

# **Abu Dhabi Islamic Bank PJSC**

## **REPORT OF THE BOARD OF DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2018

“These Audited Consolidated Financial Statements are subject to adaptation by  
Shareholders at the Annual General Meeting.”

# Abu Dhabi Islamic Bank PJSC

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## CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

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# **Abu Dhabi Islamic Bank PJSC**

**REPORT OF THE BOARD OF DIRECTORS**

**31 DECEMBER 2018**

# Abu Dhabi Islamic Bank PJSC

## BOARD OF DIRECTORS' REPORT

Year ended 31 December 2018

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

### **Incorporation and registered office**

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

### **Principal activity**

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

### **Basis of preparation of consolidated financial statements**

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

### **Financial commentary**

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

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

### **Dividends and proposed appropriations**

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

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

## Abu Dhabi Islamic Bank PJSC

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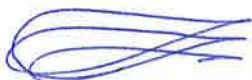
### BOARD OF DIRECTORS' REPORT continued

Year ended 31 December 2018

#### Board of Directors

The directors during the year were as follows:

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



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

04 February 2019  
Abu Dhabi

**Abu Dhabi Islamic Bank PJSC**  
CONSOLIDATED FINANCIAL STATEMENTS  
31 DECEMBER 2018

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABU DHABI ISLAMIC BANK PJSC**

### **Report on the Audit of the Consolidated Financial Statements**

#### *Opinion*

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

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

#### *Basis of our opinion*

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

#### *Key audit matters*

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

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

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF**

### **ABU DHABI ISLAMIC BANK PJSC continued**

#### **Report on the Audit of the Consolidated Financial Statements continued**

##### *Provision for impairment of financing assets*

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

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

Key areas of judgement include:

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

How the matter was addressed during our audit:

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

##### *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.



## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF**

### **ABU DHABI ISLAMIC BANK PJSC continued**

#### **Report on the Audit of the Consolidated Financial Statements continued**

##### *Other information continued*

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.

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF**

### **ABU DHABI ISLAMIC BANK PJSC continued**

#### **Report on the Audit of the Consolidated Financial Statements continued**

##### *Auditor's responsibilities for the audit of the consolidated financial statements continued*

- 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.

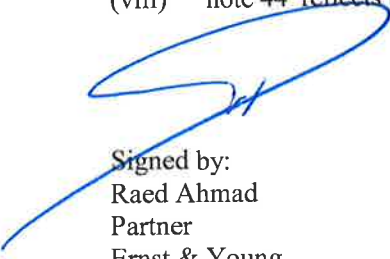
## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI ISLAMIC BANK PJSC continued

### Report on Other Legal and Regulatory Requirements

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

- (i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- (ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015, and the Memorandum and Articles of Association of the Bank;
- (iii) the Group has maintained proper books of account;
- (iv) the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;
- (v) investments in shares and stocks are included in note 20 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2018;
- (vi) note 40 reflects material related party transactions and the terms under which they were conducted;
- (vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2018, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would have a material impact on its activities or its consolidated financial position as at 31 December 2018; and
- (viii) note 44 reflects the social contributions made during the year.



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

4 February 2019  
Abu Dhabi

# Abu Dhabi Islamic Bank PJSC

## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2018

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

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

# Abu Dhabi Islamic Bank PJSC

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

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


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

# Abu Dhabi Islamic Bank PJSC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

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

  
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.

# Abu Dhabi Islamic Bank PJSC

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

Attributable to the equity and Tier 1 sukuk holders of the Bank

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

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

# Abu Dhabi Islamic Bank PJSC

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

		2018	2017
	Notes	AED '000	AED '000
<b>OPERATING ACTIVITIES</b>			
Profit for the year		<b>2,500,786</b>	2,300,123
Adjustments for:			
Depreciation on investment properties	22	13,134	9,345
Depreciation on property and equipment	25	211,121	158,556
Amortisation of intangibles	26	54,752	54,793
Share of results of associates and joint ventures		(38,297)	(28,580)
Dividend income	6	(693)	(3,149)
Realised loss on investments carried at fair value through profit or loss	6	24,268	13,439
Unrealised loss (gain) on investments carried at fair value through profit or loss	6	7,256	(30,144)
Realised gain on sukuk carried at fair value through other comprehensive income	6	(4,107)	-
Gain on disposal of property and equipment		(188)	(175)
Provision for impairment, net	11	620,097	790,360
Loss (gain) sale of investment properties	8	1,620	(23,182)
Operating profit before changes in operating assets and liabilities		<b>3,389,749</b>	3,241,386
(Increase) decrease in balances with central banks		(1,492,183)	95,841
(Increase) decrease in balances and wakala deposits with			
Islamic banks and other financial institutions		(551,791)	1,590,196
(Increase) decrease murabaha and mudaraba with financial institutions		(136,292)	285,472
(Increase) decrease in murabaha and other Islamic financing		(747,461)	2,435,443
Increase in ijara financing		(1,967,688)	(1,520,449)
Purchase of investments carried at fair value through profit or loss		(8,272,449)	(10,301,488)
Proceeds from sale of investments carried at fair value through profit or loss		8,179,757	10,204,176
Decrease (increase) in other assets		575,221	(881,851)
Increase (decrease) due to financial institutions		81,330	(65,294)
Increase in depositors' accounts		403,598	1,180,840
(Decrease) increase in other liabilities		(189,524)	54,447
Cash (used in) from operations		(727,733)	6,318,719
Directors' remuneration paid	40	(4,900)	(4,900)
Net cash (used in) from operating activities		<b>(732,633)</b>	<b>6,313,819</b>
<b>INVESTING ACTIVITIES</b>			
Dividend received	6	693	3,149
Net movement in investments carried at fair value through other comprehensive income		1,531,582	(13,911)
Net movement in investments carried at amortised cost		(3,604,279)	(995,052)
Net movement in associates and joint ventures		5,148	6,667
Proceeds from sale of investment properties		3,450	27,846
Purchase of property and equipment	25	(402,283)	(304,915)
Proceeds from disposal of property and equipment		891	483
Net cash used in investing activities		<b>(2,464,798)</b>	<b>(1,275,733)</b>
<b>FINANCING ACTIVITIES</b>			
Right shares issued	30 & 31	1,002,240	-
Issuance cost for right shares	30	(3,416)	-
Tier 1 sukuk – Listed (second issue) issued	34	2,754,375	-
Tier 1 sukuk – Listed (second issue) issuance cost	34	(19,373)	-
Tier 1 sukuk – Listed (first issue) redeemed	34	(3,672,500)	-
Profit paid on Tier 1 sukuk – Listed (first issue)	34	(234,158)	(234,158)
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	34	(91,518)	(79,419)
Dividends paid		(917,835)	(781,558)
Net cash used in financing activities		<b>(1,182,185)</b>	<b>(1,095,135)</b>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(4,379,616)</b>	3,942,951
Cash and cash equivalents at 1 January		<b>10,888,469</b>	<b>6,945,518</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	39	<b>6,508,853</b>	<b>10,888,469</b>
Operating cash flows from profit on balances and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, customer financing, sukuk and customer deposits are as follows:			
Profit received		<b>5,658,261</b>	<b>4,859,943</b>
Profit paid to depositors and sukuk holders		<b>843,540</b>	<b>471,378</b>

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**1 LEGAL STATUS AND PRINCIPAL ACTIVITIES**

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

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

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

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

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

**2 DEFINITIONS**

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

**Murabaha**

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

**Istisna’a**

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

**Ijara**

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

**Qard Hasan**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**2 DEFINITIONS** continued

**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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**3 BASIS OF PREPARATION** continued

**3.1 (c) Basis of consolidation**

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

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

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

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

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

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

**3.2 CHANGES IN ACCOUNTING POLICIES**

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**3 BASIS OF PREPARATION** continued

**3.2 CHANGES IN ACCOUNTING POLICIES** continued

**(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.

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**3 BASIS OF PREPARATION** continued

**3.2 CHANGES IN ACCOUNTING POLICIES** continued

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**3 BASIS OF PREPARATION** continued

**3.2 CHANGES IN ACCOUNTING POLICIES** continued

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

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

**3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

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

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

**3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES**

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**3 BASIS OF PREPARATION** continued

**3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES** continued

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

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.
- Calculation of expected credit loss: changes to the assumptions and estimation uncertainties that have a significant impact on expected credit losses for the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9 (ECL): Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**3 BASIS OF PREPARATION** continued

**3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES** continued

**Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios:** continued

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

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

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

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

**Expected Life:** When measuring ECL, the Group considers the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and 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:** The Group has established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance and Risk Management and will be responsible for reviewing and approving key inputs and assumptions used in the Group's expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in the Group's financial statements.

