ADIB

مصرف أبوظبي الإسلامي

عاماً
YEARS

عشرون عاماً وأنت أولويتنا

20 years of putting you first

ANNUAL REPORT 2018

Contents

The late Sheikh Zayed bin Sultan Al Nahyan

His Highness Sheikh Khalifa Bin Zayed Al Nahyan
President of the United Arab Emirates
Ruler of Abu Dhabi
Supreme Commander of the UAE Armed Forces

His Highness Sheikh Mohammed Bin Zayed Al Nahyan
Crown Prince of Abu Dhabi
Deputy Supreme Commander of the
UAE Armed Forces

Bank Overview, Mission, Vision and Values

Abu Dhabi Islamic Bank was established in 1997 through Emiri Decree and began commercial operations in 1998. All contracts, operations and transactions are carried out in accordance with Islamic Shari'a principles.

The Bank is a leading regional Islamic financial services group and has a wide distribution network, with more than 80 retail branches, and a network of 684 ATMs in the UAE.

Our Mission

Islamic financial solutions for everyone.

Our Vision

To become a top tier regional bank.

Our Values

- We keep it Simple and Sensible
- We are Transparent
- We work for Mutual Benefit
- We nurture Hospitality & Tolerance
- We are Shari'a inspired

Bank Strategy

The Bank's overall strategy has three pillars:

Build market leadership within the UAE

- Build on our strength as a leading retail bank. Retail segment has grown from strength to strength and customers now exceed 1 million. To continue this growth ADIB has embarked on a digital transformation strategy with primary focus on enhancing customer experience.
- In the wholesale bank, ADIB has continued to consolidate and improve its position in commercial real estate, corporate finance and advisory and in transaction banking. ADIB has developed and implemented new CRM and Cash Management platforms and will be launching a new Trade Finance platform. These initiatives enable ADIB to offer a full menu of products on digital platforms thereby offering superior services to its corporate customers.

Create an integrated financial services group

- ADIB continues to create a diversified Islamic financial services model.
- In addition to banking products and services, ADIB provides property management, advisory and valuation services (through MPM), takaful insurance (through Abu Dhabi National Takaful Company) and securities brokerage (through ADIB Securities) and merchant acquiring business through ADIMAC.

Strengthen our international presence and business

- ADIB's international expansion began with a joint venture in Egypt (ADIB Egypt) followed by the establishment of branches in Iraq, Qatar and Sudan, a subsidiary in the UK and a joint venture finance company in Saudi Arabia.
- ADIB is now poised to expand its international business by allowing multinational corporate customers access to financial services in its overseas locations via its Global Transaction Services platform.
- Another recent addition is the expansion of international Financial Institutions business focused on trade finance activities.

Financial Highlights

AED 125.2
(billion) Total Assets

AED 17.7
(billion) Equity

AED 100.4
(billion) Total Customer Deposits

78.4%
Customer Financing to Deposit Ratio

2,501
(million) Net Profit

5,769
(million) Total Revenues

Net Profit for 2018 increased by 8.7% to AED 2,501 million

Total Revenues for 2018 increased by 2.4% to AED 5,769 million

ADIB Group

Summary Income Statement	2018 AED mn	2017 AED mn	2016 AED mn	2015 AED mn	2014 AED mn
Net revenue from financing	**3,906.7**	3,769.6	3,921.0	3,771.3	3,505.0
Fees, Commissions and Foreign Exchange Income	**1,315.7**	1,300.6	979.6	965.0	798.7
Investment and Other Revenues	**547.1**	562.1	484.9	398.1	279.3
Total Revenues	**5,769.5**	5,632.3	5,385.5	5,134.4	4,583.0
Operating Profit (Margin)	**3,125.7**	3,123.1	2,937.6	2,760.3	2,512.0
Provisions and Impairment Charge	**620.1**	790.4	970.0	820.0	757.8
Net Profit after zakat & tax	**2,500.8**	2,300.1	1,953.6	1,934.0	1,750.7
Summary Balance Sheet					
Total Assets in AED (billion)	**125.2**	123.3	122.3	118.4	111.9
Customer Financing in AED (billion)	**78.7**	76.5	78.2	78.4	73.0
Customer Deposits in AED (billion)	**100.4**	100.0	98.8	94.9	84.8
Financial Ratios					
Customer Financing to Deposit Ratio	**78.36%**	76.53%	79.15%	82.59%	86.12%
Risk asset ratio - Total (CAR, %) - Basel III / Basel II	**17.18%**	16.09%	*15.25%	*15.14%	*14.36%
Cost Efficiency Ratio	**45.82%**	44.55%	45.45%	46.24%	45.27%

** As per Basel II*

2.4%

Total Revenues (AED mn)

2018	5,769
2017	5,632
2016	5,386
2015	5,134
2014	4,583

0.1%

Operating Profit (Margin) (AED mn)

2018	3,126
2017	3,123
2016	2,938
2015	2,760
2014	2,512

0.4%

Total Customer Deposits (AED mn)

2018	100,404
2017	100,004
2016	98,814
2015	94,927
2014	84,776

2.8%

Total Customer Financing (AED mn)

2018	78,677
2017	76,530
2016	78,211
2015	78,403
2014	73,006

78.4%

Customer Financing to Deposit Ratio

2018	78.36%
2017	76.53%
2016	79.15%
2015	82.59%
2014	86.12%

17.2%

Capital Adequacy Ratio (Basel III/Basel II)

2018	17.18%
2017	16.09%
2016	*15.25%
2015	*15.14%
2014	*14.36%

** As per Basel II*

Credit Ratings

	Long term	Short term	Outlook
Moody's Investors Service	A2	P1	Stable
Fitch Ratings	A+	F1	Stable
RAM Ratings	AAA	P1	Stable

ADIB’s Awards in 2018

World’s best Islamic bank
by Banker Magazine

Best Islamic Bank in the UAE
by Middle East Banking
Awards


Best Islamic Bank in UAE
by EMEA FINANCE in UAE and
Middle East


Best Islamic Bank in the UAE
by Banker Magazine

Best Islamic Bank in the
Middle East
by Banker Magazine

CSR Label
by Dubai Chamber for
Commerce and Industry

Best Sport CSR Initiative
of the Year by SPIA

Best Islamic Financier
by International
Trade Finance

Best Overall Bank in Customer
Experience by Ethos
Consultancy

Best Overall Call Center in the
UAE by Ethos Consultancy

Property Consultancy of the
Year by African & Arabian
Property Awards

Real Estate Agency of the Year
by African & Arabian Property
Awards

Best Islamic Finance House
by EMEA Finance

Best Islamic Financier
by EMEA Finance

Best Islamic Finance House
in the Middle East
by EMEA Finance

Best Islamic Bank
in Egypt
by Islamic Finance News

Best Islamic Bank in Egypt
by Global Finance Magazine

Best Islamic Digital Bank
by Global Finance Magazine

Best Islamic Bank in Egypt
by Islamic Bank
and Finance Magazine

Mohammed Bin Rashid
Al Maktoum Business Award

Best Islamic Bank Globally for
Private Banking Services by
Banker Magazine

Best Islamic Private Bank
by Islamic Finance News
Awards

Best Private Bank in the
Middle East for Islamic Finance
by Private Banker International
Magazine

Best Private Bank in the UAE
by Banker FT

Best Privatisation Deal
by EMEA Finance

Best Youth Development
Program by SPIA

Excellence in CSR Initiatives
for Islamic Banks by Regional
Network Consultancy

Best IPO in EMEA
by EMEA Finance

Islamic Issue of the Year
by IFR ASIA Awards

SRI Capital Markets Issue of
the Year by IFR ASIA Awards

Chairman's Statement

ADIB had an excellent year with net profit rising by 8.7% to AED 2.5 billion as total revenues reached over AED 5.7 billion.

6%

Growth in number of Customers

6% growth in number of customers to more than 1,044,247

2.4%

Revenues

Revenues increased by 2.4% to AED 5,769.5 million, driven by growth in Fees, FX and investment income

Dear Shareholders

On behalf of the Board of Directors, I am pleased to present to our shareholders the Annual Report for 2018. ADIB had an excellent year with net profit increasing by 8.7% to AED 2.5 billion after the deduction of Shareholders' contributions to support the profits of depositors, and total revenues reaching over AED 5.7 billion.

I would like to express my gratitude to the management and staff of ADIB for delivering sustained growth and profitability during this period, and my appreciation to ADIB Internal Shari'a Supervisory Committee members for their support and guidance.

Environment & UAE Economy

The UAE economy and the banking sector performed well in 2018 inspite of the challenging regional and global environment. After modest growth in 2017, economic growth picked up in 2018 on the back of higher oil prices. This trend is expected to continue in 2019, helped by an increase in government spending and the execution of its diversification strategy.

Improvement in the economy supported steady asset growth, and improved profitability and asset quality in the UAE banking sector despite the volatility across global markets and regional challenges. The sector maintained strong capital and liquidity positions and adopted prudent risk-taking strategies.

ADIB's Performance

In 2018 ADIB delivered strong growth. Net profit increased 8.7% to reach AED 2.5 billion. This performance follows net profit growth of 18% in 2017. The performance is driven by reducing exposure to higher risk segments. While this has suppressed revenue growth, it has also resulted in substantially lower cost of risk. At the same time ADIB has continued to invest significantly in digital transformation of the retail and corporate bank and in information security. These results highlight ADIB's robust strategy, underpinned by a customer-centric approach and award-winning customer service, which allowed us to welcome our one millionth customer in 2018, nearly double the number it had five years ago.

A major accomplishment in 2018 was the strengthening of the bank's capital position. To comply with the Central Bank of UAE's new regulations on capital, ADIB completed an AED 1 billion Rights Issue, raised USD 750 million of additional Tier 1 capital through a perpetual sukuk, and repaid the previously issued Tier 1 sukuk of USD 1 billion that no longer met the eligibility criteria. Both issuances were oversubscribed which reflect the notable appetite from a broad range of local and international investors for these capital raising initiatives. Such interest amongst the investment community is testament to ADIB's strength and stability as well as the bank's prospects for further growth and development.

Total assets at the end of the year were AED 125 billion, a marginal increase over the prior year. The financial discipline we exercised over the years, by prudently managing risk and credit extension, has ensured that our balance sheet remains strong. It is pleasing to note that the stabilisation of the business environment, together with our focus on asset quality, has led to higher recoveries and a decrease by 21.5% in impairment allowances from last year.

In 2018, ADIB focused on upgrading its infrastructure to support its growth strategy. Emphasis remains on recruiting and retaining top talent, building infrastructure to deliver an award-winning customer experience and investing appropriately in expanding business capabilities across all targeted customer segments. Specifically, ADIB has continued to enhance its digital capabilities across all businesses and processes in line with its ambition to be the UAE's favorite digital bank. ADIB also upgraded all aspects of its infrastructure to ensure the bank functions efficiently, in a stable and secure operating environment. Furthermore, in line with the Group's ambition of being a leader in the application of regulatory and related governance best practices, ADIB has continued to increase its investment in risk, control and compliance capabilities.

Recommended Dividend

The Board of Directors is pleased to recommend distribution of 27.38% cash dividends for 2018. The cash dividend represents 39.76% of the full year net profits for 2018, the same as in previous years.

20 years of putting our customers first

In 2018, ADIB celebrated its momentous 20th anniversary with a new promise to customers. The bank has pledged to continue enhancing customers' banking experience, reiterating its commitment to delivering the latest technology, products and services, through its digital transformation strategy.

ADIB is upgrading all aspects of its infrastructure to ensure the bank provides a secure and personalised offering through innovative technologies and data analytics.

Recognition

In 2018, ADIB was presented with a number of accolades and industry awards in recognition of the bank's achievements. I am particularly proud of the fact that ADIB was named best Islamic Bank globally by the Banker Magazine. We were also particularly honored to receive the "Human Resource Development Award" from the Emirates Institute of Banking and Financial Studies (EIBFS). This award recognised ADIB's efforts in developing talent, particularly among UAE nationals.

The bank's continued financial health has enabled it to maintain its solid credit ratings. : A+ (Fitch) A2 (Moody's); and AAA (RAM).

Human Resources

In line with the Group's 2020 strategic ambition, ADIB has continued to selectively recruit the necessary talent required to service a comprehensive range of client segments and selective industries through a broad range of products and solutions while also enhancing governance structures.

ADIB remains one of the leading banks in advocating the recruitment, development and promotion of local talent in all the markets in which it operates. ADIB currently runs training programs that are designed to equip employees from graduates to management with the attributes to flourish in the financial industry. These programs are focused on coaching and mentoring talent, providing support with career planning, and the development of key professional skills.

Corporate Social Responsibility

ADIB has launched and supported numerous CSR initiatives in 2018 to reinforce and maximise its contribution to society, including blood donation campaigns, sponsoring mass weddings and organising a range of activities during Ramadan. In support of the Year of Zayed, the bank supported numerous causes across the UAE with ADIB employees giving up their personal time to serve their local communities. Such charitable principles continue to demonstrate ADIB's role within society and complement the bank's business objectives.

Looking Ahead

The UAE economy has proved its resilience in recent years, and a continuation of government investment in diversification initiatives will provide opportunities for ADIB to develop its corporate and retail banking businesses. While the global economic picture is uncertain, we are committed to maintaining our best practice approach to risk management to navigate this period. There is no doubt that credit quality and capital strength lie at the core of our strategic success and in 2019 we will maintain a prudent approach commensurate with our long-term targets for return on shareholder equity.

Our focus for 2019 will be to take advantage of the expected improvement in the economy, to improve our market share in selected segments and grow our business within acceptable risk parameters while introducing new products and maintaining a superior customer service capability.

Meanwhile, we fully understand the primary opportunities and drivers in the banking industry. The pressure to introduce new digital solutions is central to satisfying customers while reducing costs. We will continue to invest significantly in the coming years to bring on stream a further suite of offerings that will keep us in the forefront of cutting edge banking services.

During 2019, the Board will continue to work with the management team to successfully implement the Bank's approved strategy. ADIB achieved this successfully over the last year and will seek to do so again over coming years.

Conclusion

Finally, on behalf of the Board and all at ADIB, I would like to express our sincere appreciation and gratitude to the leaders of the United Arab Emirates and in particular to His Highness Sheikh Khalifa bin Zayed Al Nahyan, the President of the UAE and Ruler of Abu Dhabi, may God protect him, and to His Highness Sheikh Mohamed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Supreme Commander of the UAE Armed Forces.

I would like to take this opportunity to thank the management and staff of ADIB as well as the Board of Directors for their continuous commitment and dedication towards our success in 2018.

I also wish to express my thanks to our customers, shareholders, and Central Bank of the UAE for their continued support and trust, and the esteemed Internal Shari'a Supervisory Committee of ADIB for their industry-leading supervisory role.

Thank you,

HE Jawaan Awaidah Suhail Al Khaili
Chairman

The ADIB Group Structure

Board of Directors

Financial Services Group

Banking:

Abu Dhabi Islamic Bank PJSC

Subsidiaries:

Abu Dhabi Islamic Securities Company LLC
ADIB (UK) Limited

Associates and Joint Ventures:

Abu Dhabi Islamic Bank – Egypt (S.A.E.)
Abu Dhabi National Takaful Company PJSC
Bosna Bank International D.D.
Saudi Finance Company CSJC
Abu Dhabi Islamic Merchant Acquiring Company LLC

International Branches:

Qatar (QFC)
Iraq
Sudan

Non-Financial Services

Real Estate:

Burooj Properties LLC
MPM Properties LLC

Manpower:

Kawader Services LLC

Board of Directors

HE Jawaan Awaidah Suhail Al Khaili
Chairman

Khamis Mohamed Buharoon
Vice Chairman and Acting Chief Executive Officer

Abdulla Bin Aqueeda Al Muhairi
Board Member

Juma Khamis Mugheer Al Khaili
Board Member

Dr Sami Ali Al Amri
Board Member

Khalifa Matar Al Muhairi
Board Member

Ragheed Najeeb Shanti
Board Member

ADIB Executive Management

Mr Khamis Buharoon
Vice Chairman and Acting Chief Executive Officer

Mr Abdul Qadir Khanani
Group Treasurer

Mr Abdulhakim A. Kanan
Global Head, Audit and Risk Review

Mr Abdulla Al Shehhi
Global Head, International Business Group

Mr Abdulrahman Abdullah
GM-Head of Strategic Clients Group and Community Banking

Mr Hasan Abdullah Al Zaabi
Head of Human Resources, UAE

Mr Hassan Adel Khalifa
Head of Operations

Mr Khalid Ali Almansoori
Executive Chairman, MPM Properties

Mr Mamoun T Alhomssey
Chief Information Officer

Mr Philip King
Global Head, Retail Banking

Mr Sami Al Afghani
Global Head, Wholesale Banking

Mr Serhat Yildirim
Chief Digital Officer

Ms Sharon Craggs
Global Head of Compliance

ADIB's management team is vastly experienced and together represents many years of banking expertise gained through academic qualifications and careers with highly-respected financial institutions.

Mr Adel Ahmed Alzarouni
GM-Real Estate and Administration-Chairman of CSR

Mr Ahsan Ahmed Akhtar
Group Financial Controller

Mr Brian Belcher
Group Chief Risk Officer

Dr Ghaith Mismar
Global General Counsel

Mr Martin Roland Corfe
Global Head of Human Resources

Mr Mohamed Aly
CEO, Egypt

Mr Mohammed Azab
Head of Private Banking Group

Dr Osaid M. A. Kailani
Global Head, Shari'a

Mr Syed Aamir Zahidi
Chief of Staff

ADIB Subsidiaries, Associates and Joint Ventures Management

ADIB (Egypt) SAE

Saudi Finance Company, ADIB Saudi Arabia

Abu Dhabi National Takaful Company PJSC

ADIB Securities

ADIB UK

Abu Dhabi Islamic Merchant Acquiring Company LLC

MPM Properties

Bosna Bank International D.D.

Burooj Properties

In 2018 we have enhanced our digital banking platforms and award-winning product offering enabling us to cross the one million customer milestone.

CEO's Report

We achieved a strong set of results for 2018 with net profit increasing 8.7% to AED 2.5 billion.

Achievements

2018 has marked another successful year for ADIB. In addition to achieving good financial results, ADIB completed a number of key digital transformation initiatives and embarked on several others. These customer-focused and industry leading products and service quality initiatives enabled ADIB to welcome its one millionth customer, nearly double the number it had five years ago.

A major achievement in 2018 was the strengthening of the bank's capital position through a rights issue and an Additional Tier 1 Sukuk issuance. The AED 1 billion rights issue generated strong interest across a highly diversified local investor base and was approximately 4 times oversubscribed. The Additional Tier 1 issue of USD 750 million was a first of its kind in the UAE under the new Central Bank Capital regulations. This issue was very well received by local and international investors and was over-subscribed more than 2 times. The level of interest shown by local and foreign investors bears testament to ADIB's strength and stability as well as the bank's prospects for further growth and development.

Improvement in the economy over the prior year provided ADIB the opportunity to grow its business, primarily in retail banking. We maximised the use of our delivery channels to generate very healthy growth in the low cost deposit base while selectively adding to our financing portfolio. Customer deposits reached AED 100 billion and financing assets AED 79 billion. This resulted in a healthy financings to deposit ratio of 78%. ADIB maintained its cross-sell ratio and generated non-funds based revenue consistent with the prior year. Cost of risk tapered down further resulting in ADIB generating industry leading Return on Shareholder Equity and Return on Assets.

Capital Management

ADIB continues to build the required levels of capital appropriate for a bank of its size and scale. Total equity increased by 7% to AED 17.7 billion. The bank's capital adequacy ratio under Basel III as at 31 December 2018 stood at 17.18%, its Tier 1 capital ratio was at 16.09% and its common equity Tier 1 ratio at 11.31%. All capital ratios under Basel III principles are above the minimum regulatory thresholds advised by Central Bank of the UAE.

Liquidity Management

ADIB maintained its position as one of the most liquid financial institutions in the UAE with a healthy customer financing-to-deposits ratio of 78.4%. This is primarily due to our strong customer base that generates excellent growth in current and savings accounts. This has also helped the bank maintain one of the lowest cost of funds in the UAE banking industry.

Risk Management

ADIB continued its prudent approach to credit risk management and its proactive remedial efforts. Stabilisation of the business environment, together with a focus on asset quality and exiting certain higher risk segments has led to a decrease in impairment allowances by 21.5% compared to last year. During 2018, ADIB took additional provisions and impairments of AED 620 million for customer financing and other asset classes. Furthermore, as per the newly adopted IFRS 9, customer financing that is classified under Stage 3 stands at 4.8% with these assets now totalling AED 3,951 million, and total credit provisions held under IFRS 9 at AED 2,882 million at the year end. These provisions are calculated based on the expected credit loss methodology under IFRS 9 requirements.

Digital Banking

ADIB made good progress in advancing its digital capabilities in the retail and corporate banking segments. In addition to the digital team in the corporate bank that has been in operation for the last two years, ADIB established a digital team for the retail bank to advance the bank's overall digital strategy. ADIB's digital agenda is to enhance customer experience by making banking simpler, faster, and with greater access to high quality products and personalized services.

The bank has invested heavily in new technology that can equip customers to conduct their banking transactions in a more flexible, convenient and secure way. The rapid uptake in the use of digital channels by customers, with over two million mobile transactions initiated via the ADIB mobile banking app every month, is indicative of changing customer behaviour. We feel that with the implementation of a comprehensive digital transformation strategy, we are ideally positioned amongst peers to capitalise on this clear trend towards mobile banking. Our aim is to continue to gain market share by meeting the needs and aspirations of customers, and delivering an exceptional experience across retail, wholesale and transaction banking, underpinned by practical innovation and an extensive branch network.

Commitment to Excellence

ADIB has maintained its focus on implementing its long-term growth strategy and delivering the levels of customer service that have become synonymous with its brand. We are continually working to provide an exceptional client experience to our retail, corporate and private banking customers, whether they choose to interact with us in person, on the phone, or digitally. This year we were honoured to be awarded Best Islamic Bank globally by the FT's Banker Magazine.

20 Year Anniversary

In 2018, ADIB celebrated its momentous 20th anniversary with a new promise to customers. The bank has pledged to continue enhancing customers' banking experience, reiterating its commitment to delivering the latest technology, products and services through a digital transformation strategy. Since its foundation, ADIB has excelled and distinguished itself in many fields. Whether it is contributing to the UAE's economic development, providing innovative banking solutions, developing local talent, or offering superior banking experiences, ADIB has always set the bar high, never settling for anything short of the best.

Outlook

The UAE economy has proved its resilience in recent years. Continuation of government investment in diversification initiatives will provide opportunities for ADIB to develop its corporate and retail banking businesses. While the global economic picture is uncertain, we are committed to maintaining our best practice approach to risk management. There is no doubt that credit quality and capital strength lie at the core of our strategic success and in 2019 we will maintain a prudent approach commensurate with our long-term targets for return on shareholder equity.

Conclusion

Our achievements in 2018 are testament to the dedication and professionalism of colleagues, whose ingenuity, experience and customer focus continues to drive our results. Today, we are a dynamic, modern bank with a culture of innovation and determination that ensures we capture opportunities in the market and meet customers' needs and expectations. To this end we will continue to invest in the future.

I would like to express my thanks to all of our customers for their commitment to ADIB. I would also like to thank our Board Members whose guidance and support underpins our business strategy. And finally, to our shareholders, I would like to reiterate our focus on delivering high sustainable earnings growth, and moving with clear purpose in 2019 and beyond.

Khamis Mohamed Buharoon
Vice Chairman & Acting Chief Executive Officer


ADIB
مصرف أبوظبي الإسلامي
CLEAR SKIES,
BROAD HORIZONS.
Is this how you see your future?
We can help you get there.
By working hard to make banking easy for you.
By helping you make the right financial choices.
By breaking barriers, not promises.
Because we only succeed when you do.
Welcome, feel at home, wherever you are from...
Banking as it should be.
adib.ae

Business Review

Abu Dhabi Islamic Bank (ADIB), a leading financial institution, has welcomed its one millionth customer in the UAE, nearly double the number it had five years ago.

Retail Banking

ADIB's vision of becoming the number one retail bank in the UAE remained on track during 2018, with a continued expansion into new customer segments, and an increased focus on our UAE National customer base. An emphasis on long-term customer relationships saw the number of active customers served by ADIB increase by over 61k new customers crossing the one million customer milestone with 50% of our customer base being local.

Despite a challenging 2018, ADIB was able to produce a strong set of financial results with gains over 2017 in all key metrics:

Total Retail Banking revenue was up by AED 123 million, an increase of 4%, total financing assets increased by 1.7% and total deposits rose by 2.4%.

ADIB has maintained its position as one of the largest retail banking networks in the UAE with more than 80 retail branches, and a network of 684 ATMs.

2018 also saw the expansion of new digital channels and the expansion of ADIB Express branch, with the opening of new branches in Dubai and Abu Dhabi. These branches are part of a new generation of digitally-enabled branch that combines the benefits of digital banking with a personalised service. It provides customers with access to a wide range of self-service digital functions while benefiting from the digitally enabled personalised service on-site or even via video chat.

In 2018, ADIB has started drawing a roadmap for the future by launching a digital transformation strategy under the name 'ADIB Simple'. This strategy puts in place a comprehensive framework for driving growth and business development over the next few years. An integral element of this is the branch transformation scheme that will launch the ADIB Branch of The Future where the branch function will be redesigned and the customer journey redefined.

As a result, the time spent on processing transactions would be greatly reduced and hence our customer will enjoy a highly personalized and meaningful customer experience.

Throughout the year, ADIB invested heavily in staff training programs to strengthen their skills on a range of aspects, including sales, customer service, product development, and processes. This not only supports the development of our people and the quality of the services customers receive, but also accelerate our digital transformation agenda and reflects our commitment to ensure that all services are properly and ethically structured and delivered.

Over the last year, ADIB has invested heavily in new technology that can equip customers to conduct their banking transactions in a more flexible, convenient and secure way in 2018. The rapid uptake in the use of digital channels by customers, with 1.7 million mobile transactions initiated via the ADIB mobile banking app every month, is indicative of changing customer behaviour.

In 2019, we will continue to focus on enhancing customer experience, making it simpler, faster and more effective. This will continue to be centric to everything we do.

Business Banking

In 2018, ADIB Business strategy was mainly focused on three areas; non-assets income, digital channels growth and enhancing customer service. As a result, ADIB Business exhibited exceptional growth in non-assets income of +150% YoY driven by higher fees and FX income. Customers' transactions via electronic channels increased by 118% YoY and business customers' deposits grew by 4.3%. ADIB Business Branches were launched to provide dedicated branch services by well trained and experienced staff offering a wide range of services and transactional capabilities. The customer service level was 93% on average.

In the coming year, ADIB Business Banking will be focusing on enhancing the share of the SME market in a balanced manner in selected business sectors with greater emphasis on trade and working capital finance, transactional banking and cash management services. ADIB Business will improve the digital tools provided to Business Banking customers that will help them in their day to day business. In a nutshell, we will bring the bank to the Customer's office.

Wholesale Banking Group

ADIB's Wholesale Banking Group remains committed to the 2020 strategy of becoming the best and most professional Wholesale Bank in the UAE. In light of the challenging market environment in 2018, we have focused on this strategy through key business and performance drivers as listed below:

- **Credit quality:** 2018 witnessed WBG achieve notable improvements in our portfolio, as credit quality has been improved through better practices from lessons learned from our experience in the market. This along with proactive management of our books has also led to lower costs of credit.
- **Enhanced Credit controls:** Large emphasis has been placed on further enhancing controls on WBG's credit portfolio, which led to better control and management problem credits, and minimizing their impact on ADIB's financial performance.
- **Better Diversification of our portfolio:** 2018 placed focus on further diversifying our credit to better, more lucrative, sectors of the market.
- WBG has also made strides in focusing on our commitment to becoming the best Sharia based Wholesale Banking Group in the region through key additions/enhancements of value propositions to our clients. Most notable being:
    - We continued to demonstrate a strong track record in financing and advising our clients on capital markets, M&A advisory, syndicated financing, cash management and global trade services,
    - Our Corporate Finance and Investment Banking credentials remained one of our core strengths in delivering the value proposition to our clients,
    - Our dedicated team of real estate finance professionals, continued to be at the forefront of offering a full range of Islamic financing and advisory services,
    - We continued to organize our coverage model along Industry lines in order to better serve our client base through industry specialization, and
    - In 2018, we launched the 'Project Leap' initiative to provide a greater value proposition for our clients through enhanced product offerings such as trade and cash management services. As part of this project, both trade and cash platforms were upgraded to meet both clients' current requirements and provide additional product offerings.

Specifically, within our Product Groups, key performance highlights were as follows:

Corporate Finance and Investment Banking

2018 was another strong year for CFIB despite market conditions. Overall, CFIB concluded over 20 high profile transactions across structured and syndicated finance, Sukuk, M&A and advisory products.

CFIB was involved in arranging multibillion dollar in structured and syndicated finance deals on behalf of Government Related Enterprises (GREs), major Corporates and Financial Institutions (FIs) totaling more than AED 6.5 billion in 2018 (as MLA & Bookrunner), which positioned ADIB as a market leader across Islamic syndicated finance bookrunner league tables. ADIB maintained its leading position in 2018 with a 17.2% market share of Islamic syndicated finance in UAE in accordance with rankings published by Bloomberg (a position maintained since 2010). Furthermore, CFIB advised a number of issuers on optimizing their capital and financing requirements and deal structures to achieve long term sustainable growth for the businesses. Some of the notable Syndicated Finance deals for 2018 included:

- AED 1.0bn Islamic syndicated Facility for Nakheel Properties
- AED 650mn Islamic structured finance syndicated facility for UEMS Group
- USD 400mn Islamic Syndicated Facility for Emirates Steel
- AED 850mn Islamic syndicated facility for Dubai Properties Group
- AED 835mn Islamic syndicated Facility for Mawarid Holdings

ADIB's Wholesale Banking Group remains committed to the 2020 strategy of becoming the best and most professional Wholesale Bank in the UAE.

In the Islamic Capital Markets, ADIB continued its leadership and innovation in advising on Sukuk for corporates, GREs and sovereigns. ADIB is acting as a Joint Lead Manager & Bookrunner on a number of high profile Sukuk mandates including:

- JLM bookrunner on debut issuance and program arranger for General Holding Corporation ("Senaat") – (US$3.0b programme / US$300m initial issuance)
- Debut Senior Sukuk for NMC Healthcare ("NMC") – (5yr US$400m)
- Debut Sukuk for National Central Cooling Company ("Tabreed") – (7yr US$500m)
- $3 billion Government of Indonesia Green Sukuk (1st green Sukuk by a sovereign issuer)

On the Equity Capital Markets & Advisory, CFIB team served as an advisor for ADIB AED 1 billion rights issue and sukuk issuance.

Accordingly, CFIB has been recognized for its innovative financing transactions and won global accolades including:

- "Hybrid Deal of the Year" - Senaat's US$300 million Sukuk under US$3 billion program by Islamic Finance News Awards 2018
- "Ijarah Deal of the Year" - Nakheel's AED1.5 billion financing for the construction of Nad Al Sheba project by Islamic Finance News Awards 2018
- "Indonesia Deal of the Year" - Government of Indonesia's US$1.25 billion green sovereign Sukuk by Islamic Finance News Awards 2018
- "Regulatory Capital Deal of the Year" - Abu Dhabi Islamic Bank's US$750 million additional Tier 1 Sukuk by Islamic Finance News Awards 2018
- "Sovereign Deal of the Year" - Government of Indonesia's US$1.25 billion green sovereign Sukuk by Islamic Finance News Awards 2018
- "UAE Deal of the Year" - NMC Health's US$400 million US dollar five-year Sukuk by Islamic Finance News Awards 2018

Global Transaction Banking Services ('GTB')

Global Transaction Banking caters to Large and Mid-Corporates, Small Medium Enterprise and Financial Institutions by providing Cash Management, Trade Finance products solutions across the MENA region. GTB offers a host of efficient and cost effective solutions for payments, collection, liquidity management, and financing solutions for LCs and open account invoices that meets the working capital requirements of Corporate and Financial institutions, both domestically and globally across all industry segments. GTB also provide mobile and web access for the institutional customers that enable them to monitor and manage their accounts.

In 2018, GTB focused on delivering:

Project LEAP which enabled the launch of more than 100 new products that will deliver the highest international standard sharia compliant solutions. This project is a major initiative that requires a multi-disciplinary approach to change the backend, operations and online and mobile banking offerings of Cash Management and Trade Finance. As part of this project our relationship managers, GTB Sales and Service personnel will have access to the latest Customer Relationship Management software, which enabling the bank to better serve the clients and support their needs in a much more efficient manner. With this project, we have launched GTB Cash Management platform which introduced Host to Host solution, through which Corporate and Institutional customers now able to connect directly with bank to process day to day transactions with ADIB in faster and most secured manner. ompanies can from the comfort of their office l send the checks for collection using special scanners, or print checks and sign them with secure laser printers. They can easily have access to their invoices and the goods they are buying or selling.

In 2018, we were recognised and commended for our contribution to the trade sector by International Trade Finance Awards and we were awarded "Best Islamic Financier" by Trade Finance Global (TFG).

