PROSPECTUS

ADIB CAPITAL INVEST 1 LTD.

(Incorporated with limited liability under the laws of the Cayman Islands)

U.S.$1,000,000,000 Additional Tier 1 Capital Certificates

The U.S.$1,000,000,000 Additional Tier 1 Capital Certificates (the "**Certificates**") of ADIB Capital Invest 1 Ltd. (in its capacity as issuer, the "**Issuer**" and in its capacity as trustee, the "**Trustee**") will be constituted by a declaration of trust (the "**Declaration of Trust**") dated 19 November 2012 (the "**Issue Date**") entered into between the Trustee, Abu Dhabi Islamic Bank PJSC ("**ADIB**") and HSBC Corporate Trustee Company (UK) Limited as the delegate of the Trustee (the "**Delegate**"). The Certificates confer on the holders of the Certificates from time to time (the "**Certificateholders**") the conditional right to receive certain payments (as more particularly described herein) arising from an undivided ownership interest in the assets of a trust declared by the Trustee pursuant to the Declaration of Trust (the "**Trust**") over the Trust Assets (as defined herein) which will include, *inter alia*, (i) the Mudaraba Assets (as defined herein) and (ii) the Trustee's rights under the Transaction Documents (as defined herein).

Periodic Distribution Amounts (as defined herein) shall be payable subject to and in accordance with the terms and conditions of the Certificates (the "**Conditions**") on the outstanding face amount of the Certificates from (and including) the Issue Date to (but excluding) 16 October 2018 (the "**First Call Date**") at a rate of 6.375 percent per annum. If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Periodic Distribution Amounts shall be payable from (and including) the First Call Date subject to and in accordance with the Conditions at a fixed rate, to be reset on the First Call Date and every six years thereafter, equal to the Relevant Six Year Reset Rate (as defined in the Conditions) plus a margin of 5.393 percent per annum. Periodic Distribution Amounts will, if payable pursuant to the Conditions, be payable semi-annually in arrear on 16 April and 16 October in each year, commencing 16 April 2013. Payments on the Certificates will be made without deduction for, or on account of, taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction (as defined herein) (the "**Taxes**") to the extent described under Condition 12 (*Taxation*). Each payment of a Periodic Distribution Amount will be made by the Trustee provided that ADIB (as Mudareb) shall have paid profit amounts equal to such Periodic Distribution Amount pursuant to the terms of the Mudaraba Agreement (as defined in the Conditions). Payments of such profit amounts under the Mudaraba Agreement are subject to mandatory cancellation if a Non-Payment Event (as defined herein) occurs and is continuing, or would occur as a result of such payment, and are otherwise at the sole discretion of ADIB (as Mudareb) and are subject to the approval of the Central Bank of the United Arab Emirates (the "**Central Bank**"). Any Periodic Distribution Amounts not paid as aforesaid will not accumulate and neither the Trustee nor the Certificateholders shall have any claim in respect thereof.

The Certificates are perpetual securities and have no fixed or final redemption date. Unless the Certificates have previously been redeemed or purchased and cancelled as provided in the Conditions, the Trustee (but only upon the instructions of ADIB (acting in its sole discretion)) shall redeem the Certificates on the First Call Date or on any Periodic Distribution Date falling after the First Call Date in accordance with Condition 10.1(b) (*Trustee's Call Option*). In addition, upon the occurrence of a Tax Event or a Capital Event (each as defined in the Conditions), the Certificates may be redeemed in whole or in part, or the terms thereof may be varied (at the option of the Trustee (but only upon the instructions of ADIB (acting in its sole discretion)), in each case at any time on or after the Issue Date in accordance with Conditions 10.1(c) (*Redemption or Variation due to Taxation*) and 10.1(d) (*Redemption or Variation for Capital Event*). Any redemption or variation is subject to the conditions described in Condition 10.1 (*Redemption and variation*).

The Certificates may only be redeemed in accordance with Condition 10 (*Redemption and Variation*) and Condition 11 (*Dissolution Events and Winding-up*). Upon the occurrence of a Dissolution Event (as defined in the Conditions), the Delegate shall (subject to Condition 11.1 (*Dissolution Events*)) give notice of the occurrence of such event to the Certificateholders in accordance with Condition 15 (*Notices*) with a request to the Certificateholders to issue a Dissolution Request (as defined in the Conditions) to the Delegate. Upon the receipt of a Dissolution Request in writing in accordance with Condition 11.1 (*Dissolution Events*) or if so directed by an Extraordinary Resolution of Certificateholders, the Delegate shall (but in each case subject to Condition 11.3(c) (*Entitlement of Trustee or Delegate*)) give notice to the Trustee of the Dissolution Request whereupon the aggregate face amount of the outstanding Certificates together with any Outstanding Payments (as defined in the Conditions) shall become immediately due and payable and, upon receipt of such notice, the Trustee and/or the Delegate shall subject to Condition 11.3 (*Winding-up, dissolution or liquidation*) take the actions referred to therein.

The Certificates will be limited recourse obligations of the Trustee. An investment in the Certificates involves certain risks. For a discussion of these risks, see "*Risk Factors*".

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 ("**FSMA**") (in such capacity, the "**U.K. Listing Authority**" or the "**UKLA**") for the Certificates to be admitted to the official list of the UKLA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Certificates to be admitted to trading on the London Stock Exchange's regulated market (the "**Market**"). References in this Prospectus to the Certificates being "listed" (and all related references) shall mean that the Certificates have been admitted to the Official List and admitted to trading on the Market. The Market is a regulated market for the purpose of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

The Certificates will be represented by interests in a global certificate in registered form (the "**Global Certificate**") deposited on or before the Issue Date with, and registered in the name of a nominee for a common depositary (the "**Common Depositary**") for, Euroclear Bank S.A/N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**").

Joint Lead Managers

Abu Dhabi Islamic Bank	**HSBC**	**Morgan Stanley**	**National Bank of Abu Dhabi P.J.S.C.**	**Standard Chartered Bank**

Co-Lead Managers

Barwa Bank	**Sharjah Islamic Bank**

The date of this Prospectus is 14 November 2012

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC, as amended by Directive 2010/73/EU (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Issuer, the Trustee, ADIB, ADIB and its subsidiaries and affiliates taken as a whole and the Certificates which, according to the particular nature of the Issuer, the Trustee, ADIB and of the Certificates, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Trustee and ADIB and of the Certificates.

The Issuer, the Trustee and ADIB accept responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer, the Trustee and ADIB, each having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Certain information under the headings "Description of Abu Dhabi Islamic Bank PJSC", "The UAE Banking Sector and Regulations" and "Overview of the United Arab Emirates" has been extracted from information provided by or obtained from independent third party sources and, in each case, the relevant source of such information is specified where it appears under those headings. Each of the Issuer, the Trustee and ADIB confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant sources referred to, no facts have been omitted which would render the reproduced information inaccurate or misleading.

None of the Managers, nor any of their directors, affiliates, advisers, agents, the Delegate nor the Paying Agents (as defined in the Agency Agreement) has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the accuracy, adequacy, reasonableness or completeness of the information contained in this Prospectus or any other information provided by the Issuer, the Trustee or ADIB in connection with the Certificates.

To the fullest extent permitted by law, the Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Lead Manager or on its behalf in connection with the Issuer, the Trustee, ADIB or the issue and offering of the Certificates. Each Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

No person is or has been authorised by the Issuer, the Trustee, ADIB or the Delegate to give any information or to make any representation not contained in or not consistent with this Prospectus or any other document entered into in relation to the offering of the Certificates and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Trustee, ADIB, the Delegate or any of the Managers. None of the Managers, nor any of their directors, affiliates, advisers, agents, the Delegate nor the Paying Agents or any of their respective affiliates make any representation or warranty or accept any liability as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of the Certificates shall, in any circumstances, constitute a representation or create any implication that the information contained in this Prospectus is correct subsequent to the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or the financial or trading position of the Issuer, the Trustee or ADIB since the date hereof or, if later, the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Certificates is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

No comment is made, or advice given by, the Issuer, the Trustee, ADIB or the Managers or, any of their directors, affiliates, advisers or agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under applicable or similar laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act

("**Regulation S**")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Certificates may be offered or sold solely to persons who are not U.S. persons outside the United States in reliance on Regulation S. Each purchaser of the Certificates is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

Fitch Ratings Ltd ("**Fitch**") has assigned ADIB a long term issuer default rating of 'A+' with stable outlook and a short-term rating of F1. Moody's Investors Service Ltd ("**Moody's**") has assigned ADIB a foreign currency issuer rating of A2/Prime-1 and a financial strength rating of D.

Fitch is established in the European Union and was registered under Regulation 1060/2009/EC of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**") on 31 October 2011. Moody's was registered under the CRA Regulation on 31 October 2011. A list, published by the European Securities and Markets Authority, of credit rating agencies registered or certified in accordance with the CRA Regulation can be found at the following website: http://www.esma.europa.eu/page/List-registered-and-CRAs.

The transaction structure relating to the Certificates (as described herein) has been approved by the Executive Committee of the Fatwa & *Shari'a* Supervisory Committee of ADIB, the HSBC Amanah Central *Shariah* Committee, the Morgan Stanley *Shari'a* Supervisory Board and the *Shari'a* Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on any of the approvals referred to above in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction is in compliance with *Shari'a* principles.

Each prospective investor is advised to consult its own tax adviser, legal adviser and business adviser as to tax, legal, business and related matters concerning the purchase of any Certificates.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offering, sale and delivery of the Certificates in certain jurisdictions may be restricted by law. None of the Issuer, the Trustee, ADIB, the Managers, nor any of their directors, affiliates, advisers, agents, the Delegate or the Paying Agents represents that this Prospectus may be lawfully distributed, or that Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Trustee, ADIB, the Managers, nor any of their directors, affiliates, advisers, agents, the Delegate or the Paying Agents which is intended to permit a public offering of the Certificates or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, the Certificates may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes are required by the Issuer, the Trustee, ADIB and the Managers to inform themselves about and to observe any such restrictions. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of the Certificates in the United States, the United Kingdom, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Cayman Islands, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, the State of Qatar, Hong Kong, Singapore and Malaysia. For a description of the restrictions on offers, sales and deliveries of Certificates and on the distribution of this Prospectus and other offering material relating to the Certificates, see "*Subscription and Sale*".

This Prospectus does not constitute an offer or an invitation to subscribe for or purchase Certificates and should not be considered as a recommendation by the Issuer, the Trustee, ADIB, the Delegate, the Paying Agents, the Managers, or any of their directors, affiliates, advisers, agents or any of them that any recipient of this Prospectus should subscribe for, or purchase, the Certificates. Each recipient of this Prospectus shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer, the Trustee and ADIB. None of the Managers, nor any of their directors, affiliates, advisers, agents, the Delegate or the Paying Agents accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer, the Trustee or ADIB in connection with the Certificates.

The Certificates may not be a suitable investment for all investors. Each potential investor in Certificates must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Prospectus;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

The Certificates are complex financial instruments. A potential investor should not invest in the Certificates unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of the Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

Stabilisation

In connection with the issue of the Certificates, HSBC Bank plc (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over-allot Certificates or effect transactions with a view to supporting the market price of the Certificates at a level higher than that which might otherwise prevail, but in so doing, the Stabilising Manager shall act as principal and not as agent of the Trustee or ADIB. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the Issue Date and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Certificates. The Stabilising Manager (or persons acting on behalf of the Stabilising Manager) must conduct such stabilisation in accordance with all applicable laws and rules.

Cautionary note regarding forward looking statements

Some statements in this Prospectus may be deemed to be forward looking statements. The words "anticipate", "believe", "expect", "plan", "intend", "targets", "aims", "seeks", "estimate", "project", "will", "would", "may", "could", "continue", "should" and similar expressions are intended to identify forward looking statements. All statements other than statements of historical fact included in this Prospectus, including, without limitation, those regarding the financial position of ADIB, or the business strategy, management plans and objectives for future operations of ADIB, are forward looking statements. These forward looking statements involve known and unknown risks, uncertainties and other factors, which may cause ADIB's actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward looking statements. These forward looking statements are based on numerous assumptions regarding ADIB's present, and future, business strategies and the environment in which ADIB expects to operate in the future. Important factors that could cause ADIB's actual results, performance or achievements to differ materially from those in the forward looking statements are discussed in this Prospectus (see "*Risk Factors*").

Forward looking statements speak only as at the date of this Prospectus and, without prejudice to any requirements under applicable laws and regulations, the Issuer, the Trustee and ADIB expressly disclaim any obligation or undertaking to publicly update or revise any forward looking statements in this Prospectus to reflect any change in the expectations of the Issuer, the Trustee or ADIB or any change in events, conditions or circumstances on which these forward looking statements are based. Given the uncertainties of forward looking statements, the Issuer, the Trustee and ADIB cannot assure potential investors that projected results or events will be achieved and the Issuer, the Trustee and ADIB caution potential investors not to place undue reliance on these statements.

Presentation of certain financial and other information

The historical financial information presented in this Prospectus is based on the audited consolidated financial statements of ADIB for the years ended 31 December 2010 (together with the audit report thereon the "**2010 Financial Statements**") and 31 December 2011 (together with the audit report thereon the "**2011 Financial Statements**") and the unaudited interim condensed consolidated financial statements for the nine month period ended 30 September 2012 (the "**2012 Interim Financial Statements**", together with the 2010 financial statements and the 2011 financial statements, the "**Financial Statements**"). The consolidated financial statements as at 31 December 2011 and 31 December 2010 and for the years then ended, have been audited in accordance with International Standards on Auditing by Ernst & Young Middle East (Abu Dhabi Branch), as stated in their reports appearing herein.

The financial statements relating to ADIB included in this Prospectus are the annual 2010 Financial Statements, the annual 2011 Financial Statements each prepared in accordance with International Financial Reporting Standards ("**IFRS**") and the unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34: Interim Financal Reporting. ADIB presents its Financial Statements in UAE Dirham. Investors should not rely on interim results as being indicative of results ADIB may expect for the full year.

Certain Defined Terms

Capitalised terms which are used but not defined in any section of this Prospectus will have the meaning attributed thereto in the Conditions or any other section of this Prospectus. In addition, the following terms as used in this Prospectus have the meanings defined below:

- references to "**Abu Dhabi**" herein are to the Emirate of Abu Dhabi;
- references to the "**Bank**" herein are to ADIB;
- references to "**Dubai**" herein are to the Emirate of Dubai;
- references to the "**Government**" herein are to the government of Abu Dhabi;
- references to a "**Member State**" herein are references to a Member State of the European Economic Area; and
- references to the "**UAE**" herein are to the United Arab Emirates.

In this Prospectus, unless the context otherwise requires, "**ADIB**" refers to Abu Dhabi Islamic Bank PJSC, a public joint stock company established by the Government on 20 May 1997 in Abu Dhabi with Registration Number 36148, and the "**Group**" refers to ADIB together with its consolidated subsidiaries, as well as their respective predecessor companies or entities, as applicable.

Certain Publicly Available Information

Certain statistical data and other information appearing in this Prospectus have been extracted from public sources identified in this Prospectus. Neither the Trustee nor ADIB accepts responsibility for the factual correctness of any such statistics or information but both the Trustee and ADIB accept responsibility for accurately extracting and transcribing such statistics and information and believe, after due inquiry, that such statistics and information represent the most current publicly available statistics and information from such sources at and for the periods with respect to which they have been presented.

All references in this document to "**U.S. dollars**", "**U.S.$", "USD"** and **"$**" are to the lawful currency of the United States of America, references to "**£**" and "**Sterling**" are to the lawful currency of the United Kingdom and references to "**AED**", "**dirham**" and "**UAE Dirham**" are to the lawful currency of the United Arab Emirates. The UAE Dirham has been pegged to the U.S. dollar since 22 November 1980. The mid-point between the official buying and selling rates for the UAE Dirham is at a fixed rate of AED 3.6725 = U.S.$1.00. All references to "**euro**" and **"€**" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments. For the purposes of calculating certain figures and percentages, the underlying numbers used have been extracted from the relevant financial statements rather than the rounded numbers contained in the Prospectus. Accordingly figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

NOTICE TO U.K. RESIDENTS

The Certificates represent interests in a collective investment scheme (as defined in the FSMA) which has not been authorised, recognised or otherwise approved by the United Kingdom Financial Services Authority. Accordingly, this Prospectus is not being distributed to and must not be passed on to the general public in the United Kingdom.

The distribution in the United Kingdom of this Prospectus and any other marketing materials relating to the Certificates (A) if effected by a person who is not an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**"), and (ii) persons falling within any of the categories of persons described in Article 49(2) (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; and (B) if effected by a person who is an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "**Promotion of CISs Order**"), (ii) persons falling within any of the categories of person described in Article 22(a)-(d) (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Prospectus or any other marketing materials in relation to the Certificates.

Potential investors in the United Kingdom in the Certificates are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in the Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

Any individual intending to invest in the Certificates should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

CAYMAN ISLANDS NOTICE

No invitation may be made to any member of the public of the Cayman Islands to subscribe for the Certificates.

THE KINGDOM OF SAUDI ARABIA NOTICE

This Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Capital Market Authority**").

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of Certificates should conduct their own due diligence on the accuracy of the information relating to the Certificates. If a prospective purchaser does not understand the contents of this Prospectus he or she should consult an authorised financial adviser.

NOTICE TO BAHRAIN RESIDENTS

The Central Bank of Bahrain and the Bahrain Stock Exchange assume no responsibility for the accuracy and completeness of the statements and information contained in this Prospectus and expressly disclaim any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this Prospectus. Each potential investor residing in Bahrain intending to subscribe for the Certificates (each, a "**potential investor**") may be required to provide satisfactory evidence of identity and, if so required, the source of funds to purchase the Certificates within a reasonable time period determined by the Issuer, the Trustee, ADIB and the Managers. Pending the provision of such evidence, an application to subscribe for Certificates will be postponed. If a potential investor fails to provide satisfactory evidence within the time specified, or if a potential investor provides evidence but none of the Issuer, the Trustee, ADIB or the Managers are satisfied therewith, its application to subscribe for Certificates may be rejected in which event any money received by way of application will be returned to the potential investor (without any additional amount added thereto and at the risk and expense of such potential investor). In respect of any potential investors, the Issuer, the Trustee and ADIB will comply with Bahrain's Legislative Decree No. (4) of 2001 with respect to Prohibition and Combating of Money Laundering and various Ministerial Orders issued thereunder including, but not limited to, Ministerial Order No. (7) of 2001 with respect to Institutions' Obligations Concerning the Prohibition and Combating of Money Laundering.

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RISK FACTORS

The purchase of the Certificates may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Certificates. Before making an investment decision, prospective purchasers of the Certificates should consider carefully, in light of their own financial circumstances and investment objectives, all of the information in this Prospectus.

Each of the Issuer and ADIB believes that the factors described below represent the principal risks inherent in investing in the Certificates but the inability of the Trustee to pay any amounts on or in connection with any Certificate may occur for other reasons and neither the Trustee nor ADIB represents that the statements below regarding the risks of holding any Certificate are exhaustive.

Although the Issuer and ADIB believe that the various structural elements described in this Prospectus lessen some of these risks for Certificateholders, there can be no assurance that these measures will be sufficient to ensure payment to Certificateholders of any Periodic Distribution Amount or the Dissolution Distribution Amount or any other amounts payable in respect of the Certificates on a timely basis or at all. There may also be other considerations, including some which may not be presently known to the Issuer or ADIB or which the Issuer or ADIB currently deems immaterial, that may impact any investment in the Certificates.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. Words and expressions defined in the Conditions and "Global Certificate" shall have the same meanings in this section.

Risks Relating to the Issuer

The Issuer is an exempted limited company incorporated in the Cayman Islands on 16 August 2012. The Issuer has not as at the date of this Prospectus, and will not, engage in any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Issuer's only material assets, which will be held on trust for Certificateholders, will be the Trust Assets, including the right to receive amounts paid by the Mudareb under the Mudaraba Agreement.

The ability of the Issuer to pay amounts due on the Certificates will be dependent upon receipt from ADIB of amounts paid under the Mudaraba Agreement (which in aggregate may not be sufficient to meet all claims under the Certificates and the Transaction Documents).

Risks Relating to ADIB

In the course of its business activities, ADIB is exposed to a variety of risks, the most significant of which are credit risks, operational risks, liquidity risks, risk associated with real estate exposure and investments, market risk and expansion and acquisition risk. Whilst ADIB believes it has implemented appropriate policies, systems and processes to control and mitigate these risks, investors should note that any failure to adequately control these risks, or predict unexpected market events that are beyond the control of ADIB, could be greater than anticipated and could result in a material adverse effect on ADIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to make payments in respect of any Certificates.

Credit risks

Credit risks arising from adverse changes in the credit quality and recoverability of financings, advances and amounts due from counterparties, are inherent in a wide range of ADIB's businesses. Credit risks could arise from a deterioration in the credit quality of specific counterparties of ADIB, from a general deterioration in local or global economic conditions or from systemic risks with the financial systems, all of which could affect the recoverability and value of ADIB's assets and require an increase in ADIB's provisions for the impairment of its assets and other credit exposures which could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to make payments in respect of any Certificates.

To control credit risk, ADIB maintains documented risk management procedures and controls and monitors credit exposures across a number of customer segments and limiting exposures by geographic region and industry sector and requiring approval by Credit Risk Management, the Group Strategy Execution Committee, the Board of Directors and the regulatory authorities when exposures exceed a set limit or term to avoid undue concentration of risk with individuals or groups of customers, and by obtaining security when appropriate. In this regard it should be noted that ADIB's related party exposure, as reported in the audited financial statements, and any other exposures that from time to time exceed regulatory large exposure limits are submitted to, and are approved by, the Central Bank. However, there can be no assurance that these controls and procedures will be successful in eliminating such credit risk.

Operational risks

Operational risks and losses can result from fraud, error by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, lapses in any operational controls, the failure of internal systems, equipment and external systems (e.g., those of ADIB's counterparties or vendors) and occurrence of natural disasters. Although ADIB has implemented risk controls and loss mitigation strategies and substantial resources are devoted to developing efficient procedures, it is not possible to entirely eliminate any of the operational risks. Notwithstanding anything in this risk factor, this risk factor should not be taken to imply that ADIB will be unable to comply with any obligations in connection with Certificates admitted to the Official List.

Liquidity risks

Liquidity risks could arise from the inability of ADIB to anticipate and provide for unforeseen decreases or changes in funding sources which could have adverse consequences on ADIB's ability to meet its obligations when they fall due. As is the normal practice in the UAE banking industry, ADIB accepts deposits from its customers which are short-term in nature. However, it is also normal in the UAE banking industry for these short-term deposits to be rolled over on their maturity such that, in practice, a significant portion of them have actual maturities of rather longer duration. By contrast, ADIB's advances have more diversified maturities. Accordingly, there is a risk that, if a significant number of ADIB's customers did not choose to roll over their deposits at any time, ADIB could experience difficulties in repaying those deposits. In addition, ADIB only has limited *Shari'a*-compliant products that could be used for short-term liquidity management.

Additionally, a dislocated credit environment creates the risk that ADIB will not be able to access funds on favourable terms. These and other factors could also lead creditors to form a negative view of ADIB's liquidity, which could result in less favourable credit ratings, higher funding costs and less accessible funds. Furthermore, in circumstances where financial institutions generally have ongoing limitations on their access to other sources of funding such as wholesale market derived funding, ADIB's access to funds and its cost of funding (profit paid or expected to be paid) may be adversely affected. All of these factors related to liquidity risk could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to perform its obligations under the Transaction Documents.

Risk associated with real estate exposure and investments

Real estate exposure risk is the credit risk associated with providing financing to customers for the purpose of acquiring real estate, either for their own use or for investment, as well as where financing to the client is secured by real estate as collateral. Any downturn in the real estate market or default of ADIB's main real estate related clients could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to perform its obligations under the Transaction Documents. While ADIB seeks to manage this risk through its credit risk policies and procedures, including the carrying out of due diligence and the establishment of concentration limits, there is no guarantee that this will be successful.

ADIB is also exposed to the real estate sector via its wholly owned subsidiary Burooj Properties. Real estate investment risk could therefore arise from deterioration in the real estate market, for both rental returns and property sales which could affect the yield and fair value of ADIB's assets and require further impairments of its real estate assets. This could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to perform its obligations under the Transaction Documents. To control and accurately reflect real estate risk, ADIB regularly reviews the Burooj Properties investment property portfolio, development costs and yield profiles with the support of both internal and independent external subject matter experts to assist in identifying potential risks and taking the necessary action to either mitigate the risk or recognise any related impairment on a regular basis. However, there is no assurance that such action will be successful in controlling or mitigating these risks.

Market risks

Changes in exchange rates, interest rates and market prices could adversely affect the market value of ADIB's portfolios and positions in financial instruments, which could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to perform its obligations under the Transaction Documents. Market risk is managed by the Asset Liability Committee, which sets ADIB's market risk policy and market risk limits according to defined risk and allocated capital, while ADIB's Global Head of Risk oversees an independent risk governance function with the aim of making the market risk profile transparent to senior management and regulators. However, there can be no assurance that such policies will be successful in eliminating market risk.

Expansion and acquisition risk

ADIB's growth strategy is predicated on organic growth opportunities (including those resulting from the increased consumer demand for Islamic banking services and *Shari'a*-compliant banking products), supplemented by strategic sectoral and/or geographic acquisitions, if management identifies appropriate opportunities. Notwithstanding the fact that the majority of ADIB's operations and assets are located in the UAE, ADIB continues to look for opportunities to expand its business both domestically and internationally. In addition to the normal business and related risks associated with organic expansion ADIB may, when suitable opportunities present themselves, make acquisitions and these entail additional risks. While ADIB seeks to mitigate these risks by completing a detailed expansion opportunity analysis and commissioning due diligence reviews as well as inserting the necessary conditions precedent in any acquisition agreement, there is no guarantee that such mitigation will be effective. A failure on ADIB's part to manage its future growth efficiently and effectively could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to make payments in respect of any Certificates.

Specifically, as an Islamic Bank, ADIB may elect to acquire a shareholding in a conventional financial services entity and embark on a process of converting this entity into a *Shari'a*-compliant business before consolidating it financially. The completion of all the conditions and approvals, relating to such an acquisition, including those of the ADIB's Fatwa and *Shari'a* Supervisory Committee (the "***Shari'a*** **Committee**"), may take longer than would be the case of a conventional acquirer or of the acquisition of an Islamic financial entity. Investors should note that the National Bank for Development in Egypt ("**NBD**"), is currently undergoing the process of conversion from a conventional bank to an Islamic Bank and only after the conversion will NBD become fully aligned with ADIB and is therefore treated as an investment, where ADIB's capital commitment is met by a mix of common equity and placements in advance of any future equity issue, and is neither equity accounted or consolidated, including the recognition of goodwill and licence costs, by ADIB. There can be no assurances that early or enforced consolidation of NBD will not have a material adverse effect on ADIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to make payments in respect of any Certificates.

Technology risk

Banks including ADIB rely on technology. External attacks on banks' information technology systems, and those of their clients, have become increasingly common in the Gulf Cooperation Council ("**GCC**") and world-wide. ADIB continues to invest in resources to mitigate this risk including business continuity and recovery planning. Notwithstanding this, the risk of an existing system, new system or user acceptance test, failing, or successful cyber or similar attacks taking place, remains and should the policies put in place prove ineffective, this could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations or prospects and thereby affect ADIB's ability to meet its obligations under the Transaction Documents.

Legal Risks

Legal risk is the risk of losses occurring due to legal or regulatory action that invalidates or otherwise precludes performance by ADIB or any of its counterparties under the terms of its contractual agreements. Additionally, ADIB may face certain legal risks from private actions brought against it. ADIB aims to mitigate these risks through properly reviewed documentation and by seeking appropriate legal advice when necessary. However, generally, as a participant in the regulated financial services industry, it is likely that ADIB may experience, from time to time, a level of litigation and regulatory scrutiny related to its businesses and operations which may, if adversely determined, have an impact on ADIB's business, financial condition, results of operations or prospects and thereby affect ADIB's ability to meet its obligations under the Transaction Documents.

Foreign exchange movements may adversely affect ADIB's profitability

ADIB maintains its accounts and reports its results in UAE Dirham. The UAE Dirham has been pegged to the U.S. dollar at a fixed exchange rate since 22 November 1980. However, there can be no assurance that the UAE Government will not re-peg or de-peg the UAE Dirham in the future and expose ADIB to the potential impact of any alteration to or abolition of this foreign exchange peg which could adversely affect ADIB's business, financial condition, results of operations or prospects.

Furthermore, as ADIB expands its business internationally it will increasingly deploy capital and receive deposits and income in foreign and non-pegged currencies. ADIB's ability to both predict and mitigate against devaluations is limited and, if an adverse event occurs, a devaluation could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to make payments in respect of any Certificates.

Majority of business in the UAE

Investors should note that ADIB is incorporated in, and has the majority of its operations and assets located in, the UAE. Accordingly, ADIB may have insufficient assets located outside the UAE to satisfy in whole or in part any judgement obtained from an English court relating to amounts owing in connection with the Certificates. If investors were to seek enforcement of an English judgment in the UAE or to bring proceedings in relation to the Certificates in the UAE, then certain limitations would apply (see "*– Risk Factors Relating to Enforcement – Enforcement Risk*").

Additionally, as ADIB has the majority of its operations and the majority of its assets in the UAE, its business may be affected by the financial, political and general economic conditions prevailing from time to time in the UAE and/or the Middle East. Investors are advised to make, and will be deemed by the Managers, the Issuer and ADIB to have made, their own investigations in relation to such factors before making any investment decisions in relation to the Certificates. The UAE and Middle East markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks.

Political, economic and related considerations

The UAE has seen significant economic growth and relative political stability. There is no assurance that such growth or stability will continue particularly in light of significant adverse financial and economic conditions experienced worldwide which commenced in early 2008. Since then, there has been a slowdown or reversal of the high rates of growth that had been experienced by many countries within the GCC and the UAE, especially in Dubai and to a lesser extent in Abu Dhabi. Consequently, certain sectors of the GCC economy, such as financial institutions, that had benefitted from such a high rate of growth, have been materially adversely affected by the crisis. Given that ADIB has the majority of its operations in the UAE, its operations have been and may continue to be affected by these economic and political developments impacting the UAE, in particular, the level of economic activity in the UAE. Moreover, while the UAE Government's policies have generally resulted in improved economic performance, there can be no assurance that such level of performance can be sustained. ADIB may also be adversely affected generally by political and economic developments in or affecting the UAE. Traditionally the oil and gas industry has been the basis of the development in the economy, which means that economic development has been impacted by the general level of oil and gas prices.

No assurance can be given that the UAE Government will not implement regulations, fiscal or monetary policies, including policies, regulations, or new legal interpretations of existing regulations, relating to or affecting taxation, interest rates or exchange controls, or otherwise take actions which could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to make payments in respect of any Certificates.