*Impairment losses on financing assets and investments carried at amortised cost (applicable before 1<sup>st</sup> January 2018)*

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

*Collective impairment provisions on financing assets (applicable before 1<sup>st</sup> January 2018)*

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**3 BASIS OF PREPARATION** continued

**3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES** continued

*Going concern*

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

*Contingencies*

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

*Operating lease commitments - Group as lessor*

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

*Classification and measurement of financial assets*

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

*Investment and development properties*

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

*Fair value of financial instruments*

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

*Classification of properties*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**3 BASIS OF PREPARATION** continued

**3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES** continued

*Impairment of investments in associates and joint ventures*

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

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

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

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

*Impairment of goodwill*

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

*Useful life of property and equipment*

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

*Business combinations*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4 SIGNIFICANT ACCOUNTING POLICIES**

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

**Revenue recognition**

*Murabaha*

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

*Istisna'a*

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

*Ijara*

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

*Musharaka*

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

*Mudaraba*

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

*Sukuk*

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

*Sale of properties*

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Revenue recognition** continued

*Gain on sale of investments*

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

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

*Dividends*

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

*Cost of sale of properties*

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

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

**Financial instruments**

***Recognition and measurement***

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

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

The Group's customer financing comprise the following:

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Financial instruments** continued

**Classification**

*Financial assets at amortised cost*

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

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

All other financial assets are subsequently measured at fair value.

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

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

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

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

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

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

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Financial instruments** continued

**Measurement** continued

*Financial assets or financial liabilities carried at amortised cost* continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Financial instruments** continued

**Measurement** continued

(i) *Recognition / De-recognition*

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

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

A financial asset is de-recognised when the contractual rights to the cash flows from the financial asset expires or when it transfers the financial asset. A financial liability is 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*

**Impairment assessment:**

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

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

**Measurement of Expected Credit Losses (ECL):**

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Renegotiated financing facilities**

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

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

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

**Purchased or originated credit impaired assets (POCI)**

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

**Covered card facilities**

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

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

**Write-off**

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

**Collateral valuation**

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 4 SIGNIFICANT ACCOUNTING POLICIES continued

#### **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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Business combinations** continued

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

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

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

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Intangible assets acquired in a business combination**

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

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

- Customer relationship 8 years
- Core deposit intangible 8 years

**Goodwill**

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

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

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

**Investment in associates**

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

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Investment in joint ventures**

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

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

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

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

**Investment properties**

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

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

**Development properties**

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

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

**Property and equipment**

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

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       |

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**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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Employees' pension and end of service benefits**

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

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

**Shari'a compliant alternatives of derivative financial instruments**

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

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

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

**Cash flow hedges**

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

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31 December 2018

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Zakat**

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

**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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

**6 INCOME FROM INVESTMENTS MEASURED AT FAIR VALUE**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**7 FEES AND COMMISSION INCOME, NET**

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

**8 INCOME FROM INVESTMENT PROPERTIES**

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

**9 EMPLOYEES' COSTS**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**10 GENERAL AND ADMINISTRATIVE EXPENSES**

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

**11 PROVISION FOR IMPAIRMENT, NET**

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

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

**12 DISTRIBUTION TO DEPOSITORS**

	<i>2018</i>	<i>2017</i>
	<i>AED '000</i>	<i>AED '000</i>
Saving accounts	<b>195,423</b>	175,218
Investment accounts	<b><u>518,611</u></b>	<u>406,764</u>
	<b><u>714,034</u></b>	<u>581,982</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**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:

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

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**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**14 CASH AND BALANCES WITH CENTRAL BANKS** continued

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

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

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

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

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:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**16 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS**

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

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

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

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

**17 MURABAHA AND OTHER ISLAMIC FINANCING**

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

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**17 MURABAHA AND OTHER ISLAMIC FINANCING** continued

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

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

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

**18 IJARA FINANCING**

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

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

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31 December 2018

**18 IJARA FINANCING** continued

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

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

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

**19 INVESTMENT IN SUKUK MEASURED AT AMORTISED COST**

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

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

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



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**20 INVESTMENTS MEASURED AT FAIR VALUE**

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

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

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

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**21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES**

	<i>2018</i> <i>AED '000</i>	<i>2017</i> <i>AED '000</i>
Investment in associates and joint ventures	<b><u>1,014,354</u></b>	<b><u>988,788</u></b>

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

	<i>2018</i> <i>AED '000</i>	<i>2017</i> <i>AED '000</i>
At 1 January	<b>15,156</b>	-
Charge for the year (note 11)	<b><u>-</u></b>	<b><u>15,156</u></b>
At 31 December	<b><u>15,156</u></b>	<b><u>15,156</u></b>

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES** continued

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

	<b>2018</b>	<b>2017</b>
	<b>AED '000</b>	<b>AED '000</b>
<i>1 - Abu Dhabi National Takaful PJSC</i>		
<i>Share of associate's statement of financial position</i>		
Assets	<b>424,554</b>	391,395
Liabilities	<b><u>(279,660)</u></b>	<u>(263,753)</u>
<b>Net assets</b>	<b><u>144,894</u></b>	<u>127,642</u>
<i>Share of associate's revenue and profits:</i>		
Revenue for the year	<b><u>51,283</u></b>	<u>48,418</u>
Profit for the year	<b><u>27,198</u></b>	<u>21,384</u>
Dividends received during the year	<b><u>8,333</u></b>	<u>6,667</u>
<i>2 - Bosna Bank International D.D</i>		
<i>Share of associate's statement of financial position</i>		
Assets	<b>542,325</b>	509,832
Liabilities	<b><u>(460,045)</u></b>	<u>(425,482)</u>
<b>Net assets</b>	<b><u>82,280</u></b>	<u>84,350</u>
<i>Share of associate's revenue and profits:</i>		
Revenue for the year	<b><u>18,482</u></b>	<u>11,710</u>
Profit for the year	<b><u>2,139</u></b>	<u>3,444</u>
<i>3 - Abu Dhabi Islamic Bank – Egypt (S.A.E.)</i>		
<i>Share of joint venture's statement of financial position</i>		
Assets	<b>4,958,070</b>	3,740,253
Liabilities	<b><u>(4,668,844)</u></b>	<u>(3,518,532)</u>
<b>Net assets</b>	<b><u>289,226</u></b>	<u>22,721</u>
<i>Share of joint venture's revenue:</i>		
Revenue for the year	<b><u>445,117</u></b>	<u>199,950</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**22 INVESTMENT PROPERTIES**

