ADIB مصرف أبوظبي الإسلامي

ANNUAL REPORT 2019

Contents

The late Sheikh Zayed bin Sultan Al Nahyan

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

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

Bank Overview 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 and an award-winning digital channels.

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

EXECUTIVE SUMMARY – STRATEGY PROPOSAL

GOAL

- ADIB is in a good position to start a **new phase in the Bank's history,** building on ADIB's strong market position and highly regarded brand. The **fundamental goal** of our Strategy is to **make ADIB a stronger, more efficient, better structured bank** that is well positioned to pursue growth opportunities across all our businesses.
- Focused on delivering **sustainable, long-term returns to our shareholders** by deploying our balance sheet and other resources to the highest return activities that are consistent with our client base, product offering and risk appetite while at same time we **protect and maximize ADIB's brand value.**

4-PILLAR STRATEGY

1 CLIENT RELATIONSHIP

Growing and strengthening our existing businesses by **deepening our relationships with 'stay' existing clients** and expanding our capabilities to **attract 'New to Bank' clients.**

2 REVENUES

Diversifying our business mix by **increasing our fee-based income, recurring revenues** across all ADIB segments and by **introducing new revenue streams.**

3 OPERATING EFFICIENCY

Achieving greater operating efficiency across all areas by rationalizing internal structures, re-engineering internal processes, introducing cost save initiatives and an unwavering commitment to cost discipline.

4 RISK AND CONTOL

Enhancing our risk management framework in line with our risk appetite and **reinforcing our governance and control culture.**

Financial Highlights

AED 126.0
(billion) Total Assets

AED 19.1
(billion) Total Equity

AED 101.4
(billion) Total Customer Deposits

80.0%
(billion) Customer Financing to Deposit Ratio

2,601
(million) Net Profit

5,915
(million) Total Revenues

Net Profit for 2019 increased by 4.0% to AED 2,601 million

Total Revenues for 2019 increased by 2.5% to AED 5,915 million

ADIB Group

Summary Income Statement	2019 AED mn	2018 AED mn	2017 AED mn	2016 AED mn	2015 AED mn
Net revenue from funding	**3,818.3**	3,906.7	3,769.6	3,921.0	3,771.3
Fees, Commissions and Foreign Exchange Income	**1,400.8**	1,315.7	1,300.6	979.6	965.0
Investment and Other Revenues	**696.1**	547.1	562.1	484.9	398.1
Total Revenues	**5,915.2**	5,769.5	5,632.3	5,385.5	5,134.4
Operating Profit (Margin)	**3,262.2**	3,125.7	3,123.1	2,937.6	2,760.3
Credit Provisions and Impairment Charge	**658.1**	620.1	790.4	970.0	820.0
Net Profit after zakat & tax	**2,601.1**	2,500.8	2,300.1	1,953.6	1,934.0
Summary Balance Sheet					
Total Assets in AED (billion)	**126.0**	125.2	123.3	122.3	118.4
Customer Financing in AED (billion)	**81.1**	78.7	76.5	78.2	78.4
Customer Deposits in AED (billion)	**101.4**	100.4	100.0	98.8	94.9
Financial Ratios					
Customer Financing to Deposit Ratio	**79.98%**	78.36%	76.53%	79.15%	82.59%
Risk asset ratio - Total (CAR, %) - Basel III / Basel II	****18.88%**	17.18%	16.09%	*15.25%	*15.14%
Cost Efficiency Ratio	**44.85%**	45.82%	44.55%	45.45%	46.24%

** As per Basel II*

*** without dividend adjustment for 2019*

2.5%

Total Revenues (AED mn)

2019	5,915
2018	5,769
2017	5,632
2016	5,386
2015	5,134

4.4%

Operating Profit (Margin) (AED mn)

2019	3,262
2018	3,126
2017	3,123
2016	2,938
2015	2,760

1.0%

Total Customer Deposits (AED mn)

2019	101,404
2018	100,404
2017	100,004
2016	98,814
2015	94,927

3.1%

Total Customer Financing (AED mn)

2019	81,108
2018	78,677
2017	76,530
2016	78,211
2015	78,403

80.0%

Customer Financing to Deposit Ratio

2019	79.98%
2018	78.36%
2017	76.53%
2016	79.15%
2015	82.59%

18.9%

Capital Adequacy Ratio (Basel III/Basel II)

2019	**18.88%
2018	17.18%
2017	16.09%
2016	*15.25%
2015	*15.14%

** As per Basel II*
*** without dividend adjustment for 2019*

Credit Ratings

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

ADIB's Awards in 2019

Best Islamic Bank
by World Union
of Arab Bankers

Property Consultancy
of the Year
by African & Arabian
Property Awards

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

Best Islamic Bank in the UAE
by Banker Magazine

Islamic Issue of the year
by IFR

CSR Label
by Dubai Chamber of
Commerce and Industry

Best Sport CSR Initiative
of the Year by SPIA

Best Islamic Financier
by International Trade Finance

Best Overall Bank in Customer
Experience by Ethos
Consultancy

Best Overall Call Center in the
UAE by Ethos Consultancy

Best Islamic Private Bank
by IFN

Regulatory Capital
Deal of the Year
by IFN

Information Security Executive
of the Year Award
by MESA Conference & Awards

Best Online Cash Management
and Best Integrated Corporate
Banking Site

Best Islamic Bank in Egypt
by IFN

Hybrid Deal of the Year
by IFN

Best Islamic Bank in Egypt
by Global Finance Magazine

Best Islamic Digital Bank
by Global Finance Magazine

Best Islamic Bank in the UAE
by Global Finance Magazine

Ijarah Deal of the Year
by IFN

UAE Deal of the Year
BY IFN

Best Islamic Private Bank
by Islamic Finance News
Awards

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

Sovereign Deal of the Year
by IFM

Indonesia Deal of the Year
by IFN

Best Youth Development
Program by SPIA

Best CSR Award
by WIBC

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

Gitex Award
for Mobile Trading App
by Dubai Financial Market

Highest Overall Portfolio
Performance (Issuer)
by Visa Global Service Quality
Award (GSQA)

ADIB had a successful year with net profit increasing by 4% to AED 2.6 billion and total revenues reaching AED 5.9 billion.

4%

Growth in Net Profit

Growth in Net Profit reached AED 2,601.1 million

2.5%

Revenues

Revenues increased by 2.5% to AED 5,915.2 million, driven by growth in Fees, FX and investment income

Dear Shareholders

On behalf of the Board of Directors, I am pleased to present shareholders with ADIB's Annual Report for 2019. Despite a challenging operating environment, ADIB had a successful year with net profit increasing by 4% to AED 2.6 billion after the deduction of Shareholders' contributions to the depositors and total revenues reaching AED 5.9 billion.

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

Environment & UAE Economy

In 2019, the UAE economy and the banking sector demonstrated its resilience in the face of a challenging regional and global environment. The UAE Economy grew by 2.9% in 2019 as compared to 1.7 per cent in the previous year, mainly driven by growth in the oil sector and economic diversification efforts. The UAE economy's main strength lies in the quality of its enabling environment, as companies can operate under stable macroeconomic conditions, make use of good infrastructure, while maintaining one of the highest levels of technology adoption in the world.

ADIB's Performance

In 2019, ADIB delivered steady growth with net profit increasing 4% to reach AED 2.6 billion. The performance was driven by a growth in customer finance and higher investment and foreign exchange income.

Our growth in revenues has been complemented by our discipline in managing costs where operating expenses were flat year-on-year. This was achieved despite investments in key strategic and digital initiatives designed to support business growth, enhance customer experience and create future efficiencies.

ADIB has further enhanced its competencies in the risk, compliance, governance, digital and control areas which represent necessary infrastructure to deliver leadership across our business.

ADIB's commitment to investing in digital will continue to drive our digitisation agenda as we strive towards making banking simple and convenient for our customers. Our efforts in digital have earned us customer appreciation and international awards in 2019 including 'Best Islamic Digital Bank" by Global finance and Best Islamic bank in the Middle east by EMEA Finance.

The bank's financial results reflects ADIB's successful business strategies and product propositions across all bank's functions. The wholesale banking group was particularly active and involved in arranging a range of multibillion dollar structured and syndicated finance deals on behalf of clients, resulting in growth in the asset book.

ADIB's Total assets at the end of the year were AED 125.9 billion, representing an increase of 0.6%. The Bank displayed solid fundamentals including robust capital and liquidity ratios with an advances-to-deposits ratio increasing to 80% reflecting our ability to make optimal use of the balance sheet.

Recommended Dividend

The Board of Directors is pleased to recommend distribution of cash dividends of 27.38% of the share nominal value.

Recognition

In 2019, ADIB was presented with a number of accolades and industry awards in recognition of the bank's achievements. I am particularly proud of the fact that ADIB was awarded by The Mohamed Bin Rashid Business Excellence Award. We were also particularly honoured to receive a wide range of awards for our corporate banking offering, including 'Best Islamic Financier' at the International Trade Finance Awards and five awards from Islamic Finance News including 'Best Islamic Bank in the UAE'.

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

Chairman's Statement continued

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

ADIB remains one of the leading banks in advocating the recruitment, development and promotion of local talent in all the markets in which it operates. The Bank now employs a high proportion of Emiratis in the UAE. The bank has met the points assigned by the UAE central Bank as per the new points-based system approved by the UAE Central Bank to promote the entry of Emiratis into the financial sector while also enhancing career development opportunities.

Corporate Social Responsibility
In 2019, we dedicated our corporate social activities to the Year of Tolerance and successfully led several programmes and initiatives, aligned with the pillars outlined within the UAE's Year tolerance. We furthered our contribution to the community through a range of donations and projects. We have enhanced initiatives that we have managed over recent years 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
The UAE economy has proved its resilience in recent years, and a continuation of government investment in diversification initiatives will provide opportunities for ADIB to develop its corporate and retail banking businesses. While the global economic picture is uncertain, we are committed to maintaining our best practice approach to risk management to navigate this period.

Our focus for 2020 will be to improve our market share in selected segments and grow our business within acceptable risk parameters while introducing new products and maintaining a superior customer service capability.

We fully understand the primary opportunities and drivers in the banking industry. The pressure to introduce new digital solutions is central to satisfying customers while reducing costs. We have a five-year strategic plan that will make ADIB a stronger, more efficient, better-structured bank that is well-positioned to pursue growth opportunities across all of our businesses. By adhering to this plan and focusing on delivering an exceptional banking experience to our customers, we are confident that we will continue to deliver the performance our shareholders have come to expect in 2020 and beyond.

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

I would 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 2019.

I also wish to thank our customers, shareholders, the Central Bank of the UAE for their continued support and trust, and the esteemed memebrs of the Internal Shari'a Supervisory Committee for their supervision.

Thank you,

HE Jawaan Awaidah Suhail Al Khaili
Chairman

The ADIB Group Structure

Board of Directors

Financial Services Group

Non-Financial Services

Banking:

Abu Dhabi Islamic Bank PJSC

Subsidiaries:

Abu Dhabi Islamic Securities Company LLC
ADIB (UK) Limited

Associates and Joint Ventures:

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

International Branches:

Qatar (QFC)
Iraq
Sudan

Real Estate:

Burooj Properties LLC
MPM Properties LLC

Manpower:

Kawader Services LLC

Board of Directors

HE Jawaan Awaidha Suhail Awaidha Al Khaili
Chairman

Khamis Mohamed Khamis Buharoon AlShamsi
Vice Chairman

Dhaen Mohamed Dhaen Mahasoon Alhameli
Board Member

Najib Youssef Fayyad
Board Member

Abdulla Ali Musleh Jumhour Al Ahbabi
Board Member

Khalifa Matar Khalifa Saif Almheiri
Board Member

Faisal Sultan Naser Salem Al Shuaibi
Board Member

ADIB Executive Management

Mazin Manna
Group Chief Executive Officer

Mr Abdul Qadir Khanani
Group Treasurer

Mr Abdulla Al Shehhi
Global Head, International Business Group

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

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

Mr Hassan Adel Khalifa
Head of Operations

Mr Khalid Ali Almansoori
Executive Chairman, MPM Properties

Mr Mamoun T Alhomssey
Chief Information Officer

Mr Martin Roland Corfe
Global Head of Human Resources

Mr Sami Al Afghani
Global Head, Wholesale Banking

Mr Serhat Yildirim
Chief Digital Officer

Ms Sharon Craggs
Global Head of Compliance

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

Mr Ahsan Ahmed Akhtar
Group Financial Controller

Mr. Jose K. Joseph
Group Chief Risk Officer

Dr Ghaith Mismar
Global General Counsel

Mr Hasan Abdullah Al Zaabi
Head of Human Resources, UAE

Mr Mohamed Aly
CEO, Egypt

Mr Mohammed Azab
Head of Private Banking Group

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

Mr Philip King
Global Head, Retail Banking

ADIB Subsidiaries, Associates and Joint Ventures

ADIB (Egypt) SAE

Saudi Finance Company, ADIB Saudi Arabia

Abu Dhabi National Takaful Company PJSC

ADIB Securities

ADIB UK

Abu Dhabi Islamic Merchant Acquiring Company LLC

MPM Properties

Bosna Bank International D.D.

Burooj Properties

We continued to advance ADIB's digital strategy by introducing new features and solutions that improve the banking experience for our customers.

CEO's Report

We delivered a steady performance in 2019 as net profit increased by 4% to AED 2.6 billion

Dear Shareholders

It gives me great pleasure to present ADIB's financial results for 2019.

2019 marked another successful year for ADIB with a healthy increase of profit and revenues in key businesses. In addition to that, ADIB continued to advance ADIB's digital strategy by introducing new features and solutions that improve the banking experience for our customers.

ADIB performance and key achievements

We delivered a steady performance in 2019 as net profit increased by 4% to AED 2.6 billion and operating profit increased 4.4% to AED 3.3 billion underpinned by a 3.1% growth in customer financing to AED 81.1 billion, a 30.7% growth in investment income to AED 687 million and a 23.6% rise in foreign exchange income to AED 317.5 million. Despite a low rate environment, our net profit margin was 4.25%, one of the highest in the market, helped by the positive impact of a low cost of funds that is supported by higher CASA balances. Our growth in revenues has been complemented by our discipline in managing costs which saw the cost to income ratio decrease by almost 1% for the year while we still continued to reinvest in technology and infrastructure to support our long-term growth. We have demonstrated strong expense discipline across the bank and successfully implemented a number of optimization initiatives, resulting in a flat expense base. This underlying performance, coupled with progress in our long-term strategic initiatives, helped us generate a significant return on shareholder value of 18.6%.

Our retail banking division delivered a solid performance in 2019, supported by a rise in net financing income and growth in fee income, driven by cards and wealth management products. We have strengthened our cards portfolio with the launch of ADIB Emirates Skywards cards. In addition, we have also unveiled a savings plan called "Khuttati" to encourage customers to make medium to long-term investments through regular contributions.

We made significant progress in our digital transformation strategy as we continued to enhance our digital capabilities and technology to make it easier for our customers to bank with us through their channel of choice. Our enhanced mobile app now enables pre-approved customers to receive funds instantly through our Express finance feature, apply for a card or update KYC instantly. This has driven user growth of the mobile app by 20% compared to last year with over 60% of our customers using digital channels.

In our wholesale banking business, we continued to build on a strong track record in financing and advisory, supporting clients in capital markets, M&A advisory, syndicated financing, cash management and global trade services. Our wholesale banking group has been involved in arranging multibillion-dollar structured and syndicated finance deals on behalf of clients. This has led to a growth in our asset book. Furthermore, ADIB advised a number of issuers on optimising their capital and financing requirements and acted as a Joint Lead Manager & Bookrunner on a number of high-profile sukuk mandates.

We have strengthened our digital capabilities to better serve our corporate customers with the rollout of several new Transaction Banking products and services, such as ADIB Direct and ADIB Office Banking which provides customers with remote access banking solutions.

ADIB Direct automates many services delivering significant cost and time efficiencies for companies that can benefit from one central view of ADIB's wide range of new banking features, and improved functionality to manage their finances locally and internationally. These features include customisable dashboards, a working capital view, cashflow forecasting, and trade finance management, which are accessible across all devices including a mobile app.

ADIB Office Banking provides a number of remote access solutions, such as cheque printing, cheque scanning, alongside other services, all of which allow ADIB customers to enjoy fast and secured 24/7 banking experience without leaving their office.

Capital Management

ADIB continues to build a strong capital position as evidenced by a 7.7% y-o-y growth in total equity. The bank's capital adequacy ratio under Basel III as at 31 December 2019 stood at 18.88%, its Tier 1 capital ratio was at 17.79% and its common equity Tier 1 ratio at 13.11%. All capital ratios under Basel III principles are above the minimum regulatory thresholds advised by Central Bank of the UAE.

Liquidity Management

We have historically been strong in maintaining solid levels of liquidity. For many years, we have been one of the most liquid financial institutions in the UAE. We continue to maintain this position through an optimised balance sheet and a healthy customer financing-to-deposits ratio of 80%. This was mainly driven by our strong customer base that generates excellent growth in current and savings accounts. This has also helped the bank maintain one of the lowest cost of funds in the UAE banking industry.

Risk Management

During 2019, Credit provisions and impairments increased by 6.1% to AED 658.1 million vs. AED 620.1 million for 2018.Furthermore, as per the newly adopted IFRS 9, customer financing that is classified under Stage 3 stands at 6.5% with these assets now totalling AED 5.4 billion and total credit provisions held under IFRS 9 at AED 3 billion at the year end.

Commitment to Excellence

At ADIB, we always emphasize on delivering exceptional banking experiences for our retail, corporate and private banking customers, whether they choose to interact with us in person, on the phone, or digitally.

In 2019, we have received a number of accolades and industry awards in recognition of the bank's achievements. I am particularly proud of the fact that ADIB was named 'Best Islamic Bank in the Middle East' by EMEA Finance. We were also honoured to receive a wide range of awards for our corporate banking offering, including 'Best Islamic Financier' at the International Trade Finance Awards and five awards from Islamic Finance News including 'Best Islamic Bank in the UAE'.

Our solid credit ratings A+ (Fitch), A2 (Moody's), and AAA (RAM) are testament to our continued solid financial health.

Outlook

Despite challenges in the macroeconomic environment, ADIB will continue to invest in areas where we see opportunities for customer growth, particularly through a concerted focus on enhancing our digital banking services.

Across ADIB, we will continuously innovate to enhance our value proposition and accelerate our speed to market. We are simplifying our client onboarding process, working on providing more personalized offers and solutions to our customers, creating more convenient digital platforms, and taking pain points out of our processes. These actions will lower our cost to serve customers and enable us to fund future investments in areas that position us for future growth.

We have a five-year strategic plan that will make ADIB a more efficient, better-structured bank and better prepared for a range of operating environments.

Conclusion

Our achievements in 2019 are testament to the dedication and professionalism of colleagues, whose efforts, experience and customer focus continues to drive our results. Today, we are a dynamic, modern bank with a culture of innovation and determination that ensures we capture opportunities in the market and meet customers' needs and expectations. To this end we will continue to invest in the future.

I would like to express my thanks to all of our customers for their commitment to ADIB. I would also like to thank our Board Members whose guidance and support underpins our business strategy. And finally, to our shareholders, I would like to reiterate our focus on delivering high sustainable earnings growth, and moving with clear purpose in 2020 and beyond.

Mazin Manna
Group Chief Executive Officer

Business Review

Retail Banking

Despite a challenging 2019, ADIB retail banking Group delivered a solid performance in 2019, supported by a rise in net financing income and growth in fee income, driven by cards and wealth management products. An emphasis on long-term customer relationships saw the number of active customers served by ADIB increase by 74000 during this year.

Total Retail Banking revenue was up by AED 212 million, an increase of 5.6% from 2018 while total financing assets increased modestly by 1% and total deposits rose by 1.8% compared to 2018 supported by enhanced customer promotions and new product launches.

ADIB's Cards franchise was strengthened with the launch of ADIB Emirates Skywards cards that offer customers the opportunity to earn Skywards Miles on Emirates Airlines. ADIB Khutati saving account was also rolled out, allowing customers to put aside a fixed contribution amount every month into a savings plan, which provides exposure to a wide choice of Sharia'a-compliant mutual funds investing across different asset classes and currencies.

In 2019, ADIB continued to advance its digitisation agenda with ongoing enhancements of the mobile app including launching "Express Finance" service, which provides qualifying customers with instant access to personal finance, customers information update through the app and mobile application through the card. Tablet kiosks were also launched in branches to allow customers to rapidly update their information. Our enhanced mobile app has driven growth of 20% in our mobile user base compared to last year where over 60% of our customers are now using digital channels

ADIB revealed a new digital banking proposition targeting millennials called Smartbanking. Smartbanking features digital onboarding and a range of innovative products delivered through a dedicated mobile banking app and intuitive online banking platform.

An integral element of our digital transformation strategy is the branch transformation scheme that will launch the ADIB Branch of The Future where the branch function is redesigned and the customer journey is redefined. As a result of this, the time spent on processing transactions would be greatly reduced and hence our customer will enjoy a highly personalized and meaningful customer experience.

Priority Banking had a strong year with higher revenues driven by higher net profit income and higher fees due the revamped retail wealth advisory services.

In 2019, ADIB invested heavily in staff training programs to strengthen their skills on a range of aspects, including sales, customer service, product development, and processes. This not only supports the development of our people and the quality of the services customers receive, but also accelerate our digital transformation agenda and reflects our commitment to ensure that all services are properly and ethically structured and delivered.

In 2020 , we will continue to focus in enhancing customer experience, making it simpler, faster and more effective and this will continue to be centric to everything we do.

Business Banking

In 2019, ADIB Business exhibited substantial revenue growth of ~15% YOY driven by higher fees and FX income that had growth of ~20% YOY. During most of 2019, Business Banking book witnessed marginal growth, however in Q4 de-risking process was employed, which evolved into a healthier portfolio.

Business Banking clients can access banking solutions via diverse channels for better customer experience on ADIB Direct (Online and Mobile Banking platform), business dedicated branches equipped by well-trained service team and experienced relationship managers, and a wide network of branches, ATMs & CCDMs.

In 2020, ADIB Business will encourage clients to adopt and utilize ADIB Direct for their digital transactions for better control, security, time-efficiency and ease of use. ADIB Business will exploit banking services to the client's office through ADIB Office Banking solutions that will help them in their day-to-day business. Finally, there will be a greater emphasis on trade and working capital finance, transactional banking, FX and cash management services.

Wholesale Banking Group

In 2019, ADIB's Wholesale Banking Group" WBG" continued to build on a strong track record in financing and advisory, supporting clients in capital markets, M&A advisory, syndicated financing, cash management and global trade services. New business deals have led to a healthy growth in our asset book despite the challenging market backdrop. We have continued to broaden our product capability in both transaction and investment banking in order to support the need of our customers.

In addition, we focused on achieving the below:

- **Better Diversification of our portfolio**: WBG was able to reallocate its exposure to more stable industries and worked on reducing exposure to stressed industries such as Commercial Real Estate and Contracting, which saw a reduction from the previous year's exposure. As a result, we were able to increase financing to key strategic industries such as GREs. This diversification gives us the stable ground to further navigate the challenges in 2020.
- **Asset & Liability Growth**: WBG achieved an 8% growth in its financing assets for the first time since 2013. WBG is committed to further increasing the asset book through financing to key strategic segments of the market. Liabilities have seen a decrease from previous year due to highly competitive market.
- **Revenue Profile**: Despite challenging market conditions in 2019, WBG delivered sustainable topline revenues. There was considerable focus on generating cross sell and fee income. WBG witnessed significant FX income growth over the previous years. We remain committed to enhancing our revenue streams through cross sell, and fee income going forward. As such, WBG has been enhancing the product suite in order to facilitate these initiatives.

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

Corporate Finance and Investment Banking" CFIB"

2019 was another strong year for CFIB albeit market conditions. Overall, CFIB successfully concluded over 20 high profile transactions across structured and syndicated finance, Sukuk, M&A and advisory products. Focus throughout 2019 was on asset growth in GREs and sovereigns space, diversification of business into GCC clients and revenues from FI syndications and DCM. Total volumes of syndicated and structured finance deals arranged by ADIB amounted to USD 5.9 billion, additionally capital market volumes totaled USD 2.6 billion, with expanding deal presence in the GCC.

