ADIB مصرف أبوظبي الإسلامي

ANNUAL REPORT 2016

Contents

The late Sheikh Zayed bin Sultan Al Nahyan
The first President of the United Arab Emirates
'Mercy be upon him'

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 82 branches and more than 740 ATMs, and a presence in 6 other countries including Egypt, Iraq, the Kingdom of Saudi Arabia, Qatar, Sudan and the United Kingdom.

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

- The key customer service units are Wholesale Banking, Retail Banking (Personal Banking and Business Banking), Private Banking and Community Banking supported by Cards, Transaction Banking, Treasury, Corporate Finance and Investment Banking and Wealth Management.
- ADIB's retail presence will continue to build towards market leadership.
- At the heart of ADIB's customer-centric approach is a bank-wide focus on customer service excellence.

Create an integrated financial services group

- ADIB continues to create a diversified Islamic financial services model.
- Currently ADIB provides customers access to real estate management agency and valuation (through MPM), takaful insurance (through Abu Dhabi National Takaful Company) brokerage (through ADIB Securities) and built its merchant acquiring business through ADIMAC and foreign exchange business through Arab Link.

Pursue international growth opportunities

- With the growing acceptance of Islamic banking worldwide, ADIB is increasingly turning its attention to replicating its business model through systematic geographic expansion.
- ADIB's international expansion began in Egypt with a joint venture structure, followed by the establishment of Iraq, UK, Saudi Arabia, Qatar and Sudan.

Financial Highlights

AED 122.3
(billion) Total Assets

AED 15.5
(billion) Equity

AED 98.8
(billion) Total Customer Deposits

79.1%
Customer Financing to Deposit Ratio

1,954
(million) Net Profit

5,386
(million) Total Revenues

Net Profit for 2016 increased by 1.0% to AED 1,954 million

Total Revenues for 2016 increased by 4.9% to AED 5,386 million

ADIB Group

Summary Income Statement	2016 AED mn	2015 AED mn	2014 AED mn	2013 AED mn	2012 AED mn
Net Revenue from Funding	**3,921.0**	3,771.3	3,505.0	3,066.4	2,905.3
Fees, Commissions and Foreign Exchange Income	**979.6**	965.0	798.7	616.4	432.4
Investment and Other Revenues	**484.9**	398.1	279.3	248.5	227.9
Total Revenues	**5,385.5**	5,134.4	4,583.0	3,931.3	3,565.6
Operating Profit (margin)	**2,937.6**	2,760.3	2,512.0	2,231.8	2,003.5
Credit Provisions and Impairment Charge	**970.0**	820.0	757.8	780.4	802.3
Net Profit after Zakat & Tax	**1,953.6**	1,934.0	1,750.7	1,450.2	1,201.2
Summary Balance Sheet					
Total Assets in AED (Billion)	**122.3**	118.4	111.9	103.2	86.1
Customer Financing in AED (Billion)	**78.2**	78.4	73.0	61.7	51.2
Customer Deposits in AED (Billion)	**98.8**	94.9	84.8	75.5	61.3
Financial Ratios					
Customer Financing to Deposit Ratio	**79.15%**	82.59%	86.12%	81.76%	83.48%
Risk Asset Ratio - Total (CAR, %) - Basel II	**15.25%**	15.14%	14.36%	16.86%	21.42%
Cost Efficiency Ratio	**45.45%**	46.24%	45.27%	43.26%	43.81%

4.9%

Total Revenues (AED mn)

2016	5,386
2015	5,134
2014	4,583
2013	3,931
2012	3,566

6.4%

Operating Profit (Margin) (AED mn)

2016	2,938
2015	2,760
2014	2,512
2013	2,232
2012	2,004

4.1%

Total Customer Deposits (AED mn)

2016	98,814
2015	94,927
2014	84,776
2013	75,524
2012	61,326

-0.2%

Total Customer Financing (AED mn)

2016	78,211
2015	78,403
2014	73,006
2013	61,748
2012	51,197

79.1%

Customer Financing to Deposit Ratio

2016	79.15%
2015	82.59%
2014	86.12%
2013	81.76%
2012	83.48%

15.2%

Capital Adequacy Ratio

2016	15.25%
2015	15.14%
2014	14.36%
2013	16.86%
2012	21.42%

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

ADIB's Awards in 2016


Sheikh Khalifa Excellence Award 2016 - Gold Category


EIBFS Human Resources Development Award 2016


Best Islamic Bank in MENA by EMEA FINANCE


Best Islamic bank in the UAE by EMEA Finance

Best Commercial Bank by Islamic Bank and Finance Magazine

Best Islamic Bank in Egypt by Islamic Bank and Finance Magazine

Euromoney Awards for Innovation in Islamic Finance 2016


Best Islamic Bank for SME by Global Finance


Best Islamic Bank in Egypt by Global Finance


Best Islamic Bank in the UAE by Banker FT

Islamic Finance Deal of the Year by Global Transport Finance

The best Excellence CSR Committee in the UAE from Private Consultant of the King of Saudi Arabia

Best Property Consultancy in Abu Dhabi for MPM by the Arabian Property Awards

Process Innovation Award by Global Finance Magazine

Sukuk Manager of the Year from Global Investor / ISF MENA

Best SME Internet Banking Service by Banker Middle East

Best Premium Banking Service by Banker Middle East

Best SME Exchange Service by Banker Middle East

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

Best in Talent Management by MENA HR Excellence Awards

Best Islamic Private Bank by Islamic Finance news Awards

Mudarabah Deal of the Year for the Egyptian Electricity Transmission Company EGP by Islamic Finance news Awards

Qatar Deal of the Year for Ezdan Holding by Islamic Finance news Awards

Best Customer Service Awards 2016 by Ethos Consultancy

Best Call Center Awards 2016 by Ethos Consultancy

Excellence in Digital Banking Award by the Lafferty Global Awards

In 2016, we invested heavily in areas that will help us achieve further growth in the future, including enhancing customer experience and advancing our digital capabilities in line with our ambition of becoming the most favored digital bank.

+4%

Growth in Customer Deposits

Customer deposits increase by 4.1% to AED 98.8 billion at the end of 2016.

+5%

Revenues

With a 5% year on year growth in revenues which is considered amongst the highest revenue growth within the banking industry in the UAE.

Dear Shareholders

On behalf of the Board of Directors, I am pleased to present to our shareholders the Annual Report for 2016.

Impact of low oil prices continued to affect economic performance of the country and the banking sector in general. The small and medium enterprise (SME) segment, which remains critical to the country's economic growth, was hit particularly hard and suffered significant setbacks. This stymied growth and impacted overall performance of the banking sector. In this environment, ADIB managed to close the year successfully by achieving industry-best revenue growth and net profit of AED 1,954 million after the deduction of shareholders' contributions to depositors, marginally higher than last year despite taking incremental provisions for credit losses pertaining mainly to the credit exposure in the SME segment.

I express my thanks to the management and staff of ADIB for delivering sustained growth and profitability and my appreciation to the Fatwa and Sharia Supervisory Board for their support and guidance.

Environment & UAE Economy

The business environment in 2016 remained challenging as the impact of global political uncertainty, slowing economies and lower oil prices continue to linger. Despite these challenges, the UAE economy continued to grow, albeit at slower rates compared to those experienced over the last few years. While growth remained muted, the banking sector remained secure and stable. The sector maintained strong capital and liquidity positions and adopted prudent risk-taking strategies. This stability and strength is also attributable to diligent oversight by the UAE Central Bank and introduction of regulatory policies that reinforce market discipline and responsible corporate governance. Introduction of measures like the Internal Capital Adequacy Assessment Process, internal stress-testing, and macro stress-testing are causing management and the Boards of the banks to assess inherent risks more comprehensively and manage the banks with full recognition of such risks. With implementation of Basel III in 2017, the UAE banking sector will be at par with global regulatory best practices, and will help retain UAE's position as an attractive financial center and a leading Islamic banking hub.

Performance

In 2016 ADIB delivered strong results in a challenging operating environment. Revenues continued to the positive growth trajectory achieving a 5% year-on-year growth with net profit increasing by 1% to AED 1,954 million. These results highlight ADIB's robust strategy underpinned by the customer-centric approach and award-winning customer service. Despite slower economic growth, ADIB welcomed over 42,000 new customers, bringing the total number of customers to more than 920,000.

Given the challenging environment, ADIB followed a conservative approach on credit extension and capital management. Customer financing assets grew in selected lower risk segments, however growth was curtailed in other segments. Year-on-year there was no increase in customer financing assets where they were maintained at AED 78 billion. Customer deposits increased by 4.1% to AED 99 billion at the end of 2016, maintaining ADIB's position as one of the most liquid banks in the UAE with a solid advances-to-deposits ratio of 79%.

In addition, we invested heavily in areas that will help us achieve further growth in the future, including enhancing customer experience and advancing our digital capabilities in line with our ambition of becoming the most favored digital bank. Despite our focus on growing the bank, we demonstrated a strong expense discipline resulting in year-on-year decline in cost-to-income ratio.

Recommended Dividend

The Board of Directors is pleased to recommend distribution of cash dividends of 24.52% which represents 39.8% of the full year net profits for 2016. This amounts to a total dividend payout of AED 776.8 million.

Recognition

In 2016 ADIB received a number of accolades and industry awards reflecting the success of our ongoing efforts. I am particularly proud of the fact that ADIB was the only bank to be awarded with the "Sheikh Khalifa Excellence Award – Gold Category" for the third time, in addition to being recognized for the 6th consecutive year, as the best bank in the UAE for customer service. 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.

Ethical banking

We strive to earn and maintain our customers' trust by constantly adhering to the highest

Ethical standards. Everything we do in ADIB should be in our customers' interest and create economic value. This inspires the structure of our products, the delivery of our services and the principles that run through our business.

In furtherance of this commitment, we once again hosted the Ethical Finance Innovation Challenge Awards "EFICA" to inspire real change in the financial services industry by recognizing and rewarding innovation with practical applications in real life, and adopting best ethical practices that are in harmony with our values.

Human Resources

In line with our 2020 vision, ADIB continued to recruit the staff required to service its growing business while retaining focus on enhancing employee productivity and ensuring cost effectiveness.

ADIB continues to remain one of the leading banks in advocating recruitment, development and promotion of local talent. The bank now employs 868 UAE Nationals resulting in an Emiratisation ratio of more than 40%. The leadership program that was conceived in 2014 to develop future national leaders gathered momentum during the year and resulted in moving several UAE nationals into leadership roles.

ADIB continued to focus on investing in staff training, learning and development with the intent to improve the skills of its employees and to drive the bank towards delivering the best customer experience.

Corporate Social Responsibility

2016 was a remarkable year in which we built upon our considerable CSR track record to extend and improve our sustainability commitments through all aspects of our operations. We have introduced several new initiatives that benefited the community at large including our financial education program, our support for football in the UAE, various community outreach programs and our sponsorship of humanitarian and cultural activities during the Holy Month of Ramadan.

Looking Ahead

Prospects for the UAE in 2017 are encouraging. Government spending and government investment is expected to increase in search of new opportunities with the anticipated recovery / stability in oil prices and a growth in non-oil activities.

During 2017 the Board will continue to work with the management to successfully implement the Bank's approved strategy while operating within the established risk appetite parameters. ADIB achieved this successfully in 2016 and I have every confidence it will do so again in 2017.

Conclusion

We remain vigilant to any unexpected changes in the market environment. We believe that through our prudent and ethical approach to business we have managed to steer a steady path through the challenges of recent years and we are now well positioned both in terms of our world class management team and our broad range of services to reap the benefits of our strategy in the medium and longer term.

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 also 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 2016.

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

Thank you.

HE Jawaan Awaidha 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
Arab Link Money Transfer PSC
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 Company LLC

Board of Directors and Chief Executive Officer

HE Jawaan Awaidha Suhail Al Khaili
Chairman

Khamis Mohamed Buharoon
Vice Chairman

Tirad Al Mahmoud
Group 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 Tirad Al Mahmoud
Group Chief Executive Officer

Mr S Sarup
Global Head - Retail Banking

Mr A Usmani
Global Head - Wholesale Banking

Mr A Abdullah
SEVP, Head of Strategic Clients Group

Mr W Al Khazraji
Head of Human Resources, UAE

Dr O Kilani
Global Head of Shari'a

Mr B Belcher
Group Chief Risk Officer

Mr A Z Alshehhi
Head of International Expansion

Mr P King
Head of Retail Banking, UAE

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 N Saliba
Global Head International Business Group

Mr A Kanan
Global Head - Audit and Risk Review

Mr A Qadir Khanani
Group Treasurer

Mr I Gore
Global Head - Human Resources

Mr S Mufti
Chief Operating Officer

Mr S Amir Zahidi
Chief of Staff

Mr G Mismar
Global General Counsel

ADIB Subsidiaries, Associates and Joint Ventures Management

ADIB Egypt

Saudi Finance Company, ADIB Saudi Arabia

Abu Dhabi National Takaful Company PJSC

ADIB Securities

ADIB UK

MPM Properties

Bosna Bank International D.D.

Arab Link Money Transfer PSC

Abu Dhabi Islamic Merchant Acquiring Company LLC

Burooj Properties

ADIB's customer-centric strategy continued to focus on delivering an award-winning experience to over 920,000 customers across all major segments through a large branch network and market-leading digital channels.

CEO's Report

ADIB delivered market-leading revenue growth in 2016 and despite market conditions, ADIB managed to generate a full year net profit of AED 1,954 million, marginally higher than last year.

2016 Achievements

2016 was a challenging year for the UAE banking industry. In the subdued economic environment, ADIB managed to deliver 5% year-on-year growth in revenues, this being amongst the highest revenue growth in the banking industry in the UAE. Despite the increase in our total credit provisions and impairments given the slowdown in the economy and lower soft commodity prices that impacted the SME sector, net profit for 2016 increased by 1.0% to reach AED 1,953.6 million and ADIB continued to grow with total assets increasing to AED 122 billion. These results reflect the robust nature of our strategy and the strength of our customer-focused culture.

Given the economic headwinds, we risk-managed our growth by focusing on select segments while reducing exposure in others. Customer financing assets remained flat to 2015, at AED 78 billion, however customer deposit base increased by 4% to AED 99 billion resulting in an improvement in advances-to-deposits ratio to 79%.

ADIB's customer-centric strategy continued to focus on delivering an award-winning experience to over 920,000 customers across all major segments through a large branch network and market-leading digital channels. This has helped ADIB sustain healthy growth in customer acquisitions year over year. We recognise the disruptive potential of the technological changes for the banking industry, however we see this as an opportunity to enhance customer experience by delivering a more comprehensive set of financial services online and in real-time, through customer-preferred delivery channels. We are responding accordingly to the changes and continue to invest in areas that will help us maintain our position as best-in-market customer experience.

Digital Transformation

In 2016, ADIB invested heavily in areas that will help us achieve further growth in future, including enhancing customer experience and advancing our digital capabilities in line with our ambition to become the customers' most favored digital bank. We currently have one of the largest number of online banking and mobile banking customers in the UAE. ADIB digital banking channels more than doubled in the last 12 months while smartphone transactions increased by 73% year-on-year. Today, 99% of all cash transactions are made through digital channels including ATMS; 25% of all transaction are made on the mobile app and 48% of all active customers use the mobile app. In 2016, we collaborated with strategic partners like Fidor Bank and IBM, leveraging their expertise in digital banking to tackle some of the most interesting opportunities in financial technology.

Commitment to Excellence

We are continually working to provide an exceptional customer experience to our retail and corporate customers whether they choose to interact with us in person, on the phone, or digitally. This year, we were immensely honored to have been awarded for the 6th consecutive year, the rank of number 1 bank in customer service among all banks in the UAE by Ethos Consultancy. In addition, we were the only bank in the UAE to be recognized by the Sheikh Khalifa Excellence Award in its Gold Category.

This recognition speaks directly to ADIB's commitment to our customers, and our ongoing efforts to put them first, and is evidenced by the fact that ADIB was ranked number 1 in the net promoter score, an indicator of client loyalty and satisfaction.

Capital Management

Subsequent to the rights issue in 2015, ADIB has managed its capital conservatively by maintaining prudent growth policy in 2016, ensuring full compliance with prevailing capital regulations and keeping in mind impact of the forthcoming implementation of the new Basel III capital regulations issued by the Central Bank of the UAE. While these new regulations have now been issued, the Central Bank will be issuing Standards on some of the capital instruments. Once these have been released, ADIB will determine how best to transition its current capital instruments to conform to the new eligibility criteria as set by the Central Bank.

Liquidity Management

ADIB's business and risk-management strategies have helped it maintain position as one of the most liquid banks in the UAE. It recorded a healthy advances-to-deposits ratio of 79.1% on the back of strong current and saving deposits growth. This has also helped the bank maintain one of lowest cost of funds in the UAE banking industry. The strength of our current liquidity profile saw ADIB repay, as scheduled in Q4 2016, the sukuk issued in Q4 2011, while it remained to maintain excellent liquidity.

Risk management

ADIB continued its conservative approach to credit risk management and its proactive remedial efforts. As a result, and given that the asset quality outlook remains negative in a number of segments, including the SME due to the lower oil and commodities prices, ADIB took an additional AED 970 million in credit provisions in 2016. Furthermore, collective provisions now represent 2.1% of total customer risk weighted assets, which is well above the 1.5% set out in regulatory guidelines. Specific and collective provisions represent a healthy pre-collateral coverage ratio of 85.5% of the total non-performing portfolio, and 97.5% of the impaired portfolio.

Outlook

The prospects for the UAE as a whole in 2017 are encouraging and are supported by stability in oil prices and emphasis on non-oil growth. Nonetheless, we continue to forecast modest customer financing growth in the UAE. Our focus remains on pursuing growth strategies in select segments. ADIB will continue to keep customers at the center of the transformational strategies that it undertakes, to meet the changing banking landscape, and deliver award-winning customer experiences.

I would like to thank all our customers for putting their trust in ADIB. I would also like to thank our Board Members whose commitment enables our ongoing success, and to our regulators for ensuring the continued financial stability of the financial sector. Lastly, to our shareholders, I would like to reiterate our focus on delivering high-quality sustainable earnings growth and moving with clear purpose in 2017 and beyond.

Tirad Al Mahmoud
Group Chief Executive Officer

Business Review

ADIB's vision of becoming the number one retail bank in the UAE remained on track during 2016 with the continued expansion into new customer segments, including the expatriates segment, whilst retaining focus on the core UAE National customer base.

Retail Banking

ADIB's vision of becoming the number one retail bank in the UAE remained on track during 2016 with the continued expansion into new customer segments, including the expatriates segment, whilst retaining focus on the core UAE National customer base. A continued emphasis on long-term customer relationships and selected industry segments, while remaining loyal to the core UAE Nationals segment, saw the number of active customers served by ADIB increase by over 42k to 918K customers (50% National and 50% Expatriate).

2016 was also a year of significant competitor activity. Despite this ADIB produced a strong set of results with gains over 2015 in all key measures: total Retail Banking revenue was up by AED 193 million (an increase of 6%), total financing assets increased by 5%, and total deposits rose by 10%.

ADIB maintained its position as one of the largest retail banking networks in the UAE with more than 80 retail branches, and a network of more than 740 ATMs. 2016 also saw increased adoption of ADIB digital channels including the ADIB Banking mobile app; the ADIB mobile app allows customers to perform a variety of transactions and apply for a number of services. Customers voted the app as one of the most popular in the UAE. The application is now widely used by a large number of ADIB's customers.

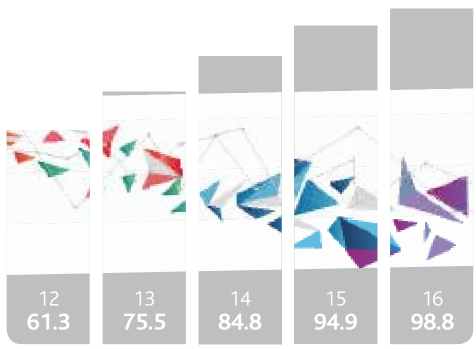
ADIB continued to invest in staff training programs to strengthen the skills of the Retail Banking staff on customer service, product development, processes and procedures and policies. This not only supports the growth of its people and the quality of the services it provides, but also reflects its commitment to ensure that its services are properly and ethically structured and delivered. This performance was reflected in the number of awards won by the Bank during the year: "Best Overall Bank for Customer Experience in the UAE" for the sixth consecutive year and 'Best Overall Call Center in UAE" for the 3rd consecutive year by Ethos Consultancy and "Best Overall Islamic Retail Bank" by Global Finance. The bank's continued focus on providing leading products and superior customer service was recognised as it was named the most recommended bank for its car and home finance products by "Souqalmal.com".

2017 will see continuation of our existing successful retail strategy and focus on enhancing our presence in the core UAE National segment. We will maintain our leading position in key products such as home finance, personal finance and vehicle finance; enhance our focus on servicing and customer acquisition via digital channels.

ADIB has partnered with Fidor Bank to launch the region's first "community-based digital bank". The bank will center around an online community, where users can exchange financial advice and also help co-create shariah compliant banking products. The 'new community digital bank' is designed to fit the lifestyle of millennial consumers also known as Generation Y, as well as those looking for a digital offering that matches their banking needs and keeps pace with their daily lives. Products, services, user experiences and interactions, and retail deals from the new community digital bank are based on extensive research with and insights gained from millennial co-creators.

ADIB has embarked on the Digital Banking journey to provide its customers with new age Digital solutions to make Banking convenient for them and provide facilities to help its customers better interact with ADIB. In line with the strategy, ADIB has launched its new mobile banking app which provides market leading facilities, such as, withdrawal of cash from ADIB ATMs without the use of cards. Customers can access their ADIB accounts and covered cards using mobile Banking with Touch ID. In our constant endeavor to make ADIB the best Digital Bank, new and innovative solutions will be launched in due course to make Banking more simpler and convenient to our customers.