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

	<i>Land</i> AED '000	<i>Other</i> <i>properties</i> AED '000	<i>Total</i> AED '000
<b>2018</b>			
Cost:			
Balance at 1 January	988,572	172,696	1,161,268
Transfer from capital work in progress (note 25)	-	374,043	374,043
Sales Return	-	4,951	4,951
Disposals	<u>-</u>	<u>(3,088)</u>	<u>(3,088)</u>
Gross balance at 31 December	988,572	548,602	1,537,174
Less: provision for impairment	<u>(73,092)</u>	<u>(11,725)</u>	<u>(84,817)</u>
Net balance at 31 December	<b><u>915,480</u></b>	<b><u>536,877</u></b>	<b><u>1,452,357</u></b>
Accumulated depreciation:			
Balance at 1 January	-	43,148	43,148
Charge for the year	-	13,134	13,134
Relating to disposals	<u>-</u>	<u>(1,102)</u>	<u>(1,102)</u>
Balance at 31 December	<u>-</u>	<b><u>55,180</u></b>	<b><u>55,180</u></b>
Net book value at 31 December	<b><u>915,480</u></b>	<b><u>481,697</u></b>	<b><u>1,397,177</u></b>
<b>2017</b>			
Cost:			
Balance at 1 January	997,920	293,723	1,291,643
Disposals	<u>(9,348)</u>	<u>(121,027)</u>	<u>(130,375)</u>
Gross balance at 31 December	988,572	172,696	1,161,268
Less: provision for impairment	<u>(13,339)</u>	<u>(11,398)</u>	<u>(24,737)</u>
Net balance at 31 December	<u>975,233</u>	<u>161,298</u>	<u>1,136,531</u>
Accumulated depreciation:			
Balance at 1 January	-	55,464	55,464
Charge for the year	-	9,345	9,345
Relating to disposals	<u>-</u>	<u>(21,661)</u>	<u>(21,661)</u>
Balance at 31 December	<u>-</u>	<u>43,148</u>	<u>43,148</u>
Net book value at 31 December	<b><u>975,233</u></b>	<b><u>118,150</u></b>	<b><u>1,093,383</u></b>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**22 INVESTMENT PROPERTIES** continued

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

The valuation methodologies considered by external valuers include:

- a) Comparison method: This method derives the value by analyzing recent sales transactions of similar properties in a similar location.
- b) Investment method: This method derives the value by converting the future cash flow to a single current capital value.

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

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

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

	<i>Land</i> AED '000	<i>Other</i> <i>properties</i> AED '000	<i>Total</i> AED '000
<b>2018:</b>			
UAE	<b>980,358</b>	<b>493,422</b>	<b>1,473,780</b>
Rest of the Middle East	<b><u>8,214</u></b>	<b><u>-</u></b>	<b><u>8,214</u></b>
	<b><u>988,572</u></b>	<b><u>493,422</u></b>	<b><u>1,481,994</u></b>
<b>2017:</b>			
UAE	980,358	129,548	1,109,906
Rest of the Middle East	<u>8,214</u>	<u>-</u>	<u>8,214</u>
	<b><u>988,572</u></b>	<b><u>129,548</u></b>	<b><u>1,118,120</u></b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**23 DEVELOPMENT PROPERTIES**

	<i>2018</i> <i>AED '000</i>	<i>2017</i> <i>AED '000</i>
Development properties	<b>837,381</b>	837,381
Provision for impairment	<b><u>(1,736)</u></b>	<u>-</u>
	<b><u>835,645</u></b>	<u>837,381</u>

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

	<i>2018</i> <i>AED '000</i>	<i>2017</i> <i>AED '000</i>
At 1 January	-	-
Charge for the year (note 11)	<b><u>1,736</u></b>	<u>-</u>
At 31 December	<b><u>1,736</u></b>	<u>-</u>

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

All development properties are located in the UAE.

**24 OTHER ASSETS**

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

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.

# Abu Dhabi Islamic Bank PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 25 PROPERTY AND EQUIPMENT

	<i>Land</i> AED '000	<i>Buildings</i> AED '000	<i>Furniture and fixtures</i> AED '000	<i>Computer and office equipment</i> AED '000	<i>Motor vehicles</i> AED '000	<i>Capital work-in- progress</i> AED '000	<i>Total</i> AED '000
<b>2018</b>							
Cost or revaluation:							
At 1 January	291,178	294,435	444,491	1,131,577	12,832	985,578	3,160,091
Exchange differences	-	-	(4,481)	(18,051)	(485)	(557)	(23,574)
Additions	-	-	806	8,687	3,763	389,027	402,283
Transfers from capital work-in-progress	-	443,425	90,830	178,261	-	(712,516)	-
Transfers to investment property (note 22)	-	-	-	-	-	(374,043)	(374,043)
Disposals	-	-	(2,849)	(229)	(885)	-	(3,963)
	291,178	737,860	528,797	1,300,245	15,225	287,489	3,160,794
Provision for impairment	-	(1,455)	-	-	-	-	(1,455)
At 31 December	<b><u>291,178</u></b>	<b><u>736,405</u></b>	<b><u>528,797</u></b>	<b><u>1,300,245</u></b>	<b><u>15,225</u></b>	<b><u>287,489</u></b>	<b><u>3,159,339</u></b>
Depreciation:							
At 1 January	-	55,399	313,347	717,862	10,806	-	1,097,414
Exchange differences	-	-	(3,840)	(10,283)	(474)	-	(14,597)
Charge for the year	-	17,284	39,910	152,242	1,685	-	211,121
Relating to disposals	-	-	(2,203)	(202)	(855)	-	(3,260)
At 31 December	-	<b><u>72,683</u></b>	<b><u>347,214</u></b>	<b><u>859,619</u></b>	<b><u>11,162</u></b>	-	<b><u>1,290,678</u></b>
Net book value:							
At 31 December	<b><u>291,178</u></b>	<b><u>663,722</u></b>	<b><u>181,583</u></b>	<b><u>440,626</u></b>	<b><u>4,063</u></b>	<b><u>287,489</u></b>	<b><u>1,868,661</u></b>
<b>2017</b>							
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	<b><u>291,178</u></b>	<b><u>294,435</u></b>	<b><u>444,491</u></b>	<b><u>1,131,577</u></b>	<b><u>12,832</u></b>	<b><u>985,578</u></b>	<b><u>3,160,091</u></b>
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	-	<b><u>55,399</u></b>	<b><u>313,347</u></b>	<b><u>717,862</u></b>	<b><u>10,806</u></b>	-	<b><u>1,097,414</u></b>
Net book value:							
At 31 December	<b><u>291,178</u></b>	<b><u>239,036</u></b>	<b><u>131,144</u></b>	<b><u>413,715</u></b>	<b><u>2,026</u></b>	<b><u>985,578</u></b>	<b><u>2,062,677</u></b>

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**26 GOODWILL AND INTANGIBLES**

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

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

**Goodwill**

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

**Other intangible assets**

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

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

**Impairment assessment of goodwill**

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

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

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

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



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**27 DUE TO FINANCIAL INSTITUTIONS**

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

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

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

**28 DEPOSITORS' ACCOUNTS**

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

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

	<i>2018</i> <i>AED '000</i>	<i>2017</i> <i>AED '000</i>
At 1 January	<b>521,802</b>	454,419
Share of profit for the year	<b><u>79,491</u></b>	<u>67,383</u>
At 31 December	<b><u><u>601,293</u></u></b>	<u><u>521,802</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**28 DEPOSITORS' ACCOUNTS** continued

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

	<i>2018</i> <i>AED '000</i>	<i>2017</i> <i>AED '000</i>
<b><i>Industry sector:</i></b>		
Government	<b>6,523,799</b>	6,648,994
Public sector	<b>10,386,595</b>	8,318,185
Corporates	<b>14,289,496</b>	14,965,482
Financial institutions	<b>1,586,075</b>	1,449,801
Individuals	<b>53,053,592</b>	54,269,920
Small and medium enterprises	<b>12,131,123</b>	11,832,026
Non-profit organisations	<b><u>2,433,067</u></b>	<u>2,519,211</u>
	<b><u>100,403,747</u></b>	<u>100,003,619</u>
<b><i>Geographic region:</i></b>		
UAE	<b>94,358,170</b>	94,243,953
Rest of the Middle East	<b>4,415,013</b>	4,356,973
Europe	<b>638,372</b>	461,535
Others	<b><u>992,192</u></b>	<u>941,158</u>
	<b><u>100,403,747</u></b>	<u>100,003,619</u>
<b><i>Currencies:</i></b>		
UAE Dirham	<b>84,077,223</b>	80,727,844
US Dollar	<b>12,442,629</b>	14,866,945
Euro	<b>1,361,959</b>	2,134,877
Sterling Pound	<b>454,835</b>	948,371
Others	<b><u>2,067,101</u></b>	<u>1,325,582</u>
	<b><u>100,403,747</u></b>	<u>100,003,619</u>

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).