CFIB was involved in arranging multibillion dollar structured and syndicated finance deals on behalf of GREs, major Corporates and Financial Institutions (FIs). Total volume reached more than USD 5.9 billion in 2019 (as MLA & Bookrunner), a 7% year on year growth, which positioned ADIB as a market leader across Islamic syndicated finance bookrunner league tables. ADIB maintained a leading position in 2019 with a 13.2% market share of Islamic syndicated finance (as an Islamic Bookrunner in the UAE). Furthermore, CFIB advised a number of new GCC GREs on optimizing their capital and financing requirements and deal structures to achieve long term sustainable growth for the businesses. Some of the notable Syndicated and Structured Finance deals for 2019 included:

- USD 2.2 billion Multi Tranche Islamic syndicated Facility for Saudi Aramco Total Refining Petrochemicals (SATORP)
- USD 1.2 billion Multi Tranche Islamic Syndicated Facility for the Investment Corporation of Dubai (ICD)
- USD 140 million Syndicated PDP Financing Facility for Dubai Aerospace Enterprise (DAE)
- USD 152 million Islamic Syndicated Facility for Etihad Airways
- USD 100 million Structured Syndicated Facility for Zain Kuwait (Zain)
- USD 80 million the First Islamic Structured Facility for Oman Shipping Company (OSC)

In the Islamic Capital Markets space, CFIB led a number of firsts in 2019, and witnessed strong growth in the business in addition to substantial investor appetite for debut and existing issuers, within the GCC. Throughout 2019 ADIB's CFIB continued its leadership and innovation, advised on numerous Sukuk issuances for large corporates, FIs, and GREs. ADIB acted as a Joint Lead Manager & Bookrunner on a number of high profile Sukuk mandates including:

- JLM and bookrunner on the first Green Senior RegS Sukuk issuances by Majid Al Futaim (MAF) in 2019 (2 issuances in 2019 with a tenor of 10yr and Long 10yr, US$ 600 million each) – Debut Corporate Green Sukuk for MAF, first ever Green corporate Sukuk from a GCC issuer
- AT1 Senior RegS Sukuk for Sharjah Islamic Bank (SIB) (perp, US$ 500 million) – lowest yield for an AT1 issuance in the GCC
- Warba Bank's Senior RegS Sukuk (5yr, US$ 500 million) – First senior issuance for Warba Bank under their trust certificate program
- Aldar Investment Properties Senior RegS Sukuk (10yr, US$ 500 million) – Strong demand from international investors, 6x oversubscribed

Additionally in 2019, CFIB's Equity Capital Markets & Corporate Advisory team successfully advised on the sale of a pharmaceutical manufacturing business in the UAE to a strategic financial investor. The team leverages its extensive advisory, product and industry expertise in order to support ADIB's clients.

Accordingly, during 2019 CFIB has been recognized for its innovative financing transactions and won multiple prestigious awards including:

- "UAE Deal of the Year" – Majid Al Futtaim's 10-year 2029 Reg S Green Sukuk by Islamic Finance News Awards 2019
- "Commodity Murabaha Deal of the Year" – Dubai Aerospace Enterprises USD 140 million syndicated refinancing facility by Islamic Finance News Awards 2019
- "Social Impact Deal of the Year" – Majid Al Futtaim's 10-year 2029 Reg S Green Sukuk by Islamic Finance News Awards 2019

Global Transaction Banking Services ('GTB')

Global Transaction Banking provides Cash Management and Trade Finance solutions to Wholesale Banking, Business Banking and Financial Institutions clients across ADIB network. In 2019, GTB completed the digital offering for all products in the areas of payments, collections, liquidity management and trade finance over the flagship platform, ADIB Direct. Aimed at businesses of all sizes, ADIB Direct automates many services delivering significant cost and time efficiencies. Companies benefit from one central view of ADIB's wide range of new banking features, and improved functionality to manage their finances locally and internationally. These features include customisable dashboards, a working capital view, cash flow forecasting, and trade finance management, which are accessible across all devices including a mobile app.

ADIB Direct also introduces ADIB Office Banking, which provides a number of remote access solutions, such as cheque printing, cheque scanning, alongside other services, all of which allow ADIB customers to enjoy fast and secured 24/7 banking experience without leaving their office. The new integrated platform is also offering payment solutions, liquidity and account services, and collection solutions.

As a result of our efforts in digitising the transaction banking, ADIB was recognised by Global Finance magazine where we were awarded "Best Cash Management in the Middle East" and "Best Integrated Corporate Banking Site in the Middle East".

ADIB transaction banking is now working on strategic projects with our key government clients to digitize their collections and payments as well as other initiatives to cater to the trade needs of large local corporates and SMEs.

Future plan

While 2020 is likely to present a challenging macroeconomic environment – we remain committed in delivering superior quality of service to our clients through further enhancing our value propositions, and improving our service models to cater to our market's specific needs. We aim to achieve this through the following:

- Further Enhancements to our WBG service model by enhancing our market responsiveness process, creating a culture of excellence where customers are at the centre of what we do and standardize & automate key business processes.
- We will continue to build on and improve our value propositions by providing comprehensive financing solutions, including syndications, project and structured finance. We aim at becoming a 'one-stop shop' for IPOs, capital market issuances and M&A advisory. We will work on developing customized Commercial Real Estate financing solutions and services. We are developing a comprehensive suite of digital financial solutions to provide convenient customer experience for our customers.
- We will continue to provide access to ADIB's network as well as our global correspondent banking network.
- We will continue to provide a team of seasoned professionals with extensive industry, structuring and execution experience to meet the diverse needs of our clients.

Private Banking Group

2019 proved to be a very challenging investment environment where markets saw continued and sharp volatility, as well as slower than usual Sukuk and IPO issuances. The overall slower real estate market also led to weak clients' appetite for financing, manifested in clients Risk-Off mode. Despite these challenges, Private Banking Group business was able to maintain a steady financial performance. We launched a series of initiatives to further position ADIB as the leading onshore-based private banking service provider in the UAE.

The performance was backed by a growing income from fees and commission driven by the newly introduced products such as private equity transactions that were offered exclusively to Private Banking clients.

On the financing side, Private Banking was able to maintain a healthy financing portfolio as we worked on further diversifying the business asset book beyond traditional real estate financing and relocated it more into investment finance and financial asset monetization solutions.

On managing our customers portfolio, we were able to grow the wealth side of the business through increased levels of client investments and the build-up of additional Assets Under Management (AUM) to record figures.

Growth in Total Bank Assets

In 2019, we continued to leverage on our network presence and played a critical role in finalising few deals in commercial real estate with our subsidiary in United Kingdom, ADIB UK. As our business grew, we deepened our focus on enhancing clients' experience through engagement on new CRM platform. Our Sukuk leverage program and margin trading products were further refined to smoothen processing and related client experience.

Going forward, ADIB Private bank will continue to expand its offering to the top names in the UAE market, these includes HNWIs, ruling family members and family offices in the GCC region. We will also expand our offerings to Saudi wealthy clients who has high interest in investing in the UAE market. We predict further uptake from clients for our offering of credit advice and solutions; fixed income and equity investment advisory and execution capabilities; deposits and yield optimisation; and banking transactional services.

Private Bank continues to be recognised by the industry for our track record in providing high-quality, trusted distribution and placement capabilities to build close client relationships. As a testament to this , the business was recognised by industry experts and received two prestigious awards including "Best Private Bank for Islamic Services" and "Best Private Bank in the UAE" by Private Wealth manager magazine and and Global Finance Private Banking 2019 awards.

Treasury

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

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

Community Banking

ADIB Community Bank continues to manage the non profit organizations in the UAE. Since the inception of this division in 2011, we were able to serve our customers from the humanitarian, social, educational, cultural, environmental & Healthcare sector.

In 2019, we served around 170 customers from a range of non-profit organizations to government and private companies that operate in serving the UAE community.

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.

As of date, ADIB Community Bank remains the one and only community services bank for NPOs in the UAE. Our long experience in this service resulted in optimizing our business with client needs through different technology offerings.

Operations and Technology

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

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

In 2019, we continued to focus on upgrading our IT operating model, architecture, infrastructure and information security to meet our digital transformation agenda.

Information Security Transformation Program that was initiated in 2016 with the aim to centralize and comprehensively manage the Information and cyber security controls for the group continued in 2019 to successfully deliver the digital transformation agenda and build resilience to internal and external security threats.

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

Human Resources

The Human Resources Division (HRD) supports the delivery of ADIB's strategy by working with the leadership team and the Bank's line managers to attract, develop and engage local and expatriate talent in line with business and functional requirements. Through the development and deployment of relevant tools, technologies and frameworks, the HRD facilitates the Bank's approach to performance management, provides relevant talent management and training programs, coordinates staff engagement initiatives and employee relations, and manages the Bank's reward and recognition programs. In addition, it supports staff-related regulatory requirements, organizational design and other ad-hoc projects to enable the Bank to deliver on its strategic plans.

In 2019, the HRD continued to collaborate with different departments on various aspects of resourcing, talent development and organizational change initiatives in order to support the strategic agenda of the Group.

The HRD also continued to enable ADIB in building and enhancing the relevant skills and capabilities of new and existing employees with a range of training and development programs, including an ongoing focus on the development of talented UAE nationals. In particular, our established 'Tamkeen' and 'Qyiadat' programs for nominated UAE nationals provide learning platforms that allow them to develop in their roles as well as open up potential internal career opportunities. These initiatives also serve to address the necessary leadership skills to advance the capabilities of Emirati managers. Through these dedicated programs, we have continued to train over 60 UAE nationals in 2019, including the opportunity to be certified or accredited through recognized external industry bodies.

More broadly, the HRD also managed other certified and externally accredited programs to ensure that employees have the banking competencies and expertise to advance professionally and to serve our various customers and stakeholders effectively. Throughout 2019, over 94% of our employees, including more than 700 UAE nationals, received training and support via the Bank's Academy.

ADIB remains one of the leading Banks in advocating the recruitment, development and promotion of local talent. With a diverse and international workforce, the Bank currently employs over 740 Nationals in the UAE, representing 36% of ADIB's UAE based employees. The HRD has successfully enabled the Bank to exceed its targets based on the points-based system approved by the UAE Central Bank that promotes the entry of Emiratis into the financial sector as well as their career development and future deployment into critical roles.

The HRD continued to invest into its technology platform to further improve and automate relevant HR processes, such as resourcing, in order to ensure a more efficient service delivery and a more streamlined experience for hiring managers and candidates alike.

International Operations

International Banking Group

The environment that ADIB's International Banking Group (IBG) operates in remained challenging in 2019. The full year impact of the 2018 Sudan devaluation and the conscious adjustment to our business in Qatar were reflected in 2019. The impact on revenues driven by these situations was partially offset by favourable revenue growth in both Iraq and the UK that was complemented by a cost reduction that led to a 15% improvement in the operating margin.

During the year, we have re-evaluated our international presence as part of the overall group strategy, and while we remained committed to having a presence in certain markets, we are looking at the most effective structures in order to serve our customers efficiently.

In line with this strategy, we decided to reconfigure our presence in the UK to a non-regulated branch of ADIB Group. According to the decision, ADIB will maintain its presence in the UK, with a focus on developing the successful commercial real estate financing, but will refrain from providing regulated services to customers including, current accounts, savings and deposits, as well as safe deposit boxes. The decision came following a rigorous evaluation process that took into consideration the high demand for commercial real estate financing, where ADIB has built a strong full-service property financing solution to support clients' investment strategies in UK commercial real estate in compliance with Islamic Shari'a principles.

Abu Dhabi Islamic Bank, Sudan

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

The business operates to detailed compliance, governance, and risk frameworks, to minimize operational risk. 2019 was a challenging year due to the political and economic environment, but fortunately towards the end of the year we have seen greater clarity in the situation and can see green shoots of a more positive outlook. We took a cautious approach to the business in 2019 given the landscape and consciously held back until we saw greater clarity in the market.

Abu Dhabi Islamic Bank, Iraq

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

2019 saw the first year of our new strategy, where our focus is now on corporate banking and trade finance, and the early signs are encouraging, with a substantial double-digit revenue growth, while costs are properly managed to keep them at a level below last year.

Despite the challenging environment in Iraq, we still see a lot of opportunities and expect our low risk approach to deliver solid returns.

Abu Dhabi Islamic Bank, Qatar

Established under the jurisdiction of the Qatar Financial Centre, ADIB Qatar continued to face significant challenges in 2019 given the geopolitical environment. We maintained our business presence and continue to serve our current customer base.

Abu Dhabi Islamic Bank, UK

ADIB UK was established in 2012 to service the London needs of ADIB Group's existing relationship banking customers from GCC and MENA countries. The business is located in the prestigious location of 1 Hyde Park in London. 2019 was a strong year for the UK business with asset volumes growing strongly as we financed a number of prestigious projects. Building on this success we are implementing a revised strategy where we will give up our banking license whilst continuing to focus on supporting our Group and GCC clients' commercial real estate investments in the UK. This model will allow us to deliver a strong value proposition to our clients whilst operating a significantly more efficient business model.

Saudi Finance Company

2019 was a strong year for Saudi Finance Company. Following the return to a business expansion mode, we registered a 13% growth in customer assets and a similar growth in revenue. During the year we expanded our distribution capabilities and commenced investment in developing our digital capabilities.

Branch Management

Mr M Abouzeid

Mr N Al Abdool

Mr H Al Ahbabi

Mr S Al Dhaheri

Mr M Al Ali

Mr M H Al Ali

Mr S Al Ghallabi

Mr A Al Hammadi

Mr M Ali

Mr S Al Kaabi

Mr M Al Khoori

Mr A Al Boloshi

Mr A Al Dhaheri

Mr A A Aldhanhani

Mr M Al Dhanhani

Mr J Ali

Mr Y Al Hammadi

Mr K Al Awadhi

Mr A Al Baloushi

Mr H Al Hosani

Mr I Al Baloushi

Ms M Al Darmaki

Mr S Al Marzouqi

Mr M Al Mehairy

Branch Management continued

Mr A Al Melhi

Mr A Almemari

Mr A Al Mitwali

Mr A Al Mutairi

Mr A Al Najar

Mr H Al Shamsi

Mr H Al Shateri

Mr R Al Mutawwa

Mr F Al Naqbi

Mr S Al Nuaimi

Mr S Kaoud

Mr E A Al Safar


Mr H A Al Naqeeb


Mr A Al Shehhi


Mr S Al Shehhi


Mr Y Al Suwaidi


Mr A Al Zubaidi


Mr I Al Qasser


Mr J H Alraeesi


Mr F Al Rais


Mr S S Alameri


Mr M H Khalil


Mr A Al Marzooqi


Mr K S A lshamsi

Branch Management continued

Mr Y Jaafar

Mr H Kader

Mr H Tamimi

Mr K Al Hosani

Mr M Mahjoub

Mr F Saeed

Mr O Thoban

Ms A M Yousif

Mr M Zainal

Mr H Kashwani

Mr M Alnuaimi

Mr S Alhammadi

Mr A Al Shuweihi

Bank Branches' Network

Abu Dhabi (Central Area)

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

Abu Dhabi (Corniche Area)

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

Abu Dhabi (East + West Area)

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

Al Ain

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

Dubai (Bur Dubai Area)

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

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. Al Juraina
73. Fujairah
74. Ras Al Khaimah
75. Dibba
76. Khor Fakkan
77. Al Dhaid
78. RAK Airport Road
79. Kalba
80. Al Hamra Mall
81. Fujairah City Centre

ADIB Express

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

ADIB Securities

Our stock-brokerage subsidiary, ADIB Securities, has ranked number three in the UAE in terms of the number of transaction executed with a 9.2% market share. Furthermore, our digital trading channels represent 25% of the overall online trades on the Dubai Financial Market.

ADIB Securities registered a net profit of AED 20.3 million in 2019. ADIB Securities continued to attract new customers winning their trust through its state-of-art trading platforms and superb client services. It had also added Saudi Tadawal and all major US exchanges to its trading platform thus setting the stage offer its clients a diversified access to trade outside the UAE. ADIB Securities continues to be a market leader in sharia compliant equities trading thus ranking 1st in UAE in terms of Islamic brokerage volumes.

Abridged Balance Sheet

	31 December	
	2018 AED Million	**2019 AED Million**
ASSETS		
Bank balances and cash	656.5	**682.4**
Account recievables and prepayments	163.9	**144.0**
Property and equipment	0.4	**1.9**
Total Assets	820.8	**828.2**
LIABILITIES		
Accounts payable and accruals	23.5	**29.0**
	23.5	**29.0**
EQUITY		
Share capital	30.0	**30.0**
Unconditional shareholder advance	600.0	**600.0**
Retained earnings and other reserves	167.2	**169.2**
	797.2	**799.2**
Total Liabilities and Equity	820.8	**828.2**

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	
	2018 AED Million	**2019 AED Million**
Commission Income	11.1	**14.7**
Other revenues	18.8	**21.4**
Total Revenues	29.8	**36.1**
Total expenses	(15.8)	**(15.8)**
Profit for the year	14.0	**20.3**

Burooj Properties LLC

The repositioning of ADIB's Real Estate subsidiary, Burooj Properties, to better reflect the Group's investment and development property portfolio, continued in 2019. 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 124.4 Mn in 2019.

Abridged Balance Sheet

31 December	2018 AED Million	**2019 AED Million**
ASSETS		
Bank balances and cash	279.7	**68.9**
Investment in properties	1,864.2	**1,728.3**
Investments in equities	8.8	**17.1**
Property and equipment	133.6	**132.8**
Other receiavbles	144.2	**0.6**
Total Assets	2,430.4	**1,947.6**
LIABILITIES		
Murabaha payable	1,996.6	**1,996.6**
Other payables	1,019.0	**648.2**
	3,015.5	**2,644.7**
EQUITY		
Share capital	500.0	**500.0**
Accumulated losses and other reserves	(1,085.1)	**(1,197.1)**
	(585.1)	**(697.1)**
Total Liabilities and Equity	2,430.4	**1,947.6**

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	2018 AED Million	**2019 AED Million**
Investment revenues	14.1	**14.0**
Other revenues	5.4	**1.3**
Total Revenues	19.5	**15.4**
Total expenses	(17.7)	**(14.6)**
Provision for impairment	(61.8)	**(124.4)**
Loss for the year	(60.1)	**(123.6)**

MPM Properties LLC

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 continued to contribute positively, despite a tough property market across the UAE in 2019.

MPM continues to manage significant portfolios and through an ongoing focus on developing the skill sets and capabilities of the teams within, continues to expand its business, most recently in the Property Advisory sector, beyond Abu Dhabi into Dubai and the Northern Emirates.

Abridged Balance Sheet

	31 December	
	2018 AED Million	**2019 AED Million**
ASSETS		
Bank balances and cash	35.6	**45.9**
Property and equipment	5.7	**4.2**
Accounts receivables and prepayments	71.8	**72.6**
Total Assets	113.0	122.8
LIABILITIES		
Accounts payables and accruals	68.8	**79.4**
	68.8	**79.4**
EQUITY		
Share capital	1.0	**1.0**
Retained earnings and other reserves	43.2	**42.4**
	44.2	**43.4**
Total Liabilities and Equity	113.0	122.8

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

Abridged Income Statement

	For the year ended 31 December	
	2018 AED Million	**2019 AED Million**
Fees and commissions	62.5	**52.2**
Total Revenues	62.5	**52.2**
Total expenses	(60.5)	**(53.1)**
Profit (loss) for the year	2.0	**(0.9)**

Corporate Social Responsibility

ADIB has always taken a proactive approach to conduct responsible business, which is why to solidify our commitments, we invest in a five-year sustainability strategy that will continue to generate mutual benefits to all our stakeholders. In 2019, we continued in our journey to be the leading sustainable Islamic bank by proactively incorporating the best international sustainability practices with our deep-rooted principals for sharia.

NB: ADIB will be publishing a separate sustainability report for 2019 that contains more details on our sustainable strategy and approach.

Some for our key initiatives:

1. Economic Sustainability

Our customers' trust remains a priority for us. It is very important to understand what our role and responsibilities are to them. We also understand the growing need for sustainability in the broader context of the national economy, which is why in 2019 we pushed for continuous improvement which led to strong and stable financial growth, ensuring economic sustainability. Some of our notable focus areas for improvements in 2019 were:

Sustainable financial performance

Despite challenging market conditions, 2019 marked another successful year for ADIB characterized by improved profitability.

Customer satisfaction and experience

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

Accessibility and customer convenience has always been a topic of focus at ADIB, which is why we consistently enhance all the delivery channels within our network.

Drive towards digitization

ADIB continued to advance its digitisation agenda with ongoing enhancements of the mobile app including launching "Express Finance" service, which provides qualifying customers with instant access to personal finance, customer information update through the app. Tablet kiosks were also launched in branches to allow customers to rapidly update their information. ADIB revealed a new digital banking proposition targeting millennials called Smartbanking. Smartbanking features digital onboarding and a range of innovative products delivered through a dedicated mobile banking app and intuitive online banking platform.

2. Social Responsibility

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

Alignment with the year of Tolerence

The UAE President and Ruler of Abu Dhabi, His Highness Sheikh Khalifa bin Zayed Al Nahyan, declared 2019 as the Year of Tolerence. ADIB therefore ensured that our 2019 social investment initiatives were in line with tolerance values and aligned its social responsibility actions with the "year of tolerance" government initiative.

Initiative	Achievements
ADIB Ramadan tents were installed in 8 locations in 8 locations in the 7 emirates and in Al Ain	• 48,000 food box were distributed through the tents
To celebrate international Labor's Day, we distributed food boxes to labourers working in Abu Dhabi	• 500 box was distributed
ADIB distributed winter clothes to labourers during the cold winter weather	• 2000 labours benefited from the initiative
Hadiyah Initiative to cheer kids in hospitals during the Holy month of Ramadan by presenting gifts	• 130 volenteers • 720 gifts distributed
ADIB arranged iftar nights with games to elderly citizens and to people of determination	• 179 Senior Citizens were visited • 442 People with Determination
Blood Donations	• More than 1000 donors

Corporate Social Responsibility continued

2. Social Responsibility continued

Some of the focus areas for 2019 were:

Financial education

We believe that financial education contributes to the future stability of the economy in a positive manner, which is why we always inspire to educate individuals and families at different stages of life about the importance of making informed, thoughtful and beneficial financial decisions. In 2019 ADIB continued its drive for financial education through some of the following activities:

Moneysmart Community

- ADIB has always been committed to helping people make better choices with their money through our financial education programmes. In 2019, the effort has been taken to the next level by creating a digital community platform in the region. It is designed to connect people with different financial experiences to share their knowledge with each other.

Financial Education for Labors - Happy Summer Campaign

- As part of the Year of Tolerance, ADIN impeneted 10 financial literacy sessions for labourers in Abu Dhabi. We understand that every segment of our community should have these knowledge to reach a prosperous life. We are aiming to reach as many segments as possible in the coming years.

Khutatti - Saving Plan

- ADI launched in 2019 a saving plan called "Khuttati'' to encourage medium-to long-term investments through regular contributions. Khuttati, which means "my plan" in Arabic, allows customers to put aside a fixed contribution amount every month into a savings plan, which provides exposure to a wide choice of Sharia'a-compliant mutual funds investing across different asset classes and currencies.

As the leading advocate for financial education of young people, ADIB's impact reached 690 students across 15 universities in the UAE. Students got a chance to learn how to make smart decisions by learning from industry leaders. These roadshows focused around the areas of budgeting, saving and avoiding debt cycles.

Empowering youth

Apart from the financial empowerment of youth, ADIB continues to invest in the country's future generation through various activities. One of our notable programs is the ADIB Future Champions leagues. Since its launch the league has expanded nationwide, and now offers thousands of children the opportunity to join a truly competitive tournament annually at professional-class venues. This league attracted the participation of 3000 players.

Community empowerment

We believe that the value we create for our communities is our duty as a responsible citizen. This culture is ingrained not only through our Islamic principles but also from our wish to grow along side a strong and healthy community. To ensure this, ADIB actively forms long-term meaningful partnerships with NGOs and governmental entities through financial and in-kind contributions. ADIB empowered local communities through various initiatives alongside our partners in 2019, including:

- Taking it a step further from creating a women's banking segment, we promoted the health and livelihood of our female customers and employees through our breast cancer awareness campaigns.
- In partnership with the Ministry of Social Development, we built up a special centre for our senior citizens. The center will open in 2020 and will contribute to fulfill the pillars and goals of the national policy for senior emiratis especially by elevating their quality of life.
- Mass Weddings: In 2019, 4 mass weddings were organised and in order to recognise the Year of Tolerance, the Ministry of Community Development with the support of the ADIB, held a "Tolerance Mass Wedding" for 48 UAE nationals and residents. The Tolerance Mass Wedding included festive performances that reflected the popular folklore as well as cultural and habits of the participating countries and reflected an open environment based on positive coexistence, coherence and mutual respect among all.
- Think Science ADIB sponsored The Think Science programme to empower youth between the ages of 15-35 to actively engage with the digital Area's of Agreement revolution by providing them with solid Science, Technology, Engineering, and Mathematics (STEM) skills, encouraging them to innovate and deploy technology that addresses some of today's broader socio economic challenges.