ADIB's business may be affected if there are regional, geo-political or economic events that prevent ADIB from delivering its services. In particular, since early 2011 there has been political unrest in a range of countries in the Middle East and North Africa region, including Egypt, Algeria, Libya, Bahrain, the Kingdom of Saudi Arabia, Yemen, Syria, Tunisia and Oman. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and the overthrow of existing leadership and has given rise to increased political uncertainty across the region. In addition ADIB has opened a branch in Iraq and intends to open a branch in Sudan and both countries have been subject to prolonged periods of economic, social and political unrest. It is not possible to predict the occurrence of events or circumstances such as or similar to a war or the impact of such occurrences and no assurance can be given that ADIB would be able to sustain its current profit levels if such events or circumstances were to occur. Therefore a downturn or any sustained deterioration in the economy of the UAE, instability in certain sectors of the UAE or regional economy or major political upheaval therein could have an adverse effect on ADIB's business, financial condition, results of operations or prospects.

Prospective investors should also note that ADIB's business and financial performance could be adversely affected by political, economic and related developments both within and outside the countries in which ADIB operates, because of the inter-relationships within global financial markets.

Since the middle of 2007, global credit markets, particularly in the United States and Europe, have experienced difficult conditions. These challenging market conditions have resulted in reduced liquidity, greater volatility and lack of price transparency in credit markets. The adverse market conditions have impacted investment markets both globally and in the UAE, including adverse changes and increased volatility in interest rates and exchange rates and decreased returns from equity, real estate and other investments. Such conditions, particularly if they persist for prolonged periods, will likely exacerbate any adverse effect on investment markets.

ADIB's financial performance is affected by general economic conditions

Risks arising from changes in credit quality and the recoverability of amounts due from customers and counterparties are inherent in banking businesses. Adverse changes in global economic conditions, or arising from systemic risks in the financial systems, could affect the recovery and value of ADIB's assets and require an increase in ADIB's provisions. ADIB uses different hedging strategies to minimise risk, including securities, collateral and insurance that reduce the credit risk level to be within ADIB's strategy and acceptable risk levels. However, there can be no guarantee that such measures will eliminate or reduce such risks.

Competition

ADIB faces competition in all of its business areas from domestic and foreign banks operating in the UAE. ADIB faces competition from both Islamic banks and conventional banks. As at 31 July 2012, there were 51 different banks (comprised of 23 locally incorporated banks and 28 foreign banks) licensed to operate in the UAE (excluding the Dubai International Financial Centre). There are also an increasing number of institutions offering Islamic financial products and services within the UAE. As at 31 July 2012, there were eight Islamic banks, in addition to a number of other financial institutions, offering Islamic products and solutions. Other financial institutions may consider offering *Shari'a*-compliant products.

The banking market in the UAE has generally been a relatively protected market with high regulatory and other barriers to entry for foreign financial institutions. However, should some of these barriers be removed or eased in the future, either voluntarily or as a result of the UAE's obligations to the World Trade Organisation, the GCC or any other similar entities, it is likely to lead to a more competitive environment for ADIB and other domestic financial institutions. This could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to make payments in respect of the Certificates.

Principal shareholders

As at 30 September 2012, ADIB's principal beneficial shareholders were Emirates International Investment Company LLC ("**EIIC**"), an Abu Dhabi based investment company wholly owned by the National Holding LLC, a privately owned holding company based in Abu Dhabi and controlled by members of the Ruling Family of Abu Dhabi, which held approximately 40.66 percent of ADIB's issued share capital, the Abu Dhabi Investment Council which held approximately 7.61 percent of ADIB's issued share capital, various members and associates of the Ruling Family of Abu Dhabi who held approximately 10.11 percent of ADIB's issued share capital and the UAE General Pension and Social Security Authority which held approximately 2.31 percent of ADIB's issued share capital. The remaining 39.31 percent of ADIB's issued share capital was held by approximately 47,000 UAE nationals and UAE companies. As a strategic investor holding approximately 40.66 percent of the share capital of ADIB, the EIIC and its associated companies have the ability to influence ADIB's business significantly through their ability to control actions that require shareholder approval. If circumstances were to arise where the interests of the major shareholders conflict with the interests of the Certificateholders, Certificateholders could be disadvantaged by any such conflict.

Certain of ADIB's principal shareholders mentioned above may participate in the offering of the Certificates, but ADIB does not believe that such participation will have an impact on the other Certificateholders or the liquidity of the offering since such any participation will be on a *pari passu* basis to that of the Certificateholders. See "*– Risk Relating to the Certificates – Absence of secondary market/ limited liquidity*".

No Guarantees

Investors should be aware that no guarantee is given in relation to the Certificates or any of the Transaction Documents by ADIB, the shareholders of ADIB or by any other person.

Impact of Regulatory Changes

ADIB is subject to the laws, regulations, administrative actions and policies in the UAE. These regulations may limit ADIB's activities and changes in supervision and regulation particularly within the UAE could materially adversely affect ADIB's business, the products or services offered, the value of its assets, and its financial condition. In particular, ADIB is in the process implementing the Basel II related guidelines issued by the Central Bank and will adopt the Basel III guidelines as and when the Central Bank communicates its requirements in this regard. Although ADIB works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies cannot be predicted and are beyond the control of ADIB. Any such changes could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to make payments in respect of any Certificates.

Dependence on Key Personnel

Revenues of ADIB will depend, in part, on ADIB's ability to continue to attract, retain and motivate qualified and skilled personnel. ADIB relies on its senior management for the implementation of its strategy and its day-to-day operations. There is competition in the UAE for skilled personnel, especially at the senior management level, due to a disproportionately low number of available qualified and/or experienced individuals compared to current demand. If it were unable to retain key members of its senior management and/or hire new qualified personnel in a timely manner, this could have a material adverse effect on the operations of ADIB. The loss of any member of the senior management team may result in: (i) a loss of organisational focus; (ii) poor execution of operations; and (iii) an inability to identify and execute potential strategic initiatives. These adverse results could, among other things, reduce potential revenue, which could adversely affect ADIB's business, results of operations, financial condition and prospects and ability to make payments due under the Transaction Documents to which it is a party. ADIB seeks to mitigate this risk by paying market competitive remuneration, as well as introducing various incentive and deferred compensation programmes.

Asset Concentration

Concentrations in the financing and deposit portfolio of ADIB subject it to risks of default by its larger customers, from exposure to particular sectors of the UAE economy that may underperform and from withdrawal of large deposits. The financing and receivables portfolio of ADIB show country, industry and customer concentrations.

The Group's financial assets are heavily concentrated, geographically, in the UAE, where certain sectors (including the real estate sector) and certain regions (including Dubai) have been more significantly affected than others by the global financial crises that commenced in early 2008. See "*– Risks relating to ADIB – Political, economic and related considerations*" for the risks associated with the global financial crises.

As at 31 December 2011, ADIB had AED 57.15 billion of Group financial assets located in the UAE and representing 92.9 percent of its total Group financial assets.

As a result of the concentration of ADIB's financial assets in the UAE, any deterioration in general economic conditions in the UAE or any failure of ADIB to effectively manage its risk concentrations could have a material adverse effect on ADIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to make payments in respect of any Certificates.

In terms of the industry concentration of ADIB's Group financing assets, as at 30 September 2012, individual finance accounted for 59.1 percent, financial institutions accounted for 2.8 percent, the public sector accounted for 4.9 percent, the government accounted for 0.3 percent, corporates accounted for 30.8 percent, and small and medium enterprises accounted for 2.2 percent. See also "*– Risks relating to ABID – Risks associated with Real Estate exposure and investment*" for additional risks in relation to real estate exposure. In terms of financing customer concentrations, ADIB's 20 largest financing customers represented 22.8 percent of the Group's financing assets as at 30 September 2012.

Although ADIB considers that it has adequate access to sources of funding, the withdrawal of a significant portion of deposits may have a material adverse effect on ADIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to make payments in respect of any Certificates, as well as its ability to meet the Central Bank target stable resources ratio.

Unavailability of conventional hedging instruments under Shari'a law

ADIB's status as an Islamic bank means that its assets and liabilities are not fully comparable to those of a conventional bank. In particular, unlike conventional banks, ADIB does not have the full range of hedging products. The fact that the return payable on ADIB's Islamic products is profit-linked reduces to some extent the risk of losses arising on unhedged liabilities and, in addition, there is a growing range of *Shari'a*-compliant derivative products which could be used for hedging purposes. However, there can be no assurances that the limited availability of hedging products will not have an adverse effect on ADIB's business, financial condition, results of operations or prospects.

Risks Relating to the Certificates

The Certificates are subordinated and unsecured obligations

Payments of Periodic Distribution Amounts will be made by the Trustee provided that ADIB (as Mudareb) shall have paid profit amounts equal to such Periodic Distribution Amount pursuant to the terms of the Mudaraba Agreement. In this regard, prospective investors should note that the payment obligations of ADIB under the Mudaraba Agreement (and other Relevant Obligations) are subordinated to the claims of the Senior Creditors (as defined in the Conditions) and rank *pari passu* to the Pari Passu Obligations and ADIB's obligations under the Existing Tier 1 Securities. Potential investors should note that payments of profit amounts by ADIB (and consequently, the payments of Periodic Distribution Amounts by the Trustee) are conditional upon:

(i) ADIB being Solvent at the time of payment of the Relevant Obligations; and

(ii) ADIB being capable of making payment of the Relevant Obligations and any other payment required to be made to a creditor in respect of all Senior Obligations and all Pari Passu Obligations and still be Solvent immediately thereafter.

By virtue of such subordination, the payment obligations of ADIB under the Mudaraba Agreement will, in the event of the liquidation, dissolution or winding-up of ADIB, rank junior to all claims of holders of any unsubordinated obligations of ADIB. See Condition 4.2 (*Subordination*) and "– *Risks Relating to the Certificates – Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative*". The Trustee may exercise its enforcement rights in relation to the Mudaraba Agreement (or any other Relevant Obligations) only in the manner provided in Condition 11.3 (*Winding-up, dissolution or liquidation*).

Further, the payment obligations under the Mudaraba Agreement (and other Transaction Documents) are unsecured and no collateral is or will be given by ADIB in relation thereto. Under the terms of the Mudaraba Agreement in relation to ADIB's payment obligations thereunder, the Trustee will agree unconditionally and irrevocably to waive any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction. See Condition 4.2.4 (*Subordination*).

If ADIB were wound up, liquidated or dissolved, ADIB's liquidator would first apply the assets of ADIB to satisfy all claims of the Senior Creditors. If ADIB does not have sufficient assets to settle claims of the Senior Creditors in full, the claims of the Trustee in relation to the payment obligations of ADIB will not be settled. Further, the Trustee will share equally in payment with the claims of the holders of Pari Passu Obligations and holders of ADIB's Existing Tier 1 Securities if ADIB does not have sufficient funds to make full payments on all of them. In such a situation, Certificateholders could lose all or part of their investment.

Further, the issue of any securities may reduce the amount recoverable by the Certificateholders in the event of a winding-up, liquidation or dissolution of ADIB and ADIB may not have sufficient funds to satisfy the Certificateholders' claims. In such a situation, the Certificateholders could lose all or part of their investment.

No limitation on issuing pari passu securities; subordination

Other than the limitations in relation to the issue of further Tier 1 Capital by ADIB as set out in Condition 4.3 (*Other Issues*) which limits the circumstances in which Tier 1 Capital of ADIB can be issued that ranks senior to the Certificate, there is no restriction on ADIB (in its capacity as Mudareb or otherwise) incurring additional indebtedness or on issuing securities or creating any guarantee or contractual support arrangement which would rank senior to the Certificates and the obligations of ADIB under the Mudaraba Agreement ("**ADIB Senior Obligations**"). The issue of or the creation of any such ADIB Senior Obligations may reduce the amount recoverable by Certificateholders on a winding-up of ADIB. Accordingly, in the winding-up of ADIB and after payment of the claims of Senior Creditors, there may not be a sufficient amount to satisfy the amounts owing to the Certificateholders. See also "*– Risks Relating to the Certificates – The Certificates are subordinated and unsecured obligations*".

Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative

The Trustee shall not pay Periodic Distribution Amounts if either a Non-Payment Event or a Non-Payment Election occurs (in accordance with Condition 8.1 (*Non-Payment Event*) or Condition 8.2 (*Non-Payment Election*)) as the case may be.

Pursuant to Condition 8.2 (*Non-Payment Election*), ADIB, in its sole discretion, may elect that Mudaraba Profit will not be paid on any Mudaraba End Date to the Trustee (in its capacity as Rab-Al-Maal). In the event of a Non-Payment Election, ADIB may instruct the Trustee not to make payment of a Periodic Distribution Amount to Certificateholders on the corresponding Periodic Distribution Date.

Further, in each of the following events (each, a Non-Payment Event, as defined in Condition 8.1 (*Non-Payment Event*)), the Trustee shall not pay Periodic Distribution Amounts to the Certificateholders:

(i) the Mudaraba Profit payable by ADIB (as Mudareb) under the Mudaraba Agreement, when aggregated with any distributions or amounts payable by ADIB (whether as Mudareb or otherwise) on any other obligations ranking senior to or *pari passu* with the payment obligations under the Mudaraba Agreement and having the same dates in respect of payment of such profit amounts as the dates for payment of profit under the Certificates, exceeds, on the relevant date for payment of Mudaraba Profit or Final Mudaraba Profit, ADIB's Distributable Profits;

(ii) ADIB (whether as Mudareb or otherwise) is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), in breach of the Applicable Regulatory Capital Requirements (including any capital buffers imposed on ADIB by the Financial Regulator) or payment of the relevant Mudaraba Profit or Final Mudaraba Profit (as the case may be) to the Trustee would cause it to be in breach thereof; or

(iii) the Financial Regulator requires (a) ADIB not to pay the relevant Mudaraba Profit or Final Mudaraba Profit (as the case may be) to the Trustee on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or (b) the Trustee not to pay the relevant Periodic Distribution Amount on that Periodic Distribution Date; or

(iv) ADIB is, on that Mudaraba Profit Distribution Date, Mudaraba End Date or Periodic Distribution Date (as the case may be), not Solvent or would no longer be Solvent if the relevant Mudaraba Profit or Final Mudaraba Profit (as the case may be) was paid).

In the event of a Non-Payment Event or a Non-Payment Election, certain restrictions on declaration of dividends by ADIB will be made in accordance with Condition 8.4 (*Dividend Restriction*). However, the Certificateholders shall have no claim in respect of any Periodic Distribution Amount not paid as a result of either a Non-Payment Election or a Non-Payment Event and the consequential non-payment of any Periodic Distribution Amount in such a circumstance shall not constitute an Event of Default. ADIB shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise).

If such a situation occurs, the Certificateholders will not receive Periodic Distribution Amounts on their investment in the Certificates and neither the Trustee nor the Certificateholders shall have any claim in respect thereof.

Profit Risk

Due to section (i) of the Non-Payment Events definition in Condition 8 (*Periodic Distribution Restrictions*), if ADIB fails to have available sufficient Distributable Profits, payment of Periodic Distribution Amounts will be prohibited, as more particularly set out in Condition 8 (*Periodic Distribution Restrictions*).

Perpetual Securities

The Certificates are perpetual securities which have no scheduled repayment date. Certificateholders have no ability to require the Trustee to redeem their Certificates unless a Dissolution Event occurs. The Dissolution Events and Certificateholders' rights following a Dissolution Events are set out in Condition 11 (*Dissolution Events and Winding-up*). The Trustee has the option to redeem the Certificates in certain circumstances as more particularly described in Condition 10 (*Redemption and Variation*).

This means that the Certificateholders have no ability to cash in their investment, except:

(i) if the Trustee exercises its rights to redeem the Certificates in accordance with Condition 10 (*Redemption and Variation*);

(ii) if so directed by an Extraordinary Resolution of the Certificateholders following a Dissolution Event; or

(iii) by selling their Certificates.

There can be no assurance that Certificateholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Certificates.

The Certificates will cease to accrue profit on the due date for redemption (if any)

Investors are advised that each Certificate will cease to accrue profit from the due date for redemption. Consequently, should payments owing to Certificateholders on the due date for redemption (if any) be received by them after the due date for any reason, no additional profit payment, late payment amount or other equivalent amount will be payable in respect of such delay. See Condition 7.3 (*Cessation of Accrual*).

Basel III Reforms – Future UAE legislation on loss absorbency at the point of non-viability may have adverse effects for Certificateholders

The Basel III reforms provide that Tier 1 bank capital instruments which do not contain any contractual terms providing for, at the option of the relevant authority, the writing off of the principal amount of such instruments or the conversion of such instruments into ordinary shares upon the occurrence of a Non-Viability Event (as defined below), will, subject to implementation of the Basel III reforms and to applicable transitional provisions, cease to be eligible to count in full as regulatory capital from 1 January 2013 unless, among other things, the jurisdiction of the relevant bank has in place laws that (i) require such instruments to be written down upon the occurrence of a Non-Viability Event, or (ii) otherwise require such instruments fully to absorb losses before tax payers are exposed to loss.

As at the date of this Prospectus, the UAE has not implemented the Basel III reforms. Although it is expected that the Central Bank will issue specific guidelines regarding Basel III prior to the end of 2012, it is not possible to predict the timing or substance of the legislative and rulemaking process. In addition, as at the date of this Prospectus, the UAE has not implemented a law that would require loss absorbency for Tier 1 bank capital instruments and no assurance can be given that the UAE will implement such a law by 1 January 2013 if the UAE implements the Basel III Reforms. If the Central Bank informs ADIB that the Certificates no longer count as Additional Tier 1 capital, pursuant to Section 10.1(d) of the Conditions, a redemption may occur without the consent of the Certificateholders at any time after the applicable notice period to the Certificateholders. In such circumstances, an investor may not be able to reinvest the redemption proceeds in a comparable security with a similar rate of return. Accordingly, the operation of any such future legislation may have an adverse effect on the position of Certificateholders. To the extent that the UAE introduces a statutory resolution regime to implement loss absorbency at the point of non-viability, either through the writing off of the princpal amount of Tier 1 bank capital instruments instruments or the conversion of such instruments into ordinary shares, it is unclear how such a Non-Viability Event may be interpreted within the UAE. See "*The UAE Banking Sector and Regulations – Capital Adequacy – UAE*".

As used herein, "**Non-Viability Event**" means the earlier of (a) a decision that a write-off, without which the relevant bank would become non-viable, is necessary; and (b) the decision to make a public sector injection of capital, without which the relevant bank would become non-viable, in each case as determined by the relevant authority. This definition is for illustrative purposes only and may not necessarily reflect the meaning ascribed to the term "Non-Viability Event" (or any term equivalent thereto) pursuant to any law or regulation implementing the Basel III reforms.

Variation upon the occurrence of a Capital Event or a Tax Event

Upon the occurrence and continuation of a Capital Event or a Tax Event, the Trustee may (only upon the instructions of ADIB (acting in its sole discretion)), subject as provided in Condition 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (*Redemption or Variation for Capital Event*) (as the case may be) and without the need for any consent of the Certificateholders, vary the terms of the Certificates such that they become, or remain, (as appropriate) Qualifying Tier 1 Instruments (as defined in Condition 1 (*Interpretation*)).

A Capital Event will arise if ADIB is notified by the Financial Regulator that the Certificates will cease or have ceased to qualify for inclusion in full in the consolidated Tier 1 Capital of ADIB. A Tax Event will arise if ADIB or the Trustee (as the case may be) would, as a result of a Tax Law Change (as defined in the Conditions), in making any payments under the Mudaraba Agreement or on the Certificates (as the case may be) on the next due date for such payment, be required to pay Additional Amounts (and such requirement cannot be avoided by ADIB or the Trustee (as the case may be) taking reasonable measures available to it). Each of Tax Event and Capital Event are more particularly described in Condition 10.1 (*Redemption and variation*).

The tax and stamp duty consequences of holding the Certificates following variation as contemplated in Condition 10.1 (*Redemption and variation*) could be different for certain Certificateholders from the tax and stamp duty consequences for them of holding the Certificates prior to such variation and neither the Issuer nor ADIB shall be responsible to any Certificateholder for any such consequences in connection therewith. Further, while the Conditions stipulate that the variation (as contemplated by the Conditions) must not be materially less favourable to the Certificateholders, no assurance can be given as to whether any of these changes will negatively affect any particular Certificateholder.

The Certificates are limited recourse obligations

The Certificates are not debt obligations of the Trustee. Instead, the Certificates represent an undivided ownership interest solely in the Trust Assets. Recourse to the Trustee in respect the Certificates is limited to the Trust Assets and the proceeds of such Trust Assets are the sole source of payments on the Certificates. Upon notice to the Trustee of a Dissolution Request in accordance with the terms of Condition 11.1 (*Dissolution Events*), the sole rights of each of the Trustee and/or the Delegate (acting on behalf of the Certificateholders), will be (subject to Condition 11.3 (*Winding-up, dissolution or liquidation*)) against ADIB to perform its obligations under the Transaction Documents to which it is a party. Certificateholders will have no recourse to any assets of the Trustee, the Delegate or ADIB in respect of any shortfall in the expected amounts due on the Certificates. ADIB is obliged to make certain payments under the Transaction Documents to which it is a party directly to the Trustee, and the Trustee and/or the Delegate will have direct recourse against ADIB to recover such payments due to the Trustee pursuant to the Transaction Documents to which it is a party. In the absence of default by the Trustee and/or the Delegate, investors have no direct recourse to ADIB and there is no assurance that the net proceeds of any enforcement action in accordance with Condition 11 (*Dissolution Events and Winding-up*) will be sufficient to make all payments due in respect of the Certificates.

After enforcing the Trust Assets and distributing the net proceeds of such Trust Assets in accordance with Clause 17 (*Application of Moneys*) of the Declaration of Trust, the obligations of the Trustee and/or the Delegate in respect of the Certificates shall be satisfied and neither the Trustee nor the Delegate nor any Certificateholder may take any further steps against the Trustee or ADIB to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets as contemplated in the Transaction Documents. The sole right of the Trustee, the Delegate and the Certificateholders against ADIB shall be (in accordance with Condition 11.3 (*Winding-up, dissolution or liquidation*)), to enforce the obligation of ADIB to perform its obligations under the Transaction Documents to which it is a party.

Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. The Certificates generally would have a more limited secondary market liquidity and be subject to greater price volatility than conventional debt securities as they are perpetual securities (see "– *Risk Relating to the Certificates – Perpetual Securities*), are subordinated (see "– *Risks Relating to the Certificates – The Certificates are subordinated and unsecured obligations*) and payments of Periodic Distribution Amounts may be restricted in certain circumstances (see, "– *Risks Relating to the Certificates – Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative*). Furthermore, ADIB is currently in the process of evaluating the feasibility, as part of its remuneration practice, of establishing an Employee Capital Participation Scheme ("**ECPS**"). The ECPS, along with certain of ADIB's principal shareholders, may participate in the offering of the Certificates. The secondary market liquidity of the Certificates may be adversely affected if, and to the extent that, such person(s) intend to adopt a buy and hold strategy in respect of the Certificates.

Application has been made to the UKLA for the Certificates to be admitted to the official list of the UKLA and to the London Stock Exchange for such Certificates to be admitted to trading on the London Stock Exchange's Market. However, there can be no assurance that any such listing will occur or will enhance the liquidity of the Certificates.

Illiquidity may have an adverse effect on the market value of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates.

The Certificates may be subject to early redemption; redemptions conditional

Upon the occurrence of a Tax Event or a Capital Event, the Trustee (but only upon the instructions of ADIB (acting in its sole discretion)) may, at any time, having given not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable) redeem in accordance with the Conditions, all, but not some only, of the Certificates together with any accrued but unpaid Periodic Distribution Amounts (as more particularly described in Condition 10.1(c) (*Redemption or Variation due to Taxation*) in relation to a Tax Event, and Condition 10.1(d) (*Redemption or Variation for Capital Event*) in relation to a Capital Event).

Any redemption of the Certificates is subject to the requirements in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), including obtaining the prior written consent of the Financial Regulator There can be no guarantee that the consent of the Financial Regulator will be received on time or at all.

There is no assurance that the Certificateholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Certificates. During any period when the Trustee may elect to redeem the Certificates, the market value of the Certificates generally will not rise substantially above the Tax Redemption Amount or the Capital Event Amount (as applicable) payable. Potential investors should consider re-investment risk in light of other investments available at that time.

Investment in the Mudaraba Assets

Pursuant to the Mudaraba Agreement between ADIB (as Mudareb) and the Trustee (as Rab-al-Maal), which constitutes a Mudaraba, the proceeds of the issuance of the Certificates will be applied as capital of the Mudaraba (the "**Mudaraba Capital**"). The Mudaraba Capital will be invested by ADIB in its general business and the assets in which the Mudaraba Capital is invested will constitute the assets of the Mudaraba (the "**Mudaraba Assets**") with a view to earning profit therefrom, which will in turn be applied towards payments due to Certificateholders in respect of the Certificates.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Mudaraba Assets. The Mudaraba Assets shall be selected by ADIB and the Certificateholders shall have no ability to influence such selection. ADIB shall be granted the express entitlement to commingle its own assets with the Mudaraba Assets and as a result, it may not be possible to identify the Mudaraba Assets separately from the assets of ADIB.

In the event that any of the risks relating to the business of ADIB mentioned above (see "*Risk Factors – Risks relating to ADIB*") materialise or otherwise impact ADIB's business, the value of and profit earned from the investment in such Mudaraba Assets may drop which may, in turn, have a material adverse effect on the ADIB's ability to fulfil its payment obligations under the Mudaraba Agreement and consequently, the Trustee's ability to make payments in respect of the Certificates.

Risks relating to enforcement

UAE Bankruptcy Law

In the event of ADIB's insolvency, UAE bankruptcy laws may adversely affect ADIB's ability to perform its obligations under the Mudaraba Agreement and, consequently, the Trustee's ability to make payments to Certificateholders. There is little precedent to predict how a claim on behalf of Certificateholders against ADIB would be resolved.

Change of law

The structure of the issue of the Certificates is based on English law, UAE law and administrative practices in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law, UAE law or administrative practices in either jurisdiction after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Trustee to make payments under the Certificates or of ADIB to comply with its obligations under the Transaction Documents.

Enforcement risk

Ultimately the payments under the Certificates are dependent upon ADIB making payments to the Trustee in the manner contemplated under the Transaction Documents. If ADIB fails to do so, it may be necessary to bring an action against ADIB to enforce its obligations which could be both time consuming and costly.

ADIB has irrevocably agreed that certain of the Transaction Documents will be governed by English law and, where this is the case, that any dispute arising from such Transaction Documents will, unless the option to litigate is exercised, be referred to arbitration in London under the LCIA Arbitration Rules. The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**") entered into force in the UAE on 19 November 2006.

Under the relevant Transaction Documents, any dispute may also be referred to the courts in England who shall have exclusive jurisdiction to settle any dispute arising from such Transaction Documents. Where an English judgment has been obtained, there is no assurance that ADIB has or would at the relevant time have assets in the United Kingdom against which such a judgment could be enforced. ADIB is a UAE company and is incorporated in and has its operations and the majority of its assets located in the UAE. Under current Abu Dhabi law, the courts are unlikely to enforce an English judgment without re-examining the merits of the claim and may not observe the choice by the parties of English law as the governing law of the Transaction Documents or the Certificates. In addition, even if English law is accepted as the governing law, this will only be applied to the extent that it is compatible with the laws of Abu Dhabi and the UAE, and public policy. This may mean that the UAE courts may seek to interpret English law governed documents as if governed by UAE law and there can therefore be no certainty that in those circumstances the Abu Dhabi courts would give effect to such documents in the same manner as the parties may intend.

However, in the event that enforcement is sought for a judgment obtained pursuant to an English law governed document or an action is brought under an English law governed document in the UAE and the UAE court does not agree to enforce the judgment and/or give effect to the choice of law, it is likely that a UAE court would review the transaction as a whole and, where there is scope for interpretative construction, seek to uphold the intention of the parties to treat the arrangements between the parties as a financing transaction on the terms agreed (subject to any third party interests that may exist).

As the UAE judicial system is based on a civil code, judicial precedents in the UAE have no binding effect on subsequent decisions. In addition, there is no formal system of reporting court decisions in the UAE. These factors create greater judicial uncertainty.

Claims for specific enforcement

In the event that ADIB fails to perform its obligations under any Transaction Document, the potential remedies available to the Trustee and the Delegate include obtaining an order for specific enforcement of ADIB's obligations or a claim for damages. There is no assurance that a court will provide an order for specific enforcement which is a discretionary matter.

The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors including an obligation on the Trustee and the Delegate to mitigate any loss arising as a result of the breach. No assurance is provided on the level of damages which a court may award in the event of a failure by ADIB to perform its obligations set out in the Transaction Documents.

Additional risk factors

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) Certificates are legal investments for it; (ii) Certificates can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk-based capital or similar rules.

Certificateholders must rely on Euroclear and Clearstream, Luxembourg procedures

The Certificates will be represented on issue by a Global Certificate that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the ownership interests in the Global Certificate.

While the Certificates are represented by the Global Certificate, investors will be able to trade their ownership interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates are represented by the Global Certificate, the Trustee will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of an ownership interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, ownership interests in the Global Certificate.

Holders of ownership interests in the Global Certificate will not have a direct right to vote in respect of the Certificates so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

No assurance can be given as to Shari'a rules

The Executive Committee of the *Fatwa & Shari'a* Supervisory Board of ADIB, the HSBC Amanah Central *Shariah* Committee, the Morgan Stanley *Shari'a* Supervisory Board and the *Shari'a* Supervisory Committee of Standard Chartered Bank have confirmed that the Transaction Documents are, in their view, *Shari'a* compliant. However, there can be no assurance that the Transaction Documents or the issue and trading of the Certificates will be deemed to be *Shari'a* compliant by any other *Shari'a* board or *Shari'a* scholars. None of the Trustee, ADIB, the Delegate or the Managers makes any representation as to the *Shari'a* compliance of the Certificates and/or any trading thereof and potential investors are reminded that, as with any *Shari'a* views, differences in opinion are possible.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties would be, if in dispute, the subject of arbitration in London under the LCIA Rules. ADIB has also agreed under certain of the Transaction Documents to submit to the jurisdiction of the courts of England, at the option of the Trustee. In such circumstances, the arbitrator or judge, as the case may be, will first apply the relevant law of the relevant Transaction Document rather than *Shari'a* principles in determining the obligation of the parties.

Certificates with a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade

As the Certificates have a denomination consisting of the minimum Authorised Denomination (as defined in the Conditions and further described in Condition 2.1 (*Form and Denomination*)) plus a higher integral multiple of another smaller amount, it is possible that the Certificates may be traded in amounts in excess of such minimum Authorised Denomination that are not integral multiples of such minimum Authorised Denomination. In such a case a Certificateholder who, as a result of trading such amounts, holds a face amount of less than the minimum Authorised Denomination would need to purchase an additional amount of Certificates such that it holds an amount equal to at least the minimum Authorised Denomination to be able to trade such Certificates. Certificateholders should be aware that Certificates which have a denomination that is not an integral multiple of the minimum Authorised Denomination may be illiquid and difficult to trade.

