 1980 (as amended) and United Arab Emirates Federal Law number 6 of 1985 regarding Islamic banks, financial institutions and investment companies.

The Bank's registered office address is Al Bahr Towers (P. O. Box 63111), Abu Dhabi, United Arab Emirates. The consolidated financial statements of the Group as at and for the year ended 31 December 2013 comprise the Bank and its subsidiaries *(Note 28)* (together referred to as the "Group"). The Group is primarily involved in Islamic corporate, retail and investment banking activities as well as Islamic insurance ("Takaful") and carries out its operations through its branches in the United Arab Emirates and subsidiaries located in the United Arab Emirates and Kazakhstan. The consolidated financial statements of the Group include the Shareholder, depositors' funds and the sukuk.

The consolidated financial statements were authorized for issue by the Board of Directors on 13 MAR 2014.

2 Basis of preparation

The principal accounting policies applied in the presentation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) *Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of UAE Federal Law No. 8 of 1984 (as amended).

b) *Basis of measurement*

These consolidated financial statements have been prepared under the historical cost convention except for the following:

Items	**Measurement basis**
Islamic derivative financial instruments	Fair value
Financial instruments designated at fair value through profit or loss	Fair value
Financial instruments designated at fair value through other comprehensive income	Fair value
Investment property	Fair value
Recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships	Amortised cost adjusted for changes in fair value attributable to the risk being hedged

2 Basis of preparation *(continued)*

c) *Use of estimates and judgments*

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group"s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

d) *Functional and presentation currency*

i) *Functional and presentation currency*

Items included in the financial statements of each of the Group"s entities are measured using the currency of the primary economic environment in which the respective entity operates ("the functional currency"). The consolidated financial statements are presented in Arab Emirates Dirham ("AED"), which is the Group"s presentation currency.

ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

e) *Changes in accounting policies*

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 10 Consolidated Financial Statements (2011).
- IFRS 12 Disclosure of Interests in Other Entities.
- IFRS 13 Fair Value Measurement.
- Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7).
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1).

2 Basis of preparation *(continued)*

e) Changes in accounting policies *(continued)*

The nature and the effects of the changes are explained below.

(i) Subsidiaries, including structured entities

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed its control conclusions as of 1 January 2013. The change did not have a material impact on the Group‟s financial statements.

(ii) Interests in other entities

As a result of IFRS 12, the Group has expanded disclosures about its interests in subsidiaries *(see Note 28)* and involvement with unconsolidated structured entities *(see Note 31 and 32).* The disclosure requirements related to its involvement in unconsolidated structured entities are not included in the comparative information.

(iii) Fair value measurement

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value, as set out in Note 3(n) (iii), prospectively. The change had no significant impact on the measurements of the Group‟s assets and liabilities, but the Group has included new disclosures in the consolidated financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Group has provided the relevant comparative disclosures under those standards.

(iv) Offsetting financial assets and financial liabilities

As a result of the amendments to IFRS 7, the Group has expanded disclosures about offsetting financial assets and financial liabilities.

(v) Presentation of items of other comprehensive income (OCI)

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its statement of profit or loss and other comprehensive income, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

2 Basis of preparation *(continued)*

f) Standards early adopted by the Group

IFRS 9, „Financial instruments: Classification and measurement‟, effective date has not yet been determined.

IFRS 9 was issued in November 2009. It replaces the parts of IAS 39 that relate to the classification and measurement of financial assets. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity‟s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Adoption of IFRS 9 is mandatory from 1 January 2015; earlier adoption is permitted.

The Group has early adopted IFRS 9 from 1 October 2010, as well as the related consequential amendments to other IFRSs, because this new accounting policy provides reliable and more relevant information for users to assess the amounts, timing and uncertainty of future cash flows. In accordance with the transition provisions of the standard, comparative figures have not been restated.

The Group‟s management has assessed the financial assets held by the Group at the date of initial application of IFRS 9 (1 October 2010). The main effects resulting from this assessment were:

- Investments in Sukuk instruments, previously classified as available-for-sale, meet the criteria to be classified as at amortised cost in accordance with IFRS 9. They are now therefore classified as financial assets at amortised cost.
- Equity investments not held for trading that were previously measured at fair value and classified as available-for-sale have been designated as at fair value through other comprehensive income.

4 Significant accounting policies

Except for the change in Note 2 (e), the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

a) Hedge accounting

In order to manage profit rate risks, the Group enters into Sharia compliant arrangements including profit rate swaps.

Hedge documentation

At the inception of the hedge, formal documentation of the hedge relationship must be established. The hedge documentation prepared at the inception of the hedge must include a description of the following:

- The Group‟s risk management objective and strategy for undertaking the hedge;
- The nature of risk being hedged;
- Clear identification of the hedged item and the hedging instrument; and
- How the Group will assess the effectiveness of the hedging relationship on an on-going basis.

3 Significant accounting policies

a) Hedge accounting *(continued)*

Hedge effectiveness testing

The hedge is regarded as highly effective if following conditions are met:

- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting the changes in fair value of the hedging instruments with corresponding changes in the hedged risk and should be reliably measurable; and
- The actual results of the hedge are within a range of 80 to 125 percent.

These hedging relationships are discussed below:

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss and other comprehensive income as the hedged item).

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and other comprehensive income.

Discontinuance of hedge accounting

The hedge accounting is discontinued when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. At that point of time, any cumulative gain or loss on the hedged instrument that has been previously recognised in the consolidated statement of income is immediately reversed in the consolidated statement of income.

3 Significant accounting policies *(continued)*

b) Islamic financial assets

i) Murabaha

Murabaha receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. A Murabaha contract is a sale of goods with an agreed upon profit mark up on the cost of the goods. A Murabaha contract is of two categories. In the first category, the Bank purchases the goods and makes it available for sale without any prior promise from a customer to purchase it. In the second category, the Bank purchases the goods ordered by a customer from a third party and then sells these goods to the same customer. In the latter case, the Bank purchases the goods only after a customer has made a promise to purchase them from the Bank.

ii) Ijara Muntahia Bittamleek

A form of leasing contract which includes a promise by a lessor to transfer the ownership in the leased property to the lessee, either at the end of the term of the Ijara period or by stage during the term of the contract.

iii) Wakala

A contract between the Group and customers 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.

iv) Mudaraba

Mudaraba is a contractual arrangement whereby two or more parties undertake an economic activity. Mudaraba is a partnership in profit between capital and work. It may be conducted between investment account holders as providers of funds and the Bank as a Mudarib. The Bank announces its willingness to accept the funds of investment account holders, the sharing of the profits being as agreed between the two parties and the losses being borne by the provider of the funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

v) Sukuk

Certificates which are equal in value and represent common shares in the ownership of a specific 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 Significant accounting policies *(continued)*

b) *Islamic financial assets (continued)*

vi) Musharaka

It is an agreement between two or more parties to combine their assets or to merge their services or obligations and liabilities with the aim of making profit. Profit in Musharaka is shared as per the agreed ratio whereas loss is distributed in proportion to the contribution of each partner.

c) *Consolidation*

i) Subsidiaries

„Subsidiaries‟ are investees controlled by the Group. The Group „controls‟ an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases. The subsidiaries consolidated in the Group financial statement are listed in note 28.

ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

iii) Non-controlling interest ("NCI")

Non-controlling interest are measured at their proportionate share of the acquiree‟s identifiable net assets at the acquisition date.

Changes in the Group‟s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iv) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

d) *Foreign currency*

i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective profit and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

3 Significant accounting policies *(continued)*

d) Foreign currency *(continued)*

i) Foreign currency transactions (continued)

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation are generally recognised in profit or loss.

ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into AED at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into AED at spot exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and accumulated in the foreign currency translation reserve (translation reserve), except to the extent that the translation difference is allocated to non-controlling interest.

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interest.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in other comprehensive income, and accumulated in the translation reserve within equity.

e) Property and equipment

i) Recognition and measurement

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of income.

ii) Subsequent costs

Subsequent costs are included in the asset‟s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

3 Significant accounting policies *(continued)*

e) *Property and equipment* *(continued)*

iii) Depreciation

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	2013	2012
Leasehold improvements	**7-10 years**	7-10 years
Computer systems and equipment	**4 years**	4 years
Furniture, equipment, safes and vehicles	**4 years**	4 years
Building	**40 years**	40 years

The assets‟ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset‟s carrying amount is written down immediately to its recoverable amount if the asset‟s carrying amount is greater than its estimated recoverable amount.

f) *Capital work in progress*

Properties or assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes all direct cost attributable to design and construction of the property including related staff costs, and for qualifying assets, financing costs capitalised in accordance with Group‟s accounting policy. When the assets are ready for the intended use, the capital work in progress is transferred to the appropriate property and equipment category and is depreciated in accordance with the Group‟s policies.

g) *Qard Hasan*

Qard Hasan receivables are non-profit bearing financing receivables whereby the customer borrows funds for a period of time with an understanding that the same amount shall be repaid at the end of the agreed period.

h) *Swap transactions*

Currency and profit rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or profit rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency profit rate swaps). The Bank‟s credit risk represents the potential loss if counterparties fail to fulfill their obligations.

3 Significant accounting policies *(continued)*

i) Impairment of non-financial assets

Assets that have indefinite useful life for example, land, goodwill or intangible assets not ready for use are not subject to amortization or depreciation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset"s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset"s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss is recognised if the carrying amount of an asset or cash-generating units exceeds its recoverable amount.

Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of impairment at each reporting date.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset"s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

j) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, due from banks, balances with Central Banks, Islamic certificates of deposit with Central Bank, Wakala deposits with banks and financial institutions with original maturity of less than three months which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are recognised as deduction from equity.

l) Fair value reserve

The fair value reserve is related to revaluation of investment securities classified at fair value through other comprehensive income, the policy of which is set out in Note 3(n).

m) Customers' accounts and Wakala deposits from banks

Customers" accounts and Wakala deposits from banks are initially recognised at fair value less transaction costs and are subsequently measured at amortised cost.

3 Significant accounting policies *(continued)*

n) Financial assets

i) Recognition and initial measurement

The Group initially recognises financial assets on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset"s acquisition or origination. On initial recognition, the Group classifies its financial assets as subsequently measured at either amortised cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

ii) Classification

Classification prior to 1 October 2010

The Group classifies its financial assets in the following categories: at fair value through profit or loss, receivables from Islamic financing activities, available-for-sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

A financial asset at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets at fair value through profit or loss are subsequently measured at fair value and changes therein, including profit or dividend income, are recognised in profit or loss.

b) Receivables from Islamic financing activities

Receivables from Islamic financing activities are non-derivative financial assets with fixed payments that are not quoted in an active market.

c) Available-for-sale financial assets

These assets are subsequently measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income.

3 Significant accounting policies *(continued)*

n) ***Financial assets*** *(continued)*

ii) Classification (continued)

Classification after 1 October 2010

As of 1 October 2010, the Group classifies its financial assets in the following categories: those to be measured subsequently at fair value, and those to be measured at amortised cost.

a) Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost, using effective profit rate method and net of any impairment loss, if:

- 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 financial asset give rise, on specified dates, to cash flows that are solely payments of principle and profit.

The Group‟s policy on impairment of financial assets measured at amortised cost is the same as that applied in its consolidated financial statements as at and for the year ended 31 December 2012 for Islamic financing receivables and Sukuk investments.

The Group makes an assessment of a business model at portfolio level as this reflects the best way the business is managed and information is provided to management.

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

- management‟s stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management‟s strategy focuses on earning contractual cash flow;
- the degree of frequency of any expected asset sales;
- the reason of any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

b) Financial assets measured at fair value

These assets are measured at fair value and changes therein, including any profit or dividend income, are recognised in profit or loss.

However, for investment in equity instruments not held for trading, the Group may elect at initial recognition to present gains and losses in other comprehensive income. For such investments measured at fair value through other comprehensive income, gains and losses are never reclassified to profit or loss, and no impairment is recognised in profit or loss. Dividends earned from such investments are recognised in profit or loss, unless dividend clearly represents repayment of part of the cost of the investment.

3 Significant accounting policies *(continued)*

n) ***Financial assets*** *(continued)*

ii) Classification (continued)

c) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. In addition, prior to 1 April 2010 any cumulative gain or loss that had been recognised in other comprehensive income was also recognised in profit or loss.

Transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

d) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from group of similar transactions such as in the Group‟s trading activity.

e) Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective profit rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3 Significant accounting policies *(continued)*

n) ***Financial assets*** *(continued)*

iii) Fair value measurement

Policy applicable from 1 January 2013

„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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on going basis.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Policy applicable prior to 1 January 2013

„Fair value‟ is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm‟s length transaction on the measurement date.
When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm‟s length basis.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases the initial estimate of fair value of a financial instrument on initial recognition may be different from its transaction price. If this estimated fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases, the fair value at initial recognition is considered to be the transaction price and the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

3 Significant accounting policies *(continued)*

o) Impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a Group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the issuer, default or delinquency by an issuer, restructuring of Islamic financing receivables by the Group on terms that the Group would not otherwise consider, indications that an issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of issuers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment for financial assets measured at amortised cost at both a specific asset and collective level. All individually significant financial assets measured at amortised cost are assessed for specific impairment. All individually financial assets at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets are impaired. For sukuk securities, the Group uses the criteria referred to in Note 3(n)(i). In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of comprehensive income – is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income.

If, in a subsequent period, the fair value of a Sukuk instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

p) Financial liabilities

Financial liabilities, including customers‟ accounts, sukuk financing instrument and wakala deposits, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective profit method, with profit expense 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 expense over the relevant period. The effective profit rate is the rate that exactly required to unwind estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3 Significant accounting policies *(continued)*

p) ***Financial liabilities*** *(continued)*

De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group‟s obligations are discharged, cancelled or they expire.

q) ***Revenue recognition***

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group‟s activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i) Profit income

Profit income is recognised using the effective profit rate method.

The „effective profit rate" is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective profit rate, the Group estimates future cash flows considering all contractual terms of the financial asset, but not future credit losses.

The calculation of the effective profit rate includes transaction costs and fees and points paid or received that are an integral part of the effective profit rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset.

When a financial asset is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow required to unwind at the original effective profit rate of the instrument, and continues unwinding the discount as profit income. Profit income on impaired finance facilities and receivables is recognised using the original effective profit rate.

ii) Dividend income

Dividend income is recognised when the right to receive the income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment. Dividends on equity instruments designated as at fair value through other comprehensive income are presented in other revenue in the consolidated statement of income unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is presented in other comprehensive income.

iii) Fee and commission income, net

Fees and commission income and expense that are integral to the effective profit rate on a financial asset or financial liability are included in the measurement of the effective profit rate. Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a finance commitment is not expected to result in the drawn of finance, then the related finance commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3 Significant accounting policies *(continued)*

r) Investment property

Investment property is property held for rental income or for capital appreciation, or both, but not for sale in the ordinary course of business, use in the production, supply of goods or services or for administrative purposes. Investment property is measured at cost and subsequently at fair value with any change therein recognised in the consolidated statement of income.

s) Lease payment

Payments made under operating leases are recognised in the consolidated statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

t) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

u) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

v) Staff terminal benefits

UAE nationals employed by the Group are registered in the scheme managed by Abu Dhabi Retirement Pensions and Benefits Fund in accordance with Law number (2) of 2000. Staff terminal benefits for expatriate employees are accounted for on the basis of their accumulated services at the reporting date and in accordance with the Group‟s internal regulations, which comply with the applicable laws.

An actuarial valuation is not performed on staff terminal and other benefits as the net impact of the discount rate and future salary and benefits level on the present value of the benefits obligation are not expected by management to be significant.

w) Director's remunerations

In accordance with the Ministry of Economy and Commerce interpretation of Article 119 of Federal Law No. 8 of 1984 (as amended), Directors‟ remuneration has been treated as an appropriation from equity.

3 Significant accounting policies *(continued)*

x) Profit distribution

Profit distribution is an amount accrued as an expense on the funds accepted from banks and customers in the form of wakala deposits, mudarba contracts & sukuk financing instruments and recognised as expenses in the consolidated statement of income. The amounts are calculated in accordance with agreed terms and conditions of the wakala deposits and Sharia‟a principles.

y) Financial guarantees and financing commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financing commitments are firm commitments to provide credit under pre-specified terms and conditions.

For other financial guarantee contracts, financial guarantees are initially recognised at their fair value (which is the premium received on issuance). The received premium is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment. The premium received on these financial guarantees is included within other liabilities.

z) Takaful contracts

i) Classification

The Group issues contracts that transfer either Takaful risk or both Takaful and financial risks. The Group does not issue contracts that transfer only financial risks.

Contracts under which the Group accepts significant Takaful risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder is classified as Takaful contracts.

ii) Recognition and measurement

Gross written contributions, in respect of annual policies, are recognised in the consolidated statements of income at the inception of the policy. In respect to policies with a term of more than one year, the contributions are spread over the tenure of the policies on a straight line basis, and the unexpired portion of such contributions is included under "unearned contributions" in the consolidated statement of financial position.

iii) Claims

Claims incurred comprise the settlement, the internal and external handling costs of paid and changes in the provisions for outstanding claims arising from events occurring during the year. Where applicable, deductions are made for salvage and recoveries.

Claims outstanding comprise provisions for the Group‟s estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses and reduced by expected salvage and recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly by management.

3 Significant accounting policies *(continued)*

z) ***Takaful contracts*** *(continued)*

iv) Gross claims paid

Gross claims paid are recognised in the consolidated statement of income when the claim amount payable to policyholders and third parties is determined as per the terms of the Takaful contracts.

v) Claims recovered

Claims recovered include amounts recovered from re-takaful companies in respect of the gross claims paid by the Group, in accordance with the re-takaful contracts held by the Group. It also includes salvage and claims recoveries.

vi) Gross outstanding and IBNR claims

Gross outstanding claims comprise the estimated costs of claims incurred but not settled at the consolidated financial position date. Provisions for reported claims not paid as at the end of the reporting period are made on the basis of individual case estimates. This provision is based on the estimate of the loss, which will eventually be payable on each unpaid claim, established by management in the light of currently available information and past experience. An additional net provision is also made for any claims incurred but not reported ("IBNR") at the end of the reporting period, on the basis of management estimates.

The re-takaful share of the gross outstanding claims is estimated and shown separately.

vii) Unearned contribution reserves

A provision is made for contribution deficiency arising from general Takaful contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the consolidated financial position date exceeds the unearned contributions provision and already recorded claim liabilities in relation to such policies. The provision for contribution deficiency is calculated by reference to classes of business which are managed together.

viii) Re-takaful

The Group cedes re-takaful in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities, income and expense arising from ceded re-takaful contracts are presented separately from the assets, liabilities, income and expense from the related Takaful contracts because the re-takaful arrangements do not relieve the Group from its direct obligations to its policyholders.

Amounts due to and from re-takaful are accounted for in a manner consistent with the related contributions and is included in re-takaful assets.

