ADIB

مصرف أبوظبي الإسلامي

ANNUAL REPORT 2017

The late Sheikh Zayed bin Sultan Al Nahyan

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

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

Bank Overview, Mission, Vision and Values

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

The Bank is a leading regional Islamic financial services group and has a wide distribution network, with 80 branches and 722 ATMs, and a presence in 6 other countries including Egypt, Iraq, the Kingdom of Saudi Arabia, Qatar, Sudan and the United Kingdom.

Our Mission

Islamic financial solutions for everyone.

Our Vision

To become a top tier regional bank.

Our Values

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

Bank Strategy

The Bank's overall strategy has three pillars:

Build market leadership within the UAE	Create an integrated financial services group	Pursue international growth opportunities

Build market leadership within the UAE

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

Create an integrated financial services group

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

Pursue international growth opportunities

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

Financial Highlights

AED 123.3
(billion) Total Assets

AED 16.6
(billion) Equity

AED 100.0
(billion) Total Customer Deposits

76.5%
Customer Financing to Deposit Ratio

2,300
(million) Net Profit

5,632
(million) Total Revenues

Net Profit for 2017 increased by 17.7% to AED 2,300 million

Total Revenues for 2017 increased by 4.6% to AED 5,632 million

ADIB Group

Summary Income Statement	2017 AED mn	2016 AED mn	2015 AED mn	2014 AED mn	2013 AED mn
Net Revenue from Funding	**3,769.6**	3,921.0	3,771.3	3,505.0	3,066.4
Fees, Commissions and Foreign Exchange Income	**1,300.6**	979.6	965.0	798.7	616.4
Investment and Other Revenues	**562.1**	484.9	398.1	279.3	248.5
Total Revenues	**5,632.3**	5,385.5	5,134.4	4,583.0	3,931.3
Operating Profit (margin)	**3,123.1**	2,937.6	2,760.3	2,512.0	2,231.8
Credit Provisions and Impairment Charge	**790.4**	970.0	820.0	757.8	780.4
Net Profit after Zakat & Tax	**2,300.1**	1,953.6	1,934.0	1,750.7	1,450.2
Summary Balance Sheet					
Total Assets in AED (Billion)	**123.3**	122.3	118.4	111.9	103.2
Customer Financing in AED (Billion)	**76.5**	78.2	78.4	73.0	61.7
Customer Deposits in AED (Billion)	**100.0**	98.8	94.9	84.8	75.5
Financial Ratios					
Customer Financing to Deposit Ratio	**76.53%**	79.15%	82.59%	86.12%	81.76%
Risk Asset Ratio - Total (CAR, %) - Basel II	**16.71%**	15.25%	15.14%	14.36%	16.86%
Cost Efficiency Ratio	**44.55%**	45.45%	46.24%	45.27%	43.26%

4.6%

Total Revenues (AED mn)

2017	5,632
2016	5,386
2015	5,134
2014	4,583
2013	3,931

6.3%

Operating Profit (Margin) (AED mn)

2017	3,123
2016	2,938
2015	2,760
2014	2,512
2013	2,232

1.2%

Total Customer Deposits (AED mn)

2017	100,004
2016	98,814
2015	94,927
2014	84,776
2013	75,524

-2.1%

Total Customer Financing (AED mn)

2017	76,530
2016	78,211
2015	78,403
2014	73,006
2013	61,748

76.5%

Customer Financing to Deposit Ratio

2017	76.53%
2016	79.15%
2015	82.59%
2014	86.12%
2013	81.76%

16.7%

Capital Adequacy Ratio (Basel II)

2017	16.71%
2016	15.25%
2015	15.14%
2014	14.36%
2013	16.86%

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 2017

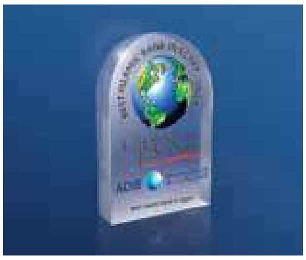
Global Islamic Business Award by Dubai Economic Department

Best Islamic Bank in the UAE by Middle East Banking Awards


Best Islamic Bank in UAE by EMEA FINANCE


Best Islamic Bank in the UAE by Banker FT

IFSB Award for Best Islamic SME Bank in Egypt


Innovator of the Year by Global Finance Magazine

Excellence in Digital Banking Award by Lafferty Global Awards

Gitex Award for Mobile Trading App by Dubai Financial Market


Best Overall Bank in Customer Experience by Ethos Consultancy


Best Overall Call Center in the UAE by Ethos Consultancy

Property Consultancy of the Year by African & Arabian Property Awards

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


Syndicated Deal of the Year for The FINCO Ijarah Syndication by Islamic Finance news Awards


UAE Deal of the year for The FINCO Ijarah Syndication by Islamic Finance news Awards

Local Currency Deal of the Year Bonds, Loans & Sukuk Middle East Awards

Project Financing Deal of the Year Bonds, Loans & Sukuk Middle East Awards

Best Islamic Bank in Egypt
by Global Finance Magazine

Best Islamic Digital Bank
by Global Finance Magazine

Best Islamic Bank in Egypt
by Islamic Bank
and Finance Magazine

IFSB Award for
Best Islamic Retail Bank
in Egypt

Best Islamic Bank Globally for
Private Banking Services by
Banker Magazine

Best Islamic Private Bank
by Islamic Finance news
Awards

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

Best Private Bank in the UAE
by Banker FT

EIBFS Human Resources
Development Award

Best Emiratization
Initiative by Naseeba

Best in Talent Management by
MENA HR Excellence Awards

Best Home Finance in the
Middle East by Asian Banker

Best Sport CSR Initiative
of the Year by SPIA

Best Youth Development
Program by SPIA

Excellence in CSR Initiatives
for Islamic Banks by Regional
Network Consultancy

Chairman's Statement

ADIB had an excellent year with net profit rising nearly 18% to AED 2.3 billion as total revenues reached over AED 5.6 billion.

+7%

Growth in number of Customers

7% growth in number of customers to more than 982,000

+5%

Revenues

Revenues increased by 5% to AED 5,632.3 million, driven by growth in Fees, FX and investment income

Dear Shareholders

On behalf of the Board of Directors, I am pleased to present to our shareholders the Annual Report for 2017.

ADIB had an excellent year with net profit rising nearly 18% to AED 2.3 billion as total revenues reached over AED 5.6 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 my appreciation to the Fatwa and Shari'a Supervisory Board for their support and guidance.

Environment & UAE Economy

Firmer oil prices and burgeoning confidence in the global economy supported the UAE's economy growth in the second half of 2017. While the IMF estimated that GDP growth was 1.3%, non-oil growth represented a significant contribution to this figure as diversification efforts over recent years demonstrated their worth. The non-oil growth reflected higher public investment and a pickup in global trade which is expected to continue into 2018. The recovery in oil derived revenues has led to the IMF forecasting GDP growth of 3.4% for the UAE.

In the region, the UAE continues to represent a safe haven for investors and consumers, and the resulting inflows provide the stimulus for the economy, while large infrastructure projects still drive growth.

The UAE banking sector remains resilient with capital adequacy well above the minimums required by Basel II and well-placed to manage the introduction of Basel III.

While the small to medium size enterprise segment is still coming to terms with financing constraints, increasing demand for financing from retail customers made up for much of the shortfall.

Performance

In 2017 ADIB delivered strong results with group net revenues increasing by 4.6% to AED 5.6 billion and net profit increasing by 17.7% to AED 2.3 billion. These results highlight ADIB's robust strategy underpinned by the customer-centric approach and award-winning customer service. ADIB welcomed over 62,000 new customers bringing the total number of customers to more than 982,000.

Total assets at the end of the year were AED 123.3 billion, representing an increase of 0.8% from AED 122.3 billion at the end of 2016. The financial discipline we exercised over the years, by prudently managing risk and credit extension, has ensured that our balance sheet remains strong. It is pleasing to note that the stabilisation of the business environment, together with our focus on asset quality, has led to higher recoveries and an 18.5% decrease in impairment allowances from last year.

Despite our focus on growing the bank, we demonstrated a strong expense discipline resulting in year on year decline in cost-to-income ratio by 1.0% to 44.5% for 2017. ADIB has further enhanced its competencies in the risk, compliance, governance, digital and control areas which are necessary infrastructure and capabilities to deliver leadership in its chosen customer segments, services, industries and geographies.

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

Recommended Dividend

The Board of Directors is pleased to recommend distribution of cash dividends of 28.87% which represents 39.76% of the full year's net profit for 2017, while still allowing for continued significant reinvestment in the future growth of our businesses. This amounts to a total dividend payout of AED 914.5 million.

Recognition

In 2017, 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 with the 'Best Islamic Bank in the UAE' by Global Finance Magazine, in addition to being recognised, for the 7th consecutive year, as the best bank in the UAE for customer service by Ethos. We were also particularly honored to receive the "Human Resource Development Award" from the Emirates Institute of Banking and Financial Studies (EIBFS). This award recognised ADIB's efforts in developing talent, particularly among UAE nationals.

The Bank's continued financial health, systemic importance, and the proven strong underlying support that is implicit in being the flagship Islamic bank in the Abu Dhabi Emirate, meant that ADIB maintained solid credit ratings: A+ (Fitch) A2 (Moody's); and AAA (RAM).

Human Resources

In line with our 2020 vision, ADIB continued to recruit the staff required to service its growing business while retaining a focus on performance management.

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. The bank's headcount in the UAE was 2,036 at the end of 2017.

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 757 Nationals in the UAE. The bank has adopted a new points-based system approved by the UAE Central Bank to promote the entry of Emiratis into the financial sector while also enhancing career development opportunities.

Corporate Social Responsibility

In 2017, 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. In addition, we believe that ethical banking is what our customers expect from us and this inspires the structure of our products, the delivery of our services and the principles that run throughout our business. Everything we do in ADIB should be in our customers' interest and create economic value.

For the 5th year, we hosted the Ethical Finance Innovation Challenge Awards "EFICA" to inspire real change in the financial services industry by recognising and rewarding innovation with practical applications in real life.

Looking Ahead

While we anticipate that the UAE's economy will continue to grow as government-led initiatives continue to support productivity, diversification and development, we remain vigilant to unexpected changes in the market environment. The bank's ethical strategy and prudent approach to risk in recent years has been proven astute. Our broad range of market leading products and services, delivered by an expert team, mean that we are now well-positioned to benefit from market opportunities.

Prospects for the UAE in 2018 are encouraging. The visionary leadership of the UAE government has introduced and implemented several initiatives that ensure it is capable of absorbing all shocks and dealing with various challenges successfully. ADIB stands by its enduring commitment to the long term economic development of the UAE.

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

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

During 2018, the Board will continue to work with the management to successfully implement the Bank's approved strategy while operating within the established risk appetite parameters. ADIB achieved this successfully over the last year and will seek to do so again over coming months.

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 2017.

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

We commend the efforts of the CBUAE for creating the new Shari'a authority which will have an effective role in developing the Islamic finance industry in the UAE by unifying its standards and general direction. Believing in the importance of the higher authority and its importance in creating a fair and sound competitive market, Abu Dhabi Islamic Bank is at complete readiness in adhering to the requirements in providing its products and services.

Thank you,

HE Jawaan Awaidah Suhail Al Khaili
Chairman

The ADIB Group Structure

Board of Directors

Financial Services Group

Banking:
Abu Dhabi Islamic Bank PJSC

Subsidiaries:
Abu Dhabi Islamic Securities Company LLC
ADIB (UK) Limited

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

International Branches:
Qatar (QFC)
Iraq
Sudan

Non-Financial Services

Real Estate:
Burooj Properties LLC
MPM Properties LLC

Manpower:
Kawader Services LLC

Board of Directors

HE Jawaan Awaidah Suhail Al Khaili
Chairman

Khamis Mohamed Buharoon
Vice Chairman and Acting Chief Executive Officer

Abdulla Bin Aqueeda Al Muhairi
Board Member

Juma Khamis Mugheer Al Khaili
Board Member

Dr Sami Ali Al Amri
Board Member

Khalifa Matar Al Muhairi
Board Member

Ragheed Najeeb Shanti
Board Member

ADIB Executive Management

Mr K M Buharoon
Vice Chairman and Acting Chief Executive Officer

Mr A Abdullah
Head of Strategic Clients Group and Community Banking

Mr S Al Afghani
Global Head, Wholesale Banking

Mr A Akhtar
Group Financial Controller

Mr W Al Khazraji
Head of Human Resources, UAE

Mr M Azab
Head of Private Banking Group

Mr B Belcher
Group Chief Risk Officer

Mr A Kanan
Global Head, Audit and Risk Review

Mr H W Khalifa
Head of Operations and Technology

Mr N Saliba
Global Head, International Business Group

Mr S Amir Zahidi
Chief of Staff

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 K Al Mansoori
Chairman, MPM

Mr A Z Al Shehhi
Head of International Expansion

Mr M Aly
CEO, Egypt

Mr A Al Zarouni
GM, Real Estate and Administration

Mr A Qadir Khanani
Group Treasurer

Dr O Kilani
Global Head, Shari'a

Mr P King
Global Head, Retail Banking

Dr G Mismar
Global General Counsel

ADIB Subsidiaries, Associates and Joint Ventures Management

ADIB (Egypt) SAE

Saudi Finance Company, ADIB Saudi Arabia

Abu Dhabi National Takaful Company PJSC

ADIB Securities

ADIB UK

Abu Dhabi Islamic Merchant Acquiring Company LLC

MPM Properties

Bosna Bank International D.D.

Burooj Properties

We invest for the future as a dynamic modern bank with a culture of innovation and determination, ensuring that we can capture opportunities in the market and meet customers' needs and expectations.

CEO's Report

Our 2017 financial results demonstrate the effectiveness of our strategy. ADIB delivered a solid set of results for the year with net profit up 17.7% year-on-year to AED 2.3 billion, the highest growth amid the peer group.

2017 Achievements

By following a disciplined approach to our long term strategy, ADIB managed to register growth in a slow economy. With greater focus on services and extension of new digital offerings, ADIB managed to achieve good all-round performance. Revenues increased by 4.6% to AED 5.6 billion driven by growth in Fees, FX and investment income. Expenses and cost of risk were managed within planned parameters. Net profit rose 18% to AED 2.3 billion.

ADIB's customer-centric strategy continued to deliver an award-winning banking experience. The number of active customers served by ADIB increased by 7% to 982,661. During the year we welcomed approximately 62,000 new customers with a strong offering of products and services, easily accessed through digital platforms. Customer deposits reached AED 100.0 billion by the end of the year.

Despite heavy investment in advancing our digital capabilities, we demonstrated strong expense discipline with the cost-to-income ratio decreasing by 1.0%. This is in line with management targets and will enable us to invest further to support our future growth.

Capital Management

ADIB continues to build the required levels of capital appropriate for a bank with its size and scale. Total equity increased by 7.2% to AED 16.6 billion. The bank's capital adequacy ratio under Basel II now stands at 16.71% and Tier 1 capital ratio at 16.18%, well above Central Bank of the UAE's prescribed minimums of 12%.

On capital ratios under Basel III principles, which became effective from 1 January 2018, ADIB is above the minimum regulatory thresholds set by Central Bank of the UAE. At year end ADIB's capital adequacy ratio stood at 17.02%, Tier 1 capital ratio at 15.99% and a common equity Tier 1 ratio at 10.32% (pre-dividend).

Liquidity Management

ADIB remains one of the most liquid banks in the UAE with a healthy customer financing-to-deposits ratio of 76.5%. This is primarily due to our strong customer base that generates good growth in current and savings accounts. This has also helped the bank maintain one of the lowest cost of funds in the UAE banking industry.

Risk Management

ADIB continued its prudent approach to credit risk management and its proactive remedial efforts. Stabilisation of the business environment, together with focus on asset quality, has led to higher recoveries and an 18.5% decrease in impairment allowances from last year. ADIB took an additional AED 790 million in credit provisions and impairment during 2017. Furthermore, collective provisions now represent 2.01% of total credit risk weighted assets. This is well above the 1.5% set out in regulatory guidelines. Specific and collective provisions now represent a healthy pre-collateral coverage ratio of 74.9% of the total non-performing portfolio and 80.2% of the impaired portfolio.

Digital Banking

ADIB continued to focus on innovation and automation to maintain its market-leading position in digital banking. ADIB's digital agenda is to enhance customer experience by making banking simpler, faster and with greater access to high quality products and personalized services.

The bank continued to invest in technology in line with our ambition to become the customers' most favored digital bank. Over 95% of financial transactions were carried out on ADIB's digital platforms during 2017, including an average of 2 million mobile transactions every month. Our Mobile Banking App continues to be recognized as a market leader, with more than 94,000 new users registering in 2017. During the year, ADIB also launched its ADIB Express concept, a new generation of digitally-enabled branches, making the customer experience more efficient.

Commitment to Excellence

ADIB has maintained its focus on implementing its long-term growth strategy and delivering the levels of customer service that have become synonymous with its brand. We are continually working to provide an exceptional client experience to our retail, corporate and private banking customers, whether they choose to interact with us in person, on the phone, or digitally. This year we were immensely honored to be awarded, for the 7th consecutive year, the best bank for customer service in the UAE by Ethos Consultancy. ADIB was also awarded Best Islamic Bank in the UAE by the FT's Banker Magazine.

Outlook

The prospects for the UAE as a whole in 2018 are encouraging, and are supported by a recovery in oil prices. Looking ahead, we believe ADIB is well-positioned to take advantage of the opportunities that are expected to arise from the positive economic outlook of the UAE. We are confident that our financial strength and our focus on leveraging innovation and providing a high-quality banking experience will help us attract more customers and deliver long-term shareholder value.

Conclusion

Our achievements in 2017 are testament to the dedication and professionalism of colleagues, whose ingenuity, experience and customer focus continues to drive our results. Today, we are a dynamic, modern bank with a culture of innovation and determination that ensures we capture opportunities in the market and meet customers' needs and expectations. To this end we will continue to invest in the future.

I would like to express my thanks to all of our customers for their commitment to ADIB. I would also like to thank our Board Members whose guidance and support underpins our business strategy. And finally, to our shareholders, I would like to reiterate our focus on delivering high sustainable earnings growth, and moving with clear purpose in 2018 and beyond.

Khamis Mohamed Buharoon
Vice Chairman & Acting Chief Executive Officer

ADIB مصرف أبوظبي الإسلامي

BANKING HAS NEVER BEEN SO SIMPLE.

Can banking be so simple as withdrawing cash from an ATM?

Introducing new ADIB Online Banking

- Simple and intuitive experience across all devices
- Pay your bills
- Check your outstanding finances
- Update your e-PIN
- Print e-statements
- Update your address
- Transfer money
- Manage your cards (activation, account linking, blocking etc..)
- State of the art security

And much more at **adib.ae**!

adib.ae | 800 2882

facebook.com/ADIB
@ADIBTweets
instagram.com/ADIB
youtube.com/ADIBTV
ADIBStories

Business Review

An emphasis on long-term customer relationships saw the number of active customers served by ADIB increase by over 62,000 to 980,000 customers.

Retail Banking

ADIB's vision of becoming the number one retail bank in the UAE remained on track during 2017, with a continued expansion into new customer segments, and an increased focus on our UAE National customer base. An emphasis on long-term customer relationships saw the number of active customers served by ADIB increase by over 62,000 to 980,000 customers (50% Local, 50% Expat).

While 2017 was also a year of significant competitor activity, ADIB produced a strong set of financial results with gains over 2016 in all key metrics: total Retail Banking revenue was up by AED 170 million, an increase of 5%, total financing assets increased by 3% and total deposits rose by 3%.

ADIB has maintained its position as one of the largest retail banking networks in the UAE with 80 retail branches, and a network of 722 ATMs. 2017 also saw the launch of new digital channels including the ADIB Banking mobile app. The app, which is widely used by a large number of ADIB's customers, was voted as one of the most popular in the UAE for the variety of transactions and banking services it offers.

Throughout the year, ADIB invested heavily in staff training programs to strengthen the skills of retail banking employees on a range of aspects, including customer service, product development, processes and procedures and policies. This not only supports the development of our people and the quality of the services customers receive, but also reflects a commitment to ensure that all services are properly and ethically structured and delivered. The focus on our employees was reflected in the number of awards won by the bank during the year, including "Best Overall Bank for Customer Experience in the UAE" for the seventh consecutive year and 'Best Overall Call Center in UAE" for the 4th consecutive year by Ethos Consultancy, and "Best Islamic Bank in the UAE" by Global Finance Magazine.

Over the last year, ADIB has seen rapid growth in the use of digital channels by its customers, with almost 2 million mobile transactions initiated monthly via the ADIB mobile banking app. As part of its digital innovation strategy, the bank has also recently revamped its internet and mobile banking platforms to enable customers to conduct their online banking in a simpler and more intuitive manner across all devices. In 2017, ADIB also launched its new generation of digital branch called 'ADIB Express', providing customers with access to an array of digital services within the branch environment.

ADIB has launched the region's first digital community for personal finance, in partnership with Germany's Fidor Bank, where people can exchange information and advice with peers and experts. The MoneySmart community is open to anyone, and is designed to be highly interactive. It carries articles, blogs, tips and comments from users, who can receive cashable reward points for their input. Independent experts will be on hand to provide their knowledge and objective advice.