If a Certificateholder holds an amount which is less than the minimum Authorised Denomination in his account with the relevant clearing system at the relevant time, such Certificateholder may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to at least an Authorised Denomination in order to be eligible to receive a Definitive Certificate.

If Definitive Certificates are issued, holders should be aware that Definitive Certificates which have a denomination that is not an integral multiple of the minimum Authorised Denomination may be illiquid and difficult to trade.

Consents are required in relation to the variation of Transaction Documents and other matters

The Conditions contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally and for obtaining written resolutions on matters relating to the Certificates from Certificateholders without calling a meeting. A written resolution signed by or on behalf of the holders of not less than 75 percent in principal amount of the Certificates who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Declaration of Trust and whose Certificates are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Certificates are held in global form in the clearing systems, the Issuer will be entitled to rely upon:

(i) where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by Trustee, the Delegate or ADIB or given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 percent in nominal amount of the Certificates for the time being outstanding; and

(ii) where electronic consent is not being sought, consent or instructions given in writing directly to the Trustee, the Delegate and/or ADIB by accountholders in the clearing systems with entitlements to such global note or certificate or, where the accountholders hold such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held (directly or via one or more intermediaries), provided that the Issuer has obtained commercially reasonable evidence to ascertain the validity of such holding and taken reasonable steps to ensure such holding does not alter following the giving of such consent/instruction and prior to effecting such resolution.

A written resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Certificateholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Certificateholders satisfying the special quorum in accordance with the provisions of the Declaration of Trust, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. These provisions permit defined majorities to bind all Certificateholders including Certificateholders who did not attend and vote at the relevant meeting and Certificateholders who voted in a manner contrary to the majority.

The Conditions also provide that the Delegate may, without the consent of Certificateholders, agree to the substitution of another company as obligor under the Certificates in place of the Issuer, in the circumstances described in Condition 11.2 (*Trustee Events*).

The Declaration of Trust also contains provisions permitting the Delegate from time to time and at any time without any consent or sanction of the Certificateholders to make any modification to the Declaration of Trust if, in the opinion of the Delegate, such modification: (a) is of a formal, minor or technical nature; or (b) is made to correct a manifest or proven error; or (c) is not materially prejudicial to the interests of the Certificateholders and is other than in respect of a Reserved Matter (as defined in the Declaration of Trust). Unless the Delegate otherwise agrees, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

Exchange rate risks and exchange controls

The Trustee will make all payments on the Certificates in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. Neither ADIB nor the Trustee has any control over the factors that generally affect these risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and volatility between such currencies or with other currencies may be expected in the future. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease: (i) the Investor's Currency-equivalent yield on the Certificates; (ii) the Investor's Currency equivalent value of the principal payable on the Certificates; and (iii) the Investor's Currency equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of any payments including of any Periodic Distribution Amount on a Certificate. As a result, investors may receive less amounts under the Certificates than expected, or no such amounts.

Emerging markets

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Risk factors relating to taxation

Payments made on or with respect to the Certificates may be subject to U.S. withholding tax

The Issuer and other non-U.S. financial institutions through which payments on the Certificates are made may, starting no earlier than 2017, be required to withhold U.S. tax at a rate of 30 percent on all, or a portion of, payments made in respect of (i) any Certificates issued or materially modified on or after the date that is six months after the date on which final regulations that define "foreign passthru payments" are published and (ii) any Certificates which are treated as equity for U.S. federal tax purposes, whenever issued pursuant to the foreign account provisions ("**FATCA**") of the Hiring Incentives to Restore Employment Act of 2010. This withholding tax may be triggered if (i) the Issuer is a foreign financial institution ("**FFI**") (as defined in FATCA) which enters into and complies with an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide certain information on its account holders (making the Issuer a "**Participating FFI**"), (ii) the Issuer has a positive "**passthru percentage**" (as defined in FATCA), and (iii) (a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is subject to withholding under FATCA, or (b) any FFI through which payment on such Certificates is made is not a Participating FFI or otherwise exempt from FATCA withholding. The application of FATCA to payments of profit, Mudaraba Capital or other amounts paid with respect to the Certificates is not clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from profit, principal or other payments on the Certificates as a result of FATCA, none of the Issuer, any paying agent or any other person would, pursuant to the Conditions be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less profit or Mudaraba Capital than expected.

Taxation risks on payments

Payments made by ADIB to the Trustee under the Transaction Documents or by the Trustee in respect of the Certificates could become subject to taxation. The Mudaraba Agreement and the Agency Agreement each require ADIB to pay additional amounts in the event that any withholding or deduction is required by UAE law to be made in respect of payments made by it to the Trustee under those documents. Condition 12 (*Taxation*) provides that the Trustee is required to pay additional amounts in respect of any such withholdings or deductions imposed by the Cayman Islands in certain circumstances. In the event that the Trustee fails to gross-up for any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, ADIB has, pursuant to the Declaration of Trust, unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Trustee (for the benefit of the Certificateholders) an amount equal to the liabilities of the Trustee in respect of any and all additional amounts required to be paid in respect of the Certificates pursuant to Condition 12 (*Taxation*) in respect of any withholding or deduction in respect of any tax as set out in that Condition.

EU Savings Directive

Under EC Council Directive 2003/48/EC ("**Directive**") on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of certain payments paid by a person within its jurisdiction to an individual resident in that other Member State or to certain types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non- EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

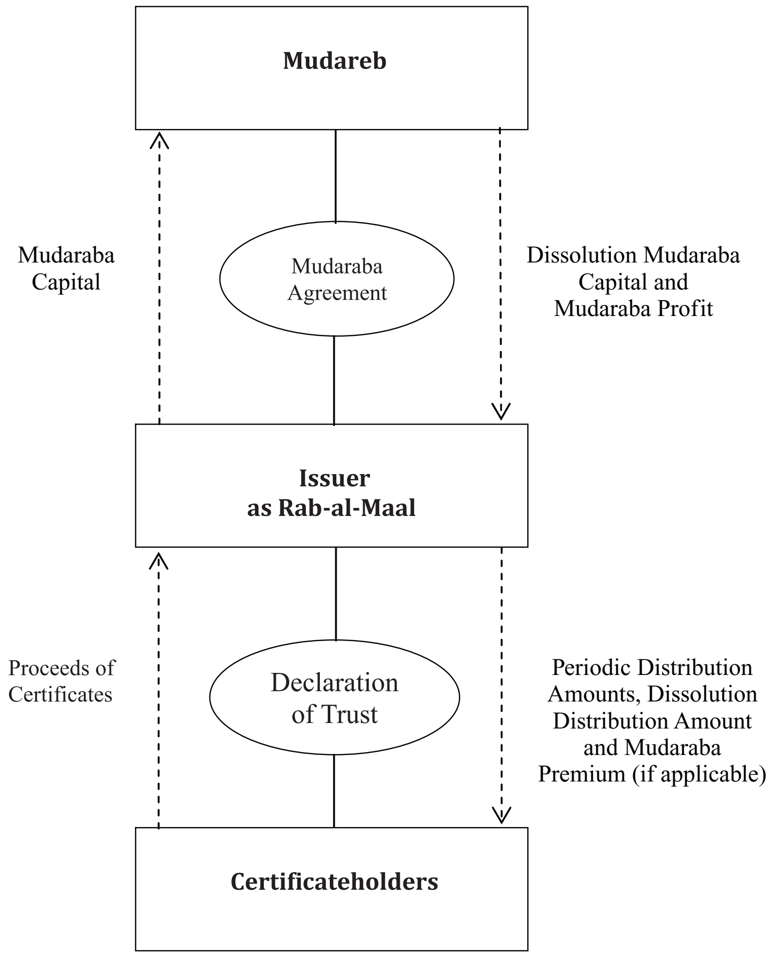
The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Trustee nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to the Certificates as a result of the imposition of such withholding tax. The Trustee is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows relating to the Certificates. This does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus. Potential investors are referred to the Conditions and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this Prospectus for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below. Potential investors should read this entire Prospectus carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".

Structure Diagram



Principal Cash Flows

Payments by the Certificateholders and the Issuer

On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates to the Issuer. Pursuant to the Declaration of Trust, the Issuer, in its capacity as the Trustee, will declare a trust, in favour of the Certificateholders, over the proceeds of the issuance of the Certificates, any and all of its rights, title benefits and interests under the Transaction Documents and any and all amounts standing to the credit of the Transaction Account from time to time. The Trustee will apply the proceeds of the issuance of the Certificates towards the capital of the Mudaraba (the "**Mudaraba Capital**") pursuant to the Mudaraba Agreement. ADIB (as Mudareb) will invest the Mudaraba Capital in the business activities of ADIB in accordance with an agreed Investment Plan (as defined in the Mudaraba Agreement) prepared by the Mudareb.

Periodic payments by the Trustee

Unless a Non-Payment Event or a Non-Payment Election has occurred, prior to each Periodic Distribution Date, the Mudareb shall distribute the profit generated by the Mudaraba to both the

Issuer and the Mudareb in accordance with an agreed percentage split (90 percent to the Issuer (as Rab-al-Maal) and 10 percent to the Mudareb). The Issuer shall apply its share of the profit (if any) generated by the Mudaraba on each Periodic Distribution Date to pay the Periodic Distribution Amount due to the Certificateholders on such date.

Payments of Mudaraba Profit (as defined in the Mudaraba Agreement) by ADIB (as Mudareb) are at the sole discretion of ADIB (as Mudareb) and may only be made in circumstances where ADIB will not be in breach of certain conditions as a result of making such payment. The Mudareb shall not have any obligation to make any subsequent payment in respect of such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise).

Under the terms of the Mudaraba Agreement, the Mudareb shall be expressly entitled to comingle its assets with the Mudaraba Assets.

Dissolution payments, redemption and variation by the Issuer and the Mudareb

The Certificates are perpetual securities in respect of which there is no fixed redemption date. Accordingly, the Mudaraba is a perpetual arrangement with no fixed end date.

Subject to certain conditions set out in Clause 7 of the Mudaraba Agreement, ADIB (as Mudareb) may at its option liquidate the Mudaraba in whole, but not in part, on the basis of an actual liquidation of the Mudaraba in the following circumstances:

(i) on the First Call Date or any Periodic Distribution Date after the First Call Date, by giving not less than 30 nor more than 60 days' prior notice to the Trustee; or

(ii) on any date on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 30 nor more than 60 days' prior notice to the Trustee:

    (a) upon the occurrence of a Tax Event; or

    (b) upon the occurrence of a Capital Event.

The Trustee (but only upon the instructions of ADIB (acting in its sole discretion)) shall, upon receipt of notice in accordance with paragraph (i) above redeem the Certificates, and upon receipt of notice in accordance with paragraph (ii) above redeem all of, and not only some of, the Certificates or vary the terms thereof, in each case by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders, all as more particularly described in the Conditions.

ADIB (as Mudareb) and the Trustee undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by ADIB to be varied upon the occurrence of a Tax Event or a Capital Event, to make such variations as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Tier 1 Instruments.

OVERVIEW OF THE OFFERING

The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This overview does not contain all of the information that an investor should consider before investing in the Certificates. Each investor should read the entire Prospectus carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".

Words and expressions defined in the Conditions shall have the same meanings in this overview.

Certificates:	U.S.$1,000,000,000 Additional Tier 1 Capital Certificates.
Trustee:	ADIB Capital Invest 1 Ltd., a special purpose company incorporated on 16 August 2012 under the laws of the Cayman Islands and formed and registered in the Cayman Islands with registered number 271123 with its registered office at MaplesFS Limited, PO Box 1093, Queensgate House, Grand Cayman, KY-1102, Cayman Islands.
Ownership of the Trustee:	The authorised share capital of the Trustee is U.S.$50,000 consisting of 50,000 ordinary shares of U.S.$1.00 each, 250 of which are fully-paid and issued. The Trustee's entire issued share capital is held on trust for chartiable purposes by MaplesFS Limited as share trustee under the terms of a declaration of trust.
Administration of the Trustee:	The affairs of the Trustee are managed by MaplesFS Limited, who has agreed to perform certain management functions and provide certain clerical, administrative and other services pursuant to a corporate services agreement dated 13 November 2012 between MaplesFS Limited and the Trustee (the "**Corporate Services Agreement**"). The Trustee Administrator's registered office is P.O.Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands.
Mudareb:	Abu Dhabi Islamic Bank PJSC.
Rab-al-Maal:	ADIB Capital Invest 1 Ltd.
Risk Factors:	Certain factors may affect the Trustee's ability to fulfil its obligations under the Certificates and ADIB's ability to fulfil its obligations under the Transaction Documents to which it is a party. In addition, certain factors are material for the purpose of assessing the market risks associated with the Certificates. These are set out under "*Risk Factors*".
Joint Lead Managers:	Abu Dhabi Islamic Bank PJSC, HSBC Bank plc, Morgan Stanley & Co. International plc, National Bank of Abu Dhabi P.J.S.C. and Standard Chartered Bank.
Co-Managers:	Barwa Bank P.Q.S.C. and Sharjah Islamic Bank P.J.S.C.
Delegate:	HSBC Corporate Trustee Company (UK) Limited. Pursuant to the Declaration of Trust, the Trustee shall delegate to the Delegate certain of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled to (and, in certain circumstances, shall, subject to being indemnified and/or secured and/or pre-funded to its satisfaction, be obliged to) take enforcement action in the name of the Trustee against the Mudareb and/or ADIB following a Dissolution Event.
Principal Paying Agent, Calculation Agent, Registrar and Transfer Agent:	HSBC Bank plc.

Summary of the transaction structure and Transaction Documents:	An overview of the structure of the transaction and the principal cashflows is set out under "*Structure Diagram and Cashflows*" and a description of the principal terms of certain of the Transaction Documents is set out under "*Summary of the Principal Transaction Documents*".
Issue Date:	19 November 2012.
Issue Price:	100 percent.
Periodic Distribution Dates:	16 April and 16 October every year, commencing on 16 April 2013.
Periodic Distributions:	Subject to Condition 8 (*Periodic Distribution Restrictions*), Periodic Distribution Amounts shall be payable on each Periodic Distribution Date up to and including the First Call Date at a rate of 6.375 percent per annum. If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Periodic Distribution Amounts shall be payable on each Periodic Distribution Date after the First Call Date (subject as aforesaid) at a fixed rate, to be reset on the First Call Date and every six years thereafter, equal to the Relevant Six Year Reset Rate plus a margin of 5.393 percent per annum. If ADIB makes a Non-Payment Election (as defined herein) or a Non-Payment Event occurs (as defined herein), the Trustee shall not pay the corresponding Periodic Distribution Amounts and neither ADIB nor the Trustee shall have any obligation to make any subsequent payment in respect of any unpaid Periodic Distribution Amount as more particularly described in Condition 8 (*Periodic Distribution Restrictions*).
Form of Certificates:	The Certificates will be issued in registered form as described in "*Global Certificate*". The Certificates will be represented on issue by ownership interests in a Global Certificate which will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Definitive Certificates evidencing holdings of Certificates will be issued in exchange for interests in the Global Certificate only in limited circumstances.
Clearance and Settlement:	Certificateholders must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing systems.
Denomination of the Certificates:	The Certificates will be issued in registered form in face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Status of the Certificates:	Each Certificate will represent an undivided ownership interest in the Trust Assets, will be a limited recourse obligation of the Trustee and will rank *pari passu* without any preference or priority with all other Certificates; see Condition 4.1 (*Status*). The payment obligations of ADIB under the Mudaraba Agreement or any other Transaction Document in respect of each Certificate will (a) constitute Additional Tier 1 Capital, (b) constitute direct, unsecured and subordinated obligations of ADIB, (c) be subordinated to the claim of the Senior Creditors (as defined in the Conditions), (d) rank *pari passu* with all other Pari Passu Obligations (as defined in the Conditions), which for the avoidance of doubt includes and shall continue to include ADIB's obligations

under the Existing Tier 1 Securities (as defined in the Conditions) and (e) rank in priority to all Junior Obligations (as defined in the Conditions); see Condition 4.2 (*Subordination*).

Trust Assets: The Trust Assets consist of:

(a) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets (as defined herein);

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by ADIB (acting in any capacity) pursuant to any of the Transaction Documents to which it is a party); and

(c) all monies standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing upon trust for the Certificateholders *pro rata* according to the face amount of Certificates held by each holder in accordance with the Declaration of Trust and the Conditions.

Redemption of Certificates: The Certificates are perpetual securities and accordingly do not have a fixed or final redemption date. The Certificates may be redeemed in whole but not in part, or the terms thereof may be varied by the Trustee (but only upon the instructions of ADIB (acting in its sole discretion)) only in accordance with the provisions of Condition 10 (*Redemption and Variation*).

Pursuant to Condition 10.1(b) (*Trustee's Call Option*), the Trustee shall (but only upon the instructions of ADIB (acting in its sole discretion)), on the First Call Date or on any Periodic Distribution Date thereafter, redeem all, but not some only, of the Certificates at the Trustee Call Amount.

In addition (on any date on or after the Issue Date, whether or not a Periodic Distribution Date), upon the occurrence of a Tax Event or a Capital Event, all but not some only, of the Certificates may be redeemed or the terms of the Certificates may be varied, in each case in accordance with Conditions 10.1(c) (*Redemption or Variation due to Taxation*) and 10.1(d) (*Redemption or Variation for Capital Event*). Any redemption is subject to the conditions described in Condition 10.1 (*Redemption and variation*).

Dissolution Events: Subject to Condition 11 (*Dissolution Events and Winding-up*), upon the occurrence of an ADIB Event or a Trustee Event, and upon the receipt of a Dissolution Request or being directed by an Extraordinary Resolution of the Certificateholders in accordance with Condition 11.1 (*Dissolution Events*), the Trustee and/or the Delegate shall, subject to Condition 11.3 (*Winding-up, dissolution or liquidation*), exercise take the actions referred to in Condition 11.3 (*Winding-up, dissolution or liquidation*).

Withholding Tax: Subject to Condition 9.2 (*Payments subject to Applicable Laws*) and Condition 12 (*Taxation*), all payments in respect of the Certificates shall be made without withholding or deduction for, or on account of, any Taxes (as defined in Condition 12 (*Taxation*)), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay Additional Amounts (as defined in the Conditions) so that the full amount which otherwise would have been due and payable under the Certificates is received by the parties entitled thereto.

	The Mudaraba Agreement provides that payments thereunder by ADIB (in its capacity as the Mudareb) shall be made without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the Taxes is required by law and, in such case, provide for the payment by ADIB of Additional Amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.
Trustee Covenants:	The Trustee has agreed to certain restrictive covenants as set out in Condition 6 (*Covenants*).
Ratings:	The Certificates will not be rated by any rating organisation upon their issue.
Certificateholder Meetings:	A summary of the provisions for convening meetings of the Certificateholders to consider matters relating to their interests as such is set out in Condition 17 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*).
Tax Considerations:	See "*Taxation*" for a description of certain tax considerations applicable to the Certificates.
Listing and Admission to Trading:	Application has been made to the UKLA for the Certificates to be admitted to the Official List and to the London Stock Exchange for such Certificates to be admitted to trading on the Market.
Transaction Documents:	The Declaration of Trust, the Agency Agreement and the Mudaraba Agreement are referred to herein as the "**Transaction Documents**".
Governing Law:	The Declaration of Trust, the Certificates, the Conditions, the Agency Agreement and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, English law. The Mudaraba Agreement will be governed by, and construed in accordance with, the laws of the Emirate of Abu Dhabi and to the extent applicable, the federal laws of the United Arab Emirates.
Waiver of Immunity:	ADIB has irrevocably and unconditionally waived any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consented to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever of any order, judgment or award made or given in connection with any Proceedings or Disputes. See Condition 20.7 (*Waiver of Immunity*).
Limited Recourse:	Proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as otherwise provided in Condition 4.4 (*Limited Recourse*), the Certificates do not represent an interest in any of the Trustee, the Delegate, ADIB, any of their agents, or any of their respective affiliates. Certificateholders will have no recourse to any assets of any of the Issuer, the Trustee (other than the Trust Assets), the Delegate or ADIB (to the extent that each of them fulfils all of its obligations under the Transaction Documents to which it is a party), the Agents or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets when the Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished. See Condition 4.4 (*Limited Recourse*) for further details.
Selling Restrictions:	There are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the United Kingdom, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Cayman Islands, the Kingdom of Saudi

	Arabia, the Kingdom of Bahrain, the State of Qatar, Hong Kong, Singapore and Malaysia. See "*Subscription and Sale*".
Use of Proceeds:	The proceeds of the issue of the Certificates will be paid by the Trustee (as Rab-al-Maal) to ADIB (as Mudareb) as Mudaraba Capital pursuant to the terms of the Mudaraba Agreement as described in "*Use of Proceeds*".

TERMS AND CONDITIONS OF THE ADDITIONAL TIER 1 CAPITAL CERTIFICATES

The following is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Certificate in definitive form (if issued) and will, save as provided in "Global Certificate", apply to the Global Certificate:

Each of the U.S.$1,000,000,000 Additional Tier 1 Capital Certificates, and any further certificates issued pursuant to Condition 16 (*Further Issues*), (the "**Certificates**") is issued by ADIB Capital Invest 1 Ltd. (in its capacity as issuer (the "**Issuer**") and in its capacity as trustee (the "**Trustee**", which expression shall where the context allows include the Delegate (as defined below) acting pursuant to the powers delegated to it by the Trustee pursuant to the Declaration of Trust (as defined below)) and represents an undivided ownership interest in the Trust Assets (as defined in Condition 5 (*The Trust*)) held on trust (the "**Trust**") for the benefit of the Certificateholders (as defined below) of such Certificates pursuant to a declaration of trust (the "**Declaration of Trust**") dated 19 November 2012 (the "**Issue Date**") made between the Trustee, the Issuer, Abu Dhabi Islamic Bank PJSC ("**ADIB**") and HSBC Corporate Trustee Company (UK) Limited as the delegate of the Trustee (the "**Delegate**").

Payments relating to the Certificates will be made pursuant to an agency agreement dated the Issue Date (the "**Agency Agreement**") made between the Issuer, the Trustee, ADIB, the Delegate, HSBC Bank plc as principal paying agent (in such capacity, the "**Principal Paying Agent**" and together with any further or other paying agents appointed from time to time in respect of the Certificates, the "**Paying Agent**"), HSBC Bank plc as registrar (in such capacity, the "**Registrar**") and as transfer agent (in such capacity, the "**Transfer Agent**" and, together with the Registrar and any further or other transfer agents appointed from time to time in respect of the Certificates, the "**Transfer Agents**") and HSBC Bank plc as calculation agent (the "**Calculation Agent**", which expression includes the Calculation Agent for the time being). The Paying Agents, the Calculation Agent and the Transfer Agents are together referred to in these terms and conditions (the "**Conditions**") as the Agents. References to the "**Agents**" or any of them shall include their successors.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as defined in Condition 1 (*Interpretation*)). Copies of the Transaction Documents are available for inspection during normal business hours at the specified offices of the Principal Paying Agent. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee: (i) to apply the sums paid by it in respect of its Certificate(s) to the Mudareb (as defined in Condition 5 (*The Trust*)) in accordance with the Mudaraba Agreement (as defined in Condition 5 (*The Trust*)); (ii) to act as Rab-al Maal pursuant to the Mudaraba Agreement on its behalf (which authorisation and direction shall also apply to its successors in title and any Substituted Trustee (as defined below)); and (iii) to enter into each Transaction Document to which it is a party, subject to the provisions of the Declaration of Trust and these Conditions.

1 Interpretation

Words and expressions defined in the Declaration of Trust and the Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between any such document and these Conditions, these Conditions will prevail. In addition, in these Conditions the following expressions have the following meanings:

"**ADIB Event**" means:

(i) **Non-payment**: ADIB (acting in any capacity) fails to pay an amount in the nature of profit due and payable by it pursuant to any Transaction Document (otherwise than in accordance with the Conditions or Transaction Documents) to which it is a party and the failure continues for a period of fourteen days, or ADIB fails to pay an amount in the nature of principal or premium payable by it pursuant to any Transaction Document to which it is a party and the failure continues for a period of seven days (save in each case where such failure occurs solely as a result of ADIB making a Non-Payment Election or the occurrence of a Non-Payment Event); or

(ii) **Insolvency**: a final determination is made by a court or other official body that ADIB is insolvent or bankrupt or unable to pay its debts; or

(iii) **Winding-up**: an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of ADIB or ADIB shall apply or petition for a winding-up or administration order in respect of itself or cease, or through an official action of its board of directors threaten to cease, to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders;

(iv) **Analogous Event**: any event occurs which under the laws of the United Arab Emirates has an analogous effect to any of the events referred to in paragraph (ii) or (iii) above.

References in subparagraph (ii) (*Insolvency*) above to ''debts'' shall be deemed to include any debt or other financing arrangement issued (or intended to be issued) in compliance with the principles of *Shari'a* and which is treated as debt for the purposes of applicable law, in each case whether entered into directly or indirectly by ADIB;

''**Additional Amounts**'' has the meaning given to it in Condition 12 (*Taxation*);

''**Additional Tier 1 Capital**'' means, at any time, any or all items constituting additional tier 1 capital within the meaning of the Basel III Documents, as implemented and amended pursuant to BIS Regulations applicable at such time;

''**Applicable Regulatory Capital Requirements**'' means any requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to ADIB, including transitional rules and waivers granted in respect of the foregoing;

''**Assets**'' means the non-consolidated gross assets of ADIB as shown (if required by any relevant party) in the latest audited balance sheet of ADIB, but adjusted for subsequent events in such manner as the Directors, the Auditors or (if a bankruptcy trustee (or any equivalent insolvency practitioner) has been appointed in respect of ADIB) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine;

''**Auditors**'' means, at any time, the statutory independent auditors to ADIB at the relevant time or such other auditor as may be appointed for the purpose of the Transaction Documents;

''**Authorised Denomination**'' has the meaning given to that term in Condition 2.1 (*Form and Denomination*);

''**Basel III Documents**'' means the Basel Committee on Banking Supervision document ''A global regulatory framework for more resilient banks and banking systems'' released by the Basel Committee on Banking Supervision on 16 December 2010 and revised in June 2011 and the Annex contained in its document ''Basel Committee issues final elements of the reforms to raise the quality of regulatory capital'' on 13 January 2011;

''**BIS Regulations**'' means the capital adequacy standards and guidelines applicable from time to time and promulgated by the Basel Committee on Banking Supervision;

''**Business Day**'' means a day, other than a Friday, Saturday, Sunday or public holiday, on which registered banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Abu Dhabi, New York City and London;

''**Capital Event**'' is deemed to have occurred if ADIB is notified in writing by the Financial Regulator to the effect that the notional amount (or the amount that qualifies as regulatory capital, if some amount of the Certificates are held by ADIB or whose purchase is funded by ADIB) of the Certificates would cease to qualify for inclusion in full in the consolidated Tier 1 Capital of ADIB (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital);

''**Capital Event Amount**'' in relation to a Certificate means its outstanding face amount together with any Outstanding Payments;

''**Capital Regulations**'' means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect in the United Arab Emirates, including those of the Financial Regulator;

''**Central Bank**'' means the Central Bank of the United Arab Emirates or any successor thereto;

"**Certificateholder**" means a person in whose name a Certificate is registered in the Register (or in the case of joint Certificateholders, the first named thereof) and the expressions "**holder**" and "**holder of Certificates**" and related expressions shall (where appropriate) be construed accordingly;

"**Common Equity Tier 1**" means, at any time, any or all items constituting common equity tier 1 capital within the meaning of the Basel III Documents, as implemented and amended pursuant to BIS Regulations applicable at such time;

"**Day-count Fraction**" means the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months and, in the case of an incomplete month, the number of days elapsed of the Periodic Distribution Period in which the relevant period falls (including the first such day but excluding the last);

"**Determination Date**" means, in respect of a Reset Period, the third Business Day prior to the commencement of such Reset Period;

"**Directors**" means the executive and non-executive directors of ADIB who make up its board of directors;

"**Dispute**" has the meaning given to it in Condition 20.2 (*Arbitration*);

"**Dissolution Distribution Amount**" means the Trustee Call Amount, the Capital Event Amount and the Tax Redemption Amount or such other amount in the nature of a redemption amount as may be determined in accordance with these Conditions and, for the avoidance of doubt, such amount shall be equal to the aggregate of the Mudaraba Capital, any applicable and generated Mudaraba Profit and any applicable Mudaraba Premium;

"**Dissolution Event**" means an ADIB Event and/or a Trustee Event;

"**Dissolution Notice**" has the meaning given to it in Condition 11.1 (*Dissolution Events*);

"**Dissolution Request**" has the meaning given to it in Condition 11.1 (*Dissolution Events*);

"**Distributable Profits**" means the amount of ADIB's non-consolidated retained earnings and reserves (to the extent not restricted from distribution by applicable law) after the transfer of any amounts to non-distributable reserves, all as set out in the most recent non-consolidated financial statements of ADIB;

"**Existing Tier 1 Securities**" means the AED 2,000,000,000 perpetual tier 1 mudaraba certificates issued by ADIB on 16 April 2009 pursuant to a mudaraba agreement dated 16 April 2009;

"**Extraordinary Resolution**" has the meaning given to it in the Declaration of Trust;

"**Final Mudaraba Profit**" has the meaning given to it in the Mudaraba Agreement;

"**Financial Regulator**" means the Central Bank or any successor entity having primary bank supervisory authority with respect to ADIB in the United Arab Emirates;

"**First Call Date**" means 16 October 2018;

"**First Mudaraba Profit Distribution Date**" means 16 April 2013;

"**General Pool**" has the meaning given to it in the Mudaraba Agreement;

"**Initial Period**" means the period from (and including) the Issue Date to (but excluding) the First Call Date;

"**Initial Periodic Distribution Rate**" has the meaning given to it in Condition 7.4(a) (*Periodic Distribution Rate*);

"**Junior Obligations**" means all claims of the holders of Ordinary Shares and all payment obligations of ADIB in respect of its other Common Equity Tier 1 capital;

"**LCIA**" means the London Court of International Arbitration;

"**Liabilities**" means the non-consolidated gross liabilities of ADIB as shown (if required by any relevant party) in the latest audited balance sheet of ADIB, but adjusted for contingent liabilities and for subsequent events in such manner as the Directors, the Auditors or (if a bankruptcy trustee (or any equivalent insolvency practitioner) has been appointed in respect of ADIB) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine;

"**Margin**" means 5.393 per cent. per annum;

"**Mudaraba**" has the meaning given to it in Condition 5 (*The Trust*);

"**Mudaraba Agreement**" has the meaning given to it in Condition 5 (*The Trust*);

"**Mudaraba Capital**" has the meaning given to it in Condition 5 (*The Trust*);

"**Mudaraba End Date**" means the date on which the Mudaraba ends, being the date on which the Certificates are redeemed in whole but not in part in accordance with the Conditions;

"**Mudaraba Premium**" means, on the date of actual liquidation of the Mudaraba pursuant to Clause 7.3.3 of the Mudaraba Agreement, an amount equal to one per cent. of the Mudaraba Capital on such date;

"**Mudaraba Profit**" has the meaning given to that term in the Mudaraba Agreement;