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**29 OTHER LIABILITIES**

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

**30 SHARE CAPITAL**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**31 RESERVES**

**31.1 Legal reserve**

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

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

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

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

**31.2 General reserve**

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

**31.3 Credit risk reserve**

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

**32 PROPOSED DIVIDENDS**

	<i>2018</i>	<i>2017</i>
	<i>AED '000</i>	<i>AED '000</i>
Cash dividend: AED 0.2738 per share of AED 1 each (2017: AED 0.2887 per share of AED 1 each)	<b><u>994,313</u></b>	<b><u>914,530</u></b>
Cash dividend of 27.38% of the paid up capital relating to year ended 31 December 2018 amounting to AED 994,313 thousand shall be paid after the approval by the shareholders in the Annual General Assembly.		
Cash dividend of 28.87% of the paid up capital relating to year ended 31 December 2017 amounting to AED 914,530 thousand has been paid after the approval by the shareholders at the Annual General Assembly held on 21 March 2018.		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**33 OTHER RESERVES**

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

**34 TIER 1 SUKUK**

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

**Tier 1 sukuk – Listed (first issue)**

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

**34 TIER 1 SUKUK** continued

**Tier 1 sukuk – Listed (first issue)** continued

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

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

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

**Tier 1 sukuk – Listed (second issue)**

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### **34 TIER 1 SUKUK** continued

#### **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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**36 CONTINGENT LIABILITIES AND COMMITMENTS** continued

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

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

**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 compliant alternatives of swap, counter parties enter into two separate and independent Murabaha transactions, the results of which are exchanged between them in a manner that enables one of them to receive the equivalent of the fixed reference rate and the other counterparty to receive the equivalent of the reference floating rate, where the profit payments are based on a notional value in a single currency.

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**38 ZAKAT**

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

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

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

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

**39 CASH AND CASH EQUIVALENTS**

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

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

	<i>2018</i> <i>AED '000</i>	<i>2017</i> <i>AED '000</i>
Transfer from property and equipment to investment properties (note 22)	<b><u>374,043</u></b>	<u>-</u>

**40 RELATED PARTY TRANSACTIONS**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**40 RELATED PARTY TRANSACTIONS** continued

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

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

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

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31 December 2018

**40 RELATED PARTY TRANSACTIONS** continued

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

	<i>Major shareholder AED '000</i>	<i>Directors AED '000</i>	<i>Associates and joint ventures AED '000</i>	<i>Others AED '000</i>	<i>Total AED '000</i>
<b>31 December 2018</b>					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	771,239	-	771,239
Murabaha and Mudaraba with financial institutions	-	-	177,847	-	177,847
Murabaha, mudaraba, ijara and other Islamic financing	2,611,227	12,353	-	3,413,718	6,037,298
Other assets	<u>-</u>	<u>-</u>	<u>117,337</u>	<u>211,499</u>	<u>328,836</u>
	<u>2,611,227</u>	<u>12,353</u>	<u>1,066,423</u>	<u>3,625,217</u>	<u>7,315,220</u>
Due to financial institutions	-	-	39,934	-	39,934
Depositors' accounts	93,806	39,231	147,700	31,827	312,564
Other liabilities	<u>780</u>	<u>-</u>	<u>46</u>	<u>27,875</u>	<u>28,701</u>
	<u>94,586</u>	<u>39,231</u>	<u>187,680</u>	<u>59,702</u>	<u>381,199</u>
<b>31 December 2017</b>					
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	<u>-</u>	<u>-</u>	<u>85,933</u>	<u>186,541</u>	<u>272,474</u>
	<u>2,611,227</u>	<u>10,060</u>	<u>1,171,809</u>	<u>3,663,340</u>	<u>7,456,436</u>
Due to financial institutions	-	-	31,019	-	31,019
Depositors' accounts	67,382	24,781	216,824	17,968	326,955
Other liabilities	<u>625</u>	<u>18</u>	<u>29</u>	<u>2,961</u>	<u>3,633</u>
	<u>68,007</u>	<u>24,799</u>	<u>247,872</u>	<u>20,929</u>	<u>361,607</u>

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:

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

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

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**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.

# Abu Dhabi Islamic Bank PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 41 SEGMENT INFORMATION continued

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

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

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

	<i>Global Retail banking AED '000</i>	<i>Global Wholesale banking AED '000</i>	<i>Private banking AED '000</i>	<i>Treasury AED '000</i>	<i>Real estate AED '000</i>	<i>Other operations AED '000</i>	<i>Total AED '000</i>
<b>Revenue and results</b>							
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)
<b>Profit (loss) for the year</b>	<b>1,132,766</b>	<b>642,826</b>	<b>82,244</b>	<b>488,600</b>	<b>29,932</b>	<b>(76,245)</b>	<b>2,300,123</b>
Non-controlling interest	-	-	-	-	-	(1,369)	(1,369)
Profit (loss) for the year attributable to equity holders of the Bank	<u>1,132,766</u>	<u>642,826</u>	<u>82,244</u>	<u>488,600</u>	<u>29,932</u>	<u>(77,614)</u>	<u>2,298,754</u>
<b>Assets</b>							
Segmental assets	<u>56,883,659</u>	<u>32,278,505</u>	<u>3,031,995</u>	<u>21,051,686</u>	<u>2,632,381</u>	<u>7,399,373</u>	<u>123,277,599</u>
<b>Liabilities</b>							
Segmental liabilities	<u>61,838,840</u>	<u>26,152,414</u>	<u>3,362,854</u>	<u>11,788,985</u>	<u>300,368</u>	<u>3,260,974</u>	<u>106,704,435</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**41 SEGMENT INFORMATION** continued

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

	<i>Global Retail banking</i> AED '000	<i>Global Wholesale banking</i> AED '000	<i>Private banking</i> AED '000	<i>Treasury</i> AED '000	<i>Real estate</i> AED '000	<i>Other operations</i> AED '000	<i>Total</i> AED '000
<b>31 December 2018</b>							
Total segment revenues, net	3,322,056	1,241,728	131,790	773,743	81,926	218,243	5,769,486
Inter-segment revenues, net	<u>207,047</u>	<u>(96,273)</u>	<u>11,310</u>	<u>(300,718)</u>	<u>-</u>	<u>178,634</u>	<u>-</u>
Segment revenues, net	<u>3,529,103</u>	<u>1,145,455</u>	<u>143,100</u>	<u>473,025</u>	<u>81,926</u>	<u>396,877</u>	<u>5,769,486</u>
<b>31 December 2017</b>							
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	<u>145,211</u>	<u>(85,888)</u>	<u>14,420</u>	<u>(146,259)</u>	<u>-</u>	<u>72,516</u>	<u>-</u>
Segment revenues, net	<u>3,406,214</u>	<u>1,262,587</u>	<u>139,236</u>	<u>530,731</u>	<u>111,612</u>	<u>181,932</u>	<u>5,632,312</u>

**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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**42 RISK MANAGEMENT** continued

**42.1 Introduction** continued

**42.1.1 Risk management governance structure** continued

*Risk and Investment Approval Committee*

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

*Governance and Risk Policy Committee*

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

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

*Audit Committee*

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

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

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

**42.1.2 The Group Risk Management ("GRM")**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**42 RISK MANAGEMENT** continued

**42.1 Introduction** continued

**42.1.2 The Group Risk Management (“GRM”)** continued

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

*Credit Committee*

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

**42.1.3 Risk measurement and reporting systems**

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

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

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

The Group actively uses collateral to reduce its credit risks.