Growth in Customer Deposits



(AED billion)

Business Banking

In spite of the challenging SME market situation in 2016, ADIB Business Banking was able to continue its growth in terms of our business banking customers' base and non-financing related revenues, where the latter recorded a year-on-year growth of 36% driven by focus on transactional banking and fee optimization. 2016 was a year of recognition for ADIB Business Banking, winning prestigious awards for the ongoing efforts to provide innovative products and solutions, and being one of the main banks supporting SMEs in the UAE market.

From Banker Middle East:

- Best SME Bank from Banker Industry Awards 2016
- Best SME Internet Banking Service from Banker Middle East Product Awards 2016
- Best SME Exchange Service from Banker Middle East Product Awards 2016

In the coming year, ADIB Business Banking will be focusing on enhancing the share of the SME market in a conservative manner, and in selected economic sectors through greater emphasis on transactional banking and cash management services. In addition, ADIB Business aims to adopt the role of the Financial Education Advisor for Startups and SMEs in the UAE. This can be translated through a group of activities under Corporate Social Responsibility (CSR) to tackle issues and areas where business owners may face some difficulties.

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 difficult economic environment during 2016, we focused on achieving this goal through greater capital efficiency, tighter control of the cost of credit, and a strong expense control culture. Despite an adverse credit environment, the WBG managed to increase its revenues by 1%. Our strong track record in financing and advising corporates on capital markets, M&A advisory, syndicated financing, cash management and global trade services combined with a nimble organization structure, is demonstrated by:

- The Commercial Real Estate Advisory and Solutions Mandate, 'CREAM', securing deals of AED 9.7 billion worth in assets. This dedicated team of real estate finance professionals continue to offer a full range of Islamic financing and advisory services.
- The specialization of the shipping coverage unit booking AED 2 Billion in a secure and highly structured asset class.
- The establishment, based on our success in both the real estate and shipping organizational model, of our relationship coverage model, focusing more on industry segmentation based on industry specialization, enabling us to develop a robust customer centric and analytic culture within the Wholesale Banking Group.
- Our solid cross sell ratio which is demonstrated by the fact that 33% of revenues came from non-financing sources.
- A highly professional and effective Corporate Finance and Investment Banking distribution capability.
- Developing the 'Project Leap' initiative which is devoted to providing a greater value proposition for WBG clients through enhanced product offerings such as trade and cash. As part of this project, both trade and cash platforms will be upgraded to meet both clients' current requirements and provide additional offerings.

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

During 2016, ADIB's Wholesale Banking Group continued with its 2020 strategy of becoming the best and most professional wholesale bank in the UAE.

Corporate Finance and Investment Banking Unit

2016 was another strong year for CFIB despite the market backdrop. Overall, CFIB concluded over 17 landmark transactions across syndicated finance, Sukuk, M&A and advisory products. A number of milestones were achieved in 2016 including the first M&A deal and the first acquisition finance deal arranged by ADIB whereby, ADIB acted as the sell-side advisor and arranged Acquisition Finance for Tristar (The Buyer)

Additionally, CFIB was involved in arranging multibillion dollars in Sukuks and syndicated & structured finance deals on behalf of Government Related Enterprises (GREs), major Corporates and Financial Institutions (FIs). ADIB successfully concluded landmark syndicated finance transactions totaling more than US$ 1.68billion in 2016 (as MLA & Bookrunner), which positioned ADIB as a market leader across Islamic syndicated finance Bookrunner league tables. ADIB maintained its No.1 ranking with 21% market share of Islamic syndicated finance in UAE in accordance with rankings published by Bloomberg (a position maintained since 2010).

On the Capital Markets front, ADIB led - as JLM and Bookrunner a number of high profile Sukuk mandates on behalf of Etihad Airways, Ezdan Holding (Qatar) and Kuveyt Turk (Turkey). In addition, ADIB continued on the path of innovation in the Sukuk business by leading as JLM and Bookrunner two privately placed Sukuk of AED 700 million for Meydan Group and AED 216 million for Dubai World Central.

Some of the notable Sukuk and Syndicated Finance deals for 2016 include:

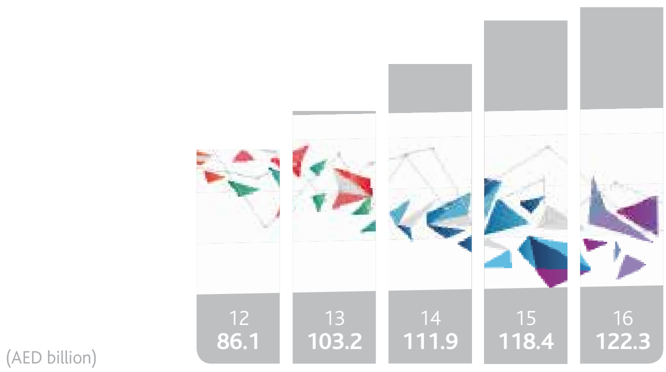
- **Etihad Airways:** US$ 1,500,000,000 private placed rated Sukuk – JLM & Bookrunner. One of the largest corporate privately placed Sukuk issued within the GCC to date (November 2016)
- **Ezdan Holding**: US$ 500,000,000 Sukuk – JLM & Bookrunner. Ezdan's debut Sukuk issue awarded "Sukuk Deal of the Year by Debut Issuer" by bonds, loans & Sukuk Middle East awards (May 2016)
- **Meydan Group:** AED 1,000,000,000 syndicated facility – MLA & Bookrunner. One of the largest real estate finance deals in UAE (November 2016)
- **Meydan Group:** AED 700,000,000 private placed Sukuk – JLM & Bookrunner. One of the largest AED denominated privately placed Sukuk done to date (March 2016)
- **Maridive Group:** US$ 225,000,000 syndicated facility – MLA & Sole Bookrunner. High profile syndication, affirming ADIB's leadership position in the Shipping and Offshore sectors (Jan 2016)
- **Eships:** Sell side advisor to Egon Oldendorff on the sale of Eships to Tristar Transport (January 2016)
- **Tristar:** US$ 67,000,000 acquisition finance – MLA & Bookrunner. The deal was awarded ("deal of the year 2016") by Seatrade Award (January 2016)
- **Omniyat** Holding: AED 325,000,000 syndicated facility – MLA & Bookrunner. Innovative structured facility for a top tier developer (December 2016)

Through the above, ADIB has demonstrated its market leadership in the structured real estate and shipping & offshore financing with a full product proposition & financing solutions maintaining a top position on league tables in UAE for Islamic syndicated finance & capital markets.

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

- "Islamic deal of the year" – Etihad Airways US$1.5bn private placed Sukuk by Global Transport Finance
- "Sukuk deal of the Year by Debut Issuer" & "Qatar Deal of the year"– Ezdan US$500M Sukuk by Bonds, Loans & Sukuk Award and Islamic Finance News Awards, respectively
- "Seatrade deal of the year" – Tristar US$67M financing facility by Seatrade Award
- ADIB named "Sukuk Manager of the year" by Global Investor, Euromoney

Growth in Total Bank Assets



GROUND BREAKING PARTNERSHIP.

ADIB has partnered with Fidor Bank to launch the region's first "community based digital bank".

adib.ae | Abu Dhabi Islamic Bank | ADIB | @ADIBTweets | adib_bank

UNLEASHING DIGITAL POWER TO DELIVER BANKING AS IT SHOULD BE.

ADIB مصرف أبوظبي الإسلامي

Global Transaction Banking Services ('GTB')

Global Transaction Banking caters to Large and Mid-Corporates, Small Medium Enterprise and Financial Institutions by providing Cash Management and Trade Finance product solutions across the MENA region. GTB offers a host of efficient and cost effective solutions for payments collection, liquidity management, and import and export to meet 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 2016, GTB focused on:

- Improving the efficiency of existing resources through a focused sales program. This provided a yield increase in revenues of 8%, despite the more adverse credit environment, which led to a decrease in volumes. In addition, GTB has launched an Export Finance product that will support both the corporate and Financial Institutions business.
- A transformational project (Project LEAP). This project when completed will enable the launch of over 50 new products that will deliver the highest international standard sharia compliant solutions. It is a major initiative that requires a multi-disciplinary approach to change the backend, online, and mobile banking offerings of Cash Management and Trade Finance, thus allowing a re-engineering of the related processes to deliver more at a lower cost. As part of this project our relationship managers, GTB Sales, and Service personnel, will have access to the latest Customer Relationship Management software, enabling us to serve our clients and support their needs in a much more efficient manner.
- Mobile Banking which has quickly become a pivotal product offering for our customers, evident from its rapid popularity across multiple business segments.
- Other GTB led initiatives including the launch of 'Liquidity Sweeping' and Trade Risk participation sell down.

This focus demonstrates GTB's ability to continuously incorporate innovation in an ever changing market.

Future plan

While 2017 is likely to present a challenging macroeconomic environment, we remain committed to delivering to our clients:

- a strong customer centric culture,
- comprehensive financing solutions, including syndications, project and structured finance,
- 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,
- access to ADIB's ever expanding international footprint as well as global correspondent banking network, and lastly,
- a team of seasoned professionals with extensive industry, structuring and execution experience to meet diverse needs.

Private Banking Group

Despite the challenges faced in the world of investing, and rather volatile world markets, the Private Banking Group business continued to execute on its strategy and launched a series of initiatives in 2016 to further position ADIB as THE leading onshore-based Private Banking service provider in the UAE and Qatar. The new initiatives focused on continually upgrading the client experience, growing profitability, enhancing fee income, and continuous growth in overall business revenue and profitability contribution to ADIB. A notable achievement is the continued diversification of the business asset book outside the traditional real estate financing, into investment finance solutions, where Sukuk leverage and Margin Trading products were further refined for smother processing and the related client experience. All of this was achieved without undermining our offering of exceptional expertise in local real estate finance structuring. The PB group has been successful not only in growing the business but also maintaining a healthy financing portfolio while growing the wealth side of the business through increased levels of client investments, and build-up of additional Assets Under Management (AUM), which grow on a CAGR in excess of 35% and have reached new record levels.

The business continues to expand and leverage access to the top names in our UAE market, and has broadened its offering to wealthy individuals and families in the GCC region. We foresee increased attention to our offering which should do well to drive growth as a multifaceted business, offering credit advice and solutions; fixed income and equity investment advisory and execution capabilities; deposits and yield optimization; and banking transactional services.

2016 was a strong year for the Private Banking Group at ADIB as it continues to be recognized by the industry as an important participant, where we demonstrated distinguished distribution and placement capabilities building on close client relationships, and trusted advice. This recognition has come from the market via 2 remarkable awards from "The Banker" and "Private Banker International" for The Best Premium Banking Service Award, and The Best Private Bank in the Middle East for Islamic Finance respectively. PB clients were also surveyed by a 3rd party entity where clients provided feedback through a NPS survey, placing us on top of the market when compared by other UAE market participants.

The investment advisory team within the Private Bank Group continued to develop innovative Sharia complaint Wealth Management and investment products that drove the placement of a number of new capital market issues, supporting the growth of client Assets Under Management (AUMs) over the previous year. The team continues to play an important role, both within private banking and other businesses within the ADIB Group.

Treasury

ADIB Treasury continued its strong performance in 2016 led by its client centric strategy and enhanced product capability. The overall Treasury revenue increased by 21% and overall customer flow business increased by 43% resulting from increased cross sell of Sukuk and alternative investment products to Priority customers and FX and Profit Rate hedging solutions to Business and Wholesale Banking customers. ADIB Treasury grew its product suite by introducing various variants of profit rate and FX hedging supported by in-house expertise to advice customers and offer tailored solutions. ADIB Treasury continued with their ambition to be the Best Islamic Trading Bank by increasing their Sukuk Trading flow business with counterparties from Europe to Far East together with a dedicated Institutional Sales desk for FI Customers.

Treasury's aim for 2017 remains to continue building on its strengths and constantly re-innovate themselves to support and guide the customers on exposure management in current and expected challenging economic environment while continuing to invest funds for the Bank's own account and manage the relevant market risk for the Bank.

Community Banking

Community Bank continuous 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.

Along 2016, our experienced and sophisticated staff served 148 clients, with a recognized growth in clientele due to the unique and matchless services, that range from 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. Thru our existing client partnerships, we helped in facilitating cash transactions, donations and charity causes in parallel with ADIB non-competitive infrastructure, gave the 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 banking businesses and subsidiaries to achieve the strategic objective of being the top-tier Islamic bank for our customers, shareholders and staff.

ADIB's 2020 vision underpins the O&T strategy across 'Customer Centricity', 'Digital Innovation, 'Productivity & Efficiency' with 'fit for purpose technology infrastructure'.

In 2016, ADIB entered into a strategic partnership with digital bank Fidor to launch a series of solutions for the millennial customer. We also established a state-of-the-art Digital lab in partnership with IBM to foster an agile approach in ADIB and to improve customer experience. We revamped internet banking and the mobile platform, and simplified processes at customer touch points as well as business process improvements across the group by increasing automation and straight through processing, which enhanced customer experience whilst reducing unit cost per transaction by managing expenses. In addition, ADIB won three awards for Digital Innovations, and the Sheikh Khalifa Award for Excellence, meeting world-class standards in procedures and operations.

Business continuity and data security are a priority for ADIB, particularly given the industry challenges observed globally. ADIB O&T has managed isolated challenges superbly without any impact on customers and has ensured no compromise to customer data/information or financial loss. A long term strategic plan was worked to enable ADIB to grow while having in place a sustainable and resilient infrastructure environment. To emphasize its commitment, ADIB has invested in upskilling its talent and operational and technology capabilities, ensuring a robust and effective process and controls framework to protect Bank's assets and customer data.

We enter 2017 with strong momentum. The continued focus on delivery of strategic initiatives like strengthening information security, enhancing ADIB's digital offering and further improving our operational efficiency are key to ADIB fulfilling its' 2020 mission and vision, whilst delivering superior key customer experience in all the countries where ADIB has a presence.

Human Resources

The Human Resources Division (HRD) supports ADIB's leadership team by attracting, developing and retaining both UAE National and Expatriate talent in line with the needs of the business. In addition, the HRD provides useful and commercial frameworks for on-going people management (related to performance management and rewards, Talent Management, regulatory requirements and other ad-hoc requirements).

In 2016, the division implemented a number of initiatives particularly targeted at talent management including the development of UAE Nationals in Banking positions and was recognized for the following:

1. Best in Talent Management by MENA HR Excellence awards
2. Human Resource Development award by EIBFS

During 2016, 204 UAE Nationals were inducted into the bank and deployed in various divisions.

Investment in building skills and capabilities of employees continued in 2016 with a suite of world class training programs, including a program for the development of High Potential UAE Nationals and an accredited Leadership Development program in collaboration with Abu Dhabi University. The Division continues to offer other certified development programs resulting in the creation of significant development opportunities for existing employees.

Our ***Tamkeen*** program offered our high performing mid-level UAE National females development opportunities and the necessary leadership skills to enhance their careers while our ***Qyiadat*** program provided more high quality development for our more seasoned Emirati managers.

Considerable effort was directed towards the development of staff based on an analysis of training needs and overall business requirements. An average of 6.22 days training per person was achieved during 2016 which is the highest on record.

2016 saw a substantial increase in our e-learning offering, launching a facility for employees to self-assess their desired training needs, and we consolidated our quarterly review of Talent (including back-ups and successors) for major business units. We also launched

International Operations

ADIB's ***Competency Framework & Career Path*** planning across 35 distinct business units. This initiative provides very specific information on skills required for nearly all roles within ADIB, providing a platform for focused and relevant training and development discussions with the employees' manager.

For 2017, commercial on-going management of our headcount will be a continued focus as will ensuring we have excellent quality growing and grooming of talent. More than 240 new arrivals joined the ADIB family in 2016, including new areas such as Digital and Enterprise Risk Management.

International Business Group

ADIB's International Business Group (IBG) continued to develop in 2016 with all businesses delivering strong revenue growth based on enhanced operating platforms, which was a reflection of the investments that had been made in previous years. ADIB is uniquely positioned in key trade countries. IBG aims to strengthen its presence in the MENA region and position itself as a hub for Multi National Corporates, Financial Institutions and individuals undertaking business in and out of the region. In 2016, we continued to invest in human capital and technology across all markets. These businesses are manned by seasoned bankers who are familiar with the local markets and are working closely with our customers to establish end to end solutions to meet their needs.

Abu Dhabi Islamic Bank, Iraq

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

Despite the challenging environment, ADIB's low risk business model and prior years investment in risk management, infrastructure, technology, and consolidating support for the business with the Abu Dhabi head office, has allowed us to take advantage of business opportunities as the environment stabilized.

Our efforts in ADIB Iraq are now reflected with wide recognition in Iraq as a 'Best in Class' Islamic bank, receiving the highest rating of A among the 54 banks operating there. It has in place a full range of business services and product offerings, including cash management, check payments, letters of credit issuances, import bills for collections, murabaha and istisnaa financing, stand-by letters of credit, as well as bid and performance bonds."

ADIB has been a pioneer in hiring young graduates out of school and conducted intensive training in operation and business, representing the future generation of Iraq senior bankers.

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. Operating from the prestigious address of 1 Hyde Park in London, and in the world's pre-eminent financial centre, ADIB UK has introduced a number of banking services and products to meet the specific needs of such clients.

Abu Dhabi Islamic Bank, Qatar

Established under the jurisdiction of the Qatar Financial Centre, ADIB Qatar has succeeded in executing its 2016 business plan focused primarily on corporate banking and serving both domestic customers and group customers doing business in Qatar.

Abu Dhabi Islamic Bank, Sudan

ADIB's Sudan branch had a very strong year in 2016 on the back of achieving profitability in only its second full year of operation in 2015. ADIB Sudan operates out of one branch in Khartoum and is focused on corporate business 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.

Saudi Finance Company

2016 was a challenging year for the industry with the fall in the price of oil, which impacted government expenditure, and the changes in regulations and public sector employees' allowances negatively affected the ability for customers to take out finance. Despite these changes SFC had a strong year with record profitability, albeit our focus shifted in the second half of the year with a deployment of sales resource into collections, given the change in regulations and market turmoil.

Branch Management


Mr S Awadallah


Mr N Al Abdool


Mr Y Ahli


Mr O Alrais


Mr A Al Dhaheri


Mr A Al Najar


Mr H Al Shamsi


Mr F Shami


Mr A Al Mulla


Mr A Al Melhi


Mr A Waheedi


Mr Y Jaafar


Mr Z Al Khazraji


Mr M Al Dhanhani


Mr H Kader


Mr F Al Rais


Mr K Al Hosani


Mr H Al Shateri


Mr A Al Nuami


Mr S Al Ameri


Mr M Al Khoori


Mr M Barghouth


Mr A Al Hammadi


Mr H Al Hosani


Mr Y Al Hammadi


Mr A Al Balooshi


Mr A Al Boloshi


Mr H A Al Naqeeb


Mr I Al Baloushi


Mr M Zainal


Mr I Al Qasser


Mr F Ibrahim

Branch Management continued


Mr M AlTunaiji


Mr A Zaabi


Mr S Al Shaali


Mr M Al Marar


Mr A Al Mutairi


Mr A Al Shehhi


Mr S Al Askar


Mr A Al Zubaidi


Mr R Al Mutawwa


Mr A Al Mazrooi


Mr A Al Afifi


Ms M Al Darmaki


Mr H Mohamed


Mr M Al Mehairy


Mr S Al Dhaheri


Mr S Kaoud

Mr S Al Shehhi

Mr Y Al Nuaimi

Mr J Ali

Mr K Al Mahfoudhi

Mr M Al Ali

Mr M S Al Ali

Mr S Al Kaabi

Mr Y Al Suwaidi

Mr S Al Nuaimi

Mr S Al Marzouqi

Mr F Saeed

Mr A Al Baloushi

Mr S Al Naqbi

Mr M Abul Qadir

Mr K Farhan

Mr A Almemari

Branch Management continued

Mr M Ali

Mr O Thoban

Mr M Al Shabibi

Mr J H Alraeesi

Mr A Al Shahai

Mr A Al Mitwali

Mr F Al Naqbi

Mr M Abouzeid

Mr M H Al Ali

Mr S O Al Ghafli

Mr S Al Ghallabi

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

Abu Dhabi (Corniche Area)

7. Khalidiya Gents
8. Sheikh Khalifa Street
9. Sheikh Khalifa Energy Complex
10. Al Mina
11. Al Bateen
12. Abu Dhabi Immigration
13. Abu Dhabi Shari'a Court
14. ADIA Cash Office
15. Marina Mall
16. Abu Dhabi Chamber of Commerce Cash Office
17. Nation Towers
18. Emaar Square
19. Hamdan Street

Abu Dhabi (East + West Area)

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

Al Ain

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

Dubai (Bur Dubai Area)

52. Sheikh Zayed Road
53. Dubai Mall
54. Arenco - DIC
55. Jumeirah
56. Al Barsha
57. JAFZA

Dubai (Deira Area)

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

North Emirates

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

Financial Services Business Review

ADIB Securities

Our stock-brokerage subsidiary, ADIB Securities, ranked amongst the top 5 brokerage houses in the UAE at the end of 2016 has market share of 6.6%.

ADIB Securities registered a net profit of AED 25.9 million in 2016, down by 45% from the previous year due to a 15% drop in trading volumes on the local stock exchanges during the year. ADIB Securities continued to attract new customers winning their trust through its state-of-art trading platforms and superb client services. ADIB Securities continues to be a market leader in sharia compliant equities trading thus ranking 1st in UAE in terms of Islamic brokerage volumes.

Key priorities for 2017 are continuing the investment in improving infrastructure and network capabilities and offer investors access to selective regional and global equity markets.