In 2018 our focus will be on continuing to enhance the customer experience, making it simpler, faster and more effective for them to access our services while also ensuring that a highly personalised service remains at the forefront of everything we do.

Below is a list of all awards won by ADIB in 2017:

- Global Islamic Business Award by Department of Economic Development
- Best Islamic Bank in the UAE by Global Finance Magazine
- Best Online Banking Service from Banker Middle East
- Best Performance Campaign' by MENA Digital Awards
- Best Home Finance in the Middle East by Asian Banker
- Best Islamic Bank in the Middle East by Executive Magazine
- Best Islamic Bank in the UAE by Banker Magazine FT
- Best Private bank in the UAE by Banker Magazine
- Best Overall Bank" in customer experience by Ethos Consultancy
- Best Overall Call Centre in UAE by Ethos Consultancy

Business Banking

With the closing of 2017, ADIB Business had completed its 10th anniversary in the UAE Market; this means gaining more experience and expertise in serving SMEs and attending to their day to day needs.

In 2017 ADIB Business strategy was mainly focused on three areas; non-assets income, digital channels growth and enhancing customer service. As a result, ADIB Business exhibited exceptional growth in non-assets income of +30% YoY driven by higher fees and FX income, customers' transactions via electronic channels increased by 54% YoY, and the launch of ADIB Business Branches to provide dedicated branch services by well trained and experienced staff offering a wide range of services and transactional capabilities.

In the coming year, ADIB Business Banking will be focusing on enhancing the share of the SME market in a conservative manner in selected business sectors with greater emphasis on trade and working capital finance, transactional banking and cash management services. Additionally, ADIB Business aims to adopt the role of the Financial Education Advisor for Startups and SMEs in the UAE; this can be translated through a group of activities under the Corporate Social Responsibility (CSR), to educate business owners and entrepreneurs on a range of relevant subjects

Wholesale Banking Group

ADIB's Wholesale Banking Group remains committed to the 2020 strategy of becoming the best and most professional Wholesale Bank in the UAE. In light of the challenging market environment, we focused on this goal through greater capital efficiency, product cross sell, tighter control on the cost of credit, and a strong expense control culture:

- We continued to demonstrate a strong track record in financing and advising our clients on capital markets, M&A advisory, syndicated financing, cash management and global trade services,
- Our Corporate Finance and Investment Banking credentials remained one of our core strengths in delivering the value proposition to our clients,
- Our dedicated team of real estate finance professionals, continued to be at the forefront of offering a full range of Islamic financing and advisory services,
- We continued to organize our coverage model along Industry lines in order to better serve our client base through industry specialization, and
- We remained on track with regards to the implementation of the 'Project Leap' initiative. The 'Project Leap' initiative is to provide a greater value proposition for our clients through enhanced product offerings such as trade and cash management services. As part of this project, both trade and cash platforms will be upgraded to meet both clients' current requirements and provide additional product offerings.

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

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

Corporate Finance and Investment Banking

2017 was another strong year for CFIB despite market conditions. Overall, CFIB concluded over 15 high profile transactions across structured and syndicated finance, Sukuk, M&A and advisory products.

CFIB was involved in arranging multibillion dollar in structured and syndicated finance deals on behalf of Government Related Enterprises (GREs), major Corporates and Financial Institutions (FIs) totaling more than AED 11.7 billion in 2017 (as MLA & Bookrunner), which positioned ADIB as a market leader across Islamic syndicated finance bookrunner league tables. ADIB maintained its No.1 ranking with 26.5% market share of Islamic syndicated finance in UAE in accordance with rankings published by Bloomberg (a position maintained since 2010). Furthermore, CFIB advised a number of issuers on optimizing their capital and financing requirements and deal structures to achieve long term sustainable growth for the businesses.

In the Islamic Capital Markets, ADIB continued its leadership and innovation in advising on Sukuk for corporates, GREs and sovereigns. ADIB is acting as a Joint Lead Manager & Bookrunner on a number of high profile Sukuk mandates including the upcoming Government of Indonesia Green Sukuk (1st green Sukuk by a sovereign issuer) and advising debut issuers in the Government related enterprises sector on their inaugural Sukuk plans.

On the Equity Capital Markets & Advisory, CFIB team completed advisory to a leading shipping and marine operator in MENA region. In line with "one stop shop" positioning for IPOS including advisory, valuation and distribution, ADIB played anchor roles in the placement of the recent IPOs of ADNOC Distribution (AED3.1bn) on ADX and Emaar Development (AED4.8bn) on DFM positioning ADIB firmly as the no 1 bank for these transactions in terms of subscribers and collections. In line with the digital drive of the bank, ADIB has levered its expertise by introducing the first mobile application with IPO subscription feature which turned-out to be successful generating bulk of the retail subscription amounts.

This success was achieved on the back of strong distribution franchise. Some of the notable Syndicated Finance deals for 2017 included:

- GEMS MENASA (Limited) US$ 1,250,000,000 Syndicated Finance Facility – acted as Joint Underwriter, MLA & Bookrunner (December 2017). The transaction is one of the largest private sector financing closed in 2017 in UAE
- DAE US$ 75,000,000 Aircraft Financing – acted as Mandate Lead Arranger, Bookrunner, Security and Investment Agent (Oct/Dec 2017). This a structured finance transaction around lease of 2 two B-737 aircrafts leased to Egypt Air (as part of Egypt Air expansion of fleet)
- NMC US$ 100,000,000 Structured Facility – acted as Mandated Lead Arranger, Bookrunner, Investment & Security Agent (June 2017), and Bridge financing facility
- Etihad Airways US$ 300,000,000 Structured Facility – acted as Mandated Lead Arranger, Bookrunner, Investment & Security Agent (August 2017)
- Tabreed AED 1,513,000,000 Club Term Facility – acted as Mandated Lead Arranger, Bookrunner, Investment & Security Agent (June 2017). "Loan Currency Deal of the Year" by Bonds, Loans & Sukuk Middle East Awards
- FINCO US$ 3,000,000,000 Syndicated Project Finance – acted as Mandated Lead Arranger & Bookrunner (May 2017). In line with ADIB's commitment to the UAE and the growth in infrastructure and national projects, the facilities are intended for the expansion and the development of the Dubai International Airport (DXB) as well as the Al Maktoum International Airport (DWC), and signify the first stage of a larger funding programme which will transform DWC into the primary airport for Dubai and serve up to 146 million passengers by 2025

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

- "Syndicated Deal of the Year" – FINCO US$3 billion Syndicated Facility by Islamic Finance News Awards 2017
- "UAE Deal of the Year" – FINCO US$3 billion Syndicated Facility by Islamic Finance News Awards 2017
- "Loan Currency Deal of the Year" – Tabreed AED1.5bn Club Term Facility 2017 by Bonds, Loans & Sukuk Middle East Awards
- "Project Finance Deal of the Year" – FINCO US$3bn Project Finance 2017 by Bonds, Loans & Sukuk Middle East Awards

Global Transaction Banking Services ('GTB')

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

In 2017, GTB focused on:

- Strong revenue growth across various clients segments. In addition, GTB launched an Export Finance product that will support both the corporate and Financial Institutions business.
- Project LEAP will be delivered in 2018 which will enable the launch of more than 100 new products that will deliver the highest international standard sharia compliant solutions. This project is a major initiative that requires a multi-disciplinary approach to change the backend, operations and online and mobile banking offerings of Cash Management and Trade Finance. As part of this project our relationship managers, GTB Sales and Service personnel will have access to the latest Customer Relationship Management software, which enabling the bank to better serve the clients and support their needs in a much more efficient manner.
- Mobile Banking which has quickly become a pivotal product offering for our customers as evident from its rapid popularity across multiple business segments.
- Other GTB led initiatives including the launch of 'Liquidity Sweeping' and Trade Risk participation sell down.
- GTB Cash Management introduced Host to Host solution, through which Corporate and Institutional customers now able to connect directly with bank to process day to day transactions with ADIB in faster and most secured manner.

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

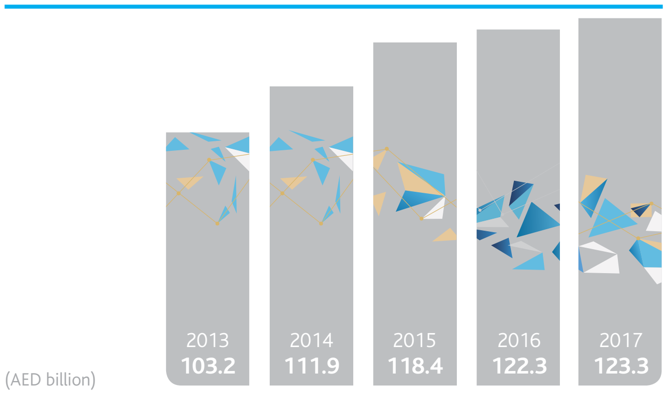
Future plan

While 2018 is likely to present a challenging macroeconomic environment – we remain committed in delivering to our clients:

- A strong customer centric culture
- Comprehensive financing solutions, including syndications, project and structured finance
- A 'one-stop shop' for IPOs, capital market issuances and M&A advisory
- Customized Commercial Real Estate financing solutions and services
- A comprehensive suite of flexible online financial solutions
- Access to ADIB's ever expanding international footprint as well as global correspondent banking network

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

Growth in Total Bank Assets



Private Banking Group

The Private Banking Group business enjoyed another strong year in 2017. We continued to execute our strategy and posted excellent results. The business registered record figures in terms of top line revenues, as well as its size and contribution to the overall bank. Our performance was led by fees and commissions, which saw a significant increase in 2017. The Private Banking has maintained a healthy financing portfolio while growing the wealth side of the business through increased levels of client investments and the build-up of additional Assets Under Management (AUM) to record figures.

During the year, we launched a series of initiatives to further position ADIB as the leading onshore-based private banking service provider in the UAE, while initiating discussion with the management of other ADIB footprint countries, such as UK and Egypt, to evaluate the possibility of developing an integrated international private banking offering.

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

The business continues to expand and leverage access to the top names in our UAE market, augmenting our offering to HNWIs and family offices in the GCC region. 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.

Our business continues to be recognised by the industry for our track record in providing high-quality, trusted distribution and placement capabilities to build close client relationships. This was most notable in the regional IPOs that came to the market in the latter part of 2017. As a testament to these efforts, the business was recognised by industry experts and we received two prestigious Banker magazine awards, including "Best Global Islamic bank for Private Banking Services" and "Best Private Bank in the UAE". In a poll conducted by Islamic Finance News (IFN), ADIB also won the "Best Private Bank" for 2017.

Treasury

ADIB Treasury provides its customers with access to the global markets and exposure management solutions. The Treasury continues to build on its strengths and constantly re-innovate themselves to support and guide the customers on exposure management in current and any 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 continued its strong performance in 2017 through enhanced product capability and close working relationship with the Corporate and Retail coverage teams which led to yet another strong year of growth with higher volumes in Profit Rate hedging, Foreign Exchange and Sukuk sales resulting in a 22% increase in customer flow business. The Trading Desk also delivered a very strong performance of 35% increase over 2016 on the back of Sukuk Trading.

Community Banking

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

Along 2017, our experienced and sophisticated staff served 160 clients, with a recognized growth in clientele due to the unique and matchless services, that range from non-profit organizations to government and private companies that operate in serving the UAE community.

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

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

Operations and Technology

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

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

Information Security Transformation Program was strategically initiated in 2017 with an aim to centralize and comprehensively manage the Information and cyber security controls for the group. Information security strategy and roadmap is currently being developed to enable ADIB to successfully deliver the digital transformation and build resilience to internal and external security threats.

The Business Continuity team has been fully established and the implementation of a robust platform shall allow automation and greater data integrity in the foundational elements for BCM, which remains the key objective for 2018.

2017 also saw investment in the design of several strategic digital programs to become a true Digital Bank in order to improve time to market in innovative ways of banking.

ADIB was proud to receive multiple prestigious awards in 2017 from VISA Global Service Quality in the functional areas of cards to maintain high approval rate and risk efficiency.

Looking forward to 2018 with continued focus on delivery of strategic initiatives like strengthening information security, enhancing digital offering, improving operational efficiency with a superior customer experience leading towards achieving ADIB's 2020 mission and vision.

Human Resources

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

In 2017, the division implemented a number of initiatives particularly targeted at talent management including the development of UAE Nationals in Banking positions and was recognized through the following awards:

1. Talent Management Award at the GCC HR Awards
2. Best Nationalization Initiative at MENA HR Excellence Awards
3. Human Resource Development award by EIBFS
4. Best Youth Development Program by SPIA

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 757 Nationals in the UAE, over 40 percent of ADIB's 2,000 employees.

ADIB continuesto focus building skills and capabilities of employees continued in 2017 with a suite of world class training programs, including a program for the development of talented UAE nationals and an accredited leadership development program in collaboration withAmerican Univeity in the Emirates. HRD offers other certified development programs to ensure that all employees have the banking competencies and expertise to support the bank's growth.

In particular, our ***Tamkeen*** program prepares high performing, mid-level UAE national females with exciting career development opportunities and the necessary leadership skills to enhance their careers. In addition, our ***Qyiadat*** program provides more leadership development training for our more experienced Emirati managers. During both programs, we have developed over 100 high potentials nationals who also earned accredited diplomas from (ILM).The Banking Academy has also successfully certified 30 Branch Managers across the Retail Network.

International Operations

Considerable effort was directed towards the development of staff, based on an analysis of training needs and overall business requirements. An average of 6.23 training days per person was achieved during 2017, the highest figure on record.

During the year, we substantially increased our e-learning offering, launched a facility for employees to self-assess their desired training needs and consolidated our quarterly review of talent (including back-ups and successors) for major business units.

During 2017, we also continued to drive ***ADIB's Competency Framework & Career Path*** planning across 35 distinct business units. This initiative provides very specific information on skills required for nearly all roles within ADIB. In addition staff can access online their career path and required certifications and qualifications to help them grow and develop within ADIB.

The bank has adopted a new points-based system approved by the UAE Central Bank to promote the entry of Emiratis into the financial sector while also enhancing career development opportunities.

International Business Group

ADIB's International Business Group "(IBG) delivered a strong set of financial results in 2017 with substantial revenue growth over the prior year and with strong cost management disciplines cost growth was held to 1%. However, we operate in some challenging markets which enables us to deliver value to the overall franchise as to are able to provide services to our regional customers in markets where the global banks don't operate.

Abu Dhabi Islamic Bank, Sudan

ADIB's Sudan branch had another strong year in 2017 operating from one location in Khartoum. The business is focused on corporate business supporting both local corporates and ADIB group customers operating in Sudan as well as a number of public sector companies.

The business operates to detailed compliance, governance and risk frameworks to minimize operational risk. The changing sanctions landscape will bring a number of opportunities but we will also face greater competitive challenges in the coming years. However, our established presence and reputation in the market place means that we are well positioned for the changing environment.

Abu Dhabi Islamic Bank, Iraq

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

The environment remains challenging but we maintain our low risk business model and the prior years investment in risk management, infrastructure, technology and consolidating support for the business with the Abu Dhabi head office has allowed us to take advantage of business opportunities as the environment stabilized.

Abu Dhabi Islamic Bank, Qatar

Established under the jurisdiction of the Qatar Financial Centre, ADIB Qatar faced significant challenges in 2017 given the geopolitical environment. We have maintained our business presence and continue to serve our current customer base whilst we wait and see how events unfold.

Abu Dhabi Islamic Bank, UK

ADIB UK was established in 2012 to service the London needs of ADIB Group's existing relationship banking customers from GCC and MENA countries. The business is located in the prestigious location of 1 Hyde Park in London. 2017 saw the approval of an updated strategy with a slightly expanded target market and the early results are encouraging with the business having a healthy pipeline of business opportunities.

Saudi Finance Company

After the challenging environment of 2016 resulting from the fall in the price of oil which in turn impacted government expenditure and public sector employees' compensation, 2017 was much more encouraging as the government reversed the cuts to public sector employees' allowances, announced its 2030 vision and it made some far reaching changes to the social environment. On the back of these changes and having a tight focus on very specific segments the business started originating again during Q3. The portfolio ended the year at a similar level to the start of the year and is now well position for a period of growth. We intend to now expand our physical distribution and grow our sales capability to leverage the platform we have created and the investments we have made in having leading IT systems, governance and risk management frameworks.

Branch Management

Mr M Abouzeid

Mr N Al Abdool

Mr H Al Ahbabi

Mr S Al Dhaheri

Mr M Al Ali

Mr M H Al Ali

Mr M S Al Ali

Mr S Al Ghallabi

Mr A Al Baloushi

Mr H Al Hosani

Mr M Ali

Mr S Al Kaabi


Mr A Al Dhaheri


Mr A A Aldhanhani


Mr M Al Dhanhani


Mr J Ali


Mr A Al Hammadi


Mr Y Al Hammadi


Mr K Al Hosani


Mr K Al Awadhi


Mr M Al Khoori


Mr A Al Balooshi


Mr A Al Boloshi


Mr I Al Baloushi

Branch Management continued

Ms M Al Darmaki

Mr S Al Marzouqi

Mr M Al Mehairy

Mr A Al Melhi

Mr A Al Shahai

Mr H Al Shamsi

Mr H Al Shateri

Mr R Al Mutawwa

Mr Y Al Suwaidi

Mr B Al Suwaidi

Mr F Al Naqbi

Mr S Al Nuaimi

Mr A Almemari

Mr A Al Mitwali

Mr A Al Mutairi

Mr M Al Shabibi

Mr A Al Najar

Mr H A Al Naqeeb

Mr A Al Shehhi

Mr S Al Shehhi

Mr A Al Zubaidi

Mr I Al Qasser

Mr J H Alraeesi

Mr F Al Rais

Branch Management continued

Mr S Al Shaali

Mr Y Jaafar

Mr H Kader

Mr S Kaoud

Mr M Mahjoub

Mr F Saeed

Mr O Thoban

Ms A M Yousif

Mr M Zainal

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. Hamdan Street

Abu Dhabi (Corniche Area)

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

Abu Dhabi (East + West Area)

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

Al Ain

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

Dubai (Bur Dubai Area)

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

Dubai (Deira Area)

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

North Emirates

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

ADIB Express

- Emaar Business Park - Dubai
- Burjuman - Dubai
- Arabian Ranches - Dubai
- Word Trade Center - AbuDhabi

Financial Services Business Review

ADIB Securities

Our stock-brokerage subsidiary, ADIB Securities, ranked number one in the UAE in terms of the number of transaction executed with a 9.4% market share.

ADIB Securities registered a net profit of AED 27.6 million in 2017, up by 7% from the previous year due to higher income from Margin trading. 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 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	
	2016 AED Million	**2017 AED Million**
ASSETS		
Bank balances and cash	687.0	**598.1**
Account recievables and prepayments	140.9	**227.4**
Property and equipment	1.4	**0.8**
Total Assets	829.2	**826.3**
LIABILITIES		
Accounts payable and accruals	20.8	**10.3**
	20.8	**10.3**
EQUITY		
Share capital	30.0	**30.0**
Unconditional shareholder advance	600.0	**600.0**
Retained earnings and other reserves	178.4	**186.0**
	808.4	**816.0**
Total Liabilities and Equity	829.2	**826.3**

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	
	2016 AED Million	**2017 AED Million**
Commission Income	29.1	**24.6**
Other revenues	12.6	**18.8**
Total Revenues	41.7	**43.3**
Total expenses	(15.8)	**(15.9)**
Profit for the year	25.9	**27.4**

Non-Financial Services Business Review

Burooj Properties

The repositioning of ADIB's Real Estate subsidiary, Burooj Properties, to better reflect the Group's investment and development property portfolio, continued in 2017. 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 2 Mn in 2017.

Abridged Balance Sheet

31 December	2016 AED Million	2017 AED Million
ASSETS		
Bank balances and cash	218.1	**259.8**
Investment in associates	-	**100.1**
Investment in properties	2,045.4	**1,930.8**
Investments in equities	15.2	**14.0**
Advance against purchase of properties	129.3	**53.1**
Property and equipment	139.7	**136.5**
Other receiavbles	21.3	**27.9**
Total Assets	2,569.0	**2,522.2**
LIABILITIES		
Murabaha payable	1,997.5	**1,997.5**
Other payables	1,080.1	**1,045.0**
	3,077.6	**3,042.5**
EQUITY		
Share capital	500.0	**500.0**
Retained earnings and other reserves	(1,008.6)	**(1,020.3)**
	(508.6)	**(520.3)**
Total Liabilities and Equity	2,569.0	**2,522.2**

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	2016 AED Million	2017 AED Million
Investment revenues	32.4	**42.7**
Other revenues	0.9	**1.1**
Total Revenues	33.3	**43.8**
Total expenses	(24.7)	**(20.6)**
Provision for impairment	(6.2)	**(2.0)**
	(31.0)	**(22.6)**
Profit for the year	2.3	**21.2**

MPM Properties

MPM Properties became a stand-alone subsidiary of the Bank in 2014. The primary focus is on bringing MPM's customer service levels up to the same standards as those of the Bank in the UAE. MPM's new business model as an integrated real estate services company focused on property management, valuations, sales and leasing and real estate advisory has continued to contribute positively, despite a tough property market across the UAE in 2017. As a result, net profit for 2017 was AED 8.8 Mn. 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	2016 AED Million	2017 AED Million
ASSETS		
Bank balances and cash	31.6	**34.1**
Investments in associate	0.3	**-**
Property and equipment	8.6	**6.4**
Accounts receivables and prepayments	71.5	**69.7**
Total Assets	111.9	**110.2**
LIABILITIES		
Accounts payables and accruals	78.3	**68.0**
	78.3	**68.0**
EQUITY		
Share capital	1.0	**1.0**
Retained earnings and other reserves	32.7	**41.3**
	33.7	**42.3**
Total Liabilities and Equity	111.9	**110.2**

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	2016 AED Million	2017 AED Million
Fees and commissions	68.0	**67.9**
Other income	-	**-**
Total Revenues	68.0	**67.9**
Total expenses	(57.4)	**(59.1)**
Profit for the year	10.6	**8.8**

Corporate Social Responsibility

ADIB was part of the " Year of Giving" government initiative as we continued several of our ongoing and successful programs. In addition we developed new CSR initiatives that aimed at enabling sustainable development and creating socio-economic benefits for all stakeholders.