Volunteer program
Our culture and spirit of giving is embedded to our employees through the opportunities we create for them to play active roles in the development of the community. In 2019, 920 ADIB staff volunteered their time and efforts to maximize their positive impact as a team. Our notable initiative for the year were the Iftar food boxes in tents, elderly visits and some environmental inititaves.

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

- UAE National Day Celebrations
- Zayed Heritage Festival
- Sultan Bin Zayed Heritage Festival
- Mother of The Nation festival
- Emirati Children's Day
- Al Dhaid Heritage Festival
- Commemoration Day
- Emirati Women's Day

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

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

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

Empowering UAE Nationals
We believe that empowering UAE Nationals is a vital element to the overall sustainability and prosperity of the country. We do this through various initiatives, partnerships and programs throughout the year. In 2019ADIB achieved a 36% representation of Emiratis in our workforce.

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

Environmental responsibility
Honouring our commitment as a signatory of the Dubai and Abu dhabi Declaration of Financial Institutions, ADIB consistently pushes towards maintaining sustainable practices throughout our operations. During 2019 we tracked and monitored our electricity and water consumption as well as our carbon footprint. This is reported in great detail in our annual sustainability report.


ADIB
مصرف أبوظبي الإسلامي
A financial partner you can count on...
...with over 170 branches in 6 countries and counting.
BEST ISLAMIC BANK IN THE MIDDLE EAST
EMEA Finance
BEST ISLAMIC BANK IN UAE
EMEA Finance
BEST ISLAMIC BANK IN UAE
Banker FT
BEST ISLAMIC DIGITAL BANK
Global Finance Magazine
BEST ISLAMIC BANK IN EGYPT
Global Finance Magazine
BEST ISLAMIC BANK IN THE UAE
Global Finance Magazine
BEST OVERALL BANK IN CUSTOMER EXPERIENCE
Ethos Consultancy
BEST OVERALL CALL CENTER IN THE UAE
Ethos Consultancy
BEST ISLAMIC PRIVATE BANK
IFN
BEST ISLAMIC BANK IN EGYPT BY
IFN
Iraq
Since 2012
adib.iq
United Kingdom
Since 2011
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Since 1997
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Corporate Governance Report

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

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

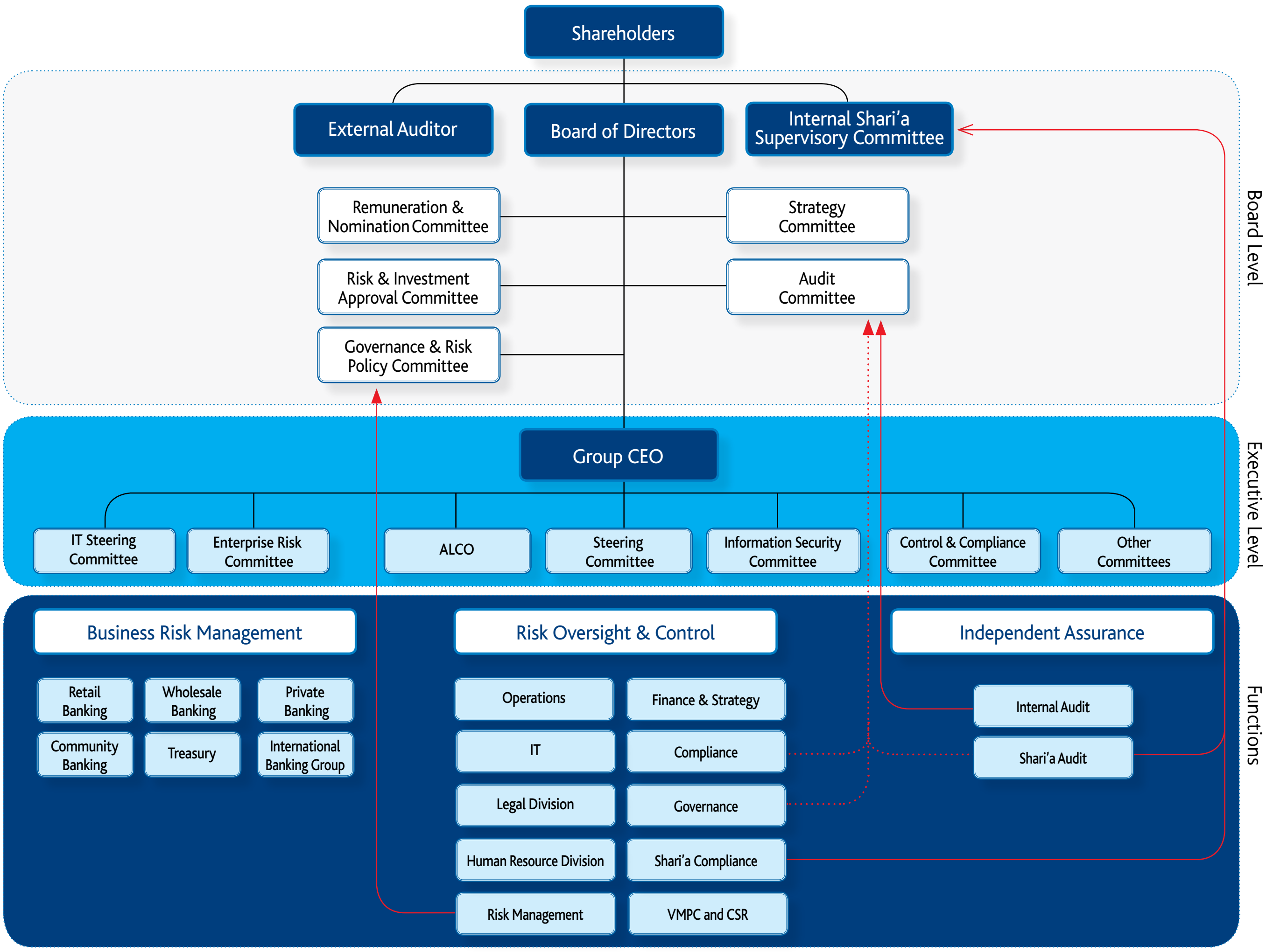
ADIB's overarching objective is to be "a top tier Islamic financial services group" and has committed to the following corporate values in order to achieve this objective:

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

1. 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 Corporate Governance Regulation and Stadards of the Central Bank of the UAE, and the Standards of Institutional Discipline and Governance of Public Shareholding Companies issued by the Securities and Commodities Authority.

The Corporate Governance structure including the Board, Board committees, Management committees and various functions are shown in the following page:



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

First Line of Defence

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

Second Line of Defence

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

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 that assurance. The three lines of defence are:

1. Business Units act as the first line of risk exposure defence. These undertake risks within assigned limits of risk exposure and are responsible and accountable for identifying, assessing in close and controlling ongoing risks of their business.
2. Support and the control functions act as the second line of defence. Each of these functions, in close relationship with business units, ensure that the risk of exposure in the business units have been appropriately identified and managed. The business support and control functions work closely to help define strategy, implement Bank's policies and procedures, and collect information to create a Bank-wide view of risks. Shari'a Compliance function at the Group ensures that the Bank's operations are conducted in adherence to applicable Shari'a provisions, as per the fatwas (Shari'a resolutions), policies and procedures approved by the INTERNAL SHARI'A SUPERVISORY COMMITTEE of ADIB, and the resolutions of Higher Shari'a Authority.
3. The third line of defence is provided by Internal Audit that independently assesses the effectiveness of the processes created in the first and second lines of defence and provide assurance to these processes. Shari'a Audit function at the Group conducts an independent review to provide assurance with respect to specific types of risks applicable to Islamic financial services.

The Corporate Governance Framework cuts across four broad levels:

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

2. 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 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, Remuneration & Nomination Committee, Strategy Committee, Risk & Investment Approval Committee and Governance & Risk Policy Committee.

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

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

3. Female Representation in the Board of Directors in 2019

During 2019 the Board of Directors consisted of 7 members with no female representation. No female candidate has applied for ADIB Board or was nominated during 2019 elections.

4. 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.

5. Selection and Qualification of Board Members

The Group Remuneration & 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.

6. Election of Directors

In compliance with the Bank's Articles of Association, the shareholders elected the Board members at the General Assembly Meeting held on 13 March 2019, for three years term.

7. Information, Induction and on-going Development

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

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

8. Directors' and Board Assessments

Board self-assessment exercise that includes self-assessment of the Board by each Board member, each board member's assessment by the Chairman, Board committees' self-assessment and Chairman's self-assessment. The results are presented to the Board Remuneration & Nomination Committee to share with the Board.

9. Composition of the Board and Board Committees

In 2019 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.

As a result of election of the members of ADIB Board of Directors at the General Assembly Meeting on 13 March 2019 for the next three years, three Board members were re-elected and continued to serve ADIB Board, four new Board members were elected (previous four members left ADIB) as per below table.

The Board held total 8 meetings during 2019, including 2 meetings by the previous Board and 6 meetings by the Board elected in March 2019. The detail of Board membership and attendance is as below:

Name	Position	Status	No. of meetings attended
HE Jawaan Awaidha Suhail Al Khaili	Chairman	Non-Executive	6
Khamis Mohamed Buharoon	Vice Chairman	Executive Director	8
Khalifa Matar Khalifa Al Mheiri	Member	Independent	8
*Najib Youssef Fayyad	Member	Non-Executive	6
*Abdulla Ali Musleh Al Ahbabi	Member	Independent	5
*Dhaen Mohamed Dhaen Al Hameli	Member	Independent	4
*Faisal Sultan Naser Al Shuaibi	Member	Independent	5

* New Board members elected on 13 March 2019

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.

10. Board Committees

The following Board Committees continued to work effectively and independently during 2019.

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

10.1 Group Strategy Committee

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

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

10.1 Group Strategy Committee continued

The Group Strategy Committee held 5 meetings during 2019, including 2 meetings by the previous Board and 3 meetings by the Board elected in March 2019. The detail of membership and their attendance is as below:

Name	Position	No. of meetings attended
Faisal Sultan Al Shuaibi	Chairman	2
Khalifa Matar Almheiri	Vice Chairman	5
Khamis Mohamed Buharoon	Member	5
*Najib Youssef Fayyad	Member	3
*Abdulla Ali Al Ahbabi	Member	3
*Dhaen Mohamed Alhameli	Member	2
**Mazin Manna - Group CEO	Non-Voting Member	3

* New Board Member elected on 13 March 2019
** Group CEO joined that Bank on 10 March 2019

10.2 Group Audit Committee

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

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

The Group Audit Committee held 7 meetings during 2019, including 2 meetings by the previous Board and 5 meetings by the Board elected in March 2019. The detail of membership and their attendance is as below:

Name	Position	No. of meetings attended
*Najib Youssef Fayyad	Chairman	5
Khamis Mohamed Buharoon	Member	7
*Abdulla Ali Al Ahbabi	Member	5
*Dhaen Mohamed Alhameli	Member	4
**Munther Dajani – Non Board Member	Subject Matter Expert	4

*New Board Member elected on 13 March 2019

** Contract with Mr. Munther Dajani ended on 12 July 2019

10.3 Group Governance and Risk Policy Committee

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

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

The Committee has the following major responsibilities:

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

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

10.3 Group Governance and Risk Policy Committee continued

The Group Governance and Risk Policy Committee held 4 meetings during 2019, including 1 meeting by the previous Board and 3 meetings by the Board elected in March 2019. The detail of membership and their attendance is as below:

Name	Position	No. of meetings attended
Khalifa Matar Al Mheiri	Chairman	4
Khamis Buharoon Al Shamsi	Member	4
*Najib Youssef Fayyad	Member	3
*Dhaen Mohamed Alhameli	Member	-
*Faisal Sultan Al Shuaibi	Member	3
**Mazin Manna - Group CEO	Non-Voting Member	3
***Jose K. Joseph - Group Chief Risk Officer	Non-Voting Member	2

* New Board Member elected on 13 March 2019

** GCEO joined that Bank on 10 March 2019

*** Group Chief Risk Officer joined the Bank on 15 September 2019

10.4 Group Risk and Investment Approval Committee

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

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

10.4 Group Risk and Investment Approval Committee continued

The Group Risk and Investment Approval Committee held 23 meetings during 2019, including 6 meetings by the previous Board and 17 meetings by the Board elected in March 2019. The detail of membership and their attendance is as below:

Name	Position	No. of meetings attended
HE Jawaan Awaidha Suhail Al Khaili	Chairman	13
Khalifa Matar Al Mheiri	Vice Chairman	22
Khamis Buharoon Al Shamsi	Member	20
*Najib Youssef Fayyad	Member	15
*Abdulla Ali Al Ahbabi	Member	14
*Dhaen Mohamed Alhameli	Member	8

* New Board Member elected on 13 March 2019

10.5 Group Remuneration and Nomination Committee

The Group Remuneration and Nomination 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;
iii. Identify and nominate, for approval of the Board, candidates for appointment to the Board;
iv. Recommend on succession plans for Directors;
v. Input on renewal of the terms of office of non-executive Directors;
vi. Assist with membership of Board committees, in consultation with the Board's Chairman and the Chairmen of such committees;
vii. Guide on matters relating to the continuation in office of any Director at any time;
viii. Recommend on appointments and re-appointments to the Boards of major subsidiaries and controlled affiliated companies;
ix. Ensure the independence of the independent directors and any qualified subject matter expert appointed to a Board Sub Committee; and
x. 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.

10.5 Group Remuneration and Nomination Committee continued

The Group Remuneration Committee and Nomination Committee held 3 meetings during 2019, including 1 meeting by the previous Board and 2 meetings by the Board elected in March 2019. The detail of membership and their attendance is as below:

Name	Position	No. of meetings attended
HE Jawaan Awaidha Suhail Al Khaili	Chairman	1
Khamis Buharoon Al Shamsi	Vice Chairman	3
*Khalifa Matar Al Mheiri	Member	3
*Najib Youssef Fayyad	Member	2
Martin Corfe - Global Head of HR	Non-voting member	3

* New Board Member elected on 13 March 2019

11. Related Party Transactions and Compensation of key management personnel

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.

Significant transactions with related parties during the year 2019 and compensation of key senior management personnel were included in the consolidated income statement are given in (note 40) to the Financial Statements.

12. Directors' remuneration and interests in the Group's shares

During 2019, AED 4.9 million was paid to Board of Directors as directors' remuneration pertaining to the year ended 31 December 2018, after it was approved by shareholders in the Annual General Assembly held on 13 March 2019. In addition Board members also received by way of an attendance fee of AED 3,000 for every Board Committee meeting attended.

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

Board Members	Shareholding at 1 January 2019	Shareholding at 31 December 2019	Changes in shareholding
HE Jawaan Awaidha Suhail Khaili	64,158,605	64,158,605	-
Khamis Mohamed Buharoon	31,573	31,573	-
Khalifa Matar Al Mheiri	252,222	252,222	-
*Najib Youssef Fayyad	-	-	-
*Abdulla Ali Musleh Al Ahbabi	-	-	-
*Dhaen Mohamed Dhaen Al Hameli	-	25,000	25,000
*Faisal Sultan Naser Al Shuaibi	-	-	-

* New Board Member elected on 13 March 2019

13. Major share ownership who owns more than 5% and their voting rights

ADIB has an authorised share capital of AED 4,000,000 thousand ordinary shares of AED 1 each, issued and fully paid share capital is AED 3,632,000 thousand ordinary shares of AED 1 each. All of the shares in the company are nominal of which (75%) shall be fully owned by nationals of United Arab Emirate, while non-nationals are permitted to own shares of the company to the extent, but not exceeding (25%), and maximum limit per shareholder is (5%).

As of 31 December 2019, the major owners that holds more than (5%) as published by the Company via the electronic publishing platform of Abu Dhabi Exchange (ADX) and ADIB website and their voting rights were as follows:

Significant Shareholders	Number of Shares	% of Holdings and Voting Rights
Emirates International Investment Company LLC	1,431,110,701	39.4%
Abu Dhabi Investment Council	276,594,630	7.62%
Other Investors *	1,924,294,669	52.98%
Total ADIB shares	**3,632,000,000**	**100.00%**

*Note: No other investors hold more than (5%) apart from those named above.

14. Relations with Shareholders

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

ADIB also communicates with shareholders through the Annual Report and by providing information at the General Assembly Meeting. Shareholders are given the opportunity to ask questions at the General Assembly Meeting that was held on 13 March 2019.

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.

15. General Assembly Meeting - 13 March 2019

The General Assembly Meeting of the shareholders was conducted on 13 March 2019, wherein the following matters were discussed and approved:

i. The Board of Directors' Report on the Bank's activities and financial statements for the year ended 31 December 2018;
ii. The External Auditor's report for the year ended 31 December 2018;
iii. The Internal Shari'a Supervisory Committee Report on the Bank's activities for the year ended 31 December 2018;
iv. The audited Balance Sheet and Profit & Loss account for the year ended 31 December 2018;
v. The proposal of the Board of directors to distribute cash dividends of 27.38 fills per share to the shareholders from the year 2018 profits;
vi. The proposal of Board members remuneration for the year ended 31 December 2018;
vii. To discharge the Board of Directors from liability for their work during the year ended 31 December 2018;
viii. To discharge the External Auditors from liability for their work during the year ended 31 December 2018;
ix. Election of the member of ADIB Board of Directors for the next three (3) years;
x. Appointment of the member of the Internal Shari'a Supervisory Committee for one fiscal year; and
xi. Appointment of External Auditors for the year 2019 and determination of their fees.

16. Internal Shari'a Supervisory Committee of ADIB

The members of the Internal Shari'a Supervisory Committee of ADIB ("the Committee") was appointed in the General Assembly Meeting held on 13 March 2019 in compliance with the Bank's Article of Association.

The Committee, 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 Shari'a Resolutions 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 in accordance with Higher Shari'a Authority's resolutions and AAOIFI Shari'a standards, 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 Shari'a principles as above;
- Any disagreement between the Internal Shari'a Supervisory Committee and the Board of Directors in a Shari'a matter has to be raised to the Higher Shari'a Authority and the decision of the Higher Shari'a Authority will be final; 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 Internal Shari'a Supervisory Committee of ADIB held 5 meetings during 2019. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
Sheikh Muhammad Taqi Usmani	Chairman	4
Prof. Jassim Ali Salem Al Shamsi	Vice Chairman	5
Dr. Nedham Yaqoobi	Member & Executive Member	5
Dr. Mohamed Elgari	Member	4
Sheikh Isam Mohamed Ishaq	Member	5

16.1 Internal Shari'a Supervisory Committee Report

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

The Internal Shari'a Supervisory Committee issues annual report to the Shareholders, the report is available in ADIB Annual Financial Report, the report shall be read in conjunction with the auditors' report at the General Assembly Meeting for discussion and approval.

17. Executive Management

The Group Chief Executive Officer is supported by executive management including Group Chief Risk Officer, Group Financial Controller, Group Chief Operating Officer, the Global Heads of Compliance, Internal Audit, Shari'a and Legal, and various management committees. ADIB has following management committees:

a) Banking Coordination Committee
b) Steering Committee
c) Enterprise Risk Committee
d) Control and Compliance Committee
e) Asset and Liability Management Committee
f) Information Security Committee
g) IT Steering Committee
h) Digital Transformation Steering Committee
i) Corporate Social Responsibility Council
j) Other management Committees

18. 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

18. Risk Management Framework continued

of all risks including credit, market, and operational risks. The Board sets the tone from the top by means of an articulated risk culture, principles and appetite. The Risk management and Internal control infrastructure is reviewed an ongoing basis at management and Board levels. Additional details of ADIB's approach to risk management are given in (note 42) to the Financial Statements.

19. Internal Control

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

ADIB's system of internal control includes:

i. An organisational structure with clearly defined authority limits and reporting mechanisms to senior levels of management and the Board;
ii. A Risk Management function with responsibility for ensuring that risks are identified, assessed and managed throughout ADIB;
iii. A set of policies and guidelines relating to credit risk management, asset and liability management, compliance, operational risk management and business continuity planning;
iv. 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;
v. 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
vi. A Group level Control and Compliance Committee that provides oversight on the operational risk and compliance to regulations, laws, policies and procedures and ensures the implementation of a strong internal control framework within ADIB Group. The Committee also ensures that the Group internal control framework is robust and supports effective and efficient management of compliance, Anti Money Laundering and operational risk and escalates all material issues to the Enterprise Risk Committee, the Steering Committee, and the Audit Committee.

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

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

20. 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 Deloitte as the external auditors of ADIB for 2019 at the General Assembly Meeting held on 13 March 2019.

21. Sustainability Report

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

Consolidated Financial Statements

Contents

Abu Dhabi Islamic Bank
A Public Shareholding Company

Board of Directors Report and
The Consolidated Financial Statements
31 December 2019

General Note

Fatwa and Shari'a Supervisory Board

changed to

Internal Shari'a Supervisory Committee

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 2019.

Incorporation and registered office

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

Principal activity

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

Basis of preparation of consolidated financial statements

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

Financial commentary

The Group net profit reached a record AED 2,601.1 million (2018: AED 2,500.8 million) for 2019 up 4.0%. 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 2019 was AED 5,915.2 million (2018: AED 5,769.5 million) increased by 2.5%.
- Group operating profit ("margin") for 2019 increased by 4.4% to reach at AED 3,262.2 million (2018: AED 3,125.7 million).
- Total provisions for impairment for 2019 were AED 658.1 million (2018: AED 620.1 million).
- Group net profit for 2019 was AED 2,601.1 million (2018: AED 2,500.8 million) up 4.0%.
- Group earnings per share decreased to AED 0.632 compared to AED 0.637 in 2018.
- Total assets as of 31 December 2019 were AED 126.0 billion (2018: AED 125.2 billion).
- Net customer financing (murabaha, ijara and other Islamic financing) as of 31 December 2019 was AED 81.1 billion (2018: AED 78.7 billion).
- Customer deposits as of 31 December 2019 were AED 101.4 billion (2018: AED 100.4 billion).

Dividends and proposed appropriations

The Board of Directors has recommended the following appropriations from retained earnings:

	AED '000
• Transfer to general reserves	(269,206)
• Proposed dividends to charity for the year ended 31 December 2019	(20,000)
• Profit paid on Tier 1 sukuk – Listed (second issue) during the year	(196,250)
• Profit paid on Tier 1 sukuk – Government of Abu Dhabi during the year	(107,479)

Board of Directors' Report continued

Year ended 31 December 2019

Board of Directors

The directors were appointed at the General Assembly meeting on 13th March 2019 were as follows:

1.	H.E. Jawaan Awaidha Suhail Al Khaili	Chairman
2.	Khamis Mohamed Buharoon	Vice Chairman
3.	Khalifa Matar Al Mheiri	Board Member
4.	Najib Youssef Fayyad	Board Member
5.	Abdulla Ali Musleh Jumhour Al Ahbabi	Board Member
6.	Dhaen Mohamed Dhaen Mahasoon Alhameli	Board Member
7.	Faisal Sultan Naser Salem Al Shuaibi	Board Member

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

12 February 2020
Abu Dhabi

Deloitte.

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INDEPENDENT AUDITOR'S 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") which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Bank's 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 judgement, 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.

Impairment for financing assets measured at amortised cost – Estimation uncertainty with respect to impairment allowances for financing assets measured at amortised cost

Area of focus

The assessment of the Bank's determination of impairment allowances for financing assets measured at amortised cost requires management to make significant judgements over the staging and measurement of the Expected Credit Loss (ECL). The audit was focused on this matter due to the materiality and the complexity of the judgements applied and assumptions and estimates used in the ECL models. As at 31 December 2019, gross financing assets measured at amortised cost amounted to AED 84 billion against which an allowance for impairment of AED 3 billion was recorded refer to Notes 17 & 18 to the consolidated financial statements for financing assets, Note 3 for the accounting policy, Note 3.4 for critical judgements and estimations used by management and Note 42 for the credit risk disclosure.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective profit rate. The Bank employs statistical models for ECL calculations and the key variables used in these calculations are probability of default (PD), loss given default (LGD); and exposure at default (EAD), which are defined in Note 42.2 to the consolidated financial statements.

The material portion of the non-retail portfolio of financing assets measured at amortised cost is assessed individually for the significant increase in credit risk (SICR) and measurement of ECL. There is the risk that management does not capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management bias may also be involved in manual staging override as per the Bank's policies. There is also the risk that judgements, assumptions, estimates, proxies and practical expedients implemented previously, are not consistently applied throughout the current reporting period or there are any unjustified movements in management overlays.