Abridged Balance Sheet

	31 December	
	2015 AED Million	**2016 AED Million**
ASSETS		
Bank balances and cash	687.5	**687.0**
Account recievables and prepayments	127.3	**140.9**
Property and equipment	2.0	**1.4**
Total Assets	816.7	**829.2**
LIABILITIES		
Accounts payable and accruals	9.3	**20.8**
Total Liabilities	9.3	**20.8**
EQUITY		
Share capital	30.0	**30.0**
Unconditional shareholder advance	600.0	**600.0**
Retained earnings and other reserves	177.4	**178.4**
Total Equity	807.4	**808.4**
Total Liabilities and Equity	816.7	**829.2**

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	
	2015 AED Million	**2016 AED Million**
Commission Income	52.2	**29.1**
Other revenues	11.5	**12.6**
Total Revenues	63.7	**41.7**
Total expenses	(16.7)	**(15.8)**
Profit for the year	47.0	**25.9**

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 2016. 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 6.2 Mn in 2016.

Abridged Balance Sheet

	31 December	
	2015 AED Million	**2016 AED Million**
ASSETS		
Bank balances and cash	212.7	**218.1**
Investment in properties	1,083.5	**2,045.4**
Investments in equities	18.9	**15.2**
Advance against purchase of properties	1,059.1	**129.3**
Property and equipment	142.9	**139.7**
Other receiavbles	40.6	**21.3**
Total Assets	2,557.7	**2,569.0**
LIABILITIES		
Mudaraba payable	1,997.5	**1,997.5**
Other payables	1,067.8	**1,080.1**
Total Liabilities	3,065.3	**3,077.6**
EQUITY		
Share capital	500.0	**500.0**
Retained earnings and other reserves	(1,007.6)	**(1,008.6)**
Total Equity	(507.6)	**(508.6)**
Total Liabilities and Equity	2,557.7	**2,569.0**

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	
	2015 AED Million	**2016 AED Million**
Investment revenues	52.0	**32.4**
Fees and commissions	-	-
Other revenues	1.0	**0.9**
Total Revenues	53.1	**33.3**
Total expenses	(31.5)	**(24.7)**
Provision for impairment	(5.2)	**(6.2)**
	(36.7)	**(31.0)**
Profit for the year	16.4	**2.3**

MPM Properties

MPM Properties became a stand-alone subsidiary of the Bank in 2014. The primary focus is on bringing MPM's customer service levels up to the same standards as those of the Bank in the UAE. MPM's new business model as an integrated real estate services company focused on property management, valuations, sales and leasing and real estate advisory has started to contribute positvely. As a result, net profit for 2016 was AED 10.6 Mn. MPM now manages over 22,000 units and continues to expand its business beyond Abu Dhabi into Dubai and the Northern Emirates.

Abridged Balance Sheet

	31 December 2015 AED Million	31 December 2016 AED Million
ASSETS		
Bank balances and cash	35.2	**31.6**
Investments in associate	0.9	**0.3**
Property and equipment	5.8	**8.6**
Accounts receivables and prepayments	72.0	**71.5**
Total Assets	113.9	**111.9**
LIABILITIES		
Accounts payables and accruals	90.2	**78.3**
Total Liabilities	90.2	**78.3**
EQUITY		
Share capital	1.0	**1.0**
Retained earnings and other reserves	22.7	**32.7**
Total Equity	23.7	**33.7**
Total Liabilities and Equity	113.9	**111.9**

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 2015 AED Million	For the year ended 31 December 2016 AED Million
Fees and commissions	65.3	**68.0**
Other income (loss)	(0.05)	**-**
Total Revenues	65.3	**68.0**
Total expenses	(54.7)	**(57.4)**
Profit for the year	10.6	**10.6**

Corporate Social Responsibility

We continue to promote a responsible approach to finance to our customers and society at large through our education programs, and have developed new business units and products to assist clients facing financial distress.

At ADIB, we are dedicated to developing a culture that is committed to CSR.

It is in our DNA as a financial institution, guided by the principles of pursuing mutual benefit and a vested interest in the longevity of the community, that has helped us thrive.

In 2016, we continued several of our ongoing and successful initiatives, such as blood donation drives, the marriage fund supporting mass weddings to Emiratis, partnership with the UAE Red Crescent supporting needy families, and more. Some of our uniquely structured programs have been listed below in four categories:

1. **Emiritisation**: our home is our backbone, and as we approach our 20 year landmark, we are committed to investing in the country that has helped us thrive
2. **Community investments**: investments that add long term benefit to the community
3. **Ramadan activations**: the holy month of Ramadhan is one of the most beautiful and festive times of the year, and we utilise the themes of the holy month to create activations that embody Islamic values
4. **Donations**: donations to organisations that support those with special needs

Emiritisation

1. We have also continued our youth development program, visiting campuses across the country and funding programs such as the cricket National School League and UAE football league
2. Agreements were signed with different universities and colleges, including: The American University of Dubai; EIBFS; Al Hosn University; Higher Colleges of Technology (HCT); and Abu Dhabi University, to sponsor students and participate in the development of academic programs, with the intention of increasing employment opportunities for UAE Nationals within the Islamic finance sector
3. ADIB also participated in a number of career events and fairs for UAE Nationals throughout the year, including the Sharjah Career Fair, and sponsorship of the UAE's largest career fair, Tawdheef, for the 8th consecutive year, where over 1,000 candidates were interviewed
4. The Bank also supports Emirates Foundation initiatives

In 2015, ADIB was also recognized for the government initiative of 'filling 1,000 jobs in the financial sector in 100 days' by Emiratis. It was thanked for registering good results during the period of the initiative (around 60 Emiratis were hired within ADIB). Meanwhile, Dubai University provided recognition to ADIB for providing internships to their Emirati students.

Community Investments

1. Environment

In line with the UAE government's target of reducing its carbon footprint by 20% by 2015, and given the Bank's growing commitment to environmental responsibility, the new ADIB head office currently under construction in Abu Dhabi has applied best practice design principles aimed at minimizing both energy and water inputs and waste outputs, and maximizing recycling and environmental quality.

2. Business Development Support

a. Dana Bazaar – ADIB's commitment to investing in Women's creative ideas was a success, with those attending also enjoying tasty food, interesting seminars and workshops, great raffle prizes and fun children's activities
b. Dewan Project – For the SME sector, ADIB launched Business Pulse; a unique portal aimed at providing advice and support to small and medium-sized businesses in the UAE
c. Business Pulse – Launched in association with Zawya, this was designed and produced by some of the most influential and successful regional finance and technology organizations in the SME sector

Ramadan Activations

a. Building on the success of the 2014 educational approach during the Holy Month of Ramadan, ADIB organized the second Ramadan exhibition and a book was launched entitled "Tolerance in Islam". The event was an ideal way to promot the principles of tolerance within Islamic culture to ADIB staff.
b. ADIB also supported a book entitled "Art and science in the Muslim world", aimed at familiarizing both its local and overseas audiences with the richness of Islamic civilization and culture.
c. ADIB Staff also participated in the Bank's Ramadan CSR initiative where volunteers from the Bank distributed Iftar boxes at major mosques, orphanages and taxi companies across the UAE.

Donations

a. We donated to the 'Make A Wish foundation', which supports the needy and those with chronic diseases, with AED 100,000. The wish for Umrah came true for 4 children in Q1, who visited Maka accompanied by their parents
b. Following to Support provided to Al Noor Center For Disability with Computer Lab Equipment in 2015, this year we provided a Fully Equipped and Complete Therapy Room, and will support 3 handicapped Orphans in 2017
c. Rashid Center, established in 1994 in Dubai, aims to provide the highest quality education services and therapy for children with special needs. ADIB supported the center with AED 48,000 to provide physiotherapy service, including equipment and professional staff

This is a glimpse of the many CSR activities that took place in 2016, and we hope to continue to develop our own unique education, award and donation programs that contribute to society, because as we know, working together towards a better future is the foundation of all our success.


ADIB
مصـــرف أبـوظـبـــي
الإســـــــلامــــــي
A financial partner you can count on...
...with over 170 branches in 7 countries and counting.
United Kingdom
Since 2011
adib.co.uk
Iraq
Since 2012
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UAE
Since 1997
adib.ae
Egypt
Since 2007
adib.eg
KSA
Since 2011
sihksa.com.sa
Sudan
Since 2013
adib.com
Qatar
Since 2012
adib.qa
adib.com

Corporate Governance Report

Effective corporate governance remains central to the culture and business practices of Abu Dhabi Islamic Bank ("ADIB") 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.

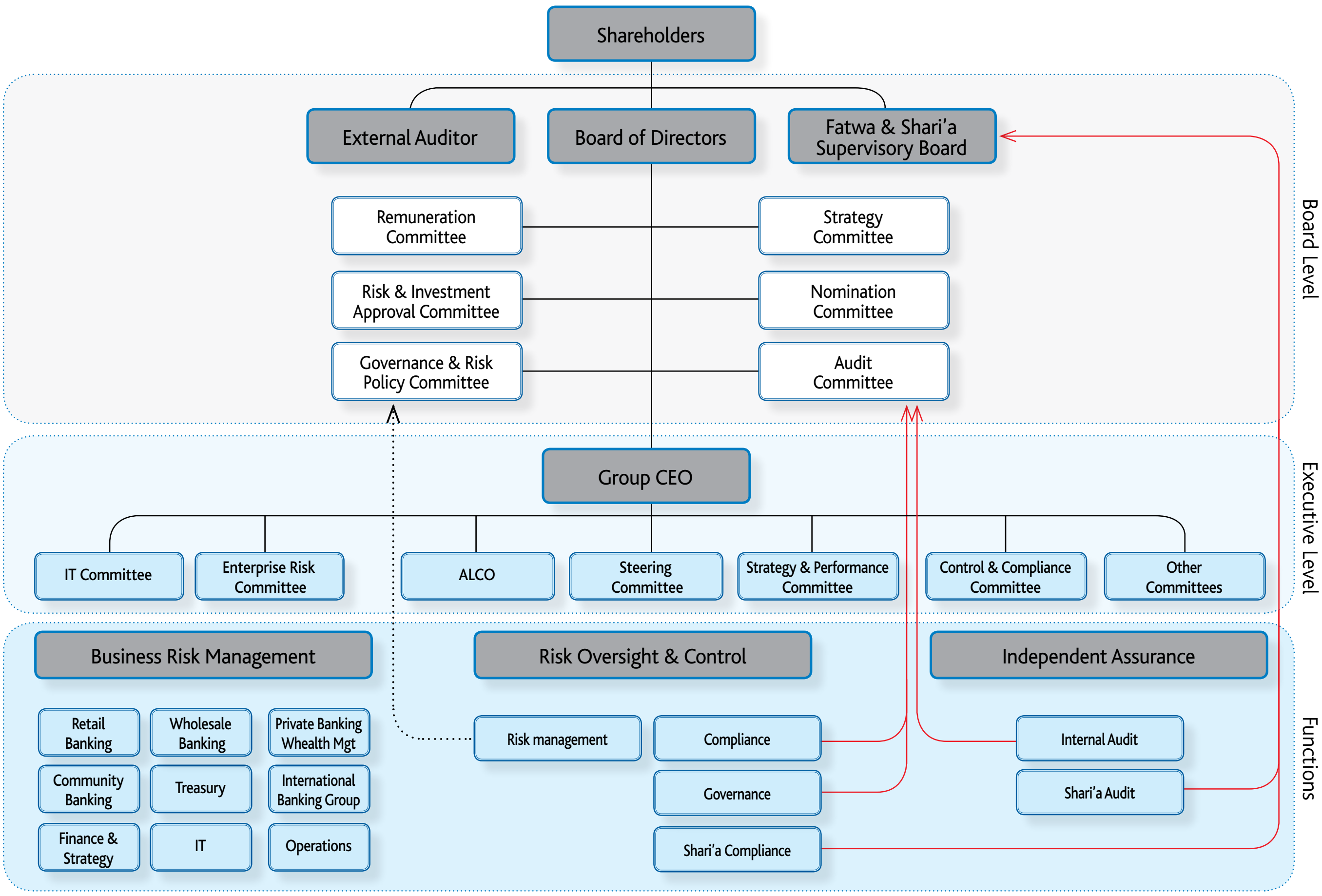
ADIB's overarching objective is to be "a top tier Islamic financial services group" and has committed to the following corporate values in order to achieve this objective:

- "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 following chart:



The controls that the organisation has in place to deal with the day to day business. Such controls are owned by the "front line" business including but not limited to product programs, systems, processes, procedures & self-control testing.

First Line of Defence

The committees and functions, independent of the Business Units and Support Functions, that are in place to provide effective operation of the Internal Control Framework and oversight thereof.

Second Line of Defence

Independent assurance provided by the Audit Committee and the Internal Audit functions that report to it, in relation to the effectiveness of the First and Second Lines 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 assurance. The three lines of defence are:

- Business and Support Units act as the first line of defence and are responsible for identifiying, assessing and mitigating risk.
- Risk and the control functions act as the second line of defence and provide effective challenge to the first line to ensure risks are identified and effective controls are established. The Compliance and Governance functions ensure that all internal policies and relevant regulatory requirements are adhered to in the conduct of business. Shari'a Compliance function at the Group ensures that the Bank's operations are conducted in adherence to Shari'a principles.
- The third line of defence is provided by Internal Audit which independently reviews control design, operations and effectiveness of first and second lines. Shari'a Audit function at the Group conducts an independent review of the Bank's adherence to Shari'a principles.

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 Chief Financial Officer, Group Chief Risk Officer and the Group Chief Operating Officer.

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 and Controlling Affiliates). 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 Group'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.

The Chairman leads the Board and ensures the effective engagement and contribution of all directors. The Group 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

The previous Board's term expired in early 2016. 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 year 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, the Group Chief Executive Officer and key members of senior management. ADIB provides any professional development that Directors consider necessary to assist them in carrying out their duties.

Directors' and Board assessments

A formal assessment of each director is conducted by the Chairman of the Board every year. Board and Board committees self-evaluation process has also been implemented.

Composition of the Board and Board Committees

In 2016 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 six meetings during 2016. The detail of Board membership and attendance is as under:

Name	Position	Status	No. of meetings attended
HE Jawaan Awaidha Suhail Al Khaili	Chairman	Non-Executive	2*
Khamis Mohamed Buharoon	Vice Chairman	Executive Director	6
Juma Khamis Mugheer Al Khaili	Member	Independent	6
Khalifa Matar Al Mheiri**	Member	Independent	3
Abdulla Bin Aqueeda Al Muhairi	Member	Independent	5
Ragheed Najeeb Shanti	Member	Non-Executive	6
Dr Sami Ali Al Amri	Member	Independent	5

* Absent in four meetings with justification accepted by the Board.
** Mr Khalifa Matar Al Mheiri was elected in the AGM dated 21 April 2016.

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 2016.

- 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;
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;
vii. Approve the policy relating to charitable donations.

The Group Strategy Committee held four meetings during 2016. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
Dr Sami Ali Al Amri	Chairman	4
Tirad M. Mahmoud – Group Chief Executive Officer**	Vice Chairman	3
Khalifa Matar Al Mheiri*	Member	3
Khamis Mohamed Buharoon	Member	2
Andrew Douglas Moir**	Subject matter expert	4

* Mr Khalifa Matar Al Mheiri joined the Committee on 22 May 2016

**Non-Board member

Group Audit Committee

The Group Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to auditing and financial reporting. 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 six meetings during 2016. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
Abdulla Bin Aqueeda Al Muhairi	Chairman	6
Khamis Mohamed Buharoon	Member	4
Dr Sami Ali Al Amri	Member	6
David Smith*	Subject matter expert	6

* Non-Board member

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;
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 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 2016. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
Kantic Dasgupta*	Chairman and subject matter expert	5
Tirad M. Mahmoud, Group Chief Executive Officer*	Vice Chairman	5
Juma Khamis Mugheer Al Khaili	Member	5
Dr Sami Ali Al Amri	Member	5
Abdulla Bin Aqueeda Al Muhairi	Member	3
Brian Belcher, Group Chief Risk Officer*	Non-voting member	5

* Non-Board member

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. It is not within the scope of the Committee's responsibilities to approve any risk policies or standards. 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 two meetings during 2016. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
HE Jawaan Awaidha Suhail Al Khaili	Chairman	20
Juma Khamis Mugheer Al Khaili	Vice Chairman	29
Khalifa Matar Al Mheiri*	Member	16
Ragheed Najeeb Shanti	Member	27
Tirad M. Mahmoud – Group Chief Executive Officer**	Member	32

* Mr Khalifa Matar Al Mheiri joined the Committee on 22 May 2016

** Non-Board member

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;
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 two meetings during 2016. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
Juma Khamis Mugheer Al Khaili	Chairman	2
Dr Sami Ali Al Amri	Member	1
Khalifa Matar Al Mheiri	Member	1
Ian Gore, Global Head of Human Resources*	Subject matter expert and Non-voting member	2

* Mr Khalifa Matar Al Mheiri joined the Committee on 22 May 2016

** Non-Board member

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;
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 two meetings during 2016. The detail of membership and their attendance is as under:

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	2

Directors' remuneration and interests in the Group's shares

Directors' remuneration for 2016 of AED 4.2 million was approved at the Annual General Assembly Meeting held in April 2016, and was paid during 2016. In addition Board members also received by way of an attendance fee of AED 3,000 for every Board and Board Committee meeting attended.

Directors' interests in the Group's shares are as follows:

Board Members	Shareholding at 1 January 2016	Shareholding at 31 December 2016	Changes in Shareholding
HE Jawaan Awaidha Suhail Khaili	55,962,133	55,962,133	-
Khamis Mohamed Buharoon	-	-	-
Mr Khalifa Matar Al Mheiri	-	-	-
Juma Khamis Mugheer Al Khaili	6,896	6,896	-
Mr Abdulla Bin Aqeeda Al Muhairi	-	-	-
Ragheed Najeeb Shanti	-	-	-
Dr Sami Ali Al Amri	-	-	-

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 Annual General Assembly Meeting. Shareholders are given the opportunity to ask questions at the Annual General Assembly Meeting. The last Annual General Assembly Meeting of the shareholders was held on 21 April 2016.

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.

General Assembly Meetings

The Annual General Assembly Meeting of the shareholders was conducted on 21 April 2016, wherein the following matters were discussed and approved:

1. The Board of Director's Report on the Bank's activities and financial statements for the year ended 31 December 2015;
2. The Shari'a and Fatwa Supervisory Board Report on the Bank's activities for the year ended 31 December 2015;
3. External Auditor's report for the year ended 31 December 2015;
4. The audited Balance Sheet and Profit & Loss account for the year ended 31 December 2015;
5. Appointment of External Auditors for the year 2016 and determination of their fees;
6. To consider the proposal of the Board of Directors to distribute cash dividends of 24.27 fills per share to the shareholders from the year 2015 profits;
7. To consider the proposal of Board members remuneration for the year ended 31 December 2015;
8. To discharge the Board of Directors from liability for their work during the year ended 31 December 2015;
9. To discharge the External Auditors from liability for their work during the year ended 31 December 2015;
10. To elect the Board of Directors for the next 3 years; and
11. Appointment of Shari'a Board for one fiscal year.

Special Resolution: Approval of the amendment of ADIB Article of Association in accordance with the new Commercial Companies Law No. 2 for the year of 2015, after the approval of the relevant regulatory authority.

Fatwa and Shari'a Supervisory Board

The previous term of the Fatwa and Shari'a Supervisory Board expired in early 2016. In compliance with the Bank's Article of Association, the shareholders appointed the members in the Annual General Meeting held on 21 April 2016.

The Fatwa & Shari'a Supervisory Board, 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 Board of Directors.

The members of the Fatwa & Shari'a Supervisory Board and its Executive Committee held three meetings during 2016. 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	3
Sheikh Issam Mohammed Ishaq*	Member	2
Dr Nizam Ya'qoubi	Member	3
Dr Muhamed Elqari	Member	2

* Sheikh Issam Mohammed Ishaq was appointed at the Annual General Meeting on 21 April 2016 to replace Dr Abdul Sattar Abu Ghuddah.

Executive Management

The Group Chief Executive Officer is supported by executive management including Group Chief Risk Officer, Group Chief Financial Officer, Chief Operating Officer 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. Corporate Social Responsibility Council
h. Islamic Finance Industry Initiatives Committee
i. Other Committees (including Grievance Committee, Disciplinary Committee and Charity Account Committee)

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 43 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, militate 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 Management 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 2016 at the Annual General Assembly Meeting held in April 2016.

Consolidated Financial Statements

Contents

Board of Directors' Report

Year ended 31 December 2016

The Board of Directors have pleasure in submitting their report together with the consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries (collectively known as the "the Group") for the year ended 31 December 2016.

Incorporation and registered office

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

Principal activity

The activities of the Group are conducted in accordance with Islamic Shari'a, which prohibits usury, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

Basis of preparation of consolidated financial statements

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

Financial commentary

The Group net profit reached a record AED 1,953.6 million (2015: AED 1,934.0 million) for 2016 up 1.0%. The financial highlights of the full year results are as follows:

- Group net revenue (total operating income net of distribution to depositors and sukuk holders) for 2016 was AED 5,385.5 million (2015: AED 5,134.4 million) increased by 4.9%.
- Group operating profit ("margin") for 2016 increased by 6.4% to reach at AED 2,937.6 million (2015: AED 2,760.3 million).
- Total provisions for impairments for 2016 were AED 970.0 million (2015: AED 820.0 million).
- Group net profit for 2016 AED 1,953.6 million (2015: AED 1,934.0 million) up 1.0%.
- Group earnings per share decreased to AED 0.520 compared to AED 0.529 in 2015.
- Total assets as of 31 December 2016 were AED 122.3 billion (2015: AED 118.4 billion).
- Net customer financing (murabaha, ijara and other Islamic financing) as of 31 December 2016 was AED 78.2 billion (2015: AED 78.4 billion).
- Customer deposits as of 31 December 2016 were AED 98.8 billion (2015: AED 94.9 billion).