3 Significant accounting policies *(continued)*

z) ***Takaful contracts*** *(continued)*

viii) Re-takaful (continued)

Re-takaful assets are assessed for impairment at the end of each reporting period. A re-takaful asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses on re-takaful assets are recognised in the consolidated statement of income in the year in which they are incurred.

Commissions in respect of re-takaful contracts are recognised on an accrual basis.

ix) Takaful receivables and payables

Amounts due from and to policyholders, agents and reinsurers are financial instruments and are included in other assets and other liabilities, respectively, and not in Takaful contract provisions or re-takaful assets.

x) Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities using current estimates of future cash flows under Takaful contracts. In performing these, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets supporting such liabilities are used. Any deficiency in the carrying amounts is immediately charged to the consolidated statement of income by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

aa) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are issued but not effective for the accounting period starting 1 January 2013, and have not been early adopted in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

IFRS-9 „Financial instrument"

The International Accounting Standards Board has decided to replace IAS 39 Financial Instruments over a period of time and by three phases:

Phase 1: Classification and measurement of financial assets and financial liabilities.
Phase 2: Impairment methodology.
Phase 3: Hedge accounting**.**

Recognition and Measurement:
The early adoption of the standard continues to be permitted. Given the nature of the Groups operations, this standard is expected to have a pervasive impact on the Group‟s consolidated financial statement. The Group, however, has already early adopted part of Phase 1"Classification and measurement of financial assets" Note 2 (e).

3 Significant accounting policies *(continued)*

aa) ***New standards and interpretations not yet adopted*** *(continued)*

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Early application is permitted.

The Group is still evaluating the potential effect of the adoption of the amendments to IAS 32.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) (2013)

The IASB has issued amendments to reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13.

4 Financial risk management

Financial risk factors

Introduction and overview

The Group‟s activities expose it to a variety of financial risks and involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and the operational risks are an inevitable consequence of being in business. The Group‟s aim is, therefore, to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group‟s financial performance.

The Group‟s risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

4 Financial risk management *(continued)*

Financial risk factors *(continued)*

The Group has exposure to the following risks for financial instruments:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

Risk management framework

The Board of Directors ("The Board") has overall responsibility for the establishment and oversight of the Bank‟s risk management framework. The Board has established a Board Risk Committee, comprising members from the Board, to monitor the Group‟s credit, operational, market and liquidity risks. The Board has further set up from within management, Assets and Liabilities Committee ("ALCO"), Management Risk Committee ("MRC"), Management Credit Risk Committee ("MCRC"), Management Remedial Committee, Management Operational Risk Committee ("MORC") which is a subcommittee of MRC) and Management Investment Committee (MIC).

A separate Risk Management Group, reporting to the Management Risk Committee, assists in carrying out the oversight responsibility of the Board through the Board Risk Committee ("BRC").

The Board has established a Bank Audit Committee, which is responsible for monitoring compliance with the Bank‟s risk management policies and procedures, and for reviewing the adequacy of the risk management framework. The Bank‟s Audit Committee is assisted in these functions by the Internal Audit Department.

The risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly, on an ongoing basis, to reflect changes in market conditions, products and services offered.

Risk governance and ownership

A well-established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk at Group, regional, customer group and entity levels. The Board approves the Group‟s Risk management framework, risk appetite, performance targets for the Group, the appointment of senior officers, and the delegation of authorities for credit and other risks and the establishment of effective control procedures.

4 Financial risk management *(continued)*

Risk appetite

Risk appetite policy describes the quantum and types of risk that the Group is prepared to take in executing its strategy. It is central to an integrated approach to risk, capital and business management and supports the Group in achieving its return on equity objectives, as well as being a key element in meeting the Group‟s obligations under Pillar I & Pillar II of Basel II.

The risk appetite covers both the beneficial and adverse aspects of risk. The formulation of risk appetite considers the Group‟s risk capacity, its financial position, and the strength of its core earnings and the resilience of its reputation

a) Credit risk and concentrations of risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group‟s receivables from Islamic financing activities, Ijara, Investments and Takaful receivables. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

The objective of credit risk management is to underpin a sustainably profitable business. Risk Management Group assesses all credit exposures and recommends approval from the designated credit committee by the Board (i.e. “MCRC”), prior to facilities being committed to customers by the business unit concerned.

The Risk Management Group develops and maintains the Group‟s internal risk grading framework in order to categorize exposures according to the degree of risk of financial loss encountered. There is a risk rating framework for the corporate portfolio that consists of twenty-two grades. Each customer is rated using portfolio specific rating model which in turn assigns a risk rating and corresponding probability of default. The responsibility for assigning risk grades lies with the concerned business unit and is independently vetted by the Risk Management Group. For the retail portfolio, four application scorecards have been developed for each specific financing product to assist in the credit decision process.

Renewals and reviews of facilities are subject to detailed review process by the Risk Management Group.

In addition, the Group manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. Regular audits of business units and credit processes are undertaken by the Internal Audit Department.

Independent review of the credit portfolio is also undertaken by a credit review team separate from both the business unit and Credit Risk Management.

Exposure to credit risk

The Group measures its exposures to credit risk by reference to the gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

4 Financial risk management *(continued)*

a) *Credit risk and concentrations of risk* *(continued)*

At 31 December 2013 and 31 December 2012, the Group"s maximum exposure to credit risk before collateral held or other credit enhancements was as follows:

	2013 AED'000	2012 AED"000
Assets		
Balances with banks *(note 9)*	**2,651,201**	1,234,239
Wakala deposits with banks and other financial institutions	**3,149,535**	2,805,778
Receivables from Islamic financing activities	**21,119,724**	17,859,889
Ijara	**5,983,441**	5,050,982
Investment securities	**2,928,196**	2,799,619
Other assets	**982,903**	614,685
	36,815,000	30,365,192
Commitments and contingencies *(note 26)*	**13,109,182**	10,842,239

The above table represents a worst case scenario of credit risk exposure of the Group at 31 December 2013 and 31 December 2012 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

At 31 December 2013 and 31 December 2012, the distribution by geographical region of major categories of assets and commitments was as follows:

31 December 2013

	United Arab Emirates AED'000	Kazakhstan AED'000	Others AED'000	Total AED'000
Assets				
Balances with banks *(note 9)*	**2,132,332**	**145,797**	**373,072**	**2,651,201**
Wakala deposits with banks and other financial institutions	**3,130,935**	**18,600**	**-**	**3,149,535**
Receivables from Islamic financing activities	**20,752,412**	**367,312**	**-**	**21,119,724**
Ijara	**5,963,155**	**20,286**	**-**	**5,983,441**
Investment securities	**2,913,969**	**14,227**	**-**	**2,928,196**
Other assets	**982,313**	**590**	**-**	**982,903**
Total	**35,875,116**	**566,812**	**373,072**	**36,815,000**
Commitments and contingencies *(note 26)*	**10,894,370**	**127,982**	**2,086,830**	**13,109,182**

4 Financial risk management *(continued)*

a) ***Credit risk and concentrations of risk*** *(continued)*

31 December 2012

	United Arab Emirates AED'000	Kazakhstan AED'000	Others AED'000	Total AED'000
Assets				
Balances with banks *(note 9)*	1,153,248	29,649	51,342	1,234,239
Wakala deposits with banks and other financial institutions	2,584,825	37,008	183,945	2,805,778
Receivables from Islamic financing activities	17,140,235	338,536	381,118	17,859,889
Ijara	5,018,043	32,939	-	5,050,982
Investment securities	2,799,619	-	-	2,799,619
Other assets	611,639	3,046	-	614,685
Total	29,307,609	441,178	616,405	30,365,192
Commitments and contingencies *(note 26)*	8,591,395	93,551	2,157,293	10,842,239

At 31 December 2013 and 31 December 2012, the distribution by sector of major categories of assets and commitments was as follows:

31 December 2013

	Government AED'000	Public AED'000	Corporate / private AED'000	Retail AED'000
Balances with banks	**2,256,370**	**-**	**394,831**	**-**
Wakala deposits with banks and other financial institutions	**-**	**-**	**3,149,535**	**-**
Receivables from Islamic financing activities	**1,885,534**	**1,899,186**	**7,551,002**	**9,784,002**
Ijara	**109,928**	**1,716,448**	**1,489,222**	**2,667,843**
Investment securities	**2,191,304**	**192,785**	**544,107**	**-**
Other assets	**-**	**-**	**-**	**982,903**
Commitments and contingencies *(note 26)*	**1,332,258**	**2,321,478**	**9,204,020**	**251,426**

4 Financial risk management *(continued)*

a) ***Credit risk and concentrations of risk*** *(continued)*

31 December 2012

	Government AED'000	Public AED'000	Corporate / private AED'000	Retail AED'000
Balances with banks	1,182,889	-	51,350	-
Wakala deposits with banks and other financial institutions	-	-	2,805,778	-
Receivables from Islamic financing activities	2,177,299	1,852,455	5,487,534	8,342,601
Ijara	70,337	1,314,124	1,215,249	2,451,272
Investment securities	2,271,894	-	527,725	-
Other assets	-	-	-	614,685
Commitments and contingencies *(note 26)*	1,278,784	489,777	9,017,984	55,694

During the year, the Central bank of UAE amended the definition of Government Related Entities which has been affected in the 2013 and 2012 sector classifications

Impairment and provisioning policies
Impaired receivables from Islamic financing activities are financial assets carried at amortised cost for which the Group determines that it is probable that it will be unable to collect all principal and profit due according to the contractual terms of the related financial assets. These financial assets are graded in accordance with the Group"s internal credit risk grading system.

Past due but not impaired financial assets
Past due but not impaired financial assets, are those for which contractual profit or principal payments are past due but the Group believes that impairment of such financial assets is not appropriate on the basis of the level of security, collateral available and / or the stage of collection of amounts owed to the Group.

Financial assets with renegotiated terms
Financial assets with renegotiated terms are facilities that have been renegotiated due to the deterioration in the customer"s financial position and where the Group has made concessions that it would not otherwise consider. Once the facility is renegotiated it remains in this category for a minimum of six months of satisfactory performance.

As at 31 December 2013, the Group"s renegotiated facilities amounted to AED 978,938 thousand *(2012: AED 1,011,998 thousand)*.

4 Financial risk management *(continued)*

a) ***Credit risk and concentrations of risk*** *(continued)*

Allowances for impairment

The Group establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its financing portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective financing loss allowance for losses that have been incurred but not identified, established for a group of homogeneous assets with similar risk characteristics that are indicative of the debtor‟s ability to pay amounts due according to the contractual terms on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

The table below sets out a reconciliation of changes in the carrying amount of impaired financings and advances to customers.

	2013	2012
	AED'000	AED‟000
Impaired Islamic financing activities and Ijara at 1 January 2013	**307,984**	229,804
Change in allowance or classified as impaired	**150,780**	183,780
Transferred to not impaired or settled	**(102,039)**	(72,349)
Write offs	**(16,316)**	(33,251)
Impaired Islamic financing activities and Ijara at 31 December 2013	**340,409**	307,984

Settlement Risk

The Group‟s activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed. Any delays in settlement are rare and are monitored and quantified by Risk Management Group.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described above. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Group Management Credit Risk Committee ("MCRC"), under credit risk.

4 Financial risk management *(continued)*

a) ***Credit risk and concentrations of risk*** *(continued)*

Collateral Risk
As at 31 December 2013, the Group held credit risk mitigants with an estimated value of AED 8,581,115 thousand *(2012: AED 8,818,146 thousand)* against receivables from Islamic financing activities, Ijara finance and investments in the form of real estate collateral, other securities over assets, cash deposits and guarantees. The Group accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against Wakala deposits with banks and other financial institutions, and no such collateral was held at 31 December 2013 or 31 December 2012.

b) ***Market risk***

The Group is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

Overall authority for market risk is vested in Asset and Liability Committee ("ALCO"). The Risk Management Group is responsible for the development of detailed risk management policies (subject to review and approval by "ALCO") and for the day to day review of their implementation.

The Group follows IFRS 9 guidelines for the treatment of its banking and investment portfolio exposed to market risk. The banking portfolio includes receivables from Islamic financing activities, Ijara, investment in sukuks held to maturity whilst the investment portfolio includes investments in sukuks, equities, mutual funds held at fair value.

i) Price risk

The Group is exposed to price risk arising from its investment securities portfolio classified on the financial statements as Available for Sale ("AFS") and Fair Value through Profit and Loss ("FVTPL") until 30 September 2010 and at fair value through profit and loss and other comprehensive income subsequent to the early adoption of IFRS 9.

Most of the Group‟s investment securities are publicly traded and the table below summarizes the impact of a 10% increase / decrease of the prices of the major components of its investment securities portfolio, on the Group‟s results and equity for the year ended 31 December 2013. The analysis is based on the assumptions that all other variables will remain constant and, where applicable, the Group‟s investments moved according to the historical correlation of the relevant index.

4 Financial risk management *(continued)*

b) ***Market risk*** *(continued)*

i) Price risk (continued)

	Impact on results and equity of the Group	
	2013	2012
	AED'000	AED'000
± 10 % change in equity prices:		
Profit and loss	**1,589**	9,061
Other comprehensive income	**5,567**	2,685

	Impact on results and equity of the Group	
	2013	2012
	AED'000	AED'000
Impact on Sukuk Portfolio for ± 200 bps change in profit rate:		
Profit and loss	**1,654**	22,486

Currency risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. MCRC sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, and monitors currency positions on a daily basis.

Had the exchange rate between the various currencies and the AED increased or decreased by 10 %, with all other variables held constant, the impact on the results and equity of the Group would not have been material as the exposure primarily related to currencies that were pegged to the AED.

4 Financial risk management *(continued)*

b) ***Market risk*** *(continued)*

ii) Profit rate risk

Profit rate risk in the banking portfolio is applicable to the Group"s exposure to receivables from Islamic financing activities, Ijara as well as investment in sukuks held to maturity. The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the group"s financial assets and financial liabilities to various standard and non-standard profit rate scenarios. Standard scenarios include a 200 basis point (bp) parallel fall or rise in all yield curves over a twelve month horizon maintaining a constant financial position.

	Impact on results and equity of the Group	
	2013	2012
	AED'000	AED"000
± 200 basis points change in profit rates	**135,018**	98,912

This exposure arises as a result of mis-matches in re-pricing of assets and liabilities reflected in the following net position schedule.

4 Financial risk management *(continued)*

b) ***Market risk*** *(continued)*

ii) Profit rate risk (continued)

A summary of the Group"s profit rate re-pricing as at 31 December 2013 is as follows:

	Less than 3 months AED'000	3 - 6 months AED'000	6 - 12 months AED'000	1 - 5 years AED'000	Greater than 5 years AED'000	Non-sensitive AED'000	Total AED'000
Assets							
Cash and balances with banks	-	-	799,432	-	-	2,037,746	2,837,178
Wakala deposits with banks and other financial institutions	2,580,320	372,987	12,603	183,625	-	-	3,149,535
Receivables from Islamic financing activities	8,489,301	4,155,531	712,273	3,126,710	4,525,137	110,772	21,119,724
Ijara	3,259,957	2,134,447	107,823	463,322	17,892	-	5,983,441
Investment securities	170,000	-	1,836,250	542,722	269,560	109,664	2,928,196
Other assets	-	-	-	-	-	982,903	982,903
Total assets	14,499,578	6,662,965	3,468,381	4,316,379	4,812,589	3,241,085	37,000,977
Liabilities							
Customers" accounts	15,812,921	4,327,749	4,210,788	90,584	2,000	3,734,265	28,178,307
Wakala deposits from banks	3,175,641	4,160	-	-	-	409	3,180,210
Sukuk financing instrument	-	-	-	1,836,250	-	-	1,836,250
Other liabilities	-	-	-	-	-	1,489,390	1,489,390
Total liabilities	18,988,562	4,331,909	4,210,788	1,926,834	2,000	5,224,064	34,684,157
Net position	(4,488,984)	2,331,056	(742,407)	2,389,545	4,810,589	(1,982,979)	2,316,820

4 Financial risk management *(continued)*

b) ***Market risk*** *(continued)*

ii) Profit rate risk

A summary of the Group‟s profit rate re-pricing as at 31 December 2012 is as follows:

	Less than 3 months AED'000	3 - 6 months AED'000	6 - 12 months AED'000	1 - 5 years AED'000	Greater than 5 years AED'000	Non-sensitive AED'000	Total AED'000
Assets							
Cash and balances with banks	-	-	-	-	-	1,437,223	1,437,223
Wakala deposits with banks and other financial institutions	2,651,150	104,508	50,120	-	-	-	2,805,778
Receivables from Islamic financing activities	8,088,675	2,791,403	706,196	2,340,729	3,753,538	179,348	17,859,889
Ijara	2,934,686	2,027,098	29,106	60,092	-	-	5,050,982
Investment securities	177,000	-	-	2,321,936	125,967	174,716	2,799,619
Other assets	-	-	-	-	-	614,685	614,685
Total assets	13,851,511	4,923,009	785,422	4,722,757	3,879,505	2,405,972	30,568,176
Liabilities							
Customers‟ accounts	13,883,017	3,578,105	2,922,659	2,294,152	5,000	2,273,731	24,956,664
Wakala deposits from banks	2,481,127	-	-	-	-	10,471	2,491,598
Other liabilities	-	-	-	-	-	1,102,999	1,102,999
Total liabilities	16,364,144	3,578,105	2,922,659	2,294,152	5,000	3,387,201	28,551,261
Net position	(2,512,633)	1,344,904	(2,137,237)	2,428,605	3,874,505	(981,229)	2,016,915

4 Financial risk management *(continued)*

b) ***Market risk*** *(continued)*

iii) Takaful and re-takaful risk

Takaful risk

Takaful risk is where the Group agrees to indemnify the insured parties against happening of unforeseen future insured events. The frequency and severity of claims are the main risk factors. Due to the inherent risk in the Takaful business, actual claim amounts can vary marginally compared to the outstanding claim reserves but are not expected to have a material impact.

Re-takaful risk

In order to minimize financial exposure arising from large claims, the Group, in the normal course of business, enters into agreements with other parties for re-takaful purposes. Such re-takaful arrangement provides for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth.

To minimize its exposure to significant losses from reinsurers‟ insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

Re-takaful ceded contracts do not relieve the Group from its obligations and as a result the Group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the re-takaful agreements.

Reserve for claims

The Group maintains adequate reserves in respect of its Takaful business in order to protect against adverse future claims experience and developments. The uncertainties about the amount and timing of claim payments are normally resolved within a year.

Sensitivities

The general Takaful claims provision is sensitive to the key assumptions which are not material to the consolidated financial statements of the Group.

4 Financial risk management *(continued)*

c) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations associated with its financial liabilities.

Management of liquidity risk

The Group"s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient buffer of liquidity to meet its liabilities during the normal course of business. As part of its strategic liquidity management, contingency funding planning in the Group ensures that the liquidity management center (treasury) is well equipped to tap contingent funding sources during periods of market stress. The Group then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through short-term financing from the Treasury Department to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. The daily liquidity position is monitored and regular stress testing is conducted under a variety of scenarios covering the normal and more severe market conditions in order to assess the viability of the contingency funding plan. All liquidity policies and procedures are subject to review and approval by ALCO and the Board. Daily reports are produced covering the liquidity position of both the Group and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Group relies on customers" accounts and Wakala deposits from banks as its primary sources of funding. Customers" accounts and Wakala deposits from banks generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Group"s liquidity risk and the Group actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to total liabilities. For this purpose net liquid assets are considered as cash and balances with banks, balances with central banks, central bank certificate of deposits and Short Term Wakala Deposits with banks maturing within one month, investment in Sukuks of local or federal government divided by total liabilities.