Our audit approach

We have obtained a detailed understanding of the financing origination process, credit risk management process and the estimation process of determining impairment allowances for financial assets measured at amortised cost and tested the design, implementation and operating effectiveness of relevant controls within these processes, which included testing:

System-based and manual controls over the timely recognition of impaired financing assets;
- Controls over the ECL calculation models;
- Controls over collateral valuation estimates;
- Controls over governance and approval process related to impairment provisions and ECL Models including continuous reassessment by the management.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ABU DHABI ISLAMIC BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued

Impairment for financing assets measured at amortised cost – Estimation uncertainty with respect to impairment allowances for financing assets measured at amortised cost continued

Our audit approach continued
We understood and evaluated the theoretical soundness of the ECL models by involving our internal experts to ensure its compliance with the requirements of the International Financial Reporting Standards. We tested the mathematical integrity of the ECL model by performing recalculations on a sample of the financing assets measured at amortised cost. We checked consistency of the various inputs and assumptions used by the management to determine impairment.

On a sample basis, we selected individual samples and performed a detailed review of these exposures and challenged the Banks's identification of SICR (Stage 2), the assessment of credit-impaired classification (Stage 3) and whether relevant impairment events had been identified in a timely manner. We challenged the assumptions, such as estimated future cash flows, collateral valuations and estimates of recovery, underlying the impairment allowance calculation. We evaluated controls over approval, accuracy and completeness of impairment allowances and governance controls, including assessing key management and committee meetings that form part of the approval process for the computation of impairment allowances for the financing assets measured at amortised cost.

For financing assets measured at amortised cost not tested individually, we evaluated controls over the modelling process, including model monitoring, validation and approval. We tested controls over model outputs. We challenged key assumptions, inspected the calculation methodology and traced a sample back to source data. We evaluated key assumptions such as thresholds used to determine SICR and forward looking macroeconomic scenarios.

We tested the IT application used in the credit impairment process and verified the integrity of data used as input to the models including the transfer of data between source systems and the impairment models. We evaluated system-based and manual controls over the recognition and measurement of impairment allowances.

We evaluated post model adjustments and management overlays in order to assess the reasonableness of these adjustments. We further assessed the reasonableness of forward looking information incorporated into the impairment calculations by using our specialists.

For forward looking assumptions used by the Bank's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information.

We have evaluated methodology and framework designed and implemented by the Bank as to whether the impairment models outcomes and stage allocations appear reasonable and reflective of the Bank's forecasts of future economic conditions at the reporting date.

We assessed the disclosures in the consolidated financial statements to determine that they were in compliance with IFRSs.

Risk of inappropriate access or changes to information technology systems

Area of focus
The Bank is vitally dependent on its complex information technology environment for the reliability and continuity of its operations and financial reporting process due to the extensive volume and variety of transactions which are processed daily across the Bank's businesses; this includes cyber risks.

Inappropriate granting of or ineffective monitoring of access rights to IT systems therefore presents a risk to the accuracy of financial accounting and reporting. Appropriate IT controls are required to protect the Bank's IT infrastructure, data and applications, ensure transactions are processed correctly and limit the potential for fraud and error as a result of change to an application or underlying data.

Unauthorised or extensive access rights cause a risk of intended or unintended manipulation of data that could have a material effect on the completeness and accuracy of financial statements. Therefore, we considered this area as key audit matter.

Our audit approach
Our audit approach depends to a large extent on the effectiveness of automated and IT-dependent manual controls and therefore we updated our understanding of the Bank's IT-related control environment and identified IT applications, databases and operating systems that are relevant for the financial reporting process and to our audit.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ABU DHABI ISLAMIC BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued

Risk of inappropriate access or changes to information technology systems continued

Our audit approach continued

For relevant IT-dependent controls within the financial reporting process we identified, with the involvement of our internal IT specialists, supporting general IT controls and evaluated their design, implementation and operating effectiveness. We updated our understanding of applications relevant for financial reporting and tested key controls particularly in the area of access protection, integrity of system interfaces and linkage of such controls to the reliability, completeness and accuracy of financial reporting including computer-generated reports used in financial reporting. Our audit procedures covered, but were not limited to, the following areas relevant for financial reporting:

- IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations;
- Controls regarding initial access granted to IT systems for new employees or employees changing roles, whether that access was subject to appropriate screening and it was approved by authorised persons;
- Controls regarding removal of employee or former employee access rights within an appropriate period of time after having changed roles or leaving the Bank;
- Controls regarding the appropriateness of system access rights for privileged or administrative authorisations (superuser) being subject to a restrictive authorisation assignment procedure and regular review thereof;
- Password protection, security settings regarding modification of applications, databases and operating systems, the segregation of department and IT users and segregation of employees responsible for program development and those responsible for system operations;
- Program developers approval rights in the modification process and their capability to carry out any modifications in the productive versions of applications, databases and operating systems; and
- We performed journal entry testing as stipulated by the International Standards on Auditing.

Other Matter

The financial statements of the Bank for the year ended 31 December 2018, were audited by another auditor who expressed an unmodified opinion on those statements on 4 February 2019.

Other Information

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Bank but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above 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.

When we read the annual report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 their preparation in compliance with the applicable provisions of 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and Board Audit Committee are responsible for overseeing the Bank's financial reporting process.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ABU DHABI ISLAMIC BANK PJSC continued

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 ISAs 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 Bank'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 consolidated 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 Bank 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 of the Bank 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 the Bank's Audit Committee, 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.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ABU DHABI ISLAMIC BANK PJSC continued

Report on Other Legal and Regulatory Requirements

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

- We have obtained all the information we considered necessary for the purposes of our audit;
- The consolidated financial statements of the Bank have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- The Bank has maintained proper books of account;
- The financial information included in the Directors' report is consistent with the Bank's books of account;
- Note 20 to the consolidated financial statements of the Bank discloses purchased or investment in shares during the financial year ended 31 December 2019;
- Note 40 to the consolidated financial statements of the Bank discloses material related party transactions, the terms under which these were conducted and principles of managing conflict of interests;
- 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 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2019; and
- Note 44 to the consolidated financial statements of the Bank discloses social contributions made during the financial year ended 31 December 2019.

Further, as required by the UAE Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

Deloitte & Touche (M.E.)

Akbar Ahmed
Registration No. 1141
12 February 2020
Abu Dhabi
United Arab Emirates

Annual Report of the Internal Shari'a Supervisory Committee of Abu Dhabi Islamic Bank

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 Shareholders of Abu Dhabi Islamic Bank (the "Institution")

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

Pursuant to the requirements stipulated in the relevant laws, regulations and standards ("Regulatory Requirements"), the Internal Shari'a Supervisory Committee of the Institution ("ISSC") presents to you the ISSC's Annual Report for the financial year ending on 31 December 2019 ("Financial Year").

1. Responsibility of the ISSC

In accordance with the Regulatory Requirements and the ISSC's charter, the ISSC's responsibility is stipulated as to:

a. undertake Shari'a supervision of all businesses, activities, products, services, contracts, documents and business charters of the Institution; and the Institution's policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders ("Institution's Activities") and issue Shari'a resolutions in this regard, and

b. to determine Shari'a parameters necessary for the Institution's Activities, and the Institution compliance with Islamic Shari'a within the framework of the rules, principles, and standards set by the Higher Shari'a Authority ("HSA") to ascertain compliance of the Institution with Islamic Shari'a.

The senior management is responsible for assuring compliance of the Institution with Islamic Shari'a in accordance with the HSA's resolutions, fatwas, and opinions, and the ISSC's resolutions within the framework of the rules, principles, and standards set by the HSA ("Compliance with Islamic Shari'a") regarding the Institution's Activities, and the Board of Directors ("Board") bears the ultimate responsibility in this regard.

2. Shari'a Standards

In accordance with the HSA's resolution (No. 18/3/2018), the ISSC has abided by the Shari'a standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as minimum Shari'a requirements, in all fatwas, approvals, endorsements and recommendations, relating to the Institution's Activities without exception within the Financial Year.

3. Works Undertaken by the ISSC during the Financial Year

The ISSC undertook Shari'a supervision of the Institution's Activities through review of those Activities, and monitoring them through Shari'a Division (and internal Shari'a audit), in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. Works of the ISSC included the following:

a. Convening 5 meetings during the year and (1) meeting for its Executive Committee and 3 meetings of its Executive Member.

b. Providing fatwas, opinions and resolutions on matters presented to the ISSC (or its Executive Committee or its Executive Member) in relation to the Institution's Activities.

c. Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, documentation, business charters, and other documentation submitted by the Institution to the ISSC for approval.

d. Ascertaining the level of compliance of allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders with parameters set by the ISSC.

e. Supervision through Shari'a Division (and internal Shari'a Audit) of the Institution's Activities including executed transactions, adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.

f. Providing directives to relevant parties of the Institution to rectify (where possible) findings cited in the reports submitted by Shari'a Division (and internal Shari'a Audit), and issuing resolutions to set aside revenue derived from transactions in which non-compliance were identified to be disposed towards charitable purposes.

g. Approving remedial rectification and preventive measures related to identified errors to prevent their reoccurrence in the future.

h. Specifying the amount of Zakat due on each of the Institution's share.

i. Monitoring the approved internal Shari'a audit plan.

j. Issuing the required Shari'a reports for the international branches of the Institution.

The ISSC sought to obtain all information and interpretations deemed necessary in order to reach a reasonable degree of certainty that the Institution is compliant with Islamic Shari'a.

4. Independence of the ISSC

The ISSC acknowledges that it has carried out all of its duties independently and with the support and cooperation of the senior management and the Board of the Institution and the ISSC received the required assistance to access all documents and data, and to discuss all amendments and Shari'a requirements.

5. The ISSC's Opinion on the Shari'a Compliance Status of the Institution

Premised on information and explanations that were provided to us with the aim of ascertaining compliance with Islamic Shari'a, the ISSC has concluded with a reasonable level of confidence, **that the Institution's Activities in the Financial Year are in compliance with Islamic Shari'a, and the incidents of non-compliance observed** were highlighted in the relevant reports, and the ISSC issued the corrective or preventative actions to take appropriate measures in this regard.

The ISSC formed its opinion, as outlined above, exclusively on the basis of information perused by the ISSC during the Financial Year.

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.

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

Signatures of the members of ADIB's Internal Shari'a Supervisory Committee

On behalf of
Sheikh Mohamed Taqi Uthmani
Chairman of the Committee

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

Esam Mohammed Ishaaq
Member of the Committee and its Executive Committee

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

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

هيئة الفتوى والرقابة الشرعية ولجنتها التنفيذية
مصرف أبوظبي الإسلامي
Abu Dhabi Islamic Bank
Fatwa & Shari'a Supervisory Board & Its Committee

Consolidated Income Statement

Year ended 31 December 2019

	Notes	2019 AED '000	2018 AED '000
OPERATING INCOME			
Income from murabaha, mudaraba and wakala with financial institutions		**131,299**	100,271
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	5	**4,500,165**	4,520,470
Income from sukuk measured at amortised cost		**500,556**	349,514
Income from investments measured at fair value	6	**131,001**	104,024
Share of results of associates and joint ventures		**15,202**	38,297
Fees and commission income, net	7	**1,083,270**	1,058,665
Foreign exchange income		**317,542**	256,995
Income from investment properties	8	**40,212**	33,630
Other income		**9,175**	21,654
		6,728,422	6,483,520
OPERATING EXPENSES			
Employees' costs	9	**(1,529,670)**	(1,522,644)
General and administrative expenses	10	**(754,926)**	(842,130)
Depreciation		**(313,703)**	(224,255)
Amortisation of intangibles	26	**(54,752)**	(54,752)
Provision for impairment, net	11	**(658,096)**	(620,097)
		(3,311,147)	(3,263,878)
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS		**3,417,275**	3,219,642
Distribution to depositors	12	**(813,211)**	(714,034)
PROFIT FOR THE YEAR BEFORE ZAKAT AND TAX		**2,604,064**	2,505,608
Zakat and tax		**(2,953)**	(4,822)
PROFIT FOR THE YEAR AFTER ZAKAT AND TAX		**2,601,111**	2,500,786
Attributable to:			
Equity holders of the Bank		**2,600,096**	2,500,086
Non-controlling interest		**1,015**	700
		2,601,111	2,500,786
Basic and diluted earnings per share attributable to ordinary shares (AED)	13	**0.632**	0.637

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	Notes	2019 AED '000	2018 AED '000
PROFIT FOR THE YEAR AFTER ZAKAT AND TAX		**2,601,111**	2,500,786
Other comprehensive gain (loss)			
Items that will not be reclassified to consolidated income statement			
Net gain (loss) on valuation of equity investments carried at fair value through other comprehensive income	33	**24,811**	(34,405)
Directors' remuneration paid	40	**(4,900)**	(4,900)
Items that may subsequently be reclassified to consolidated income statement			
Net movement in valuation of investments in sukuk carried at fair value through other comprehensive income	33	**11,951**	(32,169)
Exchange differences arising on translation of foreign operations	33	**62,159**	(96,700)
(Loss) gain on hedge of foreign operations	33	**(8,002)**	21,130
Fair value gain (loss) on cash flow hedges	33	**9,319**	(2,102)
OTHER COMPREHENSIVE GAIN (LOSS) FOR THE YEAR		**95,338**	(149,146)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,696,449**	2,351,640
Attributable to:			
Equity holders of the Bank		**2,695,434**	2,350,940
Non-controlling interest		**1,015**	700
		2,696,449	2,351,640

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

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	2019 AED '000	2018 AED '000
ASSETS			
Cash and balances with central banks	14	**19,823,409**	18,731,208
Balances and wakala deposits with Islamic banks and other financial institutions	15	**2,283,242**	3,896,922
Murabaha and mudaraba with financial institutions	16	**1,080,027**	1,353,329
Murabaha and other Islamic financing	17	**34,627,565**	33,607,036
Ijara financing	18	**46,480,441**	45,069,611
Investment in sukuk measured at amortised cost	19	**10,658,620**	11,781,857
Investments measured at fair value	20	**2,281,665**	1,885,572
Investment in associates and joint ventures	21	**1,280,677**	1,206,159
Investment properties	22	**1,341,436**	1,397,177
Development properties	23	**744,849**	835,645
Other assets	24	**2,860,736**	3,250,147
Property and equipment	25	**2,268,665**	1,868,661
Goodwill and intangibles	26	**255,839**	310,591
TOTAL ASSETS		**125,987,171**	125,193,915
LIABILITIES			
Due to financial institutions	27	**2,461,478**	4,138,254
Depositors' accounts	28	**101,404,275**	100,403,747
Other liabilities	29	**3,018,001**	2,915,229
Total liabilities		**106,883,754**	107,457,230
EQUITY			
Share capital	30	**3,632,000**	3,632,000
Legal reserve	31	**2,640,705**	2,640,705
General reserve	31	**2,250,033**	1,980,827
Credit risk reserve	31	**400,000**	400,000
Retained earnings		**5,756,978**	5,152,466
Proposed dividend to charity		**20,000**	31,000
Other reserves	33	**(361,775)**	(865,449)
Tier 1 sukuk	34	**4,754,375**	4,754,375
Equity attributable to the equity and Tier 1 sukuk holders of the Bank		**19,092,316**	17,725,924
Non-controlling interest	35	**11,101**	10,761
Total equity		**19,103,417**	17,736,685
TOTAL LIABILITIES AND EQUITY		**125,987,171**	125,193,915
CONTINGENT LIABILITIES AND COMMITMENTS	36	**13,153,682**	10,807,842

H.E. Jawaan Awaidha Suhail Al Khaili
Chairman

Mazin Manna
Group 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 2019

		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 to charity AED '000	Other reserves AED '000	Tier 1 sukuk AED '000	Total AED '000	Non-controlling interest AED '000	Total equity AED '000
Balance at 1 January 2018 - audited		3,168,000	2,102,465	1,716,447	400,000	4,216,243	29,230	(743,182)	5,672,500	16,561,703	11,461	16,573,164
Transition adjustment on adoption of IFRS 9		-	-	-	-	(588)	-	21,979	-	21,391	-	21,391
Balance at 1 January 2018 - adjusted		3,168,000	2,102,465	1,716,447	400,000	4,215,655	29,230	(721,203)	5,672,500	16,583,094	11,461	16,594,555
Profit for the year		-	-	-	-	2,500,086	-	-	-	2,500,086	700	2,500,786
Other comprehensive loss		-	-	-	-	(4,900)	-	(144,246)	-	(149,146)	-	(149,146)
Right shares issued	30 & 31	464,000	538,240	-	-	-	-	-	-	1,002,240	-	1,002,240
Right shares issuance cost	30	-	-	-	-	(3,416)	-	-	-	(3,416)	-	(3,416)
Tier 1 sukuk – Listed (second issue) issued	34	-	-	-	-	-	-	-	2,754,375	2,754,375	-	2,754,375
Tier 1 sukuk – Listed (second issue) issuance cost	34	-	-	-	-	(19,373)	-	-	-	(19,373)	-	(19,373)
Tier 1 sukuk – Listed (first issue) redeemed		-	-	-	-	-	-	-	(3,672,500)	(3,672,500)	-	(3,672,500)
Profit paid on Tier 1 sukuk – Listed (first issue)		-	-	-	-	(234,158)	-	-	-	(234,158)	-	(234,158)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	34	-	-	-	-	(91,518)	-	-	-	(91,518)	-	(91,518)
Dividends paid		-	-	-	-	(914,530)	-	-	-	(914,530)	(1,400)	(915,930)
Dividends paid to charity		-	-	-	-	-	(29,230)	-	-	(29,230)	-	(29,230)
Transfer to reserves	31	-	-	264,380	-	(264,380)	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	-	(31,000)	31,000	-	-	-	-	-
Balance at 1 January 2019		3,632,000	2,640,705	1,980,827	400,000	5,152,466	31,000	(865,449)	4,754,375	17,725,924	10,761	17,736,685
Profit for the year		-	-	-	-	**2,600,096**	-	-	-	**2,600,096**	**1,015**	**2,601,111**
Other comprehensive loss		-	-	-	-	**(4,900)**	-	**100,238**	-	**95,338**	-	**95,338**
Profit paid on Tier 1 sukuk – Listed (second issue)	**34**	-	-	-	-	**(196,250)**	-	-	-	**(196,250)**	-	**(196,250)**
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	**34**	-	-	-	-	**(107,479)**	-	-	-	**(107,479)**	-	**(107,479)**
Dividends paid	**32**	-	-	-	-	**(994,313)**	-	-	-	**(994,313)**	**(675)**	**(994,988)**
Dividends paid to charity		-	-	-	-	-	**(31,000)**	-	-	**(31,000)**	-	**(31,000)**
Transfer to Impairment reserve – General		-	-	-	-	**(403,436)**	-	**403,436**	-	-	-	-
Transfer to reserves	**31**	-	-	**269,206**	-	**(269,206)**	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	-	**(20,000)**	**20,000**	-	-	-	-	-
Balance at 31 December 2019		**3,632,000**	**2,640,705**	**2,250,033**	**400,000**	**5,756,978**	**20,000**	**(361,775)**	**4,754,375**	**19,092,316**	**11,101**	**19,103,417**

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

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 AED '000	2018 AED '000
OPERATING ACTIVITIES			
Profit for the year		**2,601,111**	2,500,786
Adjustments for:			
Depreciation on investment properties	22	**17,076**	13,134
Depreciation on property and equipment		**249,349**	211,121
Depreciation on right-of-use assets		**60,278**	-
Amortisation of intangibles	26	**54,752**	54,752
Share of results of associates and joint ventures		**(15,202)**	(38,297)
Dividend income	6	**(119)**	(693)
Realised (gain) loss on investments carried at fair value through profit or loss	6	**(21,828)**	24,268
Unrealised (gain) loss on investments carried at fair value through profit or loss	6	**(27,683)**	7,256
Realised gain on sukuk carried at fair value through other comprehensive income	6	**(896)**	(4,107)
Gain on sale of sukuk carried at amortised cost		**(75,425)**	-
Gain on disposal of property and equipment		**(720)**	(188)
Finance cost on lease liabilities		**16,040**	-
Provision for impairment, net	11	**658,096**	620,097
Loss (gain) sale of investment properties	8	**(2,364)**	1,620
Operating profit before changes in operating assets and liabilities		**3,512,465**	3,389,749
Decrease (increase) in balances with central banks		**444,680**	(1,492,183)
Increase in balances and wakala deposits with Islamic banks and other financial institutions		**(1,378,308)**	(551,791)
Increase in murabaha and mudaraba with financial institutions		**(111,747)**	(136,292)
Increase in murabaha and other Islamic financing		**(1,278,351)**	(747,461)
Increase in ijara financing		**(1,629,710)**	(1,967,688)
Purchase of investments carried at fair value through profit or loss		**(11,013,850)**	(8,272,449)
Proceeds from sale of investments carried at fair value through profit or loss		**11,514,690**	8,179,757
Decrease in other assets		**357,494**	575,221
Increase due to financial institutions		**170,894**	81,330
Increase in depositors' accounts		**1,001,894**	403,598
Decrease in other liabilities		**(340,185)**	(189,524)
Cash from (used in) operations		**1,249,966**	(727,733)
Directors' remuneration paid	40	**(4,900)**	(4,900)
Net cash from (used in) operating activities		**1,245,066**	(732,633)
INVESTING ACTIVITIES			
Dividend received	6	**119**	693
Net movement in investments carried at fair value through other comprehensive income		**(817,272)**	1,531,582
Net movement in investments carried at amortised cost		**1,193,083**	(3,604,279)
Net movement in associates and joint ventures		**8,333**	5,148
Proceeds from sale of investment properties		**7,400**	3,450
Purchase of property and equipment	25	**(309,477)**	(402,283)
Proceeds from disposal of property and equipment		**2,257**	891
Net cash from (used in) investing activities		**84,443**	(2,464,798)
FINANCING ACTIVITIES			
Right shares issued	30 & 31	**-**	1,002,240
Issuance cost for right shares	30	**-**	(3,416)
Tier 1 sukuk – Listed (second issue) issued	34	**-**	2,754,375
Tier 1 sukuk – Listed (second issue) issuance cost	34	**-**	(19,373)
Tier 1 sukuk – Listed (first issue) redeemed		**-**	(3,672,500)
Finance cost on lease liability	10	**(16,040)**	-
Profit paid on Tier 1 sukuk – Listed (first issue)		**-**	(234,158)
Profit paid on Tier 1 sukuk – Listed (second issue)	34	**(196,250)**	-
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	34	**(107,479)**	(91,518)
Dividends paid		**(1,003,176)**	(917,835)
Net cash used in financing activities		**(1,322,945)**	(1,182,185)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**6,564**	(4,379,616)
Cash and cash equivalents at 1 January		**6,508,853**	10,888,469
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	39	**6,515,417**	6,508,853

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

Profit received		**4,978,426**	5,658,261
Profit paid to depositors and sukuk holders		**876,439**	843,540

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 Internal Shari'a Supervisory Committee of the Bank, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

In addition to its main office in Abu Dhabi, the Bank operates through its 81 branches in UAE (2018: 80 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 PO Box 313, Abu Dhabi, UAE.

The consolidated financial statements of the Group were authorised for issue by the Board of Directors on 12 February 2020.

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 Internal Shari'a Supervisory Committee 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	2019	2018
Abu Dhabi Islamic Securities Company LLC	Equity brokerage services	United Arab Emirates	**95%**	95%
Burooj Properties LLC	Real estate investments	United Arab Emirates	**100%**	100%
MPM Properties LLC	Real estate services	United Arab Emirates	**100%**	100%
ADIB Invest 1	Equity brokerage services	BVI	**100%**	100%
Kawader Services LLC	Manpower supply	United Arab Emirates	**100%**	100%
ADIB (UK) Limited	Islamic banking	United Kingdom	**100%**	100%
ADIB Holdings (Jersey) Ltd* (under liquidation)	Special purpose vehicle	British Channel Islands	-	-
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Sukuk Company II Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 1 Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 2 Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Alternatives Ltd*	Special purpose vehicle	Cayman Island	-	-

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

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

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

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

3.2 Changes in accounting policies

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

During the year the Group has adopted the following new standards / amendments to the standards effective for the annual period beginning on or after 1 January 2019.

IFRS 16 Leases: The Group adopted IFRS 16 'Leases' the standard replaces the existing guidance on leases, including IAS 17 'Leases", IFRIC 4 'Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

3 BASIS OF PREPARATION continued

3.2 Changes in accounting policies continued

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognize in the Group's financial position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

The Group has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of lease liability, using the profit rate at the time of first time application.