As a leading Islamic bank, we are committed to being an ethical and responsible institution, and perform according to economic, social and environmental sustainability indicators in a transparent and diligent manner.

This commitment was reiterated in 2017, where ADIB was part of the "Year of Giving" government initiative as we continued several of our ongoing and successful programs. In addition we developed new CSR initiatives that aimed at enabling sustainable development and creating socio-economic benefits for all stakeholders.

These include:

1. Economic Sustainability

In terms of economic sustainability, we continued to fulfil our responsibility to supporting the national economy, despite challenging market conditions. 2017 marked another successful year for ADIB characterized by improved profitability and a stronger balance sheet. It was also a year of digital transformation as the Bank launched many initiatives in advancing its digital banking capabilities. These efforts were recognized as ADIB received more than 32 industry related awards.

2. Community Activities

The foundations of Islamic banking are rooted in the community, and ADIB understands the importance of giving back to society – both as an institution, and individually as responsible citizens.

ADIB is a committed partner to many of the charitable, governmental and non-governmental organisations working in the UAE. Through financial and other means we actively support their goals of community improvement, health promotion and poverty alleviation.

- The bank hosts blood donation drives for employees and also clients to encourage them to help save lives and give back to society in a meaningful way. In total 20 campaigns attracted 1,323 registered blood donors and 412 litres of blood.
- ADIB has a well-established partnership with the UAE Red Crescent Authority, and contributes regularly to its campaigns and scholarship programs. Red Crescent launched the Sukuk Al Khair program, the first of its kind, exclusively with ADIB in 2017 where ADIB was a key driver to encourage individual financial donations and contribution.
- ADIB has regularly engaged in the sponsorship of mass weddings for various groups within UAE society. In 2017, the bank's partnership with the Marriage Fund provided support worth 2 million Dirhams to over 200 new families. The aim is to address some of the social and financial issues facing newlyweds and to promote positive social and environmental change by creating a platform to reduce the food wastage associated with wedding events.
- We are fully aware of the importance of traffic and road safety, as well as the UAE's leading position in smart traffic management. In 2017 ADIB supported the government and the Emirates Traffic Safety Society by participating in the International Conference on Traffic Safety (ICOTS).
- ADIB is regularly present at important national and recreational events, as a participant and sponsor. In 2017, the bank joined celebrations of the UAE's 46th National Day by decorating its headquarters, as well as organizing live performances of traditional arts. There was also a fantastic heritage village for staff and their family members to explore. ADIB visited 10 hospitals across the UAE and shared the National Day celebration with the inpatient children. Also a National Day Signature book was sent to all ADIB employees across the UAE to express their happiness for the 46th National Day. ADIB Securities celebrated the National Day as well in ADX & DFM.
- Among the milestones in ADIB's community outreach program in 2017 was the donation of a new mosque to the citizens of Abu Dhabi that was built next to our new headquarters in Abu Dhabi.

3. Volunteer Program

ADIB employees play a very active role in the community, especially during Ramadan. Staff are encouraged to join all CSR initiatives, which include distributing Iftar food boxes to major mosques, orphanages and taxi companies across the UAE. In Addition, volunteers took part in paying visits to homes for the elderly, and organisations that support people with special needs. In 2017 alone, ADIB staff distributed 20,000 Iftar boxes that contained meals carefully designed to be healthy and nutritious to provide a well-balanced meal for those breaking fast. Also through the Grocery Truck, ADIB donated over 26,000 dry food and nonfood items, and gave a choice for people to pick up what they require.

4. Cultural Activities

In line with its long tradition of raising awareness of Islamic arts and heritage, particularly during the holy Ramadan period, in 2017 ADIB organised an exhibition on the importance of Zakat in Islam at Abu Dhabi's Emirates Palace Hotel. The exhibition attracted a large number of visitors with information highlighting the importance of Zakat in Islam. It portrays videos, iconic images and verses from the holy Quran – allowing visitors to learn more about Islamic culture and tradition and the true meaning of giving, which the UAE embeds and promotes through the Year of Giving.

5. Financial Education

- ADIB is a strong advocate of financial education for young people, seeing it as the best way to help them develop sound financial practices and contribute to the future stability of the economy as a whole. In 2017, the bank built on its successful record of university financial education roadshows and organized roadshows with students participating and benefiting from the practical advice on how to budget, save money and avoid the debt cycle.

- The bank also regularly reaches out to engage children and their parents with its mascot 'Darhoom,' who motivates them to adopt responsible spending and saving habits. The bank also promotes the 'Banoon' Children's Account, a Shari'a compliant account that encourages parents to save for their children with a host of unique features and privileges.

- ADIB consistently promotes financial education to the wider public. In 2017, ADIB launched Moneysmart, the region's first digital community for personal finance, where people can exchange information and advice with peers and experts. The community carries articles, blogs, tips and comments from users and independent experts to provide their knowledge and objective advice.

- In 2017, ADIB partnered with StartUp Academy from Arabian Business on a series of events to educate small and medium-sized enterprises (SMEs) how they can manage their money and how to benefit from the latest FinTech developments.

6. Empowering Youth

ADIB shares the passion of many of the UAE's young people for Jujitsu and football in the UAE. In 2017, ADIB continued to stage the ADIB Future Champions League, the national grassroots football program. It was an exceptional year for the program in many ways as it was named a winner in the Sports Industry Awards (SPIA) for the best CSR project. The league saw the participation of more than 2,808 players from 177 schools and 56 club/academy teams. Since its launch the league has expanded nationwide, and now offers thousands of children annually the opportunity to join in a truly competitive tournament at professional-class venues.

7. Fostering Talents

- ADIB's programs to empower UAE Nationals is a key sustainability initiative that has delivered promising results. Today, we are proud that Emiratis represent around 40% of our workforce. The bank was awarded the Human Resources Development Award 2017 by the Emirates Institute for Banking and Financial Studies (EIBFS) in recognition for our commitment to recruit, develop and promote local talent.

- ADIB works closely with various universities and colleges to provide opportunities for employment and skills development to new graduates and young Emirati talent. Based on ADIB's input, the bank's educational partners identify and train local talent to equip candidates with the skills needed to launch a successful career with the bank. ADIB in turn offers positions to as many of these trainees as possible. This creates a continuous pipeline of talent and helps the bank meet its expansion and employment plans, while strengthening the local financial sector as a whole.

- ADIB is committed to fostering a work environment that encourages employees to reach their full potential, providing them with the skills and support needed to reach their goals.

- ADIB also regularly provides assistance for students with their education fees, helping to groom the professionals of the future and adding to the local talent base. The bank has signed a memorandum of understanding with the UAE Red Crescent Authority to support its scholarship program, designed for students from families unable to afford tuition fees or in need of special training or rehabilitation.

- The bank's pursuit of continuous improvement as an institution is reflected in ADIB's significant investments in staff training and certification program, both in-house and externally. Training initiatives are tailored for maximum results and span all experience levels and aspects of the business, from introductions to banking to specialised areas such as risk and compliance. The ADIB Banking Academy was launched in 2014 to provide support for the continual learning path and career development of employees, in order to consistently produce best-in-class Islamic banking products and solutions.

8. Environment

ADIB was one of 11 financial institutions in the country to have signed the "Dubai Declaration of Financial Institutions in the United Arab Emirates on Sustainable Finance."

This declaration is testimony to our commitment to align the Bank's activities with the UAE Vision 2021, the UAE Government's commitment to the Paris Climate Agreement, United Nations Convention for the Rights of Persons with Disabilities, the United Nations' Sustainable Development Goals and the UAE Green Agenda 2015-2030.

9. Ethical Banking and Islamic Finance

ADIB is focusing its efforts on demonstrating and driving the universality of Islamic banking – an industry grounded in ethics and a 'back to basics' approach – to people of all faiths and backgrounds. Some key activities on this front included:

Ethical Finance Innovation and Challenge Awards (EFICA).

ADIB collaborated with Thomson Reuters to launch awards that rewarded ethical solutions to socio-economic challenges, and innovation in Islamic finance. The annual awards, which commanded prizes of up to $100,000, attracted over 100 entries from all over the world in 2017.

ADIB is aware of the critical significance of instilling and embedding sustainability through every aspect of our operations, and we invite all our stakeholders to engage with us in this regard.

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

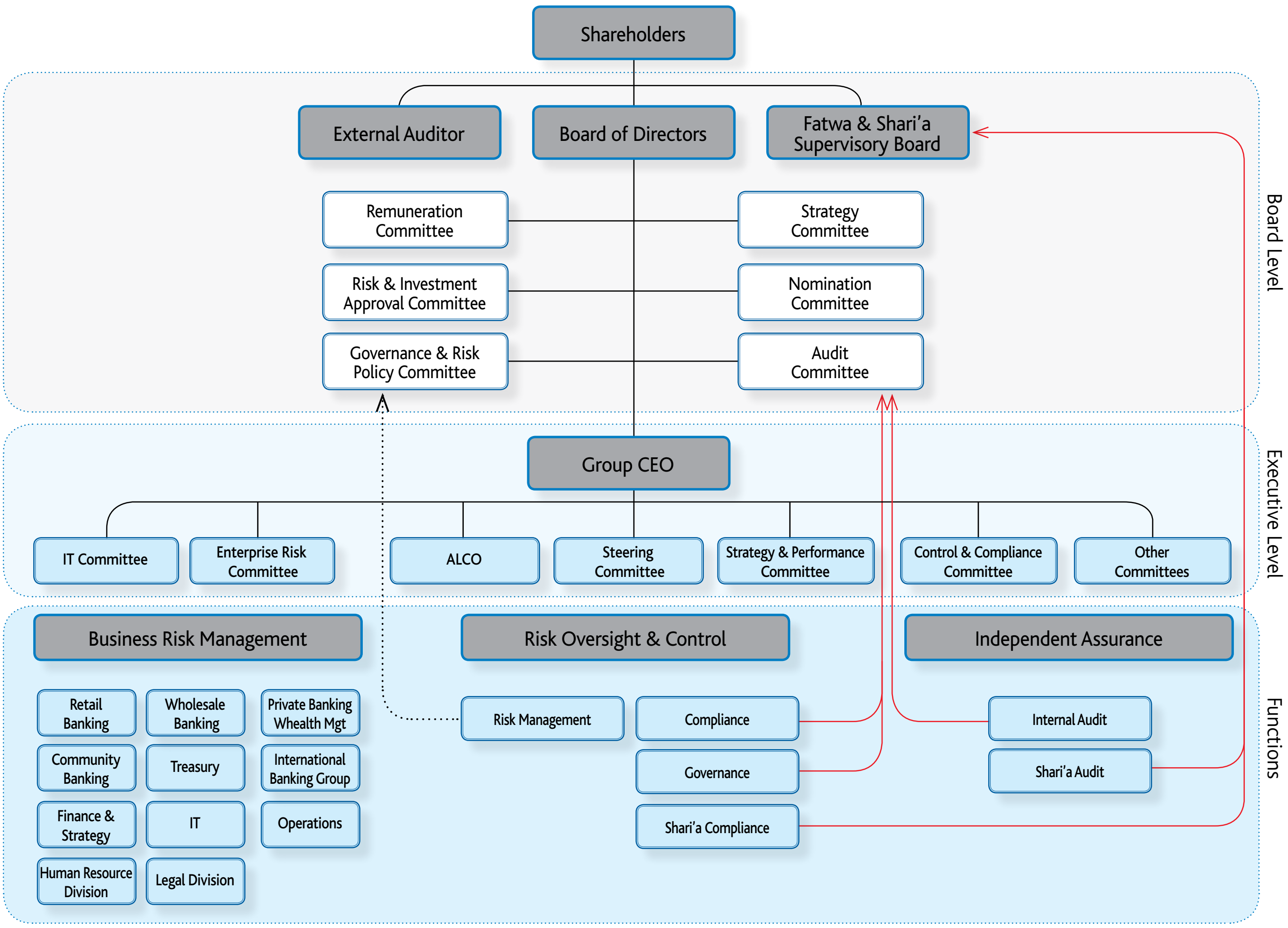
ADIB's overarching objective is to be "a top tier Islamic financial services group" and has committed to the following corporate values in order to achieve this objective:

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

Corporate Governance Framework

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

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



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

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

Independent assurance provided by the Audit Committee and the Internal Audit functions that report to it, in relation to the effectiveness of the First and Second Lines of Defence.

First Line of Defence

Second Line of Defence

Third Line of Defence

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

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

The Corporate Governance Framework cuts across four broad levels:

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

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

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

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

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

Independence from Management
The roles of the Chairman and the Group Chief Executive Officer are distinct and separate, with a clear division of responsibilities. In the absence of the Group Chief Executive Officer, currently the Vice Chairman of the Board is performing his role as Acting Chief Executive Officer.

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

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

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

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

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

A formal induction process exists for new Directors joining the Board, including visits to ADIB's major business areas and meetings with other Directors, and key members of senior management. ADIB provides any professional development that Directors consider necessary to assist them in carrying out their duties.

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

During 2017, ADIB undertook a refresh of the Board self - assessment process through an independent consultant.

Composition of the Board and Board Committees

In 2017 the Board comprised the Chairman, Vice Chairman and five other members. Majority of the Board members are UAE nationals, as required by the Federal Commercial Companies Law and the Bank's Articles of Association. The Board Committees comprise Directors and external independent subject matter experts, with a diversity of backgrounds aimed at ensuring that no undue reliance is placed on any one individual.

The Board held six meetings during 2017. The detail of Board membership and attendance is as under:

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

* Absent in three meetings with justification accepted by the Board

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

Board Committees

The following Board Committees continued to work effectively and independently during 2017.

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

Group Strategy Committee

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

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

The Group Strategy Committee held five meetings during 2017. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
Dr Sami Ali Al Amri	Chairman	5
Tirad M. Mahmoud – Group Chief Executive Officer*	Vice Chairman	2
Khalifa Matar Al Mheiri	Member	5
Khamis Mohamed Buharoon	Member	5
Andrew Douglas Moir** - Non Board member	Subject matter expert	2
Dr Ali Al Khouri*** - Non Board member	Subject matter expert	2

* Mr. Tirad M. Mahmoud resigned from the Bank effective 19 November 2017

** Contract with Mr. Andrew Douglas Moir was ended on 31 July 2017

***Dr Ali Al Khouri joined the Committee in November 2017

Group Audit Committee

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

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

The Group Audit Committee held five meetings during 2017. The detail of membership and their attendance is as under:

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

*Mr. David Smith resigned from the Committee on 29 December 2017

Group Governance and Risk Policy Committee

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

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

The Committee has the following major responsibilities:

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

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

The Group Governance and Risk Policy Committee held five meetings during 2017. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
Khalifa Matar Al Mheiri*	Chairman	4
Kantic Dasgupta ** - Non Board member	Ex Chairman and subject matter expert	1
Tirad M. Mahmoud, Group Chief Executive Officer***	Vice Chairman	0
Juma Khamis Mugheer Al Khaili	Member	4
Dr Sami Ali Al Amri	Member	5
Abdulla Bin Aqueeda Al Muhairi	Member	4
Brian Belcher, Group Chief Risk Officer*	Non-voting member	5

* Mr. Khalifa Matar Al Mheiri joined the Committee in April 2017

** Mr. Kantic Dasgupta resigned from the Committee, effective 1 March 2017

*** Mr. Tirad M. Mahmoud resigned from the Bank effective 19 November 2017

Group Risk and Investment Approval Committee

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

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

The Group Risk and Investment Approval Committee held thirty three meetings during 2017. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
HE Jawaan Awaidha Suhail Al Khaili	Chairman	18
Juma Khamis Mugheer Al Khaili	Vice Chairman	22
Khalifa Matar Al Mheiri	Member	29
Ragheed Najeeb Shanti	Member	33
Tirad M. Mahmoud* – Group Chief Executive Officer	Member	5

* Mr. Tirad M. Mahmoud resigned from the Bank effective 19 November 2017

Group Remuneration Committee

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

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

The Group Remuneration Committee held four meetings during 2017. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
Juma Khamis Mugheer Al Khaili	Chairman	4
Dr Sami Ali Al Amri	Member	4
Khalifa Matar Al Mheiri	Member	3
Ian Gore*, Global Head of Human Resources - Non Board member	Subject matter expert and Non-voting member	4

** Mr. Ian Gore resigned from the Bank effective 31 December 2017

Group Nomination Committee

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

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

The Group Nomination Committee held two meetings during 2017. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
HE Jawaan Awaidha Suhail Al Khaili	Chairman	1
Juma Khamis Mugheer Al Khaili	Member	2
Dr Sami Ali Al Amri	Member	2

Directors' remuneration and interests in the Group's shares

Directors' remuneration for 2016 of AED 4.9 million was approved at the Annual General Assembly Meeting held in April 2017, and was paid during 2017. 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 2017	Shareholding at 31 December 2017	Changes in Shareholding
HE Jawaan Awaidha Suhail Khaili	55,962,133	55,962,133	-
Khamis Mohamed Buharoon	27,540	27,540	-
Mr. Khalifa Matar Al Mheiri	-	-	-
Juma Khamis Mugheer Al Khaili	6,896	6,896	-
Mr. Abdulla Bin Aqueeda Al Muhairi	-	-	-
Ragheed Najeeb Shanti	-	-	-
Dr Sami Ali Al Amri	-	-	-

Relations with Shareholders

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

ADIB also communicates with shareholders through the Annual Report and by providing information at the General Assembly Meeting. Shareholders are given the opportunity to ask questions at the General Assembly Meeting. The last General Assembly Meeting of the shareholders was held on 02 April 2017.

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

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

General Assembly Meeting

The General Assembly Meeting of the shareholders was conducted on 02 April 2017, wherein the following matters were discussed and approved:

1. The Board of Director's Report on the Bank's activities and financial statements for the year ended 31 December 2016;
2. The Shari'a and Fatwa Supervisory Board Report on the Bank's activities for the year ended 31 December 2016;
3. External Auditor's report for the year ended 31 December 2016;
4. The audited Balance Sheet and Profit & Loss account for the year ended 31 December 2016;
5. To consider the proposal of the Board of Directors to distribute cash dividends of 24.52 fils per share to the shareholders from the year 2016 profits;
6. To consider the proposal of Board members remuneration for the year ended 31 December 2016;
7. To discharge the Board of Directors from liability for their work during the year ended 31 December 2016;
8. To discharge the External Auditors from liability for their work during the year ended 31 December 2016;
9. Appointment of External Auditors for the year 2017 and determination of their fees; and
10. Appointment of Shari'a Board for one fiscal year.

Fatwa and Shari'a Supervisory Board

The members of the Fatwa & Shari'a Supervisory Board were appointed in the General Assembly Meeting held on 02 April 2017 in compliance with the Bank's Article of Association.

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

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

The members of the Fatwa & Shari'a Supervisory Board held four meetings during 2017. The detail of membership and their attendance is as under:

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

Executive Management

The Acting Chief Executive Officer is supported by executive management including Group Chief Risk Officer, Group Chief Financial Officer, Chief Operating Officer and various management committees. ADIB has following management committees:

a. Steering Committee
b. Strategy and Performance Committee
c. Enterprise Risk Committee
d. Control and Compliance Committee
e. Asset and Liability Management Committee
f. IT Steering Committee
g. Corporate Social Responsibility Council
h. Other Committees (including Disciplinary Committee and Charity Account Committee)

Risk Management Framework

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

Internal Control

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

ADIB's system of internal control includes:

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

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

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

External Auditors

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

The shareholders approved the appointment of Ernst & Young as the external auditors of ADIB for 2017 at the General Assembly Meeting held on 02 April 2017.

Consolidated Financial Statements

Contents

Board of Directors' Report

Year ended 31 December 2017

The Board of Directors have pleasure in submitting their report together with the consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries (collectively known as the "the Group") for the year ended 31 December 2017.

Incorporation and registered office

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

Principal activity

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

Basis of preparation of consolidated financial statements

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

Financial commentary

The Group net profit reached a record AED 2,300.1 million (2016: AED 1,953.6 million) for 2017 up 17.7%. The financial highlights of the full year results are as follows:

- Group net revenue (total operating income net of distribution to depositors and sukuk holders) for 2017 was AED 5,632.3 million (2016: AED 5,385.5 million) increased by 4.6%.
- Group operating profit ("margin") for 2017 increased by 6.3% to reach at AED 3,123.1 million (2016: AED 2,937.6 million).
- Total provisions for impairment for 2017 were AED 790.4 million (2016: AED 970.0 million).
- Group net profit for 2017 was AED 2,300.1 million (2016: AED 1,953.6 million) up 17.7%.
- Group earnings per share increased to AED 0.627 compared to AED 0.520 in 2016.
- Total assets as of 31 December 2017 were AED 123.3 billion (2016: AED 122.3 billion).
- Net customer financing (murabaha, ijara and other Islamic financing) as of 31 December 2017 was AED 76.5 billion (2016: AED 78.2 billion).
- Customer deposits as of 31 December 2017 were AED 100.0 billion (2016: AED 98.8 billion).