At 31 December 2013, the Bank"s advance to stable ratio was 89.28% (2012: 94.51%)

4 Financial risk management *(continued)*

c) *Liquidity risk (continued)*

The Group prepares its liquidity risk profile on carrying value basis. A summary of the Group‟s maturity profile as at 31 December 2013 is as follows:

	Less than 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	Greater than 5 years AED'000	Total AED'000
Assets					
Cash and balances with banks	2,019,634	817,544	-	-	2,837,178
Wakala deposits with banks and other financial institutions	2,580,320	385,590	183,625	-	3,149,535
Receivables from Islamic financing activities	3,363,949	3,268,354	8,703,865	5,783,556	21,119,724
Ijara	855,054	807,003	2,472,222	1,849,162	5,983,441
Investment securities	55,674	1,991,250	557,722	323,550	2,928,196
Other assets	-	-	-	982,903	982,903
Total assets	8,874,631	7,269,741	11,917,434	8,939,171	37,000,977
Liabilities					
Customers‟ accounts	18,229,084	9,734,035	213,188	2,000	28,178,307
Wakala deposits from banks	3,176,050	4,160	-	-	3,180,210
Sukuk financing instrument	-	-	1,836,250	-	1,836,250
Other liabilities	-	-	-	1,489,390	1,489,390
Total liabilities	21,405,134	9,738,195	2,049,438	1,491,390	34,684,157
Net position	(12,530,503)	(2,468,454)	9,867,996	7,447,781	2,316,820

4 Financial risk management *(continued)*

c) *Liquidity risk (continued)*

A summary of the Group"s maturity profile as at 31 December 2012 is as follows:

	Less than 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	Greater than 5 years AED'000	Total AED'000
Assets					
Cash and balances with banks	1,437,223	-	-	-	1,437,223
Wakala deposits with banks and other financial institutions	2,651,149	154,629	-	-	2,805,778
Receivables from Islamic financing activities	1,617,041	2,932,535	7,480,872	5,829,441	17,859,889
Ijara	396,711	589,523	2,062,748	2,002,000	5,050,982
Investment securities	103,164	7,000	2,563,488	125,967	2,799,619
Other assets	614,685	-	-	-	614,685
Total assets	6,819,973	3,683,687	12,107,108	7,957,408	30,568,176
Liabilities					
Customers" accounts	13,855,365	7,483,061	3,613,238	5,000	24,956,664
Wakala deposits from banks	2,491,598	-	-	-	2,491,598
Other liabilities	1,102,999	-	-	-	1,102,999
Total liabilities	17,449,962	7,483,061	3,613,238	5,000	28,551,261
Net position	(10,629,989)	(3,799,374)	8,493,870	7,952,408	2,016,915

4 Financial risk management *(continued)*

e) *Operational risk*

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group"s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group"s operations. The Group"s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group"s reputation with overall cost effectiveness and innovation. In all cases, Group policy requires compliance with all applicable legal and regulatory requirements. The board of directors has delegated responsibility for operational risk to its Management Operational Risk Committee ("MORC"), which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the Group Operational Risk Committee, with summaries submitted to the Audit Committee and senior management of the Group.

5 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Determination of controls over investees
Management applies its judgement to determine whether the control indicators set out in *Note 3(c)(i)* indicate that the Group controls an investment fund.

Investment Funds
The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried profits and expected management fees) and the investors" rights to remove the fund manager. For all funds managed by the Group, the investors are able to vote by simple majority to remove the Group as fund manager without cause. As a result, the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

For further disclosure in respect of unconsolidated investment funds in which the Group has an interest or for which it is a sponsor, see *Note 31*.

Impairment charge on other financial assets
The Group evaluates impairment on financial assets on an ongoing basis and a comprehensive review is carried out at least quarterly to assess whether an impairment charge should be recognised in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgments about the counterparty"s financial situation and other means of settlement and the net realizable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such impairment charges. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the remedial committee.

Collective impairment charge on financial assets
In addition to specific impairment charge against individually impaired assets, the Group also maintains a collective impairment allowance against portfolios of Murabaha, Wakala and Islamic financing with similar economic characteristics which have not been specifically identified as impaired. In assessing the need for collective impairment charge, management considers concentrations, credit quality, portfolio size and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical and current economic conditions.

5 Critical accounting estimates and judgments *(continued)*

Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Flow rates and loss rates are regularly benchmarked against actual loss experience.

Liability arising from claims made under Takaful contracts
The estimation of the ultimate liability arising from claims made under Takaful contracts is a critical accounting estimate by the Group. There are several sources of uncertainty that need to be considered in estimating the liability that the Group will ultimately pay for such claims. The provision for claims Incurred But Not Reported ("IBNR") is an estimation of claims which are expected to be reported subsequent to the reporting date, for which the insured event has occurred prior to the reporting date.

Investment property
The carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values have been determined using the residual method. The residual method is applicable to properties where the value would be maximized if it were to be developed, redeveloped, or refurbished. To arrive at the current market value of the property in its existing state the estimated end development value is calculated, then all costs in carrying out the development are deducted, including cost of the physical construction, professional fees, financing, and developer‟s profit.

Contingent liability arising from litigations
Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with certainty.

Impairment on non financial assets
Certain non-financial assets, including other intangible assets, are subject to impairment review. The Group records impairment losses on assets in this category when the Group believes that their carrying value may not be recoverable. A reversal of an impairment loss is recognised immediately. Intangible assets, property and equipment and investments in subsidiaries, associates and joint ventures are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

The recoverable amounts of these assets and where applicable, cash-generating units, have been determined based on value-in-use calculations. These calculations require the use of estimates. The determination of the recoverable amount in the impairment assessment requires estimates based on quoted market prices, prices of comparable businesses, present value or other valuation techniques, or a combination thereof, necessitating management to make subjective judgments and assumptions.

5 Critical accounting estimates and judgments *(continued)*

Because these estimates and assumptions could result in significant differences to the amounts reported if underlying circumstances were to change, the Group considers this estimate to be critical.

In determining the net realisable value, the Group uses the selling prices determined by external independent valuer‟s companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The selling prices are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm‟s length transaction.

Business model
In making an assessment whether a business model‟s objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:

- management‟s stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management‟s strategy focuses on earning contractual profit revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

In particular, the Group exercises judgment to determine the objective of the business model for portfolios which are held for liquidity purposes. The Group Treasury Department holds sukuk in a separate portfolio as liquid assets.

The securities may be sold in order to meet unexpected liquidity shortfalls but such sales are not anticipated to be more than infrequent.

The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

When a business model involves transfers of contractual rights to cash flows from financial assets to third parties and the transferred assets are not derecognised, the Group reviews the arrangements to determine their impact on assessing the objective of the business model. In making the assessment, the Group considers whether, under the arrangements, the Group will continue to receive cash flows from the assets, either directly from the issuer, or indirectly from the transferee, including whether it will repurchase the assets from the transferee.

5 Critical accounting estimates and judgments *(continued)*

Contractual cash flows of financial assets
The Group exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and profit on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage. For financial assets in respect of which the Group‟s claims are limited to specific assets of the debtor (non-recourse assets) the Group assesses whether the contractual terms of such financial assets limit the cash flows in a manner inconsistent with those payments representing principal and profit. Where the Group invests in contractually linked instruments (tranches) the Group exercises judgment to determine whether the exposure to credit risk in the acquired tranche is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments and so the acquired tranche may qualify for amortised cost measurement.

Qualifying hedge relationships
In designating financial instruments in qualifying hedge relationships, the Group has determined that it expects the hedges to be highly effective over the period of the hedging relationship.

In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

Operating segment
In preparation of the segment information disclosure, the Group employs assumptions to arrive at the segment reporting. These assumptions are reassessed by the management on a periodic basis.

6 Fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument‟s valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

6 Fair values of financial instruments *(continued)*

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as profit rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed Sukuk and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as profit rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(a) Financial instruments measured at Fair value – fair value hierarchy

The table below analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

31 December 2013

	Level 1 AED'000	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Equity and other investments	**93,935**	**-**	**-**	**93,935**
Islamic derivatives (Positive value)	**-**	**100,284**	**-**	**100,284**
Islamic derivatives (Negative value)	**-**	**(100,284)**	**-**	**(100,284)**
Promise to sell foreign currencies, net	**-**	**3,394**	**-**	**3,394**

31 December 2012

	Level 1 AED'000	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Equity and other investments	374,820	-	-	374,820
Islamic derivatives (Positive value)	-	148,033	-	148,033
Islamic derivatives (Negative value)	-	(148,033)	-	(148,033)
Promise to sell foreign currencies, net	-	465	-	465

6 Fair values of financial instruments *(continued)*

(b) Financial instruments not measured at Fair value – fair value hierarchy

Where available the fair value of tradable instruments is based on quoted market prices in active markets for identical instruments.

The fair value of financings and advances are estimated using valuation models, such as discounted cash flow techniques, where inputs into the valuation techniques include expected profit rates.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying profit rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

31 December 2013

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets				
Cash and balances with banks	**-**	**2,829,516**	**-**	**2,829,516**
Wakala deposits with banks and other financial institutions	**-**	**3,156,932**	**-**	**3,156,932**
Receivables from Islamic financing activities	**-**	**20,407,467**	**-**	**20,407,467**
Ijara	**-**	**5,900,695**	**-**	**5,900,695**
Investment securities	**2,835,754**	**-**	**-**	**2,835,754**
Liabilities				
Customers'' accounts	**-**	**28,204,906**	**-**	**28,204,906**
Wakala deposits from banks	**-**	**3,181,380**	**-**	**3,181,380**
Sukuk financing instrument	**1,853,327**	**-**	**-**	**1,853,327**

31 December 2012

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets				
Cash and balances with banks	-	1,437,223	-	1,437,223
Wakala deposits with banks and other financial institutions	-	2,807,380	-	2,807,380
Receivables from Islamic financing activities	-	17,799,656	-	17,799,656
Ijara	-	5,021,604	-	5,021,604
Investment securities	2,456,460	-	-	2,456,460
Liabilities				
Customers'' accounts	-	25,022,060	-	25,022,060
Wakala deposits from banks	-	2,491,726	-	2,491,726

7 Operating Segments

(a) Basis for segmentation

The Group is structured into the following five segments of which two qualify as reportable segments in terms of the quantitative threshold. These segments offer different products and services and are managed separately based on the Group‟s management and internal reporting structure.

- Wholesale Banking Group ("WBG") provides Sharia compliant financial solutions to both the private and public sector and is organized into five business divisions which include Corporate Banking, Government Relations, Institutional Banking, Syndications and Structured Finance and Cash Management.
- Personal Banking Group ("PBG") provides Sharia compliant products and services that are designed to meet the financial needs of individuals which include personal financings, vehicle financings, home financings, Islamic credit cards as well as day to day banking requirements such as account management, cash transfers and cheque management.
- Others include Investment banking group, Treasury banking group, Head office, support functions, and subsidiaries. The Investments Banking Group and Treasury Banking Group have been aggregated with Head office based on quantitative thresholds.

Operating segment disclosures are consistent with the information provided in the consolidated statement.

(b) Information about reportable segments

Information related to each reportable segment is set out below. This being the first segment reporting period, no comparative information is presented. Segment profit or loss, as included in the internal management reports reviewed by the ALCO is used to measure the performance of each segment.

Reportable segment information for the year ended 31 December 2013:

	PBG **AED'000**	**WBG** **AED'000**	**Others** **AED'000**	**Total** **AED'000**
Operating Income	609,881	628,874	202,255	1,441,010
Operating expenses	(471,620)	(119,920)	(188,480)	(780,020)
Net operating income	138,261	508,954	13,775	660,990
Provisions and bad debts charges	(125,698)	(84,513)	(8,992)	(219,203)
Reportable segment profit	12,563	424,441	4,783	441,787
Reportable segment assets	10,097,236	16,709,908	11,898,121	38,705,265
Reportable segment liabilities	5,993,497	20,421,035	12,290,733	38,705,265

7 Operating Segments *(continued)*

(c) Geographic information

The Group operates primarily in the UAE and designates it as the domestic segment. The operations originating from its branches, associates and subsidiaries in the domestic segment form a significant portion of the Group"s total assets and liabilities. The international segment represents the operations of the Bank that originate from its presence in Kazakhstan. As the size of these operations and exposures is not significant, no further geographical analysis of segment revenues, expenses, assets and liabilities is presented.

8 Capital management

(a) Regulatory capital

The Group"s lead regulator, the Central Bank of the UAE, sets and monitors capital requirements for the Group as a whole. The Group is required to comply with the provisions of the Central Bank of the UAE in respect of regulatory capital.

The Group"s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group has complied with all externally imposed capital requirements throughout the year.

(b) Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group"s longer term strategic objectives.

8 Capital management *(continued)*

(b) ***Capital allocation*** *(continued)*

During 2013, the Group‟s capital strategy, which was unchanged from the previous year is to:

- maintain capital adequacy ratios above the minimum specified by the Central Bank of the UAE and Basel accord guidelines; and
- efficiently allocate capital to various businesses.

In implementing current capital requirements, the Group calculates its risk asset ratio in accordance with capital adequacy guidelines established by the Central Bank of the UAE prescribing the ratio of total capital to total risk-weighted assets. Further, the Group also calculates its capital adequacy ratio in accordance with Basel II Accord which was adopted by the Central Bank of the UAE.

The Group‟s capital adequacy ratio as per effective regulatory framework, Basel II, at the minimum level is analysed into two tiers as follows:

	Basel II 2013 AED'000	Basel II 2012 AED‟000
Tier 1 Capital	**3,982,547**	3,537,917
Tier 2 Capital	**345,655**	295,719
Deductions from capital	**(97,754)**	(97,866)
Total capital base	**4,230,448**	3,735,770
Risk weighted assets	**30,231,488**	25,430,088
Risk asset ratio	**13.99%**	14.69%

9 Cash and balances with banks

	2013 AED'000	2012 AED‟000
Cash in hand	**185,977**	202,984
Current account with Central Banks	**328,661**	336,632
Islamic certificates of deposit with Central Bank	**799,432**	-
Current account with Banks	**394,831**	51,350
Cash reserve deposits with Central Banks	**1,128,277**	846,257
	2,837,178	1,437,223

Cash reserve deposits with Central Banks are not available for the operations of the Group and are non-profit bearing.

10 Wakala deposits with banks and other financial institutions

	2013	2012
	AED'000	AED'000
Wakala deposits	**3,165,215**	2,817,008
Collective allowance for impairment *(note 23)*	**(15,680)**	(11,230)
	3,149,535	2,805,778

As at 31 December 2013, the Bank held Wakala placement outside UAE in the amount of nil (2012: nil).

11 Receivables from Islamic financing activities

	2013	2012
	AED'000	AED'000
Corporate commodity murabaha	**13,665,582**	11,680,851
Retail musawama and murabaha	**12,478,701**	10,624,964
Islamic credit card receivable	**80,700**	77,530
Other Islamic financings	**183,854**	-
Murabaha deferred profit	**(4,541,610)**	(3,922,280)
Allowance for impairment *(note 23)*		
Specific allowance	**(169,406)**	(105,124)
Collective allowance	**(578,097)**	(496,052)
	21,119,724	17,859,889

11 Receivables from Islamic financing activities *(continued)*

31 December 2013

	Corporate AED'000	Retail AED'000	Total AED'000
Impaired and non-performing:			
Substandard	7,329	13,710	21,039
Doubtful	-	18,766	18,766
Legal and loss	8,113	145,268	153,381
Outstanding	15,442	177,744	193,186
Specific allowance for impairment	(9,690)	(159,716)	(169,406)
Carrying amount	5,752	18,028	23,780
Performing:			
Regular	12,911,167	7,596,640	20,507,807
Past due but not impaired			
1-29 days	248,021	173,513	421,534
30-59 days	31,747	37,884	69,631
60-89 days	-	32,010	32,010
Above 90 days	643,059	-	643,059
Outstanding	13,833,994	7,840,047	21,674,041
Collective allowance for impairment	(446,899)	(131,198)	(578,097)
Carrying amount	13,387,095	7,708,849	21,095,944
Total outstanding	13,849,436	8,017,791	21,867,227
Total allowance for impairment	(456,589)	(290,914)	(747,503)
Total carrying amount	13,392,847	7,726,877	21,119,724

11 Receivables from Islamic financing activities *(continued)*

31 December 2012

	Corporate AED'000	Retail AED'000	Total AED'000
Impaired and non-performing:			
Substandard	20,564	19,580	40,144
Doubtful	-	12,075	12,075
Legal and loss	7,894	73,999	81,893
Outstanding	28,458	105,654	134,112
Specific allowance for impairment	(17,805)	(87,319)	(105,124)
Carrying amount	10,653	18,335	28,988
Performing:			
Regular	10,583,162	6,519,817	17,102,979
Past due but not impaired			
1-29 days	140,684	59,896	200,580
30-59 days	149,013	63,848	212,861
60-89 days	103,002	30,999	134,001
Above 90 days	676,532	-	676,532
Outstanding	11,652,393	6,674,560	18,326,953
Collective allowance for impairment	(392,085)	(103,967)	(496,052)
Carrying amount	11,260,308	6,570,593	17,830,901
Total outstanding	11,680,851	6,780,214	18,461,065
Total allowance for impairment	(409,890)	(191,286)	(601,176)
Total carrying amount	11,270,961	6,588,928	17,859,889

12 Ijara

	2013 AED'000	2012 AED'000
Corporate Ijara Mawsufa Fi-aldhimma	**225,519**	288,486
Corporate standard Ijara	**3,411,169**	2,692,517
Corporate Musharaka	**212,141**	-
Retail Ijara Mawsufa Fi-aldhimma	**133,966**	220,484
Retail standard Ijara	**2,143,061**	1,960,831
Allowance for impairment *(note 23)*		
Specific allowance	**(54,000)**	(51,881)
Collective allowance	**(88,415)**	(59,455)
	5,983,441	5,050,982

Ijara assets represent net investment in assets leased for periods which either approximate or cover majority of the estimated useful lives of such assets. The lease agreements stipulate that the lessor undertakes to transfer the leased assets to the lessee upon receiving the final rental payment.