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets are related to and included in property and equipment and corresponding lease liabilities under other liabilities the consolidated statement of financial positon. Hence, the change in accounting policy is reflected in consolidated statement of financial position at 1 January 2019, where property and equipment and other liabilities are increased by AED 402,026 thousand.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The assumed finance cost is charged to consolidated income statement over the lease period so as to produce a constant periodic rate of profit on the remaining balance of the liability for each period (the "finance cost on lease liabilities"). The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the profit rate implicit in the lease. If that rate cannot be determined, the lessee's incremental financing rate is used, being the rate that the lessee would have to pay to obtain financing for the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The Group has used weighted average incremental financing rate for calculating the net present value of lease liabilities.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in consolidated income statement. Short-term leases are leases with a lease term of 12 months or less.

Practical expedient applied by the Group:
In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4.

Amendments to IFRS 9 Prepayment Features with Negative Compensation and Modification of financial liabilities: The amendment applies to annual periods beginning on or after January 1, 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the solely payment for the principal finance amount and profit condition, the party

3 BASIS OF PREPARATION continued

3.2 Changes in accounting policies continued

exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail solely payment for the principal finance amount and profit. The amendment does not impact the consolidated financial statements of the Group as at the reporting date.

Amendments to IAS 28 Investment in Associates and Joint Ventures: Relating to long-term interests in associates and joint ventures: These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associates or joint ventures that form part of the net investment in the associates or joint ventures but to which the equity method is not applied. The Group has assessed that the impact is not material on the consolidated financial statements of the Group as at the reporting date.

Annual Improvements to IFRSs 2015-2017 Cycle: The Annual Improvements include amendments to four Standards.

IAS 12 Income Taxes: The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits. The Group has assessed that the impact is not material on the consolidated financial statements of the Group as at the reporting date.

IFRS 3 Business Combinations: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including re-measuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation. The Group has assessed that the impact is not material on the consolidated financial statements of the Group as at the reporting date.

IFRS 11 Joint Arrangements: The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not re-measure its PHI in the joint operation. The Group has assessed that the impact is not material on the consolidated financial statements of the Group as at the reporting date.

*IAS 19 Employee Benefits Pla*n: The amendments to IAS 19 Employee Benefits clarify the accounting for defined benefit plan amendments, curtailments and settlements. The amendment does not impact the consolidated financial statements of the Group as at the reporting date.

IFRIC 23 Uncertainty over Income Tax Treatments: The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

The amendment does not impact the consolidated financial statements of the Group as at the reporting date.

3.3 Standards issued but not yet effective

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

Amendments to IFRS 3 Business Combinations - Definition of a Business: The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

The Group is in the process of assessing the impact of new the new amendment.

Amendments to References to the Conceptual Framework in IFRS Standards: Amendments to References to the Conceptual Framework in IFRS Standards related IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework. The Group is in the process of assessing the impact of new the new amendment.

IFRS 7 Financial Instruments: Disclosures and IFRS 9 - Financial Instruments: Amendments regarding pre-replacement issues in the context of the IBOR reform. The Group is in the process of assessing the impact of new the new amendment.

IFRS 17 Insurance Contracts: IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as at January 1, 2022. The amendment does not impact the consolidated financial statements of the Group as at the reporting date. The Group is in the process of assessing the impact of new the new amendment.

3 BASIS OF PREPARATION continued

3.3 Standards issued but not yet effective continued

IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011): Amendments relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. The Group is in the process of assessing the impact of new the new amendment.

3.4 Significant Judgements And Estimates

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

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

Following estimates and judgements which are applicable from 1 January 2019.

IFRS 9: Financial instruments:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.
- Calculation of expected credit loss: changes to the assumptions and estimation uncertainties that have a significant impact on expected credit losses for the year ended 31 December 2019 pertain to the changes introduced as a result of adoption of IFRS 9 (ECL): Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

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

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

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

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

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

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

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

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

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

3 BASIS OF PREPARATION continued

3.4 Significant Judgements and Estimates continued

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

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

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

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.

Contingencies

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

Operating lease commitments - Group as lessor

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

Classification and measurement of financial assets

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

Investment and development properties

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

Fair value of financial instruments

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

Classification of properties

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

Impairment of investments in associates and joint ventures

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

3 BASIS OF PREPARATION continued

3.4 Significant Judgements and Estimates continued

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

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

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

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

The Group's customer financing comprise the following:

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

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

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

Classification

Financial assets at amortised cost

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

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

All other financial assets are subsequently measured at fair value.

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued

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.

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

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

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued

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

(i) Recognition / De-recognition

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

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

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

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

(ii) Offsetting of financial instruments

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

Impairment assessment:

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

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

Measurement of Expected Credit Losses (ECL):

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

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

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

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

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

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

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. Management continually reviews renegotiated facilities to ensure that all future payments are highly expected to occur.

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

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

Purchased or originated credit impaired assets (POCI)

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

Covered card facilities

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

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

Write-off

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

Collateral valuation

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

Impairment of non-financial assets

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

Fair value measurements

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Fair value measurements continued

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

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

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

Business combinations

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

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

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

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets acquired in a business combination

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

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

- Customer relationship 8 years
- Core deposit intangible 8 years

Goodwill

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

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

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

Investment in associates

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

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

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

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

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. Goodwill relating to the joint venture 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 joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

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

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture 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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Investment properties

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

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

Development properties

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

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

Property and equipment

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

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

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

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

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

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

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

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

Provisions and contingent liabilities

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

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

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Zakat

As the Bank is not required to dispose Zakat by UAE laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, each shareholder is responsible of his or her own Zakat. In accordance with the Articles and Memorandum of Association of the Bank, Zakat is computed by the Bank and it is approved by the Internal Shari'a Supervisory Committee 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 Internal Shari'a Supervisory Committee Resolutions.

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

Profit distribution

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

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

Cash and cash equivalents

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

Trade and settlement date accounting

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

Prohibited income

According to the Internal Shari'a Supervisory Committee "ISSC", 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 ISSC (as purification amount).

Fiduciary assets

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

Foreign currencies

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial guarantees

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

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

Segment reporting

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

Dividends on ordinary shares

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

Treasury shares and contracts on own equity instruments

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

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

	2019 AED '000	2018 AED '000
Vehicle murabaha	**242,751**	268,376
Goods murabaha	**150,745**	182,323
Share murabaha	**1,016,549**	1,026,738
Commodities murabaha – Al Khair	**413,467**	403,541
Islamic covered cards (murabaha)	**310,973**	332,850
Other murabaha	**172,102**	110,958
Total murabaha	**2,306,587**	2,324,786
Mudaraba	**386**	18,241
Ijara	**2,188,245**	2,170,616
Istisna'a	**4,947**	6,827
	4,500,165	4,520,470

6 INCOME FROM INVESTMENTS MEASURED AT FAIR VALUE

	2019 AED '000	2018 AED '000
Income from sukuk measured at fair value through profit or loss	**60,850**	84,136
Income from sukuk measured at fair value through other comprehensive income	**19,890**	45,053
Realised gain (loss) on investments carried at fair value through profit or loss	**21,828**	(24,268)
Unealised gain (loss) on investments carried at fair value through profit or loss	**27,683**	(7,256)
Realised gain on sukuk carried at fair value through other comprehensive income	**896**	4,107
(Loss) income from other investment assets	**(265)**	1,559
Dividend income	**119**	693
	131,001	104,024

7 FEES AND COMMISSION INCOME, NET

	2019 AED '000	2018 AED '000
Fees and commission income		
Fees and commission income on cards	875,456	767,193
Trade related fees and commission	81,718	105,097
Takaful related fees	139,633	134,538
Accounts services fees	69,799	66,596
Projects and property management fees	48,460	58,616
Risk participation and arrangement fees	118,695	129,609
Brokerage fees and commission	14,789	11,156
Other fees and commissions	350,543	355,802
Total fees and commission income	1,699,093	1,628,607
Fees and commission expenses		
Card related fees and commission expenses	(542,338)	(493,432)
Other fees and commission expenses	(73,485)	(76,510)
Total fees and commission expenses	(615,823)	(569,942)
Fees and commission income, net	1,083,270	1,058,665

8 INCOME FROM INVESTMENT PROPERTIES

	2019 AED '000	2018 AED '000
Proceeds from sale of investment properties	11,477	50,318
Less: net book value of properties sold	(9,113)	(51,938)
Gain (loss) on sale of investment properties	2,364	(1,620)
Rental income (note 22)	37,848	35,250
	40,212	33,630

9 EMPLOYEES' COSTS

	2019 AED '000	2018 AED '000
Salaries and wages	1,391,292	1,380,252
End of service benefits	68,351	67,361
Other staff expenses	70,027	75,031
	1,529,670	1,522,644

10 GENERAL AND ADMINISTRATIVE EXPENSES

	2019 AED '000	2018 AED '000
Legal and professional expenses	159,591	146,098
Premises expenses	150,656	265,270
Marketing and advertising expenses	70,577	81,143
Communication expenses	85,093	86,734
Technology related expenses	129,307	127,018
Finance cost on lease liabilities	16,040	-
Other operating expenses	143,662	135,867
	754,926	842,130

11 PROVISION FOR IMPAIRMENT, NET

	Notes	2019 AED '000	2018 AED '000
Murabaha and other Islamic financing	42.2.6	**240,268**	354,857
Ijara financing	42.2.6	**218,880**	178,396
Direct write-off, net of recoveries		**17,554**	34,883
Investment properties	22	**33,629**	60,080
Development properties	23	**90,796**	1,736
Property and equipment	25	**-**	1,455
Others		**56,969**	(11,310)
		658,096	620,097

The above provision for impairment includes AED 124,425 thousand (2018: AED 61,816 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank.

12 DISTRIBUTION TO DEPOSITORS

	2019 AED '000	2018 AED '000
Saving accounts	**203,440**	195,423
Investment accounts	**609,771**	518,611
	813,211	714,034

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	2019	2018
Profit for the year attributable to equity holders (AED '000)		**2,600,096**	2,500,086
Less: profit attributable to Tier 1 sukuk holder			
- Listed (first issue) (AED '000)		**-**	(234,158)
- Listed (second issue) (AED '000)	34	**(196,250)**	-
- Government of Abu Dhabi (AED '000)	34	**(107,479)**	(91,518)
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000)		**2,296,367**	2,174,410
Weighted average number of ordinary shares at 1 January in issue (000's)		**3,632,000**	3,168,000
Effect of Right shares issued (000's)			
Bonus element		**-**	**184,862**
New shares		**-**	**58,122**
Weighted average number of ordinary shares at 31 December in issue (000's)		**3,632,000**	3,410,984
Basic and diluted earnings per share (AED)		**0.632**	0.637

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

	2019 AED '000	2018 AED '000
Cash on hand	2,047,920	1,844,389
Balances with central banks:		
- Current accounts	1,154,579	493,663
- Statutory reserve	11,317,264	11,397,360
- Islamic certificate of deposits	5,306,867	4,995,796
	19,826,630	18,731,208
Less: provision for impairment	(3,221)	-
	19,823,409	18,731,208

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

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

	2019 AED '000	2018 AED '000
UAE	18,081,793	17,687,739
Rest of the Middle East	1,677,254	992,884
Europe	772	1,317
Others	66,811	49,268
	19,826,630	18,731,208

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

	2019 AED '000	2018 AED '000
Current accounts	326,124	452,014
Wakala deposits	1,965,780	3,457,743
	2,291,904	3,909,757
Less: provision for impairment	(8,662)	(12,835)
	2,283,242	3,896,922

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:

	2019 AED '000	2018 AED '000
UAE	364,159	2,424,116
Rest of the Middle East	758,025	472,079
Europe	115,300	206,682
Others	1,054,420	806,880
	2,291,904	3,909,757

16 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	2019 AED '000	2018 AED '000
Murabaha	1,080,052	1,317,686
Mudaraba	-	35,666
	1,080,052	1,353,352
Less: provision for impairment	(25)	(23)
	1,080,027	1,353,329

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

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

	2019 AED '000	2018 AED '000
UAE	910,892	1,139,796
Rest of the Middle East	169,160	177,890
Others	-	35,666
	1,080,052	1,353,352

17 MURABAHA AND OTHER ISLAMIC FINANCING

	2019 AED'000	2018 AED'000
Vehicle murabaha	5,137,909	5,609,698
Goods murabaha	5,453,717	4,917,454
Share murabaha	16,711,237	16,928,977
Commodities murabaha – Al Khair	7,503,812	8,377,721
Islamic covered cards (murabaha)	13,900,837	16,069,428
Other murabaha	4,605,757	2,915,331
Total murabaha	53,313,269	54,818,609
Mudaraba	51,741	55,097
Istisna'a	95,005	101,895
Other financing receivables	151,737	280,425
Total murabaha and other Islamic financing	53,611,752	55,256,026
Less: deferred income on murabaha	(17,302,308)	(19,947,491)
	36,309,444	35,308,535
Less: provision for impairment	(1,681,879)	(1,701,499)
	34,627,565	33,607,036

17 MURABAHA AND OTHER ISLAMIC FINANCING continued

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

	2019 AED'000	2018 AED'000
Industry sector:		
Public sector	**1,650,049**	358,227
Corporates	**3,494,594**	4,143,397
Financial institutions	**1,148,847**	761,866
Individuals	**29,681,000**	29,695,648
Small and medium enterprises	**334,954**	349,397
	36,309,444	35,308,535
Geographic region:		
UAE	**33,760,148**	33,567,718
Rest of the Middle East	**1,443,423**	1,103,351
Europe	**824,303**	538,523
Others	**281,570**	98,943
	36,309,444	35,308,535

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

18 IJARA FINANCING

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

	2019 AED'000	2018 AED'000
The aggregate future lease receivables are as follows:		
Due within one year	**8,564,571**	7,436,960
Due in the second to fifth year	**22,396,454**	23,375,433
Due after five years	**33,429,191**	39,778,958
Total Ijara financing	**64,390,216**	70,591,351
Less: deferred income	**(16,578,412)**	(24,340,989)
Net present value of minimum lease payments receivable	**47,811,804**	46,250,362
Less: provision for impairment	**(1,331,363)**	(1,180,751)
	46,480,441	45,069,611

18 IJARA FINANCING continued

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

	2019 AED'000	2018 AED'000
Industry sector:		
Government	**1,058,190**	565,438
Public sector	**6,153,665**	4,820,597
Corporates	**18,000,803**	18,970,953
Individuals	**22,341,025**	21,640,862
Small and medium enterprises	**117,666**	139,804
Non-profit organisations	**140,455**	112,708
	47,811,804	46,250,362
Geographic region:		
UAE	**45,925,231**	44,695,348
Rest of the Middle East	**1,121,334**	780,247
Europe	**376,726**	379,525
Others	**388,513**	395,242
	47,811,804	46,250,362

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

19 INVESTMENT IN SUKUK MEASURED AT AMORTISED COST

	2019 AED '000	2018 AED '000
Sukuk - Quoted	**10,689,314**	11,806,972
Less: provision for impairment	**(30,694)**	(25,115)
	10,658,620	11,781,857

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

	2019 AED '000	2018 AED '000
UAE	**7,811,319**	8,237,230
Rest of the Middle East	**1,911,829**	1,823,550
Others	**966,166**	1,746,192
	10,689,314	11,806,972

20 INVESTMENTS MEASURED AT FAIR VALUE

	2019 AED '000	2018 AED '000
Investments carried at fair value through profit or loss		
Quoted investments		
Sukuk	987,330	1,438,659
Investments carried at fair value through other comprehensive income		
Quoted investments		
Equities	30,293	28,727
Sukuk	1,101,745	330,367
	1,132,038	359,094
Unquoted investments		
Sukuk	76,535	-
Funds	37,244	46,956
Private equities	57,938	42,775
	171,717	89,731
	1,303,755	448,825
	2,291,085	1,887,484
Less: provision for impairment	(9,420)	(1,912)
Total investments measured at fair value	2,281,665	1,885,572

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

	2019 AED '000	2018 AED '000
UAE	1,818,743	1,287,135
Rest of the Middle East	410,259	364,032
Europe	356	94,005
Others	61,727	142,312
	2,291,085	1,887,484

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	2019 AED '000	2018 AED '000
Investment in associates and joint ventures	1,280,677	1,206,159

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

	2019 AED '000	2018 AED '000
At 1 January	15,156	15,156
Charge for the year (note 11)	1,379	-
At 31 December	16,535	15,156

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

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

	Place of incorporation	Proportion of ownership interest 2019 %	2018 %	Principal activity
Associates				
Abu Dhabi National Takaful PJSC	UAE	**42**	42	Islamic insurance
Bosna Bank International D.D	Bosnia	**27**	27	Islamic banking
The Residential REIT (IC) Limited	UAE	**30**	30	Real estate fund
Joint ventures				
Abu Dhabi Islamic Bank – Egypt (S.A.E.)	Egypt	**49**	49	Banking (under conversion to Islamic bank)
Saudi Finance Company CSJC	Kingdom of Saudi Arabia	**51**	51	Islamic Retail Finance
Arab Link Money Transfer PSC (under liquidation)	UAE	**51**	51	Currency Exchange
Abu Dhabi Islamic Merchant Acquiring Company LLC	UAE	**51**	51	Merchant acquiring

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

	2019 AED '000	2018 AED '000
1 - Abu Dhabi National Takaful PJSC		
Share of associate's statement of financial position		
Assets	**515,198**	424,554
Liabilities	**(336,110)**	(279,660)
Net assets	**179,088**	144,894
Share of associate's revenue and profits:		
Revenue for the year	**64,799**	51,283
Profit for the year	**30,891**	27,198
Dividends received during the year	**8,333**	8,333
2 - Bosna Bank International D.D		
Share of associate's statement of financial position		
Assets	**688,205**	542,325
Liabilities	**(600,933)**	(460,045)
Net assets	**87,272**	82,280
Share of associate's revenue and profits:		
Revenue for the year	**18,566**	18,482
Profit for the year	**6,587**	2,139
3 - Abu Dhabi Islamic Bank – Egypt (S.A.E.)		
Share of joint venture's statement of financial position		
Assets	**6,431,193**	4,958,070
Liabilities	**(5,968,131)**	(4,668,844)
Net assets	**463,062**	289,226
Share of joint venture's revenue:		
Revenue for the year	**321,424**	445,117

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

As of 31 December 2019, the Bank's share of the contingent liabilities and commitments of associates and joint ventures amounted to AED 1,293,123 thousand (2018: AED 618,278 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 2019 amounted to AED 139,575 thousand (2018: AED 183,323 thousand) and its carrying value as of 31 December 2019 amounted to AED 244,352 thousand (2018: AED 221,794 thousand).

22 INVESTMENT PROPERTIES

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

2019	Land AED '000	Other properties AED '000	Total AED '000
Cost:			
Balance at 1 January	**988,572**	**548,602**	**1,537,174**
Disposals	**-**	**(7,443)**	**(7,443)**
Gross balance at 31 December	**988,572**	**541,159**	**1,529,731**
Less: provision for impairment	**(106,033)**	**(12,413)**	**(118,446)**
Net balance at 31 December	**882,539**	**528,746**	**1,411,285**
Accumulated depreciation:			
Balance at 1 January	**-**	**55,180**	**55,180**
Charge for the year	**-**	**17,076**	**17,076**
Relating to disposals	**-**	**(2,407)**	**(2,407)**
Balance at 31 December	**-**	**69,849**	**69,849**
Net book value at 31 December	**882,539**	**458,897**	**1,341,436**

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

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 37,848 thousand (2018: AED 35,250 thousand).

The fair values of investment properties at 31 December 2019 amounted to AED 1,415,236 thousand (2018: AED 1,544,965 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.

22 INVESTMENT PROPERTIES continued

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 2018	13,339	11,398	24,737
Charge for the year (note 11)	59,753	327	60,080
At 1 January 2019	**73,092**	**11,725**	**84,817**
Charge for the year (note 11)	**32,941**	**688**	**33,629**
At 31 December 2019	**106,033**	**12,413**	**118,446**

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

	Land AED '000	**Other properties AED '000**	**Total AED '000**
2019:			
UAE	**980,358**	**471,310**	**1,451,668**
Rest of the Middle East	**8,214**	**-**	**8,214**
	988,572	**471,310**	**1,459,882**
2018:			
UAE	980,358	493,422	1,473,780
Rest of the Middle East	8,214	-	8,214
	988,572	493,422	1,481,994

23 DEVELOPMENT PROPERTIES

	2019 AED '000	2018 AED '000
Development properties	**837,381**	837,381
Less: provision for impairment	**(92,532)**	(1,736)
	744,849	835,645

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

	2019 AED '000	2018 AED '000
At 1 January	**1,736**	-
Charge for the year (note 11)	**90,796**	1,736
At 31 December	**92,532**	1,736

Development properties include land with a carrying value of AED 707,468 thousand (2018: AED 798,264 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

24 OTHER ASSETS

	2019 AED'000	2018 AED'000
Acceptances	115,745	336,903
Assets acquired in satisfaction of claims	200,910	198,163
Trade receivables	189,596	261,382
Prepaid expenses	749,150	789,561
Accrued profit	189,780	197,567
Advance to contractors	46,777	44,868
Other receivables (note 40)	183,625	183,625
Positive fair value of Shari'a compliant alternatives of derivative financial instruments (note 37)	2,336	-
Others, net	1,182,817	1,238,078
	2,860,736	3,250,147

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	Right -of use assets AED '000	Total AED '000
2019								
Cost or revaluation:								
At 1 January	291,178	737,860	528,797	1,300,245	15,225	287,489	-	3,160,794
Exchange differences	-	-	338	329	2	1	-	670
Additions	-	-	1,218	6,379	70	301,810	402,026	711,503
Transfers from capital work-in-progress	-	30,362	8,504	241,299	-	(280,165)	-	-
Disposals	-	-	-	-	(5,919)	-	-	(5,919)
	291,178	768,222	538,857	1,548,252	9,378	309,135	402,026	3,867,048
Less: provision for impairment	-	(1,455)	-	-	-	-		(1,455)
At 31 December	291,178	766,767	538,857	1,548,252	9,378	309,135	402,026	3,865,593
Depreciation:								
At 1 January	-	72,683	347,214	859,619	11,162	-	-	1,290,678
Exchange differences	-	-	518	290	2	-	195	1,005
Charge for the year	-	23,010	39,322	186,010	1,007	-	60,278	309,627
Relating to disposals	-	-	-	-	(4,382)	-	-	(4,382)
At 31 December	-	95,693	387,054	1,045,919	7,789	-	60,473	1,596,928
Net book value:								
At 31 December	291,178	671,074	151,803	502,333	1,589	309,135	341,553	2,268,665

25 PROPERTY AND EQUIPMENT continued

	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	Right -of use assets AED '000	Total AED '000
2018								
Cost or revaluation:								
At 1 January	291,178	294,435	444,491	1,131,577	12,832	985,578	-	3,160,091
Exchange differences	-	-	(4,481)	(18,051)	(485)	(557)	-	(23,574)
Additions	-	-	806	8,687	3,763	389,027	-	402,283
Transfers from capital work-in-progress	-	443,425	90,830	178,261	-	(712,516)	-	-
Transfers to investment property (note 22)	-	-	-	-	-	(374,043)	-	(374,043)
Disposals	-	-	(2,849)	(229)	(885)	-	-	(3,963)
	291,178	737,860	528,797	1,300,245	15,225	287,489	-	3,160,794
Less: provision for impairment	-	(1,455)	-	-	-	-	-	(1,455)
At 31 December	291,178	736,405	528,797	1,300,245	15,225	287,489	-	3,159,339
Depreciation:								
At 1 January	-	55,399	313,347	717,862	10,806	-	-	1,097,414
Exchange differences	-	-	(3,840)	(10,283)	(474)	-	-	(14,597)
Charge for the year	-	17,284	39,910	152,242	1,685	-	-	211,121
Relating to disposals	-	-	(2,203)	(202)	(855)	-	-	(3,260)
At 31 December	-	72,683	347,214	859,619	11,162	-	-	1,290,678
Net book value:								
At 31 December	291,178	663,722	181,583	440,626	4,063	287,489	-	1,868,661

26 GOODWILL AND INTANGIBLES

		Other intangible assets		
	Goodwill AED '000	Customer relationships AED '000	Core deposit AED '000	Total AED '000
At 1 January 2018	109,888	212,757	42,698	365,343
Amortisation during the year	-	(45,600)	(9,152)	(54,752)
At 1 January 2019	**109,888**	**167,157**	**33,546**	**310,591**
Amortisation during the year	**-**	**(45,600)**	**(9,152)**	**(54,752)**
At 31 December 2019	**109,888**	**121,557**	**24,394**	**255,839**

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.