Dividends and proposed appropriations

The Board of Directors have recommended a cash dividend of 39.76% and the following appropriations from retained earnings:

	AED '000
• Transfer to general reserves	(221,726)
• Proposed dividends to charity for the year ended 31 December 2017	(29,230)
• Proposed cash dividend to shareholders for the year ended 31 December 2017	(914,530)
• Profit paid on Tier 1 sukuk – Listed during the year	(234,158)
• Profit paid on Tier 1 sukuk – Government of Abu Dhabi during the year	(79,419)

Board of Directors' Report continued

Year ended 31 December 2017

Board of Directors

The directors during the year were as follows:

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

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

04 February 2018
Abu Dhabi

Ernst & Young
P.O. Box 136
27th Floor, Nation Tower 2
Abu Dhabi Corniche
Abu Dhabi, United Arab Emirates

Tel: +971 2 417 4400
Fax: +971 2 627 3383
abudhabi@ae.ey.com
ey.com/mena

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Abu Dhabi Islamic Bank PJSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRS').

Basis of our opinion

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

Key audit matters

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

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

Provision for impairment of financing assets

Financing assets comprise Murabaha and other Islamic financing, and Ijara financing. Provision of impairment of financing assets is an area that requires management of the Group to make complex and significant judgments. Such areas of judgment include the identification of exposures, which are considered to be impaired, assessment of the recoverable amount of the financing asset and the size of the impairment loss to be recorded. We have therefore identified provisions for impairment of financing assets to be a key audit matter. At 31 December 2017, gross financing assets amounted to AED 79,749,995 thousand against which provisions for impairment amounting to AED 3,220,361 thousand were recorded (see Notes 17 & 18 to the consolidated financial statements).

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

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

For the collective impairment provisions, we obtained an understanding of the methodology used by the Group to determine the collective impairment provisions, assessed the underlying assumptions and the sufficiency of the data used by management, and reviewed the management assessment of the level of collective provisions as of 31 December 2017.

Report on the Audit of the Consolidated Financial Statements continued

Other information

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

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

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

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on Other Legal and Regulatory Requirements

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

i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015, and the Memorandum and Articles of Association of the Bank;
iii) the Group has maintained proper books of account;
iv) the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;
v) investments in shares and stocks are included in note 20 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2017;
vi) note 40 reflects material related party transactions and the terms under which they were conducted;
vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2017, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would have a material impact on its activities or its consolidated financial position as at 31 December 2017; and
viii) note 44 reflects the social contributions made during the year.

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

04 February 2018
Abu Dhabi

ADIB Fatwa & Shari'a Supervisory Board's Report

To the General Assembly Meeting of the ADIB's Shareholders
For the financial year ending December 31st, 2017

In the name of Allah, the most Beneficent, the most Merciful

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

To the shareholders of Abu Dhabi Islamic Bank:

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

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

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

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

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

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

In our opinion:

- The contracts, operations and transactions executed by the Bank (and its associates and subsidiaries companies and international branches which do not have their own Fatwa and Shari'a Supervisory Board), the investments that the Bank entered in and the activities conducted during the financial year ending 31st December, 2017 which we have seen, were generally carried out in accordance with the principles and rulings of the Islamic Shari'a; those that were found to be shortcoming were directed to the management for redressing and their consequences were rectified in accordance with the requirements of the Islamic Shari'a.
- The distribution of profits and the bearing of losses on the investment accounts (including the allocation of the costs and expenses between the investment accounts and the shareholders) comply with the basis that we approved to be applied in accordance with principles and rulings of the Islamic Shari'a.
- Any returns that occurred through sources or methods that were not permissible with the principles and rulings of the Shari'a have been transferred to the charity account to be spent in charitable purposes to acceptable charity cases by Shari'a under our guidance in a way that the Bank shall never, directly or indirectly, benefit from such charity disposals.
- As the management of the Bank is not authorized to pay Zakat directly, it is the responsibility of shareholders to pay their own Zakat; which is an obligation on them as per the Third Pillar of Islam; and in this regard, we have reviewed and approved the Zakat amount per share that is mandatory to be disposed.

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

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

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

On behalf of
Sheikh Mohamed Taqi Uthmani
Chairman of the Board

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

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

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

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

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

Consolidated Income Statement

Year ended 31 December 2017

	Notes	2017 AED '000	2016 AED '000
OPERATING INCOME			
Income from murabaha, mudaraba and wakala with financial institutions		60,068	40,087
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	5	4,291,541	4,488,747
Income from Islamic sukuk measured at amortised cost		398,844	332,033
Income from investments measured at fair value	6	82,158	74,025
Share of results of associates and joint ventures		28,580	35,233
Fees and commission income, net	7	1,030,268	840,415
Foreign exchange income		270,292	139,162
Income from investment properties	8	36,397	27,236
Other income		16,146	16,378
		6,214,294	5,993,316
OPERATING EXPENSES			
Employees' costs	9	(1,446,329)	(1,436,880)
General and administrative expenses	10	(840,145)	(770,393)
Depreciation	22 & 25	(167,901)	(185,850)
Amortisation of intangibles	26	(54,793)	(54,756)
Provision for impairment, net	11	(790,360)	(969,965)
		(3,299,528)	(3,417,844)
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS		2,914,766	2,575,472
Distribution to depositors and sukuk holders	12	(581,982)	(607,793)
PROFIT FOR THE YEAR BEFORE ZAKAT AND TAX		2,332,784	1,967,679
Zakat and tax		(32,661)	(14,121)
PROFIT FOR THE YEAR AFTER ZAKAT AND TAX		2,300,123	1,953,558
Attributable to:			
Equity holders of the Bank		2,298,754	1,952,264
Non-controlling interest		1,369	1,294
		2,300,123	1,953,558
Basic and diluted earnings per share attributable to ordinary shares (AED)	13	0.627	0.520

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	Notes	2017 AED '000	2016 AED '000
PROFIT FOR THE YEAR AFTER ZAKAT AND TAX		**2,300,123**	1,953,558
Other comprehensive loss			
Items that will not be reclassified to consolidated income statement			
Net gain (loss) on valuation of investments carried at fair value through other comprehensive income	33	**1,634**	(16,783)
Surplus on revaluation of land	33	**-**	**49,700**
Directors' remuneration paid	40	**(4,900)**	(4,200)
Items that may subsequently be reclassified to consolidated income statement			
Exchange differences arising on translation of foreign operations	33	**(24,060)**	(571,244)
(Loss) gain on hedge of foreign operations	33	**(34,008)**	55,693
Fair value (loss) gain on cash flow hedges	33	**(3,157)**	9,933
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(64,491)**	(476,901)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,235,632**	1,476,657
Attributable to:			
Equity holders of the Bank		**2,234,263**	1,475,363
Non-controlling interest		**1,369**	1,294
		2,235,632	1,476,657

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

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 AED '000	2016 AED '000
ASSETS			
Cash and balances with central banks	14	**21,467,205**	19,778,339
Balances and wakala deposits with Islamic banks and other financial institutions	15	**2,765,903**	4,246,158
Murabaha and mudaraba with financial institutions	16	**2,125,249**	1,762,781
Murabaha and other Islamic financing	17	**33,249,315**	36,346,086
Ijara financing	18	**43,280,319**	41,864,436
Investment in Islamic sukuk measured at amortised cost	19	**10,052,028**	9,063,314
Investments measured at fair value	20	**1,526,490**	1,396,928
Investment in associates and joint ventures	21	**988,788**	753,541
Investment properties	22	**1,093,383**	1,207,991
Development properties	23	**837,381**	837,381
Other assets	24	**3,463,518**	2,695,667
Property and equipment	25	**2,062,677**	1,916,967
Goodwill and intangibles	26	**365,343**	420,136
TOTAL ASSETS		**123,277,599**	122,289,725
LIABILITIES			
Due to financial institutions	27	**3,688,558**	5,154,215
Depositors' accounts	28	**100,003,619**	98,813,752
Other liabilities	29	**3,012,258**	2,863,117
Total liabilities		**106,704,435**	106,831,084
EQUITY			
Share capital	30	**3,168,000**	3,168,000
Legal reserve	31	**2,102,465**	2,102,465
General reserve	31	**1,716,447**	1,494,721
Credit risk reserve	31	**400,000**	400,000
Retained earnings		**3,301,713**	2,487,099
Proposed dividend	32	**914,530**	776,782
Proposed dividend to charity		**29,230**	30,000
Other reserves	33	**(743,182)**	(683,768)
Tier 1 sukuk	34	**5,672,500**	5,672,500
Equity attributable to the equity and Tier 1 sukuk holders of the Bank		**16,561,703**	15,447,799
Non-controlling interest	35	**11,461**	10,842
Total equity		**16,573,164**	15,458,641
TOTAL LIABILITIES AND EQUITY		**123,277,599**	122,289,725
CONTINGENT LIABILITIES AND COMMITMENTS	36	**12,635,809**	12,484,075

H.E. Jawaan Awaidha Suhail Al Khaili
Chairman

Khamis Mohamed Buharoon
Vice Chairman & Acting Chief Executive Officer

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

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Notes	Attributable to the equity and Tier 1 sukuk holders of the Bank											
		Share capital AED '000	Legal reserve AED '000	General reserve AED '000	Credit risk reserve AED '000	Retained earnings AED '000	Proposed dividends AED '000	Proposed dividends to charity AED '000	Other reserves AED '000	Tier 1 sukuk AED '000	Total AED '000	Non-controlling interest AED '000	Total equity AED '000
Balance at 1 January 2016		3,168,000	2,102,465	1,293,820	400,000	1,858,899	769,022	20,000	(219,557)	5,672,034	15,064,683	10,548	15,075,231
Profit for the year		-	-	-	-	1,952,264	-	-	-	-	1,952,264	1,294	1,953,558
Other comprehensive loss		-	-	-	-	(4,200)	-	-	(472,701)	-	(476,901)	-	(476,901)
Loss on disposal of investments carried at fair value through other comprehensive income	33	-	-	-	-	(8,490)	-	-	8,490	-	-	-	-
Profit paid on Tier 1 sukuk – Listed	34	-	-	-	-	(234,158)	-	-	-	-	(234,158)	-	(234,158)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	34	-	-	-	-	(69,533)	-	-	-	-	(69,533)	-	(69,533)
Movement in Tier 1 sukuk - Listed		-	-	-	-	-	-	-	-	466	466	-	466
Dividends paid	32	-	-	-	-	-	(769,022)	-	-	-	(769,022)	(1,000)	(770,022)
Dividends paid to charity		-	-	-	-	-	-	(20,000)	-	-	(20,000)	-	(20,000)
Transfer to reserves	31	-	-	200,901	-	(200,901)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	-	(30,000)	-	30,000	-	-	-	-	-
Proposed cash dividend to shareholders	32	-	-	-	-	(776,782)	776,782	-	-	-	-	-	-
Balance at 1 January 2017		3,168,000	2,102,465	1,494,721	400,000	2,487,099	776,782	30,000	(683,768)	5,672,500	15,447,799	10,842	15,458,641
Profit for the year		-	-	-	-	2,298,754	-	-	-	-	2,298,754	1,369	2,300,123
Other comprehensive loss		-	-	-	-	(4,900)	-	-	(59,591)	-	(64,491)	-	(64,491)
Loss on disposal of investments carried at fair value through other comprehensive income	33	-	-	-	-	(177)	-	-	177	-	-	-	-
Profit paid on Tier 1 sukuk – Listed	34	-	-	-	-	(234,158)	-	-	-	-	(234,158)	-	(234,158)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	34	-	-	-	-	(79,419)	-	-	-	-	(79,419)	-	(79,419)
Dividends paid	32	-	-	-	-	-	(776,782)	-	-	-	(776,782)	(750)	(777,532)
Dividends paid to charity		-	-	-	-	-	-	(30,000)	-	-	(30,000)	-	(30,000)
Transfer to reserves	31	-	-	221,726	-	(221,726)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	-	(29,230)	-	29,230	-	-	-	-	-
Proposed cash dividend to shareholders	32	-	-	-	-	(914,530)	914,530	-	-	-	-	-	-
Balance at 31 December 2017		3,168,000	2,102,465	1,716,447	400,000	3,301,713	914,530	29,230	(743,182)	5,672,500	16,561,703	11,461	16,573,164

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

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 AED'000	2016 AED'000
OPERATING ACTIVITIES			
Profit for the year		**2,300,123**	1,953,558
Adjustments for:			
Depreciation on investment properties	22	**9,345**	11,749
Depreciation on property and equipment	25	**158,556**	174,101
Amortisation of intangibles	26	**54,793**	54,756
Share of results of associates and joint ventures		**(28,580)**	(35,233)
Dividend income	6	**(3,149)**	(868)
Realised loss (gain) on investments carried at fair value through profit or loss	6	**13,439**	(23,860)
Unrealised (gain) loss on investments carried at fair value through profit or loss	6	**(30,144)**	4,858
Gain on disposal of property and equipment		**(175)**	(214)
Provision for impairment, net	11	**790,360**	969,965
Gain on sale of investment properties	8	**(23,182)**	(10,497)
Operating profit before changes in operating assets and liabilities		**3,241,386**	3,098,315
Decrease (increase) in balances with central banks		**95,841**	(1,719,748)
Decrease (increase) in balances and wakala deposits with Islamic banks and other financial institutions		**1,590,196**	(1,442,747)
Decrease (increase) in murabaha and mudaraba with financial institutions		**285,472**	(240,815)
Decrease in murabaha and other Islamic financing		**2,435,443**	1,297,212
Increase in ijara financing		**(1,520,449)**	(2,074,916)
Purchase of investments carried at fair value through profit or loss		**(10,301,488)**	(10,507,194)
Proceeds from sale of investments carried at fair value through profit or loss		**10,204,176**	10,532,578
(Increase) decrease in other assets		**(881,851)**	59,371
(Decrease) increase in due to financial institutions		**(65,294)**	87,410
Increase in depositors' accounts		**1,180,840**	3,889,613
Increase (decrease) in other liabilities		**54,447**	(567,752)
Cash from operations		**6,318,719**	2,411,327
Directors' remuneration paid	40	**(4,900)**	(4,200)
Net cash from operating activities		**6,313,819**	2,407,127
INVESTING ACTIVITIES			
Dividend received	6	**3,149**	868
Net movement in investments carried at fair value through other comprehensive income		**(13,911)**	33,466
Net movement in investments carried at amortised cost		**(995,052)**	(1,780,905)
Dividends received from an associate		**6,667**	6,667
Additions in investment in associates and joint ventures		**-**	(17,395)
Proceeds from sale of investment properties		**27,846**	26,382
Purchase of property and equipment	25	**(304,915)**	(301,620)
Proceeds from disposal of property and equipment		**483**	267
Net cash used in investing activities		**(1,275,733)**	(2,032,270)
FINANCING ACTIVITIES			
Profit paid on Tier 1 sukuk – Listed	34	**(234,158)**	(234,158)
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	34	**(79,419)**	(69,533)
Proceeds from own Tier 1 sukuk – Listed		**-**	466
Repurchase of sukuk assets – third issue		**-**	(1,836,250)
Dividends paid		**(781,558)**	(774,057)
Net cash used in financing activities		**(1,095,135)**	(2,913,532)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**3,942,951**	(2,538,675)
Cash and cash equivalents at 1 January		**6,945,518**	9,484,193
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	39	**10,888,469**	6,945,518

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

		2017	2016
Profit received		**4,859,943**	4,727,121
Profit paid to depositors and sukuk holders		**471,378**	501,556

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

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

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

In addition to its main office in Abu Dhabi, the Bank operates through its 81 branches in UAE (2016: 86 branches) and 3 overseas branches in Iraq, Qatar and Sudan and subsidiaries in the UAE and the United Kingdom. The consolidated financial statements combine the activities of the Bank's head office, its branches and subsidiaries.

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

The consolidated financial statements of the Group were authorised for issue by the Board of Directors on 04 February 2018.

2 DEFINITIONS

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

Murabaha

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

Istisna'a

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

Ijara

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

Qard Hasan

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

Musharaka

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

Mudaraba

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

Wakalah

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

Sukuk

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

3 BASIS OF PREPARATION

3.1 (a) Statement of compliance

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

3.1 (b) Accounting convention

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

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

3.1 (c) Basis of consolidation

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

			Percentage of holding	
	Activity	Country of incorporation	2017	2016
Abu Dhabi Islamic Securities Company LLC	Equity brokerage services	United Arab Emirates	95%	95%
Burooj Properties LLC	Real estate investments	United Arab Emirates	100%	100%
MPM Properties LLC	Real estate services	United Arab Emirates	100%	100%
ADIB Invest 1	Equity brokerage services	BVI	100%	100%
Kawader Services LLC	Manpower supply	United Arab Emirates	100%	100%
ADIB (UK) Limited	Islamic banking	United Kingdom	100%	100%
ADIB Holdings (Jersey) Ltd*	Special purpose vehicle	British Channel Islands	-	-
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Sukuk Company II Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 1 Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 2 Ltd*	Special purpose vehicle	Cayman Island	-	-

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

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

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

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

3 BASIS OF PREPARATION continued

3.2 Changes in accounting policies

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

During the year the Group has adopted the following new standards / amendments to the standards effective for the annual period beginning on or after 1 January 2017:

IAS 7: Statement of Cash Flows (Amendment) was issued in January 2016 with the intention to improve disclosers of financing activities and help users to better understand reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their liabilities as a result of financing activities such as changes from cash flows and non-cash items. The amendment does not impact the consolidated financial statements of the Group.

IAS 12: Income Taxes (Amendment) was issued In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of Sukuk measured at fair value for accounting, but measured at cost for tax purposes. The amendment does not impact the consolidated financial statements of the Group.

3.3 Standards issued but not yet effective

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

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

Interpretation 22 – Foreign Currency Transactions and Advance Consideration the interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts. For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration.

If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt. Entities can choose to apply the interpretation retrospectively for each period presented or prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or prospectively from the beginning of a prior reporting period presented as comparative information. An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2018. The Group is in the process of assessing the impact of the new standard on its consolidated financial statements.

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

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

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

(i) its business model for managing those financial assets; and

(ii) cash flow characteristics of the assets.

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

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

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

3 BASIS OF PREPARATION continued

3.3 Standards issued but not yet effective continued

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3 BASIS OF PREPARATION continued

3.3 Standards issued but not yet effective 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 extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

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

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

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

For classification and measurement, the combined application of the contractual cash flow characteristics and business model tests as at January 1, 2018 is expected to result in certain differences in the classification of financial assets when compared to our current classification under IAS 39. Based on the assessment performed by the Group, these differences are not expected to have a material impact on the classification of Group's financial assets nor their carrying value.

The existing hedging relationships will continue to qualify and be effective under the IFRS 9 hedge accounting provisions and will not have any transition impact on the Group financial statements.

With regards to the impairment requirements of IFRS 9, the Group has estimated the transition impact including the ECL on those financial assets (such as Cash and balances with central banks, balances and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, acceptances and off balance sheet items) which were not considered under the incurred loss model in IAS 39. The combined impact of the IFRS 9 transitional adjustments is not expected to have material impact on Equity.

The Group continues to refine the impairment models and related processes leading up to March 31, 2018 reporting.

(e) Financial instruments: disclosures (IFRS 7): The Group will be amending the disclosures for 2018 to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

3.4 Significant Judgements and Estimates

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

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

Going concern

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

3 BASIS OF PREPARATION continued

3.4 Significant Judgements and Estimates continued

Impairment losses on financing assets and investments carried at amortised cost

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

Collective impairment provisions on financing assets

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

Contingencies

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

Operating lease commitments - Group as lessor

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

Classification and measurement of financial assets

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

Investment and development properties

The Group hired services of professional real estate valuer to provide reliable estimates of the market value of investment properties for determining the fair values as of the reporting date, for disclosure purposes and assessing the impairment, if any. The basis of estimate and method used by the valuer has been disclosed in the note 23.

Fair value of financial instruments

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

Classification of properties

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

Impairment of investments in associates and joint ventures

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

3 BASIS OF PREPARATION continued

3.4 Significant Judgements and Estimates continued

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

Sale of properties

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

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

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

Fee and commission income

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

Operating lease income

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

Gain on sale of investments

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

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

Dividends

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

Cost of sale of properties

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

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

Financial Instruments

Recognition and Measurement

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

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

The Group's customer financing comprise the following:

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued

Recognition and Measurement continued

Classification

Financial assets at amortised cost

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

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

All other financial assets are subsequently measured at fair value.

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

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

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

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

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

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

A financial asset is FVTPL if:

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

Measurement

Financial assets or financial liabilities carried at amortised cost

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

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued

***Measurement** continued*

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

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

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

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

Investments in equity instruments are initially measured at fair value plus transaction costs. Subsequently they are measured at fair value with gains and losses arising from changes in fair value recognised in the consolidated statement of other comprehensive income and accumulated in the cumulative changes in fair values within equity. Where the assets are disposed off, the cumulative gain or loss previously accumulated in the cumulative changes in fair values is not transferred to the consolidated income statement, but is reclassified to retained earnings. Financial assets measured at FVTOCI are not required to be tested for impairment.