"**Mudaraba Profit Distribution Date**" means 16 April and 16 October in each year, starting on the First Mudaraba Profit Distribution Date;

"**Mudaraba Reserve**" has the meaning given to it in the Mudaraba Agreement;

"**Mudareb**" has the meaning given to it in Condition 5 (*The Trust*);

"**Non-Payment Election**" has the meaning given to it in Condition 8.2 (*Non-Payment Election*);

"**Non-Payment Event**" has the meaning given to it in Condition 8.1 (*Non-Payment Event*);

"**Ordinary Shares**" means ordinary shares of ADIB, having on the Issue Date a par value of AED 1.00 each;

"**Other Common Equity Tier 1 Instruments**" means securities issued by ADIB that constitute Common Equity Tier 1 of ADIB other than ordinary shares of ADIB;

"**Outstanding Payments**" means, in relation to any amounts payable on redemption or repayment of the Certificates, an amount representing accrued and unpaid Periodic Distribution Amounts for the Periodic Distribution Period during which redemption or repayment occurs to the date of redemption or repayment plus Additional Amounts thereon, if any;

"**Pari Passu Obligations**" means all subordinated payment obligations of ADIB which rank, or are expressed to rank, *pari passu* with the Relevant Obligations;

"**Payment Business Day**" has the meaning given to it in Condition 9.3 (*Payment only on a Payment Business Day*);

"**Periodic Distribution Amount**" has the meaning given to it in Condition 7.2 (*Periodic Distribution Amounts*);

"**Periodic Distribution Date**" means 16 April and 16 October in each year, starting on (and including) 16 April 2013;

"**Periodic Distribution Period**" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Periodic Distribution Date and each successive period beginning on (and including) a Periodic Distribution Date and ending on (but excluding) the next succeeding Periodic Distribution Date;

"**Permitted Purchasers**" means (i) any employee benefit trust, employee participation scheme, pension fund and/or stock option plan established by or on behalf of ADIB for the benefit of eligible ADIB directors, officers and/or employees and (ii) any subsidiaries, businesses or departments (howsoever described) of ADIB who conduct treasury, wealth and/or investment management business (in each case acting in their capacities as such);

"**Proceedings**" has the meaning given to it in Condition 20.4 (*Submission to jurisdiction*);

"**Profit Rate**" means, in respect of the Initial Period, the Initial Periodic Distribution Rate, and, in respect of each Reset Period thereafter, the rate calculated in accordance with the provisions of Condition 7.4(a) (*Periodic Distribution Rate*);

"**Qualifying Tier 1 Instruments**" means instruments (whether securities, trust certificates, interests in limited partnerships or otherwise) other than ordinary shares or other equity securities, issued directly or indirectly by ADIB that:

(i) will be eligible to constitute Tier 1 Capital on issue;

(ii) have terms and conditions not materially less favourable to a holder of the Certificates than the Certificates (as reasonably determined by ADIB (*provided that* in making this determination ADIB is not required to take into account the tax treatment of the new instrument in the hands of all or any Certificateholders, or any transfer or similar taxes that may apply on the acquisition of the new instrument) *provided that* a certification to such effect of two Directors shall have been delivered to the Trustee prior to the issue of the relevant instruments);

(iii) continue to be obligations of ADIB, directly or indirectly or by a guarantee or equivalent support undertaking by ADIB;

(iv) rank on a winding up at least *pari passu* with the Relevant Obligations;

(v) have at least the same face value amount and profit distribution dates as the Certificates and at least equal profit or distribution rate or rate of return as the Certificates;

(vi) (where the instruments are issued prior to the First Call Date) have the same first call date as the Certificates;

(vii) have the same optional redemption dates as the Certificates;

and which may include such technical changes as necessary to reflect 'Additional Tier 1 Capital' requirements under the Capital Regulations then applicable to ADIB (including, without limitation, such technical changes as may be required in the adoption and implementation of the Basel III Documents);

"**Record Date**" means in the case of the payment of a Periodic Distribution Amount, the date falling on the fifteenth day before the relevant periodic Distribution Date and, in the case of the payment of a Dissolution Distribution Amount, the date falling two Payment Business Days before the date for payment of the relevant Dissolution Distribution Amount, as the case may be;

"**Register**" has the meaning given to it in Condition 2.1 (*Form and Denomination*);

"**registered account**" has the meaning given to it in Condition 9.1 (*Payments in respect of the Certificates*);

"**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Delegate on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to Certificateholders in accordance with Condition 15 (*Notices*);

"**Relevant Jurisdiction**" means the Cayman Islands (in the case of any payment made by the Trustee) and the United Arab Emirates and/or the Emirate of Abu Dhabi (in the case of any payment made by ADIB) or, in each case, any political sub-division or authority thereof or therein having the power to tax;

"**Relevant Obligations**" has the meaning given to it Condition 4.2.1 (*Subordination*);

"**Relevant Six Year Reset Rate**" means the mid-swap rate for U.S. dollar swap transactions with a maturity of six years displayed on Bloomberg page "ISDAFIX1" (or such other page as may replace that page on Bloomberg, or such other service as may be nominated by the person providing or sponsoring the information appearing there for the purposes of displaying comparable rates) at or around 11.00 a.m. (New York time) on the Determination Date. If the correct mid swap rate does not appear on that page, the six year U.S. dollar mid swap rate shall instead be determined by the Calculation Agent on the basis of the arithmetic mean of quotations provided by the principal office of each of four major banks in the U.S. dollar swap market of the rates at which swaps in U.S. dollars are offered by it at approximately 11.00 a.m. (New York time) on the Determination Date to participants in the U.S. dollar swap market for a six-year period, expressed as a percentage and rounded, if necessary, to the nearest 0.0001 per cent. (0.00005 per cent. being rounded upwards);

"**Reset Date**" means the First Call Date and every sixth anniversary thereafter;

"**Reset Period**" means the period from (and including) the first Reset Date to (but excluding) the earlier of (a) the Mudaraba End Date and (b) the following Reset Date, and (if applicable) each successive period thereafter from (and including) such Reset Date to (but excluding) the earlier of (x) the Mudaraba End Date and (y) the next succeeding Reset Date;

"**Rules**" has the meaning given to it in Condition 20.2 (*Arbitration*);

"**Senior Creditors**" means creditors of ADIB (including depositors (in respect of their due claims) and, for this purpose, holders of any instrument issued by, or other obligation of, ADIB which ranks senior to the payment obligations of ADIB under the Relevant Obligations) other than creditors in respect of obligations the claims in relation to which rank or are expressed to rank *pari passu* with, or junior to, the claims of the Trustee in respect of the Relevant Obligations;

"**Senior Obligations**" means all unsubordinated payment obligations of ADIB and all subordinated payment obligations (if any) of ADIB to which the Relevant Obligations are expressed to rank junior;

"**Solvent**" means that: (i) ADIB is able to pay its debts as they fall due and (ii) its Assets exceed its Liabilities;

"**Substituted Trustee**" has the meaning given to it in Condition 11.2 (*Trustee Events*);

"**Substituted Territory**" has the meaning given to it in Condition 11.2 (*Trustee Events*);

"**Taxes**" has the meaning given to it in Condition 12 (*Taxation*);

"**Tax Event**" means ADIB or the Trustee (as the case may be) would, as a result of a Tax Law Change, in making any payments under the Mudaraba Agreement (in the case of ADIB (in its capacity as Mudareb)) on the next due date for a payment of Mudaraba Profit or the Certificates (in the case of the Trustee) on the next due date for payment of a Periodic Distribution Amount (as the case may be) (whether or not a Non-Payment Event has occurred or a Non-Payment Election has been made), be required to pay Additional Amounts (and such requirement cannot be avoided by ADIB or the Trustee (as the case may be) taking reasonable measures available to it);

"**Tax Law Change**" means any change in, or amendment to, the laws affecting taxation (or regulations or rulings promulgated thereunder) of any Relevant Jurisdiction, or any change in the official application of such laws, regulations or rulings;

"**Tax Redemption Amount**" in relation to a Certificate, means its outstanding face amount together with any Outstanding Payments;

"**Tier 1 Capital**" means capital qualifying as, and approved by the Financial Regulator as, tier 1 capital in accordance with the Capital Regulations;

"**Transaction Account**" has the meaning given to it in Condition 5 (*The Trust*);

"**Transaction Documents**" means each of the Declaration of Trust, the Agency Agreement, the Mudaraba Agreement and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto;

"**Trust Assets**" has the meaning given to it in Condition 5 (*The Trust*);

"**Trustee Call Amount**" in relation to a Certificate, means its outstanding face amount together with any Outstanding Payments;

"**Trustee Event**" means any of the following events:

(i) **Non-Payment**: default is made in the payment of the Dissolution Distribution Amount on the date fixed for payment thereof or default is made in the payment of any Periodic Distribution Amount on the due date for payment thereof and, in the case of any Periodic Distribution Amount only, such default continues for a period of seven days; or

(ii) **Insolvency**: the Trustee is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or (in the opinion of the Delegate) a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Trustee; or

(iii) **Winding-up**: an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Trustee, or the Trustee shall apply or petition for a winding-up or administration order in respect of itself or cease or through an official action of its board of directors threaten to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders; or

(iv) **Analogous Events**: any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraph (ii) or (iii) above;

For the purpose of subparagraph (i) (*Non-payment*) above, all amounts payable in respect of the Certificates shall be considered due and payable (including any amounts calculated as being payable under Condition 7.4 (*Periodic Distributions*)) notwithstanding that the Trustee has at the relevant time insufficient funds or relevant Trust Assets to pay such amounts (save in each case where such insufficient funds arise solely as a result of ADIB making a Non-Payment Election or the occurrence of a Non-Payment Event); and

"**Trustee's Territory**" has the meaning given to it in Condition 11.2 (*Trustee Events*).

All references in these Conditions to "**U.S. dollars**", "**U.S.$**" and "**$**" are to the lawful currency of the United States of America.

2 Form, Denomination and Title

2.1 Form and Denomination

The Certificates are issued in registered form in face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each an "**Authorised Denomination**"). A Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Certificateholders (the "**Register**").

*Upon issue, the Certificates will be represented by a Global Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. The Conditions are modified by certain provisions contained in the Global Certificate. Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to receive definitive Certificates representing their holdings of Certificates. See "Global Certificate".*

2.2 Title

The Trustee will cause the Registrar to maintain the Register outside the United Kingdom in accordance with the provisions of the Agency Agreement. Title to the Certificates passes only by registration in the Register. The registered holder of any Certificate will (except as otherwise required by law) be treated as the absolute owner of the Certificates represented by the Certificate for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate) and no person will be liable for so treating the holder of any Certificate. The registered holder of a Certificate will be recognised by the Trustee as entitled to his Certificate free from any equity, set-off or counterclaim on the part of the Trustee against the original or any intermediate holder of such Certificate.

3 Transfers of Certificates

3.1 Transfers

Subject to Conditions 3.4 (*Closed Periods*) and 3.5 (*Regulations*) and the provisions of the Agency Agreement, a Certificate may be transferred in an Authorised Denomination only by depositing the Certificate by which it is represented, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the individuals who have executed the forms of transfer.

Transfers of interests in the Global Certificate will be effected in accordance with the rules of the relevant clearing system through which the interest is held.

3.2 Delivery of New Certificates

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

3.3 Formalities Free of Charge

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Trustee or any Transfer Agent but upon payment (or the giving of such indemnity as the Trustee or any Transfer Agent may reasonably require) by the transferee in respect of any stamp duty, tax, or other governmental charges which may be imposed in relation to such transfer.

3.4 Closed Periods

No Certificateholder may require the transfer of a Certificate to be registered during the period of 15 days ending on a Periodic Distribution Date or any other date on which any payment of the face amount or payment of any premium or profit in respect of a Certificate falls due.

3.5 Regulations

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning the transfer of Certificates scheduled to the Declaration of Trust. The Regulations may be changed by the Trustee from time to time with the prior written approval of the Delegate and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests in writing a copy of such regulations.

The holder of Certificates shall be entitled to receive, in accordance with Condition 3.2 (*Delivery of New Certificates*), only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 3.2 (*Delivery of New Certificates*).

4 Status, Subordination and Limited Recourse

4.1 Status

Each Certificate will represent an undivided ownership interest in the relevant Trust Assets subject to the terms of the Declaration of Trust, the Mudaraba Agreement and these Conditions and will be a limited recourse obligation of the Trustee. Each Certificate will rank *pari passu* without preference or priority, with all other Certificates. The rights and claims of the Certificateholders are subordinated as described in Condition 4.2 (*Subordination*).

4.2 Subordination

4.2.1 The payment obligations of ADIB under the Mudaraba Agreement or any other Transaction Document in respect of each Certificate (the "**Relevant Obligations**") will (a) constitute Additional Tier 1 Capital, (b) constitute direct, unsecured and subordinated obligations of ADIB, (c) rank subordinate and junior to all Senior Obligations, (d) rank *pari passu* with all other Pari Passu Obligations, which, for the avoidance of doubt, includes and shall continue to include ADIB's obligations under the Existing Tier 1 Securities and (e) rank in priority to all Junior Obligations.

4.2.2 The rights of the Trustee against ADIB under the Relevant Obligations are subordinated in right of payment to the claims of all Senior Creditors of ADIB and accordingly, payments in respect of the Relevant Obligations by ADIB are conditional upon the following:

(i) ADIB being Solvent at the time of payment of the Relevant Obligations; and

(ii) ADIB being capable of making payment of the Relevant Obligations and any other payment required to be made on the relevant date to a creditor in respect of all Senior Obligations and all Pari Passu Obligations and still be Solvent immediately thereafter.

4.2.3 The Trustee may only exercise its enforcement rights in relation to any Relevant Obligation or in relation to any of its other rights under the Mudaraba Agreement or any other Transaction Document in the manner provided in Condition 11.3 (*Winding-up, dissolution or liquidation*).

4.2.4 The Trustee will, in each relevant Transaction Document, unconditionally and irrevocably waive any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of the Relevant Obligations. No collateral is or will be given by ADIB for the Relevant Obligations and any collateral that may have been or may in the future be given in connection with other obligations of ADIB shall not secure the Relevant Obligations.

4.3 Other Issues

So long as any of the Certificates remain outstanding, ADIB (whether in its capacity as Mudareb or otherwise) will not issue any securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity which in each case constitutes (whether on a solo, or a solo consolidated or a consolidated basis) issued Tier 1 Capital of ADIB if claims in respect of such securities, guarantee or contractual support arrangement would rank (as regards distributions on a return of assets on a winding up or in respect of distribution or payment of dividends and/or any other amounts thereunder) senior to the Relevant Obligations. This prohibition will not apply if at the same time or prior thereto: (a) these Conditions and (to the extent applicable) the Transaction Documents are amended to ensure that the Trustee (on behalf of the Certificateholders) obtains and/or (b) the Relevant Obligations and ADIB's obligations under the Relevant Obligations have, the benefit of, such of those rights and entitlements as are contained in or attached to such securities or under such guarantee or contractual support arrangement as are required so as to ensure that claims in respect of the Relevant Obligations rank *pari passu* with, and contain substantially equivalent rights of priority as to distributions or payments on, such securities or under such guarantee or contractual support arrangement.

4.4 Limited Recourse

Proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as provided in the next sentence, the Certificates do not represent an interest in any of the Issuer, the Trustee, the Delegate, ADIB, any of the Agents or any of their respective affiliates. Accordingly, Certificateholders will have no recourse to any assets of the Issuer, the Trustee (other than the Trust Assets) (including, in particular, other assets comprised in other trusts, if any), the Delegate, ADIB or the Agents (to the extent that the Delegate ADIB and the Agent (as applicable) fulfils all of its obligations under the Transaction Documents to which it is a party), or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets when the Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished.

However, ADIB is obliged to make certain payments under the Transaction Documents to which it is a party directly to the Trustee and the Trustee and/or the Delegate will, subject to Condition 4.2 (*Subordination*) and Condition 11.3 (*Winding-up, dissolution or liquidation*), have direct recourse against ADIB to recover payments due to the Trustee from ADIB pursuant to such Transaction Documents.

The net proceeds of the realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Certificates. If, following the distribution of such proceeds, there remains a shortfall in payments due under the Certificates, subject to Condition 11.3(b) (*Enforcement*), no holder of Certificates will have any claim against the Issuer, the Trustee (to the extent the Trust Assets have been exhausted), the Delegate, ADIB or the Agents (to the extent that each of them fulfils all of their respective obligations under the Transaction Documents to which they are a party) or any of their affiliates or against any assets (other than the Trust Assets to the extent not exhausted) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. In particular, no holder of Certificates will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of the Issuer, the Trustee or ADIB (to the extent each party fulfils all its respective obligations under the Transaction Documents to which it is a party) or their affiliates as a consequence of such shortfall or otherwise.

4.5 Agreement of Certificateholders

By purchasing Certificates, each Certificateholder is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

(a) no payment of any amount whatsoever shall be made by the Issuer or the Trustee or any of their respective agents on its behalf except to the extent funds are available therefor from the Trust Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder or under any Transaction Document, whether for the payment of any fee, indemnity or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against any of the Issuer, the Trustee or the Trust to the extent the Trust Assets have been exhausted following which all obligations of the Issuer and the Trustee shall be extinguished;

(b) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents to which it is a party have been paid in full, it will not institute against, or join with any other person in instituting against the Issuer, the Trustee or the Trust any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law;

(c) no recourse (whether by institution or enforcement of any legal proceeding or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Issuer or the Trustee arising under or in connection with these Conditions by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, director or corporate service provider of the Issuer or the Trustee in their capacity as such and any and all personal liability of every such shareholder, officer, director or corporate service provider in their capacity as such for any breaches by the Issuer or the Trustee of any such duty, obligation or undertaking is hereby expressly waived and excluded to the extent permitted by law;

(d) (i) the proceeds of the Trust Assets are the sole source of payments on the Certificates; (ii) the Issuer's ability to comply with its obligations under the Certificates will therefore depend on receipt by it of payments from the Trust Assets, and will in particular depend on payments by ADIB under the Mudaraba Agreement; (iii) the Mudaraba Agreement provides that there is no guarantee of any return from the Mudaraba Assets and ADIB's obligations to pay amounts thereunder are subject to the more detailed provisions set out therein; and (iv) references in these Conditions to "Periodic Distribution Amount", "profit" and "Profit Rate" should be considered accordingly; and

(e) the Trustee and Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by (i) the Mudareb's breach of the Mudaraba Agreement or (ii) the Mudareb's negligence, wilful misconduct or fraud.

5 The Trust

ADIB Capital Invest 1 Ltd. (in its capacity as Trustee and as the "***Rab-al-Maal***") will enter into a mudaraba agreement (the "**Mudaraba Agreement**") to be dated the Issue Date with ADIB (in such capacity, the "**Mudareb**"). Pursuant to the Mudaraba Agreement, the Rab-al-Maal will pay the proceeds of the issue of the Certificates to the Mudareb, which proceeds will form the initial capital of the Mudaraba (as defined below) (the "**Mudaraba Capital**"). The Mudareb will invest the Mudaraba Capital in the General Pool and the Mudaraba Capital, as invested in the General Pool, will be converted into undivided assets in the General Pool (the "**Mudaraba Assets**") in accordance with the Mudaraba Agreement, which shall include an investment plan prepared by the Mudareb and constitute a mudaraba (the "**Mudaraba**").

The Trustee has opened a transaction account (the "**Transaction Account**") in the name of the Trustee with the Principal Paying Agent (details of which are set out in the Declaration of Trust) into which the Mudareb and ADIB will pay all amounts due to the Trustee under the Mudaraba Agreement, as the case may be, respectively.

Pursuant to the Declaration of Trust, the Trustee will declare that it will hold:

(a) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by ADIB (acting in any capacity) pursuant to any of the Transaction Documents to which it is a party); and

(c) all monies standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the "**Trust Assets**") upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each such holder in accordance with the Declaration of Trust and these Conditions.

6 Covenants

The Trustee has covenanted in the Declaration of Trust that, *inter alia*, for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate):

(a) incur any indebtedness in respect of borrowed money whatsoever (whether structured in accordance with the principles of *Shari'a* or otherwise), or give any guarantee in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;

(b) secure any of its present or future indebtedness for borrowed money (whether structured in accordance with the principles of *Shari'a* or otherwise) grant or permit to be outstanding any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);

(c) sell, transfer, assign, participate, exchange or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise), or permit such to occur or suffer such to exist) any part of its interest in any of the Trust Assets except pursuant to the Transaction Documents (other than those arising by operation of law);

(d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;

(e) amend or agree to any amendment to any Transaction Document to which it is a party, or amend its memorandum and articles of association, in each case in a manner which is materially prejudicial to the rights of Certificateholders, without (i) the prior approval of the Certificateholders by way of Extraordinary Resolution and (ii) first notifying the Rating Agencies of the proposed amendments and subsequently providing the Rating Agencies with copies of the relevant executed amended Transaction Documents, save that it shall be permitted to make such variations to the Transaction Documents and the Conditions as are required pursuant to Condition 10.1 (*Redemption and variation*);

(f) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;

(g) have any subsidiaries or employees;

(h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders:

(i) put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up (except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders) or any resolution for the commencement of any other bankruptcy or insolvency proceedings with respect to it; and

(j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:

    (i) as provided for or permitted in the Transaction Documents;

    (ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and

    (iii) such other matters which are incidental thereto.

7 Periodic Distributions

7.1 Distribution of Mudaraba Profit

The Trustee has agreed in the Mudaraba Agreement that ADIB shall be entitled (in its capacity as Mudareb or otherwise) to utilise the Mudaraba Assets in respect of the Certificates to make payments in respect of the claims of Senior Creditors or to cover losses of the Mudaraba and that such entitlement shall apply at any time before an order has been made, or an effective resolution has been passed, for the winding-up, dissolution or liquidation (or other analogous event) of ADIB (in its capacity as Mudareb or otherwise).

7.2 Periodic Distribution Amounts

Subject to Condition 9 (*Payments*) and Condition 7.3 (*Cessation of Accrual*), the Principal Paying Agent shall distribute to Certificateholders, *pro rata* to their respective holdings, out of amounts transferred into the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the Periodic Distribution Amount. The "**Periodic Distribution Amount**" payable on each Periodic Distribution Date (i) falling prior to and including the first Reset Date shall be U.S.$31.88 per U.S.$1,000 in face amount of the Certificates (save in respect of the first Periodic Distribution Date, for which the Periodic Distribution Amount shall be U.S.$26.03 per U.S.$1,000 in face amount of the Certificates) and (ii) falling after the first Reset Date shall be the relevant amount calculated pursuant to Condition 7.4 (*Periodic Distributions*).

7.3 Cessation of Accrual

Each Certificate will cease to be eligible to earn Periodic Distribution Amounts from the due date for redemption.

7.4 Periodic Distributions

Subject to Condition 8 (*Periodic Distribution Restrictions*), the Certificates bear profit at the applicable Profit Rate from (and including) the Issue Date in accordance with the provisions of this Condition 7 (*Periodic Distributions*). Periodic Distribution Amounts will not be cumulative and any Periodic Distribution Amount which is not paid will not accumulate or compound and Certificateholders will have no right to receive such Periodic Distribution Amount at any time, even if Periodic Distribution Amounts are paid in the future.

Subject to Condition 8 (*Periodic Distribution Restrictions*), Periodic Distribution Amounts shall be payable on the Certificates semi-annually in arrear on each Periodic Distribution Date (other than the first Periodic Distribution Date), in each case as provided in this Condition 7 (*Periodic Distributions*).

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Periodic Distribution Period and other than the first Periodic Distribution Period (the "**Relevant Period**"), it shall be calculated as an amount equal to the product of: (a) the applicable Profit Rate; (b) the face amount of the relevant Certificate; and (c) the applicable Day-count Fraction for the Relevant Period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

(a) Periodic Distribution Rate

For the Initial Period, the Certificates bear profit at the Profit Rate of 6.375 per cent. per annum (the "**Initial Periodic Distribution Rate**").

The Profit Rate will be reset on each Reset Date on the basis of the aggregate of the Margin and the Relevant Six Year Reset Rate on the relevant Determination Date, as determined by the Calculation Agent.

The Calculation Agent will, as soon as practicable upon determination of the Profit Rate which shall apply to the Reset Period commencing on the relevant Reset Date, cause the applicable Profit Rate and the corresponding Periodic Distribution Amount to be notified to each of the Paying Agents and the London Stock Exchange or any other stock exchange on which the Certificates are for the time being listed and to be notified to Certificateholders in accordance with Condition 15 (*Notices*) as soon as possible after their determination but in no event later than the second Business Day thereafter.

(b) Calculation Agent

With effect from the First Call Date, and so long as any Certificates remain outstanding thereafter, the Trustee will maintain a Calculation Agent. The name of the initial Calculation Agent and its initial specified office is set out at the end of these Conditions.

The Trustee may, with the prior written approval of the Delegate, from time to time replace the Calculation Agent with another leading investment, merchant or commercial bank or financial institution in London. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or (without prejudice to Condition 7.4(c) (*Determinations of Calculation Agent or Trustee Binding*)) fails duly to determine the Profit Rate in respect of any Reset Period as provided in Condition 7.4(a) (*Periodic Distribution Rate*), the Trustee shall forthwith appoint another leading investment, merchant or commercial bank or financial institution in London approved in writing by the Delegate to act as such in its place. The Calculation Agent may not resign its duties or be removed without a successor having been appointed as aforesaid.

(c) Determinations of Calculation Agent or Trustee Binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (*Periodic Distributions*), whether by the Calculation Agent or the Trustee (or its agent), shall (in the absence of manifest error) be binding on the Trustee, ADIB, the Calculation Agent, the Paying Agents, the Delegate and all Certificateholders and (in the absence as aforesaid) no liability to the Certificateholders or the Trustee shall attach to the Calculation Agent, the Trustee or the Delegate in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

8 Periodic Distribution Restrictions

8.1 Non-Payment Event

Notwithstanding Condition 7.4 (*Periodic Distributions*), if any of the following events occurs (each, a "**Non-Payment Event**"), ADIB (as Mudareb) shall not pay Mudaraba Profit or Final Mudaraba Profit on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), and as a result thereof the Trustee shall not pay Periodic Distribution Amounts on the corresponding Periodic Distribution Date:

(i) the Mudaraba Profit or Final Mudaraba Profit payable by ADIB (as Mudareb) under the Mudaraba Agreement, when aggregated with any distributions or amounts payable by ADIB (whether as Mudareb or otherwise) on any other obligations ranking senior to or *pari passu* with the payment obligations under the Mudaraba Agreement and having the same dates in respect of payment of such profit amounts as the dates for payment of Mudaraba Profit, exceeds, on the relevant date for payment of Mudaraba Profit or Final Mudaraba Profit, ADIB's Distributable Profits;

(ii) ADIB (whether as Mudareb or otherwise) is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), in breach of the Applicable Regulatory Capital Requirements (including any capital buffers imposed on ADIB by the Financial Regulator) or payment of the relevant Mudaraba Profit or Final Mudaraba Profit (as applicable) to the Trustee would cause it to be in breach thereof; or

(iii) the Financial Regulator requires (a) ADIB not to pay the relevant Mudaraba Profit or Final Mudaraba Profit (as applicable) to the Trustee on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or (b) the Trustee not to pay the relevant Periodic Distribution Amount on that Periodic Distribution Date; or

(iv) ADIB is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or in the case of Condition 8.1(iii) (b) on the relevant Periodic Distribution Date, not Solvent or would no longer be Solvent if the relevant Mudaraba Profit or Final Mudaraba Profit (as applicable) was paid.

8.2 Non-Payment Election

Notwithstanding Condition 7.4 (*Periodic Distributions*), ADIB may in its sole discretion elect that Mudaraba Profit will not be paid to the Trustee (in its capacity as Rab-al-Maal) on any Mudaraba Profit Distribution Date or that Final Mudaraba Profit will not be paid to the Trustee (in its capacity as Rab-al-Maal) on any Mudaraba End Date, and ADIB shall, in each case, instruct the Trustee not to make payment of a Periodic Distribution Amount to Certificateholders on such Periodic Distribution Date or (as the case may be) not to make payment of any Outstanding Payments otherwise payable on redemption or repayment of the Certificates (each a "**Non-Payment Election**").

8.3 Effect of Non-Payment Event or Non-Payment Election

If ADIB makes a Non-Payment Election or a Non-Payment Event occurs, then ADIB shall (i) in the case of a Non-Payment Election, 14 calendar days prior to such event, and (ii) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case no later than one Business Day prior to the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, as the case may be, give notice to the Trustee in accordance with the Mudaraba Agreement, the Delegate in accordance with the Declaration of Trust and Certificateholders in accordance with Condition 15 (*Notices*) in each case providing details of the Non-Payment Election or Non-Payment Event, as the case may be. Certificateholders shall have no claim in respect of any Periodic Distribution Amount not paid as a result of either a Non-Payment Election or a Non-Payment Event and any non-payment of Mudaraba Profit, Final Mudaraba Profit or a Periodic Distribution Amount in such circumstance shall not constitute a Dissolution Event. ADIB shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Trustee shall not have any obligations to make any subsequent payment in respect of any such Periodic Distribution Amounts.

8.4 Dividend and Redemption Restrictions

If any amount of Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of a Non-Payment Election or a Non-Payment Event pursuant to Condition 8.1 (*Non-payment Event*) or 8.2 (*Non-payment Election*) (as the case may be), then, from the date of such Non-Payment Election or Non-Payment Event (the "**Dividend Stopper Date**"), ADIB will not, so long as any of the Certificates are outstanding:

(i) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, ordinary shares issued by ADIB (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or

(ii) pay profit or any other distribution on any of its Other Common Equity Tier 1 Instruments or securities, ranking, as to the right of payment of dividend, distributions or similar payments, *pari passu* with the Relevant Obligations (excluding securities the terms of which do not at the relevant time enable ADIB to defer or otherwise not to make such payment), only to the extent such restrictions on payment or distribution is permitted under the relevant regulatory criteria for Additional Tier 1 Capital applicable from time to time; or

(iii) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire ordinary shares issued by ADIB; or

(iv) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire Other Common Equity Tier 1 Instruments or any securities issued by ADIB ranking, as to the right of repayment of capital, *pari passu* with the Relevant Obligations (excluding securities the terms of which stipulate a mandatory redemption or conversion into equity), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the relevant regulatory criteria for Additional Tier 1 Capital applicable from time to time,

in each case unless or until two consecutive payments of Mudaraba Profit (or the consecutive payment of Mudaraba Profit and the payment of Final Mudaraba Profit) following the Dividend Stopper Date have been made in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Trustee in accordance with the Mudaraba Agreement).

9 Payments

9.1 Payments in respect of the Certificates

Subject to Condition 9.2 (*Payments Subject to Applicable Laws*), payment of the Dissolution Distribution Amount and any Periodic Distribution Amount will be made by the Principal Paying Agent in U.S. dollars by wire transfer in same— day funds to the registered account (as defined below) of the Certificateholder. Payments of the Dissolution Distribution Amount will only be made against presentation and surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid to the holder shown on the Register at the close of business on the relevant Record Date.