Future plan

While 2019 is likely to present a challenging macroeconomic environment – we remain committed in delivering superior quality of service to our clients through further enhancing our value propositions, and improving our service models to cater to our market's specific needs. We aim to achieve this through the following:

- Further Enhancements to our WBG service model via initiatives already taken to further develop the group's:
  - Market Responsiveness,
  - Further enhancements on best practices already implemented, by creating a culture of continual improvement and Learning,
  - Focus on creating a strong customer centric culture keeping our customers in the forefront. These have been addressed through increasing service responsiveness to our clients, enhancing our service culture to deliver unique world class customer experience, and through direct initiatives to further improve and standardize & automate key business processes.
- Continue to build on and improve our value propositions already available to our client base through:
  - Comprehensive financing solutions, including syndications, project and structured finance
  - Aim at becoming a 'one-stop shop' for IPOs, capital market issuances and M&A advisory
  - Customized Commercial Real Estate financing solutions and services
  - A comprehensive suite of flexible online financial solutions
  - Providing access to ADIB's ever expanding international footprint as well as global correspondent banking network

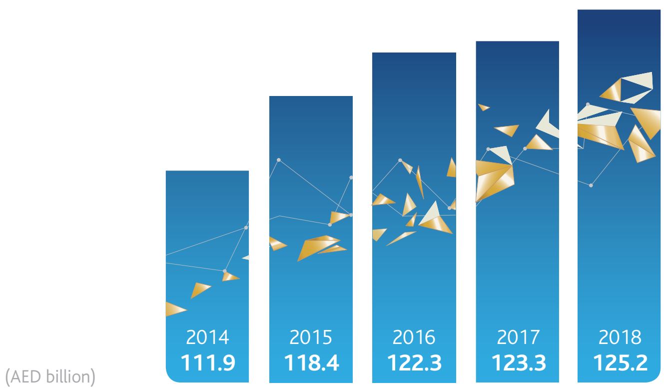
Lastly, we continue to provide a team of seasoned professionals with extensive industry, structuring and execution experience to meet the diverse needs of our clients.

Private Banking Group

2018 proved to be a rather challenging investment environment where markets saw unprecedented volatility, as well as limited new equity and debt IPO issuances, coupled with lack of clients' appetite for financing, manifested in clients Risk-Off mode. In that back drop, Private Banking Group business enjoyed another good year in 2018 across all key measures. We continued to execute our strategy and posted great results. The business continued to register growth in terms of top line revenues, as well as its size and contribution to the overall bank revenues. Our performance was led by diversifying our fees and commissions, which saw a significant increase in 2018. The Private Banking has maintained a healthy financing portfolio while growing the wealth side of the business through increased levels of client investments and the build-up of additional Assets Under Management (AUM) to record figures.

During the year, we launched a series of initiatives to further position ADIB as the leading onshore-based private banking service provider in the UAE. The business has an ever diversified revenue sources, as well as diversified financing portfolio. It continued to be the main supporter for our subsidiary in United Kingdom, ADIB UK. An added value proposition that found great reception by our private banking clientele.

Growth in Total Bank Assets



As our business grew, we deepened our focus on enhancing clients' experience, growing profitability and boosting fee income. This contributed to significant growth in business revenues and profitability. We also looked to further diversify the business asset book beyond traditional real estate financing into more investment finance solutions. Our sukuk financing program and margin trading products were further refined to smoothen processing and related client experience. Such efforts complemented our leading expertise and strength in local real estate financing structuring.

The business continues to expand and leverage access to the top names in our UAE market, augmenting our offering to HNWIs and family offices in the GCC region, especially with the Saudi wealthy clients with interest in investing the UAE market. We predict further uptake from clients for our offering of credit advice and solutions; Sukuk and equity investment advisory and execution capabilities; deposits and yield optimisation; and banking transactional services.

Our business continues to be recognised by the industry for our track record in providing high-quality, trusted distribution and placement capabilities to build close client relationships. It is because of that earned trust of clients; Private Banking has now a credible placement capacity, a strength that we are particularly proud of. As a testament to these efforts and achievements, the business was recognised by industry experts and we received two prestigious Banker magazine awards, including "Best Global Islamic bank for Private Banking Services" and "Best Private Bank in the UAE". In a poll conducted by Islamic Finance News (IFN), ADIB also won the "Best Private Bank" for 2018.

Treasury

ADIB Treasury provides solutions spanning foreign exchange, Sukuk, money market, profit rate, equities and commodities together with managing the Group liquidity. The Treasury department continued to build on its strengths and constantly re-innovate themselves to support and guide the customers on exposure management in current challenging economic environment. At the same time, it invests funds for the Bank's own account and manages the relevant market risk for the Bank.

ADIB Treasury had another strong year of growth with higher volumes in Foreign Exchange and Sukuk due to enhanced product capability and a closer working relationship with its customers. The Trading Desk delivered a solid performance despite challenging global market conditions, driven by diversification into new markets and proactive risk management. The Asset Liability Management business delivered good results by positioning the bank to rationalize balance sheet and to take advantage of rise in short term profit rates.

Community Banking

Community Bank continues to manage & attract the pioneers of NPOs within the UAE since 2011. Since the inception of this division and the continuous efforts placed in striving new-on-board clients within UAE to share our Mission and shared values, we have only shared one success story following the other.

In 2018, we served 160 clients from a range of non-profit organizations to government and private companies that operate in serving the UAE community.

Community Bank coverage sectors included Humanitarian, social, educational, cultural, environmental & Healthcare. Through our existing client partnerships, we helped in facilitating cash transactions, donations, and charity causes which had a positive impact within UAE and globally.

Community Bank division continues to offer customized banking services, including current and savings Accounts, appropriate financing solutions, investment management such as Sukuk, endowment management options, business planning and advisory, transactional banking, cash management and a wide range of Sharia compliant products and services.

Operations and Technology

The Operations and Technology Group acts as an enabler for ADIB's core businesses and subsidiaries with an aim to achieve the strategic objective of being the top-tier Islamic bank for our customers, shareholders and employees.

ADIB Operations and Technology team remains committed to deliver consistent operational support and practice strong governance and control mechanism across the business lines. Our journey continues with a strong focus to deliver lower operational cost, build digital capabilities, increase efficiency and automation and customer-centric processes to deliver enhanced customer experience. Along with technology refresh programs to upgrade systems and technologies.

In 2018, we focused on upgrading our IT operating model, architecture, infrastructure and information security to meet our digital transformation agenda.

Information Security Transformation Program that was initiated in 2016 with the aim to centralize and comprehensively manage the Information and cyber security controls for the group continued in 2018 to successfully deliver the digital transformation agenda and build resilience to internal and external security threats.

The Business Continuity team has been fully established and the business command center was inaugurated in addition to the implementation of different platforms that shall allow automation and greater data integrity in the foundational elements for BCM.

Human Resources

The Human Resources Division (HRD) supports ADIB's leadership team by attracting, developing and engaging both UAE nationals and expatriates talent in line with the needs of the business. The HRD works to enable managers to utilise relevant frameworks regarding performance management, talent management, staff engagement, organizational design, and reward and recognition. In addition, it manages staff-related regulatory requirements and other ad-hoc projects to support ADIB's strategic growth plans.

In 2018, ADIB strengthened its HRD with the appointment of new and experienced team members to lead the function and ensure that we continue to attract, retain and develop the very best talent in the industry.

Moreover, the HRD worked with different departments on various aspects of organisational change in order to support the strategic agenda of the Group.

The digital and agile transformation that ADIB embarked on required ADIB and the HRD to consider future skill requirements, and to identify, recruit and develop such talent. This translated into dedicated HR resources supporting the digital transformation journey, developing resourcing and learning initiatives to engage staff in change and innovation. This enabled ADIB to continue to focus on building the skills and capabilities of new and existing employees with a suite of best-in-class training programs, including a program for the development of talented UAE nationals. The HRD also managed other certified development programs to ensure that employees have the banking competencies and expertise to support ADIB's growth.

In particular, our established Tamkeen program prepares high performing, mid-level UAE national females with exciting career development opportunities and the necessary leadership skills to enhance their careers. In addition, our Qyiadat program continued to provide leadership development training for our more experienced Emirati managers. Through both programs, we have developed over 100 high potentials nationals with the opportunity to be accredited through recognized external industry bodies.

ADIB remains one of the leading banks in advocating the recruitment, development and promotion of local talent in all the markets in which it operates. The Bank now employs 732 Nationals in the UAE, over 36% percent of ADIB's employees. The HRD has successfully adopted a new points-based system approved by the UAE Central Bank to promote the entry of Emiratis into the financial sector while also enhancing career development opportunities and future deployment into critical roles.

In 2018, HR Technology systems were upgraded further towards fully automating relevant HR processes in order to ensure faster and more efficient service delivery.

International Operations

International Banking Group

ADIB's International Banking Group (IBG) faced some strong headwinds in 2018 with the devaluation in Sudan and the on-going political situation with Qatar. Despite the challenging environment Adib remains committed to its international businesses and we continued to invest in our businesses and the employees who are committed to our success. The international footprint gives us a unique proposition to regional and global companies who also operate in these geographies and as a result of our footprint we were able to open in the UAE some significant new relationships with global corporates.

Abu Dhabi Islamic Bank, Sudan

ADIB's Sudan operates from one branch location in Khartoum. The business is focused on corporate banking supporting both local corporates and ADIB group customers operating in Sudan as well as a number of public sector companies.

The business operates to detailed compliance, governance and risk frameworks to minimize operational risk. 2018 was a challenging year with the political and economic environment but despite this the business showed very strong growth in local currency terms however due to the material devaluation during the course of the year the strong local currency performance did not translate into AED and year on year we reported a material decline in revenue.

Abu Dhabi Islamic Bank, Iraq

ADIB started operating in Iraq with the opening of the Baghdad Branch in February 2012 which was followed by branches in Erbil in November 2013 and Basra in November 2015.

The environment showed some green shoots of stability in 2018 with the formation of the new government and a more favourable economic outlook with the increase in oil prices and the country is well placed to receive significant FDI as it looks to commence its reconstruction. Whilst the environment is challenging we are maintaining our low risk business model but will look to expand our proposition as the country continues to stabilize.

Abu Dhabi Islamic Bank, Qatar

Established under the jurisdiction of the Qatar Financial Centre, ADIB Qatar faced significant challenges in 2018 given the geopolitical environment. We maintained our business presence and continue to serve our current customer base whilst we wait and see how events unfold.

Abu Dhabi Islamic Bank, UK

ADIB UK was established in 2012 to service the London needs of ADIB Group's existing relationship banking customers from GCC and MENA countries. The business is located in the prestigious location of 1 Hyde Park in London. 2017 saw the approval of an updated strategy with a slightly expanded target market and the results of 2018 are encouraging with an 85% asset growth and a healthy pipeline of business demonstrate the market opportunity for Islamic solutions.

Saudi Finance Company

2018 was a solid year for SFC where following the challenging environment of 2016 and 2017 we returned to a business expansion mode and delivered a 23% growth in customer assets and a slightly higher growth in revenue. During the year we expanded our distribution capability to take advantage of the market opportunity. The Finance Company industry is now fully regulated by SAMA which has caused the industry to come under s significant amount of regulatory scrutiny. The investments we have made in prior years in governance, compliance and controls has positioned SFC well to take advantage of operating in the more highly regulated environment. During the year SAMA introduced some new rules for responsible financing which we support but will impact the industry's ability to target customers with higher financing burdens. We have traditionally focused on the less stress customer segments so these changes will impact us less than the rest of the industry.

Branch Management

Mr M Abouzeid

Mr N Al Abdool

Mr H Al Ahbabi

Mr S Al Dhaheri

Mr M Al Ali

Mr M H Al Ali

Mr M S Al Ali

Mr S Al Ghallabi

Mr A Al Baloushi

Mr H Al Hosani

Mr M Ali

Mr S Al Kaabi

Mr A Al Dhaheri

Mr A A Aldhanhani

Mr M Al Dhanhani

Mr J Ali

Mr A Al Hammadi

Mr Y Al Hammadi

Mr K Al Hosani

Mr K Al Awadhi

Mr M Al Khoori

Mr A Al Balooshi

Mr A Al Boloshi

Mr I Al Baloushi

Branch Management continued

Ms M Al Darmaki

Mr S Al Marzouqi

Mr M Al Mehairy

Mr A Al Melhi

Mr A Al Shahai

Mr H Al Shamsi

Mr H Al Shateri

Mr R Al Mutawwa

Mr Y Al Suwaidi

Mr B Al Suwaidi

Mr F Al Naqbi

Mr S Al Nuaimi

Mr A Almemari

Mr A Al Mitwali

Mr A Al Mutairi

Mr M Al Shabibi

Mr A Al Najar

Mr H A Al Naqeeb

Mr A Al Shehhi

Mr S Al Shehhi

Mr A Al Zubaidi

Mr I Al Qasser

Mr J H Alraeesi

Mr F Al Rais

Branch Management continued

Mr S Al Shaali

Mr Y Jaafar

Mr H Kader

Mr S Kaoud

Mr M Mahjoub

Mr F Saeed

Mr O Thoban

Ms A M Yousif

Mr M Zainal

Mr H Kashwani

Mr M Alnuaimi

Mr S Alhammadi

Mr A Al Shuweihi

Mr H Tamimi

Mr K Al Hosani

Bank Branches' Network

Abu Dhabi (Central Area)

1. Najda Street
2. Khalidiya Ladies
3. Muroor
4. Abu Dhabi Municipality
5. Al Wahda Mall
6. Abu Dhabi Police GHQ
7. Sheikh Zayed Main Branch
8. Abu Dhabi Chamber of Commerce Cash Office

Abu Dhabi (Corniche Area)

9. Khalidiya Gents
10. Sheikh Khalifa Energy Complex
11. Al Bateen
12. Abu Dhabi Immigration
13. Abu Dhabi Shari'a Court
14. ADIA Cash Office
15. Marina Mall
16. Nation Towers
17. Abu Dhabi Judicial Department Branch

Abu Dhabi (East + West Area)

18. Baniyas
19. Mussafah
20. Binal Jesrain
21. Abu Dhabi Airport
22. Al Rahba
23. Dalma Mall
24. Khalifa A City
25. Bawabat Al Sharq Mall
26. Shahama
27. Deerfields Townsquare
28. Yas Mall
29. Madinat Zayed
30. Madinat Zayed Immigration Cash Office
31. Al Sila
32. Al Marfaa
33. Delma Island
34. Liwa
35. Gayathi
36. Ruwais Mall
37. Al Shamkha Mall

Al Ain

38. Al Ain
39. Al Jimi
40. Sinayia
41. Al Yahar
42. Al Murabbaa
43. Al Ain Municipality
44. Al Wagan
45. Hili Mall
46. Oud Al Tobba Ladies
47. Al Bawadi Mall
48. Al Ain Court Cash Office
49. Al Tawaam Branch

Dubai (Bur Dubai Area)

50. Sheikh Zayed Road
51. Dubai Mall
52. Arenco - DIC
53. Jumeirah
54. Al Barsha
55. JAFZA
56. Emaar Square

Dubai (Deira Area)

57. Deira
58. Al Twar Branch
59. Nad Al Hamar
60. Al Mamzar
61. Al Regah
62. Al Warqaa
63. Al Mohaisnah
64. DAFZA

North Emirates

65. Sharjah
66. Ajman
67. Wasit Street
68. Umm Al Qaiwain
69. Sahara Centre
70. Al Buhairah
71. Al Qarayen
72. Fujairah
73. Ras Al Khaimah
74. Dibba
75. Khor Fakkan
76. Al Dhaid
77. RAK Airport Road
78. Kalba
79. Al Hamra Mall
80. Fujairah City Centre

ADIB Express

- Emaar Business Park - Dubai
- Burjuman - Dubai
- Arabian Ranches - Dubai
- World Trade Center - Abu Dhabi
- Al Wahda Mall - Abu Dhabi

ADIB Securities

Our stock-brokerage subsidiary, ADIB Securities, retained its position as the leading Sharia Compliant brokerage firm in the UAE with a 6.4% market share.

ADIB Securities registered a net profit of AED 14.0 million in 2018. It continued to attract new customers winning their trust through its state-of-art trading platforms and superb client services. It had also added Saudi Tadawal as well the U.S. equity markets to its trading platform thus setting the stage to offer its clients a diversified access to trade in other regional and global stock markets.

Abridged Balance Sheet

	31 December	
	2017 AED Million	**2018 AED Million**
ASSETS		
Bank balances and cash	598.1	**656.5**
Account recievables and prepayments	227.4	**163.9**
Property and equipment	0.8	**0.4**
Total Assets	826.3	**820.8**
LIABILITIES		
Accounts payable and accruals	10.3	**23.5**
	10.3	**23.5**
EQUITY		
Share capital	30.0	**30.0**
Unconditional shareholder advance	600.0	**600.0**
Retained earnings and other reserves	186.0	**167.2**
	816.0	**797.2**
Total Liabilities and Equity	826.3	**820.8**

The above financial results are consoldiated line by line in the Abu Dhabi Islamic Bank's consolidated financial statements as required by IFRS10-Consolidated Financial Statements

Abridged Income Statement

	For the year ended 31 December	
	2017 AED Million	**2018 AED Million**
Commission Income	24.6	**11.1**
Other revenues	18.8	**18.8**
Total Revenues	43.3	**29.8**
Total expenses	(15.9)	**(15.8)**
Profit for the year	27.4	**14.0**

Non-Financial Services Business Review

Burooj Properties

The repositioning of ADIB's Real Estate subsidiary, Burooj Properties, to better reflect the Group's investment and development property portfolio, continued in 2018. With the downturn in some aspects of the Real Estate market in the UAE we deemed it prudent to increase the impairments relating to Burooj's historical activities by a further AED 61.8 Mn in 2018.

Abridged Balance Sheet

	31 December	
	2017 AED Million	**2018 AED Million**
ASSETS		
Bank balances and cash	259.8	**279.7**
Investment in associates	100.1	**-**
Investment in properties	1,930.8	**1,864.2**
Investments in equities	14.0	**8.8**
Advance against purchase of properties	53.1	**-**
Property and equipment	136.5	**133.6**
Other receiavbles	27.9	**144.2**
Total Assets	2,522.2	**2,430.4**
LIABILITIES		
Murabaha payable	1,997.5	**1,996.6**
Other payables	1,045.0	**1,019.0**
	3,042.5	**3,015.5**
EQUITY		
Share capital	500.0	**500.0**
Retained earnings and other reserves	(1,020.3)	**(1,085.1)**
	(520.3)	**(585.1)**
Total Liabilities and Equity	2,522.2	**2,430.4**

The above financial results are consoldiated line by line in the Abu Dhabi Islamic Bank's consolidated financial statements as required by *IFRS10-Consolidated Financial Statements*

Abridged Income Statement

	For the year ended 31 December	
	2017 AED Million	**2018 AED Million**
Investment revenues	42.7	**14.1**
Other revenues	1.1	**5.4**
Total Revenues	43.8	**19.5**
Total expenses	(20.6)	**(17.7)**
Provision for impairment	(2.0)	**(61.8)**
	(22.6)	**(79.6)**
Profit (Loss) for the year	21.2	**(60.1)**

Non-Financial Services Business Review continued

MPM Properties

MPM Properties, a multi-disciplined real estate service provider, became a stand-alone subsidiary of the Bank in2014. Since then MPM has grown to become a leading property service provider with a primary focus of providing quality service on par with International Standards to its customers, spread across wide spectrum of business lines encompassing Property Management, Valuation, Advisory and Consultancy, Sales and Leasing. MPM's new business model, driven by quality staff and under the Leadership of Mr. Khalid Ali Al Mansoori, has ensured that it has emerged as one of the go to property service company for clients from Government entities, leading developers, and the private offices of his Highness and Excellency's across the UAE. MPM has secured numerous instructions, which include, managing large portfolios for prominent families in the UAE, advising on over AED200 billion worth of real estate, selling and leasing properties for top developers and valuing real estate for number of banks and large real estate asset owners within the UAE. On the back of this MPM was awarded the "Best Property Consultancy - Abu Dhabi", "Best Real Estate Agency – Abu Dhabi", "Property Consultancy Award winner – Dubai" and "Letting Agency Award winner – Abu Dhabi" by Arabian Property Awards.

Abridged Balance Sheet

	31 December	
	2017 AED Million	**2018 AED Million**
ASSETS		
Bank balances and cash	34.1	**35.6**
Property and equipment	6.4	**5.7**
Accounts receivables and prepayments	69.7	**71.8**
Total Assets	110.2	**113.0**
LIABILITIES		
Accounts payables and accruals	68.0	**68.8**
	68.0	**68.8**
EQUITY		
Share capital	1.0	**1.0**
Retained earnings and other reserves	41.3	**43.2**
	42.3	**44.2**
Total Liabilities and Equity	110.2	**113.0**

The above financial results are consoldiated line by line in the Abu Dhabi Islamic Bank's consolidated financial statements as required by IFRS10-Consolidated Financial Statements

Abridged Income Statement

	For the year ended 31 December	
	2017 AED Million	**2018 AED Million**
Fees and commissions	67.9	**62.5**
Total Revenues	67.9	**62.5**
Total expenses	(59.1)	**(60.5)**
Profit for the year	8.8	**2.0**

Corporate Social Responsibility

ADIB took a leading proactive role in sustainable development to ensure that all our stakeholders are mutually benefitting. This was recognized when ADIB received the Dubai Chamber of Commerce and Industry CSR Label.

For over 20 years ADIB has pioneered Islamic banking within the UAE. Our commitment towards being the leading Islamic Finance organization that operates in an ethically responsible manner stems from our belief that our duties are more than just ensuring economic growth, but also ensuring that we are held accountable to the communities we operate in, through our social and environmental responsibilities.

During 2018, in order to consistently pursue excellence, ADIB took a leading proactive role in sustainable development to ensure that all our stakeholders are mutually benefitting. This was recognized when **ADIB received the Dubai Chamber of Commerce and Industry CSR Label.**

NB: ADIB will be publishing a separate sustainability report for 2018 that contains more details on our sustainable strategy and approach.

Some for our key initiatives:

1. Economic Sustainability

Our customers' trust remains a priority for us. It is very important to understand what our role and responsibilities are to them. We also understand the growing need for sustainability in the broader context of the national economy, which is why in 2018 we pushed for continuous improvement which led to strong and stable financial growth, ensuring economic sustainability. Some of our notable focus areas for improvements in 2018 were:

Sustainable financial performance

Despite challenging market conditions, 2018 marked another successful year for ADIB characterized by improved profitability and a stronger balance sheet. ADIB welcomed its one millionth customer in 2018, nearly double the number it had five years ago.

Customer satisfaction and experience

We are committed to delivering the highest standards of customer satisfaction and engagement. This approach is driven by our strategic priorities: "enhancing customer experience" and " service excellence". These priorities are well-communicated across all our departments, and carry significant weight in our annual performance-management balanced scorecard. We have a dedicated Customer Experience Unit that sets our service excellence strategy by resolving all customer issues, adopting a customer-centric culture, and implementing high service standards.

With over 80 branches and 684 ATM machines, ADIB currently has the 3rd largest retail network in the country. Accessibility and customer convenience has always been a topic of focus at ADIB, which is why we consistently enhance all the delivery channels within our network. We continue to strengthen our on-the-ground presence across the UAE.

Drive towards digitization

Having started our digital transformation strategy, "ADIB Simple", in 2017, it remained a key priority throughout 2018. We are committed to invest and allocate the required resources to drive digital innovation and multichannel transformation of our processes, products and services. Our aim is to increase organisational agility and further enable customers and staff to conduct transactions digitally, and to build world-class IT capabilities.

This strategy has led to various success stories such as:

- The implementation of our new real-time customer feedback system, which enables us to collect real-time data on customer satisfaction, and efficiently solve customer problems in a timely manner.
- Expansion of our Express branch network, the new generation of technology-enabled branches that combine the benefits of digital banking with a highly-personalized customer service.
- The launch of MoneySmart Community, the region's first digital community for personal finance, where people can exchange information and advice with peers and experts.
- A revamp of internet and mobile banking platforms to enable customers to conduct their online banking in a simpler and more intuitive manner across all devices.

2. Social Responsibility

As an ethical bank, our role in the communities we operate in is more than profit making. We have a collective responsibility to serve our local community, our customers, shareholders, employees and all our stakeholders.

Alignment with the Year of Zayed

The UAE President and Ruler of Abu Dhabi, His Highness Sheikh Khalifa bin Zayed Al Nahyan, declared 2018 as the Year of Zayed. ADIB therefore ensured that our 2018 social investment initiatives were in line with the late sheikh Zayed's values and aligned its social responsibility actions with the "Year of Zayed" government initiative.

This led to 100 CSR activities to represent the 100 years of Sheikh Zayed.

Initiative	Achievements
ADIB Ramadan Iftar boxes that incude meals carefully designed to be healthy and nutritious to provide a well-balanced meal for those breaking fast.	• 22,000 iftar boxes distributed • 110 volunteers
ADIB Ramadan Grocery Truck where we donated dry food and nonfood items for needy and gave a choice for people to pick up what they require.	• 29,735 grocery items distributed • 301 grocery items donated through ADIB branches and offices • 29 Volunteers
Plantation initiative across the UAE	• 1,500 trees across the UAE
Financial Education program and roadshows	• 15 University visits • 690 students trained on financial management
Blood Donations	• 1,337 donors • 601, 650ml of blood collected
Visiting People of Determination, Hospitals and the elderly	• 12 visits conducted by ADIB volunteers

Some of the focus areas for 2018 were:

Financial education

We believe that financial education contributes to the future stability of the economy in a positive manner, which is why we always inspire to educate individuals and families at different stages of life about the importance of making informed, thoughtful and beneficial financial decisions. In 2018 ADIB continued its drive for financial education through some of the following activities:

- As the leading advocate for financial education of young people, ADIB's impact reached 690 students across 15 universities in the UAE. Students got a chance to learn how to make smart decisions by learning from industry leaders. These roadshows focused around the areas of budgeting, saving and avoiding debt cycles.
- The bank also regularly reaches out to engage children and their parents with its mascot 'Darhoom,' who motivates them to adopt responsible spending and saving habits.
- In 2018, ADIB launched its "moneysmart" index, the first in-depth study of personal financial health done in the UAE. Through that study, the bank's understanding of the general population's needs grew, which led to the launch of www.moneysmart.ae, the region's first digital community for personal finance, where people can exchange information and advice with peers and experts. The community carries articles, blogs, tips and comments from users and independent experts to provide their knowledge and objective advice.

Empowering youth

Apart from the financial empowerment of youth, ADIB continues to invest in the country's future generation through various activities. One of our notable programs is the ADIB Future Champions leagues. Since its launch the league has expanded nationwide, and now offers thousands of children the opportunity to join a truly competitive tournament annually at professional-class venues. This league attracted the participation of 3005 players, 253 teams from 135 schools, leading to a 7% growth in participation this year.

Community empowerment

We believe that the value we create for our communities is our duty as a responsible citizen. This culture is ingrained not only through our Islamic principles but also from our wish to grow along side a strong and healthy community. To ensure this, ADIB actively forms long-term meaningful partnerships with NGOs and governmental entities through financial and in-kind contributions. ADIB empowered local communities through various initiatives alongside our partners in 2018, including:

- The bank annual blood donation campaign, which is a meaningful way to engage employees and clients to give back to society and save lives. In 2018 a total of 36 campaigns attracted 1,337 registered blood donors who donated 601, 46% higher than the previous year.
- Taking it a step further from creating a women's banking segment, we promoted the health and livelihood of our female customers and employees through our breast cancer awareness campaigns. During 2018 ADIB sponsored the pink caravan event in The Galleria Mall, which attracted 514 attendees with 100% screenings conducted. ADIB also held it's first staff event in Emaar Square achieving 100 check-ups on ADIB premises.

Volunteer program

Our culture and spirit of giving is embedded to our employees through the opportunities we create for them to play active roles in the development of the community. In 2018, 605 ADIB staff volunteered their time and efforts to maximize their positive impact as a team. Our notable initiative for the year were the Iftar food boxes to major mosques, orphanages and taxi companies across the UAE, which received a distribution of 22,000 iftar boxes (a 10% increase when compared to the previous year), and the Grocery truck which distributed 29,735 dry food and non-food items (14% increase compared to the previous year), and gave a choice for people to pick up what they require.

Cultural activities

As the leading Islamic Bank in the UAE we understand the role that history, culture and heritage plays in paving the way for future innovation. We take pride in raising awareness around the areas of Islamic arts and heritage. Some of our notable activities:

- UAE National Day Celebrations
- Zayed Heritage Festival
- Sponsoring Best quran recitation competition at The Ramadan Festival 2018
- Sponsorship of HH Sheikh Zayed quotes initiative
- Swihan Heritage Festival

Caring for our people

ADIB believes that shared value should be created not only for our external stakeholders, but also our internal stakeholders. Our leaders are the people who ensure that our values and cultures manifest themselves in day-to-day business and operations across our organization, enabling ADIB to fulfil its role as an ethically responsible organization. This is why we strive to cultivate the highest degree of excellence and professionalism among all employees.

Learning and development

We provide inclusive training opportunities that focus directly on personal and professional development. This facilitates our employees' continual growth, immersing them in a work environment that offers a cohesive organisational culture and holistic work-life balance. ADIB academy organises thousands of training sessions – digital and in-class – to inform employees of corporate policies and practices, while other programs target specific employment specialities and are tailored to meet the development needs of employees in line with the requirements of their jobs.

Reward and recognition

Our practice of rewarding exceptional work provides positive reinforcement for our people. This, in turn, contributes to a more resilient and results-focused workforce.

Empowering UAE Nationals

We believe that empowering UAE Nationals is a vital element to the overall sustainability and prosperity of the country. We do this through various initiatives, partnerships and programs throughout the year. In 2018 ADIB achieved a 37% representation of Emiratis in our workforce.

Engagement and communication

ADIB is committed to communicate all strategic and operational updates in advance. A key focus of our culture is to ensure employees maintain regular communication with top management through diverse channels and avenues. We have organized lunch sessions with the CEO, where employees can openly share ideas, concerns and challenges. We also have an annual employee engagement survey Soutak, which provides a platform to ensure that all our employees are heard and fairly represented.

Environmental responsibility

Honoring our commitment as a signatory of the Dubai Declaration of Financial Institutions, ADIB consistently pushes towards maintaining sustainable practices throughout our operations. During 2018 we started tracking and monitoring our electricity and water consumption as well as our carbon footprint. This was reported in great detail in our first annual sustainability report published in 2018. Another notable mention is the relocation to our new headquarters which achieved LEED Gold Certification. LEED buildings save energy, water, resources, generate less waste and support human health.

Ethical banking and Islamic Finance

Our push for ethical, responsible and sustainable Islamic finance practices reinforces the strong ties that Islamic Finance has with sustainability and responsible banking practices across the world. The concept of Islamic finance is to offer mutual benefits to the businesses involved, while the concept of sustainability is to offer mutual benefits to all stakeholders involved. Combining our deeply rooted Islamic Shari'a principles with the leading practices in sustainability and responsible banking practices across the world, that are in line with our values, provides ADIB with the added value and mechanism of a robust and Ethical Banking system.


ADIB
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A financial partner you can count on…
…with over 170 branches in 7 countries.
BEST UAE ISLAMIC BANK
Euromoney
BEST OVERALL ISLAMIC RETAIL BANK GLOBALLY
Global Finance Magazine
BEST ISLAMIC DIGITAL BANK
Global Finance Magazine
BEST ISLAMIC BANK IN THE UAE
Global Finance Magazine
BEST ISLAMIC BANK IN THE UAE
EMEA FINANCE
INNOVATION IN ISLAMIC FINANCE
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BEST ISLAMIC BANK IN THE MIDDLE EAST
Euromoney
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Corporate Governance Report

ADIB endeavours to continually upgrade and adopt best practices in the areas of governance, transparency, ethics, management and oversight of risk, audit and compliance.

Effective corporate governance remains central to the culture and business practices of Abu Dhabi Islamic Bank ("ADIB" or "Bank") and its Group companies. ADIB endeavours to continually upgrade and adopt best practices in the areas of governance, transparency, ethics, management and oversight of risk, audit and compliance.