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

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

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

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

(i) Recognition / De-recognition

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

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

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

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

(ii) Offsetting of financial instruments

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

(iii) Impairment of financial assets

Customer financing

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Renegotiated financing facilities

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

Collateral valuation

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

Impairment of non-financial assets

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

Fair value measurements

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

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

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

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

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

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

Business combinations

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Business Combinations continued

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

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

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

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

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

Intangible assets acquired in a business combination

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

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

- Customer relationship 8 years
- Core deposit intangible 8 years

Goodwill

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

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

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Investment in associates continued

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

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

Investment in joint ventures

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

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

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

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

Investment properties

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

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

Development properties

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

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

Property and equipment

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment continued

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

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

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

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

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

Provisions and contingent liabilities

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

Acceptances

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

Deposits

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

Sukuk financing instruments

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

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

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Shari'a compliant alternatives of derivative financial instruments continued

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

Cash flow hedges

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

Net investment hedge

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

Zakat

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

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

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

Profit distribution

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

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

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Trade and settlement date accounting

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

Prohibited income

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

Fiduciary assets

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

Foreign currencies

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

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

Financial guarantees

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

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

Segment reporting

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

Dividends on ordinary shares

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

Treasury shares and contracts on own equity instruments

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

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

	2017 AED '000	2016 AED '000
Vehicle murabaha	306,576	340,303
Goods murabaha	224,553	364,356
Share murabaha	1,102,351	1,155,840
Commodities murabaha – Al Khair	410,416	380,142
Islamic covered cards (murabaha)	342,872	362,080
Other murabaha	42,025	45,177
Total murabaha	2,428,793	2,647,898
Mudaraba	15,960	49,542
Ijara	1,839,324	1,782,697
Istisna'a	7,464	8,610
	4,291,541	4,488,747

6 INCOME FROM INVESTMENTS MEASURED AT FAIR VALUE

	2017 AED '000	2016 AED '000
Income from Islamic sukuk measured at fair value through profit or loss	57,462	49,993
Realised (loss) gain on investments carried at fair value through profit or loss	(13,439)	23,860
Unealised gain (loss) on investments carried at fair value through profit or loss	30,144	(4,858)
Income from other investment assets	4,842	4,162
Dividend income	3,149	868
	82,158	74,025

7 FEES AND COMMISSION INCOME, NET

	2017 AED '000	2016 AED '000
Fees and commission income		
Fees and commission income on cards	691,958	584,184
Trade related fees and commission	114,934	109,874
Takaful related fees	118,155	92,230
Accounts services fees	61,466	46,022
Projects and property management fees	62,329	63,969
Risk participation and arrangement fees	176,341	170,248
Brokerage fees and commission	24,782	29,266
Other fees and commissions	312,142	241,996
Total fees and commission income	1,562,107	1,337,789
Fees and commission expenses		
Card related fees and commission expenses	(435,680)	(428,728)
Other fees and commission expenses	(96,159)	(68,646)
Total fees and commission expenses	(531,839)	(497,374)
Fees and commission income, net	1,030,268	840,415

8 INCOME FROM INVESTMENT PROPERTIES

	2017 AED '000	2016 AED '000
Proceeds from sale of investment properties	127,983	26,382
Less: net book value of properties sold	(104,801)	(15,885)
Gain on sale of investment properties	23,182	10,497
Rental income (note 22)	13,215	16,739
	36,397	27,236

9 EMPLOYEES' COSTS

	2017 AED '000	2016 AED '000
Salaries and wages	1,310,133	1,293,179
End of service benefits	67,215	69,671
Other staff expenses	68,981	74,030
	1,446,329	1,436,880

10 GENERAL AND ADMINISTRATIVE EXPENSES

	2017 AED '000	2016 AED '000
Legal and professional expenses	145,554	148,058
Premises expenses	263,633	236,159
Marketing and advertising expenses	83,225	82,839
Communication expenses	68,793	70,897
Technology related expenses	123,425	99,818
Other operating expenses	155,515	132,622
	840,145	770,393

11 PROVISION FOR IMPAIRMENT, NET

	Notes	2017 AED '000	2016 AED '000
Murabaha and mudaraba with financial institutions	16	-	(23,330)
Murabaha and other Islamic financing	17	661,372	755,636
Ijara financing	18	104,566	212,934
Recoveries, net of direct write-off		(44)	1,843
Investments measured at amortised cost	19	6,338	-
Investments in associates and joint ventures	21	15,156	-
Investment properties	22	462	4,981
Other assets	24	2,510	17,901
		790,360	969,965

The above provision for impairment includes AED 1,962 thousand (2016: AED 6,231 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank.

12 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

	2017 AED '000	2016 AED '000
Saving accounts	175,218	146,531
Investment accounts	406,764	397,954
Sukuk holders	-	63,308
	581,982	607,793

13 BASIC AND DILUTED EARNINGS PER SHARE

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

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

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

	Notes	2017	2016
Profit for the year attributable to equity holders (AED '000)		2,298,754	1,952,264
Less: profit attributable to Tier 1 sukuk holder – Listed (AED '000)	34	(234,158)	(234,158)
Less: profit attributable to Tier 1 sukuk holder - Government of Abu Dhabi (AED '000)	34	(79,419)	(69,533)
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk		1,985,177	1,648,573
Weighted average number of ordinary shares at 31 December in issue (000's)		3,168,000	3,168,000
Basic and diluted earnings per share (AED)		0.627	0.520

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

14 CASH AND BALANCES WITH CENTRAL BANKS

	2017 AED '000	2016 AED '000
Cash on hand	1,993,397	1,745,906
Balances with central banks:		
- Current accounts	1,694,913	860,295
- Statutory reserve	11,475,757	11,071,193
- Islamic certificate of deposits	6,303,138	6,100,945
	21,467,205	19,778,339

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

14 CASH AND BALANCES WITH CENTRAL BANKS continued

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

	2017 AED '000	2016 AED '000
UAE	**19,944,008**	18,613,626
Rest of the Middle East	**1,300,979**	1,077,353
Europe	**1,063**	656
Others	**221,155**	86,704
	21,467,205	19,778,339

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

	2017 AED '000	2016 AED '000
Current accounts	**831,167**	277,485
Wakala deposits	**1,934,736**	3,968,673
	2,765,903	4,246,158

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

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

	2017 AED '000	2016 AED '000
UAE	**684,125**	2,132,487
Rest of the Middle East	**274,483**	784,535
Europe	**163,146**	113,844
Others	**1,644,149**	1,215,292
	2,765,903	4,246,158

16 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	2017 AED '000	2016 AED '000
Murabaha	**2,125,249**	1,570,407
Mudaraba	**-**	257,303
	2,125,249	1,827,710
Less: provision for impairment	**-**	(64,929)
	2,125,249	1,762,781

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

16 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS continued

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

	2017 AED '000	2016 AED '000
At 1 January	64,929	194,740
Reversal for the year (note 11)	-	(23,330)
Write-off during for the year	(64,929)	(106,481)
At 31 December	-	64,929

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

	2017 AED '000	2016 AED '000
UAE	1,957,846	1,561,341
Rest of the Middle East	167,403	228,153
Europe	-	9,066
Others	-	29,150
	2,125,249	1,827,710

17 MURABAHA AND OTHER ISLAMIC FINANCING

	2017 AED'000	2016 AED'000
Vehicle murabaha	6,437,197	6,544,017
Goods murabaha	5,473,305	6,788,344
Share murabaha	17,359,249	18,369,604
Commodities murabaha – Al Khair	7,965,182	8,277,850
Islamic covered cards (murabaha)	16,558,534	16,540,838
Other murabaha	1,643,377	2,032,171
Total murabaha	55,436,844	58,552,824
Mudaraba	46,681	1,128,518
Istisna'a	130,322	136,097
Other financing receivables	281,810	245,146
Total murabaha and other Islamic financing	55,895,657	60,062,585
Less: deferred income on murabaha	(20,750,205)	(21,894,730)
	35,145,452	38,167,855
Less: provision for impairment	(1,896,137)	(1,821,769)
	33,249,315	36,346,086

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

	2017			2016		
	Individual impairment AED '000	Collective impairment AED '000	Total AED '000	Individual impairment AED '000	Collective impairment AED '000	Total AED '000
At 1 January	853,154	968,615	1,821,769	693,670	1,167,180	1,860,850
Charge (reversals) for the year (note 11)	652,146	9,226	661,372	954,201	(198,565)	755,636
Other adjustments	-	(124,900)	(124,900)	-	-	-
Written off during the year	(462,104)	-	(462,104)	(794,717)	-	(794,717)
At 31 December	1,043,196	852,941	1,896,137	853,154	968,615	1,821,769

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

	2017 AED'000	2016 AED'000
Industry sector:		
Public sector	981,415	674,674
Corporates	3,855,948	6,275,968
Financial institutions	234,315	162,150
Individuals	29,399,301	29,868,184
Small and medium enterprises	674,473	1,186,879
	35,145,452	38,167,855
Geographic region:		
UAE	33,885,343	36,641,855
Rest of the Middle East	783,768	950,297
Europe	210,679	201,865
Others	265,662	373,838
	35,145,452	38,167,855

18 IJARA FINANCING

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

	2017 AED'000	2016 AED'000
The aggregate future lease receivables are as follows:		
Due within one year	8,636,632	8,952,793
Due in the second to fifth year	21,876,793	22,046,466
Due after five years	32,682,754	26,041,455
Total Ijara financing	63,196,179	57,040,714
Less: deferred income	(18,591,636)	(13,839,384)
Net present value of minimum lease payments receivable	44,604,543	43,201,330
Less: provision for impairment	(1,324,224)	(1,336,894)
	43,280,319	41,864,436

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

	2017			2016		
	Individual impairment AED '000	Collective impairment AED '000	Total AED '000	Individual impairment AED '000	Collective impairment AED '000	Total AED '000
At 1 January	409,186	927,708	1,336,894	287,041	847,248	1,134,289
Charge (reversals) for the year (note 11)	172,101	(67,535)	104,566	132,474	80,460	212,934
Written off during the year	(117,236)	-	(117,236)	(10,329)	-	(10,329)
At 31 December	464,051	860,173	1,324,224	409,186	927,708	1,336,894

18 IJARA FINANCING continued

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

	2017 AED'000	2016 AED'000
Industry sector:		
Government	752,339	-
Public sector	4,480,814	4,930,758
Corporates	18,708,191	19,224,881
Individuals	20,366,863	18,462,404
Small and medium enterprises	188,355	280,753
Non-profit organisations	107,981	302,534
	44,604,543	43,201,330
Geographic region:		
UAE	42,668,353	41,098,110
Rest of the Middle East	1,025,203	1,066,435
Europe	386,656	321,811
Others	524,331	714,974
	44,604,543	43,201,330

19 INVESTMENT IN ISLAMIC SUKUK MEASURED AT AMORTISED COST

	2017 AED '000	2016 AED '000
Sukuk	10,052,028	9,063,314

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

	2017 AED '000	2016 AED '000
At 1 January	98,277	98,277
Charge for the year (note 11)	6,338	-
Written off during the year	(91,813)	-
At 31 December	12,802	98,277

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

	2017 AED '000	2016 AED '000
UAE	7,443,468	6,685,617
Rest of the Middle East	1,365,455	1,295,254
Europe	100,372	92,284
Others	1,155,535	1,088,436
	10,064,830	9,161,591

20 INVESTMENTS MEASURED AT FAIR VALUE

	2017 AED '000	2016 AED '000
Investments carried at fair value through profit or loss		
Quoted investments		
Equities	-	244
Sukuk	1,377,491	1,263,230
	1,377,491	1,263,474
Investments carried at fair value through other comprehensive income		
Quoted investments		
Equities	42,307	756
Unquoted investments		
Funds	53,619	52,088
Private equities	53,073	80,610
	106,692	132,698
	148,999	133,454
	1,526,490	1,396,928
The distribution of the gross investments by geographic region was as follows:		
UAE	915,534	909,689
Rest of the Middle East	89,221	84,038
Europe	170	159
Others	521,565	403,042
	1,526,490	1,396,928

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	2017 AED '000	2016 AED '000
Investment in associates and joint ventures	988,788	753,541

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

	2017 AED '000	2016 AED '000
At 1 January	-	-
Charge for the year (note 11)	15,156	-
At 31 December	15,156	-

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

	Place of incorporation	Proportion of ownership interest 2017 %	Proportion of ownership interest 2016 %	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	41	-	Real estate fund
Joint ventures				
Abu Dhabi Islamic Bank – Egypt (S.A.E.)	Egypt	49	49	Banking (under conversion to Islamic bank)

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

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:

	2017 AED '000	2016 AED '000
1 - Abu Dhabi National Takaful PJSC		
Share of associate's statement of financial position		
Assets	**391,395**	356,459
Liabilities	**(263,753)**	(243,509)
Net assets	**127,642**	112,950
Share of associate's revenue and profits:		
Revenue for the year	**48,418**	39,876
Profit for the year	**21,384**	24,053
Dividends received during the year	**6,667**	6,667
2 - Bosna Bank International D.D		
Share of associate's statement of financial position		
Assets	**509,832**	398,139
Liabilities	**(425,482)**	(327,373)
Net assets	**84,350**	70,766
Share of associate's revenue and profits:		
Revenue for the year	**11,710**	14,607
Profit for the year	**3,444**	4,034
3 - Abu Dhabi Islamic Bank – Egypt (S.A.E.)		
Share of joint venture's statement of financial position		
Assets	**3,740,253**	2,747,306
Liabilities	**(3,518,532)**	(2,601,631)
Net assets	**221,721**	145,675
Share of joint venture's revenue:		
Revenue for the year	**199,950**	266,755

As of 31 December 2017, the Bank's share of the contingent liabilities and commitments of associates and joint ventures amounted to AED 355,344 thousand (2016: AED 192,988 thousand). The equity instruments of Abu Dhabi National Takaful PJSC are quoted in Abu Dhabi Securities Exchange, UAE and the quoted value of the Banks' share of investment at 31 December 2017 amounted to AED 214,570 thousand (2016: AED 177,055 thousand) and its carrying value as of 31 December 2017 amounted to AED 202,929 thousand (2016: AED 188,212 thousand).

22 INVESTMENT PROPERTIES

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

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

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

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 13,215 thousand (2016: AED 16,739 thousand).

The fair values of investment properties at 31 December 2017 amounted to AED 1,334,262 thousand (2016: AED 1,595,972 thousand) are as per valuation conducted by professional valuers employed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations, and has appropriate qualifications and experience in the valuation of properties in the UAE. The fair value of the properties has been determined either based on transactions observable in the market or valuation models.

The valuation methodologies considered by external valuers include:

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

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

22 INVESTMENT PROPERTIES continued

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

	Land AED '000	Other properties AED '000	Total AED '000
At 1 January 2016	12,292	11,033	23,325
Charge for the year (note 11)	4,498	483	4,981
Relating to disposal	-	(118)	(118)
At 1 January 2017	16,790	11,398	28,188
Charge for the year (note 11)	462	-	462
Relating to disposal	(3,913)	-	(3,913)
At 31 December 2017	13,339	11,398	24,737

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

	Land AED '000	Other properties AED '000	Total AED '000
2017:			
UAE	980,358	129,548	1,109,906
Rest of the Middle East	8,214	-	8,214
	988,572	129,548	1,118,120
2016:			
UAE	989,706	238,259	1,227,965
Rest of the Middle East	8,214	-	8,214
	997,920	238,259	1,236,179

23 DEVELOPMENT PROPERTIES

	2017 AED'000	2016 AED'000
Development properties	837,381	837,381

Development properties include land with a carrying value of AED 800,000 thousand (2016: AED 800,000 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

24 OTHER ASSETS

	2017 AED'000	2016 AED'000
Advances against purchase of properties	**53,071**	129,336
Acceptances	**418,157**	283,804
Assets acquired in satisfaction of claims	**186,825**	295,193
Trade receivables	**301,347**	278,580
Prepaid expenses	**698,478**	736,798
Accrued profit	**149,256**	128,046
Advance to contractors	**47,837**	17,000
Advance for investments	**183,625**	183,625
Others	**1,459,667**	676,227
	3,498,263	2,728,609
Less: provision for impairment	**(34,745)**	(32,942)
	3,463,518	2,695,667

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

	Advances against purchase of properties AED '000	Assets acquired against satisfaction of claims AED'000	Trade receivables AED '000	Others AED '000	Total AED '000
At 1 January 2016	255,810	-	10,950	23,883	290,643
Charge for the year (note 11)	-	16,651	-	1,250	17,901
Written off during the year	(255,810)	(16,651)	(3,141)	-	(275,602)
At 1 January 2017	**-**	**-**	**7,809**	**25,133**	**32,942**
Charge for the year (note 11)	**-**	**600**	**-**	**1,910**	**2,510**
Written off during the year	**-**	**(600)**	**(107)**	**-**	**(707)**
At 31 December 2017	**-**	**-**	**7,702**	**27,043**	**34,745**

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

25 PROPERTY AND EQUIPMENT

	Land AED '000	Buildings AED '000	Furniture and fixtures AED '000	Computer and office equipment AED '000	Motor vehicles AED '000	Capital work-in progress AED '000	Total AED '000
2017							
Cost or revaluation:							
At 1 January	291,178	294,435	390,041	914,162	13,308	954,366	2,857,490
Exchange differences	-	-	(866)	(181)	(162)	(31)	(1,240)
Additions	-	-	326	613	-	303,976	304,915
Transfers from capital work-in-progress	-	-	54,990	216,983	760	(272,733)	-
Disposals	-	-	-	-	(1,074)	-	(1,074)
At 31 December	291,178	294,435	444,491	1,131,577	12,832	985,578	3,160,091
Depreciation:							
At 1 January	-	43,656	276,721	610,022	10,124	-	940,523
Exchange differences	-	-	(20)	(720)	(159)	-	(899)
Charge for the year	-	11,743	36,646	108,560	1,607	-	158,556
Relating to disposals	-	-	-	-	(766)	-	(766)
At 31 December	-	55,399	313,347	717,862	10,806	-	1,097,414
Net book value:							
At 31 December	291,178	239,036	131,144	413,715	2,026	985,578	2,062,677
2016							
Cost or revaluation:							
At 1 January	241,478	243,158	380,999	768,072	13,249	909,845	2,556,801
Exchange differences	-	-	(5,976)	264	(77)	-	(5,789)
Additions	-	518	-	21,689	105	279,308	301,620
Transfers from capital work-in-progress	-	50,759	15,083	168,164	781	(234,787)	-
Surplus on revaluation (note 33)	49,700	-	-	-	-	-	49,700
Disposals	-	-	(65)	(44,027)	(750)	-	(44,842)
At 31 December	291,178	294,435	390,041	914,162	13,308	954,366	2,857,490
Depreciation:							
At 1 January	-	33,810	248,267	523,038	9,634	-	814,749
Exchange differences	-	-	(3,448)	212	(302)	-	(3,538)
Charge for the year	-	9,846	31,967	130,746	1,542	-	174,101
Relating to disposals	-	-	(65)	(43,974)	(750)	-	(44,789)
At 31 December	-	43,656	276,721	610,022	10,124	-	940,523
Net book value:							
At 31 December	291,178	250,779	113,320	304,140	3,184	954,366	1,916,967

26 GOODWILL AND INTANGIBLES

		Other intangible assets		
	Goodwill AED '000	Customer relationships AED '000	Core deposit AED '000	Total AED '000
At 1 January 2016	109,888	303,997	61,007	474,892
Amortisation during the year	-	(45,600)	(9,156)	(54,756)
At 1 January 2017	**109,888**	**258,397**	**51,851**	**420,136**
Amortisation during the year	**-**	**(45,640)**	**(9,153)**	**(54,793)**
At 31 December 2017	**109,888**	**212,757**	**42,698**	**365,343**

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

Goodwill

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

Other intangible assets

Customer relationships

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

Core deposit

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

Impairment assessment of goodwill

No impairment losses on goodwill were recognised during the year ended 31 December 2017 (2016: Nil).

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

The recoverable amount of goodwill of cash generating unit, determined on the basis of value in use calculation, uses cash flow projections covering a five year period, with a terminal growth rate of 2% (2016: 2%) applied thereafter. The forecast cash flows have been discounted at a rate of 10.5% (2016: 10.5%).