Dividends and proposed appropriations

The Board of Directors have recommended a cash dividend of 24.52% and the following appropriations from retained earnings:

	AED '000
• Transfer to general reserves	(200,901)
• Proposed dividends to charity for the year ended 31 December 2016	(30,000)
• Proposed cash dividend to shareholders for the year ended 31 December 2016	(776,782)
• Profit paid on Tier 1 sukuk – Listed during the year	(234,158)
• Profit paid on Tier 1 sukuk – Government of Abu Dhabi during the year	(69,533)

Board of Directors' Report continued

Year ended 31 December 2016

Board of Directors

The directors during the year were as follows:

H.E. Jawaan Awaidha Suhail Al Khaili	Chairman
Khamis Mohamed Buharoon	Vice Chairman
Juma Khamis Mugheer Al Khaili	Board Member
Ragheed Najeeb Shanti	Board Member
Dr. Sami Ali Al Amri	Board Member
Abdulla Bin Aqeeda Al Muhairi	Board Member
Khalifa Matar Al Mheiri	Board Member

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

14 February 2017
Abu Dhabi

Building a better
working world

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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 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRS').

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

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

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

Provision for impairment of financing assets
Financing assets comprise Murabaha and other Islamic financing; and Ijara financing. Provision of impairment of financing assets is an area that requires management of the Group to make complex and significant judgments. Such areas of judgment include the identification of exposures, which are considered to be impaired, assessment of the recoverable amount of the financing asset and the size of the impairment loss to be recorded. We have therefore identified provisions for impairment of financing assets to be a key audit matter. At 31 December 2016, gross financing assets amounted to AED 81,369,185 thousand against which provisions for impairment amounting to AED 3,158,663 thousand were recorded (see Notes 17 & 18 to the consolidated financial statements).

The Group reviews its financing assets on a regular basis to assess whether a provision for impairment should be recorded. Judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment provision. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. In addition, the Bank also makes collective impairment provisions against portfolios of financing assets with common features, which have not been identified as individually impaired. This collective provision is based on any deterioration in the internal rating of the asset since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

We assessed and tested the design and operating effectiveness of key controls over the Group's credit management and monitoring procedures. In addition, we performed substantive audit procedures covering the identification by the Bank of impaired financing assets and the calculation of the impairment provisions. Such procedures included reviewing the minutes of key meetings held that form part of the approval for provisions of impairment of financing assets, past due reports and impairment assessments prepared by management of the Bank. In addition, for a sample of individual receivables from customer financing, we performed a review of these exposures and evaluated management's assessment of the recoverable amount.

For the collective impairment provisions, we obtained an understanding of the methodology used by the Group to determine the collective impairment provisions, assessed the underlying assumptions and the sufficiency of the data used by management, and reviewed the management assessment of the level of collective provisions as of 31 December 2016.

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.

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 charge 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 2016;
vi) note 41 reflects material related party transactions and the terms under which they were conducted;
vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2016, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would have a material impact on its activities or its consolidated financial position as at 31 December 2016; and
viii) note 45 reflects the social contributions made during the year.

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

14 February 2017
Abu Dhabi

ADIB Fatwa & Shari'a Supervisory Board's Report

To the Shareholders
For the financial year ending December 31st, 2016

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:

May the peace, mercy and blessings of Allah be upon you.

With reference to article 69, from the Articles of Association of the Bank, we present to you the following report:

We have reviewed the utilized principles, modes and contracts relating to the transactions, investments and applications that were implemented or offered by the Bank during this period, in which we have carried out the mandatory supervision in order to express an opinion as to whether the Bank has undertaken its activities in accordance with the principles and rulings of the Islamic Shari'a and in light of the details of the resolutions which are contained in the minutes and reports of our meetings and reviews.

It is the responsibility of the Bank's executive management and Board of Directors to ensure that the Bank operates in accordance with the principles and rulings of the Islamic Shari'a. Our responsibility is limited to expressing an independent opinion based on our follow up and review of the Bank's activities and 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.

We conducted our review 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 the Bank in the UAE and international branches, which do not have their own Fatwa and Shari'a Supervisory Board, in addition to reviewing the consolidated financial statements and its related notes.

We have designated and executed our review through the Executive Member and the Executive Committee of the Fatwa and Shari'a Supervisory Board by obtaining all the information and explanations we considered necessary to provide us with sufficient evidence to give a reasonable assurance that the Bank had not violated any of the principles and rulings 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 the Bank, which included different types of the Bank'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.

In our opinion:

- The contracts, operations and transactions executed by the Bank in the UAE (and international branches which do not have their own Fatwa and Shari'a Supervisory Board), the investments that the Bank entered in and the activities conducted during the financial year ending 31st December, 2016 which we reviewed, were generally carried out in accordance with the principles and rulings 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 distribution of profits and the bearing of losses on the investment accounts (including the allocation of the costs and expenses between the investment accounts and the shareholders) comply with the basis that we approved to be applied in accordance with principles and rulings of the Islamic Shari'a.
- Any returns that occurred through sources or methods that were not permissible with the principles and rulings of the 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 the Bank shall never, directly or indirectly, benefit from such charity disposals.
- As the management of the Bank 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 the Bank 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.

Fatwa and Shari'a Supervisory Board of Abu Dhabi Islamic Bank

On behalf of
Sheikh Mohamed Taqi Uthmani
Chairman of the Board

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

Esam Mohammed Ishaaq
Member of the Board and its Executive Committee and its Executive Member

On behalf of
Dr Nizam Ya'qoubi
Member of the Board and its Executive Committee and its Executive Member

Dr Muhammad El-Gari
Member of the Board

Consolidated Income Statement

Year ended 31 December 2016

	Notes	2016 AED '000	2015 AED '000
OPERATING INCOME			
Income from murabaha, mudaraba and wakala with financial institutions		40,087	25,341
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	5	4,488,747	4,362,549
Income from Islamic sukuk measured at amortised cost		332,033	249,192
Income from investments measured at fair value	6	74,025	37,174
Share of results of associates and joint ventures		35,233	20,032
Fees and commission income, net	7	840,415	911,291
Foreign exchange income		139,162	79,627
Income from investment properties	8	27,236	45,705
Other income		16,378	20,092
		5,993,316	5,751,003
OPERATING EXPENSES			
Employees' costs	9	(1,436,880)	(1,403,458)
General and administrative expenses	10	(770,393)	(770,265)
Depreciation	22 & 25	(185,850)	(145,584)
Amortisation of intangibles	26	(54,756)	(54,756)
Provision for impairment, net	11	(969,965)	(819,954)
		(3,417,844)	(3,194,017)
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS		2,575,472	2,556,986
Distribution to depositors and sukuk holders	12	(607,793)	(616,628)
PROFIT FOR THE YEAR BEFORE ZAKAT AND TAX		1,967,679	1,940,358
Zakat and tax		(14,121)	(6,315)
PROFIT FOR THE YEAR AFTER ZAKAT AND TAX		1,953,558	1,934,043
Attributable to:			
Equity holders of the Bank		1,952,264	1,931,695
Non-controlling interest		1,294	2,348
		1,953,558	1,934,043
Basic and diluted earnings per share attributable to ordinary shares (AED)	13	0.520	0.529

The attached notes 1 to 45 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	Notes	2016 AED '000	2015 AED '000
PROFIT FOR THE YEAR AFTER ZAKAT AND TAX		**1,953,558**	1,934,043
Other comprehensive loss			
Items that will not be reclassified to consolidated income statement			
Net loss on valuation of investments carried at fair value through other comprehensive income	34	**(16,783)**	(9,317)
Surplus on revaluation of land	**34**	**49,700**	-
Directors' remuneration paid	41	**(4,200)**	(4,900)
Items that may be subsequently reclassified to consolidated income statement			
Exchange differences arising on translation of foreign operations	34	**(571,244)**	(66,240)
Gain on hedge of foreign operations	34	**55,693**	21,167
Fair value gain on cash flow hedges	34	**9,933**	2,907
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(476,901)**	(56,383)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,476,657**	1,877,660
Attributable to:			
Equity holders of the Bank		**1,475,363**	1,875,308
Non-controlling interest		**1,294**	2,352
		1,476,657	1,877,660

The attached notes 1 to 45 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	2016 AED '000	2015 AED '000
ASSETS			
Cash and balances with central banks	14	**19,778,339**	18,629,361
Balances and wakala deposits with Islamic banks and other financial institutions	15	**4,246,158**	3,124,314
Murabaha and mudaraba with financial institutions	16	**1,762,781**	1,617,562
Murabaha and other Islamic financing	17	**36,346,086**	38,400,777
Ijara financing	18	**41,864,436**	40,002,454
Investment in Islamic sukuk measured at amortised cost	19	**9,063,314**	7,282,409
Investments measured at fair value	20	**1,396,928**	1,453,559
Investment in associates and joint ventures	21	**753,541**	799,356
Investment properties	22	**1,207,991**	246,121
Development properties	23	**837,381**	837,381
Other assets	24	**2,695,667**	3,767,424
Property and equipment	25	**1,916,967**	1,742,052
Goodwill and intangibles	26	**420,136**	474,892
TOTAL ASSETS		**122,289,725**	118,377,662
LIABILITIES			
Due to financial institutions	27	**5,154,215**	3,105,610
Depositors' accounts	28	**98,813,752**	94,927,160
Other liabilities	29	**2,863,117**	3,433,411
Sukuk financing instruments	30	**-**	1,836,250
Total liabilities		**106,831,084**	103,302,431
EQUITY			
Share capital	31	**3,168,000**	3,168,000
Legal reserve	32	**2,102,465**	2,102,465
General reserve	32	**1,494,721**	1,293,820
Credit risk reserve	32	**400,000**	400,000
Retained earnings		**2,487,099**	1,858,899
Proposed dividend	33	**776,782**	769,022
Proposed dividend to charity		**30,000**	20,000
Other reserves	34	**(683,768)**	(219,557)
Tier 1 sukuk	35	**5,672,500**	5,672,034
Equity attributable to the equity and Tier 1 sukuk holders of the Bank		**15,447,799**	15,064,683
Non-controlling interest	36	**10,842**	10,548
Total equity		**15,458,641**	15,075,231
TOTAL LIABILITIES AND EQUITY		**122,289,725**	118,377,662
CONTINGENT LIABILITIES AND COMMITMENTS	37	**12,296,629**	14,088,296

H.E. Jawaan Awaidha Suhail Al Khaili
Chairman

Tirad M. Mahmoud
Chief Executive Officer

The attached notes 1 to 45 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

		Attributable to the equity and Tier 1 sukuk holders of the Bank											
	Notes	Share capital AED '000	Legal reserve AED '000	General reserve AED '000	Credit risk reserve AED '000	Retained earnings AED '000	Proposed 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 2015		3,000,000	1,766,465	1,098,560	400,000	1,244,781	700,200	20,000	(194,644)	5,643,109	13,678,471	8,196	13,686,667
Profit for the year		-	-	-	-	1,931,695	-	-	-	-	1,931,695	2,348	1,934,043
Other comprehensive (loss) income		-	-	-	-	(4,900)	-	-	(51,505)	-	(56,405)	22	(56,383)
Loss on disposal of investments carried at fair value through other comprehensive income	34	-	-	-	-	(26,574)	-	-	26,592	-	18	(18)	-
Right shares issued	31	168,000	336,000	-	-	-	-	-	-	-	504,000	-	504,000
Right shares issuance cost	31	-	-	-	-	(3,089)	-	-	-	-	(3,089)	-	(3,089)
Profit paid on Tier 1 sukuk – Listed	35	-	-	-	-	(234,158)	-	-	-	-	(234,158)	-	(234,158)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	35	-	-	-	-	(64,574)	-	-	-	-	(64,574)	-	(64,574)
Movement in Tier 1 sukuk - Listed		-	-	-	-	-	-	-	-	28,925	28,925	-	28,925
Dividends paid		-	-	-	-	-	(700,200)	-	-	-	(700,200)	-	(700,200)
Dividends paid to charity		-	-	-	-	-	-	(20,000)	-	-	(20,000)	-	(20,000)
Transfer to reserves	32	-	-	195,260	-	(195,260)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	-	(20,000)	-	20,000	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	-	(769,022)	769,022	-	-	-	-	-	-
Balance at 1 January 2016		3,168,000	2,102,465	1,293,820	400,000	1,858,899	769,022	20,000	(219,557)	5,672,034	15,064,683	10,548	15,075,231
Profit for the year		-	-	-	-	1,952,264	-	-	-	-	1,952,264	1,294	1,953,558
Other comprehensive loss		-	-	-	-	(4,200)	-	-	(472,701)	-	(476,901)	-	(476,901)
Loss on disposal of investments carried at fair value through other comprehensive income	34	-	-	-	-	(8,490)	-	-	8,490	-	-	-	-
Profit paid on Tier 1 sukuk – Listed	35	-	-	-	-	(234,158)	-	-	-	-	(234,158)	-	(234,158)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	35	-	-	-	-	(69,533)	-	-	-	-	(69,533)	-	(69,533)
Movement in Tier 1 sukuk - Listed		-	-	-	-	-	-	-	-	466	466	-	466
Dividends paid	33	-	-	-	-	-	(769,022)	-	-	-	(769,022)	(1,000)	(770,022)
Dividends paid to charity		-	-	-	-	-	-	(20,000)	-	-	(20,000)	-	(20,000)
Transfer to reserves	32	-	-	200,901	-	(200,901)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	-	(30,000)	-	30,000	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	-	(776,782)	776,782	-	-	-	-	-	-
Balance at 31 December 2016		3,168,000	2,102,465	1,494,721	400,000	2,487,099	776,782	30,000	(683,768)	5,672,500	15,447,799	10,842	15,458,641

The attached notes 1 to 45 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 AED'000	2015 AED'000
OPERATING ACTIVITIES			
Profit for the year		1,953,558	1,934,043
Adjustments for:			
Depreciation on investment properties	22	11,749	12,843
Depreciation on property and equipment	25	174,101	132,741
Amortisation of intangibles	26	54,756	54,756
Share of results of associates and joint ventures		(35,233)	(20,032)
Dividend income	6	(868)	(5,697)
Realised gain on sale of investments carried at fair value through profit or loss	6	(23,860)	(10,289)
Unrealised loss on investments carried at fair value through profit or loss	6	4,858	15,488
Gain on disposal of property and equipment		(214)	(887)
Provision for impairment, net	11	969,965	819,954
Gain on sale of investment properties	8	(10,497)	(24,748)
Operating profit before changes in operating assets and liabilities		3,098,315	2,908,172
Increase in balances with central banks		(1,719,748)	(1,494,536)
(Increase) decrease in balances and wakala deposits with Islamic banks and other financial institutions		(1,442,747)	639,652
(Increase) decrease in murabaha and mudaraba with financial institutions		(240,815)	180,134
Decrease (increase) in murabaha and other Islamic financing		1,297,212	(5,096,667)
Increase in ijara financing		(2,074,916)	(1,085,441)
Purchase of investments carried at fair value through profit or loss		(10,507,194)	(5,356,057)
Proceeds from sale of investments carried at fair value through profit or loss		10,532,578	4,885,995
Decrease (increase) in other assets		59,371	(384,052)
Increase (decrease) in due to financial institutions		87,410	(376,223)
Increase in depositors' accounts		3,889,613	10,156,420
(Decrease) increase in other liabilities		(567,752)	77,876
Cash from operations		2,411,327	5,055,273
Directors' remuneration paid	41	(4,200)	(4,900)
Net cash from operating activities		2,407,127	5,050,373
INVESTING ACTIVITIES			
Dividend received	6	868	5,697
Net movement in investments carried at fair value through other comprehensive income		33,466	9,462
Net movement in investments carried at amortised cost		(1,780,905)	(1,860,882)
Dividends received from an associate		6,667	6,667
Additions in investment in associates and joint ventures		(17,395)	(30,447)
Proceeds from sale of investment properties	8	26,382	68,733
Purchase of property and equipment	25	(301,620)	(313,922)
Proceeds from disposal of property and equipment		267	6,548
Net cash used in investing activities		(2,032,270)	(2,108,144)
FINANCING ACTIVITIES			
Profit paid on Tier 1 sukuk – Listed	35	(234,158)	(234,158)
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	35	(69,533)	(64,574)
Proceeds from own Tier 1 sukuk – Listed		466	28,925
Right shares issued	31	-	504,000
Issuance cost of right shares	31	-	(3,089)
Repurchase of sukuk assets – third issue	30	(1,836,250)	-
Repurchase of sukuk assets - second issue		-	(2,754,375)
Dividends paid		(774,057)	(725,038)
Net cash used in financing activities		(2,913,532)	(3,248,309)
DECREASE IN CASH AND CASH EQUIVALENTS		(2,538,675)	(306,080)
Cash and cash equivalents at 1 January		9,484,193	9,790,273
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	40	6,945,518	9,484,193

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

Profit received		4,727,121	5,653,674
Profit paid to depositors and sukuk holders		501,556	594,668

The attached notes 1 to 45 form part of these consolidated financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

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

In addition to its main office in Abu Dhabi, the Bank operates through its 86 branches in UAE (2015: 88 branches) and 3 overseas branches in Iraq, Qatar and Sudan and subsidiaries in the UAE and the United Kingdom. The consolidated financial statements combine the activities of the Bank's head office, its branches and subsidiaries.

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

The consolidated financial statements of the Group were authorised for issue by the Board of Directors on 14 February 2017.

2 DEFINITIONS

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

Murabaha

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

Istisna'a

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

Ijara

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

Qard Hasan

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

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:

			Percentage of holding	
	Activity	Country of incorporation	2016	2015
Abu Dhabi Islamic Securities Company LLC	Equity brokerage services	United Arab Emirates	**95%**	95%
Burooj Properties LLC	Real estate investments	United Arab Emirates	**100%**	100%
MPM Properties LLC	Real estate services	United Arab Emirates	**100%**	100%
ADIB Invest 1	Equity brokerage services	BVI	**100%**	100%
Kawader Services Company LLC	Manpower supply	United Arab Emirates	**100%**	100%
ADIB (UK) Limited	Islamic banking	United Kingdom	**100%**	100%
ADIB Holdings (Jersey) Ltd*	Special purpose vehicle	British Channel Islands	-	-
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Sukuk Company II Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 1 Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 2 Ltd*	Special purpose vehicle	Cayman Island	-	-

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

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

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

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

3 BASIS OF PREPARATION continued

3.2 Changes in accounting policies

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

During the year the Group has adopted the following new standards / amendments to the standards effective for the annual period beginning on or after 1 January 2016:

IFRS 11: Joint Arrangements (Amendment) require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. This amendment does not have any impact on the Group's consolidated financial statements.

IFRS 14: Regulatory Deferral Accounts is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation. Since the Group is an existing IFRS preparer, these amendments do not have any impact on the Group's consolidated financial statements.

IAS 16 and IAS 38: Property, Plant and Equipment and Intangible Assets (Amendment) clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. This amendment does not have any impact on the Group's consolidated financial statements.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. The improvements did not impact the consolidated financial statements of the Group. They include:

1 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. The amendment does not impact the consolidated financial statements of the Group.

2 - IFRS 7 Financial Instruments: Disclosures

i) *Servicing contracts* amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures do not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendment does not impact the consolidated financial statements of the Group.

ii) *Applicability of the amendments to IFRS 7* to condensed interim financial statements amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. The amendment does not impact the consolidated financial statements of the Group.

3 - IAS 19 Employee Benefits amendment clarifies that market depth of high quality corporate Sukuk is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate Sukuk in that currency, government bond rates must be used. The amendment does not impact the consolidated financial statements of the Group.

4 - IAS 34 Interim Financial Reporting amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. The amendment does not impact the consolidated financial statements of the Group.

3 BASIS OF PREPARATION continued

3.2 Changes in accounting policies continued

Annual Improvements 2012-2014 Cycle continued

5. Amendments to IAS 1 Disclosure Initiative amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

6 - Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments do not impact the consolidated financial statements of the Group.

3.3 Standards issued but not yet effective

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

IFRS 9: Financial Instruments - hedge accounting (Amendments to IFRS 9, IFRS 7 and IAS 39) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39. The Group is in the process of assessing the impact of the new amendment.

IFRS 9: Financial Instruments - impairment introduces new requirements for impairment. On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The IASB has addressed the key concern that arose as a result of the financial crisis that the incurred loss model in IAS 39 contributed to the delayed recognition of credit losses, by issuing the new impairment requirements that are based on a more forward-looking expected credit loss model. The requirements of IFRS 9 relating to impairment are for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is in the process of assessing the impact of the new amendment.

IFRS 15: Revenue from Contracts with Customers was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is in the process of assessing the impact of the new standard on its consolidated financial statements.

IFRS 16: Leases was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, It substantially carries forward the requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of this Standard." The Group is in the process of assessing the impact of IFRS 16 on its consolidated financial statements.

IAS 7: Statement of Cash Flows (Amendment) was issued in January 2016 with the intention to improve disclosers of financing activities and help users to better understand reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their liabilities as a result of financing activities such as changes from cash flows and non-cash items. The amendment is effective from 1 January 2017. The Group is in the process of assessing the impact of the new amendment.