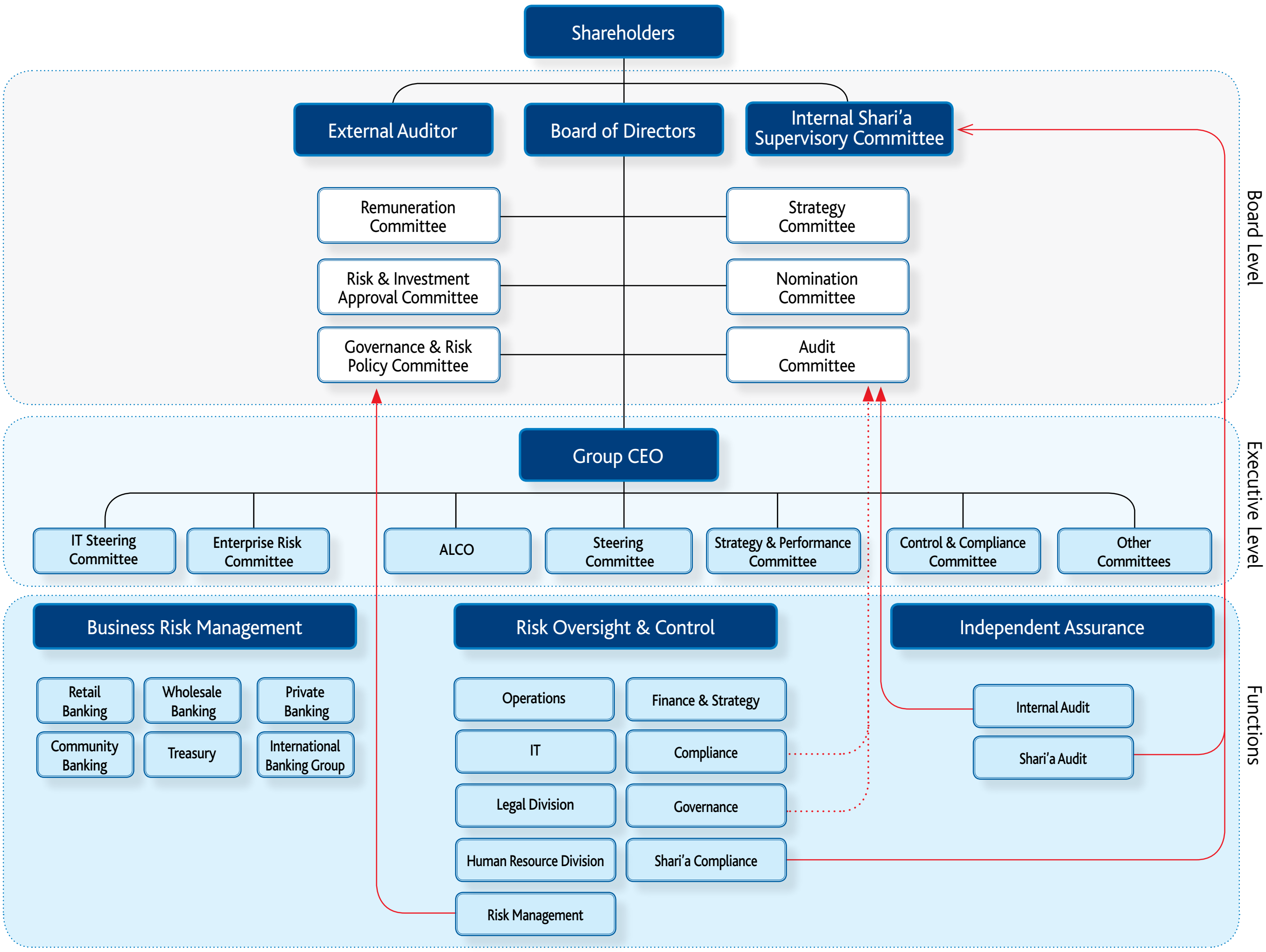
ADIB's overarching objective is to be "a top tier Islamic financial services group" and has committed to the following corporate values in order to achieve this objective:

- "We keep it simple and sensible"
- "We are transparent"
- "We work for mutual benefit"
- "We nurture hospitality and tolerance"
- "We are Shari'a inspired"

Corporate Governance Framework

These values are embedded across the Group through a corporate governance framework that is relevant and proportionate to the scope and size of ADIB's businesses. The framework is built on the principles prescribed by the Basel Committee on Banking Supervision, the Guidelines of the Central Bank of the UAE, and the Standards of Institutional Descipline and Governance of Public Shareholding Companies issued by the Securitiies and Commodities Authority.

The Corporate Governance structure including the Board, Board committees, management committees and various functions are shown in the chart on the following page.



Business Units undertake risks within assigned limits of risk exposure and are responsible and accountable for identifying, assessing and controlling the risks of their business.

Support and Control functions, in close relationship with business units, ensure that the risk in the business units have been appropriately identified and managed.

Internal Audit function independently assesses the effectiveness of the processes created in the first and second lines of defense and provide assuracne to these porcesses. Shari'a Audit function conducts an independent review to provide assuranc with respect to specific types of risks applicable to Islamic financial services.

First Line of Defence

Second Line of Defence

Third Line of Defence

ADIB operates a three lines of defence model which ensures clear delineation of responsibilities between day to day operations, monitoring and oversight as well as independent there assurance. The three lines of defence are:

- Business Units act as the first line of risk exposure defence. These undertake risks within assigned limits of risk exposure and are responsible and accountable for identifiying, assessing in close and controlling ongoing risks of their business.
- Support and the control functions act as the second line of defence. Each of these functions, in close relationship with business units, ensure that the risk of exposure in the business units have been appropriatley identified and managed. The business support and control functions work closely to help define strategy, implement bank's policies and procedures, and collect information to create a Bank-wide view of risks. Shari'a Compliance function at the Group ensures that the Bank's operations are conducted in adherence to applicable Shari'a provisions, as per the fatwa, and policies and procedures approved by the Internal Shari'a Supervisory Committee of ADIB.
- The third line of defence is provided by Internal Audit that independently assesses the effectiveness of the processes created in the first and second lines of defense and provide assuracne to these porcesses. Shari'a Audit function at the Group conducts an independent review to provide assuranc with respect to specific types of risks applicable to Islamic financial services.

The Corporate Governance Framework cuts across four broad levels:

- Board: The Board has the ultimately responsibility for ensuring that an appropriate and effective governance framework is established and maintained to manage and control ADIB's activities.
- Board-level and management committees: The Board delegates authority to committees and establishes standards for the control and governance of the Bank. Committees have responsibilities and authorities as defined in their charters.
- Functions: Individual functions perform business and control activities which are in compliant with all internal policies and external laws and regulations. To ensure effective adherence to overarching Shari'a principles, the Shari'a Compliance and Shari'a Audit functions provide on-going oversight and assurance.
- Individuals: Executive and head of function roles are clearly articulated and allocated to identified individuals. The key executives of ADIB are the Group Chief Executive Officer (Group CEO), Chief of Staff to the Group CEO, Group Chief Financial Officer, Group Chief Risk Officer, Group Chief Operating Officer and the Global Heads Compliance and Internal Audit.

Board of Directors

The Board of Directors of ADIB (the "Board") is responsible for the supervision of the management of the business affairs of the Group (which includes Abu Dhabi Islamic Bank PJSC and its Subsidiaries). The Board of Directors provides leadership in the development and implementation of the Vision and Mission of the Group. The Board has ultimate responsibility for the success of the Group and for delivering sustainable shareholder value within a framework of prudent and effective controls.

The Board carries out the responsibilities and duties set out below either directly or through its committees, currently consisting of the Audit Committee, Nomination Committee, Remuneration Committee, Strategy Committee, Risk & Investment Approval Committee and Governance & Risk Policy Committee.

The Board derives its authority to act from the Bank's Memorandum and Articles of Association and other laws governing companies and Banks in UAE and Emirate of Abu Dhabi. Its responsibilities include:

- Supervision of the management of the business affairs of ADIB.
- Providing leadership in the development and implementation of the group's vision and mission, both within the UAE and as the group expands abroad.
- Establishment and oversight of the Bank's risk management framework, as well as approving the Bank's overall risk appetite and ensuring that business is conducted within this framework.

Independence from Management

The roles of the Chairman and the Group Chief Executive Officer are distinct and separate, with a clear division of responsibilities. In the absence of the Group Chief Executive Officer, the Vice Chairman of the Board performed this role as Acting Chief Executive Officer during 2018.

The Chairman leads the Board and ensures the effective engagement and contribution of all directors. The Chief Executive Officer has responsibility for all ADIB Group businesses, including their strategy, policy and operational management, and he acts in accordance with the authority delegated by the Board.

The Board establishes the rules relating to administrative, financial and employee matters, sets out the requirements for the carrying out of Board business and meetings, and mandates the roles and responsibilities of the Board members.

Selection and Qualification of Board Members

The Group Nomination Committee is responsible for identifying, evaluating and selecting candidates for the Board of Directors. In doing so, it seeks to identify the skills that the members of the Board and Board Committees require in order to discharge their responsibilities effectively, taking into account the Group's risk profile, business operations and business strategy.

Election of Directors

In compliance with the Bank's Articles of Association, the shareholders elected the Board members at the Annual General Meeting held on 21 April 2016, for three years term.

Information, Induction and on-going Development

The Directors receive accurate, timely and clear information on all relevant matters and have access to the advice and services of the Head of Legal & Corporate Secretary who is responsible to the Board for ensuring that Board procedures are followed and applicable rules and regulations complied with.

A formal induction process exists for new Directors joining the Board, including visits to ADIB's major business areas and meetings with other Directors, and key members of senior management. ADIB provides any professional development that Directors consider necessary to assist them in carrying out their duties. The directors are also updated about the new regulations and standards, developments in banking business, and the changes in information technology and information security.

Directors' and Board Assessments

During 2018 ADIB has internally conducted Board self-assessment exercise that includes self-assessment of the Board by each Board member, each board member's assessment by the Chairman, Board committees' self-assessment and Chairman's self-assessment. The results have been presented to the Board Nomination Committee to share with the Board.

Composition of the Board and Board Committees

In 2018 the Board comprised the Chairman, Vice Chairman and five other members. Majority of the Board members are UAE nationals, as required by the Federal Commercial Companies Law and the Bank's Articles of Association. The Board Committees comprise Directors and external independent subject matter experts, with a diversity of backgrounds aimed at ensuring that no undue reliance is placed on any one individual.

The Board held five meetings during 2018. The detail of Board membership and attendance is as below:

Name	Position	Status	No. of meetings attended
HE Jawaan Awaidha Suhail Al Khaili	Chairman	Non-Executive	4
Khamis Mohamed Buharoon	Vice Chairman	Executive Director	5
Juma Khamis Mugheer Al Khaili	Member	Independent	5
Khalifa Matar Al Mheiri	Member	Independent	5
Abdulla Bin Aqueeda Al Muhairi	Member	Independent	5
Ragheed Najeeb Shanti	Member	Non-Executive	5
Dr Sami Ali Al Amri	Member	Independent	5

The quorum for a Board meeting was by the majority of Board members. The Board made decisions by majority vote. However, under the circumstances where the members present in the meeting are equally divided, the Chairman of the Board or his deputy has the casting vote. Any matter requiring decision by unanimous vote is dealt with accordingly.

Board Committees

The following Board Committees continued to work effectively and independently during 2018.

- Group Strategy Committee;
- Group Audit Committee;
- Group Governance & Risk Policy Committee;
- Group Risk and Investment Approval Committee;
- Group Remuneration Committee; and
- Group Nomination Committee.

Group Strategy Committee

The Group Strategy Committee guides ADIB's Executive Management in the execution of the Group's strategic objectives and business strategy, conducts periodic reviews in the achievement thereof and directs corrective actions wherever required. In addition, this Committee also acts as a conduit between the Board and senior management on business issues. The Committee has following major responsibilities:

i. Review, consider, discuss and challenge the recommendations submitted by the executive management with regard to business strategy, budgets and annual plans;
ii. Work with management to make recommendations to the Board on the business strategy and long term strategic objectives of ADIB, including all subsidiaries and associates;
iii. Review the financial performance of each business group on a quarterly basis and make recommendations should action be required;
iv. Review and recommend capital allocation within the ADIB Group to the Board;
v. Review the organisational structure of ADIB and make recommendations to the Board on any changes deemed necessary; and
vi. Review proposals from management for the establishment or disposal of branches, subsidiaries and new joint ventures, referring them to the Risk and Investment Approval Committee for final decision.

The Group Strategy Committee held five meetings during 2018. The detail of membership and their attendance is as below:

Name	Position	No. of meetings attended
Dr Sami Ali Al Amri	Chairman	5
Khalifa Matar Al Mheiri	Member	5
Khamis Mohamed Buharoon	Member	5
Dr Ali Al Khouri - Non Board member	Subject matter expert*	1

*Dr Ali Al Khouri is the subject matter expert for digital transformation project of the Bank.

Group Audit Committee

The Group Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to auditing and financial reporting. Internal Audit, Compliance and Governance functions of the Group functionally report to the Committee. The Committee has the following major responsibilities:

i. Assist the Board in fulfilling its oversight responsibility relating to the integrity of Group's consolidated financial statements and financial reporting process;
ii. Review the financial and internal control systems, quality assurance and risk management framework;
iii. Review the performance of the internal audit function;
iv. Review the internal controls over financial reporting and annual independent audit of the Group's consolidated financial statements;
v. Recommend to the Board the engagement of the external auditors and evaluation of their qualifications, independence and performance; and
vi. Ensure compliance by the Group with legal and regulatory requirements as pertaining to its business activities.

The Group Audit Committee held five meetings during 2018. The detail of membership and their attendance is as below:

Name	Position	No. of meetings attended
Abdulla Bin Aqueeda Al Muhairi	Chairman	4
Khamis Mohamed Buharoon	Member	5
Dr Sami Ali Al Amri	Member	5
Munther Dajani * - Non Board member	Subject matter expert	3

*Mr. Munther Dajani joined the Committee on 12 July 2018

Group Governance and Risk Policy Committee

The Group Governance and Risk Policy Committee assists the Board in fulfilling its oversight responsibilities in respect of the following:

i. Review the risk profile of the Group at the enterprise level and recommendations on appropriate calibration of this profile, in line with the applicable regulatory standards, rating consideration and business strategy; and
ii. Review of the corporate governance and risk management frameworks for the Group and recommend the same to the Board, in alignment with the requirements of the Basel Committee on Banking Supervision, and in compliance with all local regulatory requirements.

The Committee has the following major responsibilities:

i. Review and recommend the following for approval by the Board on an annual basis or more frequently as circumstances dictate:
    a. Risk strategy covering Risk appetite, Risk management framework encapsulating risk infrastructure, framework for risk policies and procedures, adequacy of risk staffing and implementation plan. In addition, any major changes in the risk rating approaches followed by the Group will also be reviewed and recommended to the Board.
    b. Portfolio limits relating to the key risk exposures undertaken by the Bank.
    c. Risk and compliance framework and overall control environment.
ii. Monitor the alignment of ADIB's risk profile with its approved risk strategy and risk appetite.
iii. Receive regular reports from the Group Chief Risk Officer on the Group's major risk exposure, monitor significant financial and other risk exposures; and review the steps taken by the management to control such risks within the approved risk appetite of the Group.
iv. Review annual Internal Capital Adequacy Assessment Process (ICAAP) plan and recommend its approval to the Board.
v. Review and recommend Corporate Governance framework encapsulating the structure of the Board Subcommittees, roles and responsibilities of Board and Board Subcommittees.
vi. Review and recommend Key risk policies including credit risk, market risk, trading risk, liquidity risk, and operational risk.
vii. Review and recommend to the Board other policies including Business Continuity Management, Disaster Recovery, Asset Liability Management, Anti Money Laundering, and impairment or any other policy identified by the Committee.
viii. Review and recommend the annual funding and liquidity plan (including contingency funding plan).
ix. Ensure through Group Chief Risk Officer that the common standards, policies, measurement and reporting of risks at the enterprise level.
x. Review and recommend the Delegation of Authority matrix of the Group relating to the credit for approval by the Board.
xi. Review and confirm to the Board at least annually the effectiveness of the risk management Organisation, and adequacy of management's resources, infrastructure and control framework to implement Group's approved risk policies and methodologies.
xii. Review reports from regulatory agencies or internal audit relating to risk issues, and monitor management's responses.

The Committee gets regular updates and reports from the Group Risk Management function and the Enterprise Risk Committee (ERC). The ERC ensures that the Bank's enterprise risk management framework, related policies, systems and practices are fully aligned with the Board approved strategy and risk appetite. The ERC also ensures that risk governance of the Bank is sufficiently robust to meet the needs of the business.

The Group Governance and Risk Policy Committee held five meetings during 2018. The detail of membership and their attendance is as below:

Name	Position	No. of meetings attended
Khalifa Matar Al Mheiri	Chairman	5
Juma Khamis Mugheer Al Khaili	Member	4
Dr Sami Ali Al Amri	Member	5
Abdulla Bin Aqueeda Al Muhairi	Member	3
Brian Belcher, Group Chief Risk Officer	Non-voting member	4

Group Risk and Investment Approval Committee

The Group Risk and Investment Approval Committee considers and approves ADIB's risk exposures, high value transactions and major items of capital expenditure. In addition, this Committee is also responsible for monitoring credit portfolio quality and provisions. The Committee has the following major responsibilities:

i. Review and approve credit and other risk exposures;
ii. Review the credit portfolio on a periodic basis in order to assess alignment with the approved credit strategy and risk appetite of the Group;
iii. Review actions undertaken by management with regard to remedial activities;
iv. Monitor general and specific provisions;
v. Approve significant and high value transactions with regard to acquisitions and divestures, new business initiatives and proprietary investments, international business and merger and acquisitions;
vi. Review and recommend to the Board approval for those investment proposals requiring such approval due to regulations;
vii. Approve high value transactions in respect of capital expenditure, IT projects and procurement of equipment and materials for the Bank's operations; and
viii. Review and make recommendations to the Board on any material non-credit related party transactions.

The Group Risk and Investment Approval Committee held thirty four meetings during 2018. The detail of membership and their attendance is as below:

Name	Position	No. of meetings attended
HE Jawaan Awaidha Suhail Al Khaili	Chairman	20
Juma Khamis Mugheer Al Khaili	Vice Chairman	26
Khalifa Matar Al Mheiri	Member	30
Ragheed Najeeb Shanti	Member	33

Group Remuneration Committee

The Group Remuneration Committee assists the Board in fulfilling its oversight responsibilities in respect of the following for the Group:

i. Review the selection criteria and number of executive and employee positions required by ADIB; approve the overall manpower of ADIB based on reports submitted by the Chief Executive Officer, taking into consideration the advice of an independent and recognized consulting firm; and
ii. Review on an annual basis the policy for the remuneration, benefits, incentives and salaries of all ADIB employees, including Bank and non-Bank subsidiaries and affiliates, as submitted by the Chief Executive Officer, taking into consideration the advice of an independent and recognized consulting firm.

The Group Remuneration Committee held four meetings during 2018. The detail of membership and their attendance is as below:

Name	Position	No. of meetings attended
Juma Khamis Mugheer Al Khaili	Chairman	4
Dr Sami Ali Al Amri	Member	4
Khalifa Matar Al Mheiri	Member	4
Martin Roland Corfe *, Global Head of Human Resources	Non-voting member	2

* Martin Roland Corfe joined that Bank on 24 June 2018

Group Nomination Committee

The Group Nomination Committee assists the Board in fulfilling its oversight responsibilities in respect of the following:

i. Identify and nominate, for approval of the Board, candidates for appointment to the Board;
ii. Recommend on succession plans for Directors;
iii. Input on renewal of the terms of office of non-executive Directors;
iv. Assist with membership of Board committees, in consultation with the Board's Chairman and the Chairmen of such committees;
v. Guide on matters relating to the continuation in office of any Director at any time;
vi. Recommend on appointments and re-appointments to the boards of major subsidiaries and controlled affiliated companies;
vii. Ensure the independence of the independent directors and any qualified subject matter expert appointed to a Board Sub Committee; and
viii. Regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board and make recommendations to the Board with regard to any changes.

The Group Nomination Committee held three meetings during 2018. The detail of membership and their attendance is as below:

Name	Position	No. of meetings attended
HE Jawaan Awaidha Suhail Al Khaili	Chairman	2
Juma Khamis Mugheer Al Khaili	Member	2
Dr Sami Ali Al Amri	Member	3

Directors' remuneration

During 2018, AED 4.9 million was paid to Board of Directors as directors' remuneration pertaining to the year ended 31 December 2017, after the approval by shareholders in the Annual General Assembly held on 21 March 2018.
In addition Board members also received by way of an attendance fee of AED 3,000 for every Board Committee meeting attended.

Relations with Shareholders

In line with its values, ADIB applies high standards of transparency and disclosure. Relevant financial and non-financial information is communicated to shareholders, customers, regulators, employees and other stakeholders timeously, through ADIB's website, via Abu Dhabi Securities Market (ADX) and various other mechanisms.

ADIB also communicates with shareholders through the Annual Report and by providing information at the General Assembly Meeting. Shareholders are given the opportunity to ask questions at the General Assembly Meeting. The last General Assembly Meeting of the shareholders was held on 19 August 2018.

Executive management also holds regular meetings with and makes presentations to institutional investors. In addition to this, individual shareholders can raise matters relating to their shareholdings and the business of ADIB at any time during the year.

The Group maintains an Investor Relations section on its website that provides extensive information about the Group's Corporate Governance structure and other related information.

Changes in Ownership limit of the Bank

During the year Executive Council of Emirates of Abu Dhabi has approved ADIB's request to allow non – UAE nationals to own ADIB's shares up to the limit of 25% of ADIB share capital as per Article 7 of the Bank's Articles of Association. Accordingly ADIB Board of Directors, in its meeting of 11th November 2018, decided to implement the said Article effective 19th November 2018.

General Assembly Meeting - 21 March 2018

The General Assembly Meeting of the shareholders was conducted on 21 March 2018, wherein the following matters were discussed and approved:

1. The Board of Directors' Report on the Bank's activities and financial statements for the year ended 31 December 2017;
2. The Report of the Internal Shari'a Supervisory Committee of ADIB on the Bank's activities for the year ended 31 December 2017;
3. External Auditor's report for the year ended 31 December 2017;
4. The audited Balance Sheet and Profit & Loss account for the year ended 31 December 2017;
5. To consider the proposal of the Board of Directors to distribute cash dividends of 28.87 fills per share to the shareholders from the year 2017 profits;
6. To consider the proposal of Board members remuneration for the year ended 31 December 2017;
7. To discharge the Board of Directors from liability for their work during the year ended 31 December 2017;
8. To discharge the External Auditors from liability for their work during the year ended 31 December 2017;
9. Appointment of External Auditors for the year 2018 and determination of their fees; and
10. Appointment of Shari'a Board for one fiscal year.

General Assembly Meeting - 19 August 2018

A General Assembly Meeting of the shareholders was conducted on 19 August 2018, wherein the following matters were discussed and approved:

1. Increase the bank's issued share capital by an amount of AED 464 million distributed over 464 million ordinary shares with a nominal value of AED 1 (one UAE dirham) per share plus a premium of AED 1.16 per share, whereby the total value of the subscription rights issue is in the amount of AED 1 Billion; the shareholders shall have a priority right to subscribe to the shares of the increase in capital, whereas the remaining shares, if any, shall be distributed, to the shareholders who applied for more than their percentage of shares after obtaining the necessary regulatory authorities approval.
2. Issuing Shari'a compliant additional tier 1 capital instruments (the "Tier 1 Capital Instruments") with an aggregate face amount of US$ 750 Million (seven hundred and fifty million United States of America dollars) (the "Tier 1 Capital Instruments") and enter into related agreements for the purpose of strengthening the Bank's capital adequacy ratio. The Tier 1 Capital Instruments shall include the terms and conditions required by the Central Bank of the United Arab Emirates for additional tier 1 capital.
3. Procure the redemption of the US$ 1,000,000,000 (one billion United States of America dollars) additional Tier 1 capital certificates (the "Existing Additional Tier 1 Certificates") of ADIB Capital Invest 1 Limited issued on 19 November 2012 for which the first call date is 16 October 2018. Upon completion of the redemption, the Bank will have redeemed all of the US$ 1,000,000,000 (one billion United States of America dollars) face amount of the Existing Additional Tier 1 Certificates.
4. Amending the text of Article number (6) from ADIB Articles of Association to read as follows: "the authorized share capital of the Company is (AED 4,000,000,000) four billion U.A.E. Dirhams and the issued share capital is (3,632,000,000) three billion six hundred and thirty-two million U.A.E. dirhams divided into three billion six hundred thirty two million (3,632,000,000) shares, all of which are fully paid cash shares with a nominal value of one UAE dirham (AED 1) per share".
5. Authorising the Bank's Board of Directors and/or any Committee and/or any person authorized by the Bank's Board of Directors to take the necessary procedures to implement the above mentioned resolutions in accordance with the applicable laws and regulations, after obtaining the approval of the regulatory authorities.

Internal Shari'a Supervisory Committee of ADIB

The members of the Internal Shari'a Supervisory Committee of ADIB were appointed in the General Assembly Meeting held on 21 March 2018 in compliance with the Bank's Article of Association.

The Internal Shari'a Supervisory Committee of ADIB, whose members are not members of the ADIB Board, has a term of one year and all members are required to form a quorum, whether by principal or by proxy. It has the following mandate:

- It issues Fatwas pertaining to the ADIB Group's activities at the request of the executive management or Board. It also supervises and controls the validity of ADIB's activities to ensure that they comply with principles and rulings of the Islamic Shari'a, and provides its recommendations;
- It has the right to submit written objections to the Board of Directors with respect to any of ADIB's activities which it considers do not comply with any of the principles and rulings of the Islamic Shari'a. In addition, it reviews all forms of contracts and agreements relating to any of ADIB's business and products to ensure their compliance with Islamic principles; and
- It has the right to review, at any time, ADIB's books, records and documents, and request any information it may deem necessary. In the event of its inability to discharge its duties, it will report this formally to the Higher Shari'a Authority in the UAE.

The members of the Internal Shari'a Supervisory Committee of ADIB held four meetings during 2018. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
Sheikh Mohamed Taqi Uthmani	Chairman	2
Prof. Jasem Ali Salem Al Shamsi	Vice Chairman	4
Dr Nizam Ya'qoubi	Member	3
Dr Muhamed Elqari	Member	4
Sheikh Issam Mohammed Ishaq	Member	4

Executive Management

The Acting Chief Executive Officer is supported by executive management including Chief of Staff to the Group CEO, Group Chief Risk Officer, Group Chief Financial Officer, Group Chief Operating Officer, the Global Heads Compliance and Internal Audit, and various management committees. ADIB has following management committees:

a) Steering Committee
b) Strategy and Performance Committee
c) Enterprise Risk Committee
d) Control and Compliance Committee
e) Asset and Liability Management Committee
f) IT Steering Committee
g) Digital Transformation Steering Committee
h) Corporate Social Responsibility Council
i) Other Management Committees

Risk Management Framework

ADIB has established a comprehensive risk management framework owned by the Group Chief Risk Officer who reports to the Board's Group Governance and Risk Policy Committee. He is also member of the Enterprise Risk Committee and responsible for the management of all risks including credit, market, and operational risks. The Board sets the tone from the top by means of an articulated risk culture, principles and appetite. The Risk management and Internal control infrastructure is reviewed an ongoing basis at management and Board levels. Additional details of ADIB's approach to risk management are given in note 42 to the Financial Statements.

Internal Control

The Board is responsible for ADIB's system of internal control. It ensures that management maintains a system of internal control that provides effective and efficient operations, internal financial controls and compliance with laws and regulations. The Board also ensures that internal controls assess, manage and, where appropriate, mitigate against risk. The internal control system is designed to manage, but not eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against the risk of material misstatement, fraud or losses. ADIB, through its training and management standards and procedures, has developed a disciplined and constructive control environment in which all employees understand their roles and obligations.

ADIB's system of internal control includes:

- An organisational structure with clearly defined authority limits and reporting mechanisms to senior levels of management and the Board;
- A Risk Management function with responsibility for ensuring that risks are identified, assessed and managed throughout ADIB;
- A set of policies and guidelines relating to credit risk management, asset and liability management, compliance, operational risk management and business continuity planning;
- An annual budgeting and monthly financial reporting system for all Group business units, which enables progress against plans to be monitored, trends to be evaluated and variances to be acted upon;
- An Internal Audit function to evaluate the adequacy and effectiveness of governance, risk and control systems, and to review the management's compliance with policies and procedures; and
- A Group level Control and Compliance Committee that provides oversight on the operational risk and compliance to regulations, laws, policies and procedures and ensures the implementation of a strong internal control framework within ADIB Group. The Committee also ensures that the Group internal control framework is robust and supports effective and efficient management of compliance, Anti Money Laundering and operational risk and escalates all material issues to the Enterprise Risk Committee, the Steering Committee, and the Audit Committee.

The effectiveness of the ADIB internal control system is reviewed regularly by the Board and the Audit Committee, which receive regular reports on significant risks facing the business and how they are being controlled. The Board received a number of reports from Internal Audit and the Group Audit Committee during the year under review and has received confirmation that management has taken, or is taking, the necessary action to remedy any failings or weaknesses identified in these reports.

In addition, external auditors present to the Group Audit Committee a series of reports that include details of any significant internal control matters which they identified. The system of internal controls of the Group is also subject to regulatory oversight by the UAE Central Bank.

External Auditors

The Group Audit Committee undertakes an annual evaluation to assess the independence and objectivity of the external auditors and the effectiveness of the external audit process. The Group Audit Committee is also responsible for making recommendations to the Board on the appointment, reappointment, remuneration and removal of the external auditors. The Group Audit Committee also carries out a review of all non-audit services provided by the external auditors, in line with ADIB's policy to ensure external auditor independence.

The shareholders approved the appointment of Ernst & Young as the external auditors of ADIB for 2018 at the General Assembly Meeting held on 21 March 2018.

Sustainability Report

During the year the Bank has issued its first Sustainability Report for the year 2017. The report reflects the work we have done to enhance all aspects of our sustainability performance and governance, whether it is social, environmental, operational or financial. The report has been prepared in accordance with the GRI Standards: Core option. It also refers to other guidelines, including the GRI G4 Financial Services Sector Disclosures and the United Nations Global Compact (UNGC) principles, which regulate sustainable business practices globally. The report is available on ADIB's website.

ADIB is one of 11 financial institutions in the UAE to have signed the "Dubai Declaration of Financial Institutions in the United Arab Emirates on Sustainable Finance." Our participation in this declaration is testimony to our commitment to align the bank's activities with the UAE Vision 2021, the UAE Government's commitment to the Paris Climate Agreement, the United Nations' Sustainable Development Goals (UNSDGs) and the UAE Green Agenda 2015-2030.

Consolidated Financial Statements

Contents

Board of Directors' Report

Year ended 31 December 2018

The Board of Directors have pleasure in submitting their report together with the consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries (collectively known as the "the Group") for the year ended 31 December 2018.

Incorporation and registered office

The Bank was incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE), as a public joint stock company with limited liability, in accordance with the provisions and applicable requirements of the laws of the UAE and the Amiri Decree No. 9 of 1997.

Principal activity

The activities of the Bank are conducted in accordance with Islamic Shari'a, which prohibits usury as determined by the Fatwa and Shari'a Supervisory Board of the Bank, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), general principles of the Shari'a as determined by the Group's Fatwa and Shari'a Supervisory Board and applicable requirements of the laws of the UAE.

Financial commentary

The Group net profit reached a record AED 2,500.8 million (2017: AED 2,300.1 million) for 2018 up 8.7%. The financial highlights of the full year results are as follows:

- Group net revenue (total operating income net of distribution to depositors and sukuk holders) for 2018 was AED 5,769.5 million (2017: AED 5,632.3 million) increased by 2.4%.
- Group operating profit ("margin") for 2018 increased by 0.1% to reach at AED 3,125.7 million (2017: AED 3,123.1 million).
- Total provisions for impairment for 2018 were AED 620.1 million (2017: AED 790.4 million).
- Group net profit for 2018 was AED 2,500.8 million (2017: AED 2,300.1 million) up 8.7%.
- Group earnings per share increased to AED 0.637 compared to AED 0.592 in 2017.
- Total assets as of 31 December 2018 were AED 125.2 billion (2017: AED 123.3 billion).
- Net customer financing (murabaha, ijara and other Islamic financing) as of 31 December 2018 was AED 78.7 billion (2017: AED 76.5 billion).
- Customer deposits as of 31 December 2018 were AED 100.4 billion (2017: AED 100.0 billion).

Dividends and proposed appropriations

The Board of Directors has recommended a cash dividend of 27.38% and the following appropriations from retained earnings:

	AED '000
• Transfer to general reserves	(264,380)
• Proposed dividends to charity for the year ended 31 December 2018	(31,000)
• Proposed cash dividend to shareholders for the year ended 31 December 2018	(994,313)
• Profit paid on Tier 1 sukuk – Listed (first issue) during the year	(234,158)
• Profit paid on Tier 1 sukuk – Government of Abu Dhabi during the year	(91,518)

Board of Directors' Report continued

Year ended 31 December 2018

Board of Directors

The directors during the year were as follows:

1.	H.E. Jawaan Awaidha Suhail Al Khaili	Chairman
2.	Khamis Mohamed Buharoon	Vice Chairman & Acting Chief Executive Officer
3.	Juma Khamis Mugheer Al Khaili	Board Member
4.	Ragheed Najeeb Shanti	Board Member
5.	Dr. Sami Ali Al Amri	Board Member
6.	Abdulla Bin Aqeeda Al Muhairi	Board Member
7.	Khalifa Matar Al Mheiri	Board Member

On behalf of the Board of Directors
H.E. Jawaan Awaidha Suhail Al Khaili
Chairman

04 February 2019
Abu Dhabi

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Independent Auditors' Report to the Shareholders of Abu Dhabi Islamic Bank PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Abu Dhabi Islamic Bank PJSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRS').

Basis of our opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Provision for impairment of financing assets
At 31 December 2018, gross financing assets amounted to AED 81,558,897 thousand against which provisions for impairment amounting to AED 2,882,250 thousand were recorded (see Notes 17 & 18 to the consolidated financial statements). Due to the inherently judgmental nature of the computation of expected credit losses ("ECL") for financing receivables, there is a risk that the amount of ECL may be misstated.

On adoption, the Group has applied the requirement of IFRS 9 retrospectively without restating the comparatives. The difference between previously reported carrying amount of financing assets as of 31 December 2017 and new carrying amount as of 1 January 2018, mainly arising from impairment, has been recognised in opening retained earnings.

Key areas of judgement include:
1. The identification of exposures with a significant deterioration in credit quality.
2. Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc.
3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model.

How the matter was addressed during our audit:
1. We assessed the modeling techniques and methodology against the requirement of IFRS 9.
2. We tested the data, both current and historical, used in determining the ECL.
3. We tested the expected credit loss models including build and validation of models and reviewed the governance surrounding such models.
4. We examined the individual assessment carried out by the management over and above the model.
5. We tested the material modelling assumptions in addition to any overlays.
6. We examined a sample of exposures and performed procedures to determine whether significant increase in credit risk has been identified on a timely basis.
7. We reperformed the ECL computation for a sample of Islamic credit facilities.
8. We assessed the accuracy of disclosure in the consolidated financial statements.