26 GOODWILL AND INTANGIBLES continued

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 2019 (2018: 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% (2018: 2%) applied thereafter. The forecast cash flows have been discounted at a rate of 10.5% (2018: 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

	2019 AED'000	2018 AED'000
Current accounts	**1,135,800**	878,693
Investment deposits	**1,279,482**	3,203,909
	2,415,282	4,082,602
Current account – Central Bank of UAE	**46,196**	55,652
	2,461,478	4,138,254

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

	2019 AED'000	2018 AED'000
UAE	**567,084**	2,176,921
Rest of the Middle East	**653,072**	694,135
Europe	**73,401**	33,192
Others	**1,167,921**	1,234,006
	2,461,478	4,138,254

28 DEPOSITORS' ACCOUNTS

	2019 AED'000	2018 AED'000
Current accounts	**30,717,575**	32,085,016
Investment accounts	**70,008,852**	67,717,438
Profit equalisation reserve	**677,848**	601,293
	101,404,275	100,403,747

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

	2019 AED'000	2018 AED'000
At 1 January	**601,293**	521,802
Share of profit for the year	**76,555**	79,491
At 31 December	**677,848**	601,293

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

	2019 AED'000	2018 AED'000
Industry sector:		
Government	**6,930,975**	6,523,799
Public sector	**14,343,606**	10,386,595
Corporates	**9,465,149**	14,289,496
Financial institutions	**937,135**	1,586,075
Individuals	**57,380,650**	53,053,592
Small and medium enterprises	**9,448,494**	12,131,123
Non-profit organisations	**2,898,266**	2,433,067
	101,404,275	100,403,747

	2019 AED'000	2018 AED'000
Geographic region:		
UAE	**96,046,522**	94,358,170
Rest of the Middle East	**3,911,689**	4,415,013
Europe	**593,075**	638,372
Others	**852,989**	992,192
	101,404,275	100,403,747

	2019 AED'000	2018 AED'000
Currencies:		
UAE Dirham	**81,109,373**	84,077,223
US Dollar	**16,491,289**	12,442,629
Euro	**825,036**	1,361,959
Sterling Pound	**721,062**	454,835
Others	**2,257,515**	2,067,101
	101,404,275	100,403,747

28 DEPOSITORS' ACCOUNTS continued

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

	2019 AED'000	2018 AED'000
Accounts payable	**357,796**	448,349
Acceptances	**115,745**	336,903
Lease liabilities	**350,778**	-
Accrued profit for distribution to depositors and sukuk holders	**254,246**	239,357
Bankers' cheques	**331,479**	281,913
Provision for staff benefits and other expenses	**413,449**	438,851
Retentions payable	**15,315**	14,200
Advances from customers	**56,373**	89,344
Accrued expenses	**410,374**	391,268
Unclaimed dividends	**100,748**	108,936
Deferred income	**108,986**	150,952
Charity account	**1,931**	4,793
Donation account	**41,527**	27,345
Negative fair value of Shari'a compliant alternatives of derivative financial instruments (note 37)	**1,799**	7,017
Others	**457,455**	376,001
	3,018,001	2,915,229

30 SHARE CAPITAL

	2019 AED'000	2018 AED'000
Authorised share capital:		
4,000,000 thousand (2018: 4,000,000 thousand) ordinary shares of AED 1 each (2018: AED 1 each)	**4,000,000**	4,000,000
Issued and fully paid share capital:		
3,632,000 thousand (2018: 3,168,000 thousand) ordinary shares of AED 1 each (2018: AED 1 each)	**3,632,000**	3,168,000
Right shares issued: Nil (2018: 0.146 share against each share held of AED 1 each)	**-**	464,000
3,632,000 thousand (2018: 3,632,000 thousand) ordinary shares of AED 1 each (2018: AED 1 each)	**3,632,000**	3,632,000

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

31 RESERVES

31.1 Legal reserve

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

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

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

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

31.2 General reserve

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

31.3 Credit risk reserve

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

32 DIVIDEND

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

33 OTHER RESERVES

	Cumulative changes in fair values AED '000	Land revaluation reserve AED '000	Foreign currency translation reserve AED '000	Hedging reserve AED '000	Impairment reserve - General AED '000	Total AED '000
At 1 January 2018 - audited	(161,269)	192,700	(769,732)	(4,881)	-	**(743,182)**
Transition adjustment on adoption of IFRS 9	21,979	-	-	-	-	**21,979**
At 1 January 2018 - adjusted	(139,290)	192,700	(769,732)	(4,881)	-	**(721,203)**
Net movement in valuation of equity investment carried at FVTOCI	(34,405)	-	-	-	-	**(34,405)**
Net movement in valuation of investment in sukuk carried at FVTOCI	(28,062)	-	-	-	-	**(28,062)**
Net fair value changes for investment in sukuk carried at FVTOCI released to income statement (note 6)	(4,107)	-	-	-	-	**(4,107)**
Exchange differences arising on translation of foreign operations	-	-	(96,700)	-	-	**(96,700)**
Gain on hedge of foreign operations	-	-	21,130	-	-	**21,130**
Fair value loss on cash flow hedges	-	-	-	(2,102)	-	**(2,102)**
At 1 January 2019	**(205,864)**	**192,700**	**(845,302)**	**(6,983)**	**-**	**(865,449)**
Net movement in valuation of equity investment carried at FVTOCI	**24,811**	**-**	**-**	**-**	**-**	**24,811**
Net movement in valuation of investment in sukuk carried at FVTOCI	**12,847**	**-**	**-**	**-**	**-**	**12,847**

33 OTHER RESERVES continued

	Cumulative changes in fair values AED '000	Land revaluation reserve AED '000	Foreign currency translation reserve AED '000	Hedging reserve AED '000	Impairment reserve - General AED '000	Total AED '000
Net fair value changes for investment in sukuk carried at FVTOCI released to income statement (note 6)	(896)	-	-	-	-	(896)
Exchange differences arising on translation of foreign operations	-	-	62,159	-	-	62,159
Loss on hedge of foreign operations	-	-	(8,002)	-	-	(8,002)
Fair value gain on cash flow hedges	-	-	-	9,319	-	9,319
Net movement in impairment reserve – General		-	-	-	403,436	403,436
At 31 December 2019	(169,102)	192,700	(791,145)	2,336	403,436	(361,775)

34 TIER 1 SUKUK

	2019 AED'000	2018 AED'000
Tier 1 sukuk – Listed (second issue)	2,754,375	2,754,375
Tier 1 sukuk – Government of Abu Dhabi	2,000,000	2,000,000
	4,754,375	4,754,375

Tier 1 sukuk – Listed (second issue)

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

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

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

Tier 1 sukuk – Government of Abu Dhabi

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

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

34 TIER 1 SUKUK continued

Tier 1 sukuk – Government of Abu Dhabi continued

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

35 NON-CONTROLLING INTEREST

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

36 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

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

	2019 AED'000	2018 AED'000
Contingent liabilities		
Letters of credit	**5,423,240**	3,168,884
Letters of guarantee	**6,958,297**	7,006,289
	12,381,537	10,175,173
Commitments		
Undrawn facilities commitments	**612,618**	517,540
Future capital expenditure	**154,642**	110,763
Investment and development properties	**4,885**	4,366
	772,145	632,669
	13,153,682	10,807,842

37 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

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

37 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS continued

	Positive fair value AED '000	Negative fair value AED '000	Notional amount AED '000	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000
31 December 2019: Notional amount by term to maturity							
Shari'a compliant alternatives of swap (note 24, 29)	2,336	1,799	5,516,001	3,496,338	308,667	912,906	798,091
31 December 2018: Notional amount by term to maturity							
Shari'a compliant alternatives of swap (note 29)	-	7,017	4,544,461	3,268,069	205,935	554,499	515,958

38 ZAKAT

As the Bank is not required to pay Zakat by laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the share value, for Zakat purposes based on Gregorian year, was estimated at AED 256,516 thousand (2018: AED 231,422 thousand) and accordingly, Zakat is estimated at AED 0.07063 (2018: AED 0.06372) per outstanding share.

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

Tier 1 Sukuk Zakat, based on Gregorian year, was estimated at AED 86,336 thousand (2018: AED 87,507 thousand) and accordingly, Zakat is estimated at AED 0.01816 (2018: AED 0.01841) per each AED dirham invested in Tier 1 Sukuk.

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

39 CASH AND CASH EQUIVALENTS

	2019 AED'000	2018 AED'000
Cash and balances with central banks, short term	**7,303,370**	5,763,268
Balances and wakala deposits with Islamic banks and other financial institutions, short term	**706,397**	3,702,558
Murabaha and mudaraba with financial institutions, short term	**664,582**	1,049,629
Due to financial institutions, short term	**(2,158,932)**	(4,006,602)
	6,515,417	6,508,853

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

	2019 AED'000	2018 AED'000
Transfer from property and equipment to investment properties (note 22)	-	374,043

40 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank enters into transactions with related parties, comprising major shareholders, directors, associates and joint ventures, 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 2016, related party financing were renegotiated based on the terms approved by the Board of Directors and are free of any specific provision for impairment. Transactions between the Bank and its subsidiaries 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 9.9% (2018: 0% to 7% 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 2.0% per annum (2018: 0% to 0.8% per annum).

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

	Major shareholder AED '000	Directors AED '000	Associates and Joint Ventures AED '000	Others AED '000	Total AED '000
31 December 2019					
Income from murabaha, mudaraba and wakala with financial institutions	**-**	**-**	**18,903**	**-**	**18,903**
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	**52,470**	**573**	**-**	**82,133**	**135,176**
Fees and commission income, net	**-**	**-**	**2,311**	**7,340**	**9,651**
Operating expenses	**-**	**696**	**-**	**-**	**696**
Distribution to depositors and sukuk holders	**1,014**	**14**	**1,283**	**31**	**2,342**
31 December 2018					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	9,829	-	9,829
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	52,614	450	-	83,568	136,632
Fees and commission income, net	1	38	2,323	3,428	5,790
Operating expenses	-	762	-	-	762
Distribution to depositors and sukuk holders	1,213	70	872	50	2,205

40 RELATED PARTY TRANSACTIONS continued

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

	Major shareholder AED '000	Directors AED '000	Associates and Joint Ventures AED '000	Others AED '000	Total AED '000
31 December 2019					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	**319,585**	-	**319,585**
Murabaha and mudaraba with financial institutions	-	-	**169,057**	-	**169,057**
Murabaha, mudaraba, ijara and other Islamic financing	**2,599,153**	**56,000**	-	**3,221,131**	**5,876,284**
Other assets	**183,625**	-	**496,667**	**2,204**	**682,496**
	2,782,778	**56,000**	**985,309**	**3,223,335**	**7,047,422**
Due to financial institutions	-	-	**9,330**	-	**9,330**
Depositors' accounts	**45,632**	**7,192**	**225,258**	**34,935**	**313,017**
Other liabilities	**476**	-	**31**	**2,204**	**2,711**
	46,108	**7,192**	**234,619**	**37,139**	**325,058**
Contingencies	-	-	**15,264**	**150,289**	**165,553**
31 December 2018					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	209,344	-	209,344
Murabaha and Mudaraba with financial institutions	-	-	177,847	-	177,847
Murabaha, mudaraba, ijara and other Islamic financing	2,611,227	12,353	-	3,413,718	6,037,298
Other assets	183,625	-	487,427	27,874	698,926
	2,794,852	12,353	874,618	3,441,592	7,123,415
Due to financial institutions	-	-	39,934	-	39,934
Depositors' accounts	93,806	39,231	147,700	31,827	312,564
Other liabilities	780	-	46	27,875	28,701
	94,586	39,231	187,680	59,702	381,199
Contingencies	-	-	11,264	105,879	117,143

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:

	2019 AED'000	2018 AED'000
Salaries and other benefits	**34,735**	38,263
Employees' end of service benefits	**2,917**	2,840
	37,652	41,103

During 2019, AED 4,900 thousand was paid to Board of Directors pertaining to the year ended 31 December 2018 after the approval by the shareholders in the Annual General Assembly held on 13 March 2019.

41 SEGMENT INFORMATION

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

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

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

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

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

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

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

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

Business segments information for the year ended 31 December 2019 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	3,665,893	1,066,967	144,272	487,271	67,546	483,262	5,915,211
Operating expenses excluding provision for impairment, net	(1,970,225)	(352,978)	(64,609)	(41,390)	(67,627)	(156,222)	(2,653,051)
Operating profit (margin)	1,695,668	713,989	79,663	445,881	(81)	327,040	3,262,160
Provision for impairment, net	(325,645)	(129,296)	4,710	(4,427)	(124,425)	(79,013)	(658,096)
Profit (loss) for the year before zakat and tax	1,370,023	584,693	84,373	441,454	(124,506)	248,027	2,604,064
Zakat and tax	-	(2,953)	-	-	-	-	(2,953)
Profit (loss) for the year after zakat and tax	1,370,023	581,740	84,373	441,454	(124,506)	248,027	2,601,111
Non-controlling interest	-	-	-	-	-	(1,015)	(1,015)
Profit (loss) for the period attributable to equity holders of the Bank	1,370,023	581,740	84,373	441,454	(124,506)	247,012	2,600,096
Assets							
Segmental assets	58,288,566	33,537,292	3,724,363	20,235,282	2,070,398	8,131,270	125,987,171
Liabilities							
Segmental liabilities	64,304,876	21,407,814	4,021,615	12,517,948	229,577	4,401,924	106,883,754

41 SEGMENT INFORMATION continued

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

	Global Retail banking AED '000	Global Wholesale banking AED '000	Private banking AED '000	Treasury AED '000	Real estate AED '000	Other operations AED '000	Total AED '000
Revenue and results							
Segment revenues, net	3,529,103	1,145,455	143,100	473,025	81,926	396,877	5,769,486
Operating expenses excluding provision for impairment, net	(1,920,577)	(391,171)	(62,196)	(45,617)	(78,206)	(146,014)	(2,643,781)
Operating profit	1,608,526	754,284	80,904	427,408	3,720	250,863	3,125,705
Provision for impairment, net	(301,396)	(116,946)	(7,486)	7,021	(61,816)	(139,474)	(620,097)
Profit (loss) for the year before Zakat and tax	1,307,130	632,516	73,418	434,429	(58,096)	111,389	2,505,608
Zakat and tax	-	(4,822)	-	-	-	-	(4,822)
Profit (loss) for the year after Zakat and tax	1,307,130	632,516	73,418	434,429	(58,096)	111,389	2,500,786
Non-controlling interest	-	-	-	-	-	(700)	(700)
Profit (loss) for the year attributable to equity holders of the Bank	1,307,130	632,516	73,418	434,429	(58,096)	110,689	2,500,086
Assets							
Segmental assets	57,814,682	32,013,817	3,452,542	22,346,775	2,544,409	7,021,690	125,193,915
Liabilities							
Segmental liabilities	63,308,953	25,642,875	3,251,075	11,543,309	269,608	3,441,410	107,457,230

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**
31 December 2019							
Total segment revenues, net	**3,359,555**	**1,170,495**	**135,961**	**1,059,077**	**67,546**	**122,577**	**5,915,211**
Inter-segment revenues, net	**306,338**	**(103,528)**	**8,311**	**(571,806)**	**-**	**360,685**	**-**
Segment revenues, net	**3,665,893**	**1,066,967**	**144,272**	**487,271**	**67,546**	**483,262**	**5,915,211**
31 December 2018							
Total segment revenues, net	3,322,056	1,241,728	131,790	773,743	81,926	218,243	5,769,486
Inter-segment revenues, net	207,047	(96,273)	11,310	(300,718)	-	178,634	-
Segment revenues, net	3,529,103	1,145,455	143,100	473,025	81,926	396,877	5,769,486

Geographical information

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

42 RISK MANAGEMENT

42.1 Introduction

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

42.1.1 Risk management governance structure

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

Strategy Committee

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

Risk and Investment Approval Committee

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

Governance and Risk Policy Committee

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

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

Audit Committee

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

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

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

42.1.2 The Group Risk Management ("GRM")

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

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

42 RISK MANAGEMENT continued

42.1 Introduction continued

42.1.2 The Group Risk Management ("GRM") continued

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

Credit Committee

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

42.1.3 Risk measurement and reporting systems

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

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

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

The Group actively uses collateral to reduce its credit risks.

42.1.4 Risk concentration

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

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

42.1.5 Group Internal Audit

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

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

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

42.2 Credit risk

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

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

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

42 RISK MANAGEMENT continued

42.2 Credit risk continued

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

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

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

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

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

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

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

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

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

*Expected Credit Loss (ECL) = PD*EAD*LGD*
For each facility the Group calculates ECL over two forecast periods:

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

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

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

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

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

42 RISK MANAGEMENT continued

42.2 Credit risk continued

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

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

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

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

Definition of default and credit-impaired assets

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

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

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

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

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

Curing

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

Measuring ECL - Explanations of input, assumptions and estimation techniques

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

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

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

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

Probability of Default (PD):

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

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

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

42 RISK MANAGEMENT continued

42.2 Credit risk continued

Loss Given Default (LGD):

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

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

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

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

Exposure at Default (EAD):

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

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

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

Forward-looking information incorporated in the ECL model

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

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

Credit risk monitoring

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

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

Group credit risk mitigation strategy

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

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

Collateral management

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

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

Credit-related commitments risks

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

42 RISK MANAGEMENT continued

42.2 Credit risk continued

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

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

	Notes	Gross maximum exposure 2019 AED '000	Gross maximum exposure 2018 AED '000
Balances and wakala deposits with Islamic banks and other financial institutions	15	**2,291,904**	3,909,757
Murabaha and mudaraba with financial institutions	16	**1,080,052**	1,353,352
Murabaha and other Islamic financing	17	**36,309,444**	35,308,535
Ijara financing	18	**47,811,804**	46,250,362
Investment in sukuk measured at amortised cost	19	**10,689,314**	11,806,972
Investments measured at fair value	20	**2,165,610**	1,769,026
Other assets		**1,756,297**	2,106,918
		102,104,425	102,504,922
Contingent liabilities	36	**12,381,537**	10,175,173
Commitments	36	**612,618**	517,540
Total		**12,994,155**	10,692,713
Total credit risk exposure		**115,098,580**	113,197,635

42.2.2 Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The credit exposure to the top 5 customers as of 31 December 2019 was AED 8,761,264 thousand (2018: AED 8,209,735 thousand) before taking account of collateral or other credit enhancements.

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

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

	Balances and wakala deposits with Islamic banks and other financial institutions AED '000	Murabaha and mudaraba with financial institutions AED '000	Murabaha and other Islamic financing AED '000	Ijara financing AED '000	Investment in Islamic suksuk measured at amortised cost AED '000	Investments measured at fair value AED '000	Other assets AED '000	Total AED' 000
31 December 2019								
UAE	**364,159**	**910,892**	**33,760,148**	**45,925,231**	**7,811,319**	**1,743,068**	**1,670,554**	**92,185,371**
Rest of Middle East	**758,025**	**169,160**	**1,443,423**	**1,121,334**	**1,911,829**	**372,759**	**85,743**	**5,862,273**
Europe	**115,300**	**-**	**824,303**	**376,726**	**-**	**-**	**-**	**1,316,329**
Others	**1,054,420**	**-**	**281,570**	**388,513**	**966,166**	**49,783**	**-**	**2,740,452**
Financial assets subject to credit risk	**2,291,904**	**1,080,052**	**36,309,444**	**47,811,804**	**10,689,314**	**2,165,610**	**1,756,297**	**102,104,425**
31 December 2018								
UAE	2,424,116	1,139,796	33,567,718	44,695,348	8,237,230	1,223,325	1,658,969	92,946,502
Rest of Middle East	472,079	177,890	1,103,351	780,247	1,823,550	316,702	77,859	4,751,678
Europe	206,682	-	538,523	379,525	-	93,643	-	1,218,373
Others	806,880	35,666	98,943	395,242	1,746,192	135,356	370,090	3,588,369
Financial assets subject to credit risk	3,909,757	1,353,352	35,308,535	46,250,362	11,806,972	1,769,026	2,106,918	102,504,922

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.2 Credit risk concentration continued

The credit risk arising from off-balance sheet items mentioned in note 42.2.1 are mainly relating to the UAE.

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

	2019 AED'000	2018 AED'000
Government	**5,020,018**	5,319,790
Public sector	**7,840,439**	5,178,824
Financial institutions	**8,713,900**	10,289,666
Trading and manufacturing	**6,765,279**	6,786,011
Construction and real estate	**6,416,301**	6,489,082
Energy	**186,569**	304,725
Personal	**52,155,145**	51,498,316
Others	**15,006,774**	16,638,508
Financial assets subject to credit risk	**102,104,425**	102,504,922

42.2.3 Impairment assessment

With the adoption of IFRS 9 the incurred loss approach for impairment has been replaced by a forward looking expected credit loss (ECL) approach. The Bank recognizes an allowance for ECL for all financial instruments other than those held at fair value through profit or loss. Financial instruments are classified into three categories as follows:

Stage 1 (performing): where no Significant Increase in Credit Risk (SICR) since origination has been observed. ECL from default events that are possible within the next 12 months is booked as impairment provision.

Stage 2 (underperforming): where a SICR since origination is observed however a default has not occurred. ECL from default events that are possible over the lifetime of the financial instrument is booked as impairment provision.

Stage 3 (non-performing): where a default has occurred, ECL based on the loss expected over the remaining life of the financial instrument is recognized as an impairment provision.

The criteria for SICR have been defined for both the wholesale and retail book. The primary driver of SICR for the wholesale book is the customer risk rating migration since origination. The customer risk rating in turn is determined by the probability of default. The primary driver of the SICR for the retail book is the past due status and the lifetime probability of default.

The ECL is calculated as a product of the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) which is present valued using the effective profit rate of each facility. The PDs and LGDs are adjusted based on weighted average of three macroeconomic scenarios sourced from an external industry expert. These scenarios are updated quarterly.

The ECL based provisions are reviewed and approved by a monthly Provision Management Committee (PMC). For each individually significant exposure, the PMC is authorized to assess the circumstances and facts individually and adjust the ECL accordingly.

Write-off of financing assets

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

42.2.4 Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.4 Collateral and other credit enhancements continued

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

	2019 AED'000	2018 AED'000
Against customer financing not impaired		
Property	**32,704,343**	35,225,062
Securities	**23,233**	47,229
Cash margin and lien over deposits	**524,987**	540,416
Others	**9,242,297**	7,299,595
	42,494,860	43,112,302
Against individually impaired		
Property	**3,131,517**	1,971,941
Securities	**298,015**	57,440
Cash margin and lien over deposits	**10,558**	9,016
Others	**84,826**	100,204
	3,524,916	2,138,601
	46,019,776	45,250,903

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

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

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

42.2.5 Credit quality per class of financial assets

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

	Moody's equivalent grade	2019 AED '000	2018 AED '000
Low risk			
Risk rating class 1	Aaa	**-**	-
Risk rating classes 2 and 3	Aa1-A2	**9,277,493**	10,916,227
Risk rating class 4	A3-Baa3	**27,617,604**	25,471,736
Risk rating classes 5, 6+ and 6	Ba1-B3	**41,583,539**	40,904,315
Fair risk			
Risk rating class 6- and 7	Caa1-Caa3	**3,674,410**	6,140,398
Impaired			
Risk rating class 8, 9 and 10		**5,440,158**	3,951,225
		87,493,204	87,383,901

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

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.5 Credit quality per class of financial assets continued

Renegotiated murabaha, ijara and other Islamic financings

The total carrying amount of financing to non-related parties whose terms have been renegotiated during the year amounted to AED 365,604 thousand (2018: AED 2,030,422 thousand).