**42.1.4 Risk concentration**

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

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



**42 RISK MANAGEMENT** continued

**42.1 Introduction** continued

**42.1.5 Group Internal Audit**

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

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

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

**42.2 Credit risk**

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

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

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

**Model risk management**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**42 RISK MANAGEMENT** continued

**42.2 Credit risk** continued

**Credit risk measurement**

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

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

**Credit risk grading**

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

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

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

**ECL measurement**

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**42 RISK MANAGEMENT** continued

**42.2 Credit risk** continued

**Significant increase in credit risk (SICR)**

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

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

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

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

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

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

**Definition of default and credit-impaired assets**

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

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

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

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

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

**Curing**

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**42 RISK MANAGEMENT** continued

**42.2 Credit risk** continued

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

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

Probability of Default (PD):

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

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

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

Loss Given Default (LGD):

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

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

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

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

Exposure at Default (EAD):

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

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

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

**42 RISK MANAGEMENT** continued

**42.2 Credit risk** continued

**Forward-looking information incorporated in the ECL model**

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

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

**Credit risk monitoring**

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

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

**Group credit risk mitigation strategy**

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

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

**Collateral management**

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

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

*Credit-related commitments risks*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**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.

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

**42.2.2 Credit risk concentration**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**42 RISK MANAGEMENT** continued

**42.2 Credit risk** continued

**42.2.2 Credit risk concentration** continued

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

	<i>Balances and wakala deposits with Islamic banks and other financial institutions</i>	<i>Murabaha and mudaraba with financial institutions</i>	<i>Murabaha and other Islamic financing</i>	<i>Ijara financing</i>	<i>Investment in Islamic sukuk measured at amortised cost</i>	<i>Investments measured at fair value</i>	<i>Other assets</i>	<i>Total</i>
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
<b>31 December 2018</b>								
UAE	2,424,116	1,139,796	33,567,718	44,695,348	8,237,230	1,223,325	1,658,969	92,946,502
Rest of Middle East	472,079	177,890	1,103,351	780,247	1,823,550	316,702	77,859	4,751,678
Europe	206,682	-	538,523	379,525	-	93,643	-	1,218,373
Others	1,368,775	35,666	98,943	395,242	1,746,192	135,356	-	3,780,174
Financial assets subject to credit risk	<u>4,471,652</u>	<u>1,353,352</u>	<u>35,308,535</u>	<u>46,250,362</u>	<u>11,806,972</u>	<u>1,769,026</u>	<u>1,736,828</u>	<u>102,696,727</u>
<b>31 December 2017</b>								
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	<u>2,765,903</u>	<u>2,125,249</u>	<u>35,145,452</u>	<u>44,604,543</u>	<u>10,064,830</u>	<u>1,377,491</u>	<u>2,376,264</u>	<u>98,459,732</u>

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:

	<b>2018</b>	<b>2017</b>
	AED '000	AED '000
Government	5,319,790	4,066,315
Public sector	5,178,824	5,462,229
Financial institutions	10,481,471	8,911,385
Trading and manufacturing	6,786,011	7,130,160
Construction and real estate	6,825,837	7,134,045
Energy	304,725	738,834
Personal	51,161,561	49,968,753
Others	<u>16,638,508</u>	<u>15,048,011</u>
Financial assets subject to credit risk	<u>102,696,727</u>	<u>98,459,732</u>

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31 December 2018

**42 RISK MANAGEMENT** continued

**42.2 Credit risk** continued

**42.2.3 Impairment assessment**

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

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

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

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

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

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

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

*Write-off of financing assets*

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**42 RISK MANAGEMENT** continued

**42.2 Credit risk** continued

**42.2.4 Collateral and other credit enhancements**

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

The main types of collateral obtained are as follows:

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

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

	<i>2018</i>	<i>2017</i>
	<i>AED '000</i>	<i>AED '000</i>
<i><b>Against customer financing not impaired</b></i>		
Property	35,225,062	33,649,377
Securities	47,229	179,996
Cash margin and lien over deposits	540,416	472,702
Others	<u>7,299,595</u>	<u>6,449,069</u>
	<u><b>43,112,302</b></u>	<u><b>40,751,144</b></u>
<i><b>Against individually impaired</b></i>		
Property	1,971,941	1,601,886
Securities	57,440	47,730
Cash margin and lien over deposits	9,016	11,364
Others	<u>100,204</u>	<u>104,307</u>
	<u><b>2,138,601</b></u>	<u><b>1,765,287</b></u>
	<u><b>45,250,903</b></u>	<u><b>42,516,431</b></u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**42 RISK MANAGEMENT** continued

**42.2 Credit risk** continued

**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.

	<i>Moody's equivalent grade</i>	<i>2018 AED '000</i>	<i>2017 AED '000</i>
<b>Low risk</b>			
Risk rating class 1	Aaa	-	-
Risk rating classes 2 and 3	Aa1-A2	<b>10,916,227</b>	9,783,910
Risk rating class 4	A3-Baa3	<b>25,471,736</b>	21,607,527
Risk rating classes 5, 6+ and 6	Ba1-B3	<b>40,904,315</b>	43,131,520
<b>Fair risk</b>			
Risk rating class 6- and 7	Caa1-Caa3	<b>6,140,398</b>	6,104,622
<b>Impaired</b>			
Risk rating class 8, 9 and 10		<b><u>3,951,225</u></b>	<u>4,013,568</u>
		<b><u>87,383,901</u></b>	<u>84,641,147</u>

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

**Renegotiated murabaha, ijara and other Islamic financings**

The total carrying amount of financing to non-related parties whose terms have been renegotiated during the year amounted to AED 2,030,422 thousand (2017: AED 2,445,970 thousand).

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31 December 2018

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.6 Credit quality per stage for financing assets

	<i>Stage 1</i> <i>AED '000</i>	<i>Stage 2</i> <i>AED '000</i>	<i>Stage 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
<i>31 December 2018</i>				
<b>Murabaha and other Islamic financing</b>				
- Performing financing	30,987,088	2,516,628	-	33,503,716
- Non - performing financing	<u>-</u>	<u>-</u>	<u>1,804,819</u>	<u>1,804,819</u>
Murabaha and other Islamic financing – Gross	30,987,088	2,516,628	1,804,819	35,308,535
Less: provision for impairment (ECL)	<u>(213,983)</u>	<u>(548,591)</u>	<u>(938,925)</u>	<u>(1,701,499)</u>
<b>Murabaha and other Islamic financing – Net</b>	<b><u>30,773,105</u></b>	<b><u>1,968,037</u></b>	<b><u>865,894</u></b>	<b><u>33,607,036</u></b>
<b>Ijara financing</b>				
- Performing financing	38,470,375	5,633,581	-	44,103,956
- Non - performing financing	<u>-</u>	<u>-</u>	<u>2,146,406</u>	<u>2,146,406</u>
Ijara financing – gross	38,470,375	5,633,581	2,146,406	46,250,362
Less: provision for impairment (ECL)	<u>(103,035)</u>	<u>(461,838)</u>	<u>(615,878)</u>	<u>(1,180,751)</u>
<b>Ijara financing – Net</b>	<b><u>38,367,340</u></b>	<b><u>5,171,743</u></b>	<b><u>1,530,528</u></b>	<b><u>45,069,611</u></b>
		<i>Murabaha and other Islamic financing AED '000</i>	<i>Ijara financing AED '000</i>	<i>Total AED '000</i>
<i>31 December 2017 (IAS 39)</i>				
Individually impaired				
Substandard		758,517	861,363	1,619,880
Doubtfull		622,156	738,202	1,360,358
Loss		<u>655,610</u>	<u>377,720</u>	<u>1,033,330</u>
Gross amount		2,036,283	1,977,285	4,013,568
Provision for impairment		<u>(1,043,196)</u>	<u>(464,051)</u>	<u>(1,507,247)</u>
		<u>993,087</u>	<u>1,513,234</u>	<u>2,506,321</u>
<b>Past due but not impaired</b>				
Less than 90 days		302,192	220,260	522,452
More than 90 days		<u>23,794</u>	<u>261,730</u>	<u>285,524</u>
		<u>325,986</u>	<u>481,990</u>	<u>807,976</u>
<b>Neither past due but nor impaired</b>		<u>32,783,183</u>	<u>42,145,268</u>	<u>74,928,451</u>
<b>Collective allowance for impairment</b>		<u>(852,941)</u>	<u>(860,173)</u>	<u>(1,713,114)</u>
<b>Carrying amount</b>		<b><u>33,249,315</u></b>	<b><u>43,280,319</u></b>	<b><u>76,529,634</u></b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**42 RISK MANAGEMENT** continued