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

27 DUE TO FINANCIAL INSTITUTIONS

	2017 AED'000	2016 AED'000
Current accounts	1,538,954	1,027,616
Investment deposits	2,149,604	3,758,330
	3,688,558	4,785,946
Current account - Central Bank of UAE	-	368,269
	3,688,558	5,154,215

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

	2017 AED'000	2016 AED'000
UAE	1,956,937	2,199,951
Rest of the Middle East	455,606	1,772,817
Europe	108,186	139,834
Others	1,167,829	1,041,613
	3,688,558	5,154,215

28 DEPOSITORS' ACCOUNTS

	2017 AED'000	2016 AED'000
Current accounts	32,738,664	31,225,114
Investment accounts	66,743,153	67,134,219
Profit equalisation reserve	521,802	454,419
	100,003,619	98,813,752

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

	2017 AED'000	2016 AED'000
At 1 January	454,419	394,364
Share of profit for the year	67,383	60,055
At 31 December	521,802	454,419

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

	2017 AED'000	2016 AED'000
Industry sector:		
Government	6,648,994	6,695,441
Public sector	8,318,185	8,506,133
Corporates	14,965,482	16,248,174
Financial institutions	1,449,801	694,197
Individuals	54,269,920	53,105,753
Small and medium enterprises	11,832,026	10,638,653
Non-profit organisations	2,519,211	2,925,401
	100,003,619	98,813,752

28 DEPOSITORS' ACCOUNTS continued

	2017 AED'000	2016 AED'000
Geographic region:		
UAE	94,243,953	92,472,863
Rest of the Middle East	4,356,973	4,867,243
Europe	461,535	502,618
Others	941,158	971,028
	100,003,619	98,813,752

	2017 AED'000	2016 AED'000
Currencies:		
UAE Dirham	80,727,844	81,915,524
US Dollar	14,866,945	12,811,388
Euro	2,134,877	2,338,706
Sterling Pound	948,371	587,757
Others	1,325,582	1,160,377
	100,003,619	98,813,752

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

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

29 OTHER LIABILITIES

	2017 AED'000	2016 AED'000
Accounts payable	432,385	406,128
Acceptances	418,157	283,804
Accrued profit for distribution to depositors and sukuk holders	285,485	237,733
Bankers' cheques	365,415	461,617
Provision for staff benefits and other expenses	387,896	364,029
Retentions payable	63,483	28,889
Advances from customers	136,890	187,492
Accrued expenses	205,613	269,299
Unclaimed dividends	110,841	114,867
Deferred income	163,054	164,995
Charity account	4,905	5,873
Donation account	13,523	7,206
Negative fair value on Shari'a compliant alternatives of derivative financial instruments (note 37)	4,901	1,645
Others	419,710	329,540
	3,012,258	2,863,117

30 SHARE CAPITAL

	2017 AED'000	2016 AED'000
Authorised share capital:		
4,000,000 thousand (2016: 4,000,000 thousand) ordinary shares of AED 1 each (2016: AED 1 each)	**4,000,000**	4,000,000
Issued and fully paid share capital:		
3,168,000 thousand (2016: 3,168,000 thousand) ordinary shares of AED 1 each (2016: AED 1 each)	**3,168,000**	3,168,000

31 RESERVES

31.1 Legal reserve

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

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

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

31.2 General reserve

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

31.3 Credit risk reserve

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

32 PROPOSED DIVIDENDS

	2017 AED'000	2016 AED'000
Cash dividend: AED 0.2887 per share of AED 1 each (2016: AED 0.2452 per share of AED 1 each)	**914,530**	776,782

Cash dividend of 28.87% of the paid up capital relating to year ended 31 December 2017 amounting to AED 914,530 thousand shall be paid after the approval by the shareholders in the Annual General Assembly.

Cash dividend of 24.52% of the paid up capital relating to year ended 31 December 2016 amounting to AED 776,782 thousand has been paid after the approval by the shareholders at the Annual General Assembly held on 2nd April 2017.

33 OTHER RESERVES

	Cumulative changes in fair values AED '000	Land revaluation reserve AED '000	Foreign currency translation reserve AED '000	Hedging reserve AED '000	Total AED '000
At 1 January 2016	(154,787)	143,000	(196,113)	(11,657)	(219,557)
Net loss on valuation of investments carried at FVTOCI	(16,783)	-	-	-	(16,783)
Loss on disposal of investments carried at FVTOCI	8,490	-	-	-	8,490
Surplus on revaluation of land	-	49,700	-	-	49,700
Exchange differences arising on translation of foreign operations	-	-	(571,244)	-	(571,244)
Gain on hedge of foreign operations	-	-	55,693	-	55,693
Fair value gain on cash flow hedges	-	-	-	9,933	9,933
At 1 January 2017	**(163,080)**	**192,700**	**(711,664)**	**(1,724)**	**(683,768)**
Net gain on valuation of investments carried at FVTOCI	**1,634**	**-**	**-**	**-**	**1,634**
Loss on disposal of investment carried at FVTOCI	**177**	**-**	**-**	**-**	**177**
Exchange differences arising on translation of foreign operations	**-**	**-**	**(24,060)**	**-**	**(24,060)**
Loss on hedge of foreign operations	**-**	**-**	**(34,008)**	**-**	**(34,008)**
Fair value loss on cash flow hedges	**-**	**-**	**-**	**(3,157)**	**(3,157)**
At 31 December 2017	**(161,269)**	**192,700**	**(769,732)**	**(4,881)**	**(743,182)**

34 TIER 1 SUKUK

	2017 AED'000	2016 AED'000
Tier 1 sukuk – Listed	**3,672,500**	3,672,500
Tier 1 sukuk – Government of Abu Dhabi	**2,000,000**	2,000,000
	5,672,500	5,672,500

Tier 1 sukuk – Listed

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

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

34 TIER 1 SUKUK continued

Tier 1 sukuk – Listed continued

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

Tier 1 sukuk – Government of Abu Dhabi

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

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

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

35 NON-CONTROLLING INTEREST

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

36 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

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

	2017 AED'000	2016 AED'000
Contingent liabilities		
Letters of credit	**3,215,199**	2,025,680
Letters of guarantee	**8,572,858**	9,747,282
	11,788,057	11,772,962
Commitments		
Undrawn facilities commitments	**666,945**	386,939
Future capital expenditure	**174,699**	312,738
Investment and development properties	**6,108**	11,436
	847,752	711,113
	12,635,809	12,484,075

37 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

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

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

31 December 2017: Notional amount by term to maturity

	Negative fair value AED '000	Notional amount AED '000	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000
Shari'a compliant alternatives of swap (note 29)	**4,901**	**2,683,629**	**1,385,321**	**374,228**	**296,467**	**627,613**

31 December 2016: Notional amount by term to maturity

	Negative fair value AED '000	Notional amount AED '000	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000
Shari'a compliant alternatives of swap (note 29)	1,645	2,821,209	1,513,495	266,142	531,482	510,090

38 ZAKAT

As the Bank is not required to pay Zakat by laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the share value, for Zakat purposes based on Gregorian year, was estimated at AED 195,878 thousand (2016: AED 175,666 thousand) and accordingly, Zakat is estimated at AED 0.06183 (2016: AED 0.05545) per outstanding share.

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

39 CASH AND CASH EQUIVALENTS

	2017 AED'000	2016 AED'000
Cash and balances with central banks, short term	**9,991,448**	8,206,741
Balances and wakala deposits with Islamic banks and other financial institutions, short term	**2,577,411**	2,467,470
Murabaha and mudaraba with financial institutions, short term	**1,957,846**	1,309,906
Due to financial institutions, short term	**(3,638,236)**	(5,038,599)
	10,888,469	6,945,518

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

	2017 AED'000	2016 AED'000
Transfer from other assets to investment properties (note 22)	**-**	994,485

40 RELATED PARTY TRANSACTIONS

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

Profit rates earned on balances and wakala deposits with banks and financial institutions and customer financing extended to related parties during the year has ranged from 0% to 6% (2016: 0% to 6% per annum).

Profit rates paid on due to financial institution and customers' deposits placed by related parties during the year have ranged from 0% to 0.8% per annum (2016: 0% to 0.9% per annum).

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

	Major shareholder AED '000	Directors AED '000	Associates and Joint Ventures AED '000	Others AED '000	Total AED '000
31 December 2017					
Income from murabaha, mudaraba and wakala with financial institutions	**-**	**-**	**14,394**	**-**	**14,394**
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	**57,447**	**456**	**-**	**77,214**	**135,117**
Fees and commission income, net	**-**	**72**	**243**	**3,419**	**3,734**
Operating expenses	**-**	**687**	**-**	**-**	**687**
Distribution to depositors and sukuk holders	**625**	**73**	**630**	**143**	**1,471**
31 December 2016					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	9,290	-	9,290
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	53,277	477	75	89,026	142,855
Fees and commission income, net	-	38	1,034	2,469	3,541
Operating expenses	-	432	-	-	432
Distribution to depositors and sukuk holders	-	67	535	291	893

40 RELATED PARTY TRANSACTIONS continued

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

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

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

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

Compensation of key management personnel

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

	2017 AED'000	2016 AED'000
Salaries and other benefits	34,639	32,076
Employees' end of service benefits	3,650	3,420
	38,289	35,496

During 2017, AED 4,900 thousand was paid to Board of Directors pertaining to the year ended 31 December 2016 after the approval by the shareholders in the Annual General Assembly held on 2nd April 2017.

41 SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

41 SEGMENT INFORMATION continued

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

	Global Retail banking AED '000	Global Wholesale banking AED '000	Private banking AED '000	Treasury AED '000	Real estate AED '000	Other operations AED '000	Total AED '000
Revenue and results							
Segment revenues, net	3,236,624	1,222,807	121,456	562,886	101,296	140,454	5,385,523
Operating expenses excluding provision for impairment, net	(1,744,378)	(380,998)	(53,997)	(41,832)	(82,146)	(158,649)	(2,462,000)
Operating profit (margin)	1,492,246	841,809	67,459	521,054	19,150	(18,195)	2,923,523
Provision for impairment, net	(621,225)	(372,359)	8,348	-	(6,231)	21,502	(969,965)
Profit (loss) for the year	871,021	469,450	75,807	521,054	12,919	3,307	1,953,558
Non-controlling interest	-	-	-	-	-	(1,294)	(1,294)
Profit (loss) for the year attributable to equity holders of the Bank	871,021	469,450	75,807	521,054	12,919	2,013	1,952,264
Assets							
Segmental assets	54,865,153	35,469,626	2,536,021	19,368,458	2,680,915	7,369,552	122,289,725
Liabilities							
Segmental liabilities	60,059,215	27,971,848	2,702,223	12,102,311	349,531	3,645,956	106,831,084

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

	Global Retail banking AED '000	**Global Wholesale banking AED '000**	**Private banking AED '000**	**Treasury AED '000**	**Real estate AED '000**	**Other operations AED '000**	**Total AED '000**
2017							
Total segment revenues, net	**3,261,003**	**1,348,475**	**124,816**	**676,990**	**111,612**	**109,416**	**5,632,312**
Inter-segment revenues, net	**145,211**	**(85,888)**	**14,420**	**(146,259)**	**-**	**72,516**	**-**
Segment revenues, net	**3,406,214**	**1,262,587**	**139,236**	**530,731**	**111,612**	**181,932**	**5,632,312**
2016							
Total segment revenues, net	3,209,761	1,264,794	115,203	555,641	101,296	138,828	5,385,523
Inter-segment revenues, net	26,863	(41,987)	6,253	7,245	-	1,626	-
Segment revenues, net	3,236,624	1,222,807	121,456	562,886	101,296	140,454	5,385,523

Geographical information

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

42 RISK MANAGEMENT

42.1 Introduction

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

42.1.1 Risk management governance structure

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

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

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

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

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

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

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

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

42.1.2 The Group Risk Management ("GRM")

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

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

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.

42 RISK MANAGEMENT continued

42.1.2 The Group Risk Management ("GRM") continued

Credit Committee

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

43.1.3 Risk measurement and reporting systems

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

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

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

The Group actively uses collateral to reduce its credit risks.

42.1.4 Risk concentration

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

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

42.1.5 Group Internal Audit

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

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

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

42.2 Credit risk

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

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

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

Credit-related commitments risks

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

42 RISK MANAGEMENT continued

42.2 Credit risk continued

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

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

	Notes	Gross maximum exposure 2017 AED '000	Gross maximum exposure 2016 AED '000
Balances and wakala deposits with Islamic banks and other financial institutions	15	**2,765,903**	4,246,158
Murabaha and mudaraba with financial institutions	16	**2,125,249**	1,827,710
Murabaha and other Islamic financing	17	**35,145,452**	38,167,855
Ijara financing	18	**44,604,543**	43,201,330
Investment in Islamic sukuk measured at amortised cost	19	**10,064,830**	9,161,591
Investments measured at fair value	20	**1,377,491**	1,263,230
Other assets		**2,376,264**	1,383,657
		98,459,732	99,251,531
Contingent liabilities	36	**11,788,057**	11,772,962
Commitments		**666,945**	386,939
Total		**12,455,002**	12,159,901
Total credit risk exposure		**110,914,734**	111,411,432

42.2.2 Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The credit exposure to the top 5 customers as of 31 December 2017 was AED 8,104,546 thousand (2016: AED 7,396,572 thousand) before taking account of collateral or other credit enhancements.

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

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

	Balances and wakala deposits with Islamic banks and other financial institutions AED '000	Murabaha and mudaraba with financial institutions AED '000	Murabaha and other Islamic financing AED '000	Ijara financing AED '000	Investment in Islamic sukuk measured at amortised cost AED '000	Investments measured at fair value AED '000	Other assets AED '000	Total AED' 000
31 December 2017								
UAE	**684,125**	**1,957,846**	**33,885,343**	**42,668,353**	**7,443,468**	**842,324**	**2,293,400**	**89,774,859**
Rest of Middle East	**274,483**	**167,403**	**783,768**	**1,025,203**	**1,365,455**	**39,891**	**82,795**	**3,738,998**
Europe	**163,146**	**-**	**210,679**	**386,656**	**100,372**	**-**	**-**	**860,853**
Others	**1,644,149**	**-**	**265,662**	**524,331**	**1,155,535**	**495,276**	**69**	**4,085,022**
Financial assets subject to credit risk	**2,765,903**	**2,125,249**	**35,145,452**	**44,604,543**	**10,064,830**	**1,377,491**	**2,376,264**	**98,459,732**
31 December 2016								
UAE	2,132,487	1,561,341	36,641,855	41,098,110	6,685,617	846,237	1,240,876	90,206,523
Rest of Middle East	784,535	228,153	950,297	1,066,435	1,295,254	34,547	139,412	4,498,633
Europe	113,844	9,066	201,865	321,811	92,284	1	-	738,871
Others	1,215,292	29,150	373,838	714,974	1,088,436	382,445	3,369	3,807,504
Financial assets subject to credit risk	4,246,158	1,827,710	38,167,855	43,201,330	9,161,591	1,263,230	1,383,657	99,251,531

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:

	2017 AED'000	2016 AED'000
Government	**4,066,315**	2,342,298
Public sector	**5,462,229**	5,605,401
Financial institutions	**8,911,385**	9,187,616
Trading and manufacturing	**7,130,160**	9,314,703
Construction and real estate	**7,134,045**	8,593,568
Energy	**738,834**	702,786
Personal	**49,968,753**	48,477,967
Others	**15,048,011**	15,027,192
Financial assets subject to credit risk	**98,459,732**	99,251,531

42.2.3 Impairment assessment

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

Individually assessed impairment losses on financing assets

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

Collective impairment provisions on financing assets

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

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

Write-off of financing assets

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

42.2.4 Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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:

	2017 AED'000	2016 AED'000
Against customer financing not impaired		
Property	**24,501,056**	24,324,068
Securities	**179,996**	133,030
Cash margin and lien over deposits	**472,702**	193,901
Others	**6,449,069**	7,121,981
	31,602,823	31,772,980
Against individually impaired		
Property	**1,601,886**	1,283,636
Securities	**47,730**	13,809
Cash margin and lien over deposits	**11,364**	22,362
Others	**104,307**	177,088
	1,765,287	1,496,895
	33,368,110	33,269,875

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

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

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

42.2.5 Credit quality per class of financial assets

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

	Moody's equivalent grade	2017 AED '000	2016 AED '000
Low risk			
Risk rating class 1	Aaa	**-**	-
Risk rating classes 2 and 3	Aa1-A2	**5,895,985**	4,182,315
Risk rating class 4	A2-Baa3	**8,597,824**	12,545,414
Risk rating classes 5, 6+ and 6	Ba1-B3	**60,029,148**	59,728,304
Fair risk			
Risk rating class 6- and 7	Caa1-Caa3	**6,104,622**	7,682,047
Impaired			
Risk rating class 8, 9 and 10		**4,013,568**	3,304,973
		84,641,147	87,443,053

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

42 RISK MANAGEMENT continued
42.2 Credit risk continued
42.2.5 Credit quality per class of financial assets continued
Renegotiated murabaha, ijara and other Islamic financings

The total carrying amount of financing to non-related parties whose terms have been renegotiated during the year amounted to AED 2,445,970 thousand (2016: AED 1,057,214 thousand).

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

	Balances and wakala deposits with Islamic banks and other financial institutions 31 December		Murabaha and mudaraba with financial institutions 31 December		Murabaha and other Islamic financing 31 December		Ijara financing 31 December		Investment in islamic sukuk measured at amortised cost 31 December	
	2017 AED '000	2016 AED '000	**2017 AED '000**	2016 AED '000	**2017 AED '000**	2016 AED '000	**2017 AED '000**	2016 AED '000	**2017 AED '000**	2016 AED '000
Individually impaired										
Substandard	-	-	-	-	**758,517**	691,864	**861,363**	559,457	-	-
Doubtful	-	-	-	-	**622,156**	556,356	**738,202**	671,012	-	12,802
Loss	-	-	-	64,929	**655,610**	483,614	**377,720**	277,741	**12,802**	91,813
Gross amount	-	-	-	64,929	**2,036,283**	1,731,834	**1,977,285**	1,508,210	**12,802**	104,615
Provision for individual impairment	-	-	-	(64,929)	**(1,043,196)**	(853,154)	**(464,051)**	(409,186)	**(12,802)**	(98,277)
	-	-	-	-	**993,087**	878,680	**1,513,234**	1,099,024	-	6,338
Past due but not impaired										
Less than 90 days	-	-	-	-	**302,192**	445,261	**220,260**	296,228	-	-
More than 90 days	-	-	-	-	**23,794**	102,073	**261,730**	353,044	-	-
	-	-	-	-	**325,986**	547,334	**481,990**	649,272	-	-
Neither past due nor impaired	**2,765,903**	4,246,158	**2,125,249**	1,762,781	**32,783,183**	35,888,687	**42,145,268**	41,043,848	**10,052,028**	9,056,976
Collective allowance for impairment	-	-	-	-	**(852,941)**	(968,615)	**(860,173)**	(927,708)	-	-
Carrying amount	**2,765,903**	4,246,158	**2,125,249**	1,762,781	**33,249,315**	36,346,086	**43,280,319**	41,864,436	**10,052,028**	9,063,314

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.5 Credit quality per class of financial assets continued

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

Ageing analysis of past due but not impaired

	Less than 30 days AED '000	31 – 60 days AED '000	61 – 90 days AED '000	More than 90 days AED '000	Total AED '000
2017					
Murabaha and other Islamic financing	**240,418**	**37,390**	**24,384**	**23,794**	**325,986**
Ijara financing	**110,314**	**100,456**	**9,490**	**261,730**	**481,990**
	350,732	**137,846**	**33,874**	**285,524**	**807,976**
2016					
Murabaha and other Islamic financing	204,258	137,785	103,218	102,073	547,334
Ijara financing	103,064	38,249	154,915	353,044	649,272
	307,322	176,034	258,133	455,117	1,196,606

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

42.3 Liquidity risk and funding management

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

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

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

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

42.3.1 Treasury

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

42.3.2 Asset & Liability Committee ("ALCO")

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

42.3.3 Liquidity risk management process

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

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

42 RISK MANAGEMENT continued

42.3 Liquidity risk and funding management continued

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

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

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
31 December 2017					
ASSETS					
Cash and balances with central banks	**21,467,205**	**-**	**-**	**-**	**21,467,205**
Balances and wakala deposits with Islamic banks and other financial institutions	**1,585,102**	**147,182**	**967,480**	**66,139**	**2,765,903**
Murabaha and mudaraba with financial institutions	**1,957,846**	**167,403**	**-**	**-**	**2,125,249**
Murabaha and other Islamic financing	**2,739,342**	**8,825,479**	**15,025,234**	**6,659,260**	**33,249,315**
Ijara financing	**1,802,608**	**3,443,869**	**16,305,233**	**21,728,609**	**43,280,319**
Investments in Islamic sukuk measured at amortised cost	**613,001**	**742,326**	**5,090,151**	**3,606,550**	**10,052,028**
Investments measured at fair value	**-**	**1,519,282**	**7,208**	**-**	**1,526,490**
Investment in associates and joint ventures	**-**	**-**	**-**	**988,788**	**988,788**
Other assets	**2,267,267**	**55,427**	**189,486**	**12,964**	**2,525,144**
Financial assets	**32,432,371**	**14,900,968**	**37,584,792**	**33,062,310**	**117,980,441**
Non-financial assets					**5,297,158**
Total assets					**123,277,599**
LIABILITIES					
Due to financial institutions	**3,681,580**	**6,978**	**-**	**-**	**3,688,558**
Depositors' accounts	**95,379,969**	**4,129,724**	**493,926**	**-**	**100,003,619**
Other liabilities	**1,907,644**	**339,150**	**765,464**	**-**	**3,012,258**
Total liabilities	**100,969,193**	**4,475,852**	**1,259,390**	**-**	**106,704,435**
31 December 2016					
ASSETS					
Cash and balances with central banks	19,277,935	500,404	-	-	19,778,339
Balances and wakala deposits with Islamic banks and other financial institutions	1,379,729	1,899,655	900,640	66,134	4,246,158
Murabaha and mudaraba with financial institutions	1,309,905	452,876	-	-	1,762,781
Murabaha and other Islamic financing	2,973,969	7,841,840	19,117,400	6,412,877	36,346,086
Ijara financing	1,851,973	4,449,542	17,491,293	18,071,628	41,864,436
Investments in Islamic sukuk measured at amortised cost	512,337	708,460	4,369,056	3,473,461	9,063,314
Investments measured at fair value	-	1,382,217	14,711	-	1,396,928
Investment in associates and joint ventures	-	-	-	753,541	753,541
Other assets	1,269,570	61,029	190,986	12,755	1,534,340
Financial assets	28,575,418	17,296,023	42,084,086	28,790,396	116,745,923
Non-financial assets					5,543,802
Total assets					122,289,725
LIABILITIES					
Due to financial institutions	5,154,215	-	-	-	5,154,215
Depositors' accounts	90,839,588	5,998,396	1,975,768	-	98,813,752
Other liabilities	1,812,691	308,829	741,597	-	2,863,117
Total liabilities	97,806,494	6,307,225	2,717,365	-	106,831,084