Report on the Audit of the Consolidated Financial Statements continued

Other information
Other information consists of the information included in the Annual Report and Board of Directors report, other than the consolidated financial statements and our auditor's report thereon. We obtained the Board of Directors Report prior to the date of our audit report, and we expect to obtain the other sections of the Annual Report after the date of our auditor's opinion. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Report on the Audit of the Consolidated Financial Statements continued

Auditor's responsibilities for the audit of the consolidated financial statements continued
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

(i.) we have obtained all the information and explanations we considered necessary for the purposes of our audit;

(ii.) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015, and the Memorandum and Articles of Association of the Bank;

(iii.) the Group has maintained proper books of account;

(iv.) the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;

(v.) investments in shares and stocks are included in note 20 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2018;

(vi.) note 40 reflects material related party transactions and the terms under which they were conducted;

(vii.) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2018, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would have a material impact on its activities or its consolidated financial position as at 31 December 2018; and

(viii.) note 44 reflects the social contributions made during the year.

Signed by
Raed Ahmad
Partner
Ernst & Young
Registration No. 811

04 February 2019
Abu Dhabi

Report of
ADIB's Internal Shari'a Supervisory Committee (the "Committee")

To the General Assembly Meeting of the ADIB's Shareholders
For the financial year ending December 31st, 2018

In the name of Allah, the most Beneficent, the most Merciful
All Praises are due to Allah, Lord of all the worlds and may peace and blessings be upon our Messenger Mohammed, his Family and his Companions.

To the shareholders of Abu Dhabi Islamic Bank ("ADIB"):
May the peace, mercy and blessings of Allah be upon you.

With reference to Article (117) of Federal Law No (2) of 2015, Regarding Commercial Companies, Article (80) of Decretal Federal Law No. (14) of 2018 Regarding the Central Bank & Organization of Financial Institutions and Activities , Article (69) of the Articles of the Association of ADIB, Resolution of Higher Shari'a Authority No. (12/2/2018) and Resolution of Higher Shari'a Authority No. (18/3/2018), we present to you the following report:

We have performed our duties with full independence and have reviewed the utilized principles, modes, contracts and documentations relating to the transactions, investments, applications, products, services, activities and businesses ("Operations") that were generally implemented or offered by ADIB during this period, in which we have carried out the mandatory supervision in order to express an opinion as to whether ADIB has undertaken its activities in accordance with the rulings and principles of the Islamic Shari'a and in light of the details of our guidelines and the Fatwas and resolutions issued by us. This includes the supervision on the Shari'a Division of ADIB in its review of the memorandum, articles of association, policies & procedures, the application of the accounting standards related to the Operations of ADIB in light of the Shari'a Resolutions issued by us regarding those Operations.

We conducted our subsequent supervision that included examining the documentations and procedures followed to execute the transactions in a Shari'a compliant manner. This review was based on examining each type of transactions in general for ADIB in the UAE, its associates and subsidiaries companies and international branches, which do not have their own Fatwa and Shari'a Supervisory Board, in addition to reviewing ADIB's consolidated financial statements and its related notes and the financial statements and its related notes of all ADIB's international branches.

We have designated and executed our subsequent supervision through Executive Committee of the Committee and the Executive Member of the Committee in order to obtain all the information and explanations we considered necessary to provide us with sufficient evidence to give a reasonable assurance that ADIB had not violated any of the rulings and principles of the Islamic Shari'a. Furthermore, the execution of the internal Shari'a audit plan that was approved by us and all periodic Shari'a auditing reports, raised by Shari'a Compliance Department of Shari'a Division of ADIB, which included different types of ADIB's executed transactions, have been reviewed by us along with all raised findings mentioned in such reports, in light of the explanations of the concerned departments, and the appropriate decisions and resolutions have been taken with regards to them.

It is the responsibility of ADIB's executive management and Board of Directors to ensure that ADIB operates in accordance with the rulings and principles of the Islamic Shari'a. Our responsibility is limited to expressing an independent opinion based on our follow up and review or supervision of ADIB's various Operations and to prepare for you a concise report, in light of that and in light of the details of the resolutions which are contained in the minutes and reports of our meetings and reviews.

In our opinion:
- The memorandum and articles of association and their amendments do not include what contradicts with the rulings and principles of the Islamic Shari'a.
- The contracts, documentations and Operations executed, offered and performed by ADIB (and its associates and subsidiaries companies and international branches which do not have their own Fatwa and Shari'a Supervisory Board), during the financial year ended on 31st December, 2018 which we have seen, were generally carried out in accordance with the rulings and principles of the Islamic Shari'a; those that were found to be shortcoming were directed to the management for redressing and their consequences were rectified in accordance with the requirements of the Islamic Shari'a.
- The policies and procedures of the various Operations of ADIB do not include what contradicts with the Shari'a Resolutions issued by us regarding those Operations.
- ADIB consolidated financial statements and their related notes for the year ended on 31st December, 2018 do not include what contradicts with the rulings and principles of the Islamic Shari'a and they are in line with the Shari'a Resolutions issued by us.
- The accounting standards which are applied in ADIB are generally acceptable in light of the approved standards for application by the Central Bank of the UAE.
- The distribution of profits and the bearing of losses on the investment accounts (including the allocation of the costs and expenses between the investment accounts balances and the shareholders) comply with the basis that we approved to be applied in accordance with the rulings and principles of the Islamic Shari'a.

- In light of the Shari'a Resolutions issued by us, ADIB complies with the Shari'a Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions in its new Operations starting from 01/09/2018.
- Any returns that occurred through sources or methods that were not permissible with the rulings and principles of the Islamic Shari'a have been transferred to the charity account to be spent in charitable purposes to acceptable charity cases by Shari'a under our guidance in a way that ADIB shall never, directly or indirectly, benefit from such charity disposals.
- As the management of ADIB is not authorized to pay Zakat directly, it is the responsibility of shareholders to pay their own Zakat; which is an obligation on them as per the Third Pillar of Islam; and in this regard, we have reviewed and approved the Zakat amount per share that is mandatory to be disposed.

We ask Allah, the Most High and Capable, that He guides ADIB and those responsible for it with that which is right and that which is good.

Finally, all praise is due to Allah, Lord of all the worlds.

ADIB's Internal Shari'a Supervisory Committee

On behalf of
Sheikh Mohamed Taqi Uthmani
Chairman of the Committee

Dr Jasem Ali Salem Al Shamsi
Vice Chairman of the Committee, Chairman of its Executive Committee

Esam Mohammed Ishaaq
Member of the Committee and its Executive Committee

Dr Nizam Mohammed Saleh Ya'qoubi
Member of the Committee and its Executive Committee and its Executive Member

On behalf of
Dr Muhammad El-Gari
Member of the Board

Abu Dhabi Islamic Bank
Fatwa & Shari'a Supervisory Board & Its Committee

Consolidated Income Statement

Year ended 31 December 2018

	Notes	2018 AED '000	2017 AED '000
OPERATING INCOME			
Income from murabaha, mudaraba and wakala with financial institutions		**100,271**	60,068
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	5	**4,520,470**	4,291,541
Income from sukuk measured at amortised cost		**349,514**	398,844
Income from investments measured at fair value	6	**104,024**	82,158
Share of results of associates and joint ventures		**38,297**	28,580
Fees and commission income, net	7	**1,058,665**	1,030,268
Foreign exchange income		**256,995**	270,292
Income from investment properties	8	**33,630**	36,397
Other income		**21,654**	16,146
		6,483,520	6,214,294
OPERATING EXPENSES			
Employees' costs	9	**(1,522,644)**	(1,446,329)
General and administrative expenses	10	**(842,130)**	(840,145)
Depreciation	22 & 25	**(224,255)**	(167,901)
Amortisation of intangibles	26	**(54,752)**	(54,793)
Provision for impairment, net	11	**(620,097)**	(790,360)
		(3,263,878)	(3,299,528)
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS		**3,219,642**	2,914,766
Distribution to depositors	12	**(714,034)**	(581,982)
PROFIT FOR THE YEAR BEFORE ZAKAT AND TAX		**2,505,608**	2,332,784
Zakat and tax		**(4,822)**	(32,661)
PROFIT FOR THE YEAR AFTER ZAKAT AND TAX		**2,500,786**	2,300,123
Attributable to:			
Equity holders of the Bank		**2,500,086**	2,298,754
Non-controlling interest		**700**	1,369
		2,500,786	2,300,123
Basic and diluted earnings per share attributable to ordinary shares (AED)	13	**0.637**	0.592

The attached notes 1 to 44 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	Notes	2018 AED '000	2017 AED '000
PROFIT FOR THE YEAR AFTER ZAKAT AND TAX		**2,500,786**	2,300,123
Other comprehensive loss			
Items that will not be reclassified to consolidated income statement			
Net (loss) gain on valuation of equity investments carried at fair value through other comprehensive income	33	**(34,405)**	1,634
Directors' remuneration paid	40	**(4,900)**	(4,900)
Items that may subsequently be reclassified to consolidated income statement			
Net movement in valuation of investments in sukuk carried at fair value through other comprehensive income	33	**(32,169)**	-
Exchange differences arising on translation of foreign operations	33	**(96,700)**	(24,060)
Gain (loss) on hedge of foreign operations	33	**21,130**	(34,008)
Fair value loss on cash flow hedges	33	**(2,102)**	(3,157)
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(149,146)**	(64,491)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,351,640**	2,235,632
Attributable to:			
Equity holders of the Bank		**2,350,940**	2,234,263
Non-controlling interest		**700**	1,369
		2,351,640	2,235,632

The attached notes 1 to 44 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 AED '000	2017 AED '000
ASSETS			
Cash and balances with central banks	14	**18,731,208**	21,467,205
Balances and wakala deposits with Islamic banks and other financial institutions	15	**4,458,817**	2,765,903
Murabaha and mudaraba with financial institutions	16	**1,353,329**	2,125,249
Murabaha and other Islamic financing	17	**33,607,036**	33,249,315
Ijara financing	18	**45,069,611**	43,280,319
Investment in sukuk measured at amortised cost	19	**11,781,857**	10,052,028
Investments measured at fair value	20	**1,885,572**	1,526,490
Investment in associates and joint ventures	21	**1,014,354**	988,788
Investment properties	22	**1,397,177**	1,093,383
Development properties	23	**835,645**	837,381
Other assets	24	**2,880,057**	3,463,518
Property and equipment	25	**1,868,661**	2,062,677
Goodwill and intangibles	26	**310,591**	365,343
TOTAL ASSETS		**125,193,915**	123,277,599
LIABILITIES			
Due to financial institutions	27	**4,138,254**	3,688,558
Depositors' accounts	28	**100,403,747**	100,003,619
Other liabilities	29	**2,915,229**	3,012,258
Total liabilities		**107,457,230**	106,704,435
EQUITY			
Share capital	30	**3,632,000**	3,168,000
Legal reserve	31	**2,640,705**	2,102,465
General reserve	31	**1,980,827**	1,716,447
Credit risk reserve	31	**400,000**	400,000
Retained earnings		**4,158,153**	3,301,713
Proposed dividend	32	**994,313**	914,530
Proposed dividend to charity		**31,000**	29,230
Other reserves	33	**(865,449)**	(743,182)
Tier 1 sukuk	34	**4,754,375**	5,672,500
Equity attributable to the equity and Tier 1 sukuk holders of the Bank		**17,725,924**	16,561,703
Non-controlling interest	35	**10,761**	11,461
Total equity		**17,736,685**	16,573,164
TOTAL LIABILITIES AND EQUITY		**125,193,915**	123,277,599
CONTINGENT LIABILITIES AND COMMITMENTS	36	**10,807,842**	12,635,809

H.E. Jawaan Awaidha Suhail Al Khaili
Chairman

Khamis Mohamed Buharoon
Vice Chairman & Acting Chief Executive Officer

The attached notes 1 to 44 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

		Attributable to the equity and Tier 1 sukuk holders of the Bank											
	Notes	Share capital AED '000	Legal reserve AED '000	General reserve AED '000	Credit risk reserve AED '000	Retained earnings AED '000	Proposed dividends AED '000	Proposed dividends to charity AED '000	Other reserves AED '000	Tier 1 sukuk AED '000	Total AED '000	Non-controlling interest AED '000	Total equity AED '000
Balance at 1 January 2017		3,168,000	2,102,465	1,494,721	400,000	2,487,099	776,782	30,000	(683,768)	5,672,500	15,447,799	10,842	15,458,641
Profit for the year		-	-	-	-	2,298,754	-	-	-	-	2,298,754	1,369	2,300,123
Other comprehensive loss		-	-	-	-	(4,900)	-	-	(59,591)	-	(64,491)	-	(64,491)
Loss on disposal of investments carried at fair value through other comprehensive income	33	-	-	-	-	(177)	-	-	177	-	-	-	-
Profit paid on Tier 1 sukuk – Listed (first issue)	34	-	-	-	-	(234,158)	-	-	-	-	(234,158)	-	(234,158)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	34	-	-	-	-	(79,419)	-	-	-	-	(79,419)	-	(79,419)
Dividends paid	32	-	-	-	-	-	(776,782)	-	-	-	(776,782)	(750)	(777,532)
Dividends paid to charity		-	-	-	-	-	-	(30,000)	-	-	(30,000)	-	(30,000)
Transfer to reserves	31	-	-	221,726	-	(221,726)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	-	(29,230)	-	29,230	-	-	-	-	-
Proposed cash dividend to shareholders	32	-	-	-	-	(914,530)	914,530	-	-	-	-	-	-
Balance at 1 January 2018 - audited		3,168,000	2,102,465	1,716,447	400,000	3,301,713	914,530	29,230	(743,182)	5,672,500	16,561,703	11,461	16,573,164
Transition adjustment on adoption of IFRS 9	3	-	-	-	-	(588)	-	-	21,979	-	21,391	-	21,391
Balance at 1 January 2018 - adjusted		3,168,000	2,102,465	1,716,447	400,000	3,301,125	914,530	29,230	(721,203)	5,672,500	16,583,094	11,461	16,594,555
Profit for the year		-	-	-	-	2,500,086	-	-	-	-	2,500,086	700	2,500,786
Other comprehensive loss		-	-	-	-	(4,900)	-	-	(144,246)	-	(149,146)	-	(149,146)
Right shares issued	30 & 31	464,000	538,240	-	-	-	-	-	-	-	1,002,240	-	1,002,240
Right shares issuance cost	30	-	-	-	-	(3,416)	-	-	-	-	(3,416)	-	(3,416)
Tier 1 sukuk – Listed (second issue) issued	34	-	-	-	-	-	-	-	-	2,754,375	2,754,375	-	2,754,375
Tier 1 sukuk – Listed (second issue) issuance cost	34	-	-	-	-	(19,373)	-	-	-	-	(19,373)	-	(19,373)
Tier 1 sukuk – Listed (first issue) redeemed	34	-	-	-	-	-	-	-	-	(3,672,500)	(3,672,500)	-	(3,672,500)
Profit paid on Tier 1 sukuk – Listed (first issue)	34	-	-	-	-	(234,158)	-	-	-	-	(234,158)	-	(234,158)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	34	-	-	-	-	(91,518)	-	-	-	-	(91,518)	-	(91,518)
Dividends paid	32	-	-	-	-	-	(914,530)	-	-	-	(914,530)	(1,400)	(915,930)
Dividends paid to charity		-	-	-	-	-	-	(29,230)	-	-	(29,230)	-	(29,230)
Transfer to reserves	31	-	-	264,380	-	(264,380)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	-	(31,000)	-	31,000	-	-	-	-	-
Proposed cash dividend to shareholders	32	-	-	-	-	(994,313)	994,313	-	-	-	-	-	-
Balance at 31 December 2018		3,632,000	2,640,705	1,980,827	400,000	4,158,153	994,313	31,000	(865,449)	4,754,375	17,725,924	10,761	17,736,685

The attached notes 1 to 44 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 AED'000	2017 AED'000
OPERATING ACTIVITIES			
Profit for the year		**2,500,786**	2,300,123
Adjustments for:			
Depreciation on investment properties	22	**13,134**	9,345
Depreciation on property and equipment	25	**211,121**	158,556
Amortisation of intangibles	26	**54,752**	54,793
Share of results of associates and joint ventures		**(38,297)**	(28,580)
Dividend income	6	**(693)**	(3,149)
Realised loss on investments carried at fair value through profit or loss	6	**24,268**	13,439
Unrealised loss (gain) on investments carried at fair value through profit or loss	6	**7,256**	(30,144)
Realised gain on sukuk carried at fair value through other comprehensive income	6	**(4,107)**	-
Gain on disposal of property and equipment		**(188)**	(175)
Provision for impairment, net	11	**620,097**	790,360
Loss (gain) sale of investment properties	8	**1,620**	(23,182)
Operating profit before changes in operating assets and liabilities		**3,389,749**	3,241,386
(Increase) decrease in balances with central banks		**(1,492,183)**	95,841
(Increase) decrease in balances and wakala deposits with Islamic banks and other financial institutions		**(551,791)**	1,590,196
(Increase) decrease murabaha and mudaraba with financial institutions		**(136,292)**	285,472
(Increase) decrease in murabaha and other Islamic financing		**(747,461)**	2,435,443
Increase in ijara financing		**(1,967,688)**	(1,520,449)
Purchase of investments carried at fair value through profit or loss		**(8,272,449)**	(10,301,488)
Proceeds from sale of investments carried at fair value through profit or loss		**8,179,757**	10,204,176
Decrease (increase) in other assets		**575,221**	(881,851)
Increase (decrease) due to financial institutions		**81,330**	(65,294)
Increase in depositors' accounts		**403,598**	1,180,840
(Decrease) increase in other liabilities		**(189,524)**	54,447
Cash (used in) from operations		**(727,733)**	6,318,719
Directors' remuneration paid	40	**(4,900)**	(4,900)
Net cash (used in) from operating activities		**(732,633)**	6,313,819
INVESTING ACTIVITIES			
Dividend received	6	**693**	3,149
Net movement in investments carried at fair value through other comprehensive income		**1,531,582**	(13,911)
Net movement in investments carried at amortised cost		**(3,604,279)**	(995,052)
Net movement in associates and joint ventures		**5,148**	6,667
Proceeds from sale of investment properties		**3,450**	27,846
Purchase of property and equipment	25	**(402,283)**	(304,915)
Proceeds from disposal of property and equipment		**891**	483
Net cash used in investing activities		**(2,464,798)**	(1,275,733)
FINANCING ACTIVITIES			
Right shares issued	30 & 31	**1,002,240**	-
Issuance cost for right shares	30	**(3,416)**	-
Tier 1 sukuk – Listed (second issue) issued	34	**2,754,375**	-
Tier 1 sukuk – Listed (second issue) issuance cost	34	**(19,373)**	-
Tier 1 sukuk – Listed (first issue) redeemed	34	**(3,672,500)**	-
Profit paid on Tier 1 sukuk – Listed (first issue)	34	**(234,158)**	(234,158)
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	34	**(91,518)**	(79,419)
Dividends paid		**(917,835)**	(781,558)
Net cash used in financing activities		**(1,182,185)**	(1,095,135)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(4,379,616)**	3,942,951
Cash and cash equivalents at 1 January		**10,888,469**	6,945,518
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	39	**6,508,853**	10,888,469

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

Profit received		**5,658,261**	4,859,943
Profit paid to depositors and sukuk holders		**843,540**	471,378

The attached notes 1 to 44 form part of these consolidated financial statements.

Consolidated Income Statement

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Abu Dhabi Islamic Bank PJSC ("the Bank") was incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE), as a public joint stock company with limited liability, in accordance with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) and the Amiri Decree No. 9 of 1997. The Federal Law No. 2 of 2015, concerning Commercial Companies has replaced the existing Federal Law No. 8 of 1984.

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

In addition to its main office in Abu Dhabi, the Bank operates through its 80 branches in UAE (2017: 81 branches) and 3 overseas branches in Iraq, Qatar and Sudan and subsidiaries in the UAE and the United Kingdom. The consolidated financial statements combine the activities of the Bank's head office, its branches and subsidiaries.

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

The consolidated financial statements of the Group were authorised for issue by the Board of Directors on 4 February 2019.

2 DEFINITIONS

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

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

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

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

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

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

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

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

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

3 BASIS OF PREPARATION

3.1 (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), general principles of the Shari'a as determined by the Group's Fatwa and Shari'a Supervisory Board and applicable requirements of the laws of the UAE.

3.1 (b) Accounting convention

The consolidated financial statements have been prepared under the historical cost convention except for investments carried at fair value through profit or loss, investments carried at fair value through other comprehensive income, Shari'a compliant alternatives of derivative financial instruments which have been measured at fair value and land, held as property and equipment, which has been carried at revalued amount.

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

3.1 (c) Basis of consolidation

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

	Activity	Country of incorporation	Percentage of holding 2018	Percentage of holding 2017
Abu Dhabi Islamic Securities Company LLC	Equity brokerage services	United Arab Emirates	**95%**	95%
Burooj Properties LLC	Real estate investments	United Arab Emirates	**100%**	100%
MPM Properties LLC	Real estate services	United Arab Emirates	**100%**	100%
ADIB Invest 1	Equity brokerage services	BVI	**100%**	100%
Kawader Services LLC	Manpower supply	United Arab Emirates	**100%**	100%
ADIB (UK) Limited	Islamic banking	United Kingdom	**100%**	100%
ADIB Holdings (Jersey) Ltd* (under liquidation)	Special purpose vehicle	British Channel Islands	**-**	-
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	**-**	-
ADIB Sukuk Company II Ltd*	Special purpose vehicle	Cayman Island	**-**	-
ADIB Capital Invest 1 Ltd*	Special purpose vehicle	Cayman Island	**-**	-
ADIB Capital Invest 2 Ltd*	Special purpose vehicle	Cayman Island	**-**	-
ADIB Alternatives Ltd*	Special purpose vehicle	Cayman Island	**-**	-

*The Bank does not have any direct holding in these entities and they are considered to be a subsidiary by virtue of control.

These consolidated financial statements include the operations of the subsidiaries over which the Bank has control. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

3.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as noted below.

During the year the Group has adopted the following new standards / amendments to the standards effective for the annual period beginning on or after 1 January 2018.

IFRS 9 Financial Instruments: In July 2014, the IASB issued IFRS 9 Financial Instruments ("IFRS 9"), which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 addresses all aspects of financial instruments including classification and measurement, impairment and hedge accounting.

(a) Classification and measurement: The standard requires the Group to consider two criteria when determining the measurement basis for sukuk instruments (e.g. financing, sukuk) held as financial assets:

i) its business model for managing those financial assets; and
ii) cash flow characteristics of the assets.

3 BASIS OF PREPARATION continued

3.2 Changes in accounting policies continued

Based on these criteria, sukuk instruments are measured at amortized cost, fair value through OCI, or fair value through profit or loss.

Equity instruments are measured at fair value through profit or loss. However, the Group may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as fair value through OCI, with no subsequent recycling to profit and loss, while recognizing dividend income in profit and loss.

In addition, the Group may, at initial recognition, irrevocably elect to designate a financial asset as fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. This designation is also available to existing financial assets.

For financial liabilities, there were no changes to classification and measurement.

Effective 1 January 2011, the Group early adopted IFRS 9 'Financial Instruments' in line with the provisions of IFRS 9.

(b) Impairment: The standard introduces a new single model for the measurement of impairment losses on all financial assets including financing and sukuk measured at amortized cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

Stage 1: 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months and Loss Given Default (LGD).

Stage 2: Under Stage 2, where there has been a SICR since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the lifetime ECL will be recorded which is computed using lifetime PD, LGD and Exposure at Default (EAD) measures. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3: Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

(c) Hedging: IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9.

(d) Transition impact: In line with the IFRS 9 transition provisions, the Group has elected to record an adjustment to its opening 1 January 2018 retained earnings to reflect the application of the new requirements of Impairment, Classification and Measurement at the adoption date without restating comparative information.

For classification and measurement, the combined application of the contractual cash flow characteristics and business model tests as at January 1, 2018 is expected to result in certain differences in the classification of financial assets when compared to our current classification under IAS 39.

The impact of the adoption on the opening retained earnings and cumulative changes in fair value reserve classified in equity at the beginning of the current year (1 January 2018) is as follows:

	Retained earnings AED '000	Cumulative Changes in fair value reserve AED '000
Fair value movement of investments is sukuk carried at amortised cost transferred to investment at FVTOCI	-	21,979
Shortfall of provision on re-measurement under IFRS 9	(588)	-
	(588)	21,979

The following table reconciles the closing balance of financial assets under IFRS 9 to the opening balance of financial assets on 1 January 2018.

3 BASIS OF PREPARATION continued

3.2 Changes in accounting policies continued

	As at 31 December 2017 AED '000	Re-classification of financial assets and liabilities AED '000	Re-measurement of impairment AED '000	**As at 1 January 2018 AED '000**
Cash and Balances with Central Banks	21,467,205	-	-	**21,467,205**
Balances and wakala deposits with banks and financial institutions	2,765,903	-	(28,811)	**2,737,092**
Murabaha and Mudaraba with financial institutions	2,125,249	-	(28)	**2,125,221**
Murabaha and other Islamic financing	33,249,315	-	(210,804)	**33,038,511**
Ijara financing	43,280,319	-	258,406	**43,538,725**
Investment in sukuk measured at amortised cost	10,052,028	(1,871,896)	(9,759)	**8,170,373**
Investment measured at fair value	1,526,490	1,893,875	-	**3,420,365**
Other assets	3,463,518	-	(9,592)	**3,453,926**
	117,930,027	21,979	(588)	**117,951,418**

(e) Financial instruments: disclosures (IFRS 7): The Group has amended the disclosures for the current period to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

IFRS 15: Revenue from Contracts with Customers was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. The Group has assessed that the impact of IFRS 15 is not material on the consolidated financial statements of the Group as at the reporting date.

3.3 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16: Leases was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, it substantially carries forward the requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of this Standard." The Group has assessed the impact of above standard. Based on the assessment, the above standard has no material impact on the consolidated financial statements of the Group as at the reporting date.

3.4 Significant Judgements And Estimates

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

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial years. Estimates and judgments are currently evaluated and are based on historical experience and other factors. In order to reduce the element of subjectivity, the Group has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

Following estimates and judgements which are applicable from 1 January 2018.

Changes to judgements made in applying accounting policies that have most significant effects on the amounts recognized in the consolidated financial statements of the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.

3 BASIS OF PREPARATION continued

3.4 Significant Judgements and Estimates continued

- Calculation of expected credit loss: changes to the assumptions and estimation uncertainties that have a significant impact on expected credit losses for the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9 (ECL): Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Key Considerations: Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk: The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes.

The assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

i) The Group has established thresholds for significant increases in credit risk based on movement in Probability of Default (PD) as determined by the Obligator Risk Rating (ORR) relative to initial recognition as well as PD thresholds.
ii) Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
iii) IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit impaired as at the reporting date. The determination of credit impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios: The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

PD and Loss Given Default (LGD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the Group's expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

Estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios.

Base-case, Upside and Downside scenarios, will be based on macroeconomic forecasts received from an external reputable source. These scenarios will be updated on a quarterly basis and more frequently if conditions warrant.

All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

Definition of default: The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected Life: When measuring ECL, the Group considers the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extensionand rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Governance: The Group has established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance and Risk Management and will be responsible for reviewing and approving key inputs and assumptions used in the Group's expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in the Group's financial statements.

Impairment losses on financing assets and investments carried at amortised cost (applicable before 1st January 2018)
The Group reviews its financing assets and investments carried at amortised cost on a regular basis to assess whether a provision for impairment should be recorded in the consolidated financial statement in relation to any non-performing assets. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment provision. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

3 BASIS OF PREPARATION continued

3.4 Significant Judgements and Estimates continued

Collective impairment provisions on financing assets (applicable before 1st January 2018)

In addition to specific provisions against individually impaired financing assets, the Bank also makes collective impairment provisions against portfolio of financing assets with common features which have not been identified as individually impaired. This collective provision is based on any deterioration in the internal rating of the asset or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satis-fied the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of probability of occurrence of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Operating lease commitments - Group as lessor

The Group has entered into commercial property lease arrangements on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties therefore, accounts for the contracts as operating leases.

Classification and measurement of financial assets

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. The Group's investments in securities are appropriately classified and measured.

Investment and development properties

The Group hired services of professional real estate valuer to provide reliable estimates of the market value of investment properties for determining the fair values as of the reporting date, for disclosure purposes and assessing the impairment, if any. The basis of estimate and method used by the valuer has been disclosed in the note 22.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position that cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

Classification of properties

In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, development property or property and equipment. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, development property and property and equipment. In making its judgment, management considers the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, in particular, the intended usage of property as determined by the management.

Impairment of investments in associates and joint ventures

Management regularly reviews its investment in associates and joint venture for indicators of impairment. This determination of whether investments in associates is impaired, entails management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. If managements' review results in impairment, the difference between the estimated recoverable amount and the carrying value of investment in associates and joint venture is recognised as an expense in the consolidated income statement.

Impairment review of investment properties, development properties and advances paid against purchase of properties

Investment properties, development properties and advances paid against purchase of properties are assessed for impairment based on assessment of cash flows on individual cash-generating units when there is indication that those assets have suffered an impairment loss. Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets and discounted using a range of discount rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any impairment.

3 BASIS OF PREPARATION continued

3.4 Significant Judgements and Estimates continued

The assessment of current market conditions, including cost of project completion, future rental and occupancy rates and assessment of the projects capital structure and discount rates requires management to exercise its judgment. Management uses internal and external experts to exercise this judgment.

Impairment of goodwill
On an annual basis, the Group determines whether goodwill is impaired. This requires an estimation of the recoverable amount using value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful life of property and equipment
The cost of property and equipment is depreciated over its estimated useful life, which is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors.

Business combinations
Accounting for the acquisition of a business requires the allocation of the purchase price to the various assets and liabilities of the acquired business. For most assets and liabilities, the purchase price allocation is accomplished by recording the asset or liability at its estimated fair value. Determining the fair value of assets acquired and liabilities assumed requires estimation by management and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, the useful lives of intangibles other assets and market multiples. The Group's management uses all available information to make these fair value determinations. The Group has, if necessary, up to one year after acquisition closing date to complete these fair value determinations and finalise the purchase price allocation.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition

Murabaha
Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Istisna'a
Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the Bank's total Istisna'a cost) is accounted for on a time apportioned basis.

Ijara
Ijara income is recognised on a time apportioned basis over the lease term.

Musharaka
Income is accounted for on the basis of the reducing balance of Musharaka on a time apportioned basis that reflects the effective yield on the asset.

Mudaraba
Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to the Bank's consolidated income statement on their declaration by the Mudarib.

Sukuk
Income is accounted for on a time apportioned basis over the terms of the Sukuk.

Sale of properties
Revenue on sale of properties is recognized as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property; and
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Revenue on sale of units or apartments is deferred until completion of construction works and when delivery to the buyer takes place.

Fee and commission income
Fee and commission income is recognised when the related services are performed.

Operating lease income
Operating lease income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases.

4 SIGNIFICANT ACCOUNTING POLICIES continued

3.4 Significant Judgements and Estimates continued

Gain on sale of investments

Gain or loss on disposal of fair value through profit or loss investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs and is recognised through consolidated income statement.

Gain or loss on disposal of fair value through other comprehensive income investments represents the difference between sale proceeds and their original cost less associated selling costs and is recognised through consolidated statement of comprehensive income and are included within cumulative changes in fair value reserve within equity and not recognised in the consolidated income statement.

Dividends

Dividends from investments in equities are recognised when the right to receive the dividend is established.

Cost of sale of properties

Cost of sale of properties includes the cost of development. Development costs include the cost of infrastructure and construction.

Cost of sale of land represents the carrying amount at which it is recorded in the consolidated financial statements of the Group.

Financial Instruments

Recognition and Measurement

Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group are further analysed as:

- Customer financing;
- Balances and wakala deposits Islamic banks and other financial institutions;
- Murabaha and mudaraba with financial institutions;
- Investment in sukuk;
- Investment in equity instruments;
- Trade and other receivables; and
- Sharia compliant alternatives of derivatives.

The Group's customer financing comprise the following:

- Murabaha and other Islamic financing; and
- Ijara financing.

Effective 1 January 2011, the Group early adopted classification and measurement principles of IFRS 9 'Financial Instruments' in issue at that time in line with the transitional provisions of IFRS 9.

Financial assets are classified in their entirety on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

Classification

Financial assets at amortised cost

Balances and wakala deposits with Islamic banks and other financial institutions, Murabaha and mudaraba with financial institutions, Acceptances, Murahaba and other Islamic financing and Ijara financing i.e. customer financing and investment in sukuk, are measured at amortised cost, if both the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Financial assets at fair value through profit or loss ("FVTPL")

Investments in equity instruments are classified as FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition.

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

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

Financial assets at fair value through other comprehensive income ("FVTOCI")

At initial recognition, the Group can make an irrevocable election (on instrument-by-instrument basis) to designate investments in equity instruments as FVTOCI.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued

A financial asset is FVTPL if:

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

Measurement

Financial assets or financial liabilities carried at amortised cost

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

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

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

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

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

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

Other Islamic financing are stated at amortised cost (which excludes deferred income) less any provisions for impairment.