31 December 2013

	Corporate AED'000	Retail AED'000	Total AED'000
Impaired and non-performing:			
Substandard	15,164	6,126	21,290
Doubtful	-	8,356	8,356
Legal and loss	2,964	114,613	117,577
Outstanding	18,128	129,095	147,223
Specific allowance for impairment	(6,696)	(47,304)	(54,000)
Carrying amount	11,432	81,791	93,223
Performing:			
Regular	3,738,243	2,015,440	5,753,683
Past due but not impaired			
1-29 days	16,853	101,472	118,325
30-59 days	21,145	13,370	34,515
60-89 days	-	17,650	17,650
Above 90 days	54,460	-	54,460
Outstanding	3,830,701	2,147,932	5,978,633
Collective allowance for impairment	(48,941)	(39,474)	(88,415)
Carrying amount	3,781,760	2,108,458	5,890,218
Total outstanding	3,848,829	2,277,027	6,125,856
Total allowance for impairment	(55,637)	(86,778)	(142,415)
Total carrying amount	3,793,192	2,190,249	5,983,441

12 Ijara *(continued)*

31 December 2012

	Corporate AED'000	Retail AED'000	Total AED'000
Impaired and non-performing:			
Substandard	-	29,401	29,401
Doubtful	-	21,818	21,818
Legal and loss	2,929	119,724	122,653
Outstanding	2,929	170,943	173,872
Specific allowance for impairment	(2,929)	(48,952)	(51,881)
Carrying amount	-	121,991	121,991
Performing:			
Regular	2,684,715	1,911,927	4,596,642
Past due but not impaired			
1-29 days	12,806	26,222	39,028
30-59 days	85,933	33,403	119,336
60-89 days	-	38,820	38,820
Above 90 days	194,620	-	194,620
Outstanding	2,978,074	2,010,372	4,988,446
Collective allowance for impairment	(24,445)	(35,010)	(59,455)
Carrying amount	2,953,629	1,975,362	4,928,991
Total outstanding	2,981,003	2,181,315	5,162,318
Total allowance for impairment	(27,374)	(83,962)	(111,336)
Total carrying amount	2,953,629	2,097,353	5,050,982

13 Investment securities

	2013 AED'000	2012 AED'000
Financial assets at fair value through profit and loss		
Quoted equity securities	**15,896**	53,462
Sukuk securities	**18,657**	255,438
Other comprehensive income		
Quoted equity securities	**18,288**	26,845
Sukuk fund	**41,094**	39,075
Financial assets at amortised cost		
Sukuk securities	**2,841,798**	2,427,737
Collective allowance for impairment *(note 23)*	**(7,537)**	(2,938)
Total investment securities	**2,928,196**	2,799,619

The investment security risk grade analysis based on external ratings is shown below:

S&P	Fitch	Moody's	2013 AED'000	2012 AED'000
AAA to AA-	AAA to AA-	Aaa to Aa3	**-**	-
A+ to A-	A+ to A-	A1 to A3	**205,908**	183,648
BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	**163,397**	7,000
BB+ to BB-	BB+ to BB-	Ba1 to Ba3	**-**	6,874
B+ to B-	B+ to B-	B1 to B3	**270,688**	191,278
CCC+ & below	CCC+ & below	Caa1 & below	**-**	-
Unrated	Unrated	Unrated	**2,295,740**	2,413,757
			2,935,733	2,802,557

Unrated sukuk includes sovereign exposures to a local government in the UAE amounting to AED 2,080,891 thousand *(2012: AED 2,271,894 thousand)*

	2013 AED'000	2012 AED'000
Investment income		
Income from sukuk	**110,001**	134,510
Dividend income	**1,813**	1,212
Realised gain on sale of investments	**23,321**	35,263
Unrealised gain on investments	**2,043**	22,217
Unrealised loss on investment property	**-**	(85,775)
	137,178	107,427

14 Property and equipment

Property and equipment at 31 December 2013 comprise:

	Land and building AED'000	Leasehold improvements AED'000	Computer systems AED'000	Furniture and fixtures AED'000	Capital work in progress AED'000	Total AED'000
Cost						
At 1 January 2013	**-**	**187,612**	**170,717**	**67,252**	**1,175,150**	**1,600,731**
Additions	**346**	**3,664**	**13,683**	**1,444**	**145,943**	**165,080**
Transfers	**978,502**	**(34,253)**	**32,650**	**120**	**(977,019)**	**-**
Disposal of fixed assets	**-**	**(38,116)**	**(15,231)**	**(6,548)**	**-**	**(59,895)**
At 31 December 2013	**978,848**	**118,907**	**201,819**	**62,268**	**344,074**	**1,705,916**
Accumulated depreciation						
At 1 January 2013	**-**	**88,129**	**92,091**	**50,770**	**-**	**230,990**
Charge for the year	**13,895**	**18,241**	**33,554**	**9,028**	**-**	**74,718**
Disposal of fixed assets	**-**	**(38,116)**	**(15,074)**	**(6,548)**	**-**	**(59,738)**
At 31 December 2013	**13,895**	**68,254**	**110,571**	**53,250**	**-**	**245,970**
Net book value						
At 31 December 2013	**964,953**	**50,653**	**91,248**	**9,018**	**344,074**	**1,459,946**

14 Property and equipment *(continued)*

Property and equipment at 31 December 2012 comprise:

	Leasehold improvements AED'000	Computer systems AED'000	Furniture and fixtures AED'000	Capital work in progress AED'000	Total AED'000
Cost					
At 1 January 2012	181,761	132,549	58,528	1,006,112	1,378,950
Additions	810	14,200	2,678	204,477	222,165
Transfers	5,041	23,968	6,430	(35,439)	-
Disposal of fixed assets	-	-	(384)	-	(384)
At 31 December 2012	187,612	170,717	67,252	1,175,150	1,600,731
Accumulated depreciation					
At 1 January 2012	65,503	58,725	35,041	-	159,269
Charge for the year	22,626	33,366	16,113	-	72,105
Disposal of fixed assets	-	-	(384)	-	(384)
At 31 December 2012	88,129	92,091	50,770	-	230,990
Net book value					
At 31 December 2012	99,483	78,626	16,482	1,175,150	1,369,741

15 Other assets

	2013 AED'000	2012 AED'000
Financial assets		
Acceptances	**494,264**	277,442
Takaful receivable	**111,685**	96,399
Income receivable	**23,209**	71,683
Others	**353,745**	169,161
	982,903	614,685
Non financial assets		
Murabaha inventory	**127,663**	83,188
Prepaid expenses	**55,029**	38,756
Investment property	**39,128**	39,700
Prepaid staff allowances	**22,522**	22,347
	244,342	183,991
	1,227,245	798,676

Others include promises to buy and sell foreign currencies which are carried at fair value and presented within other assets and other liabilities respectively. The notional amounts of these contracts are disclosed in note 27 of these consolidated financial statements.

The fair value of the Group's investment property is categorised into level 3 of the fair value hierarchy. The fair value of the investment property was determined by an external, independent property valuer having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuation was done using residual valuation methodology. The "Residual Valuation Method" determines the current value of the property by deducting the estimated costs to complete the development from the estimated value on completion. This method entails estimating the gross development value of the project. From this is deducted the estimated cost to complete the development, including a developer's margin, to arrive at a resultant residual value.

16 Customers' accounts

	2013 AED'000	2012 AED'000
By account:		
Wakala deposits	**19,215,013**	18,684,885
Current accounts	**3,581,715**	2,143,557
Savings accounts	**3,499,186**	2,461,420
Time deposits	**1,882,393**	1,666,802
	28,178,307	24,956,664

16 Customers' accounts *(continued)*

	2013	2012
	AED'000	AED'000
By sector:		
Government	**9,872,190**	8,753,664
Public	**5,706,475**	3,539,350
Corporate / private	**6,706,401**	6,479,702
Retail	**5,893,241**	6,183,948
	28,178,307	24,956,664

Government sector deposits include special deposits amounting to AED Nil *(2012: AED 42,224 thousand)* received from the Ministry of Finance matured during 2013 with original contractual maturity of 5 years which are exempted from reserve requirements.

17 Sukuk financing instrument

On 08 October 2013, the Bank through a Shari'a compliant sukuk arrangement raised medium term sukuk amounting to AED 1,836,250 thousand (USD 500,000 thousand) under a USD 2,500,000 thousand programme. The sukuk is listed on the Ireland Stock Exchange. The issuance has a contractual maturity of five years and bears an expected fixed profit rate of 3.267%.

Terms of arrangement

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

The issuer will pay the semi-annual distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the semi annual amount payable to the sukuk holders on the distribution dates. Upon maturity of the sukuk, the Issuer will have the right to require the Bank to purchase all of the co-owned Assets for payment of the relevant dissolution distribution amount under Sukuk which includes the outstanding face amount of Sukuks and any accrued but unpaid periodic distribution.

18 Other liabilities

	2013 **AED'000**	2012 AED'000
Financial liabilities		
Accounts payable	**398,320**	268,964
Accrued expenses	**346,774**	328,099
Charity payable	**2,537**	2,896
Takaful liabilities	**140,490**	105,618
Others	**107,005**	119,980
Acceptances	**494,264**	277,442
	1,489,390	1,102,999
Non financial liabilities		
Advance administrative fees	**87,373**	75,005
	87,373	75,005
	1,576,763	1,178,004

Others include promises to buy and sell foreign currencies which are carried at fair value and presented within other assets and other liabilities respectively. The notional amounts of these contracts are disclosed in note 27 of these consolidated financial statements.

Others also include an amount of AED 24,463 thousand *(2012: AED 21,851 thousand)* of depositors profit reserve and the zakat due on these reserves. The Group is discharging this Zakat on behalf of the depositors.

Charity payable represents profits forfeited by the Fatwa and Sharia Supervisory Board, late payment fees and over limit fees.

19 Share capital and statutory reserve

Share capital

The authorized share capital of the Bank comprise of 4,000,000 thousand ordinary shares of AED 1 each. The issued and fully paid up share capital at 31 December 2013 comprise of 3,090,000 thousand ordinary shares of AED 1 each *(2012: 3,090,000 thousand ordinary shares of AED 1 each)*.

Abu Dhabi Investment Council holds 100% of the issued and paid share capital. The Bank's shares are not listed on a recognised stock exchange.

During the year the Bank issued and paid up share capital of AED Nil *(2012: AED 500,000 thousand)*.

19 Share capital *(continued)*

Statutory reserve

The UAE Commercial Companies Law No. (8) of 1984 (as amended) and the Bank"s Articles of Association require that 10% of the annual net profit to be transferred to a statutory reserve until it equals 50% of the paid-up share capital. The statutory reserve is not available for distribution. During the year, AED 44,111 thousand *(2012: 35,158 thousand)* has been transferred to the statutory reserve.

20 Income from Islamic financing activities and Ijara, net

	2013 AED'000	2012 AED'000
Income from murabaha – corporate	**615,141**	553,149
Income from Ijara – corporate	**106,584**	134,828
Income from musharaka – corporate	**1,990**	-
Income from musawama and murabaha – retail	**651,457**	663,895
Income from Ijara – retail	**152,396**	147,021
Other Islamic financing	**229**	-
	1,527,797	1,498,893

21 Commission, fees and foreign exchange income, net

	2013 AED'000	2012 AED'000
Fee and commission income	**156,973**	145,194
Foreign exchange gains	**7,167**	7,590
Foreign exchange losses	**(956)**	(1,168)
Other income	**20,041**	3,789
	183,225	155,405

Commission, fees and foreign exchange income constitute part of profit distributable to the Shareholder. Fees and commission income include AED 2,532 thousand from fiduciary activities *(2012: AED 1,692 thousand)*.

22 General and administrative expenses

	2013 AED'000	2012 AED'000
Rent expenses	**83,306**	78,081
Marketing and advertising expenses	**24,144**	30,525
Consultancy fees	**9,412**	27,172
Repair and maintenance	**12,194**	16,858
Communication	**14,389**	12,215
Other expenses	**144,377**	109,165
	287,822	274,016

23 Impairment charges on financial assets

	Wakala deposits with banks and other financial institutions		Ijara		Receivables from Islamic financing activities		Investment securities		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
At 1 January	**11,230**	11,803	**111,336**	80,480	**601,176**	405,387	**2,938**	8,204	**726,680**	505,874
Charge for the year	**4,450**	(573)	**31,843**	30,915	**178,311**	232,206	**4,599**	(5,266)	**219,203**	257,282
Write offs and recoveries	**-**	-	**(764)**	(59)	**(22,623)**	(30,478)	**-**	-	**(23,387)**	(30,537)
Unwinding on renegotiated financings	-	-	-	-	**(9,361)**	(5,939)	-	-	**(9,361)**	(5,939)
At 31 December	**15,680**	11,230	**142,415**	111,336	**747,503**	601,176	**7,537**	2,938	**913,135**	726,680

24 Profit distribution

The profit distribution for the year has been supported by the Shareholder and is authorized by the Bank"s Fatwa and Sharia Supervisory Board.

	2013 AED'000	2012 AED'000
Wakala	**357,952**	471,730
Profit rate swap	**79,943**	57,650
Mudaraba	**44,572**	54,044
Sukuk financing instrument	**14,474**	-
	496,941	583,424

The Bank invests all of its investment accounts including saving accounts, adjusted for UAE Central Bank reserve requirements and the Group"s liquidity requirements. With respect to investment deposits, the Bank is liable only in case of willful misconduct, negligence or breach of contract otherwise it is on the account of the fund"s provider (Rab Al Mal) or the principal (the Muwakkil).

25 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following amounts with original contractual maturities of less than three months:

	2013 AED'000	2012 AED'000
Cash and balances with banks	**2,837,178**	1,437,223
Wakala deposits with banks and other financial institutions	**2,495,509**	2,781,535
Wakala deposits from banks	**(2,977,688)**	(2,305,883)
	2,354,999	1,912,875

26 Commitments and contingencies

	2013 AED'000	2012 AED'000
Letters of credit	**902,604**	806,472
Letters of guarantee	**6,769,795**	5,593,303
Irrevocable commitments to extend credit	**735,907**	1,244,470
Revocable commitments to extend credit	**4,700,876**	3,197,994
Capital commitments	**453,000**	563,928
Operating lease commitments	**143,868**	165,525

27 Islamic derivative financial instruments

In the ordinary course of business, the Group enters into various types of transactions that involve Islamic derivative financial instruments. Islamic derivative financial instruments include Islamic promises to exchange currency and / or cash flows.

Islamic derivatives are measured at fair value by reference to published price quotations in an active market, counterparty prices or valuation techniques such as discounted cash flows.

Islamic derivatives sold to banks" customers are covered back to back from other banks as reflected in zero net marked to market value.

The table below shows the positive and negative fair values of Islamic derivative financial instruments together with the notional amounts.

The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

31 December 2013

	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000
Islamic Derivatives to counterparties			
Profit rate swaps	**81,066**	**(81,066)**	**1,712,636**
Promises to sell foreign currencies	**3,457**	**(63)**	**1,134,457**
	84,523	**(81,129)**	**2,847,093**
Islamic Derivatives covering Banking Book:			
Profit rate swaps	**-**	**(19,218)**	**2,334,055**
	-	**(19,218)**	**2,334,055**
	84,523	**(100,347)**	**5,181,148**

27 Islamic derivative financial instruments *(continued)*

31 December 2012

	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000
Islamic Derivatives to counterparties			
Profit rate swaps	109,905	(109,905)	1,918,595
Promises to sell foreign currencies	465	-	716,221
	110,370	(109,905)	2,634,816
Islamic Derivatives covering Banking Book:			
Profit rate swaps	-	(38,128)	1,836,250
	-	(38,128)	1,836,250
	110,370	(148,033)	4,471,066

Unrealised valuation losses on Islamic derivatives covering the banking book are matched by unrealised valuation gains on hedged items amounting to AED 19,218 thousand (2012: AED 38,128 thousand).

28 Group entities

Subsidiaries	Country of incorporation	Ownership 2013	Ownership 2012
Al Hilal Takaful PSC	UAE	**100%**	100%
Al Hilal Auto LLC	UAE	**100%**	100%
Al Hilal Islamic Bank PJSC	Kazakhstan	**100%**	100%
Al Hilal Leasing LLP	Kazakhstan	**100%**	100%
Al Hilal Al Mariah Development LLC	UAE	**100%**	0%
Al Wataniya Development Fund Limited	Cayman	**47%**	47%
AHB Sukuk Company Limited	Cayman	**0%**	0%

The Group does not have direct holding in AHB Sukuk Company Limited which is considered to be a subsidiary by virtue of control.

28 Group entities *(continued)*

The following table summarises the information related to Group"s subsidiary which has a non-controlling interest:

	2013 AED'000	2012 AED"000
Financial position		
Total assets	**26,750**	28,284
Total liabilities	**(44)**	(2,003)
Total equity	**26,706**	26,281
Income statement		
Income for the year	**426**	(44,499)
Expenses for the year	**-**	(102)
Net profit for the year	**426**	(44,601)

29 Related parties

Identity of related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise major shareholders, directors and key management personal of the Group. The terms of these transactions are approved by the Group"s management and are made on terms agreed by the Board of Directors or management.

Parent and ultimate controlling party

Abu Dhabi Investment Council holds 100% of the issued and fully paid share capital. The Bank"s shares are not listed on a recognised stock exchange.

Compensation of directors and key management personnel

Key management remuneration for the years ended 31 December 2013 and 31 December 2012 comprise:

	2013 AED'000	2012 AED"000
Short term employment benefits	**16,873**	18,392
Post employment benefits	**738**	1,448
Directors" remuneration	**2,831**	2,647

29 Related parties *(continued)*

Terms and conditions

Islamic financing and deposits are granted and accepted in various currency denominations and for various time periods. Profit rates earned on Murabaha financing facilities extended to related parties during the year have ranged from 0.5% to 6.0% per annum *(2012: 1.5% to 6.5%)*.

Profit distribution rates paid on customers‟ accounts placed by related parties during the year have ranged from 0.2% to 5.0% per annum *(2012: 0.5% to 4.0%)*

Fees and commissions earned on transactions with related parties during the year have ranged from 0.2% to 1.2% per annum *(2012: 0.2% to 1.2%)*.

Collaterals against financing to related parties range from being unsecured to fully secure.

At 31 December 2013, the balances and transactions with related parties comprise:

Balances:

	2013	2012
	AED'000	AED'000
Receivables from Islamic financing activities and Ijara	**298,556**	317,734
Wakala deposits with banks	**2,115,323**	2,150,000
Investment securities	**55,330**	55,088
Customers‟ accounts	**1,350,325**	557,214
Wakala deposits	**11,865,167**	11,647,222
Contingent liabilities	**3,637**	14,561

Transactions:

	2013	2012
	AED'000	AED'000
Fee and commission income	**1,213**	318
Financing income	**6,559**	9,777
Income from Wakala investments	**18,152**	17,402
Investment income	**2,243**	2,804
Profit distribution	**235,033**	258,406

Save for transactions carried out with the ultimate Parent and its group of companies, all transactions with the government and its related concerns are deemed to occur within the normal course of business.

During 2013, the Bank acquired a building (Al Bahr Tower) from its Parent for an amount of AED 755,000 thousand.

30 Accounting classification and fair values

The table below sets out the Group‟s classification of each class of financial assets and liabilities, and their fair values.