For the purposes of this Condition 9 (*Payments*), a Certificateholder's "**registered account**" means the U.S. dollar account maintained by or on behalf of such Certificateholder with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant record date.

9.2 Payments subject to Applicable Laws

Payments in respect of Certificates are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*).

9.3 Payment only on a Payment Business Day

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day (as defined below), for value the first following day which is a Payment Business Day) will be initiated by the Principal Paying Agent on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or if the relevant Certificateholder is late in surrendering its Certificate (if required to do so).

If the amount of the Dissolution Distribution Amount or, subject to Conditions 8.1 (*Non-Payment Event*) and 8.2 (*Non-Payment Election*), any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount in fact paid.

In this Condition 9.3 (*Payment only on a Payment Business Day*), "**Payment Business Day**" means a day on which commercial banks and foreign exchange markets in Abu Dhabi, London and New York City are open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

9.4 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Trustee reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that: (a) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity); (b) it will at all times maintain a Paying Agent (which may be the Principal Paying Agent) having its specified office in London for so long as the Certificates are listed on the Official List of the UK Listing Authority and (c) there will at all times be a Paying Agent (which may be the Principal Paying Agent) located in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, any such Directive. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Trustee in accordance with Condition 15 (*Notices*).

10 Redemption and Variation

10.1 Redemption and variation

(a) No Fixed Redemption Date and Conditions for Redemption and Variation

The Certificates are perpetual securities in respect of which there is no fixed redemption date and the Trustee shall (subject to the provisions of Condition 4.2.2 (*Subordination*) and Condition 11.3 (*Winding-up, dissolution or liquidation*) and without prejudice to the provisions of Condition 13 (*Prescription*)) only have the right to redeem the Certificates or vary the terms thereof in accordance with the following provisions of this Condition 10 (*Redemption and Variation*).

The redemption of the Certificates or variation of the Conditions, pursuant to this Condition 10 (*Redemption and Variation*) is subject to the following conditions:

(i) the prior consent of the Financial Regulator;

(ii) the requirement that both at the time when the relevant notice of redemption or variation is given and immediately following such redemption or variation (as applicable), ADIB is or will be (as the case may be) in compliance with the Applicable Regulatory Capital Requirements;

(iii) the requirements of Condition 4.2 (*Subordination*); and

(iv) (in the case of Conditions 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (*Redemption or Variation for Capital Event*) only) the requirement that the circumstance that entitles the Trustee to exercise its right of redemption or variation is a change of law or regulation (including in the case of Condition 10.1(d) (*Redemption or Variation for Capital Event*), Applicable Regulatory Capital Requirements) in the Emirate of Abu Dhabi or the United Arab Emirates or a change in the interpretation of such law or regulation by any court or authority entitled to do so which change becomes, or would become, effective on or after the date of the Mudaraba Agreement,

(in the case of (i) and (ii) above only, except to the extent that the Financial Regulator no longer so requires).

(b) Trustee's Call Option

Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), the Trustee shall (upon the instructions of ADIB (acting in its sole discretion)), by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 15 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable, redeem all but not some only, of the Certificates at the Trustee Call Amount.

Redemption of the Certificates pursuant to this Condition 10.1(b) (*Trustee's Call Option*) may only occur on the First Call Date or any Periodic Distribution Date thereafter.

(c) Redemption or Variation due to Taxation

(i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), upon the occurrence of a Tax Event, the Trustee shall (upon the instructions of ADIB (acting in its sole discretion)), by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 15 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable, (a) redeem all, but not some only, of the Certificates at the Tax Redemption Amount; or (b) vary the terms of the Certificates so that they become or, as appropriate, remain, Qualifying Tier 1 Instruments, in each case without any requirement for consent or approval of the Certificateholders, and in the case of (b) only provided that such modifications or any document giving effect to such modifications do not impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its protections, and that such modifications or any document giving effect to such modifications are approved by the Trustee.

(ii) Redemption of the Certificates, or variation of the Conditions, pursuant to this Condition 10.1(c) (*Redemption or Variation due to Taxation*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) Any notice of redemption or variation, as the case may be, pursuant to this Condition 10.1(c) (*Redemption or Variation due to Taxation*), shall state that any Certificateholder may, on application to the Trustee, instruct the Trustee to request from ADIB a copy of a certificate signed by two Directors stating that (A) the conditions set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (B) a Tax Event has occurred; and (C) in the case of a variation only, the varied Certificates are Qualifying Tier 1 Instruments and that the Financial Regulator has confirmed that they satisfy limb (i) of the definition of Qualifying Tier 1 Instruments. Such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above. Upon expiry of such notice, the Trustee shall redeem or vary the terms of the Certificates, as the case may be.

(d) Redemption or Variation for Capital Event

(i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), upon the occurrence of a Capital Event, the Trustee shall (upon the instructions of ADIB (acting in its sole discretion)), by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 15 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable, (a) redeem all, but not some only, of the Certificates at the Capital Event Amount together with the Mudaraba Premium; or (b) solely for the purpose of ensuring compliance with Applicable Regulatory Capital Requirements vary the terms of the Certificates so that they become or, as appropriate, remain, Qualifying Tier 1 Instruments without any requirement for consent or approval of the Certificateholders, and in the case of (b) only provided that such modifications or any document giving effect to such modifications do not impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its protections, and that such modifications or any document giving effect to such modifications are approved by the Trustee.

(ii) Redemption of the Certificates, or variation of the Conditions, pursuant to this Condition 10.1(d) (*Redemption or Variation for Capital Event*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) Any notice of redemption or variation, as the case may be, pursuant to this Condition 10.1(d) (*Redemption or Variation for Capital Event*), shall state that any Certificateholder may, on application to the Trustee, instruct the Trustee to obtain a copy of a certificate signed by two Directors stating that (A) the conditions set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (B) a Capital Event has occurred; and (C), in the case of a variation only, the varied Certificates are Qualifying Tier 1 Instruments and that the Financial Regulator has confirmed that they satisfy limb (i) of the definition of Qualifying Tier 1 Instruments. Such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above. Upon expiry of such notice the Trustee shall redeem or vary the terms of the Certificates, as the case may be.

(e) Taxes upon Variation

In the event of a variation in accordance with Conditions 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (*Redemption or Variation for Capital Event*), neither the Trustee nor ADIB will be obliged to pay and will not pay any liability of any Certificateholder to corporation tax, corporate income tax or tax on profits or gains or any similar tax arising in respect of the variation of the terms of the Certificates provided that (in the case of a Tax Event) or so that (in the case of a Capital Event) they become or, as appropriate, remain, Qualifying Tier 1 Instruments, including in respect of any stamp duty or similar other taxes arising on any subsequent transfer, disposal or deemed disposal of the Qualifying Tier 1 Instruments by such Certificateholder.

10.2 Purchase

Each of (i) the Permitted Purchasers; and (ii) subject to ADIB (A) obtaining the prior written consent of the Financial Regulator (if required), (B) being in compliance with the Applicable Regulatory Capital Requirements, and (C) being Solvent at the time of purchase, ADIB or any of its other subsidiaries, may at any time purchase the Certificates in the open market at such price(s) and upon such other conditions as may be agreed upon between ADIB and the relevant Certificateholder(s). Upon any purchase in accordance with (ii) only, ADIB may (in its sole discretion) deliver such Certificates to the Trustee for cancellation and upon such cancellation, the Mudaraba Capital shall be reduced by the face amount of the Certificates so cancelled.

10.3 Cancellation

All Certificates that are redeemed or purchased pursuant to Condition 10.2(ii) (*Purchase*) and which ADIB delivers for cancellation in accordance with Condition 10.2 will forthwith be cancelled and accordingly may not be held, reissued or resold.

11 Dissolution Events and Winding-up

The Declaration of Trust contains provisions entitling the Delegate to claim from the Trustee and ADIB, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Declaration of Trust. The restrictions on commencing proceedings described below will not apply to any such claim.

11.1 Dissolution Events

Upon the occurrence of (i) an ADIB Event and/or an event described in limb (i) of the definition of Trustee Event or (ii) subject to Condition 11.2 (*Trustee Events*), a Trustee Event (other than as provided in limb (i) of the definition thereof), the Delegate (provided it shall have been given notice thereof by the Trustee) shall give notice of the occurrence of such event to the Certificateholders in accordance with Condition 15 (*Notices*) with a request to such Certificateholders to instruct the Delegate to give notice to the Trustee that the Certificates are, and shall immediately become, due and payable at the aggregate face amount of the outstanding Certificates together with any Outstanding Payments (a "**Dissolution Request**"). If so requested in writing by the Certificateholders of at least 20 per cent. of the then aggregate face amount of the Certificates outstanding, or if so directed by an Extraordinary Resolution of Certificateholders, the Delegate shall (but in each case subject to Condition 11.3(c) (*Entitlement of Trustee or Delegate*)), give notice (a "**Dissolution Notice**") to the Trustee of the Dissolution Request whereupon the aggregate face amount of the outstanding Certificates together with any Outstanding Payments shall become immediately due and payable and, upon receipt of such notice, the Trustee and/or the Delegate shall subject to Condition 11.3 (*Winding-*

up, dissolution or liquidation) take the actions referred to in Condition 11.3 (*Winding-up, dissolution or liquidation*).

11.2 Trustee Events

(i) ADIB has undertaken in the Declaration of Trust that, within 30 days of the occurrence of a Trustee Event (other than as provided in limb (i) of the definition thereof), it will procure, subject to such amendment of the Declaration of Trust and such other conditions as the Delegate may require and subject to the consent of the Financial Regulator, the substitution of any newly formed special purpose company in form substantially the same as that of the Trustee, in place of the Trustee (the "**Substituted Trustee**"), or of any previous substituted company, as trustee and issuer under the Declaration of Trust and the Certificates provided that:

   (A) a deed is executed or undertaking given by the Substituted Trustee to the Delegate, in form and manner satisfactory to the Delegate, agreeing to be bound by the Declaration of Trust, the Certificates and the Transaction Documents (with consequential amendments as the Delegate may deem appropriate) as if the Substituted Trustee had been named in the Declaration of Trust, the Certificates and the other Transaction Documents as trustee and issuer in place of the Trustee;

   (B) if the Substituted Trustee is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "**Substituted Territory**") other than the territory of the taxing jurisdiction to which (or to any such authority of or in which) the Trustee is subject generally (the "**Trustee's Territory**"), the Substituted Trustee shall (unless the Delegate otherwise agrees) give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to Condition 12 (*Taxation*) with the substitution for the references in that Condition to the Trustee's Territory of references to the Substituted Territory whereupon the Declaration of Trust and the Certificates shall be read accordingly (and ADIB shall also be required to give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to the last paragraph of Condition 12 (*Taxation*), extending its obligations thereunder to the Substituted Territory);

   (C) if any two directors of the Substituted Trustee certify that it will be solvent immediately after such substitution, the Delegate need not have regard to the Substituted Trustee's financial condition, profits or prospects or compare them with those of the Trustee;

   (D) the Trustee, the Substituted Trustee and ADIB comply with such other requirements as the Delegate may direct in the interests of the Certificateholders; and

   (E) such substitution would not in the opinion of the Delegate be materially prejudicial to the interests of the Certificateholders.

(ii) Subject to this Condition 11.2 (*Trustee Events*), the Delegate may agree to the substitution of the Substituted Trustee without obtaining the consent of the Certificateholders (it being acknowledged that each Certificateholder has by virtue of the last paragraph of the preamble to these Conditions authorised each Substituted Trustee to act as Rab-al-Maal pursuant to the Mudaraba Agreement on its behalf).

(iii) If ADIB fails to comply with the foregoing provisions of this Condition 11.2 (*Trustee Events*) within 30 days of the occurrence of the relevant Trustee Event, then Condition 11.1 (*Dissolution Events*) and 11.3 (*Winding-up, dissolution or liquidation*) shall apply to the relevant Trustee Event.

11.3 Winding-up, dissolution or liquidation

(a) Proceedings for Winding up

If a Dissolution Event occurs (other than in relation to a Trustee Event to which Condition 11.2 (*Trustee Events*) applies) and a Dissolution Notice is delivered pursuant to Condition 11.1 (*Dissolution Events*), the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement, and either the Trustee or the Delegate may at its discretion, and the Delegate shall if so requested in writing by the Certificateholders holding at least 20 per cent. of the then aggregate face amount of the Certificates outstanding, (in each case subject to Clause 11.3(c) (*Entitlement of Trustee or Delegate*)) (i) institute steps, actions or proceedings for the winding-up of ADIB and/or (ii) prove in the winding-up of ADIB and/or (iii) institute steps, actions or proceedings for the bankruptcy of ADIB; and/or (iv) claim in the liquidation of ADIB (in each case for all amounts of Mudaraba

Capital, Mudaraba Profit, Final Mudaraba Profit and/or other amounts due to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents) and/or (v) take such other action which, under the laws of the United Arab Emirates, has an analogous effect to the actions referred to (i) to (iv) above, provided, however, that the Trustee or the Delegate may only take any such action as described in this Condition 11.3(a) (*Proceedings for Winding Up*), but may take no further or other action to enforce, prove or claim for any payment. No payment in respect of the Transaction Documents may be made by ADIB as a result of action taken pursuant to Condition 11.1 (*Dissolution Events*), nor will the Trustee or the Delegate accept the same, otherwise than during or after a winding-up (or analogous event) of ADIB, unless ADIB has given prior written notice (with a copy to the Trustee and the Delegate) to, and received no objection from, the Financial Regulator (which ADIB shall confirm in writing to the Trustee and the Delegate).

(b) Enforcement

Without prejudice to Condition 11.1 (*Dissolution Events*) and the remaining provisions of this Condition 11.3 (*Winding-up, dissolution or liquidation*), the Trustee (or the Delegate) may at its discretion and the Delegate shall if so requested in writing by the Certificateholders holding at least 20 per cent. of the then aggregate face amount of the Certificates outstanding and without further notice institute such steps, actions or proceedings against ADIB, and the Delegate may at its discretion and without further notice institute such steps, actions or proceedings against the Trustee, as it may think fit to enforce any term or condition binding on ADIB or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of ADIB under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations) and in no event shall ADIB, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it. Nothing in this Condition 11.3 (*Winding up, dissolution or liquidation*) shall, however, prevent the Trustee (or the Delegate) (i) instituting steps, actions or proceedings for the winding-up of ADIB, and/or (ii) proving in any winding-up of ADIB and/or (iii) instituting steps, actions or proceedings for the bankruptcy of ADIB and/or (iv) claiming in any liquidation of ADIB and/or (v) taking such other action which, under the laws of the United Arab Emirates, has an analogous effect to the actions referred to paragraphs (i) to (iv) above in respect of any payment obligations of ADIB arising from the Mudaraba Agreement or any other Transaction Document (including any damages awarded for breach of any obligations).

(c) Entitlement of Trustee or Delegate

The Trustee or the Delegate shall not be bound to take any action to enforce or to realise the relevant Trust Assets or any of the actions referred to in these Conditions in respect of ADIB or, in the case of the Delegate only, the Trustee to enforce the terms of the Transaction Documents or give a Dissolution Notice (including without limitation, pursuant to Condition 11 (*Dissolution Events and Winding*-up), unless (1) it shall have been so requested by an Extraordinary Resolution of the Certificateholders or in writing by the Certificateholders of at least 20 per cent. of the then aggregate face amount of the Certificates outstanding, and (2) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(d) Rights of Certificateholders

No Certificateholder shall be entitled to proceed directly against the Trustee or ADIB or to institute proceedings for the winding-up or claim in the liquidation of ADIB or to prove in such winding-up unless (i) the Trustee or the Delegate, having become so bound to proceed or being able to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against any of the Trustee or ADIB, as the case may be) holds at least 20 per cent. of the then outstanding aggregate face amount of the Certificates, in which case the Certificateholders shall have only such rights against ADIB as those which the Trustee or the Delegate is entitled to exercise as set out in Condition 11.1 (*Dissolution Events*) and this Condition 11.3 (*Winding-up, dissolution or liquidation*).

(e) Extent of Certificateholder remedy

No remedy against ADIB, other than as referred to in this Condition 11 (*Dissolution Events and Winding-up*), shall be available to the Delegate, the Trustee or the Certificateholders, whether for the recovery of amounts owing in respect of the Transaction Documents or in respect of any breach by ADIB of any of its other obligations under or in respect of the Transaction Documents.

(f) Realisation of Trust Assets

(i) Following the enforcement, realisation and ultimate distribution of the net proceeds of the relevant Trust Assets in respect of the Certificates to the Certificateholders in accordance with these Conditions and Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and the Trustee shall not be liable for any further sums and, accordingly, Certificateholders may not take any action against the Trustee, the Delegate or any other person (including ADIB) to recover any such sum in respect of the Certificates or the relevant Trust Assets.

(ii) Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the relevant Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and ADIB shall be to enforce their respective obligations under the Transaction Documents.

(iii) The foregoing paragraphs in this Condition 11.3(f) (*Realisation of Trust Assets*) are subject to this paragraph. After enforcing or realising the relevant Trust Assets and distributing the net proceeds of the relevant Trust Assets in accordance with the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

12 Taxation

All payments in respect of the Certificates shall be made without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction ("**Taxes**"), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay additional amounts ("**Additional Amounts**") so that the full amount which otherwise would have been due and payable under the Certificates is received by the parties entitled thereto, except that no such Additional Amount shall be payable:

(a) to any Certificateholder who is liable for such Taxes in respect of such Certificate by reason of having some connection with any Relevant Jurisdiction other than the mere holding of such Certificate; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) where the relevant Certificate is presented for payment (where presentation is required) by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a different Member State of the European Union; or

(d) where the relevant Certificate is presented for payment (where presentation is required) more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to Additional Amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day;

In these Conditions, references to the Dissolution Distribution Amount or any Periodic Distribution Amounts payable in respect of a Certificate shall be deemed to include any Additional Amounts payable under this Condition 12 (*Taxation*).

Notwithstanding any other provision in these Conditions, the Issuer and the Paying Agents shall be permitted to withhold or deduct any amounts required by the rules of U.S. Internal Revenue Code Sections 1471 through 1474 (or any amended or successor provisions), pursuant to any intergovernmental agreement, or implementing legislation adopted by another jurisdiction in connection with these provisions, or pursuant to any agreement with the United States Internal Revenue Service ("**FATCA withholding**"). The Issuer will have no obligation to pay additional amounts or otherwise indemnify a holder for any FATCA withholding deducted or withheld by the Issuer, a Paying Agent or any other party as a result of any person (other than an agent of the Issuer) not being entitled to receive payments free of FATCA withholding.

The Mudaraba Agreement provides that payments thereunder by ADIB (in its capacity as the Mudareb) to the Trustee shall be made without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the Taxes is required by law and, in such case and/or if Additional Amounts are payable by the Trustee in respect of the Certificates, provides for the payment by ADIB of such Taxes and/or amounts equal to such Additional Amounts so that the full amount which would otherwise have been due and payable to the Trustee and/or under the Certificates is received by the Trustee.

13 Prescription

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within periods of ten years (in the case of the Dissolution Distribution Amount) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof.

14 Replacement of Certificates

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Trustee or ADIB may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15 Notices

All notices regarding the Certificates will be deemed to be validly given if mailed to Certificateholders by pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective registered addresses. Any such notice will be deemed to have been given on the day after being so mailed. The Trustee shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Certificates are for the time being listed or by which they have been admitted to trading.

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with evidence of entitlement to the relevant Certificates, with a Paying Agent.

16 Further Issues

The Trustee may from time to time and only in accordance with the Mudaraba Agreement, without the consent of the Certificateholders, create and issue further instruments ranking *pari passu* in all respects (or in all respects save for the date from which profit thereon accrues and the amount of the first periodic distribution amount (or such other equivalent amount) on such further instrument) and so that such further issue shall be consolidated and form a single series with the outstanding Certificates. References in these Conditions to the "Certificates" include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Certificates.

17 Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination

17.1 The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of these Conditions or the provisions of the Declaration of Trust. The quorum at any meeting for passing an Extraordinary Resolution will be one or more Certificateholders, proxies or representatives holding or representing in the aggregate not less than 51 per cent. in face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more Certificateholders, proxies or representatives present whatever the face amount of the Certificates held or represented by him or them, except that any meeting the business of which includes the modification of certain provisions of the Certificates (including, reducing or cancelling any amount payable in respect of the Certificates, altering the currency of payment of the Certificates or amending certain covenants given by the Trustee and/or ADIB in the Transaction Documents), the quorum shall be one or more persons present holding or representing not less than 75 per cent. in aggregate face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more persons present holding or representing not less than 25 per cent. in aggregate face amount of the Certificates for the time being outstanding. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than two thirds of the persons voting on a show of hands or, if a poll is duly demanded, a majority of not less than two-thirds of the votes cast on such poll and, if duly passed, will be binding on all Certificateholders of the Certificates, whether or not they are present at the meeting and whether or not voting.

17.2 The Declaration of Trust provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Certificateholders.

17.3 The Delegate may agree, without the consent or sanction of the Certificateholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Trust or the other Transaction Documents or determine, without any such consent or sanction as aforesaid, that any Dissolution Event shall not be treated as such, which in any such case is not, in the opinion of the Delegate, materially prejudicial to the interests of Certificateholders (except as set out in the Declaration of Trust) or may agree, without any such consent or sanction as aforesaid, to any modification which, in the opinion of the Delegate, is of a formal, minor or technical nature or to correct a manifest error.

17.4 In connection with the exercise by it of any of its powers, authorities and discretions vested in it (including, without limitation, any modification, waiver, authorisation or determination), the Delegate shall have regard to the general interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders except to the extent provided in Condition 12 (*Taxation*).

17.5 Any modification, abrogation, waiver, authorisation or determination shall be binding on all of the Certificateholders and shall be notified to the Certificateholders as soon as practicable thereafter in accordance with Condition 15 (*Notices*).

18 Indemnification and Liability of the Delegate and the Trustee

18.1 The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction.

18.2 The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of ADIB under the Transaction Documents to which ADIB is a party, and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been made by ADIB, but are not so made, and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in the Conditions or in the Declaration of Trust.

18.3 Each of the Trustee and the Delegate is exempted from: (a) any liability in respect of any loss or theft of the Trust Assets or any cash; (b) any obligation to insure the Trust Assets or any cash; and (c) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of fraud, wilful default or gross negligence by the Trustee or the Delegate, as the case may be.

18.4 Subject to Condition 11.1 (*Dissolution Events*) and Condition 11.3 (*Winding-up, dissolution or liquidation*) the Trustee waives any right to be indemnified by the Certificateholders in circumstances where the Trust Assets are insufficient therefor.

19 Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20 Governing Law and Dispute Resolution

20.1 Governing Law

The Declaration of Trust, the Certificates and these Conditions (including the remaining provisions of this Condition 20 (*Governing Law and Dispute Resolution*), and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

20.2 Arbitration

Subject to Condition 20.3 (*Court of law*), any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Declaration of Trust, the Certificates and these Conditions, (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity of any of them or a dispute relating to any non-contractual obligations arising out of or in connection with them) (a "**Dispute**") shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules (the "**Rules**") of the LCIA, which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 20.2 (*Arbitration*). For these purposes:

(a) the seat of arbitration shall be London;

(b) there shall be three arbitrators, each of whom shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions; and

(c) the language of the arbitration shall be English.

20.3 Court of law

Notwithstanding Condition 20.2 (*Arbitration*) above, the Trustee, the Delegate or (only where permitted to take action in accordance with the terms of the Declaration of Trust) any Certificateholder may in the alternative, and at it sole discretion, by notice in writing to the Trustee and ADIB (as applicable):

(a) within 28 days of service of a Request for Arbitration (as defined in the Rules); or

(b) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law. If such notice is given, the Dispute to which such notice refers shall be determined in accordance with Condition 20.4 (*Submission to jurisdiction*) and any arbitration commenced under Condition 20.2 (*Arbitration*) in respect of that Dispute will be terminated. With the exception of the Delegate (whose costs will be borne by the Trustee, failing which ADIB), each of the parties to the terminated arbitration will bear its own costs in relation thereto.

If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the Trustee, the Delegate or (but only where it is permitted to take action in accordance with the terms of the Declaration of Trust) any Certificateholder must promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

(a) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;

(b) his entitlement to be paid his proper fees and disbursements; and

(c) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

20.4 Submission to jurisdiction

If a notice pursuant to Condition 20.3 (*Court of law*) is issued, the following provisions shall apply:

(a) subject to paragraph (c) below, the courts of England or the courts of the Emirate of Abu Dhabi, at the option of the Trustee and/or Delegate, shall have exclusive jurisdiction to settle any Dispute and each of the Trustee and ADIB submits to the exclusive jurisdiction of such courts;

(b) each of the Trustee, the Delegate and ADIB agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(c) this Condition 20.4 (*Submission to jurisdiction*) is for the benefit of the Trustee, the Delegate and the Certificateholders only. As a result, and notwithstanding paragraph (a) above, the Trustee, the Delegate and the Certificateholders may take proceedings relating to a Dispute (the "**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Trustee, the Delegate and the Certificateholders may take concurrent Proceedings in any number of jurisdictions.

20.5 Appointment of Process Agent

Each of the Trustee and ADIB has, in the Declaration of Trust, appointed Law Debenture Corporate Services Limited at its registered office at Fifth Floor, 100 Wood Street, London, EC2V 7EX as its agent for service of process and has undertaken that, in the event of Law Debenture Corporate Services Limited ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Delegate as its agent for service of process in England in respect of any Proceedings or Disputes and notify the Certificateholders of such appointment in accordance with this Condition 20.5 (*Appointment of Process Agent*). Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

20.6 Waiver of Immunity

Under the Declaration of Trust, ADIB has irrevocably and unconditionally waived any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consented to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order, judgment or award made or given in connection with any Proceedings or Disputes.

20.7 Waiver of Interest

(a) Each of the Trustee, the Delegate and ADIB has irrevocably agreed in the Declaration of Trust that no interest will be payable or receivable under or in connection therewith and in the event that it is determined that any interest is payable or receivable in connection therewith by a party, whether as a result of any judicial award or by operation of any applicable law or otherwise, such party has agreed to waive any rights it may have to claim or receive such interest and has agreed that if any such interest is actually received by it, it shall promptly donate the same to a registered or otherwise officially recognised charitable organisation.

(b) For the avoidance of doubt, nothing in this Condition 20.7 shall be construed as a waiver of rights in respect of Mudaraba Profit, Final Mudaraba Profit, Periodic Distribution Amounts, Outstanding Payments or profit of any kind howsoever described payable by ADIB or the Trustee pursuant to the Transaction Documents and/or the Conditions, howsoever such amounts may be described or re-characterised by any court or arbitral tribunal.

GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Certificates whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Unless otherwise defined, terms defined in the Conditions have the same meaning below.

Form of the Certificates

The Certificates will be in registered form and will be issued outside the United States to persons who are not U.S. persons in reliance on Regulation S.

The Certificates will be represented by beneficial interests in a global certificate in registered form the Global Certificate. The Global Certificate will be deposited with a common depositary for Euroclear and Clearstream and will be registered in the name of a nominee for the common depositary. Persons holding ownership interests in the Global Certificate will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Certificates in fully registered form.

Holders

For so long as the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the registered holder of the Global Certificate shall, except as ordered by a court of competent jurisdiction or as required by law, be treated as the owner thereof (the "**Registered Holder**"). Each of the persons (other than another clearing system) who is for the time being shown in the records of either such clearing system as the holder of a particular aggregate face amount of such Certificates (the "**Accountholders**") (in which regard any certificate or other document issued by a clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the Certificateholder in respect of the aggregate face amount of such Certificates standing to its account in the records of Euroclear or Clearstream, Luxembourg, as the case may be, other than for the purpose of payments in respect thereof, the right to which shall be vested solely in the Registered Holder, as against the Trustee and an Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Registered Holder, and the expressions "**Certificateholder**" and "**holder of Certificates**" and related expressions shall be construed accordingly. In addition, holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Cancellation

Cancellation of any Certificate represented by the Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register.

Payments

Payments of any amount in respect of the Global Certificate will, in the absence of any provision to the contrary, be made to the person shown on the Register as the registered holder of the Global Certificate at the close of the Business Day (being for this purpose, a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date for such payment.

None of the Trustee, the Delegate, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Payments of the Dissolution Distribution Amount in respect of Certificates represented by the Global Certificate will be made upon presentation and surrender of the Global Certificate at the specified office of the Registrar or such other office as may be specified by the Registrar subject to and in accordance with the Conditions and the Declaration of Trust. Distributions of amounts with respect to book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures. A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the Registrar and shall be *prima facie* evidence that payment has been made.

Notices

So long as all the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices may be given by delivery of the relevant notice to those clearing systems for communication to their Accountholders rather than by publication and delivery as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given on the day on which such notice is delivered to the relevant clearing systems.

Whilst any of the Certificates held by a Certificateholder are represented by the Global Certificate, notices to be given by such Certificateholder may be given (where applicable) through Euroclear and/ or Clearstream, Luxembourg and otherwise in such manner as the Registrar and Euroclear and Clearstream, Luxembourg may approve for this purpose.

Registration of Title

The Registrar will not register title to the Certificates in a name other than that of a nominee for the Common Depositary for a period of seven calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Distribution Amount in respect of the Certificates.

Record dates will be determined in accordance with the standard practices of Euroclear and Clearstream, Luxembourg.

Transfers

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear or Clearstream, Luxembourg and their respective direct and indirect participants in accordance with their respective rules and procedures.

Exchange for Definitive Certificates

Interests in the Global Certificate will be exchangeable (free of charge), in whole but not in part, for Definitive Certificates only upon the occurrence of an Exchange Event. The Trustee will promptly give notice to Certificateholders in accordance with Condition 15 (*Notices*) if an Exchange Event occurs. For these purposes, "**Exchange Event**" means that: (i) a Dissolution Event (as defined in the Conditions) has occurred; or (ii) the Trustee has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of legal holiday) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Trustee is available. In the event of the occurrence of an Exchange Event, any of the Trustee or Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Global Certificate) may give notice to the Registrar requesting exchange.

In such circumstances, the Global Certificate shall be exchanged in full for Definitive Certificates and the Trustee will, at the cost of the Trustee (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar within 10 days following the request for exchange for completion and dispatch to the Certificateholders. A person having an interest in the Global Certificate must provide the Registrar with a written order containing instructions (and such other information as the Trustee and the Registrar may require) to complete, execute and deliver such Definitive Certificates.

In this Prospectus, "**Definitive Certificate**" means a trust certificate in definitive registered form issued by the Trustee in accordance with the provisions of the Declaration of Trust in exchange for the Global Certificate, such trust certificate substantially in the form set out in the Schedules to the Declaration of Trust.

USE OF PROCEEDS

The net proceeds of the Certificates will be paid by the Trustee (as Rab-al-Maal) to ADIB (as Mudareb) as Mudaraba Capital pursuant to the terms of the Mudaraba Agreement.