**42.2 Credit risk** continued

**42.2.6 Credit quality per stage for financing assets** continued

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

	<i>31 December 2018 – IFRS 9 (ECL)</i>				<i>31 December 2017 – IAS 39</i>		
	<i>Stage 1 AED '000</i>	<i>Stage 2 AED '000</i>	<i>Stage 3 AED '000</i>	<i>Total AED '000</i>	<i>Individual impairment AED '000</i>	<i>Collective impairment AED '000</i>	<i>Total AED '000</i>
<b><i>Murabaha and other Islamic financing</i></b>							
At 1 January – audited (IAS 39)	852,941	-	1,043,196	1,896,137	853,154	968,615	1,821,769
Reversal on transition to IFRS 9	(852,941)	-	-	(852,941)	-	-	-
ECL recognized under IFRS 9	<u>341,709</u>	<u>623,413</u>	<u>98,623</u>	<u>1,063,745</u>	-	-	-
At 1 January – (adjusted opening as per IFRS 9)	341,709	623,413	1,141,819	2,106,941	853,154	968,615	1,821,769
(Reversals) charge for the year (note 11)	(127,726)	(74,822)	557,405	354,857	652,146	9,226	661,372
Other adjustments	-	-	-	-	-	(124,900)	(124,900)
Written off during the year	-	-	(760,299)	(760,299)	(462,104)	-	(462,104)
At 31 December	<u>213,983</u>	<u>548,591</u>	<u>938,925</u>	<u>1,701,499</u>	<u>1,043,196</u>	<u>852,941</u>	<u>1,896,137</u>
<b><i>Ijara financing</i></b>							
At 1 January – audited (IAS 39)	860,173	-	464,051	1,324,224	409,186	927,708	1,336,894
Reversal on transition to IFRS 9	(860,173)	-	-	(860,173)	-	-	-
ECL recognized under IFRS 9	<u>94,096</u>	<u>605,706</u>	<u>(98,035)</u>	<u>601,767</u>	-	-	-
At 1 January – (adjusted opening as per IFRS 9)	94,096	605,706	366,016	1,065,818	409,186	927,708	1,336,894
Charge (reversals) for the year (note 11)	8,939	(143,868)	313,325	178,396	172,101	(67,535)	104,566
Written off during the year	-	-	(63,463)	(63,463)	(117,236)	-	(117,236)
At 31 December	<u>103,035</u>	<u>461,838</u>	<u>615,878</u>	<u>1,180,751</u>	<u>464,051</u>	<u>860,173</u>	<u>1,324,224</u>

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**42 RISK MANAGEMENT** continued

**42.2 Credit risk** continued

**42.2.6 Credit quality per stage for financing assets** continued

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

**Ageing analysis of past due but not impaired (IAS 39)**

	<i>Less than 30 days AED '000</i>	<i>31 -60 days AED '000</i>	<i>61 -90 days AED '000</i>	<i>More than 90 days AED '000</i>	<i>Total AED '000</i>
<i>31 December 2017</i>					
Murabaha and other Islamic financing	240,418	37,390	24,384	23,794	325,986
Ijara financing	<u>110,314</u>	<u>100,456</u>	<u>9,490</u>	<u>261,730</u>	<u>481,990</u>
	<u>350,732</u>	<u>137,846</u>	<u>33,874</u>	<u>285,524</u>	<u>807,976</u>

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

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

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

	<i>2018 AED '000</i>
<b>Impairment reserve: General</b>	
General provisions under Circular 28/2010 of CBUAE	<b>1,307,091</b>
Less: Stage 1 and Stage 2 provisions under IFRS 9	<b>(1,327,447)</b>
<b>General provision transferred to the impairment reserve</b>	<b>_____ -</b>
<b>Impairment reserve: Specific</b>	
Specific provisions under Circular 28/2010 of CBUAE	<b>1,348,086</b>
Less: Stage 3 provisions under IFRS 9	<b>(1,554,803)</b>
<b>Specific provision transferred to the impairment reserve</b>	<b>_____ -</b>
<b>Total provision transferred to the impairment reserve</b>	<b>===== -</b>

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

**42 RISK MANAGEMENT** continued

**42.3 Liquidity risk and funding management**

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

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

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

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

**42.3.1 Treasury**

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

**42.3.2 Asset & Liability Committee ("ALCO")**

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

**42.3.3 Liquidity risk management process**

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

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

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**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.

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
<b>31 December 2018</b>					
<b>ASSETS</b>					
Cash and balances with central banks	17,222,893	1,508,315	-	-	18,731,208
Balances and wakala deposits with Islamic banks and other financial institutions	3,159,887	600,000	698,930	-	4,458,817
Murabaha and mudaraba with financial institutions	1,109,751	243,578	-	-	1,353,329
Murabaha and other Islamic financing	4,516,060	8,170,220	17,290,841	3,629,915	33,607,036
Ijara financing	887,376	2,793,067	16,396,998	24,992,170	45,069,611
Investments in sukuk measured at amortised cost	-	-	7,170,523	4,611,334	11,781,857
Investments measured at fair value	-	1,788,004	97,568	-	1,885,572
Investment in associates and joint ventures	-	-	-	1,014,354	1,014,354
Other assets	<u>1,650,765</u>	<u>36,956</u>	<u>189,486</u>	<u>15,126</u>	<u>1,892,333</u>
Financial assets	<u>28,546,732</u>	<u>15,140,140</u>	<u>41,844,346</u>	<u>34,262,899</u>	119,794,117
Non-financial assets					<u>5,399,798</u>
Total assets					<u>125,193,915</u>
<b>LIABILITIES</b>					
Due to financial institutions	4,138,254	-	-	-	4,138,254
Depositors' accounts	95,808,120	4,524,482	71,145	-	100,403,747
Other liabilities	<u>1,826,601</u>	<u>272,209</u>	<u>816,419</u>	-	<u>2,915,229</u>
Total liabilities	<u>101,772,975</u>	<u>4,796,691</u>	<u>887,564</u>	-	<u>107,457,230</u>
<b>31 December 2017</b>					
<b>ASSETS</b>					
Cash and balances with central banks	21,467,205	-	-	-	21,467,205
Balances and wakala deposits with Islamic banks and other financial institutions	1,585,102	147,182	967,480	66,139	2,765,903
Murabaha and mudaraba with financial institutions	1,957,846	167,403	-	-	2,125,249
Murabaha and other Islamic financing	2,739,342	8,825,479	15,025,234	6,659,260	33,249,315
Ijara financing	1,802,608	3,443,869	16,305,233	21,728,609	43,280,319
Investments in sukuk measured at amortised cost	613,001	742,326	5,090,151	3,606,550	10,052,028
Investments measured at fair value	-	1,519,282	7,208	-	1,526,490
Investment in associates and joint ventures	-	-	-	988,788	988,788
Other assets	<u>2,267,267</u>	<u>55,427</u>	<u>189,486</u>	<u>12,964</u>	<u>2,525,144</u>
Financial assets	<u>32,432,371</u>	<u>14,900,968</u>	<u>37,584,792</u>	<u>33,062,310</u>	<u>117,980,441</u>
Non-financial assets					<u>5,297,158</u>
Total assets					<u>123,277,599</u>
<b>LIABILITIES</b>					
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	<u>1,907,644</u>	<u>339,150</u>	<u>765,464</u>	-	<u>3,012,258</u>
Total liabilities	<u>100,969,193</u>	<u>4,475,852</u>	<u>1,259,390</u>	-	<u>106,704,435</u>

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**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.