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

Financial assets at fair value through profit or loss ("FVTPL")

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

Financial assets at fair value through other comprehensive income ("FVTOCI")

Investments in equity instruments are initially measured at fair value plus transaction costs. Subsequently they are measured at fair value with gains and losses arising from changes in fair value recognised in the consolidated statement of other comprehensive income and accumulated in the cumulative changes in fair values within equity.

Where the assets are disposed of, except for sukuk measured at FVTOCI, the cumulative gain or loss previously accumulated in the cumulative changes in fair values is not transferred to the consolidated income statement, but is reclassified to retained earnings. Financial assets measured at FVTOCI are not required to be tested for impairment.

For sukuk measured at FVTOCI which are disposed of, the cumulative gain or loss previously recognised in the consolidated statement of other comprehensive income is reclassified from equity to consolidated income statement.

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

For other investments, where there is no active market, fair value is normally based on one of the following:

- the expected cash flows discounted at current profit rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent market transactions

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued

(i) Recognition / De-recognition

The Group initially recognises financial assets at fair value through profit or loss, financial assets at amortised cost and financial assets at fair value through other comprehensive income on the settlement date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

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

(ii) Offsetting of financial instruments

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

(iii) Impairment of financial assets

Impairment assessment:

The Group assesses whether financial assets carried at amortised cost and carried at FVTOCI are credit-impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the finance customer or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a financing by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the finance customer will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Measurement of Expected Credit Losses (ECL):

The impairment of financial assets are calculated in accordance with IFRS 9 expected credit loss (ECL) model. The standard introduces a new single model for the measurement of impairment losses on all financial assets including financing and sukuk measured at amortized cost or at fair value through OCI. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

The Group measures loss allowances at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition. 12-month ECL are the portion of life time ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

ECL is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), and discounting at the initial effective profit rate. The Group has developed a range of models to estimate these parameters. For the portfolios where sufficient historical data was available, the Group developed a statistical model and for other portfolios judgmental models were developed.

Renegotiated financing facilities

Where possible, the Bank seeks to restructure financing facilities rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Management continually reviews renegotiated facilities to ensure that all future payments are highly expected to occur.

When the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the finance customer, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the exiting asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Purchased or originated credit impaired assets (POCI)

POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit income is subsequently recognized based on a credit-adjusted expected profit rate. Life time ECLs are only recognised or released to the extent that there is a subsequent change in the ECL.

Covered card facilities

The Group's product offering includes a variety of covered cards facilities, in which the Group has the right to cancel and/or reduce the facilities at a short notice. The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behavior, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

Based on past experience and the Group's expectations, the period over which the Group calculates ECLs for these products, is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Write-off

Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, to the extent it is possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data such as market transactions, rental yields and audited financial statements.

Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic benefit.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs (note 43).

Business combinations

Acquisitions of businesses are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Bank, liabilities incurred by the Bank to the former owners of the acquiree and the cash and equity interests issued by the Bank in exchange for control of the acquiree. Acquisition related costs are recognised in consolidated income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits, respectively;

4 SIGNIFICANT ACCOUNTING POLICIES continued

Business combinations continued

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated income statements as gain on acquiring controlling interest.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Bank in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognised in consolidated income statement.

When a business combination is achieved in stages, the Bank's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Bank obtains control) and the resulting gain or loss, if any, is recognised in consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated income statement where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Bank reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date which is regarded as their cost. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The rates of amortisation are based upon the following estimated useful lives:

- Customer relationship 8 years
- Core deposit intangible 8 years

Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Bank's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units which are expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Goodwill continued

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investment in associates

The Group's investment in associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and that is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The consolidated income statement reflects the share of the results of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Investment in joint ventures

The Group has investment in joint ventures, which are jointly controlled entities, whereby venturers have a contractual arrangement that establishes joint control over the economic activities of the entities. The Group's investment in joint ventures is accounted for using the equity method of accounting.

Under the equity method, the investment in the joint ventures is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture. The consolidated income statement reflects the share of the results of the joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The financial statements of the ventures are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the consolidated income statement.

Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the assets' estimated useful lives. The useful life of buildings is estimated to be 25 - 40 years.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated income statement.

Development properties

Properties in the course of construction for sale or completed properties held for sale are classified as development properties. Completed properties held for sale are stated at the lower of cost or net realizable value. Properties in the course of development for sale are stated at lower of cost or net realizable value. The cost of development properties includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

The property is considered to be complete when all related activities, including the infrastructure and facilities for the entire project, have been completed.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Land is recorded at revalued amount in the consolidated financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment continued

Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment, other than freehold land which is deemed to have an indefinite life. The rates of depreciation are based upon the following estimated useful lives:

Buildings	25 - 40 years
Furniture and leasehold improvements	3 - 7 years
Computer and office equipment	3 - 4 years
Motor vehicles	4 years

The carrying values of properties and equipments are reviewed for impairment when events of changes in circumstances indicate the carrying value may not be recoverable. If any such conditions exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Any subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in the consolidated income statement as the expense is incurred.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the consolidated income statement in the year the asset is derecognized.

Capital work-in-progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated.

When an asset is revalued, any increase in the carrying amount arising on revaluation is recorded through other comprehensive income and credited to the revaluation reserve in equity, except to the extent that a revaluation increase merely restores the carrying value of an asset to its original cost, whereby it is recognized as income i.e., to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense. A decrease resulting from a revaluation is initially charged directly against any related revaluation surplus held in respect of that asset and the remaining portion being charged as an expense. On disposal, the related revaluation surplus is credited directly to retained earnings.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

Acceptances

Acceptances are recognised as financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

Deposits

Customer deposits and due to banks and other financial institutions are carried at amortised cost.

Sukuk financing instruments

Sukuk financing instruments are initially measured at fair value and then are subsequently measured at amortised cost using the effective profit rate method, with profit distribution recognised on an effective yield basis.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating profit distribution over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Employees' pension and end of service benefits

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are included within 'other liabilities' in the consolidated statement of financial position.

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are recognised in the consolidated income statement when due.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Shari'a compliant alternatives of derivative financial instruments

The Bank enters into a Shari'a compliant alternatives of derivative financial instruments to manage the exposure to profit rate risks, including unilateral promise which represents Shari'a compliant alternatives of swap. Those financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All these Shari'a compliant alternatives of derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate.

The Bank enters into cash flows hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Cash flow hedges

The effective portion of changes in the fair value of Shari'a compliant alternatives of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognized immediately in the consolidated income statement. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a nonfinancial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement.

Net investment hedge

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

Zakat

As the Bank is not required to dispose Zakat by UAE laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, each shareholder is responsible of his or her own Zakat. In accordance with the Articles and Memorandum of Association of the Bank, Zakat is computed by the Bank and it is approved by the Fatwa and Shari'a Supervisory Board of the Bank. However, in few jurisdictions, Zakat of the Bank's branches and subsidiaries is mandatory by laws to be paid to a governmental entity responsible of Zakat, therefore, the Bank acts accordingly to these laws and pays the Zakat to these entities on behalf of the Shareholders and deducts the amount paid as Zakat from the total zakat amount and the Zakat amount per each outstanding share.

Zakat per share is calculated in accordance with AAOIFI's Accounting Standard number 9 & Shari'a Standard number 35, and the Group's Fatwa and Shari'a Supervisory Board Resolutions.

In accordance with the Memorandum of Association, the Group communicates the amount of Zakat per share and it is the responsibility of each shareholder to dispose personally his/her own Zakat (note 38).

Profit distribution

Profits or losses of Mudaraba based depositors' accounts are calculated and distributed in accordance with the Banking Service Agreement between the Bank and the investment account holders. Investment in subsidiaries is funded from the shareholders' funds, hence profit or losses from the subsidiaries are not distributed to the investment account holders. Investment in associates is funded jointly from the shareholders and investment account holders' funds, therefore, profits and losses of the associates are distributed among the shareholders and investment account holders. A part of the deserved profits relating to the Mudaraba based investment accounts profit can be reserved as "Profit Equalization Reserve" and shall be subsequently utilized in order to maintain certain level of profit distribution to the account holders.

The same allocation is applicable to Wakala deposits and any share of profit above the fixed Wakala fee and the initially expected profit agreed with the investment account holder, shall pertain to the Wakil (the Bank).

4 SIGNIFICANT ACCOUNTING POLICIES continued

Cash and cash equivalents

For the purpose of preparation of the consolidated statement of cash flow, cash and cash equivalents are considered to be cash and balances with central banks, due from banks and international murabahat. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

Trade and settlement date accounting

All "regular way" purchase and sales of financial assets are recognized on the settlement date, i.e. the date the asset is delivered to the counterparty. Regular way purchases or sales are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Prohibited income

According to the Fatwa and Shari'a Supervisory Board "FSSB", the Group is required to avoid any transaction or activity deemed to be not acceptable by Shari'a and to identify any income from such source and to set it aside in a separate account (charity account) to be disposed to charity by the Group under the supervision of the FSSB (as purification amount).

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

Foreign currencies

The Group's consolidated financial statements are presented in AED, which is the Bank's functional currency. That is the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their income statement is translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recorded in the other comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated income statement in 'net fees and commission income' over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement in 'credit loss expense'. Any financial guarantee liability remaining is recognized in the consolidated income statement in 'net fees and commission income' when the guarantee is discharged, cancelled or expires.

Segment reporting

The Bank has presented the segment information in respect of its business and geographical segments in the same way as it is presented internally to the management.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Treasury shares and contracts on own equity instruments

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognised directly in equity. No gain or loss is recognised in statement of comprehensive income on the purchase, sale, issue or cancellation of own equity instruments.

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

	2018 AED '000	2017 AED '000
Vehicle murabaha	**268,376**	306,576
Goods murabaha	**182,323**	224,553
Share murabaha	**1,026,738**	1,102,351
Commodities murabaha – Al Khair	**403,541**	410,416
Islamic covered cards (murabaha)	**332,850**	342,872
Other murabaha	**110,958**	42,025
Total murabaha	**2,324,786**	2,428,793
Mudaraba	**18,241**	15,960
Ijara	**2,170,616**	1,839,324
Istisna'a	**6,827**	7,464
	4,520,470	4,291,541

6 INCOME FROM INVESTMENTS MEASURED AT FAIR VALUE

	2018 AED '000	2017 AED '000
Income from sukuk measured at fair value through profit or loss	**84,136**	57,462
Income from sukuk measured at fair value through other comprehensive income	**45,053**	-
Realised loss on investments carried at fair value through profit or loss	**(24,268)**	(13,439)
Unealised (loss) gain on investments carried at fair value through profit or loss	**(7,256)**	30,144
Realised gain on sukuk carried at fair value through other comprehensive income	**4,107**	-
Income from other investment assets	**1,559**	4,842
Dividend income	**693**	3,149
	104,024	82,158

7 FEES AND COMMISSION INCOME, NET

	2018 AED '000	2017 AED '000
Fees and commission income		
Fees and commission income on cards	**767,193**	691,958
Trade related fees and commission	**105,097**	114,934
Takaful related fees	**134,538**	118,155
Accounts services fees	**66,596**	61,466
Projects and property management fees	**58,616**	62,329
Risk participation and arrangement fees	**129,609**	176,341
Brokerage fees and commission	**11,156**	24,782
Other fees and commissions	**355,802**	312,142
Total fees and commission income	**1,628,607**	1,562,107
Fees and commission expenses		
Card related fees and commission expenses	**(493,432)**	(435,680)
Other fees and commission expenses	**(76,510)**	(96,159)
Total fees and commission expenses	**(569,942)**	(531,839)
Fees and commission income, net	**1,058,665**	1,030,268

8 INCOME FROM INVESTMENT PROPERTIES

	2018 AED '000	2017 AED '000
Proceeds from sale of investment properties	**50,318**	127,983
Less: net book value of properties sold	**(51,938)**	(104,801)
(Loss) gain on sale of investment properties	**(1,620)**	23,182
Rental income (note 22)	**35,250**	13,215
	33,630	36,397

9 EMPLOYEES' COSTS

	2018 AED '000	2017 AED '000
Salaries and wages	**1,380,252**	1,310,133
End of service benefits	**67,361**	67,215
Other staff expenses	**75,031**	68,981
	1,522,644	1,446,329

10 GENERAL AND ADMINISTRATIVE EXPENSES

	2018 AED '000	2017 AED '000
Legal and professional expenses	**146,098**	145,554
Premises expenses	**265,270**	263,633
Marketing and advertising expenses	**81,143**	83,225
Communication expenses	**86,734**	68,793
Technology related expenses	**127,018**	123,425
Other operating expenses	**135,867**	155,515
	842,130	840,145

11 PROVISION FOR IMPAIRMENT, NET

	Notes	2018 AED '000	2017 AED '000
Murabaha and other Islamic financing	17	**354,857**	661,372
Ijara financing	18	**178,396**	104,566
Direct write-off, net of recoveries		**34,883**	(44)
Investments in associates and joint ventures	21	**-**	15,156
Investment properties	22	**60,080**	462
Development properties	23	**1,736**	-
Property and equipment	25	**1,455**	-
Others		**(11,310)**	8,848
		620,097	790,360

The above provision for impairment includes AED 61,816 thousand (2017: AED 1,962 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank.

12 DISTRIBUTION TO DEPOSITORS

	2018 AED '000	2017 AED '000
Saving accounts	**195,423**	175,218
Investment accounts	**518,611**	406,764
	714,034	581,982

13 BASIC AND DILUTED EARNINGS PER SHARE

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

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

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

	Notes	2018	2017
Profit for the year attributable to equity holders (AED '000)		**2,500,086**	2,298,754
Less: profit attributable to Tier 1 sukuk holder – Listed (first issue) (AED '000)	34	**(234,158)**	(234,158)
Less: profit attributable to Tier 1 sukuk holder - Government of Abu Dhabi (AED '000)	34	**(91,518)**	(79,419)
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000)		**2,174,410**	1,985,177
Weighted average number of ordinary shares at 1 January in issue (000's)		**3,352,862**	3,168,000
Effect of Right shares issued (000's)			
Bonus element		**-**	**184,862**
New shares		**58,122**	-
Weighted average number of ordinary shares at 31 December in issue (000's)		**3,410,984**	3,352,862
Basic and diluted earnings per share (AED)		**0.637**	0.592

The Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised. Profit on Tier 1 sukuk is reflected in the EPS computation on the payment of such profit.

14 CASH AND BALANCES WITH CENTRAL BANKS

	2018 AED '000	2017 AED '000
Cash on hand	**1,844,389**	1,993,397
Balances with central banks:		
- Current accounts	**493,663**	1,694,913
- Statutory reserve	**11,397,360**	11,475,757
- Islamic certificate of deposits	**4,995,796**	6,303,138
	18,731,208	21,467,205

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

14 CASH AND BALANCES WITH CENTRAL BANKS continued

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

	2018 AED '000	2017 AED '000
UAE	17,687,739	19,944,008
Rest of the Middle East	992,884	1,300,979
Europe	1,317	1,063
Others	49,268	221,155
	18,731,208	21,467,205

15 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018 AED '000	2017 AED '000
Current accounts	452,014	831,167
Wakala deposits	4,019,638	1,934,736
	4,471,652	2,765,903
Less: provision for impairment	(12,835)	-
	4,458,817	2,765,903

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

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

	2018 AED '000	2017 AED '000
UAE	2,424,116	684,125
Rest of the Middle East	472,079	274,483
Europe	206,682	163,146
Others	1,368,775	1,644,149
	4,471,652	2,765,903

16 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	2018 AED '000	2017 AED '000
Murabaha	1,317,686	2,125,249
Mudaraba	35,666	-
	1,353,352	2,125,249
Less: provision for impairment	(23)	-
	1,353,329	2,125,249

In accordance with Shari'a principles, Mudaraba are with Islamic financial institutions or provided for the activities that are entirely Sharia' compliant.

16 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS continued

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

	2018 AED '000	2017 AED '000
UAE	**1,139,796**	1,957,846
Rest of the Middle East	**177,890**	167,403
Others	**35,666**	-
	1,353,352	2,125,249

17 MURABAHA AND OTHER ISLAMIC FINANCING

	2018 AED'000	2017 AED'000
Vehicle murabaha	**5,609,698**	6,437,197
Goods murabaha	**4,917,454**	5,473,305
Share murabaha	**16,928,977**	17,359,249
Commodities murabaha – Al Khair	**8,377,721**	7,965,182
Islamic covered cards (murabaha)	**16,069,428**	16,558,534
Other murabaha	**2,915,331**	1,643,377
Total murabaha	**54,818,609**	55,436,844
Mudaraba	**55,097**	46,681
Istisna'a	**101,895**	130,322
Other financing receivables	**280,425**	281,810
Total murabaha and other Islamic financing	**55,256,026**	55,895,657
Less: deferred income on murabaha	**(19,947,491)**	(20,750,205)
	35,308,535	35,145,452
Less: provision for impairment	**(1,701,499)**	(1,896,137)
	33,607,036	33,249,315

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

	2018 AED'000	2017 AED'000
Industry sector:		
Public sector	**358,227**	981,415
Corporates	**4,480,152**	3,855,948
Financial institutions	**761,866**	234,315
Individuals	**29,358,893**	29,399,301
Small and medium enterprises	**349,397**	674,473
	35,308,535	35,145,452
Geographic region:		
UAE	**33,567,718**	33,885,343
Rest of the Middle East	**1,103,351**	783,768
Europe	**538,523**	210,679
Others	**98,943**	265,662
	35,308,535	35,145,452

Provision for impairment on murabaha and other Islamic financing have been disclosed in further detail in note 42.2.6.

18 IJARA FINANCING

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

	2018 AED'000	2017 AED'000
The aggregate future lease receivables are as follows:		
Due within one year	7,436,960	8,636,632
Due in the second to fifth year	23,375,433	21,876,793
Due after five years	39,778,958	32,682,754
Total Ijara financing	70,591,351	63,196,179
Less: deferred income	(24,340,989)	(18,591,636)
Net present value of minimum lease payments receivable	46,250,362	44,604,543
Less: provision for impairment	(1,180,751)	(1,324,224)
	45,069,611	43,280,319

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

	2018 AED'000	2017 AED'000
Industry sector:		
Government	565,438	752,339
Public sector	4,820,597	4,480,814
Corporates	18,970,953	18,708,191
Individuals	21,640,862	20,366,863
Small and medium enterprises	139,804	188,355
Non-profit organisations	112,708	107,981
	46,250,362	44,604,543
Geographic region:		
UAE	44,695,348	42,668,353
Rest of the Middle East	780,247	1,025,203
Europe	379,525	386,656
Others	395,242	524,331
	46,250,362	44,604,543

Provision for impairment on ijara financing have been disclosed in further detail in note 42.2.6.

19 INVESTMENT IN SUKUK MEASURED AT AMORTISED COST

	2018 AED '000	2017 AED '000
Sukuk - Quoted	11,806,972	10,064,830
Less: provision for impairment	(25,115)	(12,802)
	11,781,857	10,052,028

19 INVESTMENT IN SUKUK MEASURED AT AMORTISED COST continued

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

	2018 AED '000	2017 AED '000
UAE	8,237,230	7,443,468
Rest of the Middle East	1,823,550	1,365,455
Europe	-	100,372
Others	1,746,192	1,155,535
	11,806,972	10,064,830

20 INVESTMENTS MEASURED AT FAIR VALUE

	2018 AED '000	2017 AED '000
Investments carried at fair value through profit or loss		
Quoted investments		
Sukuk	1,438,659	1,377,491
Investments carried at fair value through other comprehensive income		
Quoted investments		
Equities	28,727	42,307
Sukuk	330,367	-
	359,094	42,307
Unquoted investments		
Funds	46,956	53,619
Private equities	42,775	53,073
	89,731	106,692
	448,825	148,999
	1,887,484	1,526,490
Less: provision for impairment	(1,912)	-
Total investments measured at fair value	1,885,572	1,526,490

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

	2018 AED '000	2017 AED '000
UAE	1,287,135	915,534
Rest of the Middle East	364,032	89,221
Europe	94,005	170
Others	142,312	521,565
	1,887,484	1,526,490

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	2018 AED '000	2017 AED '000
Investment in associates and joint ventures	1,014,354	988,788

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

	2018 AED '000	2017 AED '000
At 1 January	15,156	-
Charge for the year (note 11)	-	15,156
At 31 December	15,156	15,156

Details of the Bank's investment in associates and joint ventures at 31 December is as follows:

	Place of incorporation	Proportion of ownership interest 2018 %	Proportion of ownership interest 2017 %	Principal activity
Associates				
Abu Dhabi National Takaful PJSC	UAE	42	42	Islamic insurance
Bosna Bank International D.D	Bosnia	27	27	Islamic banking
The Residential REIT (IC) Limited	UAE	30	41	Real estate fund
Joint ventures				
Abu Dhabi Islamic Bank – Egypt (S.A.E.)	Egypt	49	49	Banking (under conversion to Islamic bank)
Saudi Finance Company CSJC	Kingdom of Saudi Arabia	51	51	Islamic Retail Finance
Arab Link Money Transfer PSC (under liquidation)	UAE	51	51	Currency Exchange
Abu Dhabi Islamic Merchant Acquiring Company LLC	UAE	51	51	Merchant acquiring

Summarised financial information of investment in significant associates and joint venture are set out below:

	2018 AED '000	2017 AED '000
1 - Abu Dhabi National Takaful PJSC		
Share of associate's statement of financial position		
Assets	424,554	391,395
Liabilities	(279,660)	(263,753)
Net assets	144,894	127,642
Share of associate's revenue and profits:		
Revenue for the year	51,283	48,418
Profit for the year	27,198	21,384
Dividends received during the year	8,333	6,667
2 - Bosna Bank International D.D		
Share of associate's statement of financial position		
Assets	542,325	509,832
Liabilities	(460,045)	(425,482)
Net assets	82,280	84,350

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

Share of associate's revenue and profits:		
Revenue for the year	**18,482**	11,710
Profit for the year	**2,139**	3,444
3 - Abu Dhabi Islamic Bank – Egypt (S.A.E.)		
Share of joint venture's statement of financial position		
Assets	**4,958,070**	3,740,253
Liabilities	**(4,668,844)**	(3,518,532)
Net assets	**289,226**	221,721
Share of joint venture's revenue:		
Revenue for the year	**445,117**	199,950

As of 31 December 2018, the Bank's share of the contingent liabilities and commitments of associates and joint ventures amounted to AED 618,278 thousand (2017: AED 355,344 thousand). The equity instruments of Abu Dhabi National Takaful PJSC are quoted in Abu Dhabi Securities Exchange, UAE and the quoted value of the Banks' share of investment at 31 December 2018 amounted to AED 183,323 thousand (2017: AED 214,570 thousand) and its carrying value as of 31 December 2018 amounted to AED 221,794 thousand (2017: AED 202,929 thousand).

22 INVESTMENT PROPERTIES

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

2018	Land AED '000	Other properties AED '000	Total AED '000
Cost:			
Balance at 1 January	**988,572**	**172,696**	**1,161,268**
Transfer from capital work in progress (note 25)	**-**	**374,043**	**374,043**
Sales Return	**-**	**4,951**	**4,951**
Disposals	**-**	**(3,088)**	**(3,088)**
Gross balance at 31 December	**988,572**	**548,602**	**1,537,174**
Less: provision for impairment	**(73,092)**	**(11,725)**	**(84,817)**
Net balance at 31 December	**915,480**	**536,877**	**1,452,357**
Accumulated depreciation:			
Balance at 1 January	**-**	**43,148**	**43,148**
Charge for the year	**-**	**13,134**	**13,134**
Relating to disposals	**-**	**(1,102)**	**(1,102)**
Balance at 31 December	**-**	**55,180**	**55,180**
Net book value at 31 December	**915,480**	**481,697**	**1,397,177**

22 INVESTMENT PROPERTIES continued

2017	Land AED '000	Other properties AED '000	Total AED '000
Cost:			
Balance at 1 January	997,920	293,723	1,291,643
Disposals	(9,348)	(121,027)	(130,375)
Gross balance at 31 December	988,572	172,696	1,161,268
Less: provision for impairment	(13,339)	(11,398)	(24,737)
Net balance at 31 December	975,233	161,298	1,136,531
Accumulated depreciation:			
Balance at 1 January	-	55,464	55,464
Charge for the year	-	9,345	9,345
Relating to disposals	-	(21,661)	(21,661)
Balance at 31 December	-	43,148	43,148
Net book value at 31 December	975,233	118,150	1,093,383

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 35,250 thousand (2017: AED 13,215 thousand).

The fair values of investment properties at 31 December 2018 amounted to AED 1,544,965 thousand (2017: AED 1,334,262 thousand) are as per valuation conducted by professional valuers employed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations, and has appropriate qualifications and experience in the valuation of properties in the UAE. The fair value of the properties has been determined either based on transactions observable in the market or valuation models.

The valuation methodologies considered by external valuers include:

a) Comparison method: This method derives the value by analyzing recent sales transactions of similar properties in a similar location.

b) Investment method: This method derives the value by converting the future cash flow to a single current capital value.

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

	Land AED '000	Other properties AED '000	Total AED '000
At 1 January 2017	16,790	11,398	28,188
Charge for the year (note 11)	462	-	462
Relating to disposal	(3,913)	-	(3,913)
At 1 January 2018	**13,339**	**11,398**	**24,737**
Charge for the year (note 11)	**59,753**	**327**	**60,080**
At 31 December 2018	**73,092**	**11,725**	**84,817**

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

	Land AED '000	Other properties AED '000	Total AED '000
2018:			
UAE	**980,358**	**493,422**	**1,473,780**
Rest of the Middle East	**8,214**	**-**	**8,214**
	988,572	**493,422**	**1,481,994**

22 INVESTMENT PROPERTIES continued

2017:			
UAE	980,358	129,548	1,109,906
Rest of the Middle East	8,214	-	8,214
	988,572	129,548	1,118,120

23 DEVELOPMENT PROPERTIES

	2018 AED '000	2017 AED '000
Development properties	**837,381**	837,381
Provision for impairment	**(1,736)**	-
	835,645	837,381

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

	2018 AED '000	2017 AED '000
At 1 January	**-**	-
Charge for the year (note 11)	**1,736**	-
At 31 December	**1,736**	-

Development properties include land with a carrying value of AED 800,000 thousand (2017: AED 800,000 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

24 OTHER ASSETS

	2018 AED'000	2017 AED'000
Acceptances	**336,903**	418,157
Assets acquired in satisfaction of claims	**198,163**	186,825
Advances against purchase of properties	**-**	53,071
Trade receivables	**261,382**	301,347
Prepaid expenses	**789,561**	698,478
Accrued profit	**197,567**	149,256
Advance to contractors	**44,868**	47,837
Advance for investments	**183,625**	183,625
Others	**896,108**	1,459,667
	2,908,177	3,498,263
Less: provision for impairment	**(28,120)**	(34,745)
	2,880,057	3,463,518

Assets acquired in exchange for claims in order to achieve an orderly realization are recorded as "Assets acquired in satisfaction of claims". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the claim (net of provision for impairment) at the date of exchange.

25 PROPERTY AND EQUIPMENT

	Land AED '000	Buildings AED '000	Furniture and fixtures AED '000	Computer and office equipment AED '000	Motor vehicles AED '000	Capital work-in progress AED '000	Total AED '000
2018							
Cost or revaluation:							
At 1 January	291,178	294,435	444,491	1,131,577	12,832	985,578	3,160,091
Exchange differences	-	-	(4,481)	(18,051)	(485)	(557)	(23,574)
Additions	-	-	806	8,687	3,763	389,027	402,283
Transfers from capital work-in-progress	-	443,425	90,830	178,261	-	(712,516)	-
Transfers to investment property (note 22)	-	-	-	-	-	(374,043)	(374,043)
Disposals	-	-	(2,849)	(229)	(885)	-	(3,963)
	291,178	737,860	528,797	1,300,245	15,225	287,489	3,160,794
Provision for impairment	-	(1,455)	-	-	-	-	(1,455)
At 31 December	291,178	736,405	528,797	1,300,245	15,225	287,489	3,159,339
Depreciation:							
At 1 January	-	55,399	313,347	717,862	10,806	-	1,097,414
Exchange differences	-	-	(3,840)	(10,283)	(474)	-	(14,597)
Charge for the year	-	17,284	39,910	152,242	1,685	-	211,121
Relating to disposals	-	-	(2,203)	(202)	(855)	-	(3,260)
At 31 December	-	72,683	347,214	859,619	11,162	-	1,290,678
Net book value:							
At 31 December	291,178	663,722	181,583	440,626	4,063	287,489	1,868,661
2017							
Cost or revaluation:							
At 1 January	291,178	294,435	390,041	914,162	13,308	954,366	2,857,490
Exchange differences	-	-	(866)	(181)	(162)	(31)	(1,240)
Additions	-	-	326	613	-	303,976	304,915
Transfers from capital work-in-progress	-	-	54,990	216,983	760	(272,733)	-
Disposals	-	-	-	-	(1,074)	-	(1,074)
At 31 December	291,178	294,435	444,491	1,131,577	12,832	985,578	3,160,091
Depreciation:							
At 1 January	-	43,656	276,721	610,022	10,124	-	940,523
Exchange differences	-	-	(20)	(720)	(159)	-	(899)
Charge for the year	-	11,743	36,646	108,560	1,607	-	158,556
Relating to disposals	-	-	-	-	(766)	-	(766)
At 31 December	-	55,399	313,347	717,862	10,806	-	1,097,414
Net book value:							
At 31 December	291,178	239,036	131,144	413,715	2,026	985,578	2,062,677

26 GOODWILL AND INTANGIBLES

		Other intangible assets		
	Goodwill AED '000	Customer relationships AED '000	Core deposit AED '000	Total AED '000
At 1 January 2017	109,888	258,397	51,851	420,136
Amortisation during the year	-	(45,640)	(9,153)	(54,793)
At 1 January 2018	**109,888**	**212,757**	**42,698**	**365,343**
Amortisation during the year	**-**	**(45,600)**	**(9,152)**	**(54,752)**
At 31 December 2018	**109,888**	**167,157**	**33,546**	**310,591**

On 6 April 2014, the Bank acquired retail banking business of Barclays Bank in the U.A.E. During the second quarter 2014, the acquisition was approved by the Central Bank of the UAE. Based on the purchase price allocation, the Bank has recognized AED 438,012 thousand as intangible asset and AED 109,888 as goodwill.

Goodwill

For the purpose of impairment testing, goodwill is allocated to the Bank's operating divisions which represent the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

Other intangible assets

Customer relationships

Customer relationship intangible asset represents the value attributable to the business expected to be generated from customers that existed at the acquisition date. In determining the fair value of customer relationships, covered cards customers were considered separately, given their differing risk profiles, relationships and loyalty. The relationships are expected to generate material recurring income in the form of customer revenues, fees and commissions.

Core deposit

The value of core deposit intangible asset arises from the fact that the expected profit distribution on these deposits, governed by their contractual terms, are expected to be lower than other wholesale or treasury sukuk instruments' expected profit distributions. The spread between the expected profit distributions on these deposits and sukuk instruments represents the value of the core deposit intangible.

Impairment assessment of goodwill

No impairment losses on goodwill were recognised during the year ended 31 December 2018 (2017: Nil).

The recoverable amounts have been assessed based on their value in use. Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of this operating division.

The recoverable amount of goodwill of cash generating unit, determined on the basis of value in use calculation, uses cash flow projections covering a five year period, with a terminal growth rate of 2% (2017: 2%) applied thereafter. The forecast cash flows have been discounted at a rate of 10.5% (2017: 10.5%).

Sensitivity to a one percentage point changes in the discount rate or the terminal growth rate and based on the results; management believes that no reasonably possible change in any of the above mentioned key assumptions would cause the carrying value to exceed the recoverable amount.

27 DUE TO FINANCIAL INSTITUTIONS

	2018 AED'000	2017 AED'000
Current accounts	**878,693**	1,538,954
Investment deposits	**3,203,909**	2,149,604
	4,082,602	3,688,558
Current account – Central Bank of UAE	**55,652**	-
	4,138,254	3,688,558

27 DUE TO FINANCIAL INSTITUTIONS continued

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

	2018 AED'000	2017 AED'000
UAE	**2,176,921**	1,956,937
Rest of the Middle East	**694,135**	455,606
Europe	**33,192**	108,186
Others	**1,234,006**	1,167,829
	4,138,254	3,688,558

28 DEPOSITORS' ACCOUNTS

	2018 AED'000	2017 AED'000
Current accounts	**32,085,016**	32,738,664
Investment accounts	**67,717,438**	66,743,153
Profit equalisation reserve	**601,293**	521,802
	100,403,747	100,003,619

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

	2018 AED'000	2017 AED'000
At 1 January	**521,802**	454,419
Share of profit for the year	**79,491**	67,383
At 31 December	**601,293**	521,802

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

	2018 AED'000	2017 AED'000
Industry sector:		
Government	**6,523,799**	6,648,994
Public sector	**10,386,595**	8,318,185
Corporates	**14,289,496**	14,965,482
Financial institutions	**1,586,075**	1,449,801
Individuals	**53,053,592**	54,269,920
Small and medium enterprises	**12,131,123**	11,832,026
Non-profit organisations	**2,433,067**	2,519,211
	100,403,747	100,003,619

	2018 AED'000	2017 AED'000
Geographic region:		
UAE	**94,358,170**	94,243,953
Rest of the Middle East	**4,415,013**	4,356,973
Europe	**638,372**	461,535
Others	**992,192**	941,158
	100,403,747	100,003,619

28 DEPOSITORS' ACCOUNTS continued

	2018 AED'000	2017 AED'000
Currencies:		
UAE Dirham	**84,077,223**	80,727,844
US Dollar	**12,442,629**	14,866,945
Euro	**1,361,959**	2,134,877
Sterling Pound	**454,835**	948,371
Others	**2,067,101**	1,325,582
	100,403,747	100,003,619

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

With respect to investment deposits, the Bank is liable only in case of misconduct, negligence or breach of contract otherwise it is on the account of the fund's provider (Rab Al Mal) or the principal (the Muwakkil).