31 December 2013

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets				
Cash and balances with banks	**-**	**-**	**2,837,178**	**2,837,178**
Wakala deposits with banks and other financial institutions	**-**	**-**	**3,149,535**	**3,149,535**
Receivables from Islamic financing activities	**-**	**-**	**21,119,724**	**21,119,724**
Ijara	**-**	**-**	**5,983,441**	**5,983,441**
Investment securities	**34,553**	**59,382**	**2,834,261**	**2,928,196**
Other assets	**-**	**-**	**982,903**	**982,903**
	34,553	**59,382**	**36,907,042**	**37,000,977**
Financial liabilities				
Customers‟ accounts	**-**	**-**	**28,178,307**	**28,178,307**
Wakala deposits from banks	**-**	**-**	**3,180,210**	**3,180,210**
Sukuk financing instrument	**-**	**-**	**1,836,250**	**1,836,250**
Other liabilities	**-**	**-**	**1,489,390**	**1,489,390**
	-	**-**	**34,684,157**	**34,684,157**

31 December 2012

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets				
Cash and balances with banks	-	-	1,437,223	1,437,223
Wakala deposits with banks and other financial institutions	-	-	2,805,778	2,805,778
Receivables from Islamic financing activities	-	-	17,859,889	17,859,889
Ijara	-	-	5,050,982	5,050,982
Investment securities	308,900	65,920	2,424,799	2,799,619
Other assets	-	-	614,685	614,685
	308,900	65,920	30,193,356	30,568,176
Financial liabilities				
Customers‟ accounts	-	-	24,956,664	24,956,664
Wakala deposits from banks	-	-	2,491,598	2,491,598
Other liabilities	-	-	1,102,999	1,102,999
	-	-	28,551,261	28,551,261

31 Involvement with unconsolidated structured entities

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (refer note 5). The Group‟s interest in investment funds is set out below:

Type of structured entity	**Nature and purpose**	**Interest held by the Group**
Al Hilal GCC Equity Fund Al Hilal Global Sukuk Fund	Mutual funds managed to generate fee income on behalf of third-party investors	Investments in units issued by the funds amounting to AED 64,487 thousand *(31 December 2012: AED 49,597 thousand)*.

32 Fund management and fiduciary activities

The Group manages and administers assets held in trust or in fiduciary capacity on behalf of its customers. The underlying assets held in a custodial or fiduciary capacity are excluded from the consolidated financial statements of the Group.

The table below outlines the fair value of the funds and assets under management at the respective reporting dates.

	2013 **AED'000**	2012 AED‟000
Al Hilal Global Sukuk Fund	**199,906**	137,399
Al Hilal GCC Equity Fund	**32,038**	23,189
Discretionary portfolio	**-**	4,850

33 Zakat

The Articles of Association of the Bank do not require the Bank to pay Zakat on behalf of the Shareholder. Consequently, the Zakat obligation is to be assessed and discharged by the Shareholder.

34 Comparative notes

Comparative figures have been reclassified to conform with the presentation for the current year.

Al Hilal Bank PJSC

Consolidated financial statements

31 December 2012

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Independent Auditors' Report

The Shareholder
Al Hilal Bank PJSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Al Hilal Bank PJSC ("the Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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KPMG

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980 and the Articles of Association of the Bank; that proper financial records have been kept by the Group; and the contents of the Chairman's report which relate to these consolidated financial statements are in agreement with the Group's financial records. We are not aware of any violation of the above mentioned Laws and the Articles of Association having occurred during the year ended 31 December 2012, which may have had a material adverse effect on the business of the Bank or its financial position.

1 4 FEB 2013

Munther Dajani
Registration No: 268

Al Hilal Bank PJSC

Consolidated statement of financial position as at 31 December

	Note	2012 AED'000	2011 AED'000
Assets			
Cash and balances with banks	7	**1,437,223**	1,232,209
Murabaha and wakala deposits with banks and other financial institutions	8	**2,805,778**	2,608,204
Receivables from islamic financing activities	9	**17,859,889**	15,501,327
Ijara	10	**5,050,982**	3,823,473
Investment securities	11	**2,799,619**	3,159,980
Investment property	12	**39,700**	125,475
Property and equipment	13	**1,369,741**	1,219,681
Other assets	14	**758,976**	580,729
Total assets		**32,121,908**	28,251,078
Liabilities			
Customers' accounts	15	**24,956,664**	19,617,830
Wakala deposits from banks		**2,491,598**	4,935,829
Other liabilities	16	**1,178,004**	973,861
Total liabilities		**28,626,266**	25,527,520
Equity			
Share capital	17	**3,090,000**	2,590,000
Statutory reserve	17	**69,410**	34,252
Other reserves		**(11,452)**	(17,016)
Retained earnings		**321,404**	45,441
Total equity attributable to the equity holder of the Bank		**3,469,362**	2,652,677
Non - controlling interest		**26,280**	70,881
Total equity		**3,495,642**	2,723,558
Total liabilities and equity		**32,121,908**	28,251,078

Ahmed Ateeq Al Mazrouei
Chairman

Mohamed Jamil Berro
Chief Executive Officer

The accompanying notes 1 to 31 are an integral part of these consolidated financial statements
The independent auditors' report is set out on pages 5 and 6

Consolidated statement of income
for the year ended 31 December

	Note	**2012 AED'000**	2011 AED'000
Income			
Income from ijara and islamic financing activities, net	18	**1,498,893**	1,381,024
Income from wakala investments		**77,123**	79,376
Investment income		**107,427**	115,426
Commission, fees and foreign exchange income, net	19	**155,405**	141,099
		1,838,848	1,716,925
Expenses			
Personnel costs		**(386,322)**	(339,353)
General and administrative expenses	20	**(274,016)**	(223,849)
Impairment charges on financial assets	21	**(257,282)**	(280,339)
Depreciation	13	**(72,105)**	(71,573)
Profit before depositors' share of profits		**849,123**	801,811
Depositors' share of profits	22	**(583,424)**	(621,806)
Profit for the year		**265,699**	180,005
Attributable to:			
Equity holder of the Bank		**310,300**	202,346
Non-controlling interest		**(44,601)**	(22,341)

Consolidated statement of comprehensive income for the year ended 31 December

	2012 AED'000	2011 AED'000
Profit for the year	**265,699**	180,005
Other comprehensive income / (expenses)		
Net gain/(loss) on investment in equity instrument designated at fair value through other comprehensive income	**15,621**	(16,875)
Exchange difference on translation of foreign operation	**(10,057)**	3,011
Other comprehensive income / (expenses) for the year	**5,564**	(13,864)
Total comprehensive income for the year	**271,263**	166,141
Attributable to:		
Equity holder of the Bank	**315,864**	188,482
Non-controlling interest	**(44,601)**	(22,341)

Consolidated statement of changes in equity for the year ended 31 December

	Attributable to equity holder of the Bank							
	Share capital AED'000	Statutory reserve AED'000	Translation reserve AED'000	Revaluation reserve AED'000	Retained earnings AED'000	**Total AED'000**	Non-controlling interest AED'000	**Total equity AED'000**
At 1 January 2012	2,590,000	34,252	3,310	(20,326)	45,441	**2,652,677**	70,881	**2,723,558**
Total comprehensive income for the year:								
Profit for the year	-	-	-	-	310,300	**310,300**	(44,601)	**265,699**
Other comprehensive income	-	-	(10,057)	15,621	-	**5,564**	-	**5,564**
Total comprehensive income for the year	-	-	(10,057)	15,621	310,300	**315,864**	(44,601)	**271,263**
Transaction with equity holders recorded directly in equity								
Issuance of share capital	500,000	-	-	-	-	**500,000**	-	**500,000**
Transfer to statutory reserve	-	35,158	-	-	(35,158)	-	-	-
Directors remunerations & others	-	-	-	-	821	**821**	-	**821**
Total transaction with equity holders recorded directly in equity	500,000	35,158	-	-	(34,337)	**500,821**	-	**500,821**
At 31 December 2012	3,090,000	69,410	(6,747)	(4,705)	321,404	**3,469,362**	26,280	**3,495,642**

Consolidated statement of changes in equity (continued)
for the year ended 31 December

	Attributable to equity holder of the Bank							
	Share capital AED'000	Statutory reserve AED'000	Translation reserve AED'000	Revaluation reserve AED'000	Retained earnings AED'000	**Total AED'000**	Non-controlling interest AED'000	**Total equity AED'000**
At 1 January 2011	2,000,000	14,017	299	(3,451)	(134,974)	**1,875,891**	93,222	**1,969,113**
Total comprehensive income for the year:								
Profit for the year	-	-	-	-	202,346	**202,346**	(22,341)	**180,005**
Other comprehensive income	-	-	3,011	(16,875)	-	**(13,864)**	-	**(13,864)**
Total comprehensive income for the year	-	-	3,011	(16,875)	202,346	**188,482**	(22,341)	**166,141**
Transaction with equity holders recorded directly in equity								
Issuance of share capital	590,000	-	-	-	-	**590,000**	-	**590,000**
Transfer to statutory reserve	-	20,235	-	-	(20,235)	-	-	-
Directors remunerations & others	-	-	-	-	(1,696)	**(1,696)**	-	**(1,696)**
Total transaction with equity holders recorded directly in equity	590,000	20,235	-	-	(21,931)	**588,304**	-	**588,304**
At 31 December 2011	2,590,000	34,252	3,310	(20,326)	45,441	**2,652,677**	70,881	**2,723,558**

Consolidated statement of cash flows
for the year ended 31 December

	2012 AED'000	2011 AED'000
Cash flows from operating activities		
Profit for the year	**265,699**	180,005
Adjustment for:		
Depreciation	**72,105**	71,573
Impairment charges on financial assets	**260,417**	280,339
Unrealised revaluation loss on investment property	**85,775**	40,407
Unwinding of impairment charge	**(5,939)**	-
Unrealised revaluation gain on investment securities	**(22,217)**	-
	655,840	572,324
Change in:		
Murabaha and wakala deposits with banks	**(353,545)**	2,669,452
Receivables from islamic financing activities	**(2,598,021)**	(4,561,228)
Ijara	**(1,258,424)**	284,936
Other assets	**(178,248)**	(163,076)
Customers' accounts	**5,338,835**	1,508,402
Other liabilities	**204,144**	189,895
Net cash from operating activities	**1,810,581**	500,705
Cash flows from investing activities		
Acquisition of property and equipment	**(222,165)**	(722,948)
Acquisition of investment securities	**(802,801)**	(1,088,528)
Sale of investment securities	**1,206,265**	678,336
Acquisition of investment property	-	(21,298)
Net cash from / (used in) investing activities	**181,299**	(1,154,438)
Cash flows from financing activities		
Issue of share capital	**500,000**	590,000
Change in wakala deposits from banks	**(1,690,699)**	(390,386)
Director remuneration paid and others	**821**	(1,696)
Net cash (used in) / from financing activities	**(1,189,878)**	197,918
Net increase / (decrease) in cash and cash equivalents	**802,002**	(455,815)
Cash and cash equivalents, beginning of the year	**564,123**	1,019,938
Cash and cash equivalents, end of the year (Note 23)	**1,366,125**	564,123

1 Legal status and principal activities

Al Hilal Bank PJSC (the "Bank") was incorporated in Abu Dhabi, United Arab Emirates ("UAE") on 18 June 2007 by virtue of Amiri Decree number 21 of 2007, with limited liability, and is registered as a Public Joint Stock Company in accordance with the United Arab Emirates Federal Law number 8 of 1984 (as amended), United Arab Emirates Federal Law number 10 of 1980 (as amended) and United Arab Emirates Federal Law number 6 of 1985 regarding Islamic banks, financial institutions and investment companies.

Its registered office address is P. O. Box 63111, Abu Dhabi, United Arab Emirates. The consolidated financial statements of the Group as at and for the year ended 31 December 2012 comprise the Bank and its subsidiaries (Note 26) (together referred to as the "Group"). The Group is primarily involved in Islamic corporate, retail and investment banking activities as well as Islamic insurance ("Takaful") and carries out its operations through its branches in the United Arab Emirates and subsidiaries located in the United Arab Emirates and Kazakhstan. The consolidated financial statements of the Group include the shareholder and depositors' funds.

The consolidated financial statements were authorized for issue by the Board of Directors on 14 February 2013.

2 Basis of preparation

The principal accounting policies applied in the presentation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirement of UAE Federal Law No. 8 of 1984 (as amended)

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2 Basis of preparation (continued)

b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for the following:

- Islamic derivative financial instruments, namely promises to exchange currency and / or cash flows, which are non-speculative and intended for hedging purposes, are measured at fair value;
- Financial instrument designated at fair value through profit and loss are measured at fair value.
- Investment in equity instruments is measured at fair value;
- Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.
- Other financial assets not held in business model whose objective is to hold assets to collect contractual cash flows or whose contractual terms do not give rise solely to payment of principal and profit are measured at fair value;
- Investment property is measured at fair value.

c) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment, estimates and assumptions in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

d) Functional and presentation currency

i. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the respective entity operates ("the functional currency"). The consolidated financial statements are presented in Arab Emirate Dirham ("AED"), which is the Group's presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

2 Basis of preparation (continued)

d) Functional and presentation currency (continued)

iii. Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- income and expenses for each consolidated statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of other financial instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated statement of comprehensive income as part of the gain or loss on sale.

2 Basis of preparation (continued)

e) Standards early adopted by the Group

IFRS 9, 'Financial instruments: Classification and measurement', effective 1 January 2015.

IFRS 9 was issued in November 2009. It replaces the parts of IAS 39 that relate to the classification and measurement of financial assets. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Adoption of IFRS 9 is mandatory from 1 January 2015; earlier adoption is permitted.

The Group has early adopted IFRS 9 from 1 October 2010, as well as the related consequential amendments to other IFRSs, because this new accounting policy provides reliable and more relevant information for users to assess the amounts, timing and uncertainty of future cash flows. In accordance with the transition provisions of the standard, comparative figures have not been restated.

The Group's management has assessed the financial assets held by the Group at the date of initial application of IFRS 9 (1 October 2010). The main effects resulting from this assessment were:

- Investments in Sukuk instruments, previously classified as available-for-sale, meet the criteria to be classified as at amortized cost in accordance with IFRS 9. They are now therefore classified as financial assets at amortized cost.
- Equity investments not held for trading that were previously measured at fair value and classified as available-for-sale have been designated as at fair value through other comprehensive income and profit and loss.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a) Hedge accounting

In order to manage profit rate risks, the Group enters into a Sharia compliant arrangements including profit rate swaps.

Fair value hedges

Changes in the fair value of profit rate swaps and that are designated and qualify as fair value hedging instruments are recorded in the consolidated statement of income, along with changes in the fair value of the assets, liabilities or group thereof that are attributable to the hedged risk.

Hedge documentation

At the inception of the hedge, formal documentation of the hedge relationship must be established. The hedge documentation prepared at the inception of the hedge must include a description of the following:

- The Group's risk management objective and strategy for undertaking the hedge;
- The nature of risk being hedged;
- Clear identification of the hedged item and the hedging instrument; and
- How the Group will assess the effectiveness of the hedging relationship on an on-going basis.

Hedge effectiveness testing

The hedge is regarded as highly effective if following conditions are met:

- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting the changes in fair value of the hedging instruments with corresponding changes in the hedged risk and should be reliably measurable; and
- The actual results of the hedge are within a range of 80 to 125 percent.

Discontinuance of hedge accounting

The hedge accounting is discontinued when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. At that point of time, any cumulative gain or loss on the hedged instrument that has been previously recognised in the consolidated statement of income is immediately reversed in the consolidated statement of income.

3 Significant accounting policies (continued)

b) Islamic financial assets

i. Murabaha

Murabaha receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. A Murabaha contract is a sale of goods with an agreed upon profit mark up on the cost of the goods. A Murabaha contract is of two categories. In the first category, the Bank purchases the goods and makes it available for sale without any prior promise from a customer to purchase it. In the second category, the Bank purchases the goods ordered by a customer from a third party and then sells these goods to the same customer. In the latter case, the Bank purchases the goods only after a customer has made a promise to purchase them from the Bank.

ii. Ijara Muntahia Bittamleek

A form of leasing contract which includes a promise by a lessor to transfer the ownership in the leased property to the lessee, either at the end of the term of the Ijara period or by stage during the term of the contract.

iii. Wakala deposits

Wakala deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Wakala is an act of one party delegating the other to act on its behalf in what can be a subject matter of delegation and it is thus permissible. This is an agreement whereby the Bank provides a certain amount of money to an agent who invests it according to specific conditions in return for a certain fee. The agent shall be held responsible for misconduct, negligence or violation of the conditions agreed upon by the Bank.

iv. Mudaraba

Mudaraba is a contractual arrangement whereby two or more parties undertake an economic activity. Mudaraba is a partnership in profit between capital and work. It may be conducted between investment account holders as providers of funds and the Bank as a Mudarib. The Bank announces its willingness to accept the funds of investment account holders, the sharing of the profits being as agreed between the two parties and the losses being borne by the provider of the funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

3 Significant accounting policies (continued)

c) Consolidation

i. Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

ii. Fund management

The Group manages and administers assets held in trust or in fiduciary capacity on behalf of investors. The financial statements of these funds are not included in these consolidated financial statements. Information about the Group's fund management and fiduciary activity is set out in Note 29.

iii. Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific financing transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

iv. Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Bank and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Bank.

d) Property and equipment

Land and buildings comprise mainly branches and offices. Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

3 Significant accounting policies (continued)

d) Property and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	2012	2011
• Leasehold improvements	**7 years**	7 years
• Computer systems and equipment	**4 years**	4 years
• Furniture, equipment, safes and vehicles	**4 years**	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the consolidated statement of income. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

e) Work In Progress

Properties or assets in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes all direct cost attributable to design and construction of the property including related staff costs, and for qualifying assets, financing costs capitalised in accordance with Group's accounting policy. When the assets are ready for the intended use, the capital work in progress is transferred to the appropriate property and equipment category and is depreciated in accordance with the Group's policies.

3 Significant accounting policies (continued)

f) Qard Hassan

Qard Hassan receivables are non-profit bearing financing receivables whereby the customer borrows funds for a period of time with an understanding that the same amount shall be repaid at the end of the agreed period.

g) Swap transactions

Currency and profit rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or profit rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency profit rate swaps). The Bank's credit risk represents the potential loss if counterparties fail to fulfill their obligation.

h) Impairment of non-financial assets

Assets that have indefinite useful life – for example, goodwill or intangible assets not ready for use – are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes 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 have suffered impairment are reviewed for possible reversal of impairment at each reporting date.

i) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, due from banks, balances with the Central Bank, Murabaha and Wakala deposits with banks and financial institutions with original maturity of less than one month (2011: one month) which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

3 Significant accounting policies (continued)

j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are recognized as deduction from equity.

k) Revaluation reserve

The revaluation reserve is related to revaluation of investment securities classified at fair value through other comprehensive income, the policy of which is set out in Note 3(m).

l) Customers' accounts and Wakala deposits from banks

Customers' accounts and Wakala deposits from banks are initially recognized at fair value less transaction costs and are subsequently measured at amortized cost.

m) Financial assets

Classification prior to 1 October 2010
The Group classifies its financial assets in the following categories: at fair value through profit or loss, receivables from Islamic financing activities, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

i. Financial assets at fair value through profit or loss

   Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

ii. Receivables from Islamic financing activities

   Receivables from Islamic financing activities are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

iii. Available-for-sale financial assets

   Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

3 Significant accounting policies (continued)

m) Financial assets (continued)

iv. Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognized at fair value, and transaction costs are expensed in the consolidated statement of income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Receivables from Islamic financing activities are subsequently carried at amortized cost using the effective profit rate method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of income in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated statement of comprehensive income.