DESCRIPTION OF THE ISSUER

General

ADIB Capital Invest 1 Ltd., a Cayman Islands exempted company with limited liability, was incorporated on 16 August 2012 under the Companies Law (2012 Revision) of the Cayman Islands with company registration number 271123. The Issuer has been established as a company for the sole purpose of issuing the Certificates and entering into the transactions contemplated by the Transaction Documents. The registered office of the Issuer is at P.O. Box 1093, Queensgate House, Grand Cayman, Cayman Islands, and its telephone number is +1 345 945 7099.

The authorised share capital of the Issuer is U.S.$50,000 ordinary shares of U.S.$1.00 each, 250 of which have been issued. All of the issued shares (the Shares) are fully-paid and are held by MaplesFS Limited as share trustee (the Share Trustee) under the terms of a declaration of trust (the "**Declaration of Trust**") under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Declaration of Trust). Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has the power to benefit the Qualified Charities (as defined in the Declaration of Trust). It is not anticipated that any distribution will be made whilst any Certificate is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from its holding of the Shares.

Business of the Issuer

The Issuer will not have any substantial liabilities other than in connection with the Certificates and any further certificates issued pursuant to the Conditions. The Certificates are the obligations of the Issuer alone and not the Share Trustee.

The objects for which the Issuer is established are set out in clause 3 of its Memorandum of Association as registered or adopted on 16 August 2012.

Financial Statements

Since the date of incorporation, no financial statements of the Issuer have been prepared. The Issuer is not required by Cayman Islands law, and does not intend, to publish audited financial statements.

Directors of the Issuer

The Directors of the Issuer are as follows:

Name:	Principal Occupation:
Andrew Millar	Senior Vice President of Maples Fund Services (Middle East) Limited
Cleveland Stewart	Vice President of MaplesFS Limited

The business address of Andrew Millar is c/o Maples Fund Services (Middle East) Limited, Liberty House, 8th Floor, Office 801, PO Box 506734, Dubai, United Arab Emirates.

The business address of Cleveland Stewart is c/o MaplesFS Limited, P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

There are no potential conflicts of interest between the private interests or other duties of the Directors listed above and their duties to the Issuer.

The Administrator

MaplesFS Limited also acts as the corporate administrator of the Issuer (in such capacity, the "**Corporate Administrator**"). The office of the Corporate Administrator serves as the general business office of the Issuer. Through the office, and pursuant to the terms of a corporate services agreement entered into between the Issuer and the Corporate Administrator (the "**Corporate Services Agreement**"), the Corporate Administrator has agreed to perform in the Cayman Islands, the United Arab Emirates and/or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Issuer and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Issuer and the Corporate Administrator have also entered into a registered office agreement (the "**Registered Office Agreement**") for the provision of registered office facilities to the Issuer. In consideration of the foregoing, the Corporate Administrator will receive various fees payable by the Issuer at rates agreed upon from time to time, plus expenses.

The terms of the Corporate Services Agreement and Registered Office Agreement provide that either the Issuer or the Corporate Administrator may terminate such agreements upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Corporate Services Agreement and the Registered Office Agreement provide that either party shall be entitled to terminate such agreements by giving at least three months' notice in writing to the other party with a copy to any applicable rating agency.

The Corporate Administrator will be subject to the overview of the Issuer's Board of Directors.

The Corporate Administrator's principal office is P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

The Directors of the Issuer are all employees or officers of the Corporate Administrator or an affiliate thereof. The Issuer has no employees and is not expected to have any employees in the future.

SELECTED FINANCIAL INFORMATION

The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and the unaudited interim condensed consolidated financial statements of ADIB and its subsidiaries and the other information contained in this Prospectus. The annual consolidated financial statements have been prepared in accordance with the Intentional Financial Reporting Standards and the unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Investors should not rely on interim results as being indicative of results ADIB may expect for the full year.

The following table sets forth selected financial information for ADIB for the years ended 31 December 2010 and 31 December 2011 and for the nine month periods ended 30 September 2011 and 30 September 2012. The income statement data and statement of financial position data extracted from the respective annual consolidated financial statements of ADIB for the years ended 31 December 2010 and 31 December 2011 and unaudited interim condensed consolidated financial statements of ADIB for the nine month periods ended 30 September 2011 and 30 September 2012 have been presented in AED and, for convenience only, in United States dollars using an exchange rate of USD 1 = AED 3.6725.

	30 September 2011	*30 September 2012*	*31 December 2010*	*31 December 2011*
Income Statement Data (*in AED Millions*)				
Total Operating Income	3,227.2	3,314.3	4,119.0	4,312.3
Total Operating Expenses	1,602.8	1,723.2	2,050.5	2,270.7
Net Profit	938.9	958.5	1,023.6	1,155.1
Statement of Financial Position Data (*in AED Millions*)				
Total Assets	74,162.8	81,540.4	75,257.5	74,335.1
Murabaha and other Islamic financing	22,865.0	23,446.0	22,682.5	23,365.6
Ijara financing	25,577.8	27,411.1	25,270.1	25,465.8
Investments	1,973.4	4,168.4	1,639.4	1,652.6
Depositors' accounts	54,397.7	61,188.5	56,517.0	55,171.8
Due to financial institutions	1,282.2	2,569.8	891.4	1,931.4
Equity attributable to ordinary shareholders[8]	6,464.9	6,999.1	6,110.7	6,571.1
Income Statement Data (*in USD Millions*)				
Total Operating Income	878.8	902.5	1,121.6	1,174.2
Total Operating Expenses	436.4	469.2	558.3	618.3
Net Profit	255.7	261.0	278.7	314.5
Statement of Financial Position Data (*in USD Millions*)				
Total Assets	20,194.1	22,203.0	20,492.2	20,241.0
Murabaha and other Islamic financing	6,226.0	6,384.2	6,176.3	6,362.3
Ijara Financing	6,964.7	7,463.9	6,880.9	6,934.2
Investments	537.4	1,135.0	446.4	450.0
Depositors' accounts	14,812.2	16,661.3	15,389.3	15,022.9
Due to financial institutions	349.1	699.8	242.7	525.9
Equity attributable to ordinary shareholders[8]	1,760.3	1,905.8	1,663.9	1,789.3
Profitability				
Return on Average Asset (%)[1]	1.26%	1.23%	1.47%	1.54%
Return on Average equity attributable to ordinary shareholders (%)[2]	14.93%	14.13%	18.19%	18.22%
Earnings Per Share (in AED)	0.359	0.367	0.382	0.438

	30 September 2011	30 September 2012	31 December 2010	31 December 2011
Capital				
Equity attributable to ordinary shareholders to Total Assets (%)	8.72%	8.58%	8.12%	8.84%
Capital Adequacy Ratio (Basel II)	16.33%	16.92%	16.03%	17.39%
Liquidity & Business Indicators				
Due from banks[3]/Due to financial institutions	695.7%	355.3%	1764.7%	400.3%
Liquid Assets[4]/Total Assets	20.60%	20.93%	21.9%	17.4%
Financing[5]/Total Deposits[6]	87.0%	79.8%	83.5%	85.5%
Depositors' accounts/Total Deposits[6]	97.7%	96.0%	98.4%	96.6%
Non-performing financing assets (NPA)[7]/ Gross Financing	8.95%	7.63%	7.13%	8.70%
Provision for financing assets[9]/NPA	59.6%	80.1%	63.6%	66.8%
Financing/Depositors' accounts	89.1%	83.1%	84.8%	88.5%

1. The Return on Average Assets (%) figures determined for the nine month period ended 30 September 2011 and 30 September 2012 are not annualised figures. The Return on Average Assets (%) figures are determined by dividing Net Profit for the period by average assets for the period. For the years ended 31 December 2010 and 31 December 2011, average assets is determined by adding the total assets at the beginning and at the end of the year and dividing by two which amounted to AED 69,670.8 million in 2010 and AED 74,796.3 million in 2011. For the nine month periods ended 30 September 2011 and 30 September 2012, average assets are determined by adding total assets at the beginning and at the end of the period and dividing by two which amounted to AED 74,710.2 million in 2011 and AED 77,937.7 million in 2012.
2. The Return on Average equity attributable to ordinary shareholders (%) figures determined for the nine month periods ended 30 September 2011 and 30 September 2012 are not annualised figures. The Return on Average equity attributable to ordinary shareholders figures are determined by dividing Net Profit for the period by average equity attributable to ordinary shareholders for the period. For the years ended 31 December 2010 and 31 December 2011, average equity attributable to ordinary shareholders is determined by adding total equity attributable to ordinary shareholders at the beginning and at the end of the year and dividing by two which amounted to AED 5,627.6 million in 2010 and AED 6,340.9 million in 2011. For the nine month periods ended 30 September 2011 and 30 September 2012, average shareholders' equity is determined by adding shareholders' equity at the beginning and at the end of the period and dividing by two which amounted to AED 6,287.8 million in 2011 and AED 6,785.1 million in 2012.
3. "Due from banks" comprises Balances and Wakala deposits with Islamic Banks and other Financial Institutions and Murabaha and Mudaraba with Financial Institutions.
4. "Liquid assets" comprises Short-term Cash and Balance with Central Banks, Short-term Balances and Wakala deposits with Islamic Banks and other Financial Institutions and short-term Murabaha and Mudaraba with Financial Institutions.
5. "Financing" comprises the sum of Murabaha and other Islamic financing and Ijara financing.
6. "Total Deposits" comprises the sum of Depositors' accounts and due to Financial Institutions.
7. "Non-performing financing assets" comprises individually impaired financing assets under Murabaha and other Islamic financing and Ijara financings.
8. "Equity attributable to ordinary shareholders" comprises the sum of equity attributable to the equity holders of the Bank and non-controlling interest excluding Tier 1 sukuk.
9. "Provision for financing assets" comprises the sum of total provision for impairment on Murabaha and other Islamic financing and total provision for impairment on ijara financing.

DESCRIPTION OF ABU DHABI ISLAMIC BANK PJSC

History and Overview

Abu Dhabi Islamic Bank PJSC ("**ADIB**") was incorporated in the UAE and registered as a Public Joint Stock Company on 20 May 1997 for a term of 100 Gregorian years pursuant to the UAE Federal Companies Law (as amended), Ministerial Decree No. (103) of 1997 and Amiri Decree No. (9) of 1997. ADIB was registered in the Commercial Register on 3 November 1997, under commercial registration number 36148. ADIB's registered office is at Al Bateen Building, Bainuna Street, PO Box 313, Abu Dhabi, United Arab Emirates and its telephone number is +971 26 343 000.

ADIB was established by the Government of Abu Dhabi with the purpose of being the leading Islamic bank in Abu Dhabi and the UAE and on 18 October 1998, ADIB was licensed as an Islamic bank by the Central Bank pursuant to the UAE Federal Banking Law and the UAE Federal Islamic Banking Law. At the time of its incorporation, ADIB was the first Islamic bank to be established in Abu Dhabi and only the second Islamic bank in the UAE. ADIB commenced its operations on 11 November 1998 from its headquarters in Abu Dhabi and was formally inaugurated by His Highness Sheikh Abdullah bin Zayed Al Nahyan, UAE Minister for Information and Culture, on 18 April 1999.

ADIB is one of the leading Islamic banks in the Middle East in terms of both total assets and revenues. As at 30 September 2012, ADIB had total assets of AED 81.540 billion and total equity of AED 8.999 billion. For the purposes of reporting its risk-weighted assets, ADIB had, as at 30 September 2012, Tier 1 capital of AED 8.961 billion and Tier 2 capital of AED 2.917 billion. ADIB's net profit for the nine months ended 30 September 2012 was AED 958.5 million. During the nine months ended 30 September 2012, ADIB made total net revenues (total operating income net of distribution to depositors and sukukholders) of AED 2.682 billion.

ADIB has the third largest branch network in the UAE, with 73 operating branches in the UAE as at 30 September 2012. In addition, ADIB also has branches in Iraq and Qatar. During 2011, ADIB was awarded the "Best Islamic Bank in the Middle East region" for the second year in a row by Banker Middle East Industry Awards, the "Best Islamic Bank in the UAE" by Global Finance Magazine and the "Best Islamic Bank" by Business Banking and Finance Magazine.

ADIB was listed on the Abu Dhabi Securities Exchange (the "**ADX**") on 15 November 2000 and as at 30 September 2012, the issued and paid up share capital of ADIB was AED 2.365 billion (corresponding to USD 643.9 million). As at 30 September 2012, Emirates International Investment Company LLC ("**EIIC**"), an Abu Dhabi based investment company wholly owned by National Holding LLC, a privately owned holding company based in Abu Dhabi and controlled by members of the Ruling Family of Abu Dhabi, held approximately 40.66 percent of the share capital of ADIB, the Abu Dhabi Investment Council ("**ADIC**") held approximately 7.61 percent of the share capital of ADIB, members and associates of the Ruling Family of Abu Dhabi held approximately 10.11 percent of the share capital of ADIB and the UAE General Pension and Social Security Authority held approximately 2.31 percent of the share capital of ADIB. The remaining shares were held by approximately 47,000 UAE nationals and UAE companies.

In addition to operating its own business divisions, ADIB has also established a number of subsidiaries, including Abu Dhabi Islamic Securities Company LLC (formally Abu Dhabi Islamic Financial Services LLC) ("**ADIB Securities**") to carry on brokerage operations, Burooj Properties LLC ("**Burooj Properties**") to develop and hold investment properties and provide real estate property management services to ADIB's banking business, its customers and other third parties and Kawader Services Company LLC ("**Kawader Services**"), a recruitment consultancy and outsource staffing office exclusively dedicated to assisting ADIB in its recruitment of manpower.

In January 2012, ADIB acquired a 51 percent equity stake in Saudi Installment House, a limited liability consumer finance company incorporated in the Kingdom of Saudi Arabia, in order to provide opportunities for ADIB to grow its international business and to tap into the large consumer market in the Kingdom of Saudi Arabia.

In May 2012, ADIB established a wholly owned banking subsidiary, "**ADIB (UK) Limited**", a limited liability company, in the United Kingdom to offer a range of banking services to high net worth individuals. ADIB (UK) Limited is regulated by the UK Financial Services Authority and the subsidiary allows ADIB to serve its UAE based clients, whose interests are increasingly international, who often choose London as their base for business and personal transactions.

ADIB is also a major investor in: Bosna Bank International ("**BBI**"), which provides Islamic banking services in Bosnia; Abu Dhabi National Takaful Company PJSC ("**ADNTC**"), which provides Islamic insurance products in the UAE; and the National Bank for Development ("**NBD**") which provides banking services in Egypt and which is in the process of being converted into an Islamic bank. See "*Subsidiaries*" and "*Investments in Associates*" for a full description of ADIB's subsidiaries and associates.

ADIB's principal objective is to become a world class provider of a diverse range of *Shari'a*-compliant financial products and services worldwide. In order to achieve this, ADIB has embarked on a strategy to take advantage of the growth opportunities available within the UAE and internationally for Islamic banking which involves (i) building market leadership in the UAE; (ii) creating an integrated financial services group; and (iii) pursuing international growth opportunities.

Share Capital

At incorporation, the authorised and issued share capital of ADIB was AED 1 billion (corresponding to approximately USD 272.3 million) divided into 100 million fully paid shares with a nominal value of AED 10 each. Since incorporation, the share capital of ADIB has undergone five changes:

- On 26 March 2006, the shareholders approved a 20 percent share dividend, resulting in an increase to the paid up share capital of ADIB from AED 1 billion to AED 1.2 billion;
- On 26 March 2006, ADIB conducted a AED 300 million rights issue, resulting in an increase to the paid up share capital of ADIB from AED 1.2 billion to AED 1.5 billion;
- On 29 March 2007, ADIB issued an AED 2 billion convertible sukuk to EIIC which was convertible into ordinary shares on or before 28 March 2008. On 26 February 2008, EIIC exercised its rights to convert the sukuk into approximately 47.059 million ordinary shares of AED 10 each at the rate of AED 42.50 per share. Accordingly, with effect from 26 February 2008, the paid up share capital of ADIB was increased by approximately AED 470.588 million (corresponding to approximately USD 128.1 million) to AED 1.971 billion, with the balance of approximately AED 1.529 billion (corresponding to approximately USD 416.5 million) being credited to legal reserve;
- On 18 March 2008, the board of directors approved a share split of 10 shares of AED 1 each for each ordinary share of AED 10; and
- On 21 April 2010, the shareholders approved a 20 percent share dividend, resulting in an increase in the paid up share capital of ADIB from AED 1.971 billion to AED 2.365 billion.

As at 30 September 2012, the issued and paid up share capital of ADIB was 2.365 billion shares of AED 1 each amounting to AED 2.365 billion (corresponding to USD 643.9 million). The ten major shareholders (by percentage holding) of ADIB and details of their respective shareholdings as at 30 September 2012 are set out below:

Investor name	*No of Shares*	*Percentage of total share capital*
EIIC	961,571,035	40.66%
ADIC	180,000,000	7.61%
H.H. Sheikh Hammed Bin Sultan Al-Nahyyan	58,707,188	2.48%
H.H. Sheikh Khaled Bin Sultan Al-Nahyyan	57,811,198	2.44%
UAE General Pension and Social Security Authority	54,562,272	2.31%
H.E. Jawaan Awaidha Suhail Al Khaili	43,941,108	1.86%
National Bank of Abu Dhabi	33,855,276	1.43%
The estate of H.H. Sheikh Nasser Bin Zayed Sultan Al-Nahyyan	28,083,780	1.19%
H.H. Suroor Bin Muhammad Bin Khalifa Al-Nahyyan	25,335,732	1.07%
Tasamim Real Estate Co. LLC	25,200,000	1.07%
Total	1,469,067,589	62.12%

The remaining shares amounting to approximately 895 million shares (representing approximately 37.88 percent of the share capital of ADIB) were held by approximately 47,000 UAE nationals and UAE companies.

The Articles of Association of ADIB impose foreign ownership restrictions on the shareholdings of ADIB. Article 7 of the Articles of Association of ADIB provides that 75 percent of the shares of ADIB must be owned by UAE nationals and while non-UAE nationals are permitted to own shares, they must not own more than 25 percent of the shares of ADIB. The Board of Directors was authorised by an Extraordinary General Assembly to set a period of time to implement this article and in February 2010, the Board of Directors initiated the regulatory approval process required to allow them to give effect to this article. As at the date of this Prospectus the procurement of regulatory approval is still in process and ADIB has not been provided with a confirmed completion date.

In addition, the Articles of Association of ADIB also provide that no dealing or assignment of any share of ADIB shall be registered if the transferee is, or would become as a result of such dealing, the owner, directly or indirectly, of more than 5 percent of the capital of ADIB, unless the transferee is the EIIC in its capacity as the strategic shareholder.

Objective and Strategy

ADIB's principal objective is to become a world class provider of a diverse range of *Shari'a*-compliant financial products and services worldwide. In order to achieve this, ADIB has embarked on a strategy which ADIB believes will allow it to take advantage of the growth opportunities for Islamic banking available within the UAE and internationally. ADIB's objective is captured in its vision and mission.

Vision: To be a top tier Islamic Financial Services Group

Mission: To provide Islamic Financial solutions for the global community

The vision and mission are supported by ADIB's overall strategy, which is based on three pillars:

Build market leadership in the UAE

To build market leadership within the UAE, ADIB continues to widen its product range and network as a means of differentiation and to allow it to acquire greater market share. Historically, ADIB's retail presence in the local market has been its core strength which the Bank will continue to build to achieve market leadership. ADIB anticipates that its branch numbers will continue to increase in the next three years, with plans to grow the branch network from 73 branches in the UAE as at 30 September 2012, to around 80 branches in 2013. In order to complement its financial products, ADIB will remain focused on customer service, which it believes increases opportunities for new customer acquisitions and increases cross-selling.

One of the foundations of ADIB's customer-centric approach is a model in which sales and services, as well as product development and innovation, are aligned to cater to the needs of each segment in which it operates. This approach allows for specialist risk management based on the best practice applicable to each of the segments.

Create an integrated financial services group

ADIB continues to expand into complementary *Shari'a*-compliant financial services to increase client acquisition opportunities, cross-selling initiatives and provide an increasingly diversified earnings base. Current complementary business areas are insurance (through ADNTC) and stockbroking (through ADIB Securities). The real estate property management and investment property business (through Burooj Properties and its subsidiaries) is not an aligned financial services business and, in line with the Central Bank's guidelines, ADIB will ultimately reduce its holding in Burooj Properties from the current ownership level to a minority interest. No specific date has been set for the dilution of ADIB's investment in Burooj Properties, since this is contingent upon: (i) ADIB being satisfied that there are real signs of recovery in the UAE real estate market allowing for the profitable development of the land portfolio; (ii) the investment properties delivering sustainable positive yields; (iii) the property management business being able to function as a stand-alone business; and (iv) the business being able to operate independently of the Board of ADIB.

Pursue international growth opportunities

In view of the growing awareness of ethical banking practices and the acceptance of Islamic banking worldwide, ADIB is increasingly turning its attention to replicating its business model in related markets and importing service and product innovation into the UAE through a systematic approach to geographic expansion through its International Project Management Department. The initial focus is on the MENA region and related markets, given ADIB's ability to leverage brand and cultural affinity and its proximity to the core business. ADIB's international expansion began in Egypt with the acquisition of 49 percent of the share capital of NBD in 2007. The conversion of NBD into an Islamic bank has been commenced and a management team has been seconded from ADIB to assist with the conversion process. Over the next three to five years, the process is expected to culminate in NBD repositioning its existing 70 branches, as well as 30 new branches, into the leading Islamic bank in Egypt. See "*Subsidiaries*" and "*Investments in Associates*".

ADIB's international expansion continued with the acquisition of 27 percent of Bosna Bank International in 2001 and with the establishment of branch in Iraq in early 2011. ADIB, through the operations of its wholly owned banking subsidiary "ADIB (UK) Limited", was the first UAE based Islamic institution to receive a banking operations licence from the UK Financial Services Authority and is now able to offer a range of services to high net worth individuals from its office in London. ADIB has also been awarded a banking licence in Qatar by the Qatar Financial Centre and in Sudan, where it expects to commence operations in late 2012. ADIB still has an application for a licence pending in Algeria, but is not actively pursuing this until the current regional political and economic climate allows for greater clarity as to the new banking landscape in North Africa.

Competitive Strengths

ADIB's management believes that it enjoys a number of competitive advantages in terms of its history, management and shareholders, market presence, financial portfolio, growth and products and services, as set out below:

(i) **Strong and influential shareholders**: ADIB's strategic shareholder EIIC provides ADIB with the necessary support and public profile to take advantage of growth opportunities. ADIB also has approximately 47,000 minority shareholders, all of whom are UAE nationals or UAE companies.

(ii) **Experienced management**: The senior management team of ADIB has considerable and diverse experience in the banking industry and extensive skills in the operation of Islamic financial institutions in the local, regional and international markets.

(iii) **Historical presence**: As the second oldest Islamic bank in the UAE, ADIB is well established and has the necessary track record and credibility in developing and offering Islamic finance products to meet the increasingly sophisticated needs of its customers.

(iv) **Fatwa and *Shari'a* Supervisory Committee**: The *Shari'a* Committee of ADIB comprises pre-eminent scholars in Islamic finance who have significant experience and standing in Islamic banking. The *Shari'a* Committee's involvement with ADIB's *Shari'a* processes and practices reaffirms ADIB's credibility and has contributed significantly to ADIB's standing in the Islamic banking industry globally.

(v) **Strong and established brand**: ADIB is a recognised and strong brand in the Islamic finance market throughout the MENA region. In addition, its deep affiliation to, and support from, the Ruling Family of Abu Dhabi, has enabled it to attract a significant share of the market for Islamic finance products and services in the UAE and to successfully launch innovative products and services across multiple customer segments.

(vi) **Extensive channel distribution network**: ADIB has the third largest branch network in the UAE, with 73 operating branches as at 30 September 2012. ADIB's customer service is further enhanced by its increasing focus on alternative distribution channels, including a large ATM network of 500 ATMs in the UAE as of 30 September 2012, a 24/7 call centre, telephone and internet banking facilities and a nationwide direct sales unit that operates independently of its branch network.

(vii) **Innovative products and services**: ADIB provides a wide range of innovative products to its customers in order to meet their diverse and sophisticated needs. ADIB was the first Islamic bank to launch and promote an Islamic covered card (Al Tawaraq, the recognised *Shari'a* solution for credit cards). Other innovative products offered to meet customers' specific needs include Islamic Covered Drawings (the *Shari'a* solution for conventional bank overdrafts), Al Khair (consumer finance for debt consolidation and *Shari'a* cleansing), Noor (educational finance), Terhal (travel finance) and Tadawul (financing the purchase of *Shari'a*-complaint shares).

(viii) **Steady growth**: ADIB had 493,298 customers in the UAE as at 30 September 2012. Total assets grew 9.9 percent from AED 74.163 billion (US$20.194 billion) as at 30 September 2011 to AED 81.540 billion (US$22.203 billion) as at 30 September 2012. During the same period, customers' deposits grew from AED 54.398 billion (US$14.812 billion) to AED 61.188 billion (US$16.661 billion), representing an increase of 12.5 percent.

(ix) **Liquidity**: ADIB's advances to deposits ratio and stable funds ratios remained below one to one throughout the financial crisis, making ADIB one of the most liquid banks in the UAE.

Bank Operations

In 2008, ADIB initiated a large scale internal reorganisation process with the aim of reorganising its business to cater for its customers' needs based on clear segmentation criteria. The internal reorganisation resulted in the establishment of new customer business divisions by merging existing business units and creating certain new divisions. The business divisions are led by experienced management teams under the direction of Group Heads.

ADIB is now organised into four customer focused business divisions:

(a) Retail Banking division (comprising of Personal Banking, Business Banking and Women's Banking);

(b) Private Banking division (comprising of Private Banking and Wealth Management);

(c) Wholesale Banking division (comprising of Corporate Banking, Financial Institutions, Public Sector Banking and Direct Investments); and

(d) Treasury division.

The business divisions are managed from ADIB's headquarters in Abu Dhabi and operated through an extensive network of branches located across the UAE. Cross selling of products amongst the divisions is encouraged where relevant to provide customers with solutions to their investment and banking needs.

The divisions are supported by both a Risk Management unit, which focuses on credit, market and operational risks and which is overseen by the Risk Policy Committee and by back and middle office units, which provide support in the areas of operations, information technology, *Shari'a*, legal, compliance and human resources. Liquidity risk is managed directly by the Treasury division with oversight from the Asset and Liability Committee. A description of the main divisions is provided below.

Retail Banking

ADIB's retail customer base largely comprises UAE nationals and long-term Arab expatriates. ADIB has focused on growing its range of *Shari'a*-compliant deposit and financing products and services. ADIB considers the Retail Banking division to have the highest potential for earnings growth and accordingly has focused on widening its product range and network expansion as a means of differentiation and acquiring market share. The Retail Banking division is the main source of deposits for ADIB. Over the course of the last three years, the main focus of the Retail Banking division has been to improve its customer relations and service quality, to develop new channels and products to meet customer demand and to expand its geographical presence to better service its customers and strengthen its position as a leading Islamic bank in the region, capable of offering innovative solutions.

The principal deposit products offered by the Retail Banking division comprise current accounts, savings accounts, short term investment accounts and long term investment accounts. All the services offered by the Retail Banking department are integrated with ADIB's comprehensive range of electronic solutions and are supported by a 24-hour call centre.

In the first nine months of 2012, ADIB's Retail Banking division revenues increased by 2.5 percent (compared to the first nine months of 2011), not withstanding the introduction of the new retail banking regulations by the Central Bank, which capped fees, tenure and debt servicing levels of individuals in the UAE. However, ADIB's customer base increased during the same period by 10.0 percent (compared to the first nine months of 2011). During the first nine months of 2012, 62 new ATMs were installed in the UAE, bringing the total number of branches and ATMs in the UAE to 73 and 522 respectively as at 30 September 2012.

ADIB continually seeks to improve its internal systems and procedures in order to improve service quality and as an integral part of its drive to further improve service quality, provides mandatory front-line training for staff, involving two days of customer service and one day of sales training. ADIB's rewards and recognition process and on-going dialogue with its Retail Banking staff have also made a significant contribution to the drive towards improved service. ADIB's commitment to customer service was recognised in 2011 by Ethos Consultancy, with the award of "Best Overall Bank in the UAE in Customer Service" and "Best Branch Award in the UAE", as well as by the International Customer Service Institute, which awarded ADIB "Best Private Sector Customer Service Team".

Currently, the Retail Banking division comprises three primary departments: Personal Banking, Business Banking and Women's Banking (which are described in more detail below). Personal Banking provides services for individual clients ranging from mass market to those who are more affluent. Business Banking was created to service the needs of small and medium enterprises ("**SME**") (which are businesses with an annual turnover below AED 40 million). Women's Banking was created to provide a more private and personalised service for women including tailored banking products for female customers in addition to existing bank products and packages.

(a) Personal Banking

The principal finance products offered by the Personal Banking department comprise Islamic Mortgages (home finance), Covered Drawings (the *Shari'a*-compliant solution for conventional bank overdrafts), Al Khair (consumer finance for financing obligations of customers to conventional banks and *Shari'a* cleansing), *Shari'a*-compliant covered cards (equivalent to credit cards), Noor (educational finance), Terhal (travel finance), Sahel (car finance), Qwareb (boat finance) and Tadawul (financing for the purchase of *Shari'a*-complaint shares traded on the Dubai Financial Market and the ADX). The Personal Banking department also provides a range of products designed to introduce children to saving, including a children's savings account which provides a number of benefits including higher distributed profit rates.

In 2011, ADIB launched its Priority Banking service for customers who maintain more than AED 500,000 on deposit with ADIB. The Priority Banking service is also offered to those high net worth customers whose relationship with ADIB is managed by Private Banking. The first three priority banking centres have been launched and are staffed by dedicated relationship teams and supported by an enhanced product suite, including a co-branded card with Etihad Airways and the Visa Infinite debit card which provides cardholders with a range of benefits including access to concierge services and exclusive offers available only to cardholders.

(b) Business Banking

The principal finance products offered by the Business Banking department comprise transaction banking, cash management and *Shari'a*-compliant financing. In addition, ADIB provides a number of innovative finance products and in 2009, it launched the first *Shari'a*-compliant covered card (equivalent to credit cards) in the UAE aimed at SME businesses in the UAE. This product provides a way to manage business expenses and provides financing up to a maximum aggregate amount of AED 250,000. Business Banking customers have their own dedicated call centre and internet banking facility.

(c) Women's Banking

The Women's Banking department is aimed at providing a more private and personalised service to women. It provides banking products tailored for female customers that are separate from the existing bank products and packages. ADIB was one of the first banks in the UAE to offer products and services tailored to the specific needs of female customers in the UAE. It has two dedicated full service branches, and 31 segregated areas in the rest of its branch network, which are staffed exclusively by women and serve only female customers. Over the years, ADIB has strengthened this tradition of exclusive banking for women and now has a female customer branch next to all of its major branches. Women's Banking offers special discounts, invitations to women-only social events, customised cheque books and chip-based debit cards, free internet and SMS banking and special discounts on safe deposit lockers along with standard banking services such as ATM, cash and cheque deposit machines. ADIB won the "Best Ladies Banking Service" at the 4th Annual Banker Middle East Product Awards in 2011.