3 BASIS OF PREPARATION continued

3.3 Standards issued but not yet effective continued

IAS 12: Income Taxes (Amendment) In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of Sukuk measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

3.4 Significant Judgements and Estimates

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

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

Going concern

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

Impairment losses on financing assets and investments carried at amortised cost

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

Collective impairment provisions on financing assets

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

Contingencies

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

Classification and measurement of financial assets

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

Operating lease commitments - Group as lessor

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

Investment and development properties

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

Fair value of financial instruments

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

3 BASIS OF PREPARATION continued

3.4 Significant Judgements and Estimates continued

Classification of properties

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

Impairment of investments in associates and joint ventures

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

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

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

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

Impairment of goodwill

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

Useful life of property and equipment

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

Business combinations

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

4 SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

Murabaha

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

Istisna'a

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

Ijara

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

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.

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued

***Recognition and Measurement** continued*

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

Classification

Financial assets at amortised cost

Murahaba and other Islamic financing and Ijara financing i.e. customer financing and investment in sukuk, are measured at amortised cost, if both the following conditions are met:

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

All other financial assets are subsequently measured at fair value.

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

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

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

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

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

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

A financial asset is FVTPL if:

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

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued

Measurement continued

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 recognized in the consolidated income statement. The net gain or loss recognized 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 recognized in the consolidated statement of other comprehensive income and accumulated in the cumulative changes in fair values within equity. Where the assets are disposed off, the cumulative gain or loss previously accumulated in the cumulative changes in fair values is not transferred to the consolidated income statement, but is reclassified to retained earnings. As per the requirement of IFRS 9, financial assets measured at FVTOCI are not tested for impairment.

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

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.

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

A financial asset is de-recognized when the contractual rights to the cash flows from the financial asset expires or when it transfers the financial asset. A financial liability is de-recognized 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-recognized and corresponding receivables from the buyer for the payment are recognized 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 enforceable right legally and under Sharia'a framework to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

(iii) Impairment of financial assets

Customer financing

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Renegotiated financing facilities

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

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 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 recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the consolidated income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Fair value measurements

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

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

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs (note 44).

Business combinations

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized 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 recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Business Combinations continued

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 recognized 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 recognized 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 recognized in consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized 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 recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized 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 recognized 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 recognized 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 recognized. 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 recognized 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 recognized for goodwill is not reversed in a subsequent period.

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

Investment in associates

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

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The consolidated income statement reflects the share of the results of the associate. Where there has been a change recognized 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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Investment in associates continued

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 recognized directly in the equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

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

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

Investment properties

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

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

Development properties

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

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

Property and equipment

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

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

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

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment continued

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 credited directly to equity under revaluation reserve, 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized in the consolidated income statement when due.

Shari'a compliant alternatives of derivative financial instruments

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

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 recognized 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 recognized in equity remain in equity until the forecast transaction is recognized, 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 recognized 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 recognized 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 39).

Profit distribution

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

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

Cash and cash equivalents

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

Trade and settlement date accounting

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

Prohibited income

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

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

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 taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized 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 recognized 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 recognized directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

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

	2016 AED '000	2015 AED '000
Vehicle murabaha	**340,303**	357,160
Goods murabaha	**364,356**	508,060
Share murabaha	**1,155,840**	992,527
Commodities murabaha – Al Khair	**380,142**	279,060
Islamic covered cards (murabaha)	**362,080**	378,475
Other murabaha	**45,177**	97,903
Total murabaha	**2,647,898**	2,613,185
Mudaraba	**49,542**	47,663
Ijara	**1,782,697**	1,692,851
Istisna'a	**8,610**	8,850
	4,488,747	4,362,549

6 INCOME FROM INVESTMENTS MEASURED AT FAIR VALUE

	2016 AED '000	2015 AED '000
Income from Islamic sukuk measured at fair value through profit or loss	49,993	37,671
Income (loss) from other investment assets	4,162	(995)
Realised gain on sale of investments carried at fair value through profit or loss	23,860	10,289
Unrealised loss on investments carried at fair value through profit or loss	(4,858)	(15,488)
Dividend income	868	5,697
	74,025	37,174

7 FEES AND COMMISSION INCOME, NET

	2016 AED '000	2015 AED '000
Fees and commission income		
Fees and commission income on cards	584,184	521,064
Trade related fees and commission	109,874	151,658
Takaful related fees	92,230	108,732
Accounts services fees	46,022	44,319
Projects and property management fees	63,969	60,502
Risk participation and arrangement fees	170,248	213,265
Brokerage fees and commission	29,266	52,285
Other fees and commissions	241,996	171,712
Total fees and commission income	1,337,789	1,323,537
Fees and commission expenses		
Card related fees and commission expenses	(428,728)	(355,139)
Other fees and commission expenses	(68,646)	(57,107)
Total fees and commission expenses	(497,374)	(412,246)
Fees and commission income, net	840,415	911,291

8 INCOME FROM INVESTMENT PROPERTIES

	2016 AED '000	2015 AED '000
Proceeds from sale of investment properties	26,382	68,733
Less: net book value of properties sold	(15,885)	(43,985)
Gain on sale of investment properties	10,497	24,748
Rental income (note 22)	16,739	20,957
	27,236	45,705

9 EMPLOYEES' COSTS

	2016 AED '000	2015 AED '000
Salaries and wages	1,293,179	1,269,301
End of service benefits	69,671	74,328
Other staff expenses	74,030	59,829
	1,436,880	1,403,458

10 GENERAL AND ADMINISTRATIVE EXPENSES

	2016 AED '000	2015 AED '000
Legal and professional expenses	**148,058**	153,828
Premises expenses	**236,159**	226,221
Marketing and advertising expenses	**82,839**	114,438
Communication expenses	**70,897**	71,661
Technology related expenses	**99,818**	78,431
Other operating expenses	**132,622**	125,686
	770,393	770,265

11 PROVISION FOR IMPAIRMENT, NET

	Notes	2016 AED '000	2015 AED '000
Murabaha and mudaraba with financial institutions	16	**(23,330)**	31,290
Murabaha and other Islamic financing	17	**755,636**	884,000
Ijara financing	18	**212,934**	(113,359)
Direct write-off		**1,843**	14,517
Investment properties	22	**4,981**	-
Other assets	24	**17,901**	3,506
		969,965	819,954

The above provision for impairment includes AED 6,231 thousand (2015: AED 5,156 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank.

12 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

	2016 AED '000	2015 AED '000
Saving accounts	**146,531**	123,750
Investment accounts	**397,954**	336,877
Sukuk holders	**63,308**	156,001
	607,793	616,628

13 BASIC AND DILUTED EARNINGS PER SHARE

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

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

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

	Notes	2016	2015
Profit for the year attributable to equity holders (AED '000)		**1,952,264**	1,931,695
Less: profit attributable to Tier 1 sukuk holder Listed (AED '000)	35	**(234,158)**	(234,158)
Less: profit attributable to Tier 1 sukuk holder - Government of Abu Dhabi (AED '000)	35	**(69,533)**	(64,574)
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000)		**1,648,573**	1,632,963
Weighted average number of ordinary shares at 1 January in issue (000's)		**3,168,000**	3,053,247
Effect of new Right shares issued		**-**	32,068
Weighted average number of ordinary shares at 31 December in issue (000's)		**3,168,000**	3,085,315
Basic and diluted earnings per share (AED)		**0.520**	0.529

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

14 CASH AND BALANCES WITH CENTRAL BANKS

	2016 AED '000	2015 AED '000
Cash on hand	**1,745,906**	1,835,100
Balances with central banks:		
- Current accounts	**860,295**	192,153
- Statutory reserve	**11,071,193**	9,851,850
- Islamic certificate of deposits	**6,100,945**	6,750,258
	19,778,339	18,629,361

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

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

	2016 AED '000	2015 AED '000
UAE	**18,613,626**	18,264,069
Rest of the Middle East	**1,077,353**	249,940
Europe	**656**	1,438
Others	**86,704**	113,914
	19,778,339	18,629,361

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

	2016 AED '000	2015 AED '000
Current accounts	277,485	227,331
Wakala deposits	3,968,673	2,896,983
	4,246,158	3,124,314

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

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

	2016 AED '000	2015 AED '000
UAE	2,132,487	476,614
Rest of the Middle East	784,535	1,045,333
Europe	113,844	72,093
Others	1,215,292	1,530,274
	4,246,158	3,124,314

16 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	2016 AED '000	2015 AED '000
Murabaha	1,570,407	1,596,772
Mudaraba	257,303	215,530
	1,827,710	1,812,302
Less: provision for impairment	(64,929)	(194,740)
	1,762,781	1,617,562

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

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

	2016 AED '000	2015 AED '000
At 1 January	194,740	163,450
(Reversal) charge for the year (note 11)	(23,330)	31,290
Write-off during the year	(106,481)	-
At 31 December	64,929	194,740

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

	2016 AED '000	2015 AED '000
UAE	1,561,341	1,360,232
Rest of the Middle East	228,153	379,711
Europe	9,066	-
Others	29,150	72,359
	1,827,710	1,812,302

17 MURABAHA AND OTHER ISLAMIC FINANCING

	2016 AED'000	2015 AED'000
Vehicle murabaha	6,544,017	6,442,157
Goods murabaha	6,788,344	10,250,391
Share murabaha	18,369,604	17,945,857
Commodities murabaha – Al Khair	8,277,850	6,623,523
Islamic covered cards (murabaha)	16,540,838	16,995,176
Other murabaha	2,032,171	2,379,343
Total murabaha	58,552,824	60,636,447
Mudaraba	1,128,518	1,213,861
Istisna'a	136,097	146,377
Other financing receivables	245,146	338,683
Total murabaha and other Islamic financing	60,062,585	62,335,368
Less: deferred income on murabaha	(21,894,730)	(22,073,741)
	38,167,855	40,261,627
Less: provision for impairment	(1,821,769)	(1,860,850)
	36,346,086	38,400,777

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

	2016			2015		
	Individual impairment AED '000	Collective impairment AED '000	Total AED '000	Individual impairment AED '000	Collective impairment AED '000	Total AED '000
At 1 January	693,670	1,167,180	1,860,850	519,623	882,407	1,402,030
Charge (reversals) for the year (note 11)	954,201	(198,565)	755,636	599,227	284,773	884,000
Written off during the year	(794,717)	-	(794,717)	(425,180)	-	(425,180)
At 31 December	853,154	968,615	1,821,769	693,670	1,167,180	1,860,850

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

	2016 AED'000	2015 AED'000
Industry sector:		
Government	-	77,299
Public sector	674,674	952,592
Corporates	6,275,968	7,586,931
Financial institutions	162,150	405,653
Individuals	29,868,184	28,975,566
Small and medium enterprises	1,186,879	2,263,586
	38,167,855	40,261,627
Geographic region:		
UAE	36,641,855	38,835,151
Rest of the Middle East	950,297	959,989
Europe	201,865	244,830
Others	373,838	221,657
	38,167,855	40,261,627

18 IJARA FINANCING

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

	2016 AED'000	2015 AED'000
The aggregate future lease receivables are as follows:		
Due within one year	**8,952,793**	9,301,428
Due in the second to fifth year	**22,046,466**	21,521,419
Due after five years	**26,041,455**	21,491,474
Total ijara financing	**57,040,714**	52,314,321
Less: deferred income	**(13,839,384)**	(11,177,578)
Net present value of minimum lease payments receivable	**43,201,330**	41,136,743
Less: provision for impairment	**(1,336,894)**	(1,134,289)
	41,864,436	40,002,454

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

	2016			2015		
	Individual impairment AED '000	Collective impairment AED '000	Total AED '000	Individual impairment AED '000	Collective impairment AED '000	Total AED '000
At 1 January	**287,041**	**847,248**	**1,134,289**	558,077	793,236	1,351,313
Charge (reversal) for the year (note 11)	**132,474**	**80,460**	**212,934**	(167,371)	54,012	(113,359)
Written off during the year	**(10,329)**	**-**	**(10,329)**	(103,665)	-	(103,665)
At 31 December	**409,186**	**927,708**	**1,336,894**	287,041	847,248	1,134,289

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

	2016 AED'000	2015 AED'000
Industry sector:		
Government	**-**	374,591
Public sector	**4,930,758**	3,792,330
Corporates	**19,224,881**	19,075,045
Financial institutions	**-**	213,663
Individuals	**18,462,404**	17,138,079
Small and medium enterprises	**280,753**	351,856
Non-profit organisations	**302,534**	191,179
	43,201,330	41,136,743
Geographic region:		
UAE	**41,098,110**	39,253,812
Rest of the Middle East	**1,066,435**	1,219,375
Europe	**321,811**	752
Others	**714,974**	662,804
	43,201,330	41,136,743

19 INVESTMENT IN ISLAMIC SUKUK MEASURED AT AMORTISED COST

	2016 AED '000	2015 AED '000
Sukuk	9,063,314	7,282,409

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

	2016 AED '000	2015 AED '000
At 1 January	98,277	98,277
Charge for the year	-	-
At 31 December	98,277	98,277

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

	2016 AED '000	2015 AED '000
UAE	6,685,617	4,995,579
Rest of the Middle East	1,295,254	1,270,127
Europe	92,284	111,510
Others	1,088,436	1,003,470
	9,161,591	7,380,686

20 INVESTMENTS MEASURED AT FAIR VALUE

	2016 AED '000	2015 AED '000
Investments carried at fair value through profit or loss		
Quoted investments		
Equities	244	11,319
Sukuk	1,263,230	1,258,537
	1,263,474	1,269,856
Investments carried at fair value through other comprehensive income		
Quoted investments		
Equities	756	846
Unquoted investments		
Funds	52,088	51,363
Private equities	80,610	131,494
	132,698	182,857
	133,454	183,703
	1,396,928	1,453,559
The distribution of the gross investments by geographic region was as follows:		
UAE	909,689	902,263
Rest of the Middle East	84,038	138,347
Europe	159	822
Others	403,042	412,127
	1,396,928	1,453,559

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	2016 AED '000	2015 AED '000
Investment in associates and joint ventures	**753,541**	799,356

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

	Place of incorporation	Proportion of ownership interest 2016 %	2015 %	Principal activity
Associates				
Abu Dhabi National Takaful PJSC	UAE	**42**	42	Islamic insurance
Bosna Bank International D.D	Bosnia	**27**	27	Islamic banking
Joint ventures				
Abu Dhabi Islamic Bank – Egypt (S.A.E.)	Egypt	**49**	49	Banking (under conversion to Islamic bank)
Saudi Finance Company CSJC	Kingdom of Saudi Arabia	**51**	51	Islamic Retail Finance
Arab Link Money Transfer PSC	UAE	**51**	51	Currency Exchange
Abu Dhabi Islamic Merchant Acquiring Company LLC	UAE	**51**	51	Merchant acquiring

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

	2016 AED '000	2015 AED '000
1 - Abu Dhabi National Takaful PJSC		
Share of associate's statement of financial position		
Assets	**356,459**	307,289
Liabilities	**(243,509)**	(210,911)
Net assets	**112,950**	96,378
Share of associate's revenue and profits:		
Revenue for the year	**39,876**	35,430
Profit for the year	**24,053**	16,802
Dividends received during the year	**6,667**	6,667
2 - Bosna Bank International D.D		
Share of associate's statement of financial position		
Assets	**398,139**	353,068
Liabilities	**(327,373)**	(300,419)
Net assets	**70,766**	52,649
Share of associate's revenue and profits:		
Revenue for the year	**14,607**	15,692
Profit for the year	**4,034**	2,850

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

	2016 AED '000	2015 AED '000
3 - Abu Dhabi Islamic Bank – Egypt (S.A.E.)		
Share of joint venture's statement of financial position		
Assets	2,747,306	5,335,571
Liabilities	(2,601,631)	(5,094,716)
Net assets	145,675	240,855
Share of joint venture's revenue and profits:		
Revenue for the year	266,755	204,446

As of 31 December 2016, the Bank's share of the contingent liabilities and commitments of associates and joint ventures amounted to AED 192,988 thousand (2015: AED 286,836 thousand). The equity instruments of Abu Dhabi National Takaful PJSC are quoted in Abu Dhabi Securities Exchange, UAE and the quoted value of the Banks' share of investment at 31 December 2016 amounted to AED 177,055 thousand (2015: AED 177,472 thousand) and its carrying value as of 31 December 2016 amounted to AED 188,212 thousand (2015: AED 170,825 thousand).

22 INVESTMENT PROPERTIES

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

2016	Land AED '000	Other properties AED '000	Total AED '000
Cost:			
Balance at 1 January	26,051	290,186	316,237
Transfers from other assets	971,869	22,616	994,485
Disposals	-	(19,079)	(19,079)
Gross balance at 31 December	997,920	293,723	1,291,643
Less: provision for impairment	(16,790)	(11,398)	(28,188)
Net balance at 31 December	981,130	282,325	1,263,455
Accumulated depreciation:			
Balance at 1 January	-	46,791	46,791
Charge for the year	-	11,749	11,749
Relating to disposals	-	(3,076)	(3,076)
Balance at 31 December	-	55,464	55,464
Net book value at 31 December	981,130	226,861	1,207,991

22 INVESTMENT PROPERTIES continued

2015	Land AED '000	Other properties AED '000	Total AED '000
Cost:			
Balance at 1 January	30,131	335,316	365,447
Transfers from other assets	-	13,610	13,610
Other movements	-	(9,979)	(9,979)
Disposals	(4,080)	(48,761)	(52,841)
Gross balance at 31 December	26,051	290,186	316,237
Less: provision for impairment	(12,292)	(11,033)	(23,325)
Net balance at 31 December	13,759	279,153	292,912
Accumulated depreciation:			
Balance at 1 January	-	40,782	40,782
Charge for the year	-	12,843	12,843
Relating to disposals	-	(6,834)	(6,834)
Balance at 31 December	-	46,791	46,791
Net book value at 31 December	13,759	232,362	246,121

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 16,739 thousand (2015: AED 20,957 thousand).

The fair values of investment properties at 31 December 2016 amounted to AED 1,595,972 thousand (2015: AED 382,955 thousand) are as per valuation conducted by professional valuers employed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations, and has appropriate qualifications and experience in the valuation of properties in the UAE. The fair value of the properties has been determined either based on transactions observable in the market or valuation models.

The valuation methodologies considered by external valuers include:

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

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

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

	Land AED '000	Other properties AED '000	Total AED '000
At 1 January 2015	13,872	11,475	25,347
Relating to disposal	(1,580)	(442)	(2,022)
At 1 January 2016	**12,292**	**11,033**	**23,325**
Charge for the year (note 11)	**4,498**	**483**	**4,981**
Relating to disposal	**-**	**(118)**	**(118)**
At 31 December 2016	**16,790**	**11,398**	**28,188**

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

	Land AED '000	Other properties AED '000	Total AED '000
2016:			
UAE	**989,706**	**238,259**	**1,227,965**
Rest of the Middle East	**8,214**	**-**	**8,214**
	997,920	**238,259**	**1,236,179**

22 INVESTMENT PROPERTIES continued

2015:			
UAE	17,837	243,395	261,232
Rest of the Middle East	8,214	-	8,214
	26,051	243,395	269,446

23 DEVELOPMENT PROPERTIES

	2016 AED'000	2015 AED'000
Development properties	837,381	837,381

Development properties include land with a carrying value of AED 800,000 thousand (2015: AED 800,000 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

24 OTHER ASSETS

	2016 AED'000	2015 AED'000
Advances against purchase of properties	129,336	1,330,207
Acceptances	283,804	671,346
Assets acquired in satisfaction of claims	295,193	172,691
Trade receivables	278,580	368,650
Prepaid expenses	736,798	692,351
Accrued profit	128,046	106,489
Advance to contractors	17,000	3,528
Advance for investments	183,625	183,625
Others	676,227	529,180
	2,728,609	4,058,067
Less: provision for impairment	(32,942)	(290,643)
	2,695,667	3,767,424

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

	Advances against purchase of properties AED '000	Assets acquired against satisfaction of claims AED'000	Trade receivables AED '000	Others AED '000	Total AED '000
At 1 January 2015	256,415	6,712	10,950	23,883	297,960
Charge for the year (note 11)	5,156	(1,650)	-	-	3,506
Written off during the year	(5,761)	(5,062)	-	-	(10,823)
At 1 January 2016	255,810	-	10,950	23,883	290,643
Charge for the year (note 11)	-	16,651	-	1,250	17,901
Written off during the year	(255,810)	(16,651)	(3,141)	-	(275,602)
At 31 December 2016	-	-	7,809	25,133	32,942

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

25 PROPERTY AND EQUIPMENT

	Land AED '000	Buildings AED '000	Furniture and fixtures AED '000	Computer and office equipment AED '000	Motor vehicles AED '000	Capital work-in progress AED '000	Total AED '000
2016							
Cost or revaluation:							
At 1 January	241,478	243,158	380,999	768,072	13,249	909,845	2,556,801
Exchange differences	-		(5,976)	264	(77)	-	(5,789)
Additions	-	518	-	21,689	105	279,308	301,620
Transfers from capital work-in-progress	-	50,759	15,083	168,164	781	(234,787)	-
Surplus on revaluation (note 34)	49,700	-	-	-	-	-	49,700
Disposals	-	-	(65)	(44,027)	(750)	-	(44,842)
At 31 December	291,178	294,435	390,041	914,162	13,308	954,366	2,857,490
Depreciation:							
At 1 January	-	33,810	248,267	523,038	9,634	-	814,749
Exchange differences	-	-	(3,448)	212	(302)	-	(3,538)
Charge for the year	-	9,846	31,967	130,746	1,542	-	174,101
Relating to disposals	-	-	(65)	(43,974)	(750)	-	(44,789)
At 31 December	-	43,656	276,721	610,022	10,124	-	940,523
Net book value:							
At 31 December	291,178	250,779	113,320	304,140	3,184	954,366	1,916,967
2015							
Cost or revaluation:							
At 1 January	241,478	226,683	338,660	647,898	14,770	782,196	2,251,685
Additions	-	177	2,776	14,981	2,448	293,540	313,922
Transfers from capital work-in-progress	-	16,298	43,323	106,270	-	(165,891)	-
Disposals	-	-	(3,760)	(1,077)	(3,969)	-	(8,806)
At 31 December	241,478	243,158	380,999	768,072	13,249	909,845	2,556,801
Depreciation:							
At 1 January	-	26,033	210,133	439,125	9,862	-	685,153
Charge for the year	-	7,777	38,434	84,074	2,456	-	132,741
Relating to disposals	-	-	(300)	(161)	(2,684)	-	(3,145)
At 31 December	-	33,810	248,267	523,038	9,634	-	814,749
Net book value:							
At 31 December	241,478	209,348	132,732	245,034	3,615	909,845	1,742,052

During 2016, the Bank revalued plots of land held for its own use to their estimated fair value as per valuation conducted by professional valuers employed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations, and has appropriate qualifications and experience in the valuation of properties in the UAE. The fair value of the properties has been determined either based on transactions observable in the market or valuation models. The surplus on revaluation of land was transferred to the revaluation reserve within equity which is not available for distribution to shareholders.