Profit on available-for-sale securities calculated using the effective profit method is recognized in the consolidated statement of income. Dividends on available-for sale equity instruments are recognized in the consolidated statement of income when the Group's right to receive payments is established.

Classification after 1 October 2010

As from 1 October 2010, the Group classifies its financial assets in the following categories: those to be measured subsequently at fair value, and those to be measured at amortized cost. This classification depends on whether the financial asset is a Sukuk or equity investment.

3 Significant accounting policies (continued)

n) Sukuk Investments

i. Financial assets at amortized cost

A Sukuk investment is classified as ‘amortized cost’ only if both of the following criteria are met: objective of the Group’s business model is to hold assets to collect the contractual cash flows; and contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal outstanding.

ii. Financial assets at fair value

If either of the two criteria above are not met, the Sukuk instrument is classified as ‘fair value through profit or loss’.

All equity investments are measured at fair value. Equity investments that are held for trading are measured at fair value through profit or loss. For all other equity investments, the Group can make an irrevocable election at initial recognition to recognize changes in fair value through other comprehensive income rather than the consolidated statement of income.

Regular purchases and sales of financial assets are recognized on the trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value though profit or loss are expensed in the consolidated statement of income. A gain or loss on a Sukuk investment that is subsequently measured at fair value and is not part of a hedging relationship is recognized in the consolidated statement of income and presented in the consolidated statement of comprehensive income in the period in which they arise. A gain or loss on a Sukuk investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in the consolidated statement of income when the financial asset is derecognized or impaired and through the amortization process using the effective profit rate method.

3 Significant accounting policies (continued)

n) Sukuk Investments (continued)

ii. Financial assets at fair value (continued)

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present unrealized and realized fair value gains and losses on equity investments in other comprehensive income, there is no subsequent recycling of fair value gains and losses to the consolidated statement of income. Dividends from such investments continue to be recognized in the consolidated statement of income as long as they represent a return on investment. The Group is required to reclassify all affected Sukuk investments when and only when its business model for managing those assets changes.

The Group makes an assessment of a business model at portfolio level as this reflect the best way the business is managed and information is provided to management.

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual cash flow;
- the degree of frequency of any expected asset sales;
- the reason of any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

3 Significant accounting policies (continued)

o) Impairment of financial assets

i. Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets measured at amortized cost is impaired. A financial asset or a Group of financial assets are impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include significant financial difficulty of the debtor or issuer, default or delinquency by a debtor, restructuring of a financing by the Group on terms that the Group would not otherwise consider, indication that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse change in the payment status of debtors or issuers in the group of assets, or economic conditions that correlate with defaults in the group of assets.

ii. Assets classified as available-for-sale (applicable until 30 September 2010)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For sukuk securities, the Group uses the criteria referred to (i) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of comprehensive income – is removed from equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income.

If, in a subsequent period, the fair value of a Sukuk instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

3 Significant accounting policies (continued)

p) De-recognition of financial assets

The Group derecognises a financial asset when the contractual right to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of the ownership are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control on the financial asset. Any interest in transferred financial assets that qualify for derecognition that is carried or retained by the Group is recognised as separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in the consolidated statement of income.

q) Financial liabilities

Financial liabilities, including Group customers and wakala deposits, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective profit method, with profit expense 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 expense over the relevant period. The effective profit rate is the rate that exactly required to unwind estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3 Significant accounting policies (continued)

r) Revenue recognition

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i. Profit income

Profit income is recognized using the effective profit rate method. When a financing receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow required to unwind at the original effective profit rate of the instrument, and continues unwinding the discount as profit income. Profit income on impaired finance facilities and receivables is recognized using the original effective profit rate.

ii. Dividend income

Dividend income is recognized when the right to receive the income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment. Dividends on equity instruments designated as at fair value through other comprehensive income are presented in other revenue in the consolidated statement of income unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is presented in other comprehensive income.

iii. Fee and commission income

Fees and commissions income relating to underwriting and financing activities of the Group is recognized when earned.

s) Investment property

Investment property is property held for rental income or for capital appreciation, or both, but not for sale in the ordinary course of business, use in the production, supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognized in the consolidated statement of income.

3 Significant accounting policies (continued)

t) Lease payment

Payments made under operating leases are recognised in the consolidated statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

u) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

v) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

w) Staff terminal benefits

UAE nationals employed by the Group are registered in the scheme managed by Abu Dhabi Retirement Pensions & Benefits Fund in accordance with Law number (2) of 2000. Staff terminal benefits for expatriate employees are accounted for on the basis of their accumulated services at the reporting date and in accordance with the Group's internal regulations, which comply with the applicable laws.

An actuarial valuation is not performed on staff terminal and other benefits as the net impact of the discount rate and future salary and benefits level on the present value of the benefits obligation are not expected by management to be significant.

3 Significant accounting policies (continued)

x) Director's remuneration

In accordance with the Ministry of Economy and Commerce interpretation of Article 119 of Federal Law No. 8 of 1984 (as amended), Directors' remuneration has been treated as an appropriation from equity.

y) Financial guarantee

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

For other financial guarantee contracts, financial guarantees are initially recognised at their fair value (which is the premium received on issuance). The received premium is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment. The premium received on these financial guarantees is included within other liabilities.

z) Takaful contracts

i. Classification

The Group issues contracts that transfer either Takaful risk or both Takaful and financial risks. The Group does not issue contracts that transfer only financial risks.

Contracts under which the Group accepts significant Takaful risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder is classified as Takaful contracts.

3 Significant accounting policies (continued)

z) Takaful contracts (continued)

ii. Recognition and measurement

Gross written contributions, in respect of annual policies, are recognised in the consolidated statements of income at the inception of the policy. In respect to policies with a term of more than one year, the contributions are spread over the tenure of the policies on a straight line basis, and the unexpired portion of such contributions is included under "unearned contributions" in the consolidated statement of financial position.

iii. Claims

Claims incurred comprise the settlement, the internal and external handling costs of paid and changes in the provisions for outstanding claims arising from events occurring during the year. Where applicable, deductions are made for salvage and recoveries.

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses and reduced by expected salvage and recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly by management.

iv. Gross claims paid

Gross claims paid are recognised in the consolidated statement of income when the claim amount payable to policyholders and third parties is determined as per the terms of the Takaful contracts.

v. Claims recovered

Claims recovered include amounts recovered from reTakaful companies in respect of the gross claims paid by the Group, in accordance with the reTakaful contracts held by the Group. It also includes salvage and claims recoveries.

3 Significant accounting policies (continued)

z) Takaful contracts (continued)

vi. Gross outstanding and IBNR claims

Gross outstanding claims comprise the estimated costs of claims incurred but not settled at the consolidated financial position date. Provisions for reported claims not paid as at the end of the reporting period are made on the basis of individual case estimates. This provision is based on the estimate of the loss, which will eventually be payable on each unpaid claim, established by management in the light of currently available information and past experience. An additional net provision is also made for any claims incurred but not reported ("IBNR") at the end of the reporting period, on the basis of management estimates.

The reTakaful share of the gross outstanding claims is estimated and shown separately.

vii. Unearned contribution reserves

A provision is made for contribution deficiency arising from general Takaful contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the consolidated financial position date exceeds the unearned contributions provision and already recorded claim liabilities in relation to such policies. The provision for contribution deficiency is calculated by reference to classes of business which are managed together.

viii. Re-takaful

The Group cedes reTakaful in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities, income and expense arising from ceded reTakaful contracts are presented separately from the assets, liabilities, income and expense from the related Takaful contracts because the reTakaful arrangements do not relieve the Group from its direct obligations to its policyholders.

Amounts due to and from reTakaful are accounted for in a manner consistent with the related contributions and is included in reTakaful assets.

3 Significant accounting policies (continued)

z) Takaful contracts (continued)

viii. Re-takaful (continued)

Re-takaful assets are assessed for impairment at the end of each reporting period. A re-takaful asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses on re-takaful assets are recognised in the consolidated statement of income in the year in which they are incurred.

Commission in respect of re-takaful contracts is recognised on an accrual basis.

ix. Takaful receivables and payables

Amounts due from and to policyholders, agents and reinsurers are financial instruments and are included in other assets and other liabilities, respectively, and not in Takaful contract provisions or reTakaful assets.

x. Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities using current estimates of future cash flows under Takaful contracts. In performing these, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets supporting such liabilities are used. Any deficiency in the carrying amounts is immediately charged to the consolidated statement of income by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

3 Significant accounting policies (continued)

aa) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are issued but not effective for the accounting period starting 1 January 2012, and have not been early adopted in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

IFRS-9 'Financial instrument': Recognition and measurement: Replaces IAS39

The International Accounting Standards Board has decided to replace IAS 39 Financial Instruments over a period of time and by three phases:

Phase 1: Classification and measurement of financial assets and financial liabilities.
Phase 2: Impairment methodology
Phase 3: Hedge accounting.

Recognition and Measurement:
The early adoption of the standard continues to be permitted. Given the nature of the Groups operations, this standard is expected to have a pervasive impact on the Group's consolidated financial statement. The Group, however, already early adopted part of Phase 1"Classification and measurement of financial assets" (Note 2 (e)).

IFRS-10 'Consolidated Financial Statement': Replaces IAS 27 Consolidated and separate financial statements and SIC 12 Consolidation - Special purpose entities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. Effective 1 January 2013;

IFRS-12 'Disclosure of Interests in Other Entities': Standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Effective 1 January 2013.

IFRS-13 'Fair Value Measurement': Seeks to increase consistency and comparability in fair value measurements and related disclosures across IFRSs. Effective 1 January 2013.

4 Financial risk management

Financial risk factors

Introduction and overview
The Group's activities expose it to a variety of financial risks and involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and the operational risks are an inevitable consequence of being in business. The Group's aim is, therefore, to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management framework

The Board of Directors ("The Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established a Board Risk Committee, comprising members from the Board, to monitor the Group's credit, operational and market risks. The Board has further set up from within management, Assets and Liabilities Committee ("ALCO"), Management Risk Committee ("MRC"), Management Credit Risk Committee ("MCRC"), Management Remedial Committee, Management Operational Risk Committee ("MORC" which is a subcommittee of MRC) and Management Investment Committee.

A separate Risk Management Group, reporting to the Management Risk Committee, assists in carrying out the oversight responsibility of the Board through the Board Risk Committee ("BRC").

The Board has established a Bank Audit Committee, which is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework. The Bank's Audit Committee is assisted in these functions by the Internal Audit Department.

The risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly, on an ongoing basis, to reflect changes in market conditions, products and services offered.

4 Financial risk management (continued)

Risk governance and ownership

A well-established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk at Group, regional, customer group and entity levels. The Board approves the Group's Risk management framework, risk appetite, performance targets for the Group, the appointment of senior officers, and the delegation of authorities for credit and other risks and the establishment of effective control procedures.

Risk appetite

Risk appetite policy describes the quantum and types of risk that the Group is prepared to take in executing its strategy. It is central to an integrated approach to risk, capital and business management and supports the Group in achieving its return on equity objectives, as well as being a key element in meeting the Group's obligations under pillar II of Basel II.

The risk appetite covers both the beneficial and adverse aspects of risk. The formulation of risk appetite considers the Group's risk capacity, its financial position, and the strength of its core earnings and the resilience of its reputation

a) Credit risk and concentrations of risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from Islamic financing activities, Ijara and investments. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Risk Management Group develops and maintains the Group's risk grading in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The current risk-grading framework consists of twenty-two grades. Each customer is rated using portfolio specific rating model which in turn assigns a risk rating and corresponding probability of default. The responsibility for assigning risk grades lies with the concerned business unit and is independently vetted by the Risk Management Group.

The objective of credit risk management is to underpin sustainably profitable business. Risk Management Group assesses all credit exposures and recommends approval from the designated credit committee by the Board (i.e. "MCRC"), prior to facilities being committed to customers by the business unit concerned.

4 Financial risk management (continued)

a) Credit risk and concentrations of risk (continued)

Renewals and reviews of facilities are subject to detailed review process by the Risk Management Group.

In addition, the Group manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. Regular audits of business units and credit processes are undertaken by the Internal Audit Department.

Independent review of the credit portfolio is also undertaken by a credit review team separate from both the business unit and the Risk Management Group.

Exposure to credit risk

The Group measures its exposures to credit risk by reference to the gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

At 31 December 2012 and 31 December 2011, the Group's maximum exposure to credit risk before collateral held or other credit enhancements was as follows:

	2012	2011
	AED'000	AED'000
Assets		
Cash and balances with banks (Note 7)	**1,234,239**	926,816
Murabaha and wakala deposits with banks and other financial institutions	**2,805,778**	2,608,204
Receivables from islamic financing activities	**17,859,889**	15,501,327
Ijara	**5,050,982**	3,823,473
Investment securities	**2,799,619**	3,159,980
Other assets	**758,976**	580,729
	30,509,483	26,600,529
Commitments and contingencies (Note 24)	**10,842,239**	12,633,267

The above table represents a worst case scenario of credit risk exposure of the Group at 31 December 2012 and 31 December 2011 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

4 Financial risk management (continued)

a) Credit risk and concentrations of risk (continued)

At 31 December 2012 and 31 December 2011, the distribution by geographical region of major categories of assets, liabilities, contingencies and commitments was as follows:

2012

	United Arab Emirates AED'000	**Kazakhstan AED'000**	**Others AED'000**	**Total AED'000**
Assets				
Cash and balances with banks	1,153,248	29,649	51,342	1,234,239
Murabaha and wakala deposits with banks and other financial institutions	2,584,825	37,008	183,945	2,805,778
Receivables from islamic financing activities	17,140,235	338,536	381,118	17,859,889
Ijara	5,018,043	32,939	-	5,050,982
Investment securities	2,799,619	-	-	2,799,619
Other assets	755,930	3,046	-	758,976
	29,451,900	441,178	616,405	30,509,483
Commitments and contingencies (Note 24)	10,748,688	93,551	-	10,842,239

2011

	United Arab Emirates AED'000	Kazakhstan AED'000	Others AED'000	Total AED'000
Assets				
Cash and balances with banks	680,556	154,434	91,826	926,816
Murabaha and wakala deposits with banks and other financial institutions	2,608,204	-	-	2,608,204
Receivables from islamic financing activities	15,501,327	-	-	15,501,327
Ijara	3,782,098	41,375	-	3,823,473
Investment securities	3,159,980	-	-	3,159,980
Other assets	575,133	5,596	-	580,729
	26,307,298	201,405	91,826	26,600,529
Commitments and contingencies (Note 24)	12,633,212	55	-	12,633,267

4 Financial risk management (continued)

a) Credit risk and concentrations of risk (continued)

At 31 December 2012 and 31 December 2011, the distribution by sector of major categories of assets, liabilities, contingencies and commitments was as follows:

2012

	Government AED'000	**Public AED'000**	**Corporate /private AED'000**	**Retail AED'000**
Cash and balances with banks	1,180,453	-	51,350	2,436
Murabaha and Wakala deposits with banks and other financial institutions	-	-	2,805,778	-
Receivables from Islamic financing activities	27,792	2,263,368	9,073,656	6,495,073
Ijara	-	1,314,270	1,320,039	2,416,673
Investment securities	2,159,314	75,634	564,671	-
Other assets	-	-	-	758,976
Commitments and contingencies (Note 24)	1,278,784	489,777	9,017,984	55,694

2011

	Government AED'000	Public AED'000	Corporate /private AED'000	Retail AED'000
Cash and balances with banks	743,757	-	91,856	91,203
Murabaha and Wakala deposits with banks and other financial institutions	-	-	2,608,204	-
Receivables from Islamic financing activities	-	3,240,405	6,711,099	5,549,823
Ijara	-	-	1,614,914	2,208,559
Investment securities	2,409,937	111,704	618,224	20,115
Other assets	-	-	-	580,729
Commitments and contingencies (Note 24)	1,396,322	912,314	10,272,315	52,316

4 Financial risk management (continued)

a) Credit risk and concentrations of risk (continued)

Impairment and provisioning policies
Impaired receivables from Islamic financing activities are financial assets carried at amortized cost for which the Group determines that it is probable that it will be unable to collect all principal and profit due according to the contractual terms of the related financial assets. These financial assets are graded in accordance with the Group's internal credit risk grading system.

Past due but not impaired financial assets
Past due but not impaired financial assets, are those for which contractual profit or principal payments are past due but the Group believes that impairment of such financial assets is not appropriate on the basis of the level of security, collateral available and / or the stage of collection of amounts owed to the Group.

Financial assets with renegotiated terms
Financial assets with renegotiated terms are facilities that have been rescheduled /restructured due to the deterioration in the customer's financial position and where the Group has made concessions that it would not otherwise consider. Once the facility is restructured it remains in this category independent of satisfactory performance after restructuring.

During the year ended 31 December 2012, the Group renegotiated facilities with a carrying value of AED 1,012 million (2011: AED 810 million).

Allowances for impairment
The Group establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its financing portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective financing loss allowance for losses that have been incurred but not identified, established for group of homogeneous assets with similar risk characteristics that are indicative of the debtor's ability to pay amounts due according to the contractual terms on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

4 Financial risk management (continued)

a) Credit risk and concentrations of risk (continued)

Settlement Risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed. Any delays in settlement are rare and are monitored and quantified as part of the Group framework and Operational Risk Management.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described above. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Group Management Credit Risk Committee ("MCRC"), under credit risk.

Collateral Risk

As at 31 December 2012, the Group held credit risk mitigants with an estimated value of AED 8,818 million against receivables from Islamic financing activities, Ijara finance and investments in the form of real estate collateral, other securities over assets, cash deposits and guarantees. The Group accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against Murabaha and Wakala deposits with banks and other financial institutions, and no such collateral was held at 31 December 2012 or 31 December 2011.

b) Market risk

The Group is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

Overall authority for market risk is vested in Asset and Liability Committee ("ALCO"). The Risk Management Group is responsible for the development of detailed risk management policies (subject to review and approval by "ALCO") and for the day to day review of their implementation.

4 Financial risk management (continued)

b) Market risk (continued)

The Group follows IFRS 9 guidelines for the treatment of its investment portfolio exposed to market risk. These include investment in sukuks of government and corporate issuers as well as investments in equities and mutual funds.

i. Price risk

The Group was exposed to price risk arising from its investment securities portfolio classified on the financial statements as Available for Sale ("AFS") and Fair Value through Profit and Loss ("FVTPL") until 30 September 2010 and at fair value through profit and loss and other comprehensive income subsequent to the early adoption of IFRS 9.