Private Banking

The Private Banking division offers deposits, financing, wealth management, estate planning and family office services (which aim to help families transfer wealth across generations in a *Shari'a* compliant manner) to high net worth individuals (being individuals with assets or deposits with ADIB of over U.S.$3 million) and ultra-high net worth individuals (being individuals with assets or deposits with ADIB of over U.S.$3 million). Private Banking offers wealth and investment products that are either developed by the Wealth Management team in ADIB or sourced from external product providers. ADIB's strategic aim is to grow its Private Banking business to become the pre-eminent Islamic private bank in the UAE.

The Wealth Management unit within Private Banking, established in June 2009, offers three specific product ranges: third party funds, proprietary ADIB funds and a brokerage service. These include structured products such as capital protected funds and tailored discretionary funds for high net worth individuals.

Wealth Management's *Shari'a*-compliant products are targeted at high net worth and affluent customers in the UAE and therefore works in concert with both the Private and Priority Banking relationship management teams. A key feature of this unit's service is an on-going focus on financial management education. The aim of these services is to help clients at all levels to grow and preserve their wealth to achieve their long term financial goals. In this regard, Wealth Management offers a well-developed customer financial planning tool to its customers and has launched a four-step ''ADIB Wealth Management Process'' which introduces a regime of investment analysis and asset allocation, with relationship managers assisting clients to identify the spread of returns most appropriate to their requirements and circumstances.

Since its launch in June 2009, Wealth Management has created a number of products linked to oil, gold and baskets of soft commodities (such as coffee, sugar, wheat etc.), offering secured returns. As at 30 September 2012, approximately AED 723 million had been invested in these products, primarily from Private and Priority Banking clients.

In 2010, the Boston Consulting Group was appointed to advise ADIB on the future direction of its Private Banking and Wealth Management divisions, to increase the functional capabilities of these divisions. Consequently, the Private Banking and Wealth Management divisions were aligned and merged in 2010 and the reorganised Private Banking division was re-launched in early 2011.

Wholesale Banking

The Wholesale Banking division was created in August 2008 by bringing together the corporate, financial institutions and public sector divisions and through the recruitment of a new management team. There are two key product organisations within the Wholesale Banking division: Transaction Banking Services, which aims to provide more structured cash management and trade solutions, and Corporate Finance and Investment Banking, which aims to provide the full suite of financing, equity and advisory services.

Wholesale Banking divides its customer base into three primary business categories for effective relationship management and to provide the appropriate level of service to its customers. These comprise the Corporate Banking Group, Financial Institutions and Public Sector Banking. In addition, a direct investments team has also been created within Wholesale Banking in order to manage ADIB's direct investments for the duration of those investments.

Despite the impact of the global economic challenges on the UAE, ADIB has continued to invest in the Wholesale Banking division, hiring and training of relationship managers and building a strong platform to expand its coverage and product range. In 2011, the Wholesale Banking division completed a number of high profile transactions which took ADIB to ninth place by total transaction values in the table of MENA sukuk book-runners compiled by Dealogic. In addition, in 2011, ADIB was ranked both the No.1 UAE Islamic Financing Book-runner in syndication business (for the second consecutive year) and the No.1 MENA Islamic Financing Book-runner in syndication business in each case by Dealogic.

Transaction Banking launched a dedicated Wholesale Banking electronic banking platform in 2011 and continues to work with its customers in integrating their systems and ADIB's own back office to allow for straight-through processing. ADIB is now able to offer a cash management solution to assist customers in optimising their cash liquidity. A tailor-made solution has been launched which enables customers to pay suppliers electronically, whether to settle a single invoice, or to make multiple payments such as salary transfers to employees through their payroll system. ADIB is also developing a trade finance solution which is expected to be launched in the middle of 2013 and which will allow straight-through processing of letters of credit and guarantees from the initiation of the transaction through to its execution. All of this is supported by a dedicated customer service unit, which assists in improving its response times and facilitating faster turn-around of transactions.

Within the prevailing market climate, the Wholesale Banking division is focused on preserving the quality and liquidity of ADIB's balance sheet, sustaining prudent growth and improving service quality. The Wholesale Banking division has 70 direct client and product coverage relationship managers and business heads, supported by a further nine managers focused on customer service and business information. The focus is on customers and customers' relationships and ADIB has created a number of specialised client coverage segments, including: Trading and Manufacturing; Contracting and Real Estate; and Public Sector. These three client coverage segments are divided operationally into two regions, namely (i) Dubai and Northern Emirates; and (ii) Abu Dhabi, Al Ain and Western Emirates. In addition, internal processes and management information system capabilities have been improved providing stronger portfolio management capabilities, including detailed customer profitability reports and performance against financial targets as well as customer call management and monitoring.

The three primary business categories into which Wholesale Banking divides its customer base are as follows:

(a) Corporate Banking

The principal market sectors covered by the Corporate Banking group include trading, contracting, real estate, energy, transportation and manufacturing.

The Corporate Banking department offers a wide range of *Shari'a*-compliant Islamic banking solutions including Murabaha (asset finance), Istisna (construction and manufacturing finance), Ijara (leasing), Islamic covered drawings and other *Shari'a*-compliant products. ADIB continues to strive to widen the range of products and to innovate by providing tailor-made Islamic banking solutions to its customers.

In addition to financing products, ADIB offers its customers various services and products such as transaction banking, project finance advisory, financing syndications, structured finance and other structured solutions that are *Shari'a*-compliant.

(b) Financial Institutions

The Financial Institutions department is responsible for enhancing and maintaining relationships with local and international banks in the UAE and worldwide. As part of ADIB's strategic initiative to pursue international banking opportunities, ADIB, through the Financial Institutions department, intends to build a substantial international network of correspondent banking relationships to help enhance ADIB's capacity to service the needs of its customers internationally by facilitating and financing their transfers and trade transactions.

(c) Public Sector Banking

The Public Sector Banking department's customers are government and quasi-government entities in the UAE.

ADIB believes it has a key role to play in assisting the UAE public sector to execute the UAE government's development strategies. The focus of the Public Sector Banking department is to deliver high quality solutions tailored to the specific needs of the UAE public sector. Dedicated relationship managers and service desks are trained to cater to this customer base.

The Public Sector Banking department offers a wide range of *Shari'a*-compliant banking solutions including Murabaha (asset finance), project finance services and other *Shari'a*-compliant products.

In addition to the customer and product units, a small dedicated team has been formed in the Wholesale division with the main objective of managing ADIB's direct investment exposure. In 2008, ADIB's approach to direct investments changed from acquiring small stakes in unquoted companies to investing directly in third party managed private equity funds. As a result, only three investments have been committed to since 2008, one of which was subsequently exited in 2011. As at 30 September 2012 ADIB has a further direct investment commitment of AED 70.7 million, but does not expect this to be drawn down. As at 30 September 2012, the investment portfolio in unlisted funds amounted to AED 107.0 million and the investment portfolio in private equities amounted to AED 258.2 million.

Treasury

The Treasury division is responsible for managing ADIB's assets and liabilities and its overall financial structure. It is also primarily responsible for managing the funding, liquidity and foreign exchange requirements of ADIB. The division focuses on trading and providing services to both internal ADIB divisions, and, in particular, the Wholesale Banking division, and to external customers, consisting of corporates, financial institutions and public sector organisations.

Since its restructuring in 2008, the division has invested in developing its capabilities by recruiting skilled staff in order to meet the growing challenges of the business and has upgraded its treasury front office system, provided by Sunguard, to cope with these challenges. The Treasury division is divided into five departments: (a) money markets and foreign exchange, (b) capital markets, which manages ADIB's portfolio of listed securities, (c) structured solutions, which provides solutions to internal and external customers to manage financial market risks, (d) Treasury marketing and sales, which manages the Treasury division's customer relationships, and (e) middle office, which facilitates process flow and manages the quality control of Treasury's transactions.

Treasury is also the main interface with ADIB's customers for Treasury products. In addition, a Treasury marketing and front office sales unit, with a dedicated relationship management team is in place. Treasury performs a key role in relation to Wholesale Banking customers in accommodating their foreign exchange and money market requirements and also provides them with currency and exchange rate hedging and *Shari'a* compliant risk management solutions. Treasury also works in close partnership with Private Banking in understanding customer requirements and delivering tailor-made Islamic structures.

During 2010, ADIB launched its first structured products, capital protected notes, which were marketed through the Wealth Management division, thus enlarging the scope of products offered to ADIB's clientele.

As at 30 September 2012, the portfolio of securities managed by the capital markets department of the Treasury division consisted of quoted equities and sukuk amounting to AED 3,775.2 million.

In addition, ADIB was a main contributor and participant in the introduction of Islamic Certificates of Deposit by the Central Bank in the fourth quarter of 2010, providing the Central Bank with support on the structuring and legal drafting of the Islamic Certificates of Deposit. The Treasury division also assists ADIB in respect of issuances under its sukuk programme.

Key to all of the above initiatives is the investment and development of talent through the recruitment of experienced professionals and the establishment of challenging training programmes for each member of the Treasury team.

International Project Management Department

ADIB has put in place an International Project Management Department to manage its expansion outside the UAE. International expansion is a core pillar of ADIB's strategic vision to be a top tier global provider of financial services. As part of this strategic vision, ADIB seeks opportunities for growth in Islamic asset classes around the world through general guiding principles which have been established and are now followed to assist in the selection and evaluation of potential opportunities internationally, such as the nature and size of the banking sector (i.e. competition, profitability and appetite for Islamic products) as well as the political, regulatory and economic environment in the target country.

ADIB, through the operation of its wholly owned subsidiary, ADIB (UK) Limited, was the first UAE based Islamic financial institution to receive a banking operations licence from the UK Financial Services Authority and now offers a range of services to high net-worth individuals from an office in London. ADIB has also been awarded a banking licence in Iraq and commenced operations in Iraq in early 2011 and in Qatar, licensed by the QFSA and operating in the Qatar Financial Centre, and Sudan, where it expects to commence operations in late 2012 upon receiving a license. ADIB still has an application for a licence pending in Algeria, but is not actively pursuing this until the current regional political and economic climate allows for greater clarity as to the new banking landscape in North Africa.

ADIB's initial objective when entering a new market is capital preservation. As such, ADIB's initial focus is to deliver secured credit facilities to (a) top tier financial institutions that are either government owned or benefit from some form of government support or (b) multinationals and top tier local corporates who are top three players in their respective industries. ADIB will subsequently roll out its product lines that are geared more towards retail and SME customers.

Subsidiaries

As at 30 September 2012, ADIB's consolidated subsidiaries comprised:

	Place of Incorporation	*Proportion of ownership interest*	*Proportion of voting power*	*Principal Activity*
Abu Dhabi Islamic Securities Company LLC	UAE	95%	95%	Equity brokerage services
Burooj Properties LLC	UAE	100%	100%	Real estate investments
Kawader Services Company LLC	UAE	100%	100%	Manpower supply
ADIB Invest I	BVI	100%	100%	Dormant entity
ADIB Sukuk Company Ltd*	Cayman Islands	0%	0%	Special Purpose Vehicle
ADIB Sukuk Company II Ltd*	Cayman Islands	0%	0%	Special Purpose Vehicle
Saudi Installment House	The Kingdom of Saudi Arabia	51%	51%	Retail Finance
ADIB (UK) Limited	United Kingdom	100%	100%	Islamic Banking
ADIB Capital Invest 1 Ltd*	Cayman Islands	0%	0%	Special Purpose Vehicle

*The Bank does not have any direct holding in ADIB Sukuk Company Ltd, ADIB Sukuk Company II Ltd or ADIB Capital Invest 1 Ltd and these entities are considered to be subsidiaries by virtue of control.

1. ***ADIB (UK) Limited***: a limited liability company incorporated in the United Kingdom which is 100 percent owned by ADIB. ADIB (UK) Limited has been granted a banking operations licence from the UK Financial Services Authority and now offers a range of services to high net-worth individuals from its office in Hyde Park, London.

2. ***Abu Dhabi Islamic Securities Company LLC ("Abu Dhabi Securities")***: a brokerage firm established in February 2005, which operates in the UAE. As at 30 September 2012, 95 percent of the share capital of ADIB Securities was held by ADIB, with the remaining 5 percent held by Abu Dhabi National Takaful Company. It was rebranded as ADIB Securities in 2010, having previously traded as Abu Dhabi Islamic Financial Services. Currently, ADIB Securities provides brokerage services to the full range of investors on both the ADX and the Dubai Financial Market. ADIB Securities produced a net profit of AED 1.8 million during the nine months ended 30 September 2012 (as compared with a net profit of AED 0.8 million during the same period ended 30 September 2011). ADIB Securities is currently an agency only business and its performance reflects its commitment to building a strong customer orientated franchise. ADIB Securities is currently, by market share, both one of the largest share brokerage houses in the UAE (with a 10.1 percent share of the brokerage market) and the largest *Shari'a*-compliant broker in the UAE (based on its trading volume as a percentage of the combined trading volume of the ADX and Dubai Financial Market as at September 2012).

In 2010 ADIB Securities launched its online trading platform, which has improved client service and created an essential new channel for conducting business.

3. ***Saudi Installment House***: a limited liability company incorporated in the Kingdom of Saudi Arabia. ADIB currently owns 51 percent of the share capital of Saudi Installment House. Saudi Installment House is a consumer finance company engaged in the business of cash and instalment sale.

4. ***Burooj Properties LLC ("Burooj Properties")***: a real estate company focused on both proprietary and third party property management and proprietary property development and investment, established in October 2005 which operates in the UAE and is 100 percent owned by ADIB. As at 30 September 2012, Burooj Properties, through its wholly owned subsidiary, MPM Properties, managed 23,366 units on behalf of third parties. In addition, MPM Properties also provides property project management and valuation services to both ADIB and third parties. As at 30 September 2012, Burooj Properties had AED 309.0 million completed investment properties and AED 837.4 million of land for development purposes in its property portfolio and had outstanding commitments of AED 1,420.0 million. All properties and commitments in the portfolio of Burooj Properties are regularly reviewed, including a comprehensive "highest-and-best-use" analysis, in accordance with ADIB's accounting policy and practice. On the basis of these reviews the market value of each property is determined by reference to recent market conditions, existing prices and estimates of net present value of cash flows. The market value is compared to the carrying value of the properties in order to determine whether any impairments are necessary and, as a result, Burooj Properties made impairments of AED 124.2 million in the nine months ended 30 September 2012 and posted a net loss of AED 212.9 million for this period (as compared to a net loss of AED 151.3 million for the same period in 2011). ADIB will ultimately reduce its holding in Burooj Properties from the current ownership level to a minority

interest. No specific date has been set for the dilution of ADIB's investment in Burooj since this is reliant on the a number of factors: (i) ADIB being satisfied that there are real signs of recovery in the UAE real estate market allowing for the profitable development of the land portfolio; (ii) the investment properties delivering sustainable positive yields; (iii) the property management business being able to function as a stand-alone business; and (iv) the business is able to operate independently of the Board of ADIB.

5. ***Kawader Services Company LLC:*** a limited liability company established in 2007 which operates in the UAE and which is 100 percent owned by ADIB. Kawader Services is a recruitment consultancy service exclusively dedicated to assist ADIB in its recruitment processes.

6. ***ADIB Invest I:*** is an open ended fund incorporated and registered in the British Virgin Islands in accordance with the Companies Law of the British Virgin Islands. The fund was established on 2 November 2004 and is currently dormant.

7. ***ADIB Sukuk Company Ltd:*** a special purpose vehicle established for the purpose of ADIB's US$5,000,000,000 Trust Certificates Issuance Programme. ADIB does not have any direct holding in ADIB Sukuk Company Ltd and it is considered a subsidiary by virtue of control.

8. ***ADIB Sukuk Company II Ltd:*** a special purpose vehicle established for the purpose of ADIB's MYR1,500,000,000 Malaysian Trust Certificates Issuance Programme. ADIB does not have any direct holding in ADIB Sukuk Company II Ltd and it is considered a subsidiary by virtue of control.

9. ***ADIB Capital Invest 1 Ltd:*** a special purpose vehicle established for the purpose of the offering of the Certificates. ADIB does not have any direct holding in ADIB Capital Invest 1 Ltd and is considered a subsidiary by virtue of control.

Investments in Associates

As at 30 September 2012, ADIB's investments in associates amounted to AED 845.5 million. As at 30 September 2012, placements with associates amounting to AED 918.9 million, related to future capital issues. As at 30 September 2012, the ownership percentages of ADIB's associates were as follows:

	Place of Incorporation	*Proportion of ownership interest*	*Proportion of voting power*	*Principal Activity*
National Bank for Development.	Egypt	49%	49%	Banking (under conversion into an Islamic bank)
Bosna Bank International D.D.	Bosnia	27%	27%	Islamic banking
Abu Dhabi National Takaful PJSC	UAE	40%	40%	Islamic insurance

1. ***National Bank for Development ("NBD"):*** ADIB acquired 49 percent of the shares in NBD on 29 July 2007. NBD provides banking services in Egypt NBD through 70 branches and is in the process of internal restructuring and being converted into an Islamic bank. ADIB is providing support and assistance in the restructuring and conversion process. This includes, amongst other initiatives, assistance with: (i) the development of a new strategy for NBD which will result in its business model being aligned with that of ADIB's; (ii) the installation of a new core banking system that supports Islamic banking and was implemented in 2009; (iii) the introduction a suite of *Shari'a*-compliant retail and corporate banking asset financing products; and (iv) the development of a range of *Shari'a*-compliant deposit products, including retail sukuk, unique to Egypt. While significant progress has been made in converting NBD to an Islamic banking institution, the process will not be completed until there are adequate liquidity management tools available to it, such as government issued *Shari'a*-compliant Treasury Bills. While ADIB is actively engaged with the necessary regulatory authorities in Egypt to assist with the introduction of such products, there is no certainty as to when these may be introduced.

2. ***Abu Dhabi National Takaful Company PJSC ("ADNTC"):*** ADIB acquired 40 percent of the shares of ADNTC on 21 June 2003. ADNTC provides Islamic insurance products and services to its customers in the UAE.

3. ***Bosna Bank International D.D. ("BB"):*** ADIB acquired 27 percent of the shares of BBI in 2001. BBI provides Islamic banking services to its customers in Bosnia.

Operating Performance and Financial Position

Operating Segments of Business

ADIB is primarily organised into five operating segments of business corresponding to the Bank's four primary business divisions and income received from Burooj Properties, its real estate focused subsidiary: (i) Retail Banking; (ii) Wholesale Banking, (iii) Private Banking, (iv) Capital Markets and (v) Real Estate. Income received from activities conducted by ADIB's head office (such as any income received from associate companies), foreign branches and subsidiaries, is allocated to "other operations".

The table below shows the contribution that each of these operating segments made to consolidated net profit and consolidated total assets for the nine month period ended and as at 30 September 2012, respectively, as compared to the prior respective periods:

	Retail banking	*Wholesale banking*	*Private banking*	*Capital markets*	*Real estate*	*Other operations*	*Total*
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*	*AED '000*	*AED '000*
As at and for the nine months ended 30 September 2012							
Segment revenues, net	1,682,271	735,800	170,283	60,976	(32,256)	64,541	2,681,615
Operating expenses excluding provision for impairment, net	(758,663)	(154,099)	(69,495)	(45,845)	(56,389)	(63,921)	(1,148,412)
Operating profit (margin)	923,608	581,701	100,788	15,131	(88,645)	620	1,533,203
Provision for impairment, net	(149,852)	(191,106)	(109,057)	—	(124,213)	(521)	(574,749)
Profit (loss) for the period	773,756	390,595	(8,269)	15,131	(212,858)	99	958,454
Non-controlling interest	—	—	—	(260)	—	(566)	(826)
Profit (loss) for the period attributable to equity holders of the Bank	773,756	390,595	(8,269)	14,871	(212,858)	(467)	957,628
Assets							
Segmental assets	26,855,202	19,954,489	6,138,714	24,563,225	2,597,707	1,431,042	81,540,379
Liabilities							
Segmental liabilities	30,109,500	16,627,382	6,889,887	18,203,338	296,792	414,344	72,541,243
As at and for the nine months ended 30 September 2011							
Segment revenues, net	1,648,392	640,347	130,355	111,957	7,029	3,614	2,541,694
Operating expenses excluding provision for impairment, net	(709,120)	(142,133)	(62,378)	(47,382)	(56,652)	(38,982)	(1,056,647)
Operating profit (margin)	939,272	498,214	67,977	64,575	(49,623)	(35,368)	1,485,047
Provision for impairment, net	(134,172)	(100,360)	(209,934)	—	(101,682)	—	(546,148)
Profit (loss) for the period	805,100	397,854	(141,957)	64,575	(151,305)	(35,368)	938,899
Non-controlling interest	—	—	—	(128)	—	—	(128)
Profit (loss) for the period attributable to equity holders of the Bank	805,100	397,854	(141,957)	64,447	(151,305)	(35,368)	938,771
Assets							
Segmental assets	25,592,482	18,475,775	6,042,088	19,350,764	2,900,931	1,800,781	74,162,821
Liabilities							
Segmental liabilities	24,956,139	16,959,850	7,071,597	15,936,706	409,664	364,015	65,697,971

The table below shows the contribution that the five operating segments of business made to ADIB as at and for the years ended 31 December 2011 and 2010.

	Retail banking	*Wholesale banking*	*Private banking*	*Capital markets*	*Real estate*	*Other operations*	*Total*
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*	*AED '000*	*AED '000*
For the year ended 31 December 2011							
Segment revenues, net	2,191,820	869,274	231,159	127,140	143	6,279	3,425,815
Operating expenses excluding provision for impairment, net	(967,328)	(193,028)	(86,476)	(62,529)	(78,199)	(62,094)	(1,449,654)
Operating profit (margin)	1,224,492	676,246	144,683	64,611	(78,056)	(55,815)	1,976,161
Provision for impairment, net	(240,844)	(155,314)	(228,854)	—	(196,058)	—	(821,070)
Profit (loss) for the period	983,648	520,932	(84,171)	64,611	(274,114)	(55,815)	1,155,091
Non-controlling interest	—	—	—	(122)	—	—	(122)
Profit (loss) for the period attributable to equity holders of the Bank	983,648	520,932	(84,171)	64,489	(274,114)	(55,815)	1,154,969
Assets							
Segmental assets	25,785,489	18,863,772	6,121,370	19,941,941	2,715,080	907,414	74,335,066
Liabilities							
Segmental liabilities	25,267,760	17,015,481	6,520,916	16,294,716	278,126	387,000	65,763,999
For the year ended 31 December 2010							
Segment revenues, net	2,016,538	709,399	154,634	189,008	5,056	(618)	3,074,017
Operating expenses excluding provision for impairment, net	(850,005)	(174,043)	(77,197)	(54,456)	(82,432)	(63,107)	(1,301,240)
Operating profit (margin)	1,166,533	535,356	77,437	134,552	(77,376)	(63,725)	1,772,777
Provision for impairment, net	(165,465)	(399,509)	(58,730)	(6,050)	(119,458)	—	(749,212)
Profit (loss) for the period	1,001,068	135,847	18,707	128,502	(196,834)	(63,725)	1,023,565
Non-controlling interest	—	—	—	(220)	—	—	(220)
Profit (loss) for the period attributable to equity holders of the Bank	1,001,068	135,847	18,707	128,282	(196,834)	(63,725)	1,023,345
Assets							
Segmental assets	23,481,356	18,572,025	7,323,063	22,258,929	2,908,311	713,834	75,257,518
Liabilities							
Segmental liabilities	21,013,344	20,994,935	7,796,163	16,625,052	376,340	341,032	67,146,866

Set forth below is a brief discussion of ADIB's consolidated operating performance and financial position for the nine months ended as at 30 September 2012, as compared to the corresponding nine-month period for the prior year, as well as ADIB's consolidated operating performance and financial position for the year ended as at 31 December 2011, as compared to the prior year.

Nine Months Ended 30 September 2012 as Compared to Nine Months Ended 30 September 2011

Operating Income

Operating income increased by AED 87.1 million (US$23.7 million), or 2.7 percent, to AED 3.314 billion (US$902.5 million) for the nine months ended 30 September 2012 from AED 3.227 billion (US$878.8 million) for the nine months ended 30 September 2011.

This increase was primarily due to:

(i) the increase in income from murabaha, mudaraba, ijara and other Islamic financing from customers, which increased by AED 46.5 million (US$12.7 million), or 1.7 percent, to AED 2.722 billion (US$741.1 million) for the nine months ended 30 September 2012 from AED 2.675 billion (US$728.4 million) for the nine months ended 30 September 2011.

(ii) the increase in investment income by AED 76.3 million (US$20.8 million), or 98.1 percent, to AED 154.0 million (US$41.9 million) for the nine months ended 30 September 2012 from AED 77.7 million (US$21.2 million) for the nine months ended 30 September 2011.

(iii) the increase in foreign exchange income by AED 14.0 million (US$3.8 million), or 63.1 percent, to AED 36.2 million (US$9.9 million) for the nine months ended 30 September 2012 from AED 22.2 million (US$6.0 million) for the nine months ended 30 September 2011.

The above increase was partially offset by a decrease in income from murabaha, mudaraba and wakala and other Islamic financing with financial institutions, which decreased by AED 10.6 million (US$2.9 million), or 11.7 percent, to AED 79.5 million (US$21.6 million) for the nine months ended 30 September 2012 from AED 90.0 million (US$24.5 million) for the nine months ended 30 September 2011 and a decrease in fees and commission, which decreased by AED 34.0 million (US$9.3 million), or 10.2 percent, to AED 301.3 million (US$82.0 million) for the nine months ended 30 September 2012 from AED 335.4 million (US$91.3 million) for the nine months ended 30 September 2011.

Operating Expenses

Operating expenses (including provisions for impairment) increased by AED 120.4 million (US$32.8 million), or 7.5 percent, to AED 1.723 billion (US$469.2 million) for the nine months ended 30 September 2012 from AED 1.603 billion (US$436.4 million) for the nine months ended 30 September 2011.

This increase was primarily due to:

(i) the increase in General and administrative expenses, which increased by AED 54.8 million (US$14.9 million) or 16.6 percent, to AED 384.0 million (US$104.6 million) for the nine months ended 30 September 2012 from AED 329.2 million (US$89.6 million) for the nine months ended 30 September 2011.

(ii) the increase in provision for impairment, which increased by AED 28.6 million (US$7.8 million) or 5.2 percent, to AED 574.7 million (US$156.5 million) for the nine months ended 30 September 2012 from AED 546.1 million (US$148.7 million) for the nine months ended 30 September 2011.

Net Profit

The foregoing increase in operating income and increase in operating expenses was offset by the decrease of AED 52.8 million (US$14.4 million) in distributions to depositors and sukuk holders, resulting in increasing net profit by AED 19.6 million (US$5.3 million), or 2.1 percent, to AED 958.5 million (US$261.0 million) for the nine months ended 30 September 2012 from AED 938.9 million (US$255.7 million) for the nine months ended 30 September 2011.

Financial Position

Total assets increase by AED 7.4 billion (US$2.0 billion), or 9.9 percent, to AED 81.5 billion (US$22.2 billion) as at 30 September 2012 from AED 74.2 billion (US$20.2 billion) as at 30 September 2011. Contributing to this increase in total assets was customer financing increasing by 5.0 percent to AED 50.9 billion and investments increasing by 111 percent to AED 4.2 billion.

In addition, total liabilities increased by AED 6.8 billion (US$1.9 billion), or 10.4 percent, to AED 72.5 billion (US$19.8 billion) as at 30 September 2012 from AED 65.7 billion (US$17.9 billion) as at 30 September 2011. The foregoing increase in total assets and total liabilities resulted in total equity attributable to equity holders of ADIB increasing by AED 534.3 million (US$145.5 million), or 6.3 percent, to AED 9.0 billion (US$2.5 billion) as at 30 September 2012 from AED 8.5 billion (US$2.3 billion) as at 30 September 2011.

Year Ended 31 December 2011 as Compared to Year Ended 31 December 2010

Operating Income

Operating income increased by AED 193.3 million (US$52.6 million), or 4.7 percent, to AED 4.3 billion (US$1.2 billion) for the year ended 31 December 2011 from AED 4.1 billion (US$1.1 billion) for the year ended 31 December 2010.

This increase was primarily due to the increase in income from murabaha, mudaraba, ijara and other Islamic financing from customers, which increased by AED 156.4 million (US$42.6 million), or 4.5 percent, to AED 3.61 billion (US$982.8 million) for the year ended 31 December 2011 from AED 3.45 billion (US$940.2 million) for the year ended 31 December 2010. In addition, net fees and commission income increased by AED 86.0 million (US$23.4 million), or 25.1 percent, to AED 429.3 million (US$116.9 million) for the year ended 31 December 2011 from AED 343.3 million (US$93.5 million) for the year ended 31 December 2010. The primary drivers for the foregoing increases in the various components of net operating income were an increase in the income from share murabaha financing from customers by AED 207.4 million (US$ 56.5 million), or 41.9 percent, to AED 702.3 million (US$191.2 million) for the year ended 31 December 2011 from AED 495.0 million (US$134.8

million) for the year ended 31 December 2010 and an increase in fees and commission income on credit cards by AED 65.0 million (US$17.7 million), or 45.7 percent, to AED 207.2 million (US$56.4 million) for the year ended 31 December 2011 from AED 142.2 million (US$38.7 million) for the year ended 31 December 2010.

Operating Expenses

Operating expenses increased by AED 220.3 million (US$60.0 million), or 10.7 percent, to AED 2.3 billion (US$618.3 million) for the year ended 31 December 2011 from AED 2.0 billion (US$558.3 million) for the year ended 31 December 2010. This increase was primarily due to the increase in Employees' costs, which increased by AED 102.9 million (US$28.0 million) or 13.0 percent, to AED 895.7 million (US$243.9 million) for the year ended 31 December 2011 from AED 792.8 million (US$215.9 million) for the year ended 31 December 2010 and the increase in net provisions for impairment, which increased by AED 71.9 million (US$19.6 million) or 9.6 percent, to AED 821.1 million (US$223.6 million) for the year ended 31 December 2011 from AED 749.2 million (US$204.0 million) for the year ended 31 December 2010.

Net Profit

The foregoing increase in net operating income resulted in increasing net profit by AED 131.5 million (US$35.8 million), or 12.8 percent, to AED 1.16 billion (US$314.5 million) for the year ended 31 December 2011 from AED 1.0 billion (US$278.7 million) for the year ended 31 December 2010.

Financial Position

Total assets declined by AED 922.5 million (US$251.2 million), or 1.2 percent, to AED 74.3 billion (US$20.2 billion) as at 31 December 2011 from AED 75.3 billion (US$20.5 billion) as at 31 December 2010.