26 GOODWILL AND INTANGIBLES

		Other intangible assets		
	Goodwill AED '000	Customer relationships AED '000	Core deposit AED '000	Total AED '000
At 1 January 2015	109,888	349,597	70,163	529,648
Amortisation during the year	-	(45,600)	(9,156)	(54,756)
At 1 January 2016	109,888	303,997	61,007	474,892
Amortisation during the year	-	(45,600)	(9,156)	(54,756)
At 31 December 2016	**109,888**	**258,397**	**51,851**	**420,136**

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

Goodwill

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

Other intangible assets

Customer relationships

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

Core deposit

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

Impairment assessment of goodwill

No impairment losses on goodwill were recognised during the year ended 31 December 2016 (2015: Nil).

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

The recoverable amount of goodwill of cash generating unit, determined on the basis of value in use calculation, uses cash flow projections covering a five year period, with a terminal growth rate of 2% (2015: 2%) applied thereafter. The forecast cash flows have been discounted at a rate of 10.5% (2015: 10.5%).

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

27 DUE TO FINANCIAL INSTITUTIONS

	2016 AED'000	2015 AED'000
Current accounts	**1,027,616**	1,404,404
Investment deposits	**3,758,330**	1,659,598
	4,785,946	3,064,002
Current account - Central Bank of UAE	**368,269**	**41,608**
	5,154,215	3,105,610

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

	2016 AED'000	2015 AED'000
UAE	**2,199,951**	286,473
Rest of the Middle East	**1,772,817**	1,655,660
Europe	**139,834**	144,330
Others	**1,041,613**	1,019,147
	5,154,215	3,105,610

28 DEPOSITORS' ACCOUNTS

	2016 AED'000	2015 AED'000
Current accounts	**31,225,114**	30,140,475
Investment accounts	**67,134,219**	64,392,321
Profit equalisation reserve	**454,419**	394,364
	98,813,752	94,927,160

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

	2016 AED'000	2015 AED'000
At 1 January	**394,364**	340,159
Share of profit for the year	**60,055**	54,205
At 31 December	**454,419**	394,364

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

	2016 AED'000	2015 AED'000
Industry sector:		
Government	**6,695,441**	8,381,971
Public sector	**8,506,133**	11,819,047
Corporates	**16,248,174**	12,884,064
Financial institutions	**694,197**	820,125
Individuals	**53,105,753**	48,524,233
Small and medium enterprises	**10,638,653**	9,690,842
Non-profit organisations	**2,925,401**	2,806,878
	98,813,752	94,927,160

28 DEPOSITORS' ACCOUNTS continued

	2016 AED'000	2015 AED'000
Geographic region:		
UAE	92,472,863	90,779,105
Rest of the Middle East	4,867,243	3,237,817
Europe	502,618	279,862
Others	971,028	630,376
	98,813,752	94,927,160

	2016 AED'000	2015 AED'000
Currencies:		
UAE Dirham	81,915,524	79,995,433
US Dollar	12,811,388	12,535,107
Euro	2,338,706	1,292,047
Sterling Pound	587,757	377,146
Others	1,160,377	727,427
	98,813,752	94,927,160

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

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

29 OTHER LIABILITIES

	2016 AED'000	2015 AED'000
Accounts payable	406,128	485,248
Acceptances	283,804	671,346
Accrued profit for distribution to depositors and sukuk holders	237,733	192,695
Bankers' cheques	461,617	636,831
Provision for staff benefits and other expenses	364,029	380,115
Retentions payable	28,889	28,236
Advances from customers	187,492	167,086
Accrued expenses	269,299	181,747
Unclaimed dividends	114,867	119,902
Deferred income	164,995	197,555
Charity account	5,873	6,530
Donation account	7,206	15,239
Negative fair value on Shari'a compliant alternatives of derivative financial instruments (note 38)	1,645	18,049
Others	329,540	332,832
	2,863,117	3,433,411

30 SUKUK FINANCING INSTRUMENTS

	2016 AED'000	2015 AED'000
Third issue	-	1,836,250

Third issue - USD 500 million

In November 2016, the Bank purchased back the Sukukholders' entire share in the Co-Owned Assets of the third issue of medium term sukuk from these Sukukholders' amounting to AED 1,836,250 thousand (USD 500 million).

31 SHARE CAPITAL

	2016 AED'000	2015 AED'000
Authorised share capital:		
4,000,000 thousand (2015: 4,000,000 thousand) ordinary shares of AED 1 each (2015: AED 1 each)	**4,000,000**	4,000,000
Issued and fully paid share capital:		
At 1 January		
3,168,000 thousand (2015: 3,000,000 thousand) ordinary shares of AED 1 each (2015: AED 1 each)	**3,168,000**	3,000,000
Right shares issued: Nil (2015: 0.056 share against each share held of AED 1 each)	-	168,000
At 31 December		
3,168,000 thousand (2015: 3,168,000 thousand) ordinary shares of AED 1 each (2015: AED 1 each)	**3,168,000**	3,168,000

On 28 June 2015, the shareholders in an extra ordinary general meeting have approved the increase of authorized share capital to AED 4,000,000 thousand. Furthermore, shareholders also approved the right issue of 168,000 thousand shares of AED 1 each representing 5.6% of the paid up capital along with the premium of AED 2 per share. Subsequently, Bank has issued right shares of AED 168,000 thousand. Issuance costs amounting to AED 3,089 thousand were incurred.

32 RESERVES

32.1 Legal reserve

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

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

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

32.2 General reserve

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

32.3 Credit risk reserve

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

33 PROPOSED DIVIDENDS

	2016 AED'000	2015 AED'000
Cash dividend: AED 0.2452 per share of AED 1 each (2015: AED 0.2427 per share of AED 1 each)	776,782	769,022

Cash dividend of 24.52% of the paid up capital relating to year ended 31 December 2016 amounting to AED 776,782 thousand shall be paid after the approval by the shareholders in the Annual General Assembly.

Cash dividend of 24.27% of the paid up capital relating to year ended 31 December 2015 amounting to AED 769,022 thousand has been paid after the approval by the shareholders at the Annual General Assembly held on 21 April 2016.

34 OTHER RESERVES

	Cumulative changes in fair values AED '000	Land revaluation reserve AED '000	Foreign currency translation reserve AED '000	Hedging reserve AED '000	Total AED '000
At 1 January 2015	(172,040)	143,000	(151,040)	(14,564)	(194,644)
Net loss on valuation of investments carried at FVTOCI	(9,321)	-	-	-	(9,321)
Loss on disposal of investments carried at FVTOCI	26,574	-	-	-	26,574
Exchange differences arising on translation of foreign operations	-	-	(66,240)	-	(66,240)
Gain on hedge of foreign operations	-	-	21,167	-	21,167
Fair value gain on cash flow hedges	-	-	-	2,907	2,907
At 1 January 2016	**(154,787)**	**143,000**	**(196,113)**	**(11,657)**	**(219,557)**
Net loss on valuation of investments carried at FVTOCI	(16,783)	-	-	-	(16,783)
Loss on disposal of investment carried at FVTOCI	8,490	-	-	-	8,490
Surplus on revaluation of land	-	49,700	-	-	49,700
Exchange differences arising on translation of foreign operations	-	-	(571,244)	-	(571,244)
Gain on hedge of foreign operations	-	-	55,693	-	55,693
Fair value gain on cash flow hedges	-	-	-	9,933	9,933
At 31 December 2016	(163,080)	192,700	(711,664)	(1,724)	(683,768)

35 TIER 1 SUKUK

	2016 AED'000	2015 AED'000
Tier 1 sukuk – Listed	3,672,500	3,672,034
Tier 1 sukuk – Government of Abu Dhabi	2,000,000	2,000,000
	5,672,500	5,672,034

Tier 1 sukuk – Listed

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

As of 31 December 2016, sukuk with a face value of nil were repurchased by the Bank (31 December 2015: AED 466 thousand (USD 0.1 million). Issuance costs amounting to AED 37,281 thousand were incurred.

35 TIER 1 SUKUK continued

Tier 1 sukuk – Listed continued

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

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

Tier 1 sukuk – Government of Abu Dhabi

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

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

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

36 NON-CONTROLLING INTEREST

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

37 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

37 CONTINGENT LIABILITIES AND COMMITMENTS continued

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

	2016 AED'000	2015 AED'000
Contingent liabilities		
Letters of credit	**2,025,680**	2,083,463
Letters of guarantee	**9,747,282**	11,276,968
	11,772,962	13,360,431
Commitments		
Undrawn facilities commitments	**386,939**	583,032
Future capital expenditure	**125,292**	70,776
Investment and development properties	**11,436**	74,057
	523,667	727,865
	12,296,629	14,088,296

38 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

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

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.

31 December 2016: Notional amount by term to maturity

	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
Shari'a compliant alternatives of swap (note 29)	**1,645**	**2,821,209**	**1,513,495**	**266,142**	**531,482**	**510,090**

31 December 2015: Notional amount by term to maturity

Shari'a compliant alternatives of swap (note 29)	18,049	2,990,492	1,049,849	678,027	745,527	517,089

39 ZAKAT

As the Bank is not required to pay Zakat by laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the share value, for Zakat purposes based on Gregorian year, was estimated at AED 175,666 thousand (2015: AED 173,361 thousand) and accordingly, Zakat is estimated at AED 0.05545 (2015: AED 0.05472) per outstanding share.

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

40 CASH AND CASH EQUIVALENTS

	2016 AED'000	2015 AED'000
Cash and balances with central banks, short term	8,206,741	8,777,511
Balances and wakala deposits with Islamic banks and other financial institutions, short term	2,467,470	2,355,254
Murabaha and mudaraba with financial institutions, short term	1,309,906	1,428,832
Due to financial institutions, short term	(5,038,599)	(3,077,404)
	6,945,518	9,484,193

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

	2016 AED'000	2015 AED'000
Transfer from other assets to investment properties (note 22)	994,485	13,610

41 RELATED PARTY TRANSACTIONS

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

Profit rates earned on balances and wakala deposits with banks and financial institutions and customer financing extended to related parties during the year has ranged from 0% to 6% (2015: 0% to 6% per annum).

Profit rates paid on due to financial institution and customers' deposits placed by related parties during the year have ranged from 0% to 0.8% per annum (2015: 0% to 0.9% per annum).

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

	Major shareholder AED '000	Directors AED '000	Associates and Joint Ventures AED '000	Others AED '000	Total AED '000
31 December 2016					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	9,290	-	9,290
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	53,277	477	75	89,026	142,855
Fees and commission income, net	-	38	1,034	2,469	3,541
Operating expenses	-	432	-	-	432
Distribution to depositors and sukuk holders	-	67	535	291	893
31 December 2015					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	4,835	-	4,835
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	78,154	1,240	398	116,681	196,473
Income from investments measured at fair value	63	-	-	-	63
Fees and commission income, net	3,201	22	330	7,734	11,287
Operating expenses	-	432	-	-	432
Distribution to depositors and sukuk holders	2	47	356	343	748

41 RELATED PARTY TRANSACTIONS continued

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

	Major shareholder AED '000	Directors AED '000	Associates and Joint Ventures AED '000	Others AED '000	Total AED '000
31 December 2016					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	1,087,153	-	1,087,153
Murabaha and Mudaraba with financial institutions	-	-	163,765	-	163,765
Murabaha, mudaraba, ijara and other Islamic financing	2,641,162	11,346	-	3,542,427	6,194,935
Other assets	-	-	63,065	185,913	248,978
	2,641,162	11,346	1,313,983	3,728,340	7,694,831
Due to financial institutions	-	-	47,457	-	47,457
Depositors' accounts	125,620	31,890	119,106	137,267	413,883
Other liabilities	-		24	2,513	2,537
	125,620	31,890	166,587	139,780	463,877

	Major shareholder AED '000	Directors AED '000	Associates and Joint Ventures AED '000	Others AED '000	Total AED '000
31 December 2015					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	1,354,353	-	1,354,353
Murabaha and Mudaraba with financial institutions	-	-	171,611	-	171,611
Murabaha, mudaraba, ijara and other Islamic financing	2,587,925	30,667	30,052	3,612,401	6,261,045
Other assets	-	-	13,616	183,625	197,241
	2,587,925	30,667	1,569,632	3,796,026	7,984,250
Due to financial institutions	-	-	30,180	-	30,180
Depositors' accounts	50	21,479	98,200	214,906	334,635
Other liabilities	-	63	25	179	267
	50	21,542	128,405	215,085	365,082

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

Compensation of key management personnel

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

	2016 AED'000	2015 AED'000
Salaries and other benefits	32,076	32,778
Employees' end of service benefits	3,420	3,684
	35,496	36,462

Board of Directors remuneration for the year ended 31 December 2016 amounting to AED 4,900 thousand is subject to the approval of the shareholders at the forthcoming Annual General Assembly. During 2016, AED 4,200 thousand was paid to Board of Directors pertaining to the year ended 31 December 2015 after the approval by the shareholders in the Annual General Assembly held on 21 April 2016.

42 SEGMENT INFORMATION

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

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

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

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

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

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

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

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

Business segments information for the year ended 31 December 2016 were as follows:

	Global Retail banking AED '000	Global Wholesale banking AED '000	Private banking AED '000	Treasury AED '000	Real estate AED '000	Other operations AED '000	Total AED '000
Revenue and results							
Segment revenues, net	3,236,624	1,349,807	121,456	536,486	101,296	39,854	5,385,523
Operating expenses excluding provision for impairment, net	(1,744,378)	(380,998)	(53,997)	(41,832)	(82,146)	(158,649)	(2,462,000)
Operating profit (margin)	1,492,246	968,809	67,459	494,654	19,150	(118,795)	2,923,523
Provision for impairment, net	(621,225)	(372,359)	8,348	-	(6,231)	21,502	(969,965)
Profit (loss) for the year	871,021	596,450	75,807	494,654	12,919	(97,293)	1,953,558
Non-controlling interest	-	-	-	-	-	(1,294)	(1,294)
Profit (loss) for the year attributable to equity holders of the Bank	871,021	596,450	75,807	494,654	12,919	(98,587)	1,952,264
Assets							
Segmental assets	54,865,153	35,469,626	2,536,021	19,368,458	2,680,915	7,369,552	122,289,725
Liabilities							
Segmental liabilities	60,059,215	27,971,848	2,702,223	12,102,311	349,531	3,645,956	106,831,084

42 SEGMENT INFORMATION continued

Business segments information for the year ended 31 December 2015 were as follows:

	Global Retail banking AED '000	Global Wholesale banking AED '000	Private banking AED '000	Treasury AED '000	Real estate AED '000	Other operations AED '000	Total AED '000
Revenue and results							
Segment revenues, net	3,043,279	1,330,625	108,682	444,569	118,382	88,838	5,134,375
Operating expenses excluding provision for impairment, net	(1,619,242)	(360,448)	(59,346)	(42,765)	(86,262)	(212,315)	(2,380,378)
Operating profit (margin)	1,424,037	970,177	49,336	401,804	32,120	(123,477)	2,753,997
Provision for impairment, net	(501,687)	(187,768)	(11,862)	-	(5,156)	(113,481)	(819,954)
Profit (loss) for the year	922,350	782,409	37,474	401,804	26,964	(236,958)	1,934,043
Non-controlling interest	-	-	-	-	-	(2,348)	(2,348)
Profit (loss) for the year attributable to equity holders of the Bank	922,350	782,409	37,474	401,804	26,964	(239,306)	1,931,695
Assets							
Segmental assets	52,418,734	35,058,966	3,061,715	16,539,451	2,671,626	8,627,170	118,377,662
Liabilities							
Segmental liabilities	54,655,766	28,770,951	2,492,733	13,473,886	373,318	3,535,777	103,302,431

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

	Global Retail banking AED '000	**Global Wholesale banking AED '000**	**Private banking AED '000**	**Treasury AED '000**	**Real estate AED '000**	**Other operations AED '000**	**Total AED '000**
2016							
Total segment revenues, net	**3,209,761**	**1,391,794**	**115,203**	**529,241**	**101,296**	**38,228**	**5,385,523**
Inter-segment revenues, net	**26,863**	**(41,987)**	**6,253**	**7,245**	**-**	**1,626**	**-**
Segment revenues, net	**3,236,624**	**1,349,807**	**121,456**	**536,486**	**101,296**	**39,854**	**5,385,523**
2015							
Total segment revenues, net	3,105,203	1,398,736	159,478	314,708	118,382	37,868	5,134,375
Inter-segment revenues, net	(61,924)	(68,111)	(50,796)	129,861	-	50,970	-
Segment revenues, net	3,043,279	1,330,625	108,682	444,569	118,382	88,838	5,134,375

Geographical information

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

43 RISK MANAGEMENT

43.1 Introduction

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

43.1.1 Risk management governance structure

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

Strategy Committee

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

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.

43.1.2 The Group Risk Management ("GRM")

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

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

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.

43 RISK MANAGEMENT continued

43.1.2 The Group Risk Management ("GRM") continued

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 RMG maintains a capability that allows it to:

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

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

The Group actively uses collateral to reduce its credit risks.

43.1.4 Risk concentration

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

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

43.1.5 Group Internal Audit

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

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

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

43.2 Credit risk

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

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

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

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of guarantee. They expose the Bank to similar risks as financing and these are mitigated by the same control processes and policies.

43 RISK MANAGEMENT continued

43.2 Credit risk continued

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

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

	Notes	Gross maximum exposure 2016 AED '000	Gross maximum exposure 2015 AED '000
Balances and wakala deposits with Islamic banks and other financial institutions	15	**4,246,158**	3,124,314
Murabaha and mudaraba with financial institutions	16	**1,827,710**	1,812,302
Murabaha and other Islamic financing	17	**38,167,855**	40,261,627
Ijara financing	18	**43,201,330**	41,136,743
Investment in Islamic sukuk measured at amortised cost	19	**9,161,591**	7,380,686
Investments measured at fair value	20	**1,263,230**	1,258,537
Other assets		**1,383,657**	1,679,193
		99,251,531	96,653,402
Contingent liabilities	37	**11,772,962**	13,360,431
Commitments		**386,939**	583,032
Total		**12,159,901**	13,943,463
Total credit risk exposure		**111,411,432**	110,596,865

43.2.2 Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The credit exposure to the top 5 customers as of 31 December 2016 was AED 7,396,572 thousand (2015: AED 7,472,796 thousand) before taking account of collateral or other credit enhancements.

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

The distribution of the Group's financial assets which are subject to credit risk by geographic region is as follows:

	Balances and wakala deposits with Islamic banks and other financial institutions AED '000	Murabaha and mudaraba with financial institutions AED '000	Murabaha and other Islamic financing AED '000	Ijara financing AED '000	Investment in Islamic sukuk measured at amortised cost AED '000	Investments measured at fair value AED '000	Other assets AED '000	Total AED' 000
31 December 2016								
UAE	**2,132,487**	**1,561,341**	**36,641,855**	**41,098,110**	**6,685,617**	**846,237**	**1,240,876**	**90,206,523**
Rest of Middle East	**784,535**	**228,153**	**950,297**	**1,066,435**	**1,295,254**	**34,547**	**139,412**	**4,498,633**
Europe	**113,844**	**9,066**	**201,865**	**321,811**	**92,284**	**1**	**-**	**738,871**
Others	**1,215,292**	**29,150**	**373,838**	**714,974**	**1,088,436**	**382,445**	**3,369**	**3,807,504**
Financial assets subject to credit risk	**4,246,158**	**1,827,710**	**38,167,855**	**43,201,330**	**9,161,591**	**1,263,230**	**1,383,657**	**99,251,531**
31 December 2015								
UAE	476,614	1,360,232	38,835,151	39,253,812	4,995,579	821,726	1,523,258	87,266,372
Rest of Middle East	1,045,333	379,711	959,989	1,219,375	1,270,127	47,529	125,580	5,047,644
Europe	72,093	-	244,830	752	111,510	-	-	429,185
Others	1,530,274	72,359	221,657	662,804	1,003,470	389,282	30,355	3,910,201
Financial assets subject to credit risk	3,124,314	1,812,302	40,261,627	41,136,743	7,380,686	1,258,537	1,679,193	96,653,402

43.2.2 Credit risk concentration continued

The credit risk arising from off-balance sheet items mentioned in note 43.2.1 are mainly relating to the UAE.

The distribution of the Group's financial assets by industry sector is as follows:

	2016 AED'000	2015 AED'000
Government	2,342,298	2,871,640
Public sector	5,605,401	4,744,922
Financial institutions	9,187,616	7,978,492
Trading and manufacturing	10,120,268	12,098,417
Construction and real estate	10,254,507	9,618,272
Energy	702,786	707,336
Personal	48,477,967	46,131,487
Others	12,560,688	12,502,836
Financial assets subject to credit risk	99,251,531	96,653,402

43.2.3 Impairment assessment

The main consideration for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows of the counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed impairment losses and collective impairment provisions on financing assets.