42 RISK MANAGEMENT continued

42.3 Liquidity risk and funding management continued

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

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

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
31 December 2017					
LIABILITIES					
Due to financial institutions	**3,681,990**	**7,022**	**-**	**-**	**3,689,012**
Depositors' accounts	**95,392,025**	**4,159,191**	**507,323**	**-**	**100,058,539**
Other liabilities	**1,907,644**	**339,150**	**765,464**	**-**	**3,012,258**
Total liabilities	**100,981,659**	**4,505,363**	**1,272,787**	**-**	**106,759,809**
31 December 2016					
LIABILITIES					
Due to financial institutions	5,154,551	-	-	-	5,154,551
Depositors' accounts	90,852,615	6,036,950	2,020,210	-	98,909,775
Other liabilities	1,812,691	308,829	741,597	-	2,863,117
Total liabilities	97,819,857	6,345,779	2,761,807	-	106,927,443

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

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

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
2017					
Contingent liabilities	**8,223,107**	**1,334,464**	**2,217,544**	**12,942**	**11,788,057**
Commitments	**-**	**180,807**	**-**	**-**	**180,807**
Total	**8,223,107**	**1,515,271**	**2,217,544**	**12,942**	**11,968,864**
2016					
Contingent liabilities	9,848,151	1,109,949	808,550	6,312	11,772,962
Commitments	-	11,436	125,292	-	136,728
Total	9,848,151	1,121,385	933,842	6,312	11,909,690

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

42.4 Market risk

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

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

The trading market risk framework comprises of the following elements:

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

42 RISK MANAGEMENT continued

42.4 Market risk continued

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

42.4.1 Profit rate risk

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

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

	2017		2016	
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	44,780	25	40,523
USD	25	20,919	25	21,272
Euro	25	(208)	25	1,702
Other currencies	25	1,036	25	1,832

42.4.2 Currency risk

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

	% Increase currency rates	Effect on net profit AED '000	Effect on equity AED '000
31 December 2017			
Currency			
USD	5	359,233	4,170
Euro	5	(97,213)	4,122
GBP	5	2,962	-
Other currencies	5	28,823	23,873
31 December 2016			
Currency			
USD	5	411,192	3,938
Euro	5	(29,573)	3,499
GBP	5	(3,449)	-
Other currencies	5	13,782	23,349

43 RISK MANAGEMENT continued

42.4 Market risk continued

42.4.2 Currency risk continued

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

	AED AED '000	USD AED '000	Euro AED '000	GBP AED '000	Others AED '000	Total AED '000
31 December 2017						
Financial assets						
Cash and balances with central banks	18,895,702	1,263,341	274	1,063	1,306,825	21,467,205
Balances and wakala deposits with Islamic banks and other financial institutions	(330,115)	2,346,906	110,372	454,506	184,234	2,765,903
Murabaha and mudaraba with financial institutions	1,425,248	532,598	-	-	167,403	2,125,249
Murabaha and other Islamic financing	31,156,721	1,674,206	7,335	784	410,269	33,249,315
Ijara financing	36,302,801	6,577,302	2,326	397,890	-	43,280,319
Investments in Islamic sukuk measured at amortised cost	264,000	9,685,598	-	102,430	-	10,052,028
Investments measured at fair value	(221,943)	1,427,069	(522)	288,069	33,817	1,526,490
Investment in associates and joint ventures	428,981	-	82,338	-	477,469	988,788
Other assets	1,749,068	245,678	153,630	178,637	198,131	2,525,144
	89,670,463	23,752,698	355,753	1,423,379	2,778,148	117,980,441
Financial liabilities						
Due to financial institutions	1,969,111	1,171,498	64,666	397,396	85,887	3,688,558
Depositors' accounts	80,727,844	14,866,945	2,134,877	948,371	1,325,582	100,003,619
Other liabilities	2,216,888	446,208	18,043	18,369	312,750	3,012,258
	84,913,843	16,484,651	2,217,586	1,364,136	1,724,219	106,704,435
31 December 2016						
Financial assets						
Cash and balances with central banks	17,703,406	1,171,030	2,342	664	900,897	19,778,339
Balances and wakala deposits with Islamic banks and other financial institutions	301,934	1,679,638	1,709,453	452,478	102,655	4,246,158
Murabaha and mudaraba with financial institutions	1,055,238	211,150	289,652	9,066	197,675	1,762,781
Murabaha and other Islamic financing	34,322,058	1,619,997	2,850	784	400,397	36,346,086
Ijara financing	33,448,811	7,801,301	21,673	415,185	177,466	41,864,436
Investments in Islamic sukuk measured at amortised cost	282,000	8,689,029	-	92,285	-	9,063,314
Investments measured at fair value	54,851	1,277,506	83	-	64,488	1,396,928
Investment in associates and joint ventures	216,666	-	69,890	-	466,985	753,541
Other assets	29,720	1,506,806	(79,509)	6,428	70,895	1,534,340
	87,414,684	23,956,457	2,016,434	976,890	2,381,458	116,745,923
Financial liabilities						
Due to financial institutions	1,759,510	2,562,731	165,486	444,872	221,616	5,154,215
Depositors' accounts	81,915,524	12,811,388	2,338,706	587,757	1,160,377	98,813,752
Other liabilities	2,279,578	279,737	33,724	13,234	256,844	2,863,117
	85,954,612	15,653,856	2,537,916	1,045,863	1,638,837	106,831,084

42 RISK MANAGEMENT continued

42.4 Market risk continued

42.4.3 Equity price risk

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

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

	% Increase in market indices 2017	Effect on net profit 2017 AED '000	% Increase in market indices 2016	Effect on net profit 2016 AED '000
Investments carried at fair value through profit or loss				
Dubai Financial Market	10	-	10	24

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

	% Increase in market indices 2017	Effect on equity 2017 AED '000	% Increase in market indices 2016	Effect on equity 2016 AED '000
Investments carried at fair value through other comprehensive income				
Abu Dhabi Stock Market	10	4,167	10	-
Dubai Financial Market	10	64	10	76

42.4.4 Operational risk

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

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

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

42.4.5 Compliance risk review

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

42 RISK MANAGEMENT continued

42.5 Capital management

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

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

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

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

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

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

Furthermore, as required by the above circular, certain Basel II pillar 3 disclosures will be included in the annual report issued by the Bank for the year 2017.

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2017 and 2016. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	Basel II	
	2017 AED '000	2016 AED '000
Tier 1 capital		
Share capital	**3,168,000**	3,168,000
Legal reserve	**2,085,788**	2,085,788
General reserve	**1,694,486**	1,472,760
Credit risk reserve	**400,000**	400,000
Retained earnings	**3,250,961**	2,469,256
Proposed dividend	**914,530**	776,782
Proposed dividend to charity	**29,230**	30,000
Foreign currency translation reserve	**(737,565)**	(711,172)
Tier 1 sukuk	**5,672,500**	5,672,500
Non-controlling interest	**11,461**	10,842
	16,489,391	15,374,756
Goodwill and intangibles	**(365,343)**	(420,136)
Deductions for Tier 1 capital	**(444,325)**	(376,770)
Total Tier 1	**15,679,723**	14,577,850

42 RISK MANAGEMENT continued

42.5 Capital management continued

	Basel II	
	2017 AED '000	2016 AED '000
Tier 2 capital		
Cumulative changes in fair value and hedging reserve	**(110,161)**	(108,815)
Collective impairment provision for financing assets	**1,067,747**	1,119,311
	957,586	1,010,496
Deductions for Tier 2 capital	**(444,326)**	(376,771)
Total Tier 2	**513,260**	633,725
Total capital base	**16,192,983**	15,211,575
Risk weighted assets		
Credit risk	**85,419,783**	89,544,880
Market risk	**2,211,598**	1,802,581
Operational risk	**9,259,729**	8,402,813
Total risk weighted assets	**96,891,110**	99,750,274
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**16.71%**	15.25%
Tier 1 capital expressed as a percentage of total risk weighted assets	**16.18%**	14.61%

42.5.1 Basel III Capital Ratios

The Central Bank of UAE ('CBUAE') issued Basel III capital regulations, which came into effect from 1 February 2017 (parallel reporting for Q2 2017 and Q3 2017 and Primary reporting from Q4 2017 onwards) introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Tier 1 ('T1') and Total Capital.

The additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced are over and above the minimum CET1 requirement of 7%.

For 2017, CCB is effective in transition arrangement and is required to be maintained at 1.25% of the Capital base. For 2018, CCB will be required at 1.88% and from 2019 it will be required to be maintained at 2.5% of the Capital base. CCyB is not yet in effect and is not required to be maintained for 2017.

The capital adequacy ratio as per Basel III capital regulation is given below:

	2017	Minimum capital requirement 2017	Minimum capital requirement 2019
Capital Ratio:			
a. Total for consolidated Group	**17.02%**	11.75%	13.00%
b. Tier 1 ratio for consolidated Group	**15.99%**	9.75%	11.00%
c. CET1 ratio for consolidated Group	**10.32%**	8.25%	9.50%

43 FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted investments – at fair value

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

Unquoted investments – at fair value

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

43 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

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 2017 AED '000**	**Fair value 2017 AED '000**	Carrying value 2016 AED '000	Fair value 2016 AED '000
Investments carried at amortised cost - sukuk (note 19)	**10,052,028**	**10,368,476**	9,063,314	9,226,315

Fair value measurement recognized in the consolidated statement of financial position

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

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

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

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

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

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
31 December 2017				
Assets and Liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit and loss				
Equities	-	-	-	-
Sukuk	1,377,491	-	-	1,377,491
	1,377,491	-	-	1,377,491
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	42,307	-	-	42,307
Unquoted investments				
Funds	-	-	53,619	53,619
Private equities	-	-	53,073	53,073
	-	-	106,692	106,692
	42,307	-	106,692	148,999
Financial liabilities				
Shari'a compliant alternatives of swap (note 37)	-	4,901	-	4,901
Assets for which fair values are disclosed:				
Investment properties (note 22)	-	-	1,334,262	1,334,262
Investment carried at amortised cost - Sukuk	10,104,476	-	264,000	10,368,476

43 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

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

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
31 December 2016				
Assets and Liabilities measured at fair value:				
Financial assets				
Investments carried at fair value through profit and loss				
Equities	244	-	-	244
Sukuk	1,263,230	-	-	1,263,230
	1,263,474	-	-	1,263,474
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	756	-	-	756
Unquoted investments				
Funds	-	-	52,088	52,088
Private equities	-	-	80,610	80,610
	-	-	132,698	132,698
	756	-	132,698	133,454
Financial liabilities				
Shari'a compliant alternatives of swap (note 37)	-	1,645	-	1,645
Assets for which fair values are disclosed:				
Investment properties (note 22)	-	-	1,595,972	1,595,972
Investment carried at amortised cost- Sukuk	8,944,315	-	282,000	9,226,315

During the year, quoted equity investments amounting to AED 41,362 thousand (2016: Nil) were transferred from level 3 to level 1.

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

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

	2017 AED '000	2016 AED '000
At 1 January	**132,698**	182,857
Transfer to level 1	**(41,362)**	-
Net purchase (disposals)	**13,940**	(37,860)
Gain (loss) recorded in equity	**1,416**	(12,299)
At 31 December	**106,692**	132,698

44 SOCIAL CONTRIBUTIONS

The social contributions (including donations and charity) made during the year amount to AED 30,000 thousand which were approved by the shareholders at the Annual General Assembly held on 2 April 2017.

During 2016, the social contributions (including donations and charity) were made amounting to AED 20,000 thousand after the approval by the shareholders at the Annual General Assembly held on 21 April 2016.

The requirements of the Central Bank of the UAE act as the framework for the implementation of the Basel III Accord in the UAE. They are contained in Circular 60/2017 dated 02 March 2017 and Circular 28/2018 dated 17 January 2018 and are being fully complied with by the Bank.

The framework is based on three pillars:

- Pillar I – Minimum capital requirements: defines rules for the calculation of credit, market and operational risk. The framework allows for different approaches, which can be selected depending on size, sophistication and other considerations. These comprise for Credit Risk: Standardised, Foundation Internal Rating Based (FIRB), Advanced Internal Rating Based (AIRB); for Market Risk: Standardised and Internal Models Approach; and for Operational Risk: Basic Indicator Approach, Standardised Approach, and Advanced Measurement Approach.
- Pillar II – Provides the framework for an enhanced supervisory review process with the objective of assessing the adequacy of the Bank's capital to cover not only the three primary risks (Credit, Marketing and Operational), but in addition a series of other risks that the Bank may be exposed to; for example, concentration risk, residual risk, business risk, liquidity risk etc. It includes the requirement for banks to undertake an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis, which is subject to Central Bank review and inspection.
- Pillar III – Market discipline: requires expanded disclosures, which will allow regulators, investors and other market participants to more fully understand the risk profiles of individual banks. The requirements of Pillar III in the case of ADIB are fulfilled in this annual report.

Banks are required to disclose all their material risks as part of the Pillar III framework. Many of these requirements have already been satisfied in note **42** to the 2017 ADIB Consolidated Financial Statements, which covers in detail the risk and capital management processes of the Bank and its compliance with the Basel II Accord in this regard.

The following Pillar III disclosures provide additional qualitative and quantitative information over and above that contained in note **42** to the 2017 ADIB Consolidated Financial Statements and together with the information contained in note **42**, meet the full disclosure requirements of Pillar III.

ADIB RISK PHILOSOPHY

Taking risk is at the core of the business of the Bank. All of the profit-making activities involve some measure of risk taking. Risk is also inherent in the internal business processes and systems, and also in external factors. At ADIB effective risk management is considered a core competence. In order for these risk-taking activities to generate sufficient amount of profit to add to shareholder and depositor value, the risk is managed within the tolerance levels of the organisation and the overall risk appetite that is set annually by the Board of Directors and reviewed quarterly by the Governance and Risk Policy Committee of the Board. The following principles lie at the core of ADIB's risk philosophy:

- Shari'a: Full compliance with Shari'a Governance in all aspects.
- Approval: All business activities which commit the Bank, legally or morally, to deliver risk-sensitive financing solutions, and any business proposals, require approval by authorised individuals or committees, prior to commitment.
- Independence: There exists a clear separation between the business and the risk management functions.
- Transparency: Risk management structures, policies and procedures are transparent. They are based on consistent principles, in written form, and are well communicated.
- One obligor total: Decision authority is determined by the total amount of financing and/or capital at risk, approved for all entities that form a coherent group based on shareholding and/or management control.
- Committee: Decisions regarding policy, product, large or high-risk exposures are taken by the appropriate committee.
- Approval authority: Authorities are delegated by the Board of Directors to an Executive Committee, which in turn delegates authority through the Chief Executive Officer. These reflect the delegates' (committee or individual) level of expertise, experience, track record and seniority.
- Three initials: Risk proposals can only be approved with a minimum of three authorised individuals forming an agreement within the framework set by the Board approved Credit Policy & Procedures Manual.
- Business responsibility: Business units are responsible for the selection of clients and for managing all of the business activities with such clients within approved limits.
- Credit Administration & Control: Critical to ensuring ongoing compliance with policies, approval authorities, approval conditions etc.
- Credit Review/Audit: Periodic independent validation and review of the portfolio and the process across all business units by both internal and external auditors.
- Due diligence: Regular and consistent customer contact, site visits, financial analysis, risk rating and stress testing.

RISK GOVERNANCE

ADIB's Risk Management Framework is focused on integrating Enterprise-wide Risk Management fully into its operations and culture. The role of Risk Management is to support growth, whilst ensuring consistent quality of the Bank's portfolio and an appropriate return for the risk being taken. The objective is to manage earnings volatility, which is achieved by setting clear risk-taking parameters and robust processes.

The Risk Governance Framework supports the Bank's objective of being a dynamic banking entity providing Islamic financial services of excellence, with insight and transparency in risk taking.

Please refer to note 42.1.1 of the 2017 ADIB Consolidated Financial Statements.

.

RISK APPETITE

ADIB's business model attracts mainly credit, market, operational and compliance risks in the normal course of business. The Bank seeks sustainable growth and profitability through the acquisition of diversified banking assets with attractive risk/return profiles while maintaining sufficient capital and liquidity buffers above those mandated by regulators. The Bank also seeks to maintain its strong credit ratings.

The principal themes underlying the assumptions of these risks are:

* Strong controls culture designed to ensure good conduct, ethical behaviour, legal and regulatory compliance,
* Clearly defined target markets and risk acceptance terms, and
* Continuous monitoring and management of risk assets.

The Bank manages its risk appetite using a set of risk limits and performance indicators allocated to each business. Management monitors adherence to these continuously.

COMPONENTS OF RISK MANAGEMENT

The management of risk is a process operated independently of the business units of the Bank. It consists of the following key components:

1. Identification: the Bank endeavours to identify all material risks that it may be affected by. Identification is a continuous and proactive process. It covers all the current activities of the Bank, as well as new products and markets.

2. Policies: In order to ensure that the Bank's business units comply with the approved Risk Management Framework, the Board of Directors has approved detailed Credit Risk Policies and Procedures, and various other policies covering the ALM Charter, Market Risk, Operational Risk and other risks as identified within the Basel II framework.

3. Measurement and monitoring: The Bank spends considerable resources on maintaining a modern IT platform to support risk management, applying a number of models and methods to accurately measure and quantify the risks affecting the Bank on an ongoing basis. The Bank continually monitors models and validates risk parameters to ensure that risk measurement gives a fair presentation of the underlying portfolios and transactions.

4. Parameter applications: In order to best capitalise on the Bank's risk appetite, the Bank applies risk-based data with regard to customers, industries, geographies etc. in the day-to-day management and review of customer transactions.

5. Controls: The Bank has established an independent control environment to monitor and enforce approved policies and procedures, and has various operational aspects with regard to consistent and thorough implementation of the same.

6. Reporting: The Bank has a well-established process for reporting risk factors to the various stakeholders of the Bank.

The Bank aims to reinforce a strong risk management culture through a comprehensive set of policies, processes and procedures that are designed to effectively identify, measure, monitor and control risk exposures. The Board of Directors is involved both directly and through the Governance and Risk Policy Committee, in the embedding of material risk processes and the periodic oversight and guidance of the risk management function.

Risk Management Structure: Please refer to note 42.1.1 of the 2017 ADIB Consolidated Financial Statements.

ASSESSMENT OF RISK GOVERNANCE EFFECTIVENESS

As a measure to evaluate the effectiveness of the Risk Governance Standards adopted by the Bank, an independent assessment was again conducted as a part of the annual ICAAP, covering various aspects of the following standards:

- Publications of the Basel Committee for Banking Supervision on Sound Principles of Risk Management
- Publications of the Central Bank of the UAE

The assessment was divided into the following broad categories:

1. Risk management structure
2. Operational risk
3. Credit & Concentration risk
4. Market risk
5. Profit rate risk in the banking book
6. Liquidity risk

The broad results of the assessment are as follows:

* The Bank is following sound practices for Credit Risk, Market Risk, Operational Risk and Asset-Liability Management.
* The Bank has a strong Credit Risk Management Framework. Financing Policy is clearly defined based on a target Credit Risk versus Return trade-off strategy. Limits of exposures to individual and group financing customers are defined, together with lines of authority regarding the granting of new financing, and the extension of existing limits. In addition, policies for addressing recoveries are established, which contain a detailed delegation of authority as well as control process.

ASSESSMENT OF RISK GOVERNANCE EFFECTIVENESS **continued**

* A comprehensive Risk Policy Framework has been adopted for ALM and Market Risk which includes Profit Rate and Liquidity Risk.
* The Operational Risk Management framework has been developed based on the 'Sound Practices for Operational Risk' document specified by the Basel Committee on Banking Supervision.

Credit risk and credit risk concentration: Please refer to note 42.2 of the 2017 ADIB Consolidated Financial Statements.

Liquidity risk and funding management: Please refer to note 42.3 of the 2017 ADIB Consolidated Financial Statements.

Market risk including profit rate risk, currency risk, and equity price risk: Please refer to note 42.4 of the 2017 ADIB Consolidated Financial Statements.

Operational risk: Please refer to note 42.4.4 of the 2017 ADIB Consolidated Financial Statements.

OTHER RISKS

Concentration risk: This refers to the risk that arises from any single exposure or a group of exposures with common risk factors and has the potential to produce large losses. It is mainly related to name concentration which relates to imperfect diversification of idiosyncratic risk in the portfolio because of large exposures to specific obligors. It also includes risk related to sector concentration which relates to the risk in credit portfolios arising from an unequal distribution of financings to different economic sectors.