29 OTHER LIABILITIES

	2018 AED'000	2017 AED'000
Accounts payable	**448,349**	432,385
Acceptances	**336,903**	418,157
Accrued profit for distribution to depositors and sukuk holders	**239,357**	285,485
Bankers' cheques	**281,913**	365,415
Provision for staff benefits and other expenses	**438,851**	387,896
Retentions payable	**14,200**	63,483
Advances from customers	**89,344**	136,890
Accrued expenses	**391,268**	205,613
Unclaimed dividends	**108,936**	110,841
Deferred income	**150,952**	163,054
Charity account	**4,793**	4,905
Donation account	**27,345**	13,523
Negative fair value on Shari'a compliant alternatives of derivative financial instruments (note 37)	**7,017**	4,901
Others	**376,001**	419,710
	2,915,229	3,012,258

30 SHARE CAPITAL

	2018 AED'000	2017 AED'000
Authorised share capital:		
4,000,000 thousand (2017: 4,000,000 thousand) ordinary shares of AED 1 each (2017: AED 1 each)	**4,000,000**	4,000,000
Issued and fully paid share capital:		
3,168,000 thousand (2017: 3,168,000 thousand) ordinary shares of AED 1 each (2017: AED 1 each)	**3,168,000**	3,168,000
464,000 thousand right shares issued: 0.146 share against each share held of AED 1 each (2017: Nil)	**464,000**	-
3,632,000 thousand (2017: 3,168,000 thousand) ordinary shares of AED 1 each (2017: AED 1 each)	**3,632,000**	3,168,000

On 19 August 2018 the Shareholders, in the General Assembly meeting, approved the right issue of 464,000 thousand shares of AED 1 each representing 14.6% (2017: Nil) of the paid up capital along with the premium of AED 1.16 per share. Total amount received from right shares including premium amounting to AED 1,002,240 thousand (2017: Nil). Issuance costs amounting to AED 3,416 thousand were incurred.

31 RESERVES

31.1 Legal reserve

As required by the Federal Law No. 2 of 2015, concerning Commercial Companies and the Articles of Association of the Bank and its subsidiaries, 10% of the profit for the year is transferred to the legal reserve. The Bank shall resolve to discontinue such annual transfers as the reserve equals to or more than 50% of the paid up share capital of the Bank. The legal reserve is not available for distribution to the shareholders.

As per Article 203 of UAE Federal Commercial Companies Law No. 8 of 1984 (as amended), the Bank has transferred the share premium amounting to AED 1,529,412 thousand to the legal reserve. As the balance of the reserve exceeds 50% of the total paid up share capital, no transfer to the legal reserve has been made from the profit during the year for the Bank.

During 2018, the Bank has transferred the share premium amounting to AED 538,240 thousand pertaining to the right share issue of 464,000 to the legal reserve after the shareholders' approval in the General Assembly meeting held on 19 August 2018.

During 2015, the Bank has transferred the share premium amounting to AED 336,000 thousand pertaining to the right share issue of 168,000 to the legal reserve after the shareholders' approval in the Extra Ordinary General meeting held on 28 June 2015.

31.2 General reserve

Under Article 57(2) of the Bank's Articles of Association, the Annual General Assembly of the Bank, upon recommendation of the Board of Directors, have resolved to transfer 10% of the profit for the year to the general reserve. This reserve shall be used in the future for purposes determined by the shareholders' General Assembly upon the recommendation of the Board of Directors.

31.3 Credit risk reserve

Upon the recommendation of the Board of Directors, the Bank has established a special reserve for credit risk which is subject to the approval by the shareholders in the Annual General Assembly. Contributions to the reserve are voluntary.

32 PROPOSED DIVIDENDS

	2018 AED'000	2017 AED'000
Cash dividend: AED 0.2738 per share of AED 1 each (2017: AED 0.2887 per share of AED 1 each)	**994,313**	914,530

Cash dividend of 27.38% of the paid up capital relating to year ended 31 December 2018 amounting to AED 994,313 thousand shall be paid after the approval by the shareholders in the Annual General Assembly.

Cash dividend of 28.87% of the paid up capital relating to year ended 31 December 2017 amounting to AED 914,530 thousand has been paid after the approval by the shareholders at the Annual General Assembly held on 21 March 2018.

33 OTHER RESERVES

	Cumulative changes in fair values AED '000	Land revaluation reserve AED '000	Foreign currency translation reserve AED '000	Hedging reserve AED '000	Total AED '000
At 1 January 2017	(163,080)	192,700	(711,664)	(1,724)	(683,768)
Net gain on valuation of equity investments carried at FVTOCI	1,634	-	-	-	1,634
Loss on disposal of investments carried at FVTOCI	177	-	-	-	177
Exchange differences arising on translation of foreign operations	-	-	(24,060)	-	(24,060)
Loss on hedge of foreign operations	-	-	(34,008)	-	(34,008)
Fair value loss on cash flow hedges	-	-	-	(3,157)	(3,157)
At 1 January 2018 - audited	**(161,269)**	**192,700**	**(769,732)**	**(4,881)**	**(743,182)**
Transition adjustment on adoption of IFRS 9	**21,979**	**-**	**-**	**-**	**21,979**
At 1 January 2018 - adjusted	**(139,290)**	**192,700**	**(769,732)**	**(4,881)**	**(721,203)**
Net movement in valuation of equity investment carried at FVTOCI	**(34,405)**	**-**	**-**	**-**	**(34,405)**
Net movement in valuation of investment in sukuk carried at FVTOCI	**(28,062)**	**-**	**-**	**-**	**(28,062)**
Net fair value changes for investment in sukuk carried at FVTOCI released to income statement (note 6)	**(4,107)**	**-**	**-**	**-**	**(4,107)**
Exchange differences arising on translation of foreign operations	**-**	**-**	**(96,700)**	**-**	**(96,700)**
Gain on hedge of foreign operations	**-**	**-**	**21,130**	**-**	**21,130**
Fair value loss on cash flow hedges	**-**	**-**	**-**	**(2,102)**	**(2,102)**
At 31 December 2018	**(205,864)**	**192,700**	**(845,302)**	**(6,983)**	**(865,449)**

34 TIER 1 SUKUK

	2018 AED'000	2017 AED'000
Tier 1 sukuk – Listed (first issue)	**-**	3,672,500
Tier 1 sukuk – Listed (second issue)	**2,754,375**	-
Tier 1 sukuk – Government of Abu Dhabi	**2,000,000**	2,000,000
	4,754,375	5,672,500

Tier 1 sukuk – Listed (first issue)
On 19 November 2012, the Bank through a Shari'a compliant sukuk arrangement has issued Tier 1 sukuk – Listed (the "Sukuk") amounting to AED 3,672,500 thousand (USD 1 billion). This Sukuk was issued under the authorities approved by the shareholders of the Bank in the Extraordinary General Meeting held on 21 October 2012. Issuance costs amounting to AED 37,281 thousand were incurred at the time of issuance.

This Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank upon its conclusion subject to the terms and conditions of the Mudaraba. The sukuk is listed on the London stock exchange and is callable by the Bank after period ending on 16 October 2018 (the "First Call Date") or any achieved profit payment date thereafter subject to certain conditions. The Sukuk bear an expected Mudaraba profit rate of 6.375%, such achieved profit is payable during the initial period of six years semi-annually in arrears. After the initial period, and for every 6th year thereafter, resets to a new expected Mudaraba profit rate based on the then 6 year LIBOR rate plus an expected margin of 5.393% Profit distributions will be reported in the consolidated statement of changes in equity.

34 TIER 1 SUKUK continued

Tier 1 sukuk – Listed (first issue) continued

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

The Bank redeemed all the Sukuk on the first call date, i.e. 16 October 2018.

Tier 1 sukuk – Listed (second issue)

On 20 September 2018, the Bank through a Shari'a compliant sukuk arrangement has issued Tier 1 sukuk – Listed (second issue) (the "Sukuk") amounting to AED 2,754,375 thousand (USD 750 million). This Sukuk was issued under the authorities approved by the shareholders of the Bank in the Extraordinary General Meeting held on 19 August 2018. Issuance costs amounting to AED 19,373 thousand were incurred at the time of issuance.

This Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank upon its conclusion subject to the terms and conditions of the mudaraba. The sukuk is listed on the Irish stock exchange and is callable by the Bank after period ending on 20 September 2023 (the "First Call Date") or any achieved profit payment date thereafter subject to certain conditions. The Sukuk bear an expected mudaraba profit rate of 7.125%, such achieved profit is payable during the initial period of five years semi-annually in arrears. After the initial period, and for every 5th year thereafter, resets to a new expected mudaraba profit rate based on the then 5 year US treasury rate plus an expected margin of 4.270%. Profit distributions will be reported in the consolidated statement of changes in equity.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of the next following payment of expected mudaraba profit distribution.

Tier 1 sukuk – Government of Abu Dhabi

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

This Sukuk-Gov is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba. The Sukuk-Gov is callable by the Bank subject to certain conditions. The Sukuk-Gov bear an expected mudaraba profit rate of 6% payable during the initial period of five years semi-annually in arrears and, after the initial period, bear an expected variable mudaraba profit rate payable of 6 months EIBOR plus an expected margin of 2.3%. Profit distributions will be reported in the consolidated statement of changes in equity.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

35 NON-CONTROLLING INTEREST

Non-controlling interest represents the minority shareholder's proportionate share in the aggregate value of the net assets of subsidiaries.

36 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

36 CONTINGENT LIABILITIES AND COMMITMENTS continued

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

	2018 AED'000	2017 AED'000
Contingent liabilities		
Letters of credit	**3,168,884**	3,215,199
Letters of guarantee	**7,006,289**	8,572,858
	10,175,173	11,788,057
Commitments		
Undrawn facilities commitments	**517,540**	666,945
Future capital expenditure	**110,763**	174,699
Investment and development properties	**4,366**	6,108
	632,669	847,752
	10,807,842	12,635,809

37 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

Shari'a compliant alternatives of swaps are based on a unilateral Wa'ad (promise) structure between two parties to buy a specific Shari'a compliant commodity at an agreed price on an agreed date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. For Shari'a complaint alternatives of swap, counter parties enter into two separate and independent Murabaha transactions, the results of which are exchanged between them in a manner that enables one of them to receive the equivalent of the fixed reference rate and the other counterparty to the receive the equivalent of the reference floating rate, where the profit payments are based on a notional value in a single currency.

The table below shows the fair values of Shari'a compliant alternatives of derivative financial instruments, together with the notional amounts analysed by term of maturity. The notional amount is based on the amount of the underlying transaction, reference rate or index and is the basis upon which changes in the value of transactions are measured. The notional amounts indicate the volume of transactions outstanding at the reporting date and are neither indicative of the market risk nor credit risk.

	Negative fair value AED '000	Notional amount AED '000	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000
31 December 2018: Notional amount by term to maturity						
Shari'a compliant alternatives of swap (note 29)	7,017	4,544,461	3,268,069	205,935	554,499	515,958
31 December 2017: Notional amount by term to maturity						
Shari'a compliant alternatives of swap (note 29)	4,901	2,683,629	1,385,321	374,228	296,467	627,613

38 ZAKAT

As the Bank is not required to pay Zakat by laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the share value, for Zakat purposes based on Gregorian year, was estimated at AED 231,422 thousand (2017: AED 195,878 thousand) and accordingly, Zakat is estimated at AED 0.06372 (2017: AED 0.06183) per outstanding share.

However, in few jurisdictions, Zakat of the Bank's branches is mandatory by law either by taking provision or paying to a respective governmental entity responsible for Zakat. Therefore, the Bank has acted according to the law and paid the Zakat to these entities on behalf of the Shareholders and deducted the amount paid from the above total Zakat amount and accordingly adjusted the Zakat amount per each outstanding share.

Tier 1 Sukuk Zakat, based on Gregorian year, was estimated at AED 87,507 thousand (2017: AED 105,751 thousand) and accordingly, Zakat is estimated at AED 0.01841 (2017: AED 0.01864) per each AED dirham invested in Tier 1 Sukuk.

To assist the investors in ADIB Tier 1 Sukuk, the Bank has calculated their above Zakat amount. The payment of such Zakat amount is solely the responsibility of the investors in these Tier 1 Sukuk.

39 CASH AND CASH EQUIVALENTS

	2018 AED'000	2017 AED'000
Cash and balances with central banks, short term	**5,763,268**	9,991,448
Balances and wakala deposits with Islamic banks and other financial institutions, short term	**3,702,558**	2,577,411
Murabaha and mudaraba with financial institutions, short term	**1,049,629**	1,957,846
Due to financial institutions, short term	**(4,006,602)**	(3,638,236)
	6,508,853	10,888,469

The following significant non-cash transactions have been excluded from the consolidated statement of cash flows:

	2018 AED'000	2017 AED'000
Transfer from property and equipment to investment properties (note 22)	**374,043**	-

40 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank enters into transactions with related parties, comprising associates, directors, major shareholder, key management and their related concerns. The Bank obtains collateral, including charges over real estate properties and securities, the extent of which is dependent on the Bank's assessment of the credit risk of the related party. During last year, related party financing were renegotiated based on terms approved by the Board of Directors. All financial assets are performing and free of any provision for impairment. Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

Profit rates earned on balances and wakala deposits with banks and financial institutions and customer financing extended to related parties during the year has ranged from 0% to 7% (2017: 0% to 6% per annum).

Profit rates paid on due to financial institution and customers' deposits placed by related parties during the year have ranged from 0% to 0.8% per annum (2017: 0% to 0.8% per annum).

During the year, significant transactions with related parties included in the consolidated income statement were as follows:

	Major shareholder AED '000	Directors AED '000	Associates and Joint Ventures AED '000	Others AED '000	Total AED '000
31 December 2018					
Income from murabaha, mudaraba and wakala with financial institutions	**-**	**-**	**9,829**	**-**	**9,829**
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	**52,614**	**450**	**-**	**83,568**	**136,632**
Fees and commission income, net	**1**	**38**	**2,323**	**3,428**	**5,790**
Operating expenses	**-**	**432**	**-**	**-**	**432**
Distribution to depositors and sukuk holders	**1,213**	**70**	**872**	**50**	**2,205**
31 December 2017					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	14,394	-	14,394
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	57,447	456	-	77,214	135,117
Fees and commission income, net	-	72	243	3,419	3,734
Operating expenses	-	687	-	-	687
Distribution to depositors and sukuk holders	625	73	630	143	1,471

40 RELATED PARTY TRANSACTIONS continued

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

	Major shareholder AED '000	Directors AED '000	Associates and Joint Ventures AED '000	Others AED '000	Total AED '000
31 December 2018					
Balances and wakala deposits with Islamic banks and other financial institutions	**-**	**-**	**771,239**	**-**	**771,239**
Murabaha and Mudaraba with financial institutions	**-**	**-**	**177,847**	**-**	**177,847**
Murabaha, mudaraba, ijara and other Islamic financing	**2,611,227**	**12,353**	**-**	**3,413,718**	**6,037,298**
Other assets	**-**	**-**	**117,337**	**211,499**	**328,836**
	2,611,227	**12,353**	**1,066,423**	**3,625,217**	**7,315,220**
Due to financial institutions	**-**	**-**	**39,934**	**-**	**39,934**
Depositors' accounts	**93,806**	**39,231**	**147,700**	**31,827**	**312,564**
Other liabilities	**780**	**-**	**46**	**27,875**	**28,701**
	94,586	**39,231**	**187,680**	**59,702**	**381,199**

	Major shareholder AED '000	Directors AED '000	Associates and Joint Ventures AED '000	Others AED '000	Total AED '000
31 December 2017					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	918,817	-	918,817
Murabaha and Mudaraba with financial institutions	-	-	167,059	-	167,059
Murabaha, mudaraba, ijara and other Islamic financing	2,611,227	10,060	-	3,476,799	6,098,086
Other assets	-	-	85,933	186,541	272,474
	2,611,227	10,060	1,171,809	3,663,340	7,456,436
Due to financial institutions	-	-	31,019	-	31,019
Depositors' accounts	67,382	24,781	216,824	17,968	326,955
Other liabilities	625	18	29	2,961	3,633
	68,007	24,799	247,872	20,929	361,607

The Bank and its major shareholder jointly own a controlling stake in Abu Dhabi Islamic Bank – Egypt (S.A.E.) ("ADIB-Egypt") and have a formal joint control arrangement for their investment in ADIB-Egypt (note 21).

Compensation of key management personnel

The compensation of key management personnel during the year was as follows:

	2018 AED'000	2017 AED'000
Salaries and other benefits	**38,263**	34,639
Employees' end of service benefits	**2,840**	3,650
	41,103	38,289

During 2018, AED 4,900 thousand was paid to Board of Directors pertaining to the year ended 31 December 2017 after the approval by the shareholders in the Annual General Assembly held on 21 March 2018..

41 SEGMENT INFORMATION

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

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

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

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

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

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

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

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

Business segments information for the year ended 31 December 2018 were as follows:

	Global Retail banking AED '000	Global Wholesale banking AED '000	Private banking AED '000	Treasury AED '000	Real estate AED '000	Other operations AED '000	Total AED '000
Revenue and results							
Segment revenues, net	3,529,103	1,145,455	143,100	473,025	81,926	396,877	5,769,486
Operating expenses excluding provision for impairment, net	(1,920,577)	(395,993)	(62,196)	(45,617)	(78,206)	(146,014)	(2,648,603)
Operating profit	1,608,526	749,462	80,904	427,408	3,720	250,863	3,120,883
Provision for impairment, net	(301,396)	(116,946)	(7,486)	7,021	(61,816)	(139,474)	(620,097)
Profit (loss) for the year	1,307,130	632,516	73,418	434,429	(58,096)	111,389	2,500,786
Non-controlling interest	-	-	-	-	-	(700)	(700)
Profit (loss) for the year attributable to equity holders of the Bank	1,307,130	632,516	73,418	434,429	(58,096)	110,689	2,500,086
Assets							
Segmental assets	57,814,682	32,013,817	3,452,542	22,346,775	2,544,409	7,021,690	125,193,915
Liabilities							
Segmental liabilities	63,308,953	25,642,875	3,251,075	11,543,309	269,608	3,441,410	107,457,230

41 SEGMENT INFORMATION continued

Business segments information for the year ended 31 December 2017 were as follows:

	Global Retail banking AED '000	Global Wholesale banking AED '000	Private banking AED '000	Treasury AED '000	Real estate AED '000	Other operations AED '000	Total AED '000
Revenue and results							
Segment revenues, net	3,406,214	1,262,587	139,236	530,731	111,612	181,932	5,632,312
Operating expenses excluding provision for impairment, net	(1,752,896)	(398,257)	(57,091)	(42,131)	(79,718)	(211,736)	(2,541,829)
Operating profit (margin)	1,653,318	864,330	82,145	488,600	31,894	(29,804)	3,090,483
Provision for impairment, net	(520,552)	(221,504)	99	-	(1,962)	(46,441)	(790,360)
Profit (loss) for the year	1,132,766	642,826	82,244	488,600	29,932	(76,245)	2,300,123
Non-controlling interest	-	-	-	-	-	(1,369)	(1,369)
Profit (loss) for the year attributable to equity holders of the Bank	1,132,766	642,826	82,244	488,600	29,932	(77,614)	2,298,754
Assets							
Segmental assets	56,883,659	32,278,505	3,031,995	21,051,686	2,632,381	7,399,373	123,277,599
Liabilities							
Segmental liabilities	61,838,840	26,152,414	3,362,854	11,788,985	300,368	3,260,974	106,704,435

The following is the analysis of the total segment revenues of each segment between revenues from external parties and inter-segment:

	Global Retail banking AED '000	**Global Wholesale banking AED '000**	**Private banking AED '000**	**Treasury AED '000**	**Real estate AED '000**	**Other operations AED '000**	**Total AED '000**
2018							
Total segment revenues, net	**3,322,056**	**1,241,728**	**131,790**	**773,743**	**81,926**	**218,243**	**5,769,486**
Inter-segment revenues, net	**207,047**	**(96,273)**	**11,310**	**(300,718)**	**-**	**178,634**	**-**
Segment revenues, net	**3,529,103**	**1,145,455**	**143,100**	**473,025**	**81,926**	**396,877**	**5,769,486**
2017							
Total segment revenues, net	3,261,003	1,348,475	124,816	676,990	111,612	109,416	5,632,312
Inter-segment revenues, net	145,211	(85,888)	14,420	(146,259)	-	72,516	-
Segment revenues, net	3,406,214	1,262,587	139,236	530,731	111,612	181,932	5,632,312

Geographical information

The Group operates in two principal geographic areas that are domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the U.A.E. branches, associates and subsidiaries; and international area represents the operations of the Bank that originates from its branches in Iraq, Qatar and Sudan and through its subsidiaries and associates outside U.A.E. Given that, UAE contributes the majority of the revenues and the Group's total assets in UAE represent a significant portion of its total assets and liabilities, hence no further geographical analysis of segment revenues, expenses, operating profit (margin), assets and liabilities is presented.

42 RISK MANAGEMENT

42.1 Introduction

The core business of a bank is to manage risk and provide returns to the shareholders in line with the accepted risk profile. Risk is inherent in all of the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls in accordance with regulatory and Board requirements. The Group is exposed principally to credit risk, liquidity risk, market risk and operational risk but other risks such as reputational risk, legal risk and the various risks defined by the Basel accord are also monitored and managed.

42.1.1 Risk management governance structure

The Board of Directors ("Board") continues to have overall responsibility for the establishment and oversight of the Bank's risk management framework, as well as for approving the Bank's overall risk appetite, and ensuring that business is conducted within this framework. The Board is the ultimate sanctioning authority. During 2015, the Board approved a corporate governance framework and refreshed the charters of the various Board committees.

Strategy Committee

The Strategy Committee is appointed by the Board and is responsible to guide the Group's Executive Management to develop the Group's strategic objectives and business strategy, conduct periodic review of the achievement of strategic objectives and business plans and direct corrective actions wherever required. In addition, this committee also acts as a conduit between the Board and senior management on business issues.

Risk and Investment Approval Committee

The Risk and Investment Approval Committee is appointed by the Board and is responsible for the approvals of the Group's risk exposures, high value transactions and major items of capital expenditure. In addition, the Committee is also responsible for monitoring credit portfolio quality and provisions.

Governance and Risk Policy Committee

The Governance and Risk Policy Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in respect of the following for the Bank and all of its subsidiaries and material affiliates:

- Review the risk profile of the Group keeping in view the requirement pertaining to enterprise risk management and to make recommendations to calibrate the risk profile of the Group in line with the applicable regulatory requirements, rating considerations and business strategy;
- Assist the Board in overseeing the Group's response to the risks it faces through the approval of the Group's risk policies and standards; and
- Review and recommend the corporate governance framework and risk strategy to the Board in alignment with the business growth requirements of the Group.

Audit Committee

The Audit Committee is appointed by the Board to assist the Board it in fulfilling its oversight responsibilities in respect of the following for the Bank and all its subsidiaries and material affiliates:

- Ensuring the integrity of the Group's consolidated financial statements and financial reporting process;
- To review the financial and internal control systems, quality assurance and risk management framework;
- To review the performance of the internal audit function;
- To review the internal controls over financial reporting and annual independent audit of the Group's consolidated financial statements;
- To recommend to the Board the engagement of the external auditors and evaluation of their qualifications, independence and performance; and
- To ensure compliance by the Group with legal and regulatory requirements as pertaining to its business activities.

The duties and responsibilities of the committees are governed by formally approved charters.

42.1.2 The Group Risk Management ("GRM")

The Group Risk Management Group (GRM) is an independent risk organization that works in close partnership with the business units to support their activities, whilst safeguarding the risk profile of the Group as the second line of defense. The GRM is led by the Group Chief Risk Officer (GCRO) and has six main responsibilities:

- Ensure maintenance of an appropriate risk management framework and adherence to risk policies and procedures across the Group
- Ensure compliance with risk-related legal and regulatory guidelines in the UAE and in our overseas markets
- Maintain the primary relationship with local regulators with respect to risk-related issues
- Approve commercial and consumer financing transactions within its delegated authorities
- Maintain prudent risk control systems, models and processes, and
- Ensure a robust credit process is maintained in support of all business lines.

42 RISK MANAGEMENT continued

42.1.2 The Group Risk Management ("GRM") continued

Reporting to the GCRO are senior, experienced risk specialists who manage specific areas of risk, including Wholesale Banking, Private Banking, Retail Banking, Operational Risk, Credit Control, Remedial Management, Enterprise Risk Management and Market Risk. GRM responsibilities extend across all the business units of the Bank in all of the geographies in which the Bank operates.

Credit Committee

All customer related business proposals are reviewed and approved by a credit committee with delegated authority approved by the Board. The credit committee consists of designated credit officers and senior credit officers appointed following a rigorous and extended process of qualification. These appointments are made by the Chief Executive Officer upon the recommendation of the GCRO. The credit approval process and the authorities vested with the committee members are laid out in the Bank's Credit Policy & Procedures Manual. The manual is revised periodically.

43.1.3 Risk measurement and reporting systems

In order to effectively monitor and control risks, the GRM maintains a capability that allows it to::

- Prepare portfolio reports across a range of indicators such as portfolio concentrations by geography, industry type, product and risk rating. which are used to analyse and monitor overall portfolio quality;
- Monitor the integrity and consistency of data, including risk ratings, risk migrations, exposures and losses, including the maintenance of a central loss database for the monitoring and analysis of losses;
- Set parameters to be used for the calculation of expected loss and risk capital requirements;
- Consolidate portfolio management data and reports for use by Executive Management and the Board; and
- Establish and maintain a set of early warning indicators to identify emerging risks.

Detailed reporting of industry, customer and geographic risks acquired takes place frequently. These reports are examined and discussed closely in a series of quarterly portfolio reviews held with senior business and risk managers. Decisions on risk appetite, adjustments to financing criteria and other initiatives are taken as a result of these meetings. Risk reports are presented to the Chief Executive Officer, the Governance & Risk Policy Committee and the Board regularly. Senior management assesses the adequacy of the provision for credit losses on a monthly basis.

The Group actively uses collateral to reduce its credit risks.

42.1.4 Risk concentration

The Bank seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers or in specific locations or businesses. It also obtains security when appropriate.

Details of the composition of the financing portfolio are provided in notes 17 and 18.

42.1.5 Group Internal Audit

Risk management processes throughout the Bank are reviewed periodically by the internal audit function that reviews both the adequacy of the procedures and the Bank's compliance with the procedures. Group Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee. The Head of Group Internal Audit has a direct reporting line to the Audit Committee thus demonstrating his independence and objectivity in all audit engagements undertaken within the Bank.

42.1.6 Basel II / Internal Capital Adequacy Assessment Process ("ICAAP")

Since 2009, the UAE Central Bank, as part of the international Basel II regulatory regime, has required each UAE bank to submit a report on its internal capital adequacy assessment process – this is known as "ICAAP". The Bank has prepared and submitted its ICAAP report in each of the past seven years. The process aligns the Bank's risk appetite with its risk capacity which, in turn, produces an enterprise-wide set of risk limits set within and relevant to the Bank's overall strategy.

42.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by the use of a focused target market discipline which defines who the Bank is prepared to deal with from a risk profile perspective and the use of risk acceptance criteria, which define what type and volume of risk the Bank is prepared to undertake with each counterparty. These critical tools are used in conjunction with close monitoring of credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of all counter-parties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

All commercial credit risk exposures are risk rated using Moody's Risk Analyst system, recognized as an industry wide standard. This platform supports a number of different rating models for various businesses which are now well embedded. Facility Risk Ratings are also applied. Consumer exposures are rated using application and behavioral scorecards.

42 RISK MANAGEMENT continued

42.2 Credit risk continued

Model risk management

For effective risk measurement, Group uses a range of risk quantification models such as customer risk rating/scoring, loss given default, market risk and stress testing models. These risk models are subject to the Group's model governance policy, which prescribes guidelines across the model life cycle and establishes principles and instructions to enable an effective decision process across stakeholders in order to develop and maintain high quality risk models at Group. The governance policy covers the following:

- The roles and responsibilities of stakeholders (Model Developer, Independent Validator, Approval Authority etc.),
- The minimum requirement for each of the model life cycle steps,
- The approval process,
- The minimum documentation requirement.

Credit risk measurement

Group credit risk is measured in terms of expected credit loss (ECL), which is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default EAD), and discounting at the initial effective profit rate.

The Bank has developed a range of models to estimate these parameters. For the portfolios where sufficient historical data was available, the Group has developed a statistical model and for other portfolios judgmental models were developed.

Credit risk grading

The Group has designed a master rating scale, which has 22 risk grades reflecting assessment of default probability of the customer. The master rating scale comprises 19 performing grades and 3 non-performing grades.

For the Retail portfolios, the Group uses behavior scorecards, which includes recent payment behavior and other relevant relationship information available with the bank, to calculate credit score which is calibrated to PiT (Point-in-Time) PD.

Non Retail customers are rated using segment specific customer risk rating models, which uses financial and non-financial information related to the customer to arrive at a risk rating. The risk ratings are calibrated to PiT (Point-in-Time) PD for IFRS 9 based calculations.

ECL measurement

The assessment of credit risk and the estimation of ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL takes into account the time value of money.

As per the IFRS 9 requirements, Group calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over the next 12 months or effective remaining life of the facility. Expected Loss at any point in time of the life of the facility is calculated using the following formula:

*Expected Credit Loss (ECL) = PD*EAD*LGD*

For each facility the Group calculates ECL over two forecast periods:

- 12 Month: ECL is calculated using 12-month forward looking PD, LGD and EAD.
- Lifetime: ECL is calculated using Lifetime forward looking PD, LGD and EAD.

12 Month or Lifetime ECL for each facility is used depending on the stage of the facility, as explained below:

- Stage1: where no significant increase in credit risk is observed,12 month Expected Credit Loss (ECL) is recorded as impairment provision;
- Stage2: where significant increase in credit risk has been observed, Life-time ECL is recorded as impairment provision;
- Stage3: where the exposure is defaulted or impaired, Life-time ECL is recorded as impairment provision.

Significant increase in credit risk (SICR)

The stage allocation is determined by identifying a significant increase in credit risk since initial origination. The Group assesses when significant increase in credit risk has occurred based on the quantitative and qualitative assessments. The facilities are classified as stage 2 when they meet following criteria:

Quantitative criteria: Thresholds based on absolute PD or relative PD increase compared to origination have been defined for various portfolios, in order to determine the significant increase in credit risk. In addition to this the bank also uses rating migration since origination for non-retail customers.

Qualitative criteria: Independent of PD, the Group also uses qualitative information to assess the significant increase in credit risk. This includes information such as watch list classification and indicators of historic delinquency.

Backstop criteria: For retail customers, a backstop is applied and the facility is considered to have experienced a significant increase in credit risk if the finance customer is more than 30 days past due on its contractual payments.

42 RISK MANAGEMENT continued

42.2 Credit risk continued

For corporate customers, whenever there is a past due of 30 days, an individual assessment is made, whether there is a significant increase in credit risk.

For the cases where Group has experienced limitation on the information available at origination, certain proxy assumptions were made to estimate the rating at origination.

Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, when it meets one or more of the following criteria:

Retail: A customer who is delinquent over 90 days past due will be classified as default or credit impaired.

Corporate: All customers currently classified/rated as below will be considered under default:

- Where classification is Substandard, Doubtful or Loss
- Risk Rating is D/8, D/9, and D/10

The customers are classified or downgraded in the above categories, based on a comprehensive assessment of the customer's credit quality. This assessment includes review of payment history, capacity to repay and financial health.

Curing

Assets can move back to Stage 1 from Stage 2 when they no longer meet the significant increase in credit risk criteria and have completed a probation period of 12 months, defined by the Group. Similarly for the movement from Stage 3 to Stage 2, for certain portfolios, the Group's policy include probation periods whereby assets remain in Stage 3 for periods of between six to twelve months. The policy also ensures that none of the assets can move back directly to Stage 1 from Stage 3.

Measuring ECL - Explanations of input, assumptions and estimation techniques

As per IFRS 9, the ECL calculated for a facility should incorporate both current and forward-looking economic outlook over 12 months and over the remaining life of the facility.

The Group calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over forecast period (next 12 months or effective remaining life of the facility).

At the reporting date, a monthly ECL is estimated for each individual exposure for each month until the end of the forecast period. This is calculated as a simple multiplication of PD, LGD and EAD at each month. These monthly ECLs are discounted to the reporting date using the effective profit rate and the summation of these discounted monthly ECLs gives the ECL estimate. The lifetime ECL is the sum of the monthly ECLs over the remaining life, while the 12-month ECL is limited to the first 12 months.

The estimation methodology for three main components, PD, LGD and EAD is explained below:

Probability of Default (PD):

Retail: The 12 month PD for each facility is based on behaviour scores which are calibrated to recent portfolio performance in order to reflect the Point in Time PDs. In cases where sufficient performance history is not available to calculate the behaviour score, the Bank has used pool level PDs.

Measuring ECL- Explanations of input, assumptions and estimation techniques continued

Based on historical data, the Group has developed lifetime default rate evolution curves for various portfolios and segments. To get the macro-economic adjusted lifetime PD term structure, the lifetime curves are multiplied by the macro-economic scalars, derived using the macro-economic overlay models developed by the Group.