Most of the Group's investment securities are publicly traded and the table below summarizes the impact of a 10% increase / decrease of the prices of the major components of its investment securities portfolio, on the Group's results and equity for the year ended 31 December 2012. The analysis is based on the assumptions that all other variables will remain constant and, where applicable, the Group's investments moved according to the historical correlation of the relevant index.

	Impact on results and equity of the Group	
	2012	2011
± 10 % change in equity prices:	**AED'000**	AED'000
Profit and loss	**9,061**	1,036
Other comprehensive income	**2,685**	2,196

4 Financial risk management (continued)

b) Market risk (continued)

ii. Currency risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Senior management sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, and monitors currency positions on a daily basis.

At 31 December 2012 and 31 December 2011, the Group's foreign currency exposure to significant currencies comprised:

	Net open position 2012 AED'000	Net open position 2011 AED'000
Currency		
Euro	**21**	17,403
GBP	**164**	1,108
JPY	**79**	153
OMR	**239**	41
Various currencies	**353**	(208)

4 Financial risk management (continued)

b) Market risk (continued)

ii. Currency risk (continued)

Had the exchange rate between the various currencies and the AED increased or decreased by 10 %, with all other variables held constant, the impact on the results and equity of the Group would not have been material as the exposure primarily related to currencies that were pegged to the AED.

iii. Profit rate risk

Profit rate risk in trading book is applicable to the Group's exposure to sukuks issued by Governments and Corporates which are classified as Fair Value through Profit and Loss ("FVTPL"). The market value of these sukuks is impacted as a result of fluctuations in the prevailing levels of profit rates on cash flows. Senior management sets limits on the maximum exposure allowable as a result of adverse profit rate movement

During the year ended 31 December 2012, if the profit rates increased/decreased by 200 basis points, with all other variables remaining constant, the impact on the market value of sukuks classified in Fair Value through Profit and loss will be as follows:

	Impact on results and equity of the Group	
	2012	2011
	AED'000	AED'000
± 200 basis points change in profit rates	**98,912**	141,348

In addition to profit rate risk in trading book, the Group's profit bearing financial assets and liabilities not held for the purpose of trading are also exposed to profit rate risk.

This exposure arises as a result of mis-matches in re-pricing of assets and liabilities reflected in the following net position schedule.

4 Financial risk management (continued)

b) Market risk (continued)

iii. Profit rate risk (continued)

A summary of the Group's profit rate re-pricing as at 31 December 2012 is as follows:

	Less than 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 – 5 years AED'000	Greater than 5 years AED'000	Non-sensitive AED'000	Total AED'000
Assets							
Cash and balances with banks	-	-	-	-	-	1,437,223	1,437,223
Murabaha and Wakala deposits with banks and other financial institutions	2,651,150	104,508	50,120	-	-	-	2,805,778
Receivables from Islamic financing activities	8,088,675	2,791,403	706,196	2,340,729	3,753,538	179,348	17,859,889
Ijara	2,934,686	2,027,098	29,106	60,092	-	-	5,050,982
Investment securities	177,000	-	-	2,321,936	125,967	174,716	2,799,619
Other assets	-	-	-	-	-	758,976	758,976
Total assets	13,851,511	4,923,009	785,422	4,722,757	3,879,505	2,550,263	30,712,467
Liabilities							
Customers' accounts	13,883,017	3,578,105	2,922,659	2,294,152	5,000	2,273,731	24,956,664
Wakala deposits from banks	2,481,127	-	-	-	-	10,471	2,491,598
Other liabilities	-	-	-	-	-	1,178,004	1,178,004
Total liabilities	16,364,144	3,578,105	2,922,659	2,294,152	5,000	3,462,206	28,626,266
Net position	(2,512,633)	1,344,904	(2,137,237)	2,428,605	3,874,505	(911,943)	2,086,201

4 Financial risk management (continued)

b) Market risk (continued)

iii. Profit rate risk (continued)

A summary of the Group's profit rate re-pricing as at 31 December 2011 is as follows:

	Less than 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 – 5 years AED'000	Greater than 5 years AED'000	Non-sensitive AED'000	Total AED'000
Assets							
Cash and balances with banks	-	-	-	-	-	1,232,209	1,232,209
Murabaha and Wakala deposits with banks and other financial institutions	2,511,384	3,761	-	4,855	-	88,204	2,608,204
Receivables from Islamic financing activities	6,865,168	964,689	873,762	3,454,349	3,046,025	297,334	15,501,327
Ijara	1,801,545	1,936,106	17,991	67,831	-	-	3,823,473
Investment securities	460,000	-	-	2,656,137	-	43,843	3,159,980
Other assets	-	-	-	-	-	580,729	580,729
Total assets	11,638,097	2,904,556	891,753	6,183,172	3,046,025	2,242,319	26,905,922
Liabilities							
Customers' accounts	7,691,119	2,539,533	5,281,602	1,889,880	-	2,215,696	19,617,830
Wakala deposits from banks	4,890,231	3,760	5,105	4,855	-	31,878	4,935,829
Other liabilities	-	-	-	-	-	973,861	973,861
Total liabilities	12,581,350	2,543,293	5,286,707	1,894,735	-	3,221,435	25,527,520
Net position	(943,253)	361,263	(4,394,954)	4,288,437	3,046,025	(979,116)	1,378,402

4 **Financial risk management** (continued)

b) **Market risk** (continued)

iv. Takaful and reTakaful risk

Takaful risk
Takaful risk is where the Group agrees to indemnify the insured parties against happening of unforeseen future insured events. The frequency and severity of claims are the main risk factors. Due to the inherent risk in the Takaful business, actual claim amounts can vary marginally compared to the outstanding claim reserves but are not expected to have a material impact.

Re-takaful risk
In order to minimize financial exposure arising from large claims, the Group, in the normal course of business, enters into agreements with other parties for reTakaful purposes. Such re-takaful arrangement provides for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth.

To minimize its exposure to significant losses from reinsurers' insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

Re-takaful ceded contracts do not relieve the Group from its obligations and as a result the Group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the re-takaful agreements.

Reserve for claims
The Group maintains adequate reserves in respect of its Takaful business in order to protect against adverse future claims experience and developments. The uncertainties about the amount and timing of claim payments are normally resolved within a year.

Sensitivities
The general Takaful claims provision is sensitive to the key assumptions which are not material to the consolidated financial statements of the Group.

4 Financial risk management (continued)

c) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations associated with its financial liabilities.

Management of liquidity risk
The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient buffer of liquidity to meet its liabilities during the normal course of business. As part of its strategic liquidity management, contingency funding planning in the Group ensures that the liquidity management center (treasury) is well equipped to tap contingent funding sources during periods of market stress. The Group then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through short-term financing from the Treasury Department to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. The daily liquidity position is monitored and regular stress testing is conducted under a variety of scenarios covering the normal and more severe market conditions in order to assess the viability of the contingency funding plan. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports are produced covering the liquidity position of both the Group and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Group relies on customers' accounts and Wakala deposits from banks as its primary sources of funding. Customers' accounts and Wakala deposits from banks generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Group's liquidity risk and the Group actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

Exposure to liquidity risk
The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to total liabilities. For this purpose net liquid assets are considered as cash and balances with banks, balances with central bank, central bank CDs and Short Term Wakala Deposits with banks maturing within one month, investment in Sukuk of local or federal government divided by total liabilities.

4 Financial risk management (continued)

c) Liquidity risk (continued)

The Group prepares its liquidity risk profile on carrying value basis. A summary of the Group's maturity profile as at 31 December 2012 is as follows:

	Less than 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	Greater than 5 years AED'000	Total AED'000
Assets					
Cash and balances with banks	1,437,223	-	-	-	1,437,223
Murabaha and Wakala deposits with banks and other financial institutions	2,651,149	154,629	-	-	2,805,778
Receivables from Islamic financing activities	1,617,041	2,932,535	7,480,872	5,829,441	17,859,889
Ijara	396,711	589,523	2,062,748	2,002,000	5,050,982
Investment securities	103,164	7,000	2,563,488	125,967	2,799,619
Other assets	758,976	-	-	-	758,976
Total assets	6,964,264	3,683,687	12,107,108	7,957,408	30,712,467
Liabilities					
Customers' accounts	13,855,365	7,483,061	3,613,238	5,000	24,956,664
Wakala deposits from banks	2,491,598	-	-	-	2,491,598
Other liabilities	1,178,004	-	-	-	1,178,004
Total liabilities	17,524,967	7,483,061	3,613,238	5,000	28,626,266
Net position	(10,560,703)	(3,799,374)	8,493,870	7,952,408	2,086,201

4 Financial risk management (continued)

c) Liquidity risk (continued)

A summary of the Group's maturity profile as at 31 December 2011 is as follows:

	Less than 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	Greater than 5 years AED'000	Total AED'000
Assets					
Cash and balances with banks	1,232,209	-	-	-	1,232,209
Murabaha and Wakala deposits with banks and other financial institutions	2,511,384	3,761	4,855	88,204	2,608,204
Receivables from Islamic financing activities	1,198,286	2,827,050	7,077,839	4,398,152	15,501,327
Ijara	379,128	503,829	1,363,405	1,577,111	3,823,473
Investment securities	40,854	-	3,116,136	2,990	3,159,980
Other assets	-	-	-	580,729	580,729
Total assets	5,361,861	3,334,640	11,562,235	6,647,186	26,905,922
Liabilities					
Customers' accounts	7,827,640	8,431,310	3,358,880	-	19,617,830
Wakala deposits from banks	4,885,358	8,865	4,855	36,751	4,935,829
Other liabilities	-	-	-	973,861	973,861
Total liabilities	12,712,998	8,440,175	3,363,735	1,010,612	25,527,520
Net position	(7,351,137)	(5,105,535)	8,198,500	5,636,574	1,378,402

5 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment charge on other financial assets
The Group evaluates impairment on financial assets on an ongoing basis and a comprehensive review is carried out at least quarterly to assess whether an impairment charge should be recognized in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgments about the counterparty's financial situation and other means of settlement and the net realizable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

Collective impairment charge on financial assets
In addition to specific impairment charge against individually impaired assets, the Group also maintains a collective impairment allowance against portfolios of Murabaha, Wakala and Islamic financing with similar economic characteristics which have not been specifically identified as impaired. In assessing the need for collective impairment charge, management considers concentrations, credit quality, portfolio size and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical and current economic conditions.

Liability arising from claims made under Takaful contracts
The estimation of the ultimate liability arising from claims made under Takaful contracts is a critical accounting estimate by the Group. There are several sources of uncertainty that need to be considered in estimating the liability that the Group will ultimately pay for such claims. The provision for claims Incurred But Not Reported ("IBNR") is an estimation of claims which are expected to be reported subsequent to the reporting date, for which the insured event has occurred prior to the reporting date.

Investment property
The carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser having an appropriate recognized professional qualification and recent experience in the location and category of the property being valued. Fair values have been determined using the residual method. The residual method is applicable to properties where the value would be maximized if it were to be developed, redeveloped, or refurbished. To arrive at the current market value of the property in its existing state the estimated end development value is calculated, then all costs in carrying out the development are deducted, including cost of the physical construction, professional fees, financing, and developer's profit.

5 Critical accounting estimates and judgments (continued)

Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

Impairment on non financial assets

Certain non-financial assets, including other intangible assets, are subject to impairment review. The Group records impairment losses on assets in this category when the Group believes that their carrying value may not be recoverable. A reversal of an impairment loss is recognized immediately. Intangible assets, property, plant and equipment and investments in subsidiaries, associates and joint ventures are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

The recoverable amounts of these assets and where applicable, cash-generating units, have been determined based on value-in-use calculations. These calculations require the use of estimates. The determination of the recoverable amount in the impairment assessment requires estimates based on quoted market prices, prices of comparable businesses, present value or other valuation techniques, or a combination thereof, necessitating management to make subjective judgments and assumptions. Because these estimates and assumptions could result in significant differences to the amounts reported if underlying circumstances were to change, the Group considers this estimate to be critical.

Business model

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

5 Critical accounting estimates and judgments (continued)

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:

- management’s stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management’s strategy focuses on earning contractual profit revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

In particular, the Group exercises judgement to determine the objective of the business model for portfolios which are held for liquidity purposes. Certain sukuk are held by the Group Treasury Department in a separate portfolio for long term yield and as a liquidity reserve.

The securities may be sold in order to meet unexpected liquidity shortfalls but such sales are not anticipated to be more than infrequent.

The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

Certain other sukuk are held by the Group Treasury Department in separate portfolios in order to manage short-term liquidity. Sales from this portfolio are frequently made to meet ongoing business needs. The Group determines that these securities are not held within a business model whose objective is to held assets in order to collect contractual cash flows.

When a business model involves transfers of contractual rights to cash flows from financial assets to third parties and the transferred assets are not derecognised, the Group reviews the arrangements to determine their impact on assessing the objective of the business model. In making the assessment, the Group considers whether, under the arrangements, the Group will continue to receive cash flows from the assets, either directly from the issuer, or indirectly from the transferee, including whether it will repurchase the assets from the transferee.

5 Critical accounting estimates and judgments (continued)

Contractual cash flows of financial assets

The Group exercises judgement in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and profit on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage. For financial assets in respect of which the Group's claims are limited to specific assets of the debtor (non-recourse assets) the Group assesses whether the contractual terms of such financial assets limit the cash flows in a manner inconsistent with those payments representing principal and profit. Where the Group invests in contractually linked instruments (tranches) the Group exercises judgement to determine whether the exposure to credit risk in the acquired tranche is equal to or lowers than the exposure to credit risk of the underlying pool of financial instruments and so the acquired tranche may qualify for amortised cost measurement.

Qualifying hedge relationships

In designating financial instruments in qualifying hedge relationships, the Group has determined that it expects the hedges to be highly effective over the period of the hedging.

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

5 Critical accounting estimates and judgments (continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012:

	Level 1 AED'000	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Equity and other investments	374,820	-	-	374,820
Liabilities	-	-	-	-
Islamic derivatives	-	-	-	-

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2011:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Equity and other investments	32,317	-	-	32,317
Liabilities	-	-	-	-
Islamic derivatives	-	-	-	-

6 Capital management

Regulatory capital
The Group's lead regulator the Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The Group is required to comply with the provisions of the Central Bank of the UAE in respect of regulatory capital.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on return is also recognized and the Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group has complied with all externally imposed capital requirements throughout the year.

Capital allocation
The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation.

6 Capital management (continued)

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives.

At 31 December 2012, the Bank's capital adequacy ratio as per Basel II was 15% (2011: 13%)

During 2012, the Group's strategy, which was unchanged from 2011, was to:

- maintain capital adequacy ratios above the minimum specified by the Central Bank of the UAE and Basel accord guidelines; and
- efficiently allocate capital to various businesses.

In implementing current capital requirements, the Group calculates its risk asset ratio in accordance with capital adequacy guidelines established by the Central Bank of the UAE prescribing the ratio of total capital to total risk-weighted assets. Further, the Group also calculates its capital adequacy ratio in accordance with Basel II Accord which was adopted by the Central Bank of the UAE.

The Group's capital adequacy ratio as per effective regulatory framework, Basel II, at the minimum level is analysed into two tiers as follows:

	Basel II 2012 AED'000	Basel II 2011 AED'000
Tier 1 Capital	**3,537,917**	2,694,593
Tier 2 Capital	**295,719**	263,955
Deductions from capital	**(97,866)**	(94,342)
Total capital base	**3,735,770**	2,864,206
Risk weighted assets	**25,430,088**	21,381,180
Risk asset ratio	**14.69%**	13.40%

7 Cash and balances with banks

	2012 AED'000	2011 AED'000
Cash in hand	**202,984**	305,393
Cash reserve deposits with the Central Bank	**846,257**	707,408
Current account with the Central Bank	**336,632**	127,552
Due from banks	**51,350**	91,856
	1,437,223	1,232,209

Cash reserve deposits with the Central Bank are not available for the operations of the Group and are non-profit bearing.

8 Murabaha and wakala deposits with banks and other financial institutions

	2012 AED'000	2011 AED'000
Commodity murabaha with financial institutions	**-**	100,007
Wakala deposits	**2,817,008**	2,520,000
Allowance for impairment (Note 21)	**(11,230)**	(11,803)
	2,805,778	2,608,204

9 Receivables from islamic financing activities

	2012 **AED'000**	2011 AED'000
Corporate commodity murabaha	**11,680,851**	10,026,022
Retail musawama and murabaha	**10,624,964**	9,936,368
Islamic credit card receivable	**77,530**	62,118
Murabaha deferred profit	**(3,922,280)**	(4,117,794)
Allowance for impairment (Note 21)	**(601,176)**	(405,387)
	17,859,889	15,501,327

Islamic credit card receivable is comprised of AED 45,703 thousand (2011: AED 56,854 thousand) and AED 31,827 thousand (2011: AED 5,264 thousand) for Ijara and Tawarruq cards respectively.

	Corporate AED'000	Retail AED'000	**2012** **Total** **AED'000**
Impaired and non-performing:			
Substandard	20,564	19,580	**40,144**
Doubtful	-	12,075	**12,075**
Legal and loss	7,894	73,999	**81,893**
Outstanding	**28,458**	**105,654**	**134,112**
Specific allowance for impairment	(17,805)	(87,319)	**(105,124)**
Carrying amount	**10,653**	**18,335**	**28,988**
Performing:			
Regular	10,583,163	6,519,816	**17,102,979**
Past due but not impaired			
1-29 days	140,684	59,896	**200,580**
30-59 days	149,013	63,848	**212,861**
60-89 days	103,002	30,999	**134,001**
Above 90 days	676,532	-	**676,532**
Outstanding	**11,652,394**	**6,674,559**	**18,326,953**
Collective allowance for impairment	(392,085)	(103,967)	**(496,052)**
Carrying amount	**11,260,309**	**6,570,592**	**17,830,901**
Total outstanding	11,680,852	6,780,213	**18,461,065**
Total allowance for impairment	(409,890)	(191,286)	**(601,176)**
Total carrying amount	**11,270,962**	**6,588,927**	**17,859,889**

9 Receivables from islamic financing activities (continued)

	Corporate AED'000	Retail AED'000	2011 Total AED'000
<u>Impaired and non-performing:</u>			
Substandard	17,346	21,633	38,979
Doubtful	7,468	17,650	25,118
Legal and loss	-	42,447	42,447
Outstanding	24,814	81,730	106,544
Specific allowance for impairment	(11,805)	(48,284)	(60,089)
Carrying amount	13,009	33,446	46,455
<u>Performing:</u>			
Regular	8,981,097	5,601,414	14,582,511
Past due but not impaired			
1-29 days	128,750	130,400	259,150
30-59 days	88,130	39,765	127,895
60-89 days	76,533	27,384	103,917
Above 90 days	726,697	-	726,697
Outstanding	10,001,207	5,798,963	15,800,170
Collective allowance for impairment	(262,977)	(82,321)	(345,298)
Carrying amount	9,738,230	5,716,642	15,454,872
Total outstanding	10,026,021	5,880,693	15,906,714
Total allowance for impairment	(274,782)	(130,605)	(405,387)
Total carrying amount	9,751,239	5,750,088	15,501,327

9 Receivables from islamic financing activities (continued)

Receivables from Islamic financing activities net of deferred profit by sector at 31 December 2012 and 31 December 2011 comprise:

	2012	2011
	AED'000	AED'000
Government and public sector	**2,291,160**	3,761,644
Banking sector	**220,674**	750,313
Corporate and private sector	**9,262,873**	4,871,979
Retail sector	**6,686,358**	6,522,778
	18,461,065	15,906,714

Movement in allowance for impairment on receivables from Islamic financing activities, during the year:

	2012	2011
	AED'000	AED'000
At the beginning of the year	**405,387**	187,933
Charge of the year, net (Note 21)	**195,789**	217,454
At the end of the year	**601,176**	405,387

10 Ijara

	2012 AED'000	2011 AED'000
Corporate Ijara Mawsufa Fi-aldhimma	**288,486**	562,242
Corporate standard Ijara	**2,692,517**	1,523,236
Retail Ijara Mawsufa Fi-aldhimma	**220,484**	325,558
Retail standard Ijara	**1,960,831**	1,492,917
Allowance for impairment (Note 21)	**(111,336)**	(80,480)
	5,050,982	3,823,473

Ijara assets represent net investment in assets leased for periods which either approximate or cover majority of the estimated useful lives of such assets. The lease agreements stipulate that the lessor undertakes to transfer the leased assets to the lessee upon receiving the final rental payment.