Residual risk: This refers to the risk that recognised risk measurement and mitigation techniques used by the Bank prove less effective than expected. The Bank uses various techniques to mitigate the risk of the underlying credit exposure in the normal course of its business. The credit risk mitigation techniques generally used are either financial/non-financial collaterals or credit protection in the form of guarantees. These Credit Risk Mitigation Techniques are recognised for capital relief purposes under the Standardised Approach, except for non-financial collaterals, provided certain minimum criteria are present.

Reputation risk: Refers to the potential adverse effects that can arise from the Bank's reputation being sullied due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, negative/adverse publicity etc.. The Bank maintains a sound position in the market; it has not faced any major adverse publicity, deposit run or regulatory penalties over its long history. Its long-term rating of A+ was reconfirmed by Fitch in 2017.

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, S&P etc., as well as internally by the Bank. Any delayed settlements are closely monitored and the required procedural guidelines to be followed by Treasury and Back Office are in place.

STRESS TESTING

Stress testing refers to various techniques used by the Bank to gauge its vulnerability to exceptional but plausible stress events. It is used as a risk management technique to evaluate the potential effects of a specific event and/or movement in a set of economic variables on the Bank's financial condition. Stress testing is based on the concept of 'proportionality and complexity' and its applicability to the activities of the Bank. Relevant factors include size, sophistication and diversification of activities, materiality of different risk types and the Bank's vulnerability to them, etc. Stress testing is an important part of the risk management function in the Bank.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

In accordance with the regulations of the UAE Central Bank, ADIB initiated the ICAAP process late in 2009 and has submitted the reports annually to the UAE Central Bank within the stipulated deadline including the report for 2017, which was prepared and submitted in early 2017 as required. The process of integrating and embedding ICAAP with the Capital Management and Risk Management cultures and practices within the Bank continued in 2017. 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.

CONSOLIDATED CAPITAL STRUCTURE UNDER BASEL II AS ON 31 DECEMBER 2017

	Amount AED '000
Tier 1 Capital	
1. Share capital - Paid up	3,168,000
2. Reserves	-
a. Legal reserve	2,085,788
b. General reserve	1,694,486
c. Credit risk reserve	400,000
3. Retained earnings	4,194,721
4. Minority interest in the equity of subsidiaries	11,461
5. Innovative capital instruments	-
6. Tier 1 Sukuk	5,672,500
7. Goodwill and other intangibles	(365,343)
8. Foreign Currency Translation Reserve	(737,565)
Sub-total	**16,124,048**
Less: Deductions for regulatory calculation	-
Less: Deductions from Tier 1 capital	(444,325)
Tier 1 Capital - Subtotal	**15,679,723**
Tier 2 Capital	1,067,747
1. Qualifying General provisions	-
2. Assets revaluation reserves	(110,161)
3. Cumulative changes in fair values	-
4. Hybrid capital instruments	-
5. Tier 2 Wakala capital	**957,586**
Sub-total	(444,326)
Less: Deductions from Tier 2 Capital	**513,260**
Tier 2 Capital - Subtotal	
Total eligible capital after deductions	**16,192,983**

1. Include minority interests in equity accounts of consolidated subsidiaries that take form of SPVs and moderate step-ups in instruments issued through SPV's, as well as directly issued Tier 1 instruments, subject to stringent conditions (refer to Basel Committee's press release, Instruments eligible for inclusion in Tier 1 capital - 27 October 1988) and limited to a maximum of 15% of Tier 1 capital.
2. Including undisclosed reserves, revaluation reserves, general provision/general financings loss reserves Hybrid capital instruments and subordinated debt.

Basel II Pillar III Disclosure

CAPITAL ADEQUACY UNDER BASEL II AS AT 31 DECEMBER 2017

Quantitative Disclosures	Capital Charge (AED '000)	Capital Ratio (%)
1. Credit Risk		
a. Standardised Approach	10,250,374	-
b. Foundation IRB	-	
c. Advanced IRB	-	
2. Market Risk	-	
a. Standardised Approach	265,392	-
b. Model Approach	-	
3. Operational Risk	-	
a. Basic Indicator Approach (BIA)	1,111,167	-
b. Standardised Approach/ASA	-	
c. Advanced Measurement Approach	-	
Total Capital requirements	**11,626,933**	**-**
Capital Ratio		
a. Total for Top Consolidated Group		16.71%
b. Tier 1 ratio only for top consolidated Group		16.18%
c. Total for each significant bank subsidiary		-

INFORMATION ON SUBSIDIARIES AND SIGNIFICANT INVESTMENT AS ON 31 December 2017

	Country of Incorporation	% Ownership	Description	Treatment - Regulatory	Treatment - Accounting
SUBSIDIARIES					
Abu Dhabi Islamic Securities Company LLC	UAE	95	Equity Brokerage Services	Fully consolidated	Fully consolidated
ADIB Invest 1	BVI	100	Equity Brokerage Services	Fully consolidated	Fully consolidated
Burooj Properties LLC **	UAE	100	Real Estate Investments	Neither consolidated nor deducted	Fully consolidated
MPM Properties LLC **	UAE	100	Real Estate Services	Neither consolidated nor deducted	Fully consolidated
Kawader Services LLC **	UAE	100	Manpower Supply	Neither consolidated nor deducted	Fully consolidated
ADIB (UK) Limited	United Kingdom	100	Islamic Banking	Fully consolidated	Fully consolidated
ADIB Holdings (Jersey) Ltd*	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
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	41	Real Estate Fund	**Deduction treatment**	Equity Method
Abu Dhabi National Takaful PJSC	UAE	42	Islamic insurance	**Deduction treatment**	Equity Method
Bosnia Bank International D.D	Bosnia	27	Islamic banking	**Deduction treatment**	Equity Method
Saudi Finance Company CSJC	Kingdom of Saudi Arabia	51	Islamic Retail Finance	**Deduction treatment**	Equity Method
Arab Link Money Transfer PSC (under liquidation)	UAE	51	Currency Exchange	**Deduction treatment**	Equity Method
Abu Dhabi Islamic Merchant Acquiring Company LLC	UAE	51	Merchant acquiring	**Deduction treatment**	Equity Method

* The Bank does not have any direct holding in these entities and they are considered to be a subsidiary by virtue of control.
** In accordance with the Circular No. 52/2017 and the Capital Supply standard, the consolidated entity includes all subsidairies except commercial entities for the purpose of Basel III calculations.

CONSOLIDATED CAPITAL STRUCTURE AS ON 31 DECEMBER 2017

Details	Amount AED '000
Capital Base	
1. Common Equity Tier 1 (CET1) Capital	
1.1 Share capital	3,168,000
1.2 Share premium account	
1.3 Eligible Reserves	3,958,549
1.4 Retained Earnings/ (-) Loss	4,416,446
1.5 Eligible amount of minority interest	-
1.6 Capital Shortfall if any	-
1.7 Accumulated other comprehensive income	(737,565)
CET1 Capital Before the regulatory adjustments and threshold deduction	**10,805,430**
1.7 Less: Regulatory deductions	(379,416)
1.8 Less: Threshold deductions	(220,399)
Total CET1 Capital after the regulatory adjustments and threshold deduction	**10,205,615**
Total CET1 Capital after transitional arrangement for deductions (CET1)	**10,205,615**
2. Additional Tier1 (AT1) Capital	
2.1 Eligible AT1 capital (After grandfathering)	5,672,500
2.2 Other AT1 Capital e.g. (Share premium, minority interest)	-
2.3 Less: Threshold deductions	(74,977)
Total AT1 Capital	**5,597,523**
Total AT1 Capital after transitional arrangements (AT1)	**5,597,523**
3. Tier2 (T2) Capital	
3.1 Tier 2 instruments e.g. subordinated financings (After grandfathering and/or amortization)	
3.2 Other Tier 2 capital (including General Provision, etc.) 1	1,092,279
3.3 Less: Threshold deductions	(74,977)
Total T2 Capital	**1,017,302**
Total T2 Capital after transitional arrangements (T2)	**1,017,302**

CAPITAL ADEQUACY AS ON 31 DECEMBER 2017

Quantitative Disclosures

Capital Requirements	RWA	Capital Charge	Capital Ratio (%)
1. Credit Risk - Standarized Approach	**87,382,346**	10,267,426	
2. Market Risk - Standarized approach	**2,211,598**	259,863	
3. Operational Risk		-	
a. Basic Indicator Approach (BIA)	**9,259,729**	1,088,018	-
b. Standardised Approach/ASA		-	
c. Advanced Measurement Approach		-	
Total Capital requirements		**11,615,307**	-
Capital Ratio			
a. Total for Top Consolidated Group*			17.02%
b. Tier 1 ratio only for top consolidated Group*			15.99%
c. Total for each significant bank subsidiary*			-

* Adjusted for 2017 proposed dividend, the ratios would be:

a. Total for Top Consolidated Group 16.09%
b. Tier 1 ratio only for top Consolidated Group 15.06%

GROSS CREDIT EXPOSURES BY CURRENCY TYPE AS ON 31 DECEMBER 2017

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	72,753,684	1,095,133	264,000	25,611,876	99,724,693	666,945	7,977,768	8,644,713	108,369,406
Foreign Currency	6,996,311	3,796,019	11,165,519	3,461,287	25,419,136	-	3,810,289	3,810,289	29,229,425
Total	**79,749,995**	**4,891,152**	**11,429,519**	**29,073,163**	**125,143,829**	**666,945**	**11,788,057**	**12,455,002**	**137,598,831**

GROSS CREDIT EXPOSURES BY GEOGRAPHY AS ON 31 DECEMBER 2017

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	76,553,696	2,641,971	8,285,792	27,362,411	114,843,870	666,945	11,446,291	12,113,236	126,957,106
Rest of the Middle East	1,808,971	441,886	1,392,544	1,393,415	5,036,816	-	341,766	341,766	5,378,582
Europe	597,335	163,146	100,372	12,365	873,218	-	-	-	873,218
Others	789,993	1,644,149	1,650,811	304,972	4,389,925	-	-	-	4,389,925
Total	**79,749,995**	**4,891,152**	**11,429,519**	**29,073,163**	**125,143,829**	**666,945**	**11,788,057**	**12,455,002**	**137,598,831**

GROSS CREDIT EXPOSURE BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2017

INDUSTRTY SEGMENT	Customer Financings AED '000	Balances & Placements with Banks & FI AED '000	Sukuk AED '000	Other Assests AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off-Balance Sheet Exposures AED '000	Total Non-Funded AED '000	Gross AED '000
Agriculture, Fishing & related activities	8,392	-	-	-	-	8,392	-	3,230	3,230	11,622
Crude Oil, Gas, Mining & Quarrying	4,244	-	-	-	-	4,244	-	16,055	16,055	20,299
Manufacturing	2,146,425	-	-	-	-	2,146,425	147,157	239,365	386,522	2,532,947
Electricity & Water	99	-	738,735	-	-	738,834	226	276	502	739,336
Construction	5,573,988	-	1,547,255	-	54,145	7,175,388	930	4,213,633	4,214,563	11,389,951
Trade	3,828,915	-	1,154,820	-	-	4,983,735	157,643	238,753	396,396	5,380,131
Transport, Storage & Communication	1,572,418	-	-	-	-	1,572,418	-	11,008	11,008	1,583,426
Financial Institutions	234,315	4,891,152	3,166,869	802,674	77,795	9,172,805	-	442,013	442,013	9,614,818
Services	8,639,643	-	-	-	-	8,639,643	102,637	1,787,895	1,890,532	10,530,175
Government /Public Sector	6,214,568	-	3,098,149	215,827	19,473,808	29,002,352	-	2,118,416	2,118,416	31,120,768
Retail/Consumer banking	49,766,164	-	-	202,589	-	49,968,753	-	1,437,247	1,437,247	51,406,000
All Others	1,760,824	-	1,723,691	2,242,428	6,003,897	11,730,840	258,352	1,280,166	1,538,518	13,269,358
Total	**79,749,995**	**4,891,152**	**11,429,519**	**3,463,518**	**25,609,645**	**125,143,829**	**666,945**	**11,788,057**	**12,455,002**	**137,598,831**

GROSS CREDIT EXPOSURES BY RESIDUAL CONTRACTUAL MATURITY AS ON 31 DECEMBER 2017

RESIDUAL CONTRACTUAL MATURITY	Customer Financings AED '000	Balances & Placements with Banks & FI AED '000	Sukuk AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off-Balance Sheet Exposures AED '000	Total Non-Funded AED '000
Less than 3 months	7,762,311	3,542,948	613,001	23,734,472	35,652,732	166,736	8,223,107	8,389,843
3 months to one year	12,269,348	314,585	2,119,817	948,767	15,652,517	500,209	1,334,464	1,834,673
One to five years	31,330,467	967,480	5,090,151	383,519	37,771,617	-	2,217,544	2,217,544
Over five years	28,387,869	66,139	3,606,550	4,006,405	36,066,963	-	12,942	12,942
Grand Total	**79,749,995**	**4,891,152**	**11,429,519**	**29,073,163**	**125,143,829**	**666,945**	**11,788,057**	**12,455,002**

IMPAIRED CUSTOMER FINANCINGS BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2017

	OVERDUE			PROVISIONS		ADJUSTMENTS		
INDUSTRY SEGMENT	Less than 90 Days AED '000	90 Days and above AED '000	Total AED '000	Specific AED '000	General AED '000	Write-offs AED '000	Write-Backs AED '000	Total Impaired Assets AED '000
Agriculture, Fishing & related activities	-	4,853	4,853	2,823	-	-	-	2,030
Crude Oil, Gas, Mining & Quarrying	-	381	381	381	-	-	-	-
Manufacturing	814	586,804	587,618	251,561	-	-	-	336,057
Electricity & Water	-	16	16	4	-	-	-	12
Construction	12,433	186,140	198,573	64,966	-	-	-	133,607
Trade	1,970	609,179	611,149	381,898	-	-	-	229,251
Transport, Storage & Communication	520	49,400	49,920	40,688	-	-	-	9,232
Financial Institutions	-	344	344	-	-	-	-	344
Services	26,748	278,863	305,611	154,496	-	-	-	151,115
Government	-	-	-	-	-	-	-	-
Retail/Consumer banking	147,486	2,107,617	2,255,103	610,430	-	-	-	1,644,673
All Others	-	-	-	-	-	-	-	-
Total	**189,971**	**3,823,597**	**4,013,568**	**1,507,247**	**-**	**-**	**-**	**2,506,321**

IMPAIRED CUSTOMER FINANCINGS BY GEOGRAPHY AS ON 31 DECEMBER 2017

	OVERDUE			PROVISIONS		ADJUSTMENTS		
GEOGRAPHIC REGION	Less than 90 Days AED '000	90 Days and above AED '000	Total AED '000	Specific AED '000	General AED '000	Write-offs AED '000	Write-Backs AED '000	Total Impaired Assets AED '000
United Arab Emirates	189,971	3,082,701	3,272,672	1,183,831	-	-	-	2,088,841
Rest of the Middle East	-	539,912	539,912	221,190	-	-	-	318,722
Europe	-	200,984	200,984	102,226	-	-	-	98,758
Others	-	-	-	-	-	-	-	-
Grand Total	**189,971**	**3,823,597**	**4,013,568**	**1,507,247**	**-**	**-**	**-**	**2,506,321**

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

RECONCILIATION OF CHANGES IN PROVISION FOR IMPAIRED CUSTOMER FINANCINGS FOR THE YEAR ENDED 31 DECEMBER 2017

	Description	AED '000
	Opening Balance of Provisions for Impaired Customer Financings	**3,158,663**
Add:	**Charge for the year**	**61,698**
	- Specific provisions	824,247
	- General provisions	(58,309)
Add:	Write-off of impaired financings to income statement	(704,240)
Less:	Recovery of financings loss provisions	-
Less:	Recovery of financings previously written-off	-
Less:	Write-back of provisions for financings	-
	Closing Balance of Provisions for impaired Financings	**3,220,361**

CREDIT RISK - GENERAL DISCLOSURE - STANDARDISED APPROACH AS ON 31 DECEMBER 2017

ASSET CLASSES	ON BALANCE SHEET	OFF BALANCE SHEET		CREDIT RISK MITIGATION (crm)			
See Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions	Gross outstanding AED '000	Net exposure after credit conversion factors (CCF) AED '000	Total gross exposure AED '000	Exposure before CRM AED '000	CRM AED '000	After CRM AED '000	Risk weighted assets AED '000
Claims on Sovereigns	23,189,958	-	23,189,958	23,189,958	-	23,189,958	1,796,029
Claims on non-central Government Public Sector Entities (PSEs)	1,749,410	-	1,749,410	1,749,410	-	1,749,410	108,162
Claims in Multilateral Development Banks	-	-	-	-	-	-	-
Claims on Banks	6,972,596	88,500	7,061,096	7,061,096	-	7,061,096	2,703,127
Claims on Securities Firms	-	-	-	-	-	-	-
Claims on Corporates	26,070,325	5,325,546	31,395,871	31,395,871	195,863	31,200,008	31,200,008
Claims included in the Regulatory Retail Portfolio	29,992,883	384,383	30,377,266	30,377,266	401,162	29,976,104	23,155,300
Claims Secured by Residential Property	13,124,713	-	13,124,713	13,124,713	32,951	13,091,762	5,830,242
Claims Secured by Commercial Real Estate	11,190,389	-	11,190,389	11,190,389	15,213	11,175,176	11,175,176
Past Due Financings	4,299,092	-	2,791,846	2,791,846	4,429	2,787,417	3,602,898
High Risk Categories	74,333	-	74,333	74,333	-	74,333	111,500
Other Assets	9,754,564	-	9,754,564	9,754,564	-	9,754,564	7,699,904
Claims on Securitised Assets	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling protection)	-	-	-	-	-	-	-
Total claims	**126,418,263**	**5,798,428**	**130,709,445**	**130,709,445**	**649,618**	**130,059,827**	**87,382,346**

CREDIT RISK – GENERAL DISCLOSURE – STANDARDISED APPROACH AS (RATED / UNRATED) ON 31 DECEMBER 2017

	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	1,798,244	21,391,714	23,189,958	23,189,958	1,796,029
Claims in Public Sector Entities	1,062,047	687,363	1,749,410	1,749,410	108,162
Claims on Multilateral Development Banks	-	-	-	-	-
Claims on Banks	5,529,169	1,443,427	6,972,596	7,061,096	2,703,127
Claims on securitites firms	-	-	-	-	-
Claims on Corporate	2,067,090	24,003,235	26,070,325	31,200,008	31,200,008
Regulatory & other retail exposure	-	29,992,883	29,992,883	29,976,104	23,155,300
Residential retail exposure	-	13,124,713	13,124,713	13,091,762	5,830,242
Commercial Real Estate	-	11,190,389	11,190,389	11,175,176	11,175,176
Past Due Financings	-	4,299,092	4,299,092	2,787,417	3,602,898
High Risk Categorey	-	74,333	74,333	74,333	111,500
Other Assets	1,156,717	8,597,847	9,754,564	9,754,564	7,699,904
Claims on Securitised Assets	-	-	-	-	-
Credit Derivatives (Banks Selling protection)	-	-	-	-	-
Grand Total	**11,613,267**	**114,804,996**	**126,418,263**	**130,059,827**	**87,382,346**

CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDISED APPROACH AS ON 31 DECEMBER 2017

		Exposures AED '000	Risk Weighted Assets AED '000
	Gross Exposure prior to Credit Risk Mitigation	130,709,445	130,709,445
Less:	Exposure covered by on-balance sheet netting	-	-
Less:	Exposures covered by Eligible Financial Collateral	649,618	649,618
Less:	Exposures covered by Guarantees	-	-
Less:	Exposures covered by Credit Derivatives	-	-
	Net Exposures after Credit Risk Mitigation	**130,059,827**	**130,059,827**

CAPITAL REQUIREMENT FOR MARKET RISK UNDER STANDARDISED APPROACH AS ON 31 DECEMBER 2017

MARKET RISK	Amount AED '000
Profit rate risk	949,678
Equity position risk	-
Foreign exchange risk	1,261,920
Commodity risk	-
Total Capital Requirment	**2,211,598**

EQUITIES DISCLOSURE FOR BANKING BOOK POSITIONS 31 DECEMBER 2017

1) Details of equity position by type:

TYPE	Current Year Publicly Traded AED '000	Current Year Privately Held AED '000
Government	-	-
Financial Institutions	446,186	195,891
Trading and manufacturing	-	-
Construction and real estate	35,559	4,630
Energy	-	-
Others	-	228,748
Total	**481,745**	**429,269**

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

	Amount AED '000
Realised gains (losses) from sales and liquidations	(177)
*Unrealised gains (losses) recognized in the balance sheet but not through profit and loss account	1,634
Total	**1,457**

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

TIER CAPITAL	Amount AED '000
Amount included in Tier 1 Capital	(177)
Amount included in Tier 2 Capital	1,634
Total	**1,457**

EQUITIES DISCLOSURE FOR BANKING BOOK POSITIONS 31 DECEMBER 2017

Capital requirements by equity groupings:

GROUPING	Capital Requirement AED '000
Government	-
Financial Institutions	185,110
Trading and Manufacturing	-
Construction and Real Estate	7,083
Energy	-
Others	57,825
Total Capital Requirement	**250,018**