Non-Retail: PDs for corporate customers are driven by the risk rating generated from respective rating models. Historical default rates of different segments have been used to develop PD macroeconomic overlay models. The PDs forecasted from the models are then converted to cumulative PD using survival analysis concept and a marginal PD is derived.

Loss Given Default (LGD):

Retail: The LGD models are based on the cash recovery estimates. For secured products recoveries from collateral are also considered.

For unsecured products and segments within, the Group has developed recovery curves over the workout period based on the historical recovery experience. For each facility the LGD is calculated using those recovery curves with an adjustment for macro-economic outlook.

42 RISK MANAGEMENT continued

42.2 Credit risk continued

For secured products, the LGD is based on the current/future collateral value adjusted for depreciation or House Price Index (HPI).

Non-Retail: ADIB uses an off-the-shelf model, calibrated on the Group's portfolio, to calculate unsecured LGD. Secured LGD is then calculated after taking the benefit of the assigned collaterals. The LGDs are adjusted for macroeconomic outlook.

Exposure at Default (EAD):

The EAD is the amount which the Bank expects a customer to owe in the event of default. The EAD depends on the product type:

- For amortizing products, this is based on the contractual repayments over the forecast period.
- For revolving/off-balance products, this is estimated as a combination of current exposure and credit conversion factor applied on the undrawn portion of the limit.

The Group applies a management overlay for cases where models are unable to capture customer's idiosyncrasies. These overlays are discussed and approved by appropriate management committee of the Group.

Forward-looking information incorporated in the ECL model

As per IFRS 9 requirements, forward looking economic outlook has also been incorporated in the loss calculations. The Group has developed a macro-economic overlay models by performing statistical analysis to establish a historical relationship of macro-economic variables with PD and components of LGD. These models depend on various variables such as Oil Price, GDP and Real Estate price etc. The macro-economic models are used to adjust the PD and LGD calculated from the base models. In addition to ECL calculations, the forward looking lifetime PD is used to determine the significant increase in credit risk.

The Group sources the macro-economic scenarios data from an external vendor, which uses scenarios built based on the current market conditions and outlook of their economic team. The Group uses three macro-economic scenarios and a weightage has been assigned to each scenario.

Credit risk monitoring

For IFRS 9 ECL computation, credit exposures are monitored and reported as per IFRS 9 requirements. Stage migrations, any exceptions to SICR criteria, other credit and impairment related matters are reviewed and approved by an appropriate management committee.

Risks of the Group's credit portfolio are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

Group credit risk mitigation strategy

The Group operates within prudential exposure ceilings set by the Board in line with UAE Central Bank guidelines. There are well laid out processes for exception management and escalation.

The Group has adopted measures to diversify the exposures to various sectors. Diversification is achieved by limiting concentration through setting customer, industry and geographical limits.

Collateral management

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed and the Bank seeks to ensure enforceability of the collateral. Major categories of collaterals include cash/ fixed deposits, inventories, shares, guarantees (corporate, bank and personal guarantees), immovable properties, receivables and vehicles.

Collaterals are revalued regularly as per the bank's credit policy. In addition, ad hoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Bank to assess the fair market value of the collateral and ensure that risks are appropriately covered. Security structures and legal covenants are also subject to regular review.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are

collected from customers based on the terms of the letters of guarantee. They expose the Bank to similar risks as financing and these are mitigated by the same control processes and policies.

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Gross maximum exposure 2018 AED '000	Gross maximum exposure 2017 AED '000
Balances and wakala deposits with Islamic banks and other financial institutions	15	**4,471,652**	2,765,903
Murabaha and mudaraba with financial institutions	16	**1,353,352**	2,125,249
Murabaha and other Islamic financing	17	**35,308,535**	35,145,452
Ijara financing	18	**46,250,362**	44,604,543
Investment in sukuk measured at amortised cost	19	**11,806,972**	10,064,830
Investments measured at fair value	20	**1,769,026**	1,377,491
Other assets		**1,736,828**	2,376,264
		102,696,727	98,459,732
Contingent liabilities	36	**10,175,173**	11,788,057
Commitments		**517,540**	666,945
Total		**10,692,713**	12,455,002
Total credit risk exposure		**113,389,440**	110,914,734

42.2.2 Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The credit exposure to the top 5 customers as of 31 December 2018 was AED 8,209,735 thousand (2017: AED 8,104,546 thousand) before taking account of collateral or other credit enhancements.

The concentration of the Group's assets and liabilities by geographical segment is based primarily upon the location of the counter party.

The distribution of the Group's financial assets which are subject to credit risk by geographic region is as follows:

	Balances and wakala deposits with Islamic banks and other financial institutions AED '000	Murabaha and mudaraba with financial institutions AED '000	Murabaha and other Islamic financing AED '000	Ijara financing AED '000	Investment in Islamic suksuk measured at amortised cost AED '000	Investments measured at fair value AED '000	Other assets AED '000	Total AED' 000
31 December 2018								
UAE	**2,424,116**	**1,139,796**	**33,567,718**	**44,695,348**	**8,237,230**	**1,223,325**	**1,658,969**	**92,946,502**
Rest of Middle East	**472,079**	**177,890**	**1,103,351**	**780,247**	**1,823,550**	**316,702**	**77,859**	**4,751,678**
Europe	**206,682**	**-**	**538,523**	**379,525**	**-**	**93,643**	**-**	**1,218,373**
Others	**1,368,775**	**35,666**	**98,943**	**395,242**	**1,746,192**	**135,356**	**-**	**3,780,174**
Financial assets subject to credit risk	**4,471,652**	**1,353,352**	**35,308,535**	**46,250,362**	**11,806,972**	**1,769,026**	**1,736,828**	**102,696,727**
31 December 2017								
UAE	684,125	1,957,846	33,885,343	42,668,353	7,443,468	842,324	2,293,400	89,774,859
Rest of Middle East	274,483	167,403	783,768	1,025,203	1,365,455	39,891	82,795	3,738,998
Europe	163,146	-	210,679	386,656	100,372	-	-	860,853
Others	1,644,149	-	265,662	524,331	1,155,535	495,276	69	4,085,022
Financial assets subject to credit risk	2,765,903	2,125,249	35,145,452	44,604,543	10,064,830	1,377,491	2,376,264	98,459,732

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.2 Credit risk concentration continued

The credit risk arising from off-balance sheet items mentioned in note 42.2.1 are mainly relating to the UAE.

The distribution of the Group's financial assets by industry sector is as follows:

	2018 AED'000	2017 AED'000
Government	**5,319,790**	4,066,315
Public sector	**5,178,824**	5,462,229
Financial institutions	**10,481,471**	8,911,385
Trading and manufacturing	**6,786,011**	7,130,160
Construction and real estate	**6,825,837**	7,134,045
Energy	**304,725**	738,834
Personal	**51,161,561**	49,968,753
Others	**16,638,508**	15,048,011
Financial assets subject to credit risk	**102,696,727**	98,459,732

42.2.3 Impairment assessment

With the adoption of IFRS 9 the incurred loss approach for impairment has been replaced by a forward looking expected credit loss (ECL) approach. The Bank recognizes an allowance for ECL for all financial instruments other than those held at fair value through profit or loss. Financial instruments are classified into three categories as follows:

Stage 1 (performing): where no Significant Increase in Credit Risk (SICR) since origination has been observed. ECL from default events that are possible within the next 12 months is booked as impairment provision.

Stage 2 (underperforming): where a SICR since origination is observed however a default has not occurred. ECL from default events that are possible over the lifetime of the financial instrument is booked as impairment provision.

Stage 3 (non-performing): where a default has occurred, ECL based on the loss expected over the remaining life of the financial instrument is recognized as an impairment provision.

The criteria for SICR have been defined for both the wholesale and retail book. The primary driver of SICR for the wholesale book is the customer risk rating migration since origination. The customer risk rating in turn is determined by the probability of default. The primary driver of the SICR for the retail book is the past due status and the lifetime probability of default.

The ECL is calculated as a product of the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) which is present valued using the effective profit rate of each facility. The PDs and LGDs are adjusted based on weighted average of three macroeconomic scenarios sourced from an external industry expert. These scenarios are updated quarterly.

The ECL based provisions are reviewed and approved by a monthly Provision Management Committee (PMC). For each individually significant exposure, the PMC is authorized to assess the circumstances and facts individually and adjust the ECL accordingly.

Write-off of financing assets

Board approved policies are in place covering the timing and amount of provisions and write offs for all the financing portfolios of the Bank. These reflect both the UAE Central bank guidelines and rules, accepted international accounting standards, and market and industry best practice and are stringently adhered to.

42.2.4 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities;
- For commercial financing, charges over real estate properties, inventory, trade receivables and securities; and
- For retail financing, charge over assets, mortgage of properties and vehicles and assignment of salaries in favor of the Bank.

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.4 Collateral and other credit enhancements continued

The table below shows the lower of the collateral value or the outstanding balance of customer financing as at the reporting date:

	2018 AED'000	2017 AED'000
Against customer financing not impaired		
Property	35,225,062	33,649,377
Securities	47,229	179,996
Cash margin and lien over deposits	540,416	472,702
Others	7,299,595	6,449,069
	43,112,302	40,751,144
Against individually impaired		
Property	1,971,941	1,601,886
Securities	57,440	47,730
Cash margin and lien over deposits	9,016	11,364
Others	100,204	104,307
	2,138,601	1,765,287
	45,250,903	42,516,431

The Bank also obtains guarantees from parent companies for financing their subsidiaries, but their benefits are not included in the above table.

Management regularly monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and assesses the market value of collateral obtained during its review of the adequacy of the provision for impairment losses.

The Bank also makes use of master netting agreements with counterparties.

42.2.5 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality for balance and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, murabaha, ijara and other Islamic financing based on the Group's credit rating system.

	Moody's equivalent grade	2018 AED '000	2017 AED '000
Low risk			
Risk rating class 1	Aaa	-	-
Risk rating classes 2 and 3	Aa1-A2	10,916,227	9,783,910
Risk rating class 4	A3-Baa3	25,471,736	21,607,527
Risk rating classes 5, 6+ and 6	Ba1-B3	40,904,315	43,131,520
Fair risk			
Risk rating class 6- and 7	Caa1-Caa3	6,140,398	6,104,622
Impaired			
Risk rating class 8, 9 and 10		3,951,225	4,013,568
		87,383,901	84,641,147

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial and qualitative analysis, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The risk ratings models are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class. A number of new rating models aligned to specific business segments, were introduced during the course of the year.

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.5 Credit quality per class of financial assets continued

Renegotiated murabaha, ijara and other Islamic financings

The total carrying amount of financing to non-related parties whose terms have been renegotiated during the year amounted to AED 2,030,422 thousand (2017: AED 2,445,970 thousand).

42.2.6 Credit quality per stage for financing assets

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	Total AED '000
31 December 2018				
Murabaha and other Islamic financing				
- Performing financing	30,987,088	2,516,628	-	33,503,716
- Non - performing financing	-	-	1,804,819	1,804,819
Murabaha and other Islamic financing – Gross	30,987,088	2,516,628	1,804,819	35,308,535
Less: provision for impairment (ECL)	(213,983)	(548,591)	(938,925)	(1,701,499)
Murabaha and other Islamic financing – Net	30,773,105	1,968,037	865,894	33,607,036
Ijara financing				
- Performing financing	38,470,375	5,633,581	-	44,103,956
- Non - performing financing	-	-	2,146,406	2,146,406
Ijara financing – gross	38,470,375	5,633,581	2,146,406	46,250,362
Less: provision for impairment (ECL)	(103,035)	(461,838)	(615,878)	(1,180,751)
Ijara financing – Net	38,367,340	5,171,743	1,530,528	45,069,611

	Murabaha and other Islamic financing AED '000	Ijara financing AED '000	Total AED '000
31 December 2017 (IAS 39)			
Individually impaired			
Substandard	758,517	861,363	1,619,880
Doubtfull	622,156	738,202	1,360,358
Loss	655,610	377,720	1,033,330
Gross amount	2,036,283	1,977,285	4,013,568
Provision for impairment	(1,043,196)	(464,051)	(1,507,247)
	993,087	1,513,234	2,506,321
Past due but not impaired			
Less than 90 days	302,192	220,260	522,452
More than 90 days	23,794	261,730	285,524
	325,986	481,990	807,976
Neither past due but nor impaired	32,783,183	42,145,268	74,928,451
Collective allowance for impairment	(852,941)	(860,173)	(1,713,114)
Carrying amount	33,249,315	43,280,319	76,529,634

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.6 Credit quality per stage for financing assets continued

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

	31 December 2018 – IFRS 9 (ECL)				31 December 2017 – IAS 39		
	Stage1 AED '000	Stage 2 AED '000	Stage 3 AED '000	Total AED '000	Individual impairment AED '000	Collective impairment AED '000	Total AED' 000
Murabaha and other Islamic financing							
At 1 January – audited (IAS 39)	852,941	-	1,043,196	1,896,137	853,154	968,615	1,821,769
Reversal on transition to IFRS 9	(852,941)	-	-	(852,941)	-	-	-
ECL recognized under IFRS 9	341,709	623,413	98,623	1,063,745	-	-	-
At 1 January – (adjusted opening as per IFRS 9)	341,709	623,413	1,141,819	2,106,941	853,154	968,615	1,821,769
(Reversals) charge for the year (note 11)	(127,726)	(74,822)	557,405	354,857	652,146	9,226	661,372
Other adjustments	-	-	-	-	-	(124,900)	(124,900)
Written off during the year	-	-	(760,299)	(760,299)	(462,104)	-	(462,104)
At 31 December	213,983	548,591	938,925	1,701,499	1,043,196	852,941	1,896,137
Ijara financing							
At 1 January – audited (IAS 39)	860,173	-	464,051	1,324,224	409,186	927,708	1,336,894
Reversal on transition to IFRS 9	(860,173)	-	-	(860,173)	-	-	-
ECL recognized under IFRS 9	94,096	605,706	(98,035)	601,767	-	-	-
At 1 January – (adjusted opening as per IFRS 9)	94,096	605,706	366,016	1,065,818	409,186	927,708	1,336,894
Charge (reversals) for the year (note 11)	8,939	(143,868)	313,325	178,396	172,101	(67,535)	104,566
Written off during the year	-	-	(63,463)	(63,463)	(117,236)	-	(117,236)
At 31 December	103,035	461,838	615,878	1,180,751	464,051	860,173	1,324,224

An analysis of past due financing, by age, is provided below:

Ageing analysis of past due but not impaired (IAS 39)

	Less than 30 days AED '000	31 – 60 days AED '000	61 – 90 days AED '000	More than 90 days AED '000	Total AED '000
31 December 2017					
Murabaha and other Islamic financing	240,418	37,390	24,384	23,794	325,986
Ijara financing	110,314	100,456	9,490	261,730	481,990
	350,732	137,846	33,874	285,524	807,976

42.2.7 Impairment reserve under the Central Bank of UAE (CBUAE) guidance

The CB UAE issued a guidance note to banks and finance companies on the implementation of IFRS 9 on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance").

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.7 Impairment reserve under the Central Bank of UAE (CBUAE) guidance continued

Pursuant to clause 6.4 of the guidance, a comparison between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2018 AED '000
Impairment reserve: General	
General provisions under Circular 28/2010 of CBUAE	1,307,091
Less: Stage 1 and Stage 2 provisions under IFRS 9	(1,327,447)
General provision transferred to the impairment reserve	-
Impairment reserve: Specific	325,986
Specific provisions under Circular 28/2010 of CBUAE	1,348,086
Less: Stage 3 provisions under IFRS 9	(1,554,803)
Specific provision transferred to the impairment reserve	-
Total provision transferred to the impairment reserve	-

As per the guidance note, where provisions under IFRS 9 exceed provisions under circular 28/10 of the CBUAE, no amount required to be transfer to the impairment reserve.

42.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows, the maintenance and monitoring of the inventory of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with the Central Bank. The liquidity position is assessed and managed under a variety of stress scenarios, given due consideration to severe yet plausible stress conditions relating to both the market in general and specifically to the Group.

The high quality of the investment portfolio ensures its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help these form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands. In addition, the Bank monitors various liquidity risk ratios and maintains an up to date contingency funding plan.

42.3.1 Treasury

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

42.3.2 Asset & Liability Committee ("ALCO")

The Asset & Liability Management ("ALM") process focusses on planning, acquiring, and directing the flow of funds through the organization. The ultimate objective of this process is to generate adequate stable earnings and to steadily build equity over time, while taking measured business risk aligned to the overall risk appetite of the Bank. The Bank has a defined ALM policy which describes the objective, role and function of the ALCO. This process revolves around ALCO, the body within the Bank that holds the responsibility to make strategic decisions relating to the management of financial position related risks. The ALCO consists of the Bank's senior management including the CEO and normally meets once a month.

42.3.3 Liquidity risk management process

The Group's liquidity risk management process, as carried out within the Group and monitored by a separate team in Group Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes reenlistment of funds as they mature or when financing are provided to customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquated as protection against any unforeseen interruption to cash flow;
- Managing statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

42 RISK MANAGEMENT continued

42.3 Liquidity risk and funding management continued

42.3.4 Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets and liabilities at reporting date based on contractual maturities.

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
31 December 2018					
ASSETS					
Cash and balances with central banks	**17,222,893**	**1,508,315**	**-**	**-**	**18,731,208**
Balances and wakala deposits with Islamic banks and other financial institutions	**3,159,887**	**600,000**	**698,930**	**-**	**4,458,817**
Murabaha and mudaraba with financial institutions	**1,109,751**	**243,578**	**-**	**-**	**1,353,329**
Murabaha and other Islamic financing	**4,516,060**	**8,170,220**	**17,290,841**	**3,629,915**	**33,607,036**
Ijara financing	**887,376**	**2,793,067**	**16,396,998**	**24,992,170**	**45,069,611**
Investments in sukuk measured at amortised cost	**-**	**-**	**7,170,523**	**4,611,334**	**11,781,857**
Investments measured at fair value	**-**	**1,788,004**	**97,568**	**-**	**1,885,572**
Investment in associates and joint ventures	**-**	**-**	**-**	**1,014,354**	**1,014,354**
Other assets	**1,650,765**	**36,956**	**189,486**	**15,126**	**1,892,333**
Financial assets	**28,546,732**	**15,140,140**	**41,844,346**	**34,262,899**	**119,794,117**
Non-financial assets					**5,399,798**
Total assets					**125,193,915**
LIABILITIES					
Due to financial institutions	**4,138,254**	**-**	**-**	**-**	**4,138,254**
Depositors' accounts	**95,808,120**	**4,524,482**	**71,145**	**-**	**100,403,747**
Other liabilities	**1,826,601**	**272,209**	**816,419**	**-**	**2,915,229**
Total liabilities	**101,772,975**	**4,796,691**	**887,564**	**-**	**107,457,230**
31 December 2017					
ASSETS					
Cash and balances with central banks	21,467,205	-	-	-	21,467,205
Balances and wakala deposits with Islamic banks and other financial institutions	1,585,102	147,182	967,480	66,139	2,765,903
Murabaha and mudaraba with financial institutions	1,957,846	167,403	-	-	2,125,249
Murabaha and other Islamic financing	2,739,342	8,825,479	15,025,234	6,659,260	33,249,315
Ijara financing	1,802,608	3,443,869	16,305,233	21,728,609	43,280,319
Investments in sukuk measured at amortised cost	613,001	742,326	5,090,151	3,606,550	10,052,028
Investments measured at fair value	-	1,519,282	7,208	-	1,526,490
Investment in associates and joint ventures	-	-	-	988,788	988,788
Other assets	2,267,267	55,427	189,486	12,964	2,525,144
Financial assets	32,432,371	14,900,968	37,584,792	33,062,310	117,980,441
Non-financial assets					5,297,158
Total assets					123,277,599
LIABILITIES					
Due to financial institutions	3,681,580	6,978	-	-	3,688,558
Depositors' accounts	95,379,969	4,129,724	493,926	-	100,003,619
Other liabilities	1,907,644	339,150	765,464	-	3,012,258
Total liabilities	100,969,193	4,475,852	1,259,390	-	106,704,435

42 RISK MANAGEMENT continued

42.3 Liquidity risk and funding management continued

42.3.4 Analysis of financial assets and financial liabilities by remaining contractual maturities continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations, including cash flows pertaining to principal repayment and profit payable to maturity.

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
31 December 2018					
LIABILITIES					
Due to financial institutions	**4,139,147**	**-**	**-**	**-**	**4,139,147**
Depositors' accounts	**95,859,448**	**4,576,590**	**72,991**	**-**	**100,509,029**
Other liabilities	**1,826,601**	**272,209**	**816,419**	**-**	**2,915,229**
Total liabilities	**101,825,196**	**4,848,799**	**889,410**	**-**	**107,563,405**
31 December 2017					
LIABILITIES					
Due to financial institutions	3,681,990	7,022	-	-	3,689,012
Depositors' accounts	95,392,025	4,159,191	507,323	-	100,058,539
Other liabilities	1,907,644	339,150	765,464	-	3,012,258
Total liabilities	100,981,659	4,505,363	1,272,787	-	106,759,809

The disclosed financial instruments in the above table are the gross undiscounted cash flows.

The table below shows the contractual expiry of the Bank's contingent liabilities and commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
31 December 2018					
Contingent liabilities	**7,514,223**	**669,498**	**1,360,067**	**631,385**	**10,175,173**
Commitments	**-**	**115,129**	**-**	**-**	**115,129**
Total	**7,514,223**	**784,627**	**1,360,067**	**631,385**	**10,290,302**
31 December 2017					
Contingent liabilities	8,223,107	1,334,464	2,217,544	12,942	11,788,057
Commitments	-	180,807	-	-	180,807
Total	8,223,107	1,515,271	2,217,544	12,942	11,968,864

The Bank does not expect that all of the contingent liabilities or commitments will be drawn before expiry.

42.4 Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Group is exposed to diverse the financial instruments including securities, foreign currencies, equities and commodities.

The Group pays considerable attention to market risk. The Group uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises of the following elements:

- Limit to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by the senior management; and
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on timely basis.

42 RISK MANAGEMENT continued

42.4 Market risk continued

The policies and procedures and the trading limits are set to ensure the implementation of the Group's market risk policy in day-to-day operations. These are viewed periodically to ensure they remain in line with the Group's general market risk policy. The ALCO ensure that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Group is required to comply with the guidelines and regulations of the Central Bank.

42.4.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-statement of financial position instruments that mature or re-price in a given period. The Group manages this risk through appropriate limits in place and frequent review of the bank's structural position with regard to profit rate risk and its impact on earnings as well as the economic value of its shareholders' equity.

The following table estimates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's consolidated income statement. The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates (whether increase or decrease) on the net profit for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

	2018		2017	
Currency	Increase in basis points	Sensitivity of profit on financial assets and liabilities AED '000	Increase in basis points	Sensitivity of profit on financial assets and liabilities AED '000
AED	**25**	**24,906**	25	44,780
USD	**25**	**41,459**	25	20,919
Euro	**25**	**(531)**	25	(208)
Other currencies	**25**	**(485)**	25	1,036

42.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The table below indicates the extent to which the Group was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against AED with all other variable held constant on the consolidated income statement (due to the changes in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated in consolidated income statement on investments carried at fair value through other comprehensive income - equity instruments and investment in associates and joint ventures).

	% Increase currency rates	Effect on net profit AED '000	Effect on equity AED '000
31 December 2018			
Currency			
USD	**5**	**699,315**	**14,895**
Euro	**5**	**(51,033)**	**4,066**
GBP	**5**	**21,417**	**4,723**
Other currencies	**5**	**(87,567)**	**23,975**
31 December 2017			
Currency			
USD	5	359,233	4,170
Euro	5	(97,213)	4,122
GBP	5	2,962	-
Other currencies	5	28,823	23,873

42 RISK MANAGEMENT continued

42.4 Market risk continued

42.4.2 Currency risk continued

The table below shows the Group's exposure to foreign currencies.

	AED AED '000	USD AED '000	Euro AED '000	GBP AED '000	Others AED '000	Total AED '000
31 December 2018						
Financial assets						
Cash and balances with central banks	16,696,348	1,348,517	208	1,317	684,818	18,731,208
Balances and wakala deposits with Islamic banks and other financial institutions	30,238	3,206,725	123,198	769,753	328,903	4,458,817
Murabaha and mudaraba with financial institutions	-	1,010,218	125,833	-	217,278	1,353,329
Murabaha and other Islamic financing	29,292,763	3,679,978	94,014	337,446	202,835	33,607,036
Ijara financing	38,723,507	5,824,465	1,988	387,732	131,919	45,069,611
Investments in Islamic sukuk measured at amortised cost	-	11,781,857	-	-	-	11,781,857
Investments measured at fair value	56,110	1,722,986	(329)	94,491	12,314	1,885,572
Investment in associates and joint ventures	453,822	-	81,030	-	479,502	1,014,354
Other assets	1,217,919	314,155	37,461	198,632	124,166	1,892,333
	86,470,707	28,888,901	463,403	1,789,371	2,181,735	119,794,117
Financial liabilities						
Due to financial institutions	1,434,902	1,819,124	11,770	786,179	86,279	4,138,254
Depositors' accounts	84,077,223	12,442,629	1,361,959	454,835	2,067,101	100,403,747
Other liabilities	2,332,314	342,956	29,025	25,543	185,391	2,915,229
	87,844,439	14,604,709	1,402,754	1,266,557	2,338,771	107,457,230
31 December 2017						
Financial assets						
Cash and balances with central banks	18,895,702	1,263,341	274	1,063	1,306,825	21,467,205
Balances and wakala deposits with Islamic banks and other financial institutions	(330,115)	2,346,906	110,372	454,506	184,234	2,765,903
Murabaha and mudaraba with financial institutions	1,425,248	532,598	-	-	167,403	2,125,249
Murabaha and other Islamic financing	31,156,721	1,674,206	7,335	784	410,269	33,249,315
Ijara financing	36,302,801	6,577,302	2,326	397,890	-	43,280,319
Investments in Islamic sukuk measured at amortised cost	264,000	9,685,598	-	102,430	-	10,052,028
Investments measured at fair value	(221,943)	1,427,069	(522)	288,069	33,817	1,526,490
Investment in associates and joint ventures	428,981	-	82,338	-	477,469	988,788
Other assets	1,749,068	245,678	153,630	178,637	198,131	2,525,144
	89,670,463	23,752,698	355,753	1,423,379	2,778,148	117,980,441
Financial liabilities						
Due to financial institutions	1,969,111	1,171,498	64,666	397,396	85,887	3,688,558
Depositors' accounts	80,727,844	14,866,945	2,134,877	948,371	1,325,582	100,003,619
Other liabilities	2,216,888	446,208	18,043	18,369	312,750	3,012,258
	84,913,843	16,484,651	2,217,586	1,364,136	1,724,219	106,704,435

42 RISK MANAGEMENT continued

42.4 Market risk continued

42.4.3 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's quoted investments in the investment portfolio.

The following table estimates the sensitivity to a possible change in equity markets on the Bank's consolidated other comprehensive income statement The effect on equity (as a result of a change in the fair value of equity instruments held as investments carried at fair value through other comprehensive income at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	% Increase in market indices 2018	Effect on equity 2018 AED '000	% Increase in market indices 2017	Effect on equity 2017 AED '000
Investments carried at fair value through other comprehensive income				
Abu Dhabi Stock Market	**10**	**2,851**	10	4,167
Dubai Financial Market	**10**	**22**	10	64

42.4.4 Operational risk

Operational risk is the potential exposure to financial, reputational or other damage arising from inadequate or failed internal processes, people, systems or external events.

The Bank has implemented a detailed operational risk framework in accordance with Basel II guidelines. The framework articulates clearly defined roles and responsibilities of individuals / units and committees across the Group involved in the management of various operational risk elements. The Operational Risk Management Framework ensures that operational risks within the Group are properly identified, monitored, reported and actively managed. Key elements of the framework include Risk Reviews, "Risk & Control self-Assessment", Loss Data Management, key risk indicators, controls testing, Issues & Actions Management and Reporting. The Framework also fully encompasses and integrates elements of Fraud Risk Prevention and Quality Assurance.

Business and support units are responsible for managing operational risks within their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being pro-actively identified, monitored, reported and managed within their scope of work. The day-to-day operational risks are also managed through the adoption of a comprehensive system of internal control with multi-layers of defense and dedicated systems and procedures to monitor transactions, positions and documentation, as well as maintenance of key backup procedures and business contingency plan which are regularly assessed and tested.

42.4.5 Compliance risk review

In 2014 ADIB became aware of certain financial transactions relating to U.S. dollar payments that potentially breached U.S. sanctions laws in effect at that time. After learning of these potential breaches, ADIB appointed external legal advisers to assist it in reviewing these transactions and reviewing its compliance with U.S. sanctions laws and its compliance processes generally. Following this review, ADIB submitted its findings to relevant regulators in the UAE and the USA in early 2017. This review also assisted ADIB in identifying additional steps to ensure compliance with applicable sanctions laws, and ADIB enhanced its processes accordingly. As at 31 December 2018, the relevant regulators have not responded following receipt of ADIB's findings and, as such, the likely outcome of their review remains unknown.

42 RISK MANAGEMENT continued

42.5 Capital management

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital.

The additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced are over and above the minimum CET1 requirement of 7%.

For 2018, CCB is effective in transition arrangement and is required to be kept at 1.88% of the Capital base and from 2019 it will be required to be maintained at 2.5% of the Capital base. CCyB is not yet in effect and is not required to be maintained for 2018.

The minimum capital adequacy ratio as per Basel III capital regulation is given below:

	Minimum capital requirement 2018	Minimum capital requirement 2019
Capital Ratio:		
a. Total for consolidated Group	12.375%	13.00%
b. Tier 1 ratio for consolidated Group	10.375%	11.00%
c. CET1 ratio for consolidated Group	8.875%	9.50%

The Group's regulatory capital is analysed into three tiers:

The Bank's capital base is divided into three main categories, namely CET1, AT1 and Tier 2 ('T2'), depending on their characteristics.

- CET1 capital is the highest quality form of capital, comprising share capital, share premium, legal, statutory and other reserves, fair value reserve, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- AT 1 capital comprises an eligible non-common equity capital instrument.
- T2 capital comprises qualifying subordinated instrument and undisclosed reserve.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or to adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

For credit and market risks, the Central Bank of the U.A.E. has issued guidelines for implementation of Standardised approach. For operational risk, the Central Bank of the U.A.E. has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Basic Indicators approach.

Furthermore, as required by the above circular, certain Basel III pillar 3 disclosures will be included in the annual report issued by the Bank for the year 2018.

42 RISK MANAGEMENT continued

42.5 Capital management continued

The table below shows summarises the composition of Basel III regulatory capital and the ratios of the Group for the years ended 31 December 2018 and 2017. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	Basel III	
	31 December 2018 AED '000	31 December 2017 AED '000
Common Equity Tier 1 (CET 1) Capital		
Share capital	**3,632,000**	3,168,000
Legal reserve	**2,624,028**	2,085,788
General reserve	**1,958,866**	1,694,486
Credit risk reserve	**400,000**	400,000
Retained earnings	**4,133,730**	3,280,191
Foreign currency translation reserve	**(813,632)**	(737,565)
	11,934,992	9,890,900
Regulatory deductions:		
Goodwill and intangibles	**(310,591)**	(292,274)
Cumulative changes in fair value and hedging reserve	**(150,456)**	(87,142)
	11,473,945	9,511,484
Threshold deductions:		
Significant minority investments	**(237,276)**	(220,400)
Total Common Equity Tier 1	**11,236,669**	9,291,084

	Basel III	
	31 December 2018 AED '000	31 December 2017 AED '000
Additional Tier 1 (AT 1) Capital		
Tier 1 sukuk	**4,754,375**	5,672,500
Regulatory and threshold deductions for additional Tier 1 capital	**-**	(74,977)
Total Additional Tier 1	**4,754,375**	5,597,523
Total Tier 1 capital	**15,991,044**	14,888,607
Tier 2 capital		
Collective impairment provision for financing assets	**1,089,243**	1,092,279
Regulatory and threshold deductions for Tier 2 capital	**-**	(74,977)
Total Tier 2	**1,089,243**	1,017,302
Total capital base	**17,080,287**	15,905,909
Risk weighted assets		
Credit risk	**87,139,417**	87,382,347
Market risk	**2,363,860**	2,211,598
Operational risk	**9,887,839**	9,259,729
Total risk weighted assets	**99,391,116**	**98,853,674**
Capital ratios		
Common Equity Tier 1 capital expressed as a percentage of total risk weighted assets	**11.31%**	**9.40%**
Total Tier 1 capital expressed as a percentage of total risk weighted assets	**16.09%**	**15.06%**
Total capital expressed as a percentage of total risk weighted assets	**17.18%**	16.09%

43 FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted investments – at fair value

Quoted investments represent marketable equities and sukuk that are measured at fair value. The fair values of these investments are based on quoted prices as of the reporting date. For investments carried at fair value through other comprehensive income, the impact of change in fair valuation from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

Unquoted investments – at fair value

The consolidated financial statements include investments in unquoted funds and private equities which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalization of sustainable earnings basis. The valuation models include some assumptions that are not supported by observable market prices or rates. The impact of change in fair value from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

In the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities that are not carried at fair value in the consolidated financial statements are not materially different (except investment carried at amortised cost and investment in associates and joint ventures (note 21), since those financial assets and liabilities are either short term in nature or in the case of deposits and financing asset, are frequently repriced. The fair value of investments carried at amortised cost is disclosed below.