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
<b>31 December 2018</b>					
<b>LIABILITIES</b>					
Due to financial institutions	4,139,147	-	-	-	4,139,147
Depositors' accounts	95,859,448	4,576,590	72,991	-	100,509,029
Other liabilities	<u>1,826,601</u>	<u>272,209</u>	<u>816,419</u>	-	<u>2,915,229</u>
<b>Total liabilities</b>	<b><u>101,825,196</u></b>	<b><u>4,848,799</u></b>	<b><u>889,410</u></b>	<b><u>-</u></b>	<b><u>107,563,405</u></b>
<b>31 December 2017</b>					
<b>LIABILITIES</b>					
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	<u>1,907,644</u>	<u>339,150</u>	<u>765,464</u>	-	<u>3,012,258</u>
<b>Total liabilities</b>	<b><u>100,981,659</u></b>	<b><u>4,505,363</u></b>	<b><u>1,272,787</u></b>	<b><u>-</u></b>	<b><u>106,759,809</u></b>

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.

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
<b>31 December 2018</b>					
Contingent liabilities	7,514,223	669,498	1,360,067	631,385	10,175,173
Commitments	<u>-</u>	<u>115,129</u>	<u>-</u>	<u>-</u>	<u>115,129</u>
<b>Total</b>	<b><u>7,514,223</u></b>	<b><u>784,627</u></b>	<b><u>1,360,067</u></b>	<b><u>631,385</u></b>	<b><u>10,290,302</u></b>
<b>31 December 2017</b>					
Contingent liabilities	8,223,107	1,334,464	2,217,544	12,942	11,788,057
Commitments	<u>-</u>	<u>180,807</u>	<u>-</u>	<u>-</u>	<u>180,807</u>
<b>Total</b>	<b><u>8,223,107</u></b>	<b><u>1,515,271</u></b>	<b><u>2,217,544</u></b>	<b><u>12,942</u></b>	<b><u>11,968,864</u></b>

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



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**42 RISK MANAGEMENT** continued

**42.4 Market risk**

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

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

The trading market risk framework comprises of the following elements:

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

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.

<i>Currency</i>	<i>Increase in basis points 2018</i>	<i>Sensitivity of profit on financial assets and liabilities AED '000</i>	<i>Increase in basis points 2017</i>	<i>Sensitivity of profit on financial assets and liabilities AED '000</i>
AED	25	24,906	25	44,780
USD	25	41,459	25	20,919
Euro	25	(531)	25	(208)
Other currencies	25	(485)	25	1,036

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**42 RISK MANAGEMENT** continued

**42.4 Market risk** continued

**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).

	<i>% Increase currency rates</i>	<i>Effect on net profit AED '000</i>	<i>Effect on equity AED '000</i>
<i>31 December 2018</i>			
<i>Currency</i>			
USD	<b>5</b>	<b>699,315</b>	<b>14,895</b>
Euro	<b>5</b>	<b>(51,033)</b>	<b>4,066</b>
GBP	<b>5</b>	<b>21,417</b>	<b>4,723</b>
Other currencies	<b>5</b>	<b>(87,567)</b>	<b>23,975</b>
<i>31 December 2017</i>			
<i>Currency</i>			
USD	5	359,233	4,170
Euro	5	(97,213)	4,122
GBP	5	2,962	-
Other currencies	5	28,823	23,873

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**42 RISK MANAGEMENT** continued

**42.4 Market risk** continued

**42.4.2 Currency risk** continued

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

	<i>AED</i> <i>AED '000</i>	<i>USD</i> <i>AED '000</i>	<i>Euro</i> <i>AED '000</i>	<i>GBP</i> <i>AED '000</i>	<i>Others</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
<b>31 December 2018</b>						
<b>Financial assets</b>						
Cash and balances with central banks	16,696,348	1,348,517	208	1,317	684,818	18,731,208
Balances and wakala deposits with Islamic banks and other financial institutions	30,238	3,206,725	123,198	769,753	328,903	4,458,817
Murabaha and mudaraba with financial institutions	-	1,010,218	125,833	-	217,278	1,353,329
Murabaha and other Islamic financing	29,292,763	3,679,978	94,014	337,446	202,835	33,607,036
Ijara financing	38,723,507	5,824,465	1,988	387,732	131,919	45,069,611
Investments in sukuk measured at amortised cost	-	11,781,857	-	-	-	11,781,857
Investments measured at fair value	56,110	1,722,986	(329)	94,491	12,314	1,885,572
Investment in associates and joint ventures	453,822	-	81,030	-	479,502	1,014,354
Other assets	<u>1,217,919</u>	<u>314,155</u>	<u>37,461</u>	<u>198,632</u>	<u>124,166</u>	<u>1,892,333</u>
	<u>86,470,707</u>	<u>28,888,901</u>	<u>463,403</u>	<u>1,789,371</u>	<u>2,181,735</u>	<u>119,794,117</u>
<b>Financial liabilities</b>						
Due to financial institutions	1,434,902	1,819,124	11,770	786,179	86,279	4,138,254
Depositors' accounts	84,077,223	12,442,629	1,361,959	454,835	2,067,101	100,403,747
Other liabilities	<u>2,332,314</u>	<u>342,956</u>	<u>29,025</u>	<u>25,543</u>	<u>185,391</u>	<u>2,915,229</u>
	<u>87,844,439</u>	<u>14,604,709</u>	<u>1,402,754</u>	<u>1,266,557</u>	<u>2,338,771</u>	<u>107,457,230</u>
<b>31 December 2017</b>						
<b>Financial assets</b>						
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 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	<u>1,749,068</u>	<u>245,678</u>	<u>153,630</u>	<u>178,637</u>	<u>198,131</u>	<u>2,525,144</u>
	<u>89,670,463</u>	<u>23,752,698</u>	<u>355,753</u>	<u>1,423,379</u>	<u>2,778,148</u>	<u>117,980,441</u>
<b>Financial liabilities</b>						
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	<u>2,216,888</u>	<u>446,208</u>	<u>18,043</u>	<u>18,369</u>	<u>312,750</u>	<u>3,012,258</u>
	<u>84,913,843</u>	<u>16,484,651</u>	<u>2,217,586</u>	<u>1,364,136</u>	<u>1,724,219</u>	<u>106,704,435</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**42 RISK MANAGEMENT** continued

**42.4 Market risk** continued

**42.4.3 Equity price risk**

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

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

	<i>% Increase in market indices 2018</i>	<i>Effect on equity 2018 AED '000</i>	<i>% Increase in market indices 2017</i>	<i>Effect on equity 2017 AED '000</i>
<i>Investments carried at fair value through other comprehensive income</i>				
Abu Dhabi Stock Market	<b>10</b>	<b>2,851</b>	10	4,167
Dubai Financial Market	<b>10</b>	<b>22</b>	10	64

**42.4.4 Operational risk**

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**42 RISK MANAGEMENT** continued

**42.4.5 Compliance risk review**

In 2014 ADIB became aware of certain financial transactions relating to U.S. dollar payments that potentially breached U.S. sanctions laws in effect at that time. After learning of these potential breaches, ADIB appointed external legal advisers to assist it in reviewing these transactions and reviewing its compliance with U.S. sanctions laws and its compliance processes generally. Following this review, ADIB submitted its findings to relevant regulators in the UAE and the USA in early 2017. This review also assisted ADIB in identifying additional steps to ensure compliance with applicable sanctions laws, and ADIB enhanced its processes accordingly. As at 31 December 2018, the relevant regulators have not responded following receipt of ADIB's findings and, as such, the likely outcome of their review remains unknown.

**42.5 Capital management**

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital.

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

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

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

	<i>Minimum capital requirement 2018</i>	<i>Minimum capital requirement 2019</i>
<b>Capital Ratio:</b>		
a. Total for consolidated Group	<b>12.375%</b>	<b>13.00%</b>
b. Tier 1 ratio for consolidated Group	<b>10.375%</b>	<b>11.00%</b>
c. CET1 ratio for consolidated Group	<b>8.875%</b>	<b>9.50%</b>

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

The Bank's capital base is divided into three main categories, namely CET1, AT1 and Tier 2 ('T2'), depending on their characteristics.