	Corporate AED'000	Retail AED'000	**2012 Total AED'000**
Impaired and non-performing:			
Substandard	-	29,401	**29,401**
Doubtful	-	21,818	**21,818**
Legal and loss	2,929	119,724	**122,653**
Outstanding	**2,929**	**170,943**	**173,872**
Specific allowance for impairment	(2,929)	(48,952)	**(51,881)**
Carrying amount	**-**	**121,991**	**121,991**
Performing:			
Regular	2,684,716	1,911,926	**4,596,642**
Past due but not impaired			
1-29 days	12,806	26,222	**39,028**
30-59 days	85,933	33,403	**119,336**
60-89 days	-	38,820	**38,820**
Above 90 days	194,620	-	**194,620**
Outstanding	**2,978,075**	**2,010,371**	**4,988,446**
Collective allowance for impairment	(24,445)	(35,010)	**(59,455)**
Carrying amount	**2,953,630**	**1,975,361**	**4,928,991**
Total outstanding	2,981,004	2,181,314	**5,162,318**
Total allowance for impairment	(27,374)	(83,962)	**(111,336)**
Total carrying amount	**2,953,630**	**2,097,352**	**5,050,982**

10 Ijara (continued)

	Corporate AED'000	Retail AED'000	2011 Total AED'000
Impaired and non-performing:			
Substandard	-	15,148	15,148
Doubtful	2,929	24,412	27,341
Legal and loss	-	80,771	80,771
Outstanding	2,929	120,331	123,260
Specific allowance for impairment	(2,929)	(35,322)	(38,251)
Carrying amount	-	85,009	85,009
Performing:			
Regular	1,960,791	1,577,096	3,537,887
Past due but not impaired			
1-29 days	49,621	53,697	103,318
30-59 days	-	63,327	63,327
60-89 days	-	4,024	4,024
Above 90 days	72,137	-	72,137
Outstanding	2,082,549	1,698,144	3,780,693
Collective allowance for impairment	(17,469)	(24,760)	(42,229)
Carrying amount	2,065,080	1,673,384	3,738,464
Total outstanding	2,085,478	1,818,475	3,903,953
Total allowance for impairment	(20,398)	(60,082)	(80,480)
Total carrying amount	2,065,080	1,758,393	3,823,473

10 **Ijara** (continued)

Movement in allowance for impairment on Ijara during the year:

	2012 **AED'000**	2011 AED'000
At the beginning of the year	**80,480**	25,710
Charge of the year, net (Note 21)	**30,856**	54,770
At the end of the year	**111,336**	80,480

11 Investment securities

	2012 **AED'000**	2011 AED'000
Financial assets at fair value through profit and loss		
Quoted equity securities	**53,462**	10,363
Sukuk securities	**218,287**	-
Commodity linked securities	**37,151**	-
Other comprehensive income		
Quoted equity securities	**26,845**	21,954
Sukuk securities	**39,075**	-
Financial assets at amortised cost		
Sukuk securities	**2,427,737**	3,135,867
Allowance for impairment (Note 21)	**(2,938)**	(8,204)
Total investment securities	**2,799,619**	3,159,980

The investment security risk grade analysis based on external ratings or their equivalent for the year is shown below:

	2012 **AED'000**	2011 AED'000
A	**55,088**	110,175
A1	**74,931**	111,054
A2	**53,629**	235,971
A3	-	389
B+	**2,219**	1,607
B1	**189,059**	136,863
B3	-	70,002
Ba3	**6,874**	-
Baa3	**7,000**	70,000
BBB+	-	1,924
Unrated	**2,413,757**	2,430,199
	2,802,557	3,168,184

12 Investment property

The carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

	2012	2011
	AED'000	AED'000
At 1 January	**125,475**	144,584
Additions	**-**	21,298
Fair value movement	**(85,775)**	(40,407)
At 31 December	**39,700**	125,475

13 Property and equipment

Property and equipment at 31 December 2012 comprise:

	Leasehold improvements AED'000	Computer systems AED'000	Furniture and fixtures AED'000	Capital work in progress AED'000	Total AED'000
Cost					
At 1 January 2012	181,761	132,549	58,528	1,006,112	1,378,950
Additions	810	14,200	2,678	204,477	222,165
Transfers	5,041	23,968	6,430	(35,439)	-
Disposal of fixed assets	-	-	(384)	-	(384)
At 31 December 2012	187,612	170,717	67,252	1,175,150	1,600,731
Accumulated depreciation					
At 1 January 2012	65,503	58,725	35,041	-	159,269
Charge for the year	22,626	33,366	16,113	-	72,105
Disposal of fixed assets	-	-	(384)	-	(384)
At 31 December 2012	88,129	92,091	50,770	-	230,990
Net book value at 31 December 2012	99,483	78,626	16,482	1,175,150	1,369,741

Capital work in progress includes property with a carrying value of AED 1,068 million (2011: AED 942 million).

13 **Property and equipment** (continued)

Property and equipment at 31 December 2011 comprise:

	Leasehold improvements AED'000	Computer systems AED'000	Furniture and fixtures AED'000	Capital work in progress AED'000	Total AED'000
Cost					
At 1 January 2011	151,002	84,436	51,832	368,732	656,002
Additions	29,626	11,693	4,653	676,976	722,948
Transfers	1,133	36,420	2,043	(39,596)	-
At 31 December 2011	181,761	132,549	58,528	1,006,112	1,378,950
Accumulated depreciation					
At 1 January 2011	31,906	34,402	21,388	-	87,696
Charge for the year	33,597	24,323	13,653	-	71,573
At 31 December 2011	65,503	58,725	35,041	-	159,269
Net book value at 31 December 2011	116,258	73,824	23,487	1,006,112	1,219,681

14 Other assets

	2012	2011
	AED’000	AED’000
Prepaid expenses	**38,756**	48,179
Income receivable	**71,683**	84,036
Takaful receivable	**96,399**	36,963
Murabaha inventory	**83,188**	91,494
Prepaid staff allowances	**22,347**	22,012
Others	**169,161**	90,975
Acceptances	**277,442**	207,070
	758,976	580,729

Others include promises to buy and sell foreign currencies which are carried at fair value and presented within other assets and other liabilities respectively. The notional amounts of these contracts are disclosed in note 24 of these consolidated financial statements.

15 Customers’ accounts

	2012	2011
	AED’000	AED’000
By account:		
Wakala deposits	**18,684,885**	14,782,331
Current accounts	**2,143,557**	2,087,329
Time deposits	**1,666,802**	1,324,983
Savings accounts	**2,461,420**	1,423,187
	24,956,664	19,617,830

15 Customers' accounts (continued)

	2012	2011
	AED'000	AED'000
By sector:		
Government	**11,714,446**	9,435,556
Public	**168,651**	101,519
Corporate / private	**5,244,495**	4,749,227
Retail	**7,829,072**	5,331,528
	24,956,664	19,617,830

Government sector deposits include special deposits amounting to AED 42.2 million (2011: AED 42.2 million) received from the Ministry of Finance with original contractual maturity of 5 years which are exempted from reserve requirements.

16 Other liabilities

	2012	2011
	AED'000	AED'000
Accounts payable	**268,964**	199,709
Accrued expenses	**328,099**	352,966
Charity payable	**2,896**	6,782
Advance administrative fees	**75,005**	73,056
Takaful liabilities	**105,618**	63,810
Others	**119,980**	70,468
Acceptances	**277,442**	207,070
	1,178,004	973,861

Others include promises to buy and sell foreign currencies, which are carried at fair value and are presented within other liabilities and other assets respectively.

Others include an amount of AED 21.8 million (2011: 15.7 million) of Depositors profit Reserve and the Zakat due on these reserves which pertains to depositors and charity. The group is discharging this Zakat on behalf of the depositors.

Charity payable represents profits forfeited by the Fatwa and Shariah Supervisory Board and late payment and over limit fees.

17 Share capital

Share capital

The authorized share capital of the Bank comprise of 4,000 million ordinary shares of AED 1 each. The issued and fully paid up share capital at 31 December 2012 comprise of 3,090 million ordinary shares of AED 1 each (2011: 2,590 million ordinary shares of AED 1 each).

Abu Dhabi Investment Council holds 100% of the issued and fully paid share capital. The Bank's shares are not listed on a recognized stock exchange.

During 2012, the Bank increased issued and paid up share capital by AED 250 million in April and AED 250 million in September through cash injection.

Statutory reserve

The UAE Commercial Companies Law No. (8) of 1984 (as amended) and the Bank's Articles of Association require that 10% of the annual net profit to be transferred to a statutory reserve until it equals 50% of the paid-up share capital. The statutory reserve is not available for distribution. During the year, AED 35,158 thousand (2011: 20,235 thousand) has been transferred to the Statutory reserve.

18 Income from ijara and islamic financing activities, net

	2012	2011
	AED'000	AED'000
Income from Murabaha – corporate	**553,149**	497,677
Income from Murabaha – retail	**663,895**	624,658
Income from Ijara – corporate	**134,828**	127,213
Income from Ijara – retail	**147,021**	131,476
	1,498,893	1,381,024

19 Commission, fees and foreign exchange income, net

	2012	2011
	AED'000	AED'000
Fee and commission income	**145,194**	125,963
Foreign exchange gains	**7,590**	5,671
Foreign exchange losses	**(1,168)**	(7)
Other income	**3,789**	9,472
	155,405	141,099

Commission, fees and foreign exchange income constitute part of profit distributable to the Shareholder. Fees and commission income include AED 1.7 million from fiduciary activities (2011: AED 0.6 million). Other income includes an amount of AED 1.5 million (2011: AED 7.1 million) relating to Takaful activities.

20 General and administrative expenses

	2012 **AED'000**	2011 AED'000
Rent expenses	**78,081**	75,057
Marketing and advertising expenses	**30,525**	24,987
Consultancy fees	**27,172**	9,255
Repair and maintenance	**16,858**	12,978
Communication	**12,215**	9,398
Other expenses	**109,165**	92,174
	274,016	223,849

21 Impairment charges on financial assets

	Murabaha and wakala deposits with banks and other financial institutions		Ijara		Receivables from islamic financing activities		Investment securities		Total	
	2012 AED'000	2011 AED'000	**2012 AED'000**	2011 AED'000	**2012 AED'000**	2011 AED'000	**2012 AED'000**	2011 AED'000	**2012 AED'000**	2011 AED'000
At 1 January	**11,803**	11,100	**80,480**	25,710	**405,387**	187,933	**8,204**	1,750	**505,874**	226,493
Charge for the year	**(573)**	703	**30,915**	54,770	**232,206**	218,412	**(5,266)**	6,454	**257,282**	280,339
Write offs and recoveries	**-**	-	**(59)**	-	**(30,478)**	(958)	**-**	-	**(30,537)**	(958)
Unwinding on renegotiated financings	**-**	-	**-**	-	**(5,939)**	-	**-**	-	**(5,939)**	-
At 31 December	**11,230**	11,803	**111,336**	80,480	**601,176**	405,387	**2,938**	8,204	**726,680**	505,874

22 Depositors' share of profits

The depositors' share of profits for the year ended 31 December has been supported by the Shareholder and is authorized by the Bank's Fatwa and Shariah Supervisory Board.

	2012	2011
	AED'000	AED'000
Mudaraba	**54,044**	47,221
Wakala	**529,380**	574,585
	583,424	621,806

23 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following amounts with original contractual maturities of less than one month:

	2012	2011
	AED'000	AED'000
Cash and balances with banks	**1,437,224**	1,232,209
Murabaha and wakala deposits with banks and other financial institutions	**131,535**	288,079
Wakala deposits from banks	**(202,634)**	(956,165)
	1,366,125	564,123

24 Commitments and contingencies

	2012	2011
	AED'000	AED'000
Letters of credit	**806,472**	443,798
Letters of guarantee	**5,593,303**	5,963,938
Irrevocable commitments to extend credit	**1,244,470**	2,319,239
Revocable commitments to extend credit	**3,197,994**	3,906,292
Capital commitments	**563,928**	436,447
Operating lease commitments	**165,525**	243,665

25 Islamic derivative financial instruments

In the ordinary course of business, the Group enters into various types of transactions that involve Islamic derivative financial instruments. Islamic derivative financial instruments include Islamic promises to exchange currency and / or cash flows.

Islamic derivatives are measured at fair value by reference to published price quotations in an active market, counterparty prices or valuation techniques such as discounted cash flows.

The table below shows the positive and negative fair values of Islamic derivative financial instruments together with the notional amounts.

The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

31 December 2012	**Positive market value AED'000**	**Negative market value AED'000**	**Notional amount AED'000**
Profit rate swaps	109,259	(109,259)	1,808,420
Promises to sell foreign currencies	646	(646)	110,175
	109,905	(109,905)	1,918,595
Held as fair value hedges:			
Profit rate swaps	38,128	(38,128)	3,672,500
	38,128	(38,128)	3,672,500
	148,033	(148,033)	5,591,095

31 December 2011	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000
Profit rate swaps	83,954	(83,954)	1,766,211
Promises to sell foreign currencies	1,074	(1,074)	110,175
	85,028	(85,028)	1,876,386
Held as fair value hedges:			
Profit rate swaps	-	-	-
	-	-	-
	85,028	(85,028)	1,876,386

26 Group entities

Subsidiaries	Country of incorporation	Ownership 2012	2011
Al Hilal Takaful PSC	UAE	**100%**	100%
Al Hilal Auto LLC	UAE	**100%**	100%
Al Hilal Islamic Bank PJSC	Kazakhstan	**100%**	100%
Wataniya Development Fund Limited	Cayman Islands	**47%**	47%
Al Hilal Leasing LLP	Kazakhstan	**100%**	100%

27 Related parties

Identity of related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise major shareholders, directors and key management personal of the Group. The terms of these transactions are approved by the Group's management and are made on terms agreed by the Board of Directors or management.

Parent and ultimate controlling party

Abu Dhabi Investment Council holds 100% of the issued and fully paid share capital. The Bank's shares are not listed on a recognized stock exchange.

Compensation of directors and key management personnel

Key management remuneration for the years ended 31 December 2012 and 31 December 2011 comprise:

	2012 AED'000	2011 AED'000
Short term employment benefits	**18,392**	17,218
Post employment benefits	**1,448**	1,458
Directors' remuneration	**2,647**	1,600

27 **Related parties** (continued)

Terms and conditions

Islamic financing and deposits are granted and accepted in various currency denominations and for various time periods. Profit rates earned on Murabaha financing facilities extended to related parties during the year have ranged from 0.65% to 6.85% per annum (2011: 1.50% to 6.5%).

Profit distribution rates paid on customers' deposits placed by related parties during the year have ranged from 0.51% to 3.76% per annum (2011: 0.71% to 4.5%)

Fees and commissions earned on transactions with related parties during the year have ranged from 0.2% to 1.2% per annum (2011: 0.17% to 1.2%).

Collaterals against financing to related parties range from being unsecured to fully secure.

At 31 December 2012, the balances and transactions with related parties comprise:

Balances:

	2012 AED'000	2011 AED'000
Islamic financing facilities	**2,467,734**	2,103,083
Investment securities	**55,088**	-
Customers' accounts	**11,837,120**	9,649,271
Contingent liabilities	**14,561**	4,805

Transactions:

	2012 AED'000	2011 AED'000
Fee and commission income	**318**	12
Financing income	**27,179**	76,433
Depositors' share of profits	**258,093**	249,881

Save for transactions carried out with the Parent and its group of companies, all transactions with the government and its related concerns are deemed to occur within the normal course of business.

28 Accounting classification and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values

				2012
	FVTPL AED'000	**FVTOCI AED'000**	**Amortised cost AED'000**	**Total AED'000**
Financial assets				
Cash and balances with banks	-	-	1,437,223	1,437,223
Murabaha and wakala deposits with banks and other financial institutions	-	-	2,805,778	2,805,778
Receivables from islamic financing activities	-	-	17,859,889	17,859,889
Ijara	-	-	5,050,982	5,050,982
Investment securities	308,900	65,920	2,424,799	2,799,619
Other assets	-	-	758,976	758,976
	308,900	**65,920**	**30,337,647**	**30,712,467**
Financial liabilities				
Customers' accounts	-	-	24,956,664	24,956,664
Wakala deposits from banks	-	-	2,491,598	2,491,598
Other liabilities	-	-	1,178,004	1,178,004
	-	-	**28,626,266**	**28,626,266**

28 Accounting classification and fair values (continued)

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
				2011
Financial assets				
Cash and balances with banks	-	-	1,232,209	1,232,209
Murabaha and wakala deposits with banks and other financial institutions	-	-	2,608,204	2,608,204
Receivables from islamic financing activities	-	-	15,501,327	15,501,327
Ijara	-	-	3,823,473	3,823,473
Investment securities	10,363	21,954	3,127,663	3,159,980
Other assets	-	-	580,729	580,729
	10,363	21,954	26,873,605	26,905,922
Financial liabilities				
Customers' accounts	-	-	19,617,830	19,617,830
Wakala deposits from banks	-	-	4,935,829	4,935,829
Other liabilities	-	-	973,861	973,861
	-	-	25,527,520	25,527,520

29 Fund management and fiduciary activities

The Group manages and administers assets held in trust or in fiduciary capacity on behalf of its customers. The underlying assets held in a custodial or fiduciary capacity are excluded from the consolidated financial statements of the Group.

The table below outlines the fair value of the funds and assets under management at the respective reporting dates.

	2012 AED'000	2011 AED'000
Global Sukuk Fund	**137,399**	-
GCC Equity Fund	**23,189**	26,900

30 Zakah

The Articles of Association of the Bank do not require management of the Bank to pay Zakah on behalf of the Shareholder. Consequently, the Zakah obligation is to be assessed and discharged by the Shareholder.

31 Comparative notes

Comparative figures have been reclassified to conform with the presentation for the current year.

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