Fair value of investments - at amortised cost	**Carrying value 2018 AED '000**	**Fair value 2018 AED '000**	Carrying value 2017 AED '000	Fair value 2017 AED '000
Investments carried at amortised cost - sukuk (note 19)	**11,781,857**	**11,588,331**	10,052,028	10,368,476

Fair value measurement recognized in the consolidated statement of financial position

The Group uses the following hierarchy for determining and disclosing the fair value of financial instrument by valuation technique:

Level 1: quoted (unadjusted prices in active markets for identical assets or liabilities).

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

43 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Unquoted investments – at fair value continued

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable.

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
31 December 2018				
Assets and Liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit or loss				
Sukuk	1,438,659	-	-	1,438,659
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	28,727			28,727
Sukuk	330,367	-	-	330,367
	359,094	-	-	359,094
Unquoted investments				
Funds	-	-	46,956	46,956
Private equities	-	-	42,775	42,775
	-	-	89,731	89,731
	359,094	-	89,731	448,825
Financial liabilities				
Shari'a compliant alternatives of swap (note 37)	-	7,017	-	7,017
Assets for which fair values are disclosed:				
Investment properties (note 22)	-	-	1,544,965	1,544,965
Investment carried at amortised cost - Sukuk	11,588,331	-	-	11,588,331

43 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Unquoted investments – at fair value continued

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
31 December 2017				
Assets and Liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit and loss				
Sukuk	1,377,491	-	-	1,377,491
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	42,307	-	-	42,307
Unquoted investments				
Funds	-	-	53,619	53,619
Private equities	-	-	53,073	53,073
	-	-	106,692	106,692
	42,307	-	106,692	148,999
Financial liabilities				
Shari'a compliant alternatives of swap (note 37)	-	4,901	-	4,901
Assets for which fair values are disclosed:				
Investment properties (note 22)	-	-	1,334,262	1,334,262
Investment carried at amortised cost- Sukuk	10,104,476	-	264,000	10,368,476

There were no transfers between level 1, 2 and 3 during the year (2017: quoted equity investments amounting to AED 41,362 thousand were transferred from level 3 to level 1).

A significant part of the investments classified under Level 3 are valued using inputs from investment managers and in the opinion of the management it is not practical to disclose the sensitivity of inputs to the valuation techniques used.

The following table shows a reconciliation of the opening and closing amount of level 3 of financial assets which are recorded at fair value:

	2018 AED '000	2017 AED '000
At 1 January	**106,692**	132,698
Transfer to level 1	**-**	(41,362)
Net purchases	**3,819**	13,940
(Loss) gain recorded in equity	**(20,780)**	1,416
At 31 December	**89,731**	106,692

44 SOCIAL CONTRIBUTIONS

The social contributions (including donations and charity) made during the year amount to AED 29,230 thousand which were approved by the shareholders at the Annual General Assembly held on 21 March 2018.

During 2017, the social contributions (including donations and charity) were made amounting to AED 30,000 thousand after the approval by the shareholders at the Annual General Assembly held on 2 April 2017.

The requirements of the Central Bank of the UAE act as the framework for the implementation of the Basel III Accord in the UAE. They are contained in Circular 60/2017 dated 02 March 2017 and Circular 28/2018 dated 17 January 2018 and are being fully complied with by the Bank.

The framework is based on three pillars:

- Pillar I – Minimum capital requirements: defines rules for the calculation of credit, market and operational risk. The framework allows for different approaches, which can be selected depending on size, sophistication and other considerations. These comprise for Credit Risk: Standardised, Foundation Internal Rating Based (FIRB), Advanced Internal Rating Based (AIRB); for Market Risk: Standardised and Internal Models Approach; and for Operational Risk: Basic Indicator Approach, Standardised Approach, and Advanced Measurement Approach.
- Pillar II – Provides the framework for an enhanced supervisory review process with the objective of assessing the adequacy of the Bank's capital to cover not only the three primary risks (Credit, Market and Operational), but in addition a series of other risks that the Bank may be exposed to; for example, concentration risk, residual risk, business risk, liquidity risk etc. It includes the requirement for banks to undertake an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis, which is subject to Central Bank review and inspection.
- Pillar III – Market discipline: requires expanded disclosures, which will allow regulators, investors and other market participants to more fully understand the risk profiles of individual banks. The requirements of Pillar III in the case of ADIB are fulfilled in this annual report.

Banks are required to disclose all their material risks as part of the Pillar III framework. Many of these requirements have already been satisfied in note **42** to the 2018 ADIB Consolidated Financial Statements, which covers in detail the risk and capital management processes of the Bank and its compliance with the Basel III Accord in this regard.

The following Pillar III disclosures provide additional qualitative and quantitative information over and above that contained in note **42** to the 2018 ADIB Consolidated Financial Statements and together with the information contained in note **42**, meet the full disclosure requirements of Pillar III.

ADIB RISK PHILOSOPHY

Taking risk is at the core of the business of the Bank. All of the profit-making activities involve some measure of risk taking. Risk is also inherent in the internal business processes and systems, and also in external factors. At ADIB effective risk management is considered a core competence. In order for these risk-taking activities to generate sufficient amount of profit to add to shareholder and depositor value, the risk is managed within the tolerance levels of the organisation and the overall risk appetite that is set annually by the Board of Directors and reviewed quarterly by the Governance and Risk Policy Committee of the Board. The following principles lie at the core of ADIB's risk philosophy:

- Shari'a: Full compliance with Shari'a Governance in all aspects.
- Approval: All business activities which commit the Bank, legally or morally, to deliver risk-sensitive financing solutions, and any business proposals, require approval by authorised individuals or committees, prior to commitment.
- Independence: There exists a clear separation between the business and the risk management functions.
- Transparency: Risk management structures, policies and procedures are transparent. They are based on consistent principles, in written form, and are well communicated.
- One obligor total: Decision authority is determined by the total amount of financing and/or capital at risk, approved for all entities that form a coherent group based on shareholding and/or management control.
- Committee: Decisions regarding policy, product, large or high-risk exposures are taken by the appropriate committee.
- Approval authority: Authorities are delegated by the Board of Directors to an Executive Committee, which in turn delegates authority through the Chief Executive Officer. These reflect the delegates' (committee or individual) level of expertise, experience, track record and seniority.
- Three initials: Risk proposals can only be approved with a minimum of three authorised individuals forming an agreement within the framework set by the Board approved Credit Policy & Procedures Manual.
- Business responsibility: Business units are responsible for the selection of clients and for managing all of the business activities with such clients within approved limits.
- Credit Administration & Control: Critical to ensuring ongoing compliance with policies, approval authorities, approval conditions etc.
- Credit Review/Audit: Periodic independent validation and review of the portfolio and the process across all business units by both internal and external auditors.
- Due diligence: Regular and consistent customer contact, site visits, financial analysis, risk rating and stress testing.

RISK GOVERNANCE

ADIB's Risk Management Framework is focused on integrating Enterprise-wide Risk Management fully into its operations and culture. The role of Risk Management is to support growth, whilst ensuring consistent quality of the Bank's portfolio and an appropriate return for the risk being taken. The objective is to manage earnings volatility, which is achieved by setting clear risk-taking parameters and robust processes.

The Risk Governance Framework supports the Bank's objective of being a dynamic banking entity providing Islamic financial services of excellence, with insight and transparency in risk taking.

Please refer to note 42.1.1 of the 2018 ADIB Consolidated Financial Statements.

RISK APPETITE

ADIB's business model attracts mainly credit, market, operational and compliance risks in the normal course of business. The Bank seeks sustainable growth and profitability through the acquisition of diversified banking assets with attractive risk/return profiles while maintaining sufficient capital and liquidity buffers above those mandated by regulators. The Bank also seeks to maintain its strong credit ratings.

The principal themes underlying the assumptions of these risks are:

* Strong controls culture designed to ensure good conduct, ethical behaviour, legal and regulatory compliance,
* Clearly defined target markets and risk acceptance terms, and
* Continuous monitoring and management of risk assets.

The Bank manages its risk appetite using a set of risk limits and performance indicators allocated to each business. Management monitors adherence to these continuously.

COMPONENTS OF RISK MANAGEMENT

The management of risk is a process operated independently of the business units of the Bank. It consists of the following key components:

1. Identification: the Bank endeavours to identify all material risks that it may be affected by. Identification is a continuous and proactive process. It covers all the current activities of the Bank, as well as new products and markets.

2. Policies: In order to ensure that the Bank's business units comply with the approved Risk Management Framework, the Board of Directors has approved detailed Credit Risk Policies and Procedures, and various other policies covering the ALM Charter, Market Risk, Operational Risk and other risks as identified within the Basel III framework.

3. Measurement and monitoring: The Bank spends considerable resources on maintaining a modern IT platform to support risk management, applying a number of models and methods to accurately measure and quantify the risks affecting the Bank on an ongoing basis. The Bank continually monitors models and validates risk parameters to ensure that risk measurement gives a fair presentation of the underlying portfolios and transactions. Effective 1 January 2018 the bank has adopted the revised International Financial Reporting Standard (IFRS) 9, as a result the Bank has developed and implemented models to measure the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) and capture the impact of macroeconomic forecasts. These models are used to calculate the Expected Credit Loss (ECL) as well as monitoring the quality of the portfolios. For further disclosures on impairment assessment based on the IFRS 9, Please refer to note 42.2 of the 2018 ADIB Consolidated Financial Statements.

4. Parameter applications: In order to best capitalise on the Bank's risk appetite, the Bank applies risk-based data with regard to customers, industries, geographies etc. in the day-to-day management and review of customer transactions.

5. Controls: The Bank has established an independent control environment to monitor and enforce approved policies and procedures, and has various operational aspects with regard to consistent and thorough implementation of the same.

6. Reporting: The Bank has a well-established process for reporting risk factors to the various stakeholders of the Bank.

The Bank aims to reinforce a strong risk management culture through a comprehensive set of policies, processes and procedures that are designed to effectively identify, measure, monitor and control risk exposures. The Board of Directors is involved both directly and through the Governance and Risk Policy Committee, in the embedding of material risk processes and the periodic oversight and guidance of the risk management function.

Risk Management Structure: Please refer to note 42.1.1 of the 2018 ADIB Consolidated Financial Statements.

ASSESSMENT OF RISK GOVERNANCE EFFECTIVENESS

As a measure to evaluate the effectiveness of the Risk Governance Standards adopted by the Bank, an independent assessment was again conducted as a part of the annual ICAAP, covering various aspects of the following standards:

- Publications of the Basel Committee for Banking Supervision on Sound Principles of Risk Management
- Publications of the Central Bank of the UAE

The assessment was divided into the following broad categories:

1. Risk management structure
2. Operational risk
3. Credit & Concentration risk
4. Market risk
5. Profit rate risk in the banking book
6. Liquidity risk

The broad results of the assessment are as follows:

ASSESSMENT OF RISK GOVERNANCE EFFECTIVENESS continued

* The Bank is following sound practices for Credit Risk, Market Risk, Operational Risk and Asset-Liability Management.
* The Bank has a strong Credit Risk Management Framework. Financing Policy is clearly defined based on a target Credit Risk versus Return trade-off strategy. Limits of exposures to individual and group financing customers are defined, together with lines of authority regarding the granting of new financing, and the extension of existing limits. In addition, policies for addressing recoveries are established, which contain a detailed delegation of authority as well as control process.
* A comprehensive Risk Policy Framework has been adopted for ALM and Market Risk which includes Profit Rate and Liquidity Risk.
* The Operational Risk Management framework has been developed based on the 'Sound Practices for Operational Risk' document specified by the Basel Committee on Banking Supervision.

Credit risk and credit risk concentration: Please refer to note 42.2 of the 2018 ADIB Consolidated Financial Statements.

Liquidity risk and funding management: Please refer to note 42.3 of the 2018 ADIB Consolidated Financial Statements.

Market risk including profit rate risk, currency risk, and equity price risk: Please refer to note 42.4 of the 2018 ADIB Consolidated Financial Statements.

Operational risk: Please refer to note 42.4.4 of the 2018 ADIB Consolidated Financial Statements.

OTHER RISKS

Concentration risk: This refers to the risk that arises from any single exposure or a group of exposures with common risk factors and has the potential to produce large losses. It is mainly related to name concentration which relates to imperfect diversification of idiosyncratic risk in the portfolio because of large exposures to specific obligors. It also includes risk related to sector concentration which relates to the risk in credit portfolios arising from an unequal distribution of financings to different economic sectors.

Residual risk: This refers to the risk that recognised risk measurement and mitigation techniques used by the Bank prove less effective than expected. The Bank uses various techniques to mitigate the risk of the underlying credit exposure in the normal course of its business. The credit risk mitigation techniques generally used are either financial/non-financial collaterals or credit protection in the form of guarantees. These Credit Risk Mitigation Techniques are recognised for capital relief purposes under the Standardised Approach, except for non-financial collaterals, provided certain minimum criteria are present.

Reputation risk: Refers to the potential adverse effects that can arise from the Bank's reputation being sullied due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, negative/adverse publicity etc.. The Bank maintains a sound position in the market; it has not faced any major adverse publicity, deposit run or regulatory penalties over its long history. Its long-term rating of A+ was reconfirmed by Fitch in 2018.

Business risk: Refers to the risk of the Bank's earnings and profitability arising from its strategic decisions, changes in business conditions, and improper implementation of decisions. Thus business risk arises due to external causes, out of strategies and choices that could cause loss to the Bank in the form of a reduction in shareholder value, loss of earnings etc. The Bank's current business plan is in alignment with its goals and targets.

Settlement risk: Occurs when the Bank simultaneously exchanges value with a customer or with another bank in settlement of a foreign exchange obligation or a similar type of obligation. The risk is that the scheduled payment is not received, thus creating a direct credit risk as well. In the UAE the Central Bank of the UAE manages clearing and settlement amongst the banks and is the financier of last resort, hence the risk of a 'gridlock' is considered negligible. In the case of foreign currency transactions with banks in other countries, the first protection against settlement risk is by dealing with only approved correspondent banks that have been rated by recognised rating agencies such as Moody's, Fitch S&P etc., as well as internally by the Bank. Any delayed settlements are closely monitored and the required procedural guidelines to be followed by Treasury and Back Office are in place.

STRESS TESTING

Stress testing refers to various techniques used by the Bank to gauge its vulnerability to exceptional but plausible stress events. It is used as a risk management technique to evaluate the potential effects of a specific event and/or movement in a set of economic variables on the Bank's financial condition. Stress testing is based on the concept of 'proportionality and complexity' and its applicability to the activities of the Bank. Relevant factors include size, sophistication and diversification of activities, materiality of different risk types and the Bank's vulnerability to them, etc. Stress testing is an important part of the risk management function in the Bank.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

In accordance with the regulations of the UAE Central Bank, ADIB initiated the ICAAP process late in 2009 and has submitted the reports annually to the UAE Central Bank within the stipulated deadline including the report for 2017, which was prepared and submitted in early 2018 as required. The process of integrating and embedding ICAAP with the Capital Management and Risk Management cultures and practices within the Bank continued in 2018. The production of the annual ICAAP report has enabled the respective departments to carry out the activities highlighted to further enhance the comprehensive risk management and capital management processes, and to measure progress in this respect, year on year. The annual ICAAP process is seen as an important periodic review of all such activities, and is approved by the Board.

Pillar III quantitative disclosures are contained in the tables on the following pages.

INFORMATION ON SUBSIDIARIES AND SIGNIFICANT INVESTMENT AS ON 31 December 2018

	Country of Incorporation	% Ownership	Description	Treatment - Regulatory	Treatment - Accounting
SUBSIDIARIES					
Abu Dhabi Islamic Securities Company LLC	UAE	95	Equity Brokerage Services	Fully consolidated	Fully consolidated
ADIB Invest 1	BVI	100	Equity Brokerage Services	Fully consolidated	Fully consolidated
Burooj Properties LLC **	UAE	100	Real Estate Investments	Neither consolidated nor deducted	Fully consolidated
MPM Properties LLC **	UAE	100	Real Estate Services	Neither consolidated nor deducted	Fully consolidated
Kawader Services LLC **	UAE	100	Manpower Supply	Neither consolidated nor deducted	Fully consolidated
ADIB (UK) Limited	United Kingdom	100	Islamic Banking	Fully consolidated	Fully consolidated
ADIB Holdings (Jersey) Ltd* (under liquidation)	British Channel Islands	-	Special Purpose Vehicle	Fully consolidated	Fully consolidated
ADIB Sukuk Company Ltd.*	Cayman Islands	-	Special Purpose Vehicle	Fully consolidated	Fully consolidated
ADIB Sukuk Company II Ltd.*	Cayman Islands	-	Special Purpose Vehicle	Fully consolidated	Fully consolidated
ADIB Capital Invest 1 Ltd.*	Cayman Islands	-	Special Purpose Vehicle	Fully consolidated	Fully consolidated
ADIB Capital Invest 2 Ltd.*	Cayman Islands	-	Special Purpose Vehicle	Fully consolidated	Fully consolidated
ADIB Alternatives Ltd.*	Cayman Islands	-	Special Purpose Vehicle	Fully consolidated	Fully consolidated
SIGNIFICANT INVESTMENT					
Abu Dhabi Islamic Bank - Egypt (S.A.E)	Egypt	49	Banking (under Conversion to Islamic Banking)	**Deduction treatment**	Equity Method
The Residential REIT (IC) Limited	UAE	30	Real Estate Fund	**Deduction treatment**	Equity Method
Abu Dhabi National Takaful PJSC	UAE	42	Islamic insurance	**Deduction treatment**	Equity Method
Bosnia Bank International D.D	Bosnia	27	Islamic banking	**Deduction treatment**	Equity Method
Saudi Finance Company CSJC	Kingdom of Saudi Arabia	51	Islamic Retail Finance	**Deduction treatment**	Equity Method
Arab Link Money Transfer PSC (under liquidation)	UAE	51	Currency Exchange	**Deduction treatment**	Equity Method
Abu Dhabi Islamic Merchant Acquiring Company LLC	UAE	51	Merchant acquiring	**Deduction treatment**	Equity Method

* The Bank does not have any direct holding in these entities and they are considered to be a subsidiary by virtue of control.

** In accordance with the Circular No. 52/2017 and the Capital Supply standard, the consolidated entity includes all subsidairies except commercial entities for the purpose of Basel III calculations.

CONSOLIDATED CAPITAL STRUCTURE AS ON 31 DECEMBER 2018

Details	Amount AED '000
Capital Base	
1. Common Equity Tier 1 (CET1) Capital	
1.1 Share capital	3,632,000
1.2 Share premium account	-
1.3 Eligible Reserves	4,982,894
1.4 Retained Earnings/ (-) Loss	4,133,730
1.5 Eligible amount of minority interest	-
1.6 Capital Shortfall if any	-
1.7 Accumulated other comprehensive income	(813,632)
CET1 Capital Before the regulatory adjustments and threshold deduction	**11,934,992**
1.7 Less: Regulatory deductions	(461,047)
1.8 Less: Threshold deductions	(237,276)
Total CET1 Capital after the regulatory adjustments and threshold deduction	**11,236,669**
2. Additional Tier 1 (AT1) Capital	
2.1 Eligible AT1 capital (After grandfathering)	4,754,375
2.2 Other AT1 Capital e.g. (Share premium, minority interest)	-
2.3 Less: Threshold deductions	-
Total AT1 Capital	**4,754,375**
3. Tier 2 (T2) Capital	
3.1 Tier 2 instruments e.g. subordinated loan (After grandfathering and/or amortization)	-
3.2 Other Tier 2 capital (including General Provision, etc.) 1	1,089,243
3.3 Less: Threshold deductions	-
Total T2 Capital	**1,089,243**

CAPITAL ADEQUACY AS ON 31 DECEMBER 2018

Quantitative Disclosures

Capital Requirements	RWA	Capital Charge	Capital Ratio (%)
1. Credit Risk - Standarized Approach	**87,139,417**	10,783,503	
2. Market Risk - Standarized approach	**2,363,860**	292,528	
3. Operational Risk		-	
a. Basic Indicator Approach (BIA)	**9,887,839**	1,223,620	-
b. Standardised Approach/ASA		-	
c. Advanced Measurement Approach		-	
Total Capital requirements		**12,299,651**	-
Capital Ratio			
a. Total for Top Consolidated Group			17.18%
b. Tier 1 ratio only for top consolidated Group			16.09%
c. Total for each significant bank subsidiary			-

GROSS CREDIT EXPOSURES BY CURRENCY TYPE AS ON 31 DECEMBER 2018

Currency	Customer Financings AED '000	Balances & Placements with Banks & FI AED '000	Sukuk AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off-Balance Sheet Exposures AED '000	Total Non-Funded AED '000	Total AED '000
AED	70,898,776	30,238	-	23,067,324	93,996,338	517,540	7,249,008	7,766,548	101,762,886
Foreign Currency	10,660,121	5,794,766	13,575,998	2,763,882	32,794,767	-	2,926,165	2,926,165	35,720,932
Total	**81,558,897**	**5,825,004**	**13,575,998**	**25,831,206**	**126,791,105**	**517,540**	**10,175,173**	**10,692,713**	**137,483,818**

GROSS CREDIT EXPOSURES BY GEOGRAPHY AS ON 31 DECEMBER 2018

GEOGRAPHIC DISTRIBUTION	Customer Financings AED '000	Balances & Placements with Banks & FI AED '000	Sukuk AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off-Balance Sheet Exposures AED '000	Total Non-Funded AED '000	Total AED '000
United Arab Emirates	78,263,066	3,563,912	9,460,555	24,687,881	115,975,414	517,540	9,928,006	10,445,546	126,420,960
Rest of Middle East	1,883,598	649,969	2,140,252	1,079,360	5,753,179	-	247,065	247,065	6,000,244
Europe	918,048	206,682	93,643	7,174	1,225,547	-	-	-	1,225,547
Others	494,185	1,404,441	1,881,548	56,791	3,836,965	-	102	102	3,837,067
Total	**81,558,897**	**5,825,004**	**13,575,998**	**25,831,206**	**126,791,105**	**517,540**	**10,175,173**	**10,692,713**	**137,483,818**

GROSS CREDIT EXPOSURE BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2018

INDUSTRTY SEGMENT	Customer Financings AED '000	Balances & Placements with Banks & FI AED '000	Sukuk AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off-Balance Sheet Exposures AED '000	Total Non-Funded AED '000	Total AED '000
Agriculture, Fishing & related activities	4,876	-	-	-	4,876	-	820	820	5,696
Crude Oil, Gas, Mining & Quarrying	80	-	-	-	80	-	16,025	16,025	16,105
Manufacturing	2,041,474	-	-	-	2,041,474	71,490	177,649	249,139	2,290,613
Electricity & Water	44	-	304,681	-	304,725	226	276	502	305,227
Construction	5,445,607	-	1,380,230	28,998	6,854,835	-	3,501,577	3,501,577	10,356,412
Trade	3,411,267	-	1,333,270	-	4,744,537	50,002	212,207	262,209	5,006,746
Transport, Storage & Communication	558,542	-	-	-	558,542	-	21,909	21,909	580,451
Financial Institutions	761,866	5,825,004	3,418,844	739,038	10,744,752	-	501,734	501,734	11,246,486
Services	9,769,881	-	-	-	9,769,881	271,448	2,200,965	2,472,413	12,242,294
Government / Public Sector	5,744,262	-	4,665,681	16,975,490	27,385,433	-	1,626,657	1,626,657	29,012,090
Retail / Consumer banking	50,999,755	-	-	161,806	51,161,561	-	883,036	883,036	52,044,597
All Others	2,821,243	-	2,473,292	7,925,874	13,220,409	124,374	1,032,318	1,156,692	14,377,101
Total	**81,558,897**	**5,825,004**	**13,575,998**	**25,831,206**	**126,791,105**	**517,540**	**10,175,173**	**10,692,713**	**137,483,818**

GROSS CREDIT EXPOSURES BY RESIDUAL CONTRACTUAL MATURITY AS ON 31 DECEMBER 2018

RESIDUAL CONTRACTUAL MATURITY	Customer Financings AED '000	Balances & Placements with Banks & FI AED '000	Sukuk AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off-Balance Sheet Exposures AED '000	Total Non-Funded AED '000	Total AED '000
Less than 3 months	8,285,686	4,282,496	-	18,900,685	31,468,867	129,385	7,514,223	**7,643,608**	**39,112,475**
3 months to one year	10,963,287	843,578	1,688,888	2,433,948	15,929,701	388,155	669,498	**1,057,653**	**16,987,354**
One to five years	33,687,839	698,930	7,270,957	384,783	42,042,509	-	1,360,067	**1,360,067**	**43,402,576**
Over five years	28,622,085	-	4,616,153	4,111,790	37,350,028	-	631,385	**631,385**	**37,981,413**
Grand Total	**81,558,897**	**5,825,004**	**13,575,998**	**25,831,206**	**126,791,105**	**517,540**	**10,175,173**	**10,692,713**	**137,483,818**

IMPAIRED CUSTOMER FINANCINGS BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2018

	OVERDUE			PROVISIONS		ADJUSTMENTS		
INDUSTRY SEGMENT	Less than 90 Days AED '000	90 Days and above AED '000	Total AED '000	Stage 3 AED '000	Stage 1 & 2 AED '000	Write-offs AED '000	Write-Backs AED '000	Total Impaired Assets AED '000
Agriculture, Fishing & related activities	-	2,798	2,798	789	-	-	-	2,009
Crude Oil, Gas, Mining & Quarrying	-	-	-	-	-	-	-	-
Manufacturing	582,801	17,309	600,110	350,494	-	-	-	249,616
Electricity & Water	2	-	2	2	-	-	-	-
Construction	-	173,802	173,802	91,249	-	-	-	82,553
Trade	748	105,108	105,856	79,710	-	-	-	26,146
Transport, Storage & Communication	913	13,756	14,669	10,562	-	-	-	4,107
Financial Institutions	-	-	-	-	-	-	-	-
Services	167,870	682,592	850,462	368,138	-	-		482,324
Government	-	-	-	-		-	-	-
Retail / Consumer banking	285,777	1,917,749	2,203,526	653,859	-	-	-	1,549,667
All Others	-	-	-	-	-	-	-	-
Total	**1,038,111**	**2,913,114**	**3,951,225**	**1,554,803**	**-**	**-**	**-**	**2,396,422**

IMPAIRED CUSTOMER FINANCINGS BY GEOGRAPHY AS ON 31 DECEMBER 2018

	OVERDUE			PROVISIONS		ADJUSTMENTS		
GEOGRAPHIC REGION	Less than 90 Days AED '000	90 Days and above AED '000	Total AED '000	Stage 3 AED '000	Stage 1 & 2 AED '000	Write-offs AED '000	Write-Backs AED '000	Total Impaired Assets AED '000
United Arab Emirates	330,750	2,712,130	3,042,880	1,117,121	-	-	-	1,925,759
Rest of the Middle East	707,361	-	707,361	381,709	-	-	-	325,652
Europe	-	200,984	200,984	55,973	-	-	-	145,011
Others	-	-	-	-	-	-	-	-
Grand Total	**1,038,111**	**2,913,114**	**3,951,225**	**1,554,803**	**-**	**-**	**-**	**2,396,422**

RECONCILIATION OF CHANGES IN PROVISION FOR IMPAIRED CUSTOMER FINANCINGS FOR THE YEAR ENDED 31 DECEMBER 2018

	Description	AED '000
	Opening Balance of Provisions for Impaired Customer Financings (as per IAS 39)	**3,220,361**
	IFRS 9 Adjustment	(47,602)
Less:	**Reversals for the year**	**(290,509)**
	- Stage 3	870,730
	- Stage 1 & 2	(337,477)
Add:	Write-off of impaired financing to income statement	(823,762)
Less:	Recovery of financing loss provisions	-
Less:	Recovery of financing previously written-off	-
Less:	Write-back of provisions for financing	-
	Closing Balance of Provisions for impaired Financing (as per IFRS 9)	**2,882,250**

CREDIT RISK - GENERAL DISCLOSURE - STANDARDISED APPROACH AS ON 31 DECEMBER 2018

ASSET CLASSES	ON BALANCE SHEET	OFF BALANCE SHEET		CREDIT RISK MITIGATION (CRM)			
See Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions	Gross outstanding AED '000	After credit conversion factors (CCF) AED '000	Total gross exposure AED '000	Exposure before CRM AED '000	CRM AED '000	After CRM AED '000	Risk weighted assets AED '000
Claims on Sovereigns	21,874,265	-	21,874,265	21,874,265	-	21,874,265	1,765,767
Claims on non-central Government Public Sector Entities (PSEs)	1,623,973	-	1,623,973	1,623,973	-	1,623,973	129,592
Claims in Multilateral Development Banks	-	-	-	-	-	-	-
Claims on Banks	8,437,741	180,646	8,618,387	8,618,387	-	8,618,387	3,028,090
Claims on Securities Firms	-	-	-	-	-	-	-
Claims on Corporates	28,436,119	4,490,897	32,914,214	32,914,214	364,534	32,549,680	32,062,470
Claims included in the Regulatory Retail Portfolio	29,142,660	336,273	29,478,933	29,478,933	356,565	29,122,368	22,466,282
Claims Secured by Residential Property	14,466,737	-	14,466,737	14,466,737	35,830	14,430,907	6,450,337
Claims Secured by Commercial Real Estate	10,849,974	-	10,849,974	10,849,974	24,848	10,825,126	10,825,126
Past Due Financings	3,951,225	-	2,396,422	2,396,422	7,526	2,388,896	2,948,217
High Risk Categories	44,015	-	44,015	44,015	-	44,015	66,023
Other Assets	9,311,910	-	9,311,910	9,311,910	-	9,311,910	7,397,513
Claims on Securitised Assets	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling protection)	-	-	-	-	-	-	-
Total claims	**128,138,619**	**5,007,816**	**131,578,831**	**131,578,831**	**789,303**	**130,789,528**	**87,139,417**

CREDIT RISK – GENERAL DISCLOSURE – STANDARDISED APPROACH AS (RATED / UNRATED) ON 31 DECEMBER 2018

	Gross Credit Exposures				
ASSET CLASS	Rated AED '000	Unrated AED '000	Total AED '000	Post CRM AED '000	RWA Post CRM AED '000
Claims on Sovereigns	3,256,728	18,617,537	21,874,265	21,874,265	1,765,767
Claims in Public Sector Entities	850,544	773,429	1,623,973	1,623,973	129,592
Claims on Multilateral Development Banks	-	-	-	-	-
Claims on Banks	7,468,675	969,066	8,437,741	8,618,387	3,028,090
Claims on Securities Firms	-	-	-	-	-
Claims on Corporates	3,583,367	24,852,752	28,436,119	32,549,680	32,062,470
Claims included in the Regulatory Retail Portfolio	-	29,142,660	29,142,660	29,122,368	22,466,282
Claims secured by Residential Property	-	14,466,737	14,466,737	14,430,907	6,450,337
Claims secured by Commercial Real Estate	-	10,849,974	10,849,974	10,825,126	10,825,126
Past Due Financings	-	3,951,225	3,951,225	2,388,896	2,948,217
High Risk Categories	-	44,015	44,015	44,015	66,023
Other Assets	1,438,659	7,873,251	9,311,910	9,311,910	7,397,513
Claims on Securitised Assets	-	-	-	-	-
Grand Total	**16,597,973**	**111,540,646**	**128,138,619**	**130,789,528**	**87,139,417**

CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDISED APPROACH AS ON 31 DECEMBER 2018

		Exposures AED '000	Risk Weighted Assets AED '000
	Gross Exposure prior to Credit Risk Mitigation	131,578,831	131,578,831
Less:	Exposure covered by on-balance sheet netting	-	-
Less:	Exposures covered by Eligible Financial Collateral	789,303	789,303
Less:	Exposures covered by Guarantees	-	-
	Net Exposures after Credit Risk Mitigation	**130,789,528**	**130,789,528**

CAPITAL REQUIREMENT FOR MARKET RISK UNDER STANDARDISED APPROACH AS ON 31 DECEMBER 2018

MARKET RISK	Amount AED '000
Profit rate risk	1,132,113
Equity position risk	-
Foreign exchange risk	1,231,747
Commodity risk	-
Total Capital Requirment	**2,363,860**

EQUITIES DISCLOSURE FOR BANKING BOOK POSITIONS 31 DECEMBER 2018

1) Details of equity position by type:

TYPE	Current Year Publicly Traded AED '000	Current Year Privately Held AED '000
Government	-	-
Financial Institutions	485,667	198,002
Trading and manufacturing	-	-
Construction and real estate	24,568	4,430
Energy	-	-
Others	-	240,257
Total	**510,235**	**442,689**

2) Realised and unrealised revaluation gains (losses) during the year:

	Amount AED '000
Realised gains from sales and liquidations	(4,107)
*Unrealised gains (losses) recognized in the balance sheet but not through profit and loss account	(35,319)
Total	**(39,426)**

3) Items in (2) above included in Tier1/Tier 2 Capital:

TIER CAPITAL	Amount AED '000
Amount included in Tier 1 Capital	(39,426)
Amount included in Tier 2 Capital	-
Total	**(39,426)**

EQUITIES DISCLOSURE FOR BANKING BOOK POSITIONS 31 DECEMBER 2018

Capital requirements by equity groupings:

GROUPING	Capital Requirement AED '000
Government	-
Financial Institutions	209,779
Trading and Manufacturing	-
Construction and Real Estate	5,383
Energy	-
Others	63,149
Total Capital Requirement	**278,311**