Individually assessed impairment losses on financing assets

The Group determines the allowances appropriate for each individually significant customer financing on an individual basis. Items considered when determining impairment loss amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated on monthly basis unless unforeseen circumstances require more careful attention.

Collective impairment provisions on financing assets

Collective impairment provisions are assessed for losses on customer financing that are not individually significant where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individual assessed impairment, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

Write-off of financing assets

Board approved policies are in place covering the timing and amount of provisions and write offs for all the financing portfolios of the bank. These reflect both the UAE Central bank guidelines and rules, accepted international accounting standards, and market and industry best practice and are stringently adhered to.

43.2.4 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities;
- For commercial financing, charges over real estate properties, inventory, trade receivables and securities; and
- For retail financing, charge over assets, mortgage of properties and assignment of salaries in favor of the Bank.

The table below shows the lower of the collateral value or the outstanding balance of customer financing as at the reporting date:

43 RISK MANAGEMENT continued
43.2 Credit risk continued
43.2.4 Collateral and other credit enhancements continued

	2016 AED'000	2015 AED'000
Against customer financing not impaired		
Property	**24,324,068**	24,218,205
Securities	**133,030**	154,687
Cash margin and lien over deposits	**193,901**	277,349
Others	**7,121,981**	7,092,837
	31,772,980	31,743,078
Against individually impaired		
Property	**1,283,636**	1,040,864
Securities	**13,809**	10,116
Cash margin and lien over deposits	**22,362**	8,093
Others	**177,088**	274,034
	1,496,895	1,333,107
	33,269,875	33,076,185

The Bank also obtains guarantees from parent companies for financing their subsidiaries, but their benefits are not included in the above table.

Management regularly monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and assesses the market value of collateral obtained during its review of the adequacy of the provision for impairment losses.

The Bank also makes use of master netting agreements with counterparties.

43.2.5 Credit quality per class of financial assets
The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality for balance and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, murabaha, ijara and other Islamic financing based on the Group's credit rating system.

	Moody's equivalent grade	2016 AED '000	2015 AED '000
Low risk			
Risk rating class 1	Aaa	**-**	-
Risk rating classes 2 and 3	Aa1-A3	**4,182,315**	2,963,050
Risk rating class 4	Baa1-Baa3	**12,545,414**	11,649,339
Risk rating classes 5 and 6	Ba1-B3	**61,002,557**	60,901,257
Fair risk			
Risk rating class 7	Caa1-Caa3	**6,407,794**	7,938,762
Impaired			
Risk rating class 8, 9 and 10		**3,304,973**	2,882,578
		87,443,053	86,334,986

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial and qualitative analysis, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The risk ratings models are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class. A number of new rating models aligned to specific business segments, were introduced during the course of the year.

Renegotiated murabaha, ijara and other Islamic financings
The total carrying amount of financing to non-related parties whose terms have been renegotiated during the year amounted to AED 1,057,214 thousand (2015: AED 1,447,960 thousand).

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset and impairment losses, if any. The table shows the maximum exposure to credit risk / price risk for murabaha, mudaraba, ijara, other Islamic financing and investment in islamic sukuk measured at amortised cost.

	Balances and wakala deposits with Islamic banks and other financial institutions 31 December		Murabaha and mudaraba with financial institutions 31 December		Murabaha and other Islamic financing 31 December		Ijara financing 31 December		Investment in islamic sukuk measured at amortised cost 31 December	
	2016 AED '000	2015 AED '000	**2016 AED '000**	2015 AED '000	**2016 AED '000**	2015 AED '000	**2016 AED '000**	2015 AED '000	**2016 AED '000**	2015 AED '000
Individually impaired										
Substandard	-	-	-	-	**691,864**	604,144	**559,457**	621,604	-	-
Doubtful	-	-	-	-	**556,356**	208,593	**671,012**	644,413	**12,802**	12,802
Loss	-	-	**64,929**	194,740	**483,614**	476,450	**277,741**	132,634	**91,813**	91,813
Gross amount	-	-	**64,929**	194,740	**1,731,834**	1,289,187	**1,508,210**	1,398,651	**104,615**	104,615
Provision for individual impairment	-	-	**(64,929)**	(194,740)	**(853,154)**	(693,670)	**(409,186)**	(287,041)	**(98,277)**	(98,277)
	-	-	-	-	**878,680**	595,517	**1,099,024**	1,111,610	**6,338**	6,338
Past due but not impaired										
Less than 90 days	-	-	-	-	**445,261**	480,196	**296,228**	269,147	-	-
More than 90 days	-	-	-	-	**102,073**	39,794	**353,044**	407,426	-	-
	-	-	-	-	**547,334**	519,990	**649,272**	676,573	-	-
Neither past due nor impaired	**4,246,158**	3,124,314	**1,762,781**	1,617,562	**35,888,687**	38,452,450	**41,043,848**	39,061,519	**9,056,976**	7,276,071
Collective allowance for impairment	-	-	-	-	**(968,615)**	(1,167,180)	**(927,708)**	(847,248)	-	-
Carrying amount	**4,246,158**	3,124,314	**1,762,781**	1,617,562	**36,346,086**	38,400,777	**41,864,436**	40,002,454	**9,063,314**	7,282,409

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued

An analysis of past due financing, by age, is provided below:

Ageing analysis of past due but not impaired

	Less than 30 days AED '000	31 – 60 days AED '000	61 – 90 days AED '000	More than 90 days AED '000	Total AED '000
2016					
Murabaha and other Islamic financing	**204,258**	**137,785**	**103,218**	**102,073**	**547,334**
Ijara financing	**103,064**	**38,249**	**154,915**	**353,044**	**649,272**
	307,322	**176,034**	**258,133**	**455,117**	**1,196,606**
2015					
Murabaha and other Islamic financing	246,329	127,034	106,833	39,794	519,990
Ijara financing	242,485	22,973	3,689	407,426	676,573
	488,814	150,007	110,522	447,220	1,196,563

More detailed information in respect of the allowance for impairment losses on murabaha and other islamic financing and ijara financing have been disclosed in notes 17 and 18 respectively.

43.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows, the maintenance and monitoring of the inventory of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with the Central Bank. The liquidity position is assessed and managed under a variety of stress scenarios, given due consideration to severe yet plausible stress conditions relating to both the market in general and specifically to the Group.

The high quality of the investment portfolio ensures its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help these form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands. In addition, the Bank monitors various liquidity risk ratios and maintains an up to date contingency funding plan.

43.3.1 Treasury

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

43.3.2 Asset & Liability Committee ("ALCO")

The Asset & Liability Management ("ALM") process focusses on planning, acquiring, and directing the flow of funds through the organization. The ultimate objective of this process is to generate adequate stable earnings and to steadily build equity over time, while taking measured business risk aligned to the overall risk appetite of the Bank. The Bank has a defined ALM policy which describes the objective, role and function of the ALCO. This process revolves around ALCO, the body within the Bank that holds the responsibility to make strategic decisions relating to the management of financial position related risks. The ALCO consists of the Bank's senior management including the CEO and normally meets once a month.

43.3.3 Liquidity risk management process

The Group's liquidity risk management process, as carried out within the Group and monitored by a separate team in Group Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes reenlistment of funds as they mature or when financing are provided to customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquated as protection against any unforeseen interruption to cash flow;
- Managing statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.4 Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets and liabilities at reporting date based on contractual maturities.

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
31 December 2016					
ASSETS					
Cash and balances with central banks	**19,277,935**	**500,404**	**-**	**-**	**19,778,339**
Balances and wakala deposits with Islamic banks and other financial institutions	**1,379,729**	**1,899,655**	**900,640**	**66,134**	**4,246,158**
Murabaha and mudaraba with financial institutions	**1,309,905**	**452,876**	**-**	**-**	**1,762,781**
Murabaha and other Islamic financing	**2,973,969**	**7,841,840**	**19,117,400**	**6,412,877**	**36,346,086**
Ijara financing	**1,851,973**	**4,449,542**	**17,491,293**	**18,071,628**	**41,864,436**
Investments in Islamic sukuk measured at amortised cost	**512,337**	**3,473,461**	**4,369,056**	**708,460**	**9,063,314**
Investments measured at fair value	**-**	**1,382,217**	**14,711**	**-**	**1,396,928**
Investment in associates and joint ventures	**-**	**-**	**-**	**753,541**	**753,541**
Other assets	**1,269,570**	**61,029**	**190,986**	**12,755**	**1,534,340**
Financial assets	**28,575,418**	**20,061,024**	**42,084,086**	**26,025,395**	**116,745,923**
Non-financial assets					**5,543,802**
Total assets					**122,289,725**
LIABILITIES					
Due to financial institutions	**5,154,215**	**-**	**-**	**-**	**5,154,215**
Depositors' accounts	**90,839,588**	**5,998,396**	**1,975,768**	**-**	**98,813,752**
Other liabilities	**1,812,691**	**308,829**	**741,597**	**-**	**2,863,117**
Total liabilities	**97,806,494**	**6,307,225**	**2,717,365**	**-**	**106,831,084**
31 December 2015					
ASSETS					
Cash and balances with central banks	18,629,361	-	-	-	18,629,361
Balances and wakala deposits with Islamic banks and other financial institutions	2,355,253	169,061	600,000	-	3,124,314
Murabaha and mudaraba with financial institutions	1,604,203	13,359	-	-	1,617,562
Murabaha and other Islamic financing	4,296,572	8,300,615	17,787,993	8,015,597	38,400,777
Ijara financing	906,906	4,374,357	17,398,192	17,322,999	40,002,454
Investments in Islamic sukuk measured at amortised cost	16,039	430,548	3,764,602	3,071,220	7,282,409
Investments measured at fair value	-	1,434,589	18,970	-	1,453,559
Investment in associates and joint ventures	-	-	-	799,356	799,356
Other assets	1,487,172	-	328,595	12,218	1,827,985
Financial assets	29,295,506	14,722,529	39,898,352	29,221,390	113,137,777
Non-financial assets					5,239,885
Total assets					118,377,662
LIABILITIES					
Due to financial institutions	3,085,610	20,000	-	-	3,105,610
Depositors' accounts	88,402,326	4,448,332	2,076,502	-	94,927,160
Other liabilities	2,380,455	248,476	804,480	-	3,433,411
Sukuk financing instruments	-	1,836,250	-	-	1,836,250
Total liabilities	93,868,391	6,553,058	2,880,982	-	103,302,431

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.4 Analysis of financial assets and financial liabilities by remaining contractual maturities continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations, including cash flows pertaining to principal repayment and profit payable to maturity.

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
31 December 2016					
LIABILITIES					
Due to financial institutions	**5,154,551**	**-**	**-**	**-**	**5,154,551**
Depositors' accounts	**90,852,615**	**6,036,950**	**2,020,210**	**-**	**98,909,775**
Other liabilities	**1,812,691**	**308,829**	**741,597**	**-**	**2,863,117**
Total liabilities	**97,819,857**	**6,345,779**	**2,761,807**	**-**	**106,927,443**
31 December 2015					
LIABILITIES					
Due to financial institutions	3,044,041	20,024	-	-	3,064,065
Depositors' accounts	88,418,667	4,475,289	2,160,997	-	95,054,953
Other liabilities	2,380,455	248,476	804,480	-	3,433,411
Sukuk financing instruments	-	1,899,765	-	-	1,899,765
Total liabilities	93,843,163	6,643,554	2,965,477	-	103,452,194

The disclosed financial instruments in the above table are the gross undiscounted cash flows.

The table below shows the contractual expiry of the Bank's contingent liabilities and commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
2016					
Contingent liabilities	**9,848,151**	**1,109,949**	**808,550**	**6,312**	**11,772,962**
Commitments	**-**	**11,436**	**125,292**	**-**	**136,728**
Total	**9,848,151**	**1,121,385**	**933,842**	**6,312**	**11,909,690**
2015					
Contingent liabilities	10,470,928	2,123,571	759,606	6,326	13,360,431
Commitments	-	52,439	92,394	-	144,833
Total	10,470,928	2,176,010	852,000	6,326	13,505,264

The Bank does not expect that all of the contingent liabilities or commitments will be drawn before expiry.

43.4 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.

43 RISK MANAGEMENT continued

43.4 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.

43.4.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-statement of financial position instruments that mature or re-price in a given period. The Group manages this risk through appropriate limits in place and frequent review of the bank's structural position with regard to profit rate risk and its impact on earnings as well as the economic value of its shareholders' equity.

The following table estimates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's consolidated income statement. The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates (whether increase or decrease) on the net profit for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

	2016		2015	
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**	**40,523**	25	58,538
USD	**25**	**21,272**	25	12,540
Euro	**25**	**1,702**	25	(1,083)
Other currencies	**25**	**1,832**	25	6,029

43.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The table below indicates the extent to which the Group was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against AED with all other variable held constant on the consolidated income statement (due to the changes in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated in consolidated income statement on investments carried at fair value through other comprehensive income - equity instruments and investment in associates and joint ventures).

	% Increase currency rates	Effect on net profit AED '000	Effect on equity AED '000
31 December 2016			
Currency			
USD	**5**	**411,192**	**3,938**
Euro	**5**	**(29,573)**	**3,499**
GBP	**5**	**(3,449)**	**-**
Other currencies	**5**	**13,782**	**23,349**
31 December 2015			
Currency			
USD	5	94,426	6,177
Euro	5	(83,479)	2,580
GBP	5	(2,399)	-
Other currencies	5	75,674	27,484

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.2 Currency risk continued

The table below shows the Group's exposure to foreign currencies.

	AED AED '000	USD AED '000	Euro AED '000	GBP AED '000	Others AED '000	Total AED '000
31 December 2016						
Financial assets						
Cash and balances with central banks	17,703,406	1,171,030	2,342	664	900,897	19,778,339
Balances and wakala deposits with Islamic banks and other financial institutions	301,934	1,679,638	1,709,453	452,478	102,655	4,246,158
Murabaha and mudaraba with financial institutions	1,055,238	211,150	289,652	9,066	197,675	1,762,781
Murabaha and other Islamic financing	34,322,058	1,619,997	2,850	784	400,397	36,346,086
Ijara financing	33,448,811	7,801,301	21,673	415,185	177,466	41,864,436
Investments in Islamic sukuk measured at amortised cost	282,000	8,689,029	-	92,285	-	9,063,314
Investments measured at fair value	54,851	1,277,506	83	-	64,488	1,396,928
Investment in associates and joint ventures	216,666	-	69,890	-	466,985	753,541
Other assets	29,720	1,506,806	(79,509)	6,428	70,895	1,534,340
	87,414,684	23,956,457	2,016,434	976,890	2,381,458	116,745,923
Financial liabilities						
Due to financial institutions	1,759,510	2,562,731	165,486	444,872	221,616	5,154,215
Depositors' accounts	81,915,524	12,811,388	2,338,706	587,757	1,160,377	98,813,752
Other liabilities	2,279,578	279,737	3,724	3,234	256,844	2,863,117
	85,954,612	15,653,856	2,537,916	1,045,863	1,638,837	106,831,084
31 December 2015						
Financial assets						
Cash and balances with central banks	17,535,170	864,922	2,362	1,469	225,438	18,629,361
Balances and wakala deposits with Islamic banks and other financial institutions	494,003	478,736	125,985	176,913	1,848,677	3,124,314
Murabaha and mudaraba with financial institutions	1,350,106	195,097	-	-	72,359	1,617,562
Murabaha and other Islamic financing	35,863,954	1,971,818	-	359,338	205,667	38,400,777
Ijara financing	32,054,387	7,484,860	51,271	106,710	305,226	40,002,454
Investments in Islamic sukuk measured at amortised cost	-	7,168,922	-	113,487	-	7,282,409
Investments measured at fair value	71,259	1,317,182	582	6	64,530	1,453,559
Investment in associates and joint ventures	198,166	-	51,511	-	549,679	799,356
Other assets	4,910,073	(2,351,694)	(510,859)	(277,875)	58,340	1,827,985
	92,477,118	17,129,843	(279,148)	480,048	3,329,916	113,137,777
Financial liabilities						
Due to financial institutions	1,474,642	1,258,341	24,775	146,266	201,586	3,105,610
Depositors' accounts	79,995,433	12,535,107	1,292,047	377,146	727,427	94,927,160
Other liabilities	2,585,148	482,880	23,022	4,616	337,745	3,433,411
Sukuk financing instruments	-	1,836,250	-	-	-	1,836,250
	84,055,223	16,112,578	1,339,844	528,028	1,266,758	103,302,431

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.3 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's quoted investments in the investment portfolio.

The following table estimates the sensitivity to a possible change in equity markets on the Bank's consolidated income statement. Sensitivity is the effect of the assumed change in the reference equity benchmark in the fair value of investments carried at fair value through profit or loss on the consolidated income statement,

	% Increase in market indices 2016	Effect on net profit 2016 AED '000	% Increase in market indices 2015	Effect on net profit 2015 AED '000
Investments carried at fair value through profit or loss				
Abu Dhabi Stock Market	10	-	10	483
Dubai Financial Market	10	24	10	583
Others	10	-	10	66

The effect on equity (as a result of a change in the fair value of equity instruments held as investments carried at fair value through other comprehensive income at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	% Increase in market indices 2016	Effect on equity 2016 AED '000	% Increase in market indices 2015	Effect on equity 2015 AED '000
Investments carried at fair value through other comprehensive income				
Others	10	76	10	85

43.4.4 Operational risk

Operational risk is the potential exposure to financial, reputational or other damage arising from inadequate or failed internal processes, people, systems or external events.

The Bank has implemented a detailed operational risk framework in accordance with Basel II guidelines. The framework articulates clearly defined roles and responsibilities of individuals / units and committees across the Group involved in the management of various operational risk elements. The Operational Risk Management Framework ensures that operational risks within the Group are properly identified, monitored, reported and actively managed. Key elements of the framework include Risk Reviews, "Risk & Control self-Assessment", Loss Data Management, key risk indicators, controls testing, Issues & Actions Management and Reporting. The Framework also fully encompasses and integrates elements of Fraud Risk Prevention and Quality Assurance.

Business and support units are responsible for managing operational risks within their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being pro-actively identified, monitored, reported and managed within their scope of work. The day-to-day operational risks are also managed through the adoption of a comprehensive system of internal control with multi-layers of defense and dedicated systems and procedures to monitor transactions, positions and documentation, as well as maintenance of key backup procedures and business contingency plan which are regularly assessed and tested.

43.4.5 Compliance risk review

Given its commitment to best practice governance, in 2014 the Bank appointed external legal counsel to assist in reviewing its compliance with sanctions laws, and its compliance processes generally. The external legal counsel is yet to complete its review, and to the extent that this review assists the Bank in the identification of any additional steps that can be taken to ensure compliance with applicable sanctions laws, the Bank will enhance its processes accordingly. The Bank is continuing its internal review, and it is premature to speculate on any potential impact on the Bank. The Bank will share the outcome of the internal review with the relevant regulator once it is finalized.

43 RISK MANAGEMENT continued

43.5 Capital management

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The Central Bank of the UAE vide circular No. 4004/2009 dated 30 August 2009, requires all banks operating in the UAE to maintain a risk asset ratio at a minimum of 12% (2015: 12%) at all times in which Tier 1 capital should not be less than 8% (2015: 8%) of the total risk weighted assets. In implementing current capital requirements of the Central Bank of the U.A.E, the Group maintains the required ratio of the regulatory capital to total risk weighted assets.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, retained earnings, gains or losses arising on translation of foreign operations, non-controlling interest and Tier 1 sukuk after deductions of goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment provisions on financing assets and the element of the fair value reserve relating to unrealised gains and losses on financial instruments classified as investments carried at fair value through other comprehensive income and unrealised gains or losses arising on Sharia'a compliant financial instruments designated as cash flow hedges.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or to adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The Central Bank of the U.A.E vide its notice 27/2009 dated 17 November 2009, requires all the banks operating in the U.A.E. to implement Standardised approach of Basel II. For credit and market risks, the Central Bank of the U.A.E. has issued guidelines for implementation of Standardised approach. For operational risk, the Central Bank of the U.A.E. has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Basic Indicators approach.

Furthermore, as required by the above circular, certain Basel II pillar 3 disclosures will be included in the annual report issued by the Bank for the year 2016.

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2016 and 2015. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	Basel II	
	2016 AED '000	2015 AED '000
Tier 1 capital		
Share capital	**3,168,000**	3,168,000
Legal reserve	**2,085,788**	2,102,465
General reserve	**1,472,760**	1,293,820
Credit risk reserve	**400,000**	400,000
Retained earnings	**2,469,256**	1,858,899
Proposed dividend	**776,782**	769,022
Proposed dividend to charity	**30,000**	20,000
Foreign currency translation reserve	**(711,172)**	(196,113)
Tier 1 sukuk	**5,672,500**	5,672,034
Non-controlling interest	**10,842**	10,548
	15,374,756	15,098,675
Goodwill and intangibles	**(420,136)**	(474,892)
Deductions for Tier 1 capital	**(376,770)**	(399,678)
Total Tier 1	**14,577,850**	14,224,105

43 RISK MANAGEMENT continued

43.5 Capital management continued

	Basel II 2016 AED '000	Basel II 2015 AED '000
Tier 2 capital		
Cumulative changes in fair value and hedging reserve	**(108,815)**	(166,444)
Collective impairment provision for financing assets	**1,119,311**	1,096,403
	1,010,496	929,959
Deductions for Tier 2 capital	**(376,771)**	(399,678)
Total Tier 2	**633,725**	530,281
Total capital base	**15,211,575**	14,754,386
Risk weighted assets		
Credit risk	**89,544,880**	87,712,261
Market risk	**1,802,581**	2,218,921
Operational risk	**8,402,813**	7,549,954
Total risk weighted assets	**99,750,274**	97,481,136
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**15.25%**	15.14%
Tier 1 capital expressed as a percentage of total risk weighted assets	**14.61%**	14.59%

44 FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted investments – at fair value

Quoted investments represent marketable equities and sukuk that are measured at fair value. The fair values of these investments are based on quoted prices as of the reporting date. For investments carried at fair value through other comprehensive income, the impact of change in fair valuation from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

Unquoted investments – at fair value

The consolidated financial statements include investments in unquoted funds and private equities which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalization of sustainable earnings basis. The valuation models include some assumptions that are not supported by observable market prices or rates. The impact of change in fair value from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

In the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities that are not carried at fair value in the consolidated financial statements are not materially different (except investment carried at amortised cost and investment in associates and joint ventures (note 21), since those financial assets and liabilities are either short term in nature or in the case of deposits and financing asset, are frequently repriced. The fair value of investments carried at amortised cost is disclosed below.