42.2.6 Credit quality per stage for financing assets

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	Total AED '000
31 December 2019				
Murabaha and other Islamic financing				
- Performing financing	32,200,802	1,943,068	-	34,143,870
- Non - performing financing	-	-	2,165,574	2,165,574
Murabaha and other Islamic financing – Gross	32,200,802	1,943,068	2,165,574	36,309,444
Less: provision for impairment (ECL)	(231,082)	(256,262)	(1,194,535)	(1,681,879)
Murabaha and other Islamic financing – Net	31,969,720	1,686,806	971,039	34,627,565
Ijara financing				
- Performing financing	40,480,537	4,056,683	-	44,267,220
- Non - performing financing	-	-	3,274,584	3,544,584
Ijara financing – gross	40,480,537	4,056,683	3,274,584	47,811,804
Less: provision for impairment (ECL)	(146,070)	(189,910)	(995,383)	(1,331,363)
Ijara financing – Net	40,334,467	3,866,773	2,279,201	46,480,441

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	Total AED '000
31 December 2018				
Murabaha and other Islamic financing				
- Performing financing	30,987,088	2,516,628	-	33,503,716
- Non - performing financing	-	-	1,804,819	1,804,819
Murabaha and other Islamic financing – Gross	30,987,088	2,516,628	1,804,819	35,308,535
Less: provision for impairment (ECL)	(213,983)	(548,591)	(938,925)	(1,701,499)
Murabaha and other Islamic financing – Net	30,773,105	1,968,037	865,894	33,607,036
Ijara financing				
- Performing financing	38,470,375	5,633,581	-	44,103,956
- Non - performing financing	-	-	2,146,406	2,146,406
Ijara financing – gross	38,470,375	5,633,581	2,146,406	46,250,362
Less: provision for impairment (ECL)	(103,035)	(461,838)	(615,878)	(1,180,751)
Ijara financing – Net	38,367,340	5,171,743	1,530,528	45,069,611

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.6 Credit quality per stage for financing assets continued

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

	31 December 2019 – IFRS 9 (ECL)				31 December 2018 – IFRS 9 (ECL)			
	Stage1 AED '000	Stage 2 AED '000	Stage 3 AED '000	Total AED '000	Stage 3 AED '000	Stage 3 AED '000	Stage 3 AED '000	Stage 3 AED '000
Murabaha and other Islamic financing								
At 1 January – audited (IAS 39)	-	-	-	-	852,941	-	1,043,196	1,896,137
Reversal on transition to IFRS 9	-	-	-	-	(852,941)	-	-	(852,941)
ECL recognized under IFRS 9	-	-	-	-	341,709	623,413	98,623	1,063,745
At 1 January – (adjusted opening as per IFRS 9)	213,983	548,591	938,925	1,701,499	341,709	623,413	1,141,819	2,106,941
(Reversals) charge for the year (note 11)	24,136	(268,635)	484,767	240,268	(127,726)	(74,822)	557,405	354,857
Written off during the year	-	-	(179,601)	(179,601)	-	-	(760,299)	(760,299)
*Other adjustment	(7,037)	(23,694)	(49,556)	(80,287)	-	-	-	-
At 31 December	231,082	256,262	1,194,535	1,681,879	213,983	548,591	938,925	1,701,499
Ijara financing								
At 1 January – audited (IAS 39)	-	-	-	-	860,173	-	464,051	1,324,224
Reversal on transition to IFRS 9	-	-	-	-	(860,173)	-	-	(860,173)
ECL recognized under IFRS 9	-	-	-	-	94,096	605,706	(98,035)	601,767
At 1 January – (adjusted opening as per IFRS 9)	103,035	461,838	615,878	1,180,751	94,096	605,706	366,016	1,065,818
Charge (reversals) for the year (note 11)	43,035	(271,928)	447,773	218,880	8,939	(143,868)	313,325	178,396
Written off during the year	-	-	(68,268)	(68,268)	-	-	(63,463)	(63,463)
At 31 December	146,070	189,910	995,383	1,331,363	103,035	461,838	615,878	1,180,751

*Other adjustment represents provision against unfunded exposures transferred to other liabilities.

42 RISK MANAGEMENT continued

42.2.7 Impairment reserve under the Central Bank of UAE (CBUAE) guidance

The CB UAE issued a guidance note to banks and finance companies on the implementation of IFRS 9 on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance").

Pursuant to clause 6.4 of the guidance, a comparison between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2019 AED '000	2018 AED '000
Impairment reserve: General		
General provisions under Circular 28/2010 of CBUAE	**1,332,764**	1,307,091
Less: Stage 1 and Stage 2 provisions under IFRS 9	**(929,328)**	(1,327,447)
General provision transferred to the impairment reserve	**403,436**	-
Impairment reserve: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**1,948,242**	1,348,086
Less: Stage 3 provisions under IFRS 9	**(2,248,870)**	(1,554,803)
Specific provision transferred to the impairment reserve	**-**	-
Total provision transferred to the impairment reserve	**403,436**	-

As per the guidance note, where provisions under IFRS 9 exceed provisions under circular 28/10 of the CBUAE, no amount is required to be transferred to the impairment reserve.

42.3 Liquidity risk and funding management

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

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

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

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

42.3.1 Treasury

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

42.3.2 Asset & Liability Committee ("ALCO")

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

42.3.3 Liquidity risk management process

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

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

42 RISK MANAGEMENT continued

42.3 Liquidity risk and funding management continued

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

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

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
31 December 2019					
ASSETS					
Cash and balances with central banks	19,322,005	501,404	-	-	19,823,409
Balances and wakala deposits with Islamic banks and other financial institutions	1,230,867	33,275	908,848	110,252	2,283,242
Murabaha and mudaraba with financial institutions	1,031,844	48,183	-	-	1,080,027
Murabaha and other Islamic financing	2,805,984	8,391,342	18,877,067	4,553,172	34,627,565
Ijara financing	1,376,427	3,923,724	16,875,464	24,304,826	46,480,441
Investments in Islamic sukuk measured at amortised cost	402,809	663,020	7,632,641	1,960,150	10,658,620
Investments measured at fair value	19,399	1,135,232	546,397	580,637	2,281,665
Investment in associates and joint ventures	-	-	-	1,280,677	1,280,677
Other assets	1,706,429	3,617	183,625	17,005	1,910,676
Financial assets	27,895,764	14,699,797	45,024,042	32,806,719	120,426,322
Non-financial assets					5,560,849
Total assets					125,987,171
LIABILITIES					
Due to financial institutions	2,424,753	36,725	-	-	2,461,478
Depositors' accounts	93,341,324	8,039,970	22,981	-	101,404,275
Other liabilities	2,252,500	64,754	614,037	86,710	3,018,001
Total liabilities	98,018,577	8,141,449	637,018	86,710	106,883,754
31 December 2018					
ASSETS					
Cash and balances with central banks	17,222,893	1,508,315	-	-	18,731,208
Balances and wakala deposits with Islamic banks and other financial institutions	2,597,992	600,000	698,930	-	3,896,922
Murabaha and mudaraba with financial institutions	1,109,751	243,578	-	-	1,353,329
Murabaha and other Islamic financing	4,516,060	8,170,220	17,290,841	3,629,915	33,607,036
Ijara financing	887,376	2,793,067	16,396,998	24,992,170	45,069,611
Investments in sukuk measured at amortised cost	-	-	7,170,523	4,611,334	11,781,857
Investments measured at fair value	-	1,788,004	97,568	-	1,885,572
Investment in associates and joint ventures	-	-	-	1,206,159	1,206,159
Other assets	1,650,765	36,956	189,486	385,216	2,262,423
Financial assets	27,984,837	15,140,140	41,844,346	34,824,794	119,794,117
Non-financial assets					5,399,798
Total assets					125,193,915
LIABILITIES					
Due to financial institutions	4,138,254	-	-	-	4,138,254
Depositors' accounts	95,808,120	4,524,482	71,145	-	100,403,747
Other liabilities	1,826,601	272,209	816,419	-	2,915,229
Total liabilities	101,772,975	4,796,691	887,564	-	107,457,230

42 RISK MANAGEMENT continued

42.3 Liquidity risk and funding management continued

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

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

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
31 December 2019					
LIABILITIES					
Due to financial institutions	**2,425,130**	**37,265**	**-**	**-**	**2,462,395**
Depositors' accounts	**93,382,020**	**8,113,442**	**23,610**	**-**	**101,519,072**
Other liabilities	**2,252,500**	**64,754**	**614,037**	**86,710**	**3,018,001**
Total liabilities	**98,059,650**	**8,215,461**	**637,647**	**86,710**	**106,999,468**
31 December 2018					
LIABILITIES					
Due to financial institutions	4,139,147	-	-	-	4,139,147
Depositors' accounts	95,859,448	4,576,590	72,991	-	100,509,029
Other liabilities	1,826,601	272,209	816,419	-	2,915,229
Total liabilities	101,825,196	4,848,799	889,410	-	107,563,405

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

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

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
31 December 2019					
Contingent liabilities	**7,135,921**	**1,552,431**	**3,688,409**	**4,776**	**12,381,537**
Commitments	**-**	**186,706**	**-**	**-**	**186,706**
Total	**7,135,921**	**1,739,137**	**3,688,409**	**4,776**	**12,568,243**
31 December 2018					
Contingent liabilities	7,514,223	669,498	1,360,067	631,385	10,175,173
Commitments	-	115,129	-	-	115,129
Total	7,514,223	784,627	1,360,067	631,385	10,290,302

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

42.4 Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Group is exposed to diverse the financial instruments including securities, foreign currencies, equities and commodities.

The Group pays considerable attention to market risk. The Group uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises of the following elements:

- Limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by the senior management; and
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on timely basis.

42 RISK MANAGEMENT continued

42.4 Market risk continued

The policies and procedures and the trading limits are set to ensure the implementation of the Group's market risk policy in day-to-day operations. These are viewed periodically to ensure they remain in line with the Group's general market risk policy. The ALCO ensure that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Group is required to comply with the guidelines and regulations of the Central Bank.

42.4.1 Profit rate risk

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

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

	2019		2018	
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**	**32,654**	25	24,906
USD	**25**	**27,430**	25	41,459
Euro	**25**	**892**	25	(531)
Other currencies	**25**	**(1,979)**	25	(485)

42.4.2 Currency risk

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

	% Increase currency rates	Effect on net profit AED '000	Effect on equity AED '000
31 December 2019			
Currency			
USD	**5**	**424,673**	**52,425**
Euro	**5**	**(10,828)**	**13,529**
GBP	**5**	**(45,154)**	**-**
Other currencies	**5**	**(16,567)**	**37,743**
31 December 2018			
Currency			
USD	5	699,315	14,895
Euro	5	(51,033)	4,066
GBP	5	21,417	4,723
Other currencies	5	(87,567)	23,975

42 RISK MANAGEMENT continued

42.4 Market risk continued

42.4.2 Currency risk continued

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

	AED AED '000	USD AED '000	Euro AED '000	GBP AED '000	Others AED '000	Total AED '000
31 December 2019						
Financial assets						
Cash and balances with central banks	17,075,200	1,750,410	365	776	996,658	19,823,409
Balances and wakala deposits with Islamic banks and other financial institutions	30,195	1,630,722	46,916	133,752	441,657	2,283,242
Murabaha and mudaraba with financial institutions	-	205,728	452,061	-	422,238	1,080,027
Murabaha and other Islamic financing	28,398,740	5,728,117	103,117	622,251	(224,660)	34,627,565
Ijara financing	39,604,192	6,150,395	1,341	381,787	342,726	46,480,441
Investments in Islamic sukuk measured at amortised cost	-	10,658,620	-	-	-	10,658,620
Investments measured at fair value	60,308	2,024,836	183,707	9,368	3,446	2,281,665
Investment in associates and joint ventures	440,953	-	86,245	-	753,479	1,280,677
Other assets	3,319,816	(1,193,900)	16,173	(352,956)	121,543	1,910,676
	88,929,404	26,954,928	889,925	794,978	2,857,087	120,426,322
Financial liabilities						
Due to financial institutions	766,105	730,483	6,722	937,187	20,981	2,461,478
Depositors' accounts	81,109,373	16,491,289	825,036	721,062	2,257,515	101,404,275
Other liabilities	2,627,577	191,205	4,149	39,992	155,078	3,018,001
	84,503,055	17,412,977	835,907	1,698,241	2,433,574	106,883,754
31 December 2018						
Financial assets						
Cash and balances with central banks	16,696,348	1,348,517	208	1,317	684,818	18,731,208
Balances and wakala deposits with Islamic banks and other financial institutions	30,238	2,644,830	123,198	769,753	328,903	3,896,922
Murabaha and mudaraba with financial institutions	-	1,010,218	125,833	-	217,278	1,353,329
Murabaha and other Islamic financing	29,292,763	3,679,978	94,014	337,446	202,835	33,607,036
Ijara financing	38,723,507	5,824,465	1,988	387,732	131,919	45,069,611
Investments in sukuk measured at amortised cost	-	11,781,857	-	-	-	11,781,857
Investments measured at fair value	56,110	1,722,986	(329)	94,491	12,314	1,885,572
Investment in associates and joint ventures	453,822	191,805	81,030	-	479,502	1,206,159
Other assets	1,217,919	684,245	37,461	198,632	124,166	2,262,423
	86,470,707	28,888,901	463,403	1,789,371	2,181,735	119,794,117
Financial liabilities						
Due to financial institutions	1,434,902	1,819,124	11,770	786,179	86,279	4,138,254
Depositors' accounts	84,077,223	12,442,629	1,361,959	454,835	2,067,101	100,403,747
Other liabilities	2,332,314	342,956	29,025	25,543	185,391	2,915,229
	87,844,439	14,604,709	1,402,754	1,266,557	2,338,771	107,457,230

42 RISK MANAGEMENT continued

42.4 Market risk continued

42.4.3 Equity price risk

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

The following table estimates the sensitivity to a possible change in equity markets on the Bank's consolidated other comprehensive income statement. The effect on equity (as a result of a change in the fair value of equity instruments held as investments carried at fair value through other comprehensive income at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	% Increase in market indices 2019	Effect on equity 2019 AED '000	% Increase in market indices 2018	Effect on equity 2018 AED '000
Investments carried at fair value through other comprehensive income				
Abu Dhabi Stock Market	**10**	**3,001**	10	2,851
Dubai Financial Market	**10**	**29**	10	22

42.4.4 Operational risk

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

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

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

42.4.5 Compliance risk review

In 2014 ADIB became aware of certain financial transactions relating to U.S. dollar payments that potentially breached U.S. sanctions laws in effect at that time. After learning of these potential breaches, ADIB appointed external legal advisers to assist it in reviewing these transactions and reviewing its compliance with U.S. sanctions laws and its compliance processes generally. Following this review, ADIB submitted its findings to relevant regulators in the UAE and the USA in early 2017. This review also assisted ADIB in identifying additional steps to ensure compliance with applicable sanctions laws, and ADIB enhanced its processes accordingly. As at 31 December 2019, the relevant regulators have not responded following receipt of ADIB's findings and, as such, the likely outcome of their review remains unknown.

42.5 Capital management

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ("CET1"), Additional Tier 1 ("AT1") and Total Capital.

The additional capital buffers (Capital Conservation Buffer ("CCB") and Countercyclical Capital Buffer ("CCyB") - maximum up to 2.5% for each buffer) introduced are over and above the minimum CET1 requirement of 7%.

From 2019 onwards, CCB will be required to be maintained at 2.5% (2018: 1.88%) of the Capital base. CCyB is not yet in effect and is not required to be maintained for 2019 (2018: Nil).

42 RISK MANAGEMENT continued

42.5 Capital management continued

The minimum capital adequacy ratio as per Basel III capital regulation is given below:

	Minimum capital requirement 2019	Minimum capital requirement 2019
Capital Ratio:		
a. Total for consolidated Group	13.00%	12.375%
b. Tier 1 ratio for consolidated Group	11.00%	10.375%
c. CET1 ratio for consolidated Group	9.50%	8.875%

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

The Bank's capital base is divided into three main categories, namely CET1, AT1 and Tier 2 ('T2'), depending on their characteristics.

- CET1 capital is the highest quality form of capital, comprising share capital, share premium, legal, statutory and other reserves, fair value reserve, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines;
- AT 1 capital comprises an eligible non-common equity capital instrument; and
- T2 capital comprises qualifying subordinated instrument and undisclosed reserve.

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

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

For credit and market risks, the Central Bank of the U.A.E. has issued guidelines for implementation of Standardised approach. For operational risk, the Central Bank of the U.A.E. has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Basic Indicators approach.

Furthermore, as required by the above circular, certain Basel III pillar 3 disclosures will be included in the annual report issued by the Bank for the year 2019.

The table below shows summarises the composition of Basel III regulatory capital and the ratios of the Group for the years ended 31 December 2018 and 2019. 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:

42 RISK MANAGEMENT continued

42.5 Capital management continued

	Basel III	
	31 December 2019 AED '000	31 December 2018 AED '000
Common Equity Tier 1 (CET 1) Capital		
Share capital	**3,632,000**	3,632,000
Legal reserve	**2,624,028**	2,624,028
General reserve	**2,228,072**	1,958,866
Credit risk reserve	**400,000**	400,000
Retained earnings	**5,675,871**	4,133,730
Foreign currency translation reserve	**(762,805)**	(813,632)
	13,797,166	11,934,992
Regulatory deductions:		
Goodwill and intangibles	**(255,839)**	(310,591)
Cumulative changes in fair value and hedging reserve	**(117,190)**	(150,456)
	13,424,137	11,473,945
Threshold deductions:		
Significant minority investments	**(112,363)**	(237,276)
Total Common Equity Tier 1	**13,311,774**	11,236,669
Additional Tier 1 (AT 1) Capital		
Tier 1 sukuk	**4,754,375**	4,754,375
Total Additional Tier 1	**4,754,375**	4,754,375
Total Tier 1 capital	**18,066,149**	15,991,044
Tier 2 capital		
Collective impairment provision for financing assets	**1,110,637**	1,089,243
Total Tier 2	**1,110,637**	1,089,243
Total capital base	**19,176,786**	17,080,287
Risk weighted assets		
Credit risk	**88,850,950**	87,139,417
Market risk	**2,403,440**	2,363,860
Operational risk	**10,307,571**	9,887,839
Total risk weighted assets	**101,561,961**	**99,391,116**
Capital ratios		
Common Equity Tier 1 capital expressed as a percentage of total risk weighted assets	**13.11%**	**11.31%**
Total Tier 1 capital expressed as a percentage of total risk weighted assets	**17.79%**	**16.09%**
Total capital expressed as a percentage of total risk weighted assets	**18.88%**	17.18%

43 FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted investments – at fair value

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

Unquoted investments – at fair value

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

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

Fair value of investments - at amortised cost	**Carrying value 2019 AED '000**	**Fair value 2019 AED '000**	Carrying value 2018 AED '000	Fair value 2018 AED '000
Investments carried at amortised cost - sukuk (note 19)	**10,658,620**	**10,998,617**	11,781,857	11,588,331

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.

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 2019				
Assets and Liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit or loss				
Sukuk	**987,330**	**-**	**-**	**987,330**
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	**30,293**	**-**	**-**	**30,293**
Sukuk	**1,101,745**	**-**	**-**	**1,101,745**
	1,132,038	**-**	**-**	**1,132,038**
Unquoted investments				
Sukuk	**-**	**-**	**76,535**	**76,535**
Funds	**-**	**-**	**37,244**	**37,244**
Private equities	**-**	**-**	**57,938**	**57,938**
	-	**-**	**171,717**	**171,717**
	1,132,038	**-**	**171,717**	**1,303,755**

43 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
Shari'a compliant alternatives of swap (note 37)	-	**2,336**	-	**2,336**
Financial liabilities				
Shari'a compliant alternatives of swap (note 37)	-	**1,799**	-	**1,799**
Assets for which fair values are disclosed:				
Investment properties (note 22)	-	-	**1,415,236**	**1,415,236**
Investment carried at amortised cost - Sukuk	**10,998,617**	-	-	**10,998,617**

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
31 December 2018				
Assets and Liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit and loss				
Sukuk	1,438,659	-	-	1,438,659
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	28,727			28,727
Sukuk	330,367	-	-	330,367
	359,094	-	-	359,094
Unquoted investments				
Funds	-	-	46,956	46,956
Private equities	-	-	42,775	42,775
	-	-	89,731	89,731
	359,094	-	89,731	448,825
Financial liabilities				
Shari'a compliant alternatives of swap (note 37)	-	7,017	-	7,017
Assets for which fair values are disclosed:				
Investment properties (note 22)	-	-	1,544,965	1,544,965
Investment carried at amortised cost - Sukuk	11,588,331	-	-	11,588,331

There were no transfers between level 1, 2 and 3 during the 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:

	2019 AED '000	2018 AED '000
At 1 January	**89,731**	106,692
Net purchases	**11,544**	3,819
Gain (loss) recorded in equity	**70,442**	(20,780)
At 31 December	**171,717**	89,731

44 SOCIAL CONTRIBTUIONS

The social contributions (including donations and charity) made during the year amount to AED 31,000 thousand which were approved by the shareholders at the Annual General Assembly held on 13 March 2019.

During 2018, the social contributions (including donations and charity) were made amounting to AED 29,230 thousand after the approval by the shareholders at the Annual General Assembly held on 21 March 2018.

45 COMPARATIVE FIGURES

In accordance with the requirements of IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, certain items have been restated in the consolidated statement of financial position, for the prior year ended 31 December 2018, as previously reported. These comparative amounts relate to Investment in ADIB Egypt (Joint Venture).

Impact on statement of financial position ended 31 December 2018 is as follows:

	As previously reported Restated AED '000	Increase / (decrease) AED '000	Restated AED '000
ASSETS			
Balances and wakala deposits with Islamic banks and other financial institutions	4,458,817	(561,895)	3,896,922
Investment in associates and joint ventures	1,014,354	191,805	1,206,159
Other assets	2,880,057	370,090	3,250,147
	8,353,228	-	8,353,228

Basel III Pillar III Disclosure

Basel III Pillar III Disclosure

The requirements of the Central Bank of the UAE act as the framework for the implementation of the Basel III Accord in the UAE. They are contained in Circular 60/2017 dated 02 March 2017 and Circular 28/2018 dated 17 January 2018 that 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 minimum capital for credit, market and operational risk. The framework allows for different approaches, which can be selected depending on size, sophistication and other considerations. These comprise for Credit Risk: Standardised, Foundation Internal Rating Based (FIRB), Advanced Internal Rating Based (AIRB); for Market Risk: Standardised and Internal Models Approach; and for Operational Risk: Basic Indicator Approach and Standardised Approach.
- Pillar II – Provides the framework for an enhanced supervisory review process with the objective of assessing the adequacy of the Bank's capital to cover not only the three primary risks (Credit, Market and Operational), but in addition a series of other risks that the Bank may be exposed to; for example, concentration risk, residual risk, business risk, liquidity risk etc. It includes the requirement for banks to undertake an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis, which is subject to the Central Bank review and inspection.
- Pillar III – Market discipline: requires expanded disclosures, which allow regulators, investors and other market participants to more fully understand the risk profiles of individual banks. The requirements of Pillar III in the case of ADIB are fulfilled in this annual report.

Banks are required to disclose all their material risks as part of the Pillar III framework. Many of these requirements have already been satisfied in note **42** to the 2019 ADIB Consolidated Financial Statements, which covers in detail the risk and capital management processes of the Bank and its compliance with the Basel III Accord in this regard.

The following Pillar III disclosures provide additional qualitative and quantitative information over and above that contained in note **42** to the 2019 ADIB Consolidated Financial Statements and together with the information contained in note **42**, meet the full disclosure requirements of Pillar III.

ADIB RISK PHILOSOPHY

Taking risk is at the core of the business of the Bank. All of the profit-making activities involve some measure of risk taking. Risk is also inherent in the internal business processes and systems, and also in external factors. At ADIB effective risk management is considered a core competence. In order for these risk-taking activities to generate sufficient amount of profit to add to shareholder and depositor value, the risk is managed within the tolerance levels of the organisation and the overall risk appetite that is set annually by the Board of Directors and reviewed quarterly by the Governance and Risk Policy Committee of the Board. The following principles lie at the core of ADIB's risk philosophy:
- Shari'a: Full compliance with Shari'a Governance in all aspects.
- Approval: All business activities which commit the Bank, legally or morally, to deliver risk-sensitive financing solutions, and any business proposals, require approval by authorised individuals or committees, prior to commitment.
- Independence: There exists a clear separation between the business and the risk management functions.
- Transparency: Risk management structures, policies and procedures are transparent. They are based on consistent principles, in written form, and are well communicated.
- One obligor total: Decision authority is determined by the total amount of financing and/or capital at risk, approved for all entities that form a coherent group based on shareholding and/or management control.
- Committee: Decisions regarding policy, product, large or high-risk exposures are taken by the appropriate committee.
- Approval authority: Authorities are delegated by the Board of Directors to an Executive Committee, which in turn delegates authority through the Chief Executive Officer. These reflect the delegates' (committee or individual) level of expertise, experience, track record and seniority.
- Three initials: Risk proposals can only be approved with a minimum of three authorised individuals forming an agreement within the framework set by the Board approved Credit Policy & Procedures Manual.
- Business responsibility: Business units are responsible for the selection of clients and for managing all of the business activities with such clients within approved limits.
- Credit Administration & Control: Critical to ensuring ongoing compliance with policies, approval authorities, approval conditions etc.
- Credit Review/Audit: Periodic independent validation and review of the portfolio and the process across all business units by both internal and external auditors.
- Due diligence: Regular and consistent customer contact, site visits, financial analysis, risk rating and stress testing.

RISK GOVERNANCE

ADIB's Risk Governance Framework is focused on integrating Enterprise-wide Risk Management fully into its operations and culture. The role of Risk Management is to support growth, whilst ensuring consistent quality of the Bank's portfolio and an appropriate return for the risk being taken. The objective is to manage earnings volatility, which is achieved by setting clear risk-taking parameters and robust processes.

The Risk Governance Framework supports the Bank's objective of being a dynamic banking entity providing Islamic financial services of excellence, with insight and transparency in risk taking.