- CET1 capital is the highest quality form of capital, comprising share capital, share premium, legal, statutory and other reserves, fair value reserve, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- AT 1 capital comprises an eligible non-common equity capital instrument.
- T2 capital comprises qualifying subordinated instrument and undisclosed reserve.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**42 RISK MANAGEMENT** continued

**42.5 Capital management**

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

For credit and market risks, the Central Bank of the U.A.E. has issued guidelines for implementation of Standardised approach. For operational risk, the Central Bank of the U.A.E. has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Basic Indicators approach.

Furthermore, as required by the above circular, certain Basel III pillar 3 disclosures will be included in the annual report issued by the Bank for the year 2018.

The table below shows summarises the composition of Basel III regulatory capital and the ratios of the Group for the years ended 31 December 2018 and 2017. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	<i>Basel III</i>	
	<i>31 Decemebr 2018 AED '000</i>	<i>31 December 2017 AED '000</i>
<b><i>Common Equity Tier 1 (CET 1) Capital</i></b>		
Share capital	<b>3,632,000</b>	3,168,000
Legal reserve	<b>2,624,028</b>	2,085,788
General reserve	<b>1,958,866</b>	1,694,486
Credit risk reserve	<b>400,000</b>	400,000
Retained earnings	<b>4,133,730</b>	3,280,191
Foreign currency translation reserve	<b><u>(813,632)</u></b>	<u>(737,565)</u>
	<b>11,934,992</b>	9,890,900
<i>Regulatory deductions:</i>		
Goodwill and intangibles	<b>(310,591)</b>	(292,274)
Cumulative changes in fair value and hedging reserve	<b><u>(150,456)</u></b>	<u>(87,142)</u>
	<b>11,473,945</b>	9,511,484
<i>Threshold deductions:</i>		
Significant minority investments	<b><u>(237,276)</u></b>	<u>(220,400)</u>
<b>Total Common Equity Tier 1</b>	<b><u>11,236,669</u></b>	<u>9,291,084</u>

# Abu Dhabi Islamic Bank PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 42 RISK MANAGEMENT continued

#### 42.5 Capital management continued

	<i>Basel III</i>	
	<u>31 Decemebr 2018 AED '000</u>	<u>31 December 2017 AED '000</u>
<i>Additional Tier 1 (AT 1) Capital</i>		
Tier 1 sukuk	4,754,375	5,672,500
Regulatory and threshold deductions for additional Tier 1 capital	<u>-</u>	<u>(74,977)</u>
<b>Total Additional Tier 1</b>	<b><u>4,754,375</u></b>	<b><u>5,597,523</u></b>
<b>Total Tier 1 capital</b>	<b><u>15,991,044</u></b>	<b><u>14,888,607</u></b>
<i>Tier 2 capital</i>		
Collective impairment provision for financing assets	1,089,243	1,092,279
Regulatory and threshold deductions for Tier 2 capital	<u>-</u>	<u>(74,977)</u>
<b>Total Tier 2</b>	<b><u>1,089,243</u></b>	<b><u>1,017,302</u></b>
<b>Total capital base</b>	<b><u>17,080,287</u></b>	<b><u>15,905,909</u></b>
<i>Risk weighted assets</i>		
Credit risk	87,139,417	87,382,347
Market risk	2,363,860	2,211,598
Operational risk	<u>9,887,839</u>	<u>9,259,729</u>
<b>Total risk weighted assets</b>	<b><u>99,391,116</u></b>	<b><u>98,853,674</u></b>
<i>Capital ratios</i>		
Common Equity Tier 1 capital expressed as a percentage of total risk weighted assets	<u>11.31%</u>	<u>9.40%</u>
Total Tier 1 capital expressed as a percentage of total risk weighted assets	<u>16.09%</u>	<u>15.06%</u>
Total capital expressed as a percentage of total risk weighted assets	<u>17.18%</u>	<u>16.09%</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**43 FAIR VALUE OF FINANCIAL INSTRUMENTS**

*Quoted investments – at fair value*

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

*Unquoted investments – at fair value*

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

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

	<i>Carrying value 2018 AED '000</i>	<i>Fair value 2018 AED '000</i>	<i>Carrying value 2017 AED '000</i>	<i>Fair value 2017 AED '000</i>
<i>Fair value of investments - at amortised cost</i>				
Investments carried at amortised cost - sukuk (note 19)	<u>11,781,857</u>	<u>11,588,331</u>	<u>10,052,028</u>	<u>10,368,476</u>

**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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**43 FAIR VALUE OF FINANCIAL INSTRUMENTS** continued

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

	<i>Level 1</i> AED '000	<i>Level 2</i> AED '000	<i>Level 3</i> AED '000	<i>Total</i> AED '000
<b>31 December 2018</b>				
<b>Assets and liabilities measured at fair value:</b>				
<b>Financial assets</b>				
<i>Investments carried at fair value through profit or loss</i>				
Sukuk	<u>1,438,659</u>	-	-	<u>1,438,659</u>
<i>Investments carried at fair value through other comprehensive income</i>				
<i>Quoted investments</i>				
Equities	28,727	-	-	28,727
Sukuk	<u>330,367</u>	-	-	<u>330,367</u>
	<u>359,094</u>	-	-	<u>359,094</u>
<i>Unquoted investments</i>				
Funds	-	-	46,956	46,956
Private equities	-	-	<u>42,775</u>	<u>42,775</u>
	-	-	<u>89,731</u>	<u>89,731</u>
	<u>359,094</u>	-	<u>89,731</u>	<u>448,825</u>
<b>Financial liabilities</b>				
Shari'a compliant alternatives of swap (note 37)	-	<u>7,017</u>	-	<u>7,017</u>
<b>Assets for which fair values are disclosed:</b>				
Investment properties (note 22)	-	-	<u>1,544,965</u>	<u>1,544,965</u>
Investment carried at amortised cost - Sukuk	<u>11,588,331</u>	-	-	<u>11,588,331</u>
<b>31 December 2017</b>				
<b>Assets and liabilities measured at fair value:</b>				
<b>Financial assets</b>				
<i>Investments carried at fair value through profit or loss</i>				
Sukuk	<u>1,377,491</u>	-	-	<u>1,377,491</u>
<i>Investments carried at fair value through other comprehensive income</i>				
<i>Quoted investments</i>				
Equities	<u>42,307</u>	-	-	<u>42,307</u>
<i>Unquoted investments</i>				
Funds	-	-	53,619	53,619
Private equities	-	-	<u>53,073</u>	<u>53,073</u>
	-	-	<u>106,692</u>	<u>106,692</u>
	<u>42,307</u>	-	<u>106,692</u>	<u>148,999</u>
<b>Financial liabilities</b>				
Shari'a compliant alternatives of swap (note 37)	-	<u>4,901</u>	-	<u>4,901</u>
<b>Assets for which fair values are disclosed:</b>				
Investment properties (note 22)	-	-	<u>1,334,262</u>	<u>1,334,262</u>
Investment carried at amortised cost - Sukuk	<u>10,104,476</u>	-	<u>264,000</u>	<u>10,368,476</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**43 FAIR VALUE OF FINANCIAL INSTRUMENTS** continued

There were no transfers between level 1, 2 and 3 during the year (2017: quoted equity investments amounting to AED 41,362 thousand were transferred from level 3 to level 1).

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

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

	<i>2018</i> <i>AED '000</i>	<i>2017</i> <i>AED '000</i>
At 1 January	<b>106,692</b>	132,698
Transfer to level 1	-	(41,362)
Net purchases	<b>3,819</b>	13,940
(Loss) gain recorded in equity	<b><u>(20,780)</u></b>	<u>1,416</u>
At 31 December	<b><u>89,731</u></b>	<u>106,692</u>

**44 SOCIAL CONTRIBUTIONS**

The social contributions (including donations and charity) made during the year amount to AED 29,230 thousand which were approved by the shareholders at the Annual General Assembly held on 21 March 2018.

During 2017, the social contributions (including donations and charity) were made amounting to AED 30,000 thousand after the approval by the shareholders at the Annual General Assembly held on 2 April 2017.