Fair value of investments - at amortised cost	**Carrying value 2016 AED '000**	**Fair value 2016 AED '000**	Carrying value 2015 AED '000	Fair value 2015 AED '000
Investments carried at amortised cost - sukuk (note 19)	**9,063,314**	**9,226,315**	7,282,409	7,453,656

Fair value measurement recognized in the consolidated statement of financial position

The Group uses the following hierarchy for determining and disclosing the fair value of financial instrument by valuation technique:

Level 1: quoted (unadjusted prices in active markets for identical assets or liabilities).

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Fair value measurement recognized in the consolidated statement of financial position continued

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable.

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
31 December 2016				
Assets and Liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit and loss				
Equities	244	-	-	244
Sukuk	1,263,230	-	-	1,263,230
	1,263,474	-	-	1,263,474
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	756	-	-	756
Unquoted investments				
Funds	-	-	52,088	52,088
Private equities	-	-	80,610	80,610
	-	-	132,698	132,698
	756	-	132,698	133,454
Financial liabilities				
Shari'a compliant alternatives of swap (note 38)	-	1,645	-	1,645
Assets for which fair values are disclosed:				
Investment properties (note 22)	-	-	1,595,972	1,595,972
Investment carried at amortised cost - Sukuk	8,944,315	-	282,000	9,226,315

44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Fair value measurement recognized in the consolidated statement of financial position continued

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
31 December 2015				
Assets and Liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit and loss				
Equities	11,319	-	-	11,319
Sukuk	1,258,537	-	-	1,258,537
	1,269,856	-	-	1,269,856
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	846	-	-	846
Unquoted investments				
Funds	-	-	51,363	51,363
Private equities	-	-	131,494	131,494
	-	-	182,857	182,857
	846	-	182,857	183,703
Financial liabilities				
Shari'a compliant alternatives of swap (note 38)	-	18,049	-	18,049
Assets for which fair values are disclosed:				
Investment properties (note 22)	-	-	382,955	382,955
Investment carried at amortised cost - Sukuk	7,453,656	-	-	7,453,656

There were no transfers between level 1, 2 and 3 during the current year and in the prior year.

A significant part of the investments classified under Level 3 are valued using inputs from investment managers and in the opinion of the management it is not practical to disclose the sensitivity of inputs to the valuation techniques used.

The following table shows a reconciliation of the opening and closing amount of level 3 of financial assets which are recorded at fair value:

	2016 AED '000	2015 AED '000
At 1 January	**182,857**	201,522
Net disposals	**(37,860)**	(8,995)
Loss recorded in equity	**(12,299)**	(9,670)
At 31 December	**132,698**	182,857

45 SOCIAL CONTRIBUTIONS

The social contributions (including donations and charity) made during the year amount to AED 20,000 thousand which were approved by the shareholders at the Annual General Assembly held on 21 April 2016.

During 2015, the social contributions (including donations and charity) were made amounting to AED 20,000 thousand after the approval by the shareholders at the Annual General Assembly held on 1 April 2015.

Basel II Pillar III Disclosure

The requirements of the Central Bank of the UAE act as the framework for the implementation of the Basel II Accord in the UAE. They are contained in Circular 27/2009 dated 17 November 2009 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 Rating Based; 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, Marketing and Operational), but in addition a series of other risks to which the Bank is subject; 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 **43** to the 2016 ADIB Consolidated Financial Statements, which covers in detail the risk and capital management processes of the Bank and its compliance with the Basel II Accord in this regard.

The following Pillar III disclosures provide additional qualitative and quantitative information over and above that contained in note **43** to the 2016 ADIB Consolidated Financial Statements and together with the information contained in note **43**, 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. Risk is also inherent in the internal business processes and systems, and as a result of external factors. In order for these risk-taking activities to generate a 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 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 43.1.1 of the 2016 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 II 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.
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 43.1.1 of the 2016 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:

* The Bank is following sound practices for Credit Risk, Market 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 borrowers 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.

ASSESSMENT OF RISK GOVERNANCE EFFECTIVENESS continued

Credit risk and credit risk concentration: Please refer to note 43.2 of the 2016 ADIB Consolidated Financial Statements.

Liquidity risk and funding management: Please refer to note 43.3 of the 2016 ADIB Consolidated Financial Statements.

Market risk including profit rate risk, currency risk, and equity price risk: Please refer to note 43.4 of the 2016 ADIB Consolidated Financial Statements.

Operational risk: Please refer to note 43.4.4 of the 2016 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 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 loans 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 2016.

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 lender 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, 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 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 2016, which was prepared and submitted in early 2016 as required. The process of integrating and embedding ICAAP with the Capital Management and Risk Management cultures and practices within the Bank continued in 2016. 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 2016

	Country of Incorporation	% Ownership	Description	Accounting Treatment
SUBSIDIARIES				
Abu Dhabi Islamic Securities Company LLC	UAE	95	Equity Brokerage Services	Fully consolidated
Burooj Properties LLC	UAE	100	Real Estate Investments	Fully consolidated
MPM Properties LLC	UAE	100	Real Estate Services	Fully consolidated
ADIB Invest 1	BVI	100	Equity Brokerage Services	Fully consolidated
Kawader Services Company LLC	UAE	100	Manpower Supply	Fully consolidated
ADIB (UK) Limited	United Kingdom	100	Islamic Banking	Fully consolidated
ADIB Holdings (Jersey) Ltd*	British Channel Islands	-	Special Purpose Vehicle	Fully consolidated
ADIB Sukuk Company Ltd.*	Cayman Islands	-	Special Purpose Vehicle	Fully consolidated
ADIB Sukuk Company II Ltd.*	Cayman Islands	-	Special Purpose Vehicle	Fully consolidated
ADIB Capital Invest 1 Ltd.*	Cayman Islands	-	Special Purpose Vehicle	Fully consolidated
ADIB Capital Invest 2 Ltd.*	Cayman Islands	-	Special Purpose Vehicle	Fully consolidated
SIGNIFICANT INVESTMENT				
Abu Dhabi Islamic Bank - Egypt (S.A.E)	Egypt	49	Banking (under Conversion to Islamic Banking)	Equity Method
Abu Dhabi National Takaful PJSC	UAE	42	Islamic insurance	Equity Method
Bosnia Bank International D.D	Bosnia	27	Islamic banking	Equity Method
Saudi Finance Company CSJC (Formerly Saudi Installment House)	Kingdom of Saudi Arabia	51	Islamic Retail Finance	Equity Method
Arab Link Money Transfer PSC	UAE	51	Currency Exchange	Equity Method
Abu Dhabi Islamic Merchant Acquiring Company LLC	UAE	51	Merchant acquiring	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.

CONSOLIDATED CAPITAL STRUCTURE AS ON 31 DECEMBER 2016

	Amount AED '000
Tier 1 Capital	
1. Share capital - Paid up	3,168,000
2. Reserves	-
a. Legal reserve	2,085,788
b. General reserve	1,472,760
c. Credit risk reserve	400,000
3. Retained earnings	3,276,038
4. Minority interest in the equity of subsidiaries	10,842
5. Innovative capital instruments	-
6. Tier 1 Sukuk	5,672,500
7. Goodwill and other intangibles	(420,136)
8. Foreign Currency Translation Reserve	(711,172)
Sub-total	14,954,620
Less: Deductions for regulatory calculation	-
Less: Deductions from Tier 1 capital	(376,770)
Tier 1 Capital - Subtotal	14,577,850

CONSOLIDATED CAPITAL STRUCTURE AS ON 31 DECEMBER 2016 continued

Tier 2 Capital	
1. Qualifying General provisions	1,119,311
2. Assets revaluation reserves	-
3. Cummualtive changes in fair values	(108,815)
4. Hybrid (debt/equity) capital instruments	-
5. Tier 2 Wakala capital	-
Sub-total	1,010,496
Less: Deductions from Tier 2 Capital	(376,771)
Tier 2 Capital - Subtotal	633,725
Total eligible capital after deductions	15,211,575

CAPITAL ADEQUACY AS AT 31ST DECEMBER 2016

Quantitative Disclosures	Capital Charge	Capital Ratio (%)
1. Credit Risk		
a. Standardised Approach	10,745,386	-
b. Foundation IRB	-	-
c. Advanced IRB	-	-
2. Market Risk		
a. Standardised Approach	216,310	-
b. Model Approach	-	-
3. Operational Risk		
a. Basic Indicator Approach (BIA)	1,008,338	-
b. Standardised Approach/ASA	-	-
c. Advanced Measurement Approach	-	-
Total Capital requirements	**11,970,034**	**-**
Capital Ratio		
a. Total for Top Consolidated Group	-	15.25%
b. Tier 1 ratio only for top consolidated Group	-	14.61%
c. Total for each significant bank subsidiary	-	-

GROSS CREDIT EXPOSURES BY CURRENCY TYPE AS ON 31 DECEMBER 2016

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	70,929,532	1,357,172	282,000	22,548,396	95,117,100	386,939	8,816,520	9,203,459	104,320,559
Foreign Currency	10,439,653	4,716,696	10,044,544	4,021,647	29,222,540	-	2,956,442	2,956,442	32,178,982
Total	**81,369,185**	**6,073,868**	**10,326,544**	**26,570,043**	**124,339,640**	**386,939**	**11,772,962**	**12,159,901**	**136,499,541**

GROSS CREDIT EXPOSURES BY GEOGRAPHY AS ON DECEMBER 31 2016

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	77,739,965	3,693,828	7,531,854	25,084,637	114,050,284	386,939	11,416,655	11,803,594	125,853,878
Rest of Middle East	2,016,732	1,012,688	1,231,523	1,227,817	5,488,760	-	356,307	356,307	5,845,067
Europe	523,676	122,910	92,284	11,465	750,335	-	-	-	750,335
Others	1,088,812	1,244,442	1,470,883	246,124	4,050,261	-	-	-	4,050,261
Total	**81,369,185**	**6,073,868**	**10,326,544**	**26,570,043**	**124,339,640**	**386,939**	**11,772,962**	**12,159,901**	**136,499,541**

GROSS CREDIT EXPOSURE BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2016

INDUSTRTY SEGMENT	Customer Financings AED '000	Balances & Placements with Banks & FI AED '000	Sukuk AED '000	Other Assests AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off-Balance Sheet Exposures AED '000	Total Non-Funded AED '000	Gross AED '000
Agriculture, Fishing & related activities	27,815	-	-	-	-	27,815	-	71,591	71,591	99,406
Crude Oil, Gas, Mining & Quarrying	50,929	-	-	-	-	50,929	-	16,055	16,055	66,984
Manufacturing	3,102,307	-	-	-	-	3,102,307	910	202,918	203,828	3,306,135
Electricity & Water	18,385	-	684,401	-	-	702,786	226	276	502	703,288
Construction	8,628,735	-	1,625,772	-	71,683	10,326,190	38,430	5,114,213	5,152,643	15,478,833
Trade	5,359,904	-	1,559,780	-	-	6,919,684	23,612	802,973	826,585	7,746,269
Transport, Storage & Communication	2,023,668	-	-	-	-	2,023,668	-	63,394	63,394	2,087,062
Financial Institutions	162,150	6,073,868	2,704,979	430,244	59,066	9,430,307	-	425,874	425,874	9,856,181
Services	7,474,444	-	-		-	7,474,444	225,714	1,561,240	1,786,954	9,261,398
Government/Public Sector	5,605,432	-	2,221,159	121,108	18,032,433	25,980,132	-	989,048	989,048	26,969,180
Retail/Consumer banking	48,330,588	-	-	147,379	-	48,477,967	-	1,252,531	1,252,531	49,730,498
All Others	584,828	-	1,530,453	1,996,936	5,711,194	9,823,411	98,047	1,272,849	1,370,896	11,194,307
Total	**81,369,185**	**6,073,868**	**10,326,544**	**2,695,667**	**23,874,376**	**124,339,640**	**386,939**	**11,772,962**	**12,159,901**	**136,499,541**

GROSS CREDIT EXPOSURES BY RESIDUAL CONTRACTUAL MATURITY AS ON 31 DECEMBER 2016

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
Less than 3 months	7,984,635	2,754,563	512,337	20,547,505	31,799,040	96,735	9,848,151	9,944,886
3 months to one year	12,291,352	2,352,531	4,736,691	1,546,584	20,927,158	290,204	1,109,949	1,400,153
One to five years	36,608,693	900,640	4,369,056	500,890	42,379,279	-	808,550	808,550
Over five years	24,484,505	66,134	708,460	3,975,064	29,234,163	-	6,312	6,312
Grand Total	**81,369,185**	**6,073,868**	**10,326,544**	**26,570,043**	**124,339,640**	**386,939**	**11,772,962**	**12,159,901**

IMPAIRED CUSTOMER FINANCINGS BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2016

INDUSTRY SEGMENT	OVERDUE			PROVISIONS		ADJUSTMENTS		Total Impaired Assets AED '000
	Less than 90 Days AED '000	90 Days and above AED '000	Total AED '000	Specific AED '000	General AED '000	Write-offs AED '000	Write-Backs AED '000	
Agriculture, Fishing & related activities	4,849	3	4,852	1,377	-	-	-	3,475
Crude Oil, Gas, Mining & Quarrying	-	31,036	31,036	23,570	-	-	-	7,466
Manufacturing	20,210	472,609	492,819	271,179	-	-	-	221,640
Electricity & Water	-	-	-	-	-	-	-	-
Construction	-	74,558	74,558	53,059	-	-	-	21,499
Trade	342,440	285,848	628,288	300,990	-	-	-	327,298
Transport, Storage & Communication	566	39,784	40,350	19,273	-	-	-	21,077
Financial Institutions	-	-	-	-	-	-	-	-
Services	38,623	276,316	314,939	103,002	-	-		211,937
Government	-	-	-	-		-	-	-
Retail/Consumer banking	82,307	1,570,895	1,653,202	489,890	-	-	-	1,163,312
All Others	-	-	-	-	-	-	-	-
Total	**488,995**	**2,751,049**	**3,240,044**	**1,262,340**	**-**	**-**	**-**	**1,977,704**

IMPAIRED CUSTOMER FINANCINGS BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2016

GEOGRAPHIC REGION	OVERDUE			PROVISIONS		ADJUSTMENTS		Total Impaired Assets AED '000
	Less than 90 Days AED '000	90 Days and above AED '000	Total AED '000	Specific AED '000	General AED '000	Write-offs AED '000	Write-Backs AED '000	
United Arab Emirates	288,011	2,352,986	2,640,997	949,847	-	-	-	1,691,150
Rest of Middle East	-	364,636	364,636	176,840	-	-	-	187,796
Europe	200,984	-	200,984	102,226	-	-	-	98,758
Others	-	33,427	33,427	33,427	-	-	-	(0)
Grand Total	**488,995**	**2,751,049**	**3,240,044**	**1,262,340**	**-**	**-**	**-**	**1,977,704**

Note: Jurisdictions should not be included more than once under the geographic region.

RECONCILIATION OF CHANGES IN PROVISION FOR IMPAIRED CUSTOMER FINANCINGS FOR THE YEAR ENDED 31 DECEMBER 2016

	Description	AED '000
	Opening Balance of Provisions for Impaired Customer Financings	2,995,139
Add:	Charge for the year	163,524
	- Specific provisions	1,086,675
	- General provisions	(118,105)
Add:	Write-off of impaired loans to income statement	(805,046)
Less:	Recovery of loans loss provisions	-
Less:	Recovery of loans previously written-off	-
Less:	Write-back of provisions for loans	-
	Closing Balance of Provisions for impaired Loans	**3,158,663**

CREDIT RISK - GENERAL DISCLOSURE - STANDARDISED APPROACH AS ON 31 DECEMBER 2016

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	Net exposure 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	20,200,732	-	20,200,732	20,200,732	-	20,200,732	1,448,220
Claims on non-central Government Public Sector Entities (PSEs)	1,763,520	-	1,763,520	1,763,520	-	1,763,520	96,599
Claims in Multilateral Development Banks	38,245	-	38,245	38,245	-	38,245	-
Claims on Banks	7,673,125	67,560	7,740,685	7,740,685	-	7,740,685	3,334,696
Claims on Securities Firms	-	-	-	-	-	-	-
Claims on Corporates	28,916,762	5,639,562	34,556,324	34,556,324	265,426	34,290,898	34,286,897
Claims included in the Regulatory Retail Portfolio	30,425,817	463,282	30,889,099	30,889,099	165,020	30,724,079	23,734,864
Claims Secured by Residential Property	10,780,604	-	10,780,604	10,780,604	-	10,780,604	5,678,898
Claims Secured by Commercial Real Estate	13,414,712	-	13,414,712	13,414,712	-	13,414,712	13,414,712
Past Due Loans	3,760,089	-	2,432,820	2,432,820	-	2,432,820	3,146,601
High Risk Categories	117,988	-	117,988	117,988	-	117,988	176,982
Other Assets	7,092,360	-	7,092,360	7,092,360	-	7,092,360	4,226,411
Claims on Securitised Assets	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling protection)		-	-	-	-	-	-
Total claims	**124,183,953**	**6,170,404**	**129,027,088**	**129,027,088**	**430,446**	**128,596,642**	**89,544,880**

CREDIT RISK – GENERAL DISCLOSURE – STANDARDISED APPROACH AS (RATED / UNRATED) ON 31 DECEMBER 2016

ASSET CLASS	Gross Credit Exposures Rated AED '000	Unrated AED '000	Total AED '000	Post CRM AED '000	RWA Post CRM AED '000
Claims on Sovereigns	1,235,613	18,965,119	20,200,732	20,200,732	1,448,220
Claims in Public Sector Entities	956,266	807,254	1,763,520	1,763,520	96,599
Claims In Multilateral Development Banks	38,245	-	38,245	38,245	-
Claims on Banks	6,368,328	1,304,797	7,673,125	7,740,685	3,334,696
Claims on Securities Firms	-	-	-	-	-
Claims on Corporates	2,646,623	26,270,139	28,916,762	34,290,898	34,286,897
Regulatory & other Retail Exposure	-	30,425,817	30,425,817	30,724,079	23,734,864
Residential Retail Exposure	-	10,780,604	10,780,604	10,780,604	5,678,898
Commercial Real Estate	-	13,414,712	13,414,712	13,414,712	13,414,712
Past Due Loans	-	3,760,089	3,760,089	2,432,820	3,146,601
High Risk Categorey	-	117,988	117,988	117,988	176,982
Other Assets	-	7,092,360	7,092,360	7,092,360	4,226,411
Claims on Securitised Assets	-	-	-	-	-
Credit Derivatives (Banks Selling protection)	-	-	-	-	-
Grand Total	**11,245,075**	**112,938,878**	**124,183,953**	**128,596,642**	**89,544,880**

CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDISED APPROACH AS ON 31 DECEMBER 2016

		Exposures AED '000	Risk Weighted Assets AED '000
	Gross Exposure prior to Credit Risk Mitigation	20,329,647	20,329,647
Less:	Exposure covered by on-balance sheet netting	-	-
Less:	Exposures covered by Eligible Financial Collateral	207,127	207,127
Less:	Exposures covered by Guarantees	-	-
Less:	Exposures covered by Credit Derivatives	-	-
	Net Exposures after Credit Risk Mitigation	**20,122,520**	**20,122,520**

CAPITAL REQUIREMENT FOR MARKET RISK UNDER STANDARDISED APPROACH AS ON 31 DECEMBER 2016

MARKET RISK	Amount AED '000
Interest rate risk	94,449
Equity position risk	59
Foreign exchange risk	121,803
Commodity risk	-
Total Capital Requirment	**216,311**

EQUITIES DISCLOSURE FOR BANKING BOOK POSITIONS 31 DECEMBER 2016

1) Details of equity position by type:

TYPE	Current Year Publicly Traded AED '000	Current Year Privately Held AED '000
Government	-	-
Financial Institutions	-	71,683
Trading and manufacturing	-	-
Construction and real estate	-	58,066
Energy	-	-
Others	756	2,949
Total	**756**	**132,698**

2) Realised and unrealised revaluation gains (losses) during the year:

	Amount AED '000
Realised gains (losses) from sales and liquidations	(8,490)
*Unrealised gains (losses) recognized in the balance sheet but not through profit and loss account	(16,783)
Total	**(25,273)**

3) Items in (2) above included in Tier1/Tier 2 Capital:

TIER CAPITAL	Amount AED '000
Amount included in Tier 1 Capital	(8,490)
Amount included in Tier 2 Capital	(108,815)
Total	**(117,305)**

EQUITIES DISCLOSURE FOR BANKING BOOK POSITIONS 31 DECEMBER 2016

Capital requirements by equity groupings:

GROUPING	Capital Requirement AED '000
Government	-
Financial Institutions	12,903
Trading and Manufacturing	-
Construction and Real Estate	10,452
Energy	-
Others	622
Total Capital Requirement	**23,976**