Please refer to note 42.1.1 of the 2019 ADIB Consolidated Financial Statements.

RISK APPETITE

ADIB's business model attracts mainly credit, market, operational and compliance risks in the normal course of business. The Bank seeks sustainable growth and profitability through the acquisition of diversified banking assets with attractive risk/return profiles while maintaining sufficient capital and liquidity buffers above those mandated by regulators. The Bank also seeks to maintain its strong credit ratings.

The principal themes underlying the assumptions of these risks are:

- Strong controls culture designed to ensure good conduct, ethical behaviour, legal and regulatory compliance
- Clearly defined target markets and risk acceptance terms, and
- Continuous monitoring and management of risk assets

The Bank manages its risk appetite using a set of risk limits and performance indicators allocated to each business. Management monitors adherence to these continuously.

COMPONENTS OF RISK MANAGEMENT

The management of risk is a process operated independently of the business units of the Bank. It consists of the following key components:

1. Identification: the Bank endeavours to identify all material risks that it may be affected by. Identification is a continuous and proactive process. It covers all the current activities of the Bank, as well as new products and markets.

2. Policies: In order to ensure that the Bank's business units comply with the approved Risk Management Framework, the Board of Directors has approved detailed Credit Risk Policies and Procedures, and various other policies covering the ALM Charter, Market Risk, Operational Risk and other risks as identified within the Basel III framework.

3. Measurement and monitoring: The Bank spends considerable resources on maintaining a modern IT platform to support risk management, applying a number of models and methods to accurately measure and quantify the risks affecting the Bank on an ongoing basis. The Bank continually monitors models and validates risk parameters to ensure that risk measurement gives a fair presentation of the underlying portfolios and transactions. Effective 1 January 2018 the bank has adopted the revised International Financial Reporting Standard (IFRS) 9, as a result the Bank has developed and implemented models to measure the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) and capture the impact of macroeconomic forecasts. These models are used to calculate the Expected Credit Loss (ECL) as well as monitoring the quality of the portfolios. For further disclosures on impairment assessment based on the IFRS 9, Please refer to note 42.2 of the 2019 ADIB Consolidated Financial Statements.

4. Parameter applications: In order to best capitalise on the Bank's risk appetite, the Bank applies risk-based data with regard to customers, industries, geographies etc. in the day-to-day management and review of customer transactions.

5. Controls: The Bank has established an independent control environment to monitor and enforce approved policies and procedures, and has various operational aspects with regard to consistent and thorough implementation of the same.

6. Reporting: The Bank has a well-established process for reporting risk factors to the various stakeholders of the Bank.

The Bank aims to reinforce a strong risk management culture through a comprehensive set of policies, processes and procedures that are designed to effectively identify, measure, monitor and control risk exposures. The Board of Directors is involved both directly and through the Governance and Risk Policy Committee, in the embedding of material risk processes and the periodic oversight and guidance of the risk management function.

Risk Management Structure: Please refer to note 42.1.1 of the 2019 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:

- Risk management structure;
- Operational risk;
- Credit & Concentration risk;
- Market risk;
- Profit rate risk in the banking book; and
- Liquidity risk.

The broad results of the assessment are as follows:

ASSESSMENT OF RISK GOVERNANCE EFFECTIVENESS continued

- The Bank is following sound practices for Credit Risk, Market Risk, Operational Risk and Asset-Liability Management ("ALM").
- 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 Risks.
- The Operational Risk Management framework has been developed based on the 'Sound Practices for Operational Risk' document specified by the Basel Committee on Banking Supervision.

Credit risk and credit risk concentration: Please refer to note 42.2 of the 2019 ADIB Consolidated Financial Statements.

Liquidity risk and funding management: Please refer to note 42.3 of the 2019 ADIB Consolidated Financial Statements.

Market risk including profit rate risk, currency risk, and equity price risk: Please refer to note 42.4 of the 2019 ADIB Consolidated Financial Statements.

Operational risk: Please refer to note 42.4.4 of the 2019 ADIB Consolidated Financial Statements.

OTHER RISKS

Concentration risk: This refers to the risk that arises from any single exposure or a group of exposures with common risk factors and has the potential to produce large losses. It is mainly related to name concentration which relates to imperfect diversification of idiosyncratic risk in the portfolio because of large exposures to specific obligors. It also includes risk related to sector concentration which relates to the risk in credit portfolios arising from an unequal distribution of financing 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 2019.

Business risk: Refers to the risk of the Bank's earnings and profitability arising from its strategic decisions, changes in business conditions, and improper implementation of decisions. Thus business risk arises due to external causes, out of strategies and choices that could cause loss to the Bank in the form of a reduction in shareholder value, loss of earnings etc. The Bank's current business plan is in alignment with its goals and targets.

Settlement risk: Occurs when the Bank simultaneously exchanges value with a customer or with another bank in settlement of a foreign exchange obligation or a similar type of obligation. The risk is that the scheduled payment is not received, thus creating a direct credit risk as well. In the UAE the Central Bank of the UAE manages clearing and settlement amongst the banks and is the financier of last resort, hence the risk of a 'gridlock' is considered negligible. In the case of foreign currency transactions with banks in other countries, the first protection against settlement risk is by dealing with only approved correspondent banks that have been rated by recognised rating agencies such as Moody's, Fitch, S&P etc., as well as internally by the Bank. Any delayed settlements are closely monitored and the required procedural guidelines to be followed by Treasury and Back Office are in place.

STRESS TESTING

Stress testing refers to various techniques used by the Bank to gauge its vulnerability to exceptional but plausible stress events. It is used as a risk management technique to evaluate the potential effects of a specific event and/or movement in a set of economic variables on the Bank's financial condition. Stress testing is based on the concept of 'proportionality and complexity' and its applicability to the activities of the Bank. Relevant factors include size, sophistication and diversification of activities, materiality of different risk types and the Bank's vulnerability to them, etc. Stress testing is an important part of the risk management function in the Bank.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

In accordance with the regulations of the UAE Central Bank, ADIB initiated the ICAAP process late in 2009 and has submitted the reports annually to the UAE Central Bank within the stipulated deadline including the report for 2018, which was prepared and submitted in early 2019 as required. The process of integrating and embedding ICAAP with the Capital Management and Risk Management cultures and practices within the Bank continued in 2019. 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 2019

	Country of Incorporation	% Ownership	Description	Treatment - Regulatory	Treatment - Accounting
SUBSIDIARIES					
Abu Dhabi Islamic Securities Company LLC	UAE	95	Equity Brokerage Services	Fully consolidated	Fully consolidated
ADIB Invest 1	BVI	100	Equity Brokerage Services	Fully consolidated	Fully consolidated
Burooj Properties LLC **	UAE	100	Real Estate Investments	Not consolidated	Fully consolidated
MPM Properties LLC **	UAE	100	Real Estate Services	Not consolidated	Fully consolidated
Kawader Services LLC **	UAE	100	Manpower Supply	Not consolidated	Fully consolidated
ADIB (UK) Limited	United Kingdom	100	Islamic Banking	Fully consolidated	Fully consolidated
ADIB Holdings (Jersey) Ltd* (under liquidation)	British Channel Islands	-	Special Purpose Vehicle	Fully consolidated	Fully consolidated
ADIB Sukuk Company Ltd.*	Cayman Islands	-	Special Purpose Vehicle	Fully consolidated	Fully consolidated
ADIB Sukuk Company II Ltd.*	Cayman Islands	-	Special Purpose Vehicle	Fully consolidated	Fully consolidated
ADIB Capital Invest 1 Ltd.*	Cayman Islands	-	Special Purpose Vehicle	Fully consolidated	Fully consolidated
ADIB Capital Invest 2 Ltd.*	Cayman Islands	-	Special Purpose Vehicle	Fully consolidated	Fully consolidated
ADIB Alternatives Ltd.*	Cayman Islands	-	Special Purpose Vehicle	Fully consolidated	Fully consolidated
SIGNIFICANT INVESTMENT					
Abu Dhabi Islamic Bank - Egypt (S.A.E)	Egypt	49	Banking (under Conversion to Islamic Banking)	**Deduction treatment**	Equity Method
The Residential REIT (IC) Limited	UAE	30	Real Estate Fund	**Deduction treatment**	Equity Method
Abu Dhabi National Takaful PJSC	UAE	42	Islamic insurance	**Deduction treatment**	Equity Method
Bosnia Bank International D.D	Bosnia	27	Islamic banking	**Deduction treatment**	Equity Method
Saudi Finance Company CSJC	Kingdom of Saudi Arabia	51	Islamic Retail Finance	**Deduction treatment**	Equity Method
Arab Link Money Transfer PSC (under liquidation)	UAE	51	Currency Exchange	**Deduction treatment**	Equity Method
Abu Dhabi Islamic Merchant Acquiring Company LLC	UAE	51	Merchant acquiring	**Deduction treatment**	Equity Method

* The Bank does not have any direct holding in these entities and they are considered to be a subsidiary by virtue of control.
** In accordance with the Circular No. 52/2017 and the Capital Supply standard, the consolidated entity includes all subsidairies except commercial entities for the purpose of Basel III calculations and is subject to treatment outlined section 5 of "Tier Capital Supply Standard" related to "Significant investment in commercial entities".

CONSOLIDATED CAPITAL STRUCTURE AS ON 31 DECEMBER 2019

Details	Amount AED '000
Capital Base	
1. Common Equity Tier 1 (CET1) Capital	
1.1 Share capital	3,632,000
1.2 Share premium account	-
1.3 Eligible Reserves	5,252,100
1.4 Retained Earnings/ (-) Loss	5,675,871
1.5 Eligible amount of minority interest	-
1.6 Capital Shortfall if any	-
1.7 Accumulated other comprehensive income	(762,805)
CET1 Capital Before the regulatory adjustments and threshold deduction	**13,797,166**
1.8 Less: Regulatory deductions	(373,029)
1.9 Less: Threshold deductions	(112,363)
Total CET1 Capital after the regulatory adjustments and threshold deduction	**13,311,774**
2. Additional Tier1 (AT1) Capital	
2.1 Eligible AT1 capital (After grandfathering)	4,754,375
2.2 Other AT1 Capital e.g (Share premium, minority interest)	-
2.3 Less: Threshold deductions	-
Total AT1 Capital	**4,754,375**
3. Tier 2 (T2) Capital	
3.1 Tier 2 instruments e.g.subordinated financing (After grandfathering and/or amortization)	
3.2 Other Tier 2 capital (including General Provision, etc.)	1,110,637
3.3 Less: Threshold deductions	-
Total T2 Capital	**1,110,637**

CAPITAL ADEQUACY AS ON 31 DECEMBER 2019

Quantitative Disclosures

Capital Requirements	RWA AED'000	Capital Charge AED'000	Capital Ratio (%)
1. Credit Risk - Standarized Approach	**88,850,950**	10,995,305	
2. Market Risk - Standarized approach	**2,403,440**	297,426	
3. Operational Risk		-	
a. Basic Indicator Approach (BIA)	**10,307,571**	1,275,562	-
b. Standardised Approach/ASA		-	
c. Advanced Measurement Approach		-	
Total Capital requirements		**12,568,293**	**-**
Capital Ratio			
a. Total Capital Ratio for top consolidated Group*			18.88%
b. Tier 1 ratio only for top consolidated Group*			17.79%
C. CET1 ratio only for top consolidated Group*			13.11%
*** Adjusted for 2019 proposed dividend, the ratios would be:**			
a. Total Capital Ratio for top consolidated Group			17.92%
b. Tier 1 ratio only for top consolidated Group			16.82%
C. CET1 ratio only for top consolidated Group			12.14%

GROSS CREDIT EXPOSURES BY CURRENCY TYPE AS ON 31 DECEMBER 2019

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	73,333,730	30,195	-	23,491,763	96,855,688	772,145	8,974,206	9,746,351	106,602,039
Foreign Currency	13,105,074	3,299,894	12,854,924	3,127,788	32,387,680	-	3,593,605	3,593,605	35,981,285
Total	**86,438,804**	**3,330,089**	**12,854,924**	**26,619,551**	**129,243,368**	**772,145**	**12,567,811**	**13,339,956**	**142,583,324**

GROSS CREDIT EXPOSURES BY GEOGRAPHY AS ON 31 DECEMBER 2019

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	82,002,935	1,270,366	9,554,386	24,003,761	116,831,448	767,260	12,247,189	13,014,449	129,845,897
Rest of Middle east	2,564,757	927,185	2,284,588	1,835,248	7,611,778	-	320,622	320,622	7,932,400
Europe	1,201,029	115,300	-	119,604	1,435,933	-	-	-	1,435,933
Others	670,083	1,017,238	1,015,950	660,938	3,364,209	4,885	-	4,885	3,369,094
Total	**86,438,804**	**3,330,089**	**12,854,924**	**26,619,551**	**129,243,368**	**772,145**	**12,567,811**	**13,339,956**	**142,583,324**

GROSS CREDIT EXPOSURE BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2019

INDUSTRTY SEGMENT	Customer Financings AED '000	Balances & Placements with Banks & FI AED '000	Sukuk AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off-Balance Sheet Exposures AED '000	Total Non-Funded AED '000	Total AED '000
Agriculture, Fishing & related activities	684	-	-	-	684	-	7,415	7,415	8,099
Crude Oil, Gas, Mining & Quarrying	130,065	-	-	-	130,065	910	208,147	209,057	339,122
Manufacturing	1,679,807	-	-	-	1,679,807	26,769	229,184	255,953	1,935,760
Electricity & Water	1,532	-	185,037	-	186,569	-	-	-	186,569
Construction	8,266,258	-	1,031,006	92,740	9,390,004	134,911	3,290,034	3,424,945	12,814,949
Trade	3,753,957	-	1,304,923	26,592	5,085,472	35,092	371,154	406,246	5,491,718
Transport, Storage & Communication	1,717,690	-	-	-	1,717,690	16,023	62,911	78,934	1,796,624
Financial Institutions	1,148,847	3,330,089	3,761,639	1,898,462	10,139,037	-	1,680,245	1,680,245	11,819,282
Services	6,736,783	-	-	-	6,736,783	280	598,921	599,201	7,335,984
Government /Public Sector	8,861,904	-	3,944,276	17,832,987	30,639,167	321,344	4,255,171	4,576,515	35,215,682
Retail/Consumer banking	51,400,339	-	-	133,120	51,533,459	7,789	621,582	629,371	52,162,830
All Others	2,740,938	-	2,628,043	6,635,650	12,004,631	229,027	1,243,048	1,472,075	13,476,706
Total	**86,438,804**	**3,330,089**	**12,854,924**	**26,619,551**	**129,243,368**	**772,145**	**12,567,811**	**13,339,956**	**142,583,324**

GROSS CREDIT EXPOSURES BY RESIDUAL CONTRACTUAL MATURITY AS ON 31 DECEMBER 2019

RESIDUAL CONTRACTUAL MATURITY	Customer Financings AED '000	Balances & Placements with Banks & FI AED '000	Sukuk AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off-Balance Sheet Exposures AED '000	Total Non-Funded AED '000	Total AED '000
Less than 3 months	7,195,653	2,271,398	422,218	21,088,306	30,977,575	612,618	7,135,921	**7,748,539**	**38,726,114**
3 months to one year	12,315,066	39,591	1,707,616	1,364,629	15,426,902	159,527	1,738,705	**1,898,232**	**17,325,134**
One to five years	38,070,087	908,848	8,180,647	382,926	47,542,508	-	3,688,409	**3,688,409**	**51,230,917**
Over five years	28,857,998	110,252	2,544,443	3,783,690	35,296,383	-	4,776	**4,776**	**35,301,159**
Grand Total	**86,438,804**	**3,330,089**	**12,854,924**	**26,619,551**	**129,243,368**	**772,145**	**12,567,811**	**13,339,956**	**142,583,324**

IMPAIRED CUSTOMER FINANCINGS BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2019

	OVERDUE			PROVISIONS		ADJUSTMENTS		
INDUSTRY SEGMENT	Less than 90 Days AED '000	90 Days and above AED '000	Total AED '000	Stage 3 AED '000	Stage 1 & 2 AED '000	Write-offs AED '000	Write-Backs AED '000	Total Impaired Assets AED '000
Agriculture, Fishing & related activities	-	-	-	-	-	-	-	-
Crude Oil, Gas, Mining & Quarrying	87,832	-	87,832	37,548	-	-	-	50,284
Manufacturing	-	443,948	443,948	256,148	-	-	-	187,800
Electricity & Water	-	102	102	90	-	-	-	12
Construction	240,159	601,343	841,502	312,505	-	-	-	528,997
Trade	469	590,728	591,197	320,539	-	-	-	270,658
Transport, Storage & Communication	379	64,522	64,900	57,864	-	-	-	7,036
Financial Institutions	38,879	126,375	165,253	81,929	-	-	-	83,324
Services	56,836	798,291	855,128	303,551	-	-	-	551,577
Government	-	373	373	373	-	-	-	-
Retail/Consumer banking	237,797	2,152,125	2,389,922	819,372	-	-	-	1,570,551
All Others	-	-	-	-	-	-	-	-
Total	**662,351**	**4,777,807**	**5,440,158**	**2,189,918**	**823,324**	**-**	**-**	**3,250,240**

IMPAIRED CUSTOMER FINANCINGS BY GEOGRAPHY AS ON 31 DECEMBER 2019

	OVERDUE			PROVISIONS		ADJUSTMENTS		
GEOGRAPHIC REGION	Less than 90 Days AED '000	90 Days and above AED '000	Total AED '000	Stage 3 AED '000	Stage 1 & 2 AED '000	Write-offs AED '000	Write-Backs AED '000	Total Impaired Assets AED '000
United Arab Emirates	549,084	4,186,553	4,735,637	1,819,074	-	-	-	2,916,563
Rest of Middle East	113,267	390,269	503,536	272,085	-	-	-	231,451
Europe	-	200,985	200,985	98,759	-	-	-	102,225
Others	-	-	-	-	-	-	-	-
Grand Total	**662,351**	**4,777,807**	**5,440,158**	**2,189,918**	**823,324**	**-**	**-**	**3,250,240**

RECONCILIATION OF CHANGES IN PROVISION FOR IMPAIRED CUSTOMER FINANCINGS FOR THE YEAR ENDED 31 DECEMBER 2019

	Description	AED '000
	Opening Balance of Provisions for Impaired Customer Financings	**2,882,250**
Add:	Charge for the year	**130,992**
	- Stage 3	932,540
	- Stage 1 & 2	(473,392)
Add:	Write-off of impaired financing to income statement	(247,869)
Less:	Other adjustment	(80,287)
	Closing Balance of Provisions for impaired Financing	**3,013,242**

CREDIT RISK - GENERAL DISCLOSURE - STANDARDISED APPROACH AS ON 31 DECEMBER 2019

ASSET CLASSES	ON BALANCE SHEET	OFF BALANCE SHEET		CREDIT RISK MITIGATION (crm)			
See Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions	Gross outstanding AED '000	After credit conversion factors (CCF) AED '000	Total gross exposure AED '000	Exposure before CRM AED '000	CRM AED '000	After CRM AED '000	Risk weighted assets AED '000
CLAIMS ON SOVEREIGNS	22,369,705	-	22,369,705	22,369,705	-	22,369,705	2,848,281
CLAIMS ON NON-CENTRAL GOVERNMENT PUBLIC SECTOR ENTITIES (PSEs)	2,009,469	-	2,009,469	2,009,469	-	2,009,469	132,165
CLAIMS IN MULTI LATERAL DEVELOPMENT BANKS	202,166	-	202,166	202,166	-	202,166	-
CLAIMS ON BANKS	7,424,504	551,220	7,975,724	7,975,724	-	7,975,724	3,653,347
CLAIMS ON SECURITIES FIRMS	-	-	-	-	-	-	-
CLAIMS ON CORPORATES	26,886,976	4,505,191	31,392,167	31,379,365	248,189	31,131,176	30,220,362
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	28,086,346	317,416	28,403,762	28,403,762	361,237	28,042,525	21,562,535
CLAIMS SECURED BY RESIDENTIAL PROPERTY	15,759,993	-	15,759,993	15,759,993	37,877	15,722,116	6,588,043
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	9,831,636	-	9,831,636	9,831,636	2,848	9,828,788	9,828,788
PAST DUE FINANCING	7,196,027	182,591	7,378,618	5,142,550	570,330	4,572,220	5,520,452
HIGH RISK CATEGORIES	52,761	-	52,761	52,761	-	52,761	79,142
OTHER ASSETS	9,423,785	-	9,423,785	9,423,785	-	9,423,785	8,417,834
CLAIMS ON SECURITISED ASSETS	-	-	-	-	-	-	-
CREDIT DERIVATES (Banks Selling protection)	-	-	-	-	-	-	-
TOTAL CLAIMS	**129,243,368**	**5,556,418**	**134,799,786**	**132,550,916**	**1,220,481**	**131,330,435**	**88,850,949**

CREDIT RISK - GENERAL DISCLOSURE - STANDARDISED APPROACH AS (RATED / UNRATED) ON 31 DECEMBER 2019

	Gross Credit Exposures				
ASSET CLASS	Rated AED '000	Unrated AED '000	Total AED '000	Post CRM AED '000	RWA Post CRM AED '000
CLAIMS ON SOVEREIGNS	2,475,449	19,894,256	22,369,705	22,369,705	2,848,281
CLAIMS ON NON-CENTRAL GOVERNMENT PUBLIC SECTOR ENTITIES (PSEs)	-	2,009,469	2,009,469	2,009,469	132,165
CLAIMS IN MULTI LATERAL DEVELOPMENT BANKS	202,166	-	202,166	202,166	-
CLAIMS ON BANKS	6,621,924	802,580	7,424,504	7,975,724	3,653,347
CLAIMS ON SECURITIES FIRMS	-	-	-	-	-
CLAIMS ON CORPORATES	5,465,097	21,421,879	26,886,976	31,131,176	30,220,362
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	-	28,086,346	28,086,346	28,042,525	21,562,535
CLAIMS SECURED BY RESIDENTIAL PROPERTY	-	15,759,993	15,759,993	15,722,116	6,588,043
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	-	9,831,636	9,831,636	9,828,788	9,828,788
PAST DUE FINANCING	-	7,196,027	7,196,027	4,572,220	5,520,452
HIGH RISK CATEGORIES	-	52,761	52,761	52,761	79,142
OTHER ASSETS	987,330	8,436,455	9,423,785	9,423,785	8,417,834
CLAIMS ON SECURITISED ASSETS	-	-	-	-	-
CREDIT DERIVATES (Banks Selling protection)	-	-	-	-	-
Grand Total	**15,751,966**	**113,491,402**	**129,243,368**	**131,330,435**	**88,850,949**

CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDIZED APPROACH AS ON 31 DECEMBER 2019

		Exposures AED '000	Risk Weighted Assets AED '000
	Gross Exposure prior to Credit Risk Mitigation	134,799,786	90,071,430
Less:	Exposure covered by on-balance sheet netting	-	-
Less:	Exposures covered by Eligible Financial Collateral	1,220,481	1,220,481
Less:	Exposures covered by Guarantees	-	-
Less:	Exposures covered by Credit Derivatives	-	-
	Net Exposures after Credit Risk Mitigation	**133,579,305**	**88,850,949**

CAPITAL REQUIREMENT FOR MARKET RISK UNDER STANDARDISED APPROACH AS ON 31 DECEMBER 2019

MARKET RISK	Amount AED '000
Profit rate risk	1,156,124
Equity position risk	-
Foreign exchange risk	1,247,315
Commodity risk	-
Total Capital Requirment	**2,403,440**

EQUITIES DISCLOSURE FOR BANKING BOOK POSITIONS 31 DECEMBER 2019

1) Details of equity position by type:

	Current Year	
TYPE	Publicly Traded AED '000	Privately Held AED '000
Government	-	-
Financial Institutions	-	72,650
Trading and manufacturing	-	-
Construction and real estate	25,861	8,600
Energy	-	-
Others	-	1,320
Total	**25,861**	**82,570**

2) Realised and unrealised revaluation gains during the year:

	Amount AED '000
Realised gains from sales and liquidations	896
Unrealised gains recognized in the balance sheet but not through profit and loss account	29,385
Total	**30,281**

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

TIER CAPITAL	Amount AED '000
Amount included in Tier 1 Capital	30,281
Amount included in Tier 2 Capital	-
Total	**30,281**

EQUITIES DISCLOSURE FOR BANKING BOOK POSITIONS 31 DECEMBER 2019

Capital requirements by equity groupings:

GROUPING	Capital Requirement AED '000
Government	-
Financial Institutions	21,404
Trading and manufacturing	-
Construction and real estate	6,720
Energy	-
Others	258
Total Capital requirement	**28,381**