Contributing to this decline in total assets was a decline in murabaha and mudaraba with financial institutions, which decreased by AED 7.6 billion (US$2.1 billion), or 59.3 percent, to AED 5.2 billion (US$1.4 billion) as at 31 December 2011 from AED 12.8 billion (US$3.49 billion) as at 31 December 2010. However, this decline was partly off-set by an increase in cash and balances with central banks, which increased by AED 5.8 billion (US$ 1.6 billion), or 107.5 percent, to AED 11.2 billion (US$3.1 billion) as at 31 December 2011 from AED 5.4 billion (US$ 1.5 billion) as at 31 December 2010.

Total liabilities decreased by AED 1.4 billion (US$376.6 million), or 2.1 percent, to AED 65.8 billion (US$17.9 billion) as at 31 December 2011 from AED 67.1 billion (US$18.3 billion) as at 31 December 2010. This was primarily due to a decrease in depositors' accounts, which decreased by AED 1.3 billion (US$366.3 billion), or 2.4 percent, to AED 55.2 billion (US$15.0 billion) as at 31 December 2011 from AED 56.5 billion (US$15.4 billion) as at 31 December 2010 and to the buy-back of the entire co-owned assets of the first sukuk issued under ADIB's AED 18.4 billion (US$ 5.0 billion) sukuk programme and issuance of third issue under ADIB's AED 18.4 billion (US$ 5.0 billion) sukuk programme. The buy-back amounted to AED 2.94 billion (US$800.0 million) and issuance amounted to AED 1.84 billion (US$ 500.0 million), contributing to the overall reduction in sukuk financing instruments liabilities of AED 848.9 million (US$231.2 million), or 15.6 percent, to AED 4.6 billion (US$1.250 billion) as at 31 December 2011 from AED 5.4 billion (US$1.5 billion) as at 31 December 2010. These decreases were partially off-set by an increase in liabilities due to financial institutions, which increased by AED 1.0 billion (US$283.2 million), or 116.7 percent, to AED 1.9 billion (US$525.9 million) as at 31 December 2011 from AED 891.4 million (US$242.7 million) as at 31 December 2010.

The decrease in total assets was offset by the larger decrease in total liabilities which resulted in total equity attributable to the equity holders of ADIB increasing by AED 460.9 million (US$125.5 million), or 5.7 percent, to AED 8.6 billion (US$2.3 billion) as at 31 December 2011 from AED 8.1 billion (US$2.2 billion) as at 31 December 2010.

Funding

ADIB's main sources of funding are customer deposits and sukuk financing instruments issued under ADIB's AED 18.4 billion (US$5.0 billion) sukuk issuance programme. In 2006, ADIB established a US$5,000,000,000 sukuk programme and raised AED 2.9 billion on the first issuance under that programme, through the issuance of U.S$800,000,000 trust certificates due in 2011, the largest bank sukuk ever issued at that time. These trust certificates matured in 2011 and the holders of them were paid in full in December 2011.

In 2010, ADIB raised AED 2.8 billion, through the issuance of US$750,000,000 trust certificates due in 2015 under the sukuk programme. In 2011, ADIB raised an additional AED 1.8 billion, through the issuance of US$500,000,000 trust certificates due 2016, the third issuance under the sukuk programme. The trust certificates of each issuance have been listed on the London Stock Exchange.

As at 31 December 2011, the aggregate amount of ADIB's liabilities totalled AED 65.8 billion, including customer deposits, tier 2 wakala capital and sukuk financing instruments of AED 55.2 billion, AED 2.2 billion and AED 4.6 billion, respectively compared to total liabilities of AED 67.1 billion as at 31 December 2010 including customer deposits, tier 2 wakala capital and sukuk financing instruments of AED 56.5 billion, AED 2.2 billion and AED 5.4 billion, respectively. As at 30 September 2012, the aggregate amount of ADIB's liabilities totalled AED 72.5 billion, including customer deposits, tier 2 wakala capital and sukuk financing instruments of AED 61.2 billion, AED 2.2 billion and AED 4.6 billion respectively.

The following table sets out the sources of funding for ADIB as at 30 September 2011, 30 September 2012, 31 December 2010 and 31 December 2011.

Customer Deposits

	30 September 2011 AED '000	*30 September 2012 AED '000*	*31 December 2010 AED '000*	*31 December 2011 AED '000*
Current accounts	13,871,757	16,437,397	12,635,323	14,234,786
Savings accounts	10,898,071	13,945,684	8,911,158	11,182,629
Investment deposits	29,510,348	30,594,012	34,905,776	29,613,769
Profit equalisation provision[1]	117,474	211,390	64,788	140,599
Total	54,397,650	61,188,483	56,517,045	55,171,783

1 The "profit equalisation provision" is a reserve account created for certain types of deposit established in accordance with *Shari'a*, which can be used to pay profit to a depositor in specific circumstances based on an agreed methodology.

Due to Financial Institution

	30 September 2011 AED '000	*30 September 2012 AED '000*	*31 December 2010 AED '000*	*31 December 2011 AED '000*
Current accounts	205,772	211,055	240,660	171,203
Investment deposits	1,076,413	2,358,789	650,730	1,760,223
	1,282,185	2,569,844	891,390	1,931,426

Tier 2 Wakala capital

	30 September 2011 AED '000	*30 September 2012 AED '000*	*31 December 2010 AED '000*	*31 December 2011 AED '000*
Tier 2 Wakala capital	2,207,408	2,207,408	2,207,408	2,207,408

Sukuk Financing Instruments

	30 September 2011 AED '000	*30 September 2012 AED '000*	*31 December 2010 AED '000*	*31 December 2011 AED '000*
Sukuk Financing Instruments	5,684,112	4,590,625	5,439,523	4,590,625

Other liabilities

	30 September 2011 AED '000	30 September 2012 AED '000	31 December 2010 AED '000	31 December 2011 AED '000
Other liabilities	2,126,616	1,984,883	2,091,500	1,862,757

As at 30 September 2012, ADIB's 20 largest depositors accounted for 35.3 percent of ADIB's total customer deposits at that date (compared to 36.6 percent as at 31 December 2011). In accordance with *Shari'a*, interest cannot be paid or received for all types of accounts. Therefore deposit accounts (other than current accounts) are granted a profit distribution. Distributions of profit to depositors for the nine month period ended 30 September 2012 amounted to AED 632.7 million (as compared to AED 685.5 million for the same period in 2011).

As at 30 September 2012, ADIB's 20 largest financings accounted for 24.3 percent of ADIB's total net financing at that date (compared to 23.5 percent as at 31 December 2011).

Balance Sheet Maturity Profile

The maturity profile of ADIB's assets and liabilities at the end of each financial year is based on contractual repayment arrangements. The contractual maturities of assets and liabilities are based on the remaining period of the contractual repayment obligations as at the date of the applicable balance sheet and do not take into account the behavioural maturities as indicated by ADIB's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure that adequate liquidity is maintained.

The tables below summarise the maturity profile of the Group's financial assets and liabilities at 31 December 2010 and 31 December 2011 based on contractual maturities.

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
31 December 2010					
ASSETS					
Cash and balances with Central Banks	4,500,246	900,089	—	—	5,400,335
Balances and Wakala deposits with Islamic banks and other financial institutions	2,652,442	253,940	—	—	2,906,382
Murabaha and Mudaraba with financial institutions	9,304,138	3,324,334	82,974	112,096	12,823,542
Murabaha and other Islamic financing	2,994,160	3,763,028	11,296,454	4,628,869	22,682,521
Ijara financing	1,760,939	3,460,654	13,018,088	7,030,390	25,270,071
Investments	337,198	152,631	1,149,585	—	1,639,414
Investment in associates	—	—	—	837,195	837,195
Other assets	222,391	183,625	31,243	4,562	441,821
Financial assets	21,771,514	12,038,301	25,578,354	12,613,112	72,001,281
Non-financial assets	—	—	—	—	3,256,237
Total assets	21,771,514	12,038,301	25,578,354	12,613,112	75,257,518
LIABILITIES					
Due to financial institutions	500,923	390,467	—	—	891,390
Depositors' accounts	51,860,160	4,433,656	221,729	1,500	56,517,045
Other liabilities	978,111	665,294	448,095	—	2,091,500
Tier 2 Wakala capital	—	—	—	2,207,408	2,207,408
Sukuk financing instruments	—	2,938,000	2,501,523	—	5,439,523
Total liabilities	53,339,194	8,427,417	3,171,347	2,208,908	67,146,866

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
31 December 2011					
ASSETS					
Cash and balances with Central Banks	6,647,445	4,559,700	—	—	11,207,145
Balances and Wakala deposits with Islamic banks and other financial institutions	2,331,413	183,958	—	—	2,515,371
Murabaha and Mudaraba with financial institutions	3,952,980	208,846	819,683	234,992	5,216,501
Murabaha and other Islamic financing	3,877,328	4,476,853	11,544,136	3,467,242	23,365,559
Ijara financing	1,693,387	2,947,464	12,582,135	8,242,796	25,465,782
Investments	848,985	73,827	729,793	—	1,652,605
Investment in associates	—	—	—	851,503	851,503
Other assets	66,574	227,625	105,642	5,649	405,490
Financial assets	19,418,112	12,678,273	25,781,389	12,802,182	70,679,956
Non-financial assets	—	—	—	—	3,655,110
Total assets	19,418,112	12,678,273	25,781,389	12,802,182	74,335,066
LIABILITIES					
Due to financial institutions	1,542,202	389,224	—	—	1,931,426
Depositors' accounts	50,285,426	4,411,403	473,454	1,500	55,171,783
Other liabilities	827,788	588,768	446,201	—	1,862,757
Tier 2 Wakala capital	—	—	2,207,408	—	2,207,408
Sukuk financing instruments	—	—	4,590,625	—	4,590,625
Total liabilities	52,655,416	5,389,395	7,717,688	1,500	65,763,999

Gross Financing Portfolio

The following table summarises the types of ADIB's financing activities as at 30 September 2011, 30 September 2012, 31 December 2010 and 31 December 2011:

Financing Type	30 September 2011 AED '000	30 September 2012 AED '000	31 December 2010 AED '000	31 December 2011 AED '000
Murabaha	26,327,197	26,874,119	25,667,926	26,753,451
Mudaraba	2,609,057	2,096,328	2,763,970	2,592,419
Islamic covered cards (Murabaha)	4,096,636	4,606,881	4,004,584	4,156,481
Istisna's	265,595	185,850	301,219	235,756
Ijara	32,816,816	35,421,490	31,900,478	32,778,348
Other financing receivables	118,172	120,218	116,809	163,584
	66,233,473	69,304,886	64,754,986	66,680,039
Less deferred income	(15,062,137)	(15,138,674)	(14,525,704)	(14,838,492)
Total Customer Financing (Gross)	51,171,336	54,166,212	50,229,282	51,841,547
Less provisions	(2,728,527)	(3,309,117)	(2,276,690)	(3,010,206)
Total Customer Financing (Net)	48,442,809	50,857,095	47,952,592	48,831,341

Concentration of assets, liabilities and off balance sheet items

The following tables set out the allocation by geographic region and industry sector of ADIB's portfolio of assets, liabilities and off balance sheet items as at 31 December 2010 and 31 December

2011. The concentration of assets and liabilities by geographical segment is based primarily upon the location of the counterparty.

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

	31 December 2010 AED '000	*31 December 2011 AED '000*
Geographic region:		
UAE	63,804,277	57,151,010
Middle East	1,353,007	1,333,900
Europe	779,483	947,578
Others	1,731,236	2,100,921
Financial assets subject to credit risk	67,668,003	61,533,409
Industry sector:		
Government	781,084	661,862
Public sector	2,263,256	2,502,529
Financial institutions	17,475,861	9,276,295
Trading and manufacturing	1,598,264	3,727,551
Construction and real estate	7,486,697	6,167,035
Energy	521,217	484,177
Personal	29,989,940	30,986,641
Others	7,551,684	7,727,319
Financial assets subject to credit risk	67,668,003	61,553,409

Contingent Liabilities and Commitments

Credit-related commitments include commitments to extend Islamic credit facilities, standby letters of credit, guarantees and acceptances, which are designed to meet the requirements of ADIB'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, guarantees and acceptances commit ADIB to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of contracts.

ADIB had the following credit related commitments, contingencies and other capital commitments as at 30 September 2011, 30 September 2012, 31 December 2010 and 31 December 2011:

	30 September 2011 AED '000	*30 September 2012 AED '000*	*31 December 2010 AED '000*	*31 December 2011 AED '000*
Contingent Liabilities				
Letters of credit	1,839,760	1,716,966	1,077,025	1,666,121
Letters of guarantee	9,164,242	8,601,849	7,004,417	9,003,727
Acceptances	353,147	334,969	173,516	439,322
Total Contingent Liabilities	11,357,149	10,653.784	8,254,958	11,109,170
Commitments				
Undrawn facilities commitments	1,409,214	783,658	2,047,396	1,293,858
Investment securities	144,200	70,700	144,200	70,700
Commitment for future capital expenditure	384,798	277,992	42,325	345,750
Commitment for investment and development properties	1,561,891	1,420,041	1,667,163	1,559,443
Total Commitments	3,500,103	2,552,391	3,901,084	3,269,751
Total	14,857,252	13,206,175	12,156,042	14,378,921

The table below shows the contractual expiry by maturity of ADIB's contingent liabilities and commitments as at 31 December 2010 and 31 December 2011.

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
2010					
Contingent liabilities	4,688,822	1,680,027	1,886,109	—	8,254,958
Commitments	412,810	821,035	619,843	—	1,853,688
Total	5,101,632	2,501,062	2,505,952	—	10,108,646
2011					
Contingent liabilities	8,605,755	2,082,969	417,300	3,146	11,109,170
Commitments	62,585	152,789	1,760,519	—	1,975,893
Total	8,668,340	2,235,758	2,177,819	3,146	13,085,063

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

Provisions for Credit Losses

The following table sets out the movements in provisions for credit losses as at 31 December 2010, 31 December 2011, 30 September 2011 and 30 September 2012.

	Murabaha and Other Islamic Financing AED '000	*Ijara Financing AED '000*	*Total AED '000*
Provision Balance as at 1 January 2010	1,370,155	380,643	1,750,798
Additional provision during 2010	558,559	(1,297)	557,262
Written off during 2010	(31,124)	(246)	(31,370)
Balance as at 31 December 2010	1,897,590	379,100	2,276,690
Additional provision during the first nine months of 2011	174,925	288,018	462.943
Written off during the first nine months of 2011	(11,106)	—	(11,106)
Balance as at 30 September 2011	2,061,409	667,118	2,728,527
Additional provision during the last three months of 2011	156,164	125,949	282,113
Written off during the last three months of 2011	(434)	—	(434)
Balance as at 31 December 2011	2,217,139	793,067	3,010,206
Additional provision during the first nine months of 2012	94,675	351,919	446,594
Written off during the first nine months of 2012	(91,247)	(56,436)	(147,683)
Balance as at 30 September 2012	2,220,567	1,088,550	3,309,117

Investments

The fair value of the investments at 30 September 2011, 30 September 2012 and 31 December 2011 (classified in accordance with IFRS 9) is comprised of the following:

	30 September 2011 AED '000	*30 September 2012 AED '000*	*31 December 2011 AED '000*
Investment carried at fair value through profit or loss			
Equities	8,710	—	2,625
Sukuk	1,112,419	1,088,414	846,361
	1,121,129	1,088,414	848,986
Investment carried at fair value through other comprehensive income			
Quoted Investments			
Equities	23,029	27,891	16,454
Unquoted investments			
Funds	232,764	107,048	174,723
Private equities	196,406	258,184	172,033
	429,170	365,232	346,756
Investment carried at amortised cost			
Sukuk	400,108	2,686,840	440,409
	1,973,436	4,168,377	1,652,605

The analysis of the Group's investments as at 31 December 2010 (classified in accordance with IAS 39) was as follows:

	31 December 2010
	AED '000
Held for Trading	
Equities	6,920
Sukuk	329,353
	336,273
Available for-sale	
Quoted Investments	
Equities	58,817
Sukuk	604,280
	663,097
Unquoted investments	
Funds	223,322
Private equities	281,272
	504,494
Held to maturity	
Sukuk	135,450
	1,639,414

Related Parties Transactions

In the ordinary course of its activities, ADIB enters into transactions with related parties, comprising associates, directors, major shareholders, key management and their related concerns at commercial profits and commission rates. ADIB obtains collateral, including charges over real estate properties and securities, the extent of which is dependent on ADIB's assessment of the credit risk of the related party. All financing to related parties are performing financing and free of any provision for impaired financing.

During the nine months ended 30 September 2011 and 30 September 2012 and the years ended 31 December 2010 and 31 December 2011 significant transactions with related parties included in the consolidated income statement are as follows:

	Nine months ended 30 September 2011 AED '000	*Nine months ended 30 September 2012 AED '000*	*Year ended 31 December 2010 AED '000*	*Year ended 31 December 2011 AED '000*
Income from Murabaha, Mudaraba and Wakala with Financials institutions, net	2,214	1,923	1,195	2,935
Income from Murabaha, Mudaraba, Ijara and other Islamic financing, net	205,438	288,114	270,290	276,168
Investment income	5,973	—	—	5,973
Fees, commissions and foreign exchange income, net	19,862	—	8,000	20,862
Operating expenses	327	216	183	450
Distribution to depositors and sukuk holders	838	690	5,241	974
Balances and deposits with banks and other financial institutions	867,905	985,087	569,735	927,919
Murabaha, Mudaraba, Ijara and other Islamic financing	5,237,608	5,603,024	4,835,723	5,343,521
Other assets	186,836	185,522	190,412	186,728
	6,292,349	6,773,633	5,595,870	6,458,168
Due to financial institutions	3,321	3,308	1,800	3,192
Depositors' accounts	106,649	212,765	166,917	134,217
Other liabilities	1,354	301	1,987	1,613
	111,324	216,374	170,704	139,022
Undrawn facilities commitments	1,517	83	1,517	1,517

Risk Management

The role of risk management is to support growth while ensuring the quality of ADIB's portfolio. The objective is to keep earnings volatility within control, which is achieved by setting clear risk-taking parameters and institutionalising robust risk management processes. Risk management is one of the core focus areas for ADIB and ADIB is working aggressively to ensure that it adopts global best practices in all risk management areas. This commitment is being achieved by investing both in systems and people.

ADIB faces a variety of risks in its operations (including credit, market, liquidity, operational and legal risks) in respect of which it has established risk management functions to identify, evaluate and manage all such risks.

Credit Risk Management

The Credit Risk Management ("**CRM**") team ensures an objective assessment of opportunities, supervises efficient allocation of capital and ensures earnings growth is predictable and sustainable. Risk is managed at the transaction, obligor and portfolio levels. Related policies are regularly evaluated against market and regulatory requirements.

Credit approval process

ADIB maintains documented risk management procedures and controls. Proposals for credit approvals are originated by the respective business unit, assigned a risk rating and are initially considered by the business unit. Any credit applications above the set limits are independently evaluated by CRM. All proposals above a specified limit and/or term require the approval of the

Group's Strategy Execution Committee. Proposals entailing significant amounts or exposure are submitted to the Board of Directors.

ADIB strictly complies with Central Bank regulations relating to large exposures, which provide for the maximum total exposure per counterparty (and its related Group exposures) in relation to any bank's prevailing capital base.

Collateral management

In respect of collateralised financings, the CRM team, together with the respective business units, are responsible for the evaluation and maintenance of collateral. Each customer will be contacted by ADIB when the value of its collateral falls below the required level of coverage.

Limits on financing

ADIB imposes country and geographic limits as well as industry and economic sector limits on financing. The limit for any country may be varied by the Group's Strategy Execution Committee in accordance with specific business requirements or due to any significant development in the respective country. For example, these limits may be increased or decreased in response to changes in the growth prospects of the respective industry or economic sector. The classification of a corporate borrower in relation to a certain sector is primarily based on its industry and/or economic activity and not on available collateral.

Finance portfolio

Corporate facilities are reviewed regularly by the CRM team. This review includes an analysis of the customer (based on its latest financial statements, its compliance with any covenants and its payment and facility usage patterns), its industry and its business and also uses external data where available.

ADIB's credit grading system uses a 21 grade system, being 10 full grades (1 to 10) and 11 sub grades (in increments between 2+ and 7+). Risk ratings from 1 to 5- are considered good credit although reducing in quality from ''Excellent Superior'' (i.e. unconditional local currency obligations of some strong Central Governments (US Treasury Bills, Japanese Government Bonds etc.)) to ''Good'' (companies in this category would have acceptable albeit average balance sheets, financing service coverage, cash flow, etc.). Risk rating 6+ is considered marginally acceptable/higher risk credit (demonstrating less stable characteristics providing greater historical volatility). Risk ratings 7 to 10 are considered to be underperforming credits and comprise classified credits reducing in quality from Other Assets Especially Mentioned (i.e. a company's financial prospects are susceptible to substantial variability on account of a number of factors) to Loss. Although Loss is considered uncollectible for the purpose of the credit grading system, it does not imply that the assets have absolutely no recovery or salvage value.

The table below shows a breakdown of ADIB's finance portfolio as at 30 September 2012 (AED million):

Business Group	*Performing Financing Assets*	*Non-Performing Financing Assets*	*Total*
Corporate/Government	18,282	2,713	20,995
Retail	24,865	1,727	26,592
Private Banking	5,280	1,299	6,579
Total	48,427	5,739	54,166

Source: ADIB

ADIB's 20 largest non-performing exposures as at 30 September 2012 amounted to AED 2.9 billion, of which AED 683.7 million related to non-performing exposures classified as loss, and profit in suspense relating to these accounts amounted to AED 152.3 million, of which AED 34.3 million related to non-performing accounts classified as loss. AED 1.4 billion of this amount was provisioned. The financial data in this paragraph is derived from ADIB's unaudited management data.

Financing and recovery

ADIB adopts a rigorous approach to managing its bad and doubtful customer financings. Its managers maintain effective contact with non-performing customers with a view to maximising recoveries. The Asset Recovery Management Unit ("**ARM**") within CRM is responsible for recovery of the financing through either negotiation with the customer or by litigation with the support and involvement of ADIB's Legal Department. ARM is headed by a Senior Executive who is supported by a team of Recovery Officers and Recovery Supervisors.

Retail portfolio

ADIB has adopted a simplified approach to approving retail credit applications which comprise the bulk of finance applications received by ADIB. As a preliminary step, the applicant's credit history (if any) with ADIB and any records relating to the applicant held by the Central Bank are checked. The Central Bank has established an online Risk Bureau Customer Rating System for individuals seeking financing of up to AED 250,000 (approximately USD 68,000).

ADIB has developed various retail products which have specific parameters which, *inter alia*, define the maximum level of permitted finance. Such parameters may depend on salary and debt service ratio (defined as the ratio of total of monthly instalments to net monthly salary received in the customer's account with ADIB) among other things.

ADIB offers both secured financing schemes (such as real estate and car financing, secured against the asset being financed) and unsecured financing schemes (such as personal financings and covered cards).

As a major retail bank in the UAE, ADIB saw a decline in its fee income and asset growth as a consequence of the new Central Bank regulations regarding bank loan services offered to individual customers which became effective on 1 May 2011. Fee income and asset growth rose in 2012 as ADIB's cross-selling ratios improved and new customer acquisition continued.

Market Risk Management

Market risk is ADIB's exposure to adverse changes in the market value of its portfolios and positions in financial instruments caused by changes in market prices. Market Risk Management is an independent risk governance function overseen by the Group Chief Risk Officer. The aim is to make the market risk profile transparent to the senior management and regulators. The market risk governance structure includes two policy making committees, the Asset Liability Committee and the Market Risk Policy Committee, which set appropriate limits in line with defined risk appetite and allocated capital.

Liquidity Risk Management

Liquidity risk is the risk that ADIB will be unable to meet its funding requirements which can be caused by a number of factors such as political uncertainty, market disruptions or a downgrade in ADIB's credit rating. To address this risk, management seeks to diversify funding sources and to match the growth of its assets with funding.

Operations Risk Management

Operational risk for ADIB is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Whilst ADIB cannot expect to eliminate all operational risks, ADIB aims to manage risks through assessment processes including the use of internal audit, mitigation, monitoring, reporting and staff education. Further, in order to mitigate this risk and to ensure continued growth, ADIB aims to further enhance and upgrade its production environment capabilities to manage capacity, scalability and business continuity.

Legal Risk

Legal risk is the risk of losses occurring due to legal or regulatory action that precludes performance by ADIB or its counterparty under the terms of its contractual agreements. ADIB aims to mitigate this risk through the use of properly reviewed documentation and by seeking appropriate legal advice when appropriate. ADIB has a highly qualified full-time in-house legal team which deals with both routine and more complex legal issues. Situations of higher complexity and sensitivity are referred to external firms of lawyers, either in the UAE or overseas, as appropriate.

Capital Management/Adequacy

The capital adequacy ratio of ADIB is calculated in accordance with the internal guidelines and the Central Bank's instructions. The following table shows the risk assets and their risk weighted values for capital adequacy ratio purposes under Basel II as at 30 September 2011, 30 September 2012, 31 December 2010 and 31 December 2011, respectively:

	30 September 2011	*30 September 2012*	*31 December 2010*	*31 December 2011*
	AED '000	*AED '000*	*AED '000*	*AED '000*
Capital Base	10,321,500	11,033,124	9,922,047	10,541,284
Risk Weighted Assets				
Credit Risk	58,657,270	59,694,069	58,320,901	56,137,854
Market Risk	1,308,983	1,756,455	1,008,157	1,240,708
Operational Risk	3,247,006	3,758,370	2,565,177	3,247,006
Total risk weighted assets	63,213,259	65,208,894	61,894,235	60,625,568
Total regulatory capital expressed as a percentage of total risk weighted assets	16.33%	16.92%	16.03%	17.39%

In December 2008, the UAE Federal Government (the "**Government**") placed deposits with ADIB for a period of three to five years. Subsequent to the deposit placements, the Government offered, subject to certain terms and conditions and in accordance with the Central Bank's capital adequacy requirements, to convert the deposits into capital qualifying as Tier 2 capital. Pursuant to the Extraordinary General Meeting held on 22 March 2009, the shareholders approved the conversion of these deposits into Tier 2 capital. On 31 December 2009, a *Shari'a*-compliant wakala agreement was signed by ADIB in accordance with which the deposits were converted into Tier 2 qualifying wakala capital amounting to AED 2.207 billion.

The wakala capital is an unsecured subordinated obligation of ADIB which has been provided to ADIB for a term of seven years. However, ADIB may, subject to certain conditions, return the wakala capital to the Government prior to the expiry of the seven year term. The Tier 2 qualifying wakala capital bears an expected profit rate ranging, over the term that it has been provided, from 4 percent to 5.25 percent. The profit rate is payable quarterly in arrears. In limited circumstances and subject to certain conditions, the Government has the ability to convert all or part of the wakala capital into ordinary shares of ADIB at the prevailing market price.

In Abu Dhabi, government-owned institutions assisted certain Abu Dhabi banks during 2008 in strengthening their capital base through the subscription of mandatory convertible securities. In April 2009, the Abu Dhabi Government (acting through its Department of Finance) subscribed for an AED 2 billion Tier 1 sukuk issued by ADIB. In aggregate, the Abu Dhabi Government subscribed for a sum of AED 16 billion in subordinated Tier I Capital Notes/Sukuk issued by the five largest Abu Dhabi banks: National Bank of Abu Dhabi, Abu Dhabi Commercial Bank, First Gulf Bank, Union National Bank and ADIB.

Basel II and Basel III

ADIB has successfully adopted Basel II in compliance with guidelines set by the Central Bank. ADIB will adopt the Basel III guidelines as and when the Central Bank communicates its requirements in this regard. In the meantime ADIB has already embarked on a readiness assessment and is committed to a speedy implementation of Basel III.

Operations and Technology

The Operations and Technology group ("**O&T**") provides support to ADIB's business units to simplify and streamline processes, improve the customers' experience and minimise any operational risk.

O&T is crucial to ADIB's day-to-day operations, and to fulfilling the objectives of sustained growth and continued service quality improvement.

Certain operational processes and procedures have been centralised. This initiative supported O&T's strategic intent of creating centres of excellence, providing multiple benefits by way of process simplicity and efficiency, consistent levels of delivery and improved customer service at an optimal cost.

Strategic investments in O&T during 2010 enhanced its capability to support business growth through increasing process efficiency and through workflow automation. IT strategy was reviewed by McKinsey & Company and the recommendations were implemented in 2011. In the meantime, key senior positions have been filled and the organisational structure realigned to better serve the department and its internal clients.

In working towards best-in-class operations, customer service facilities have been significantly enhanced and ADIB's core banking platform upgraded and stabilised. A robust disaster recovery plan is now in place and an enterprise resource planning system has been implemented to facilitate procurement and payments.

Competition

ADIB faces competition in all of its business areas from both domestic and foreign banks operating in the UAE. As at 31 July 2012, there were 51 banks holding full commercial banking licenses in the UAE.

As at 31 July 2012, the Islamic banking sector in the UAE included eight Islamic banks, comprising ADIB, Dubai Islamic Bank, Sharjah Islamic Bank, Emirates Islamic Bank, Dubai Bank, Noor Islamic Bank, Al Hilal Bank and Ajman Bank. In addition, a number of conventional banks have established Islamic windows through which they provide *Shari'a*-compliant products and services establishing Islamic banking offerings, including National Bank of Abu Dhabi, Abu Dhabi Commercial Bank, First Gulf Bank, Mashreq Bank, Union National Bank, Standard Chartered Bank and HSBC Amanah.

Property

During 2009, ADIB commenced construction work on its new head office building. The 12 storey twin-tower building is scheduled to be ready for occupation in 2013. The building conforms to the standard for a new construction within The Leadership in Energy and Environmental Design (LEED) Green Building Rating System (TM), which encourages global adoption of sustainable green building and development practices. ADIB's property and equipment, had a net book value of AED 1,147 million as at 30 September 2012.

Industry Regulation and Supervision

The principal source of banking regulation in the UAE is the Central Bank. The Central Bank provides prudential supervision to each bank's capital adequacy, liquidity and anti-money laundering measures. Monitoring by the Central Bank is undertaken by way of regular inspections of banks and their records and the requirement for regular submission of data including, but not limited to, deposited funds, financing business, liquidity status, risk profile and suspicious reports filing.

As a UAE company, ADIB is also subject to supervision and regulation by the UAE Ministry of Economy and Planning and regulatory authorities within each of the different Emirates that collectively constitute the UAE, in particular the Abu Dhabi Finance Department.

In addition, as a company listed on the ADX, ADIB is subject to the rules and regulations of that securities market as enforced by the Emirates Securities and Commodities Authority.

Regulatory Compliance

ADIB and the Group are committed to building and maintaining a culture of ethical behaviour, corporate governance and regulatory compliance. ADIB appointed a Global Head of Compliance and Governance in 2010 and established a Group Compliance Department ("**GCD**") to identify, assess and monitor compliance risk faced by the Group and advise and report directly to senior management. The GCD, which comprises a team of qualified professionals, ensures the preservation of the reputation and integrity of ADIB and its subsidiaries through compliance with applicable laws, regulations and ethical standards in each market in which it operates.

ADIB is not aware of any notice of material non-compliance received from any regulatory authority in any jurisdiction in which ADIB or its subsidiaries or branches currently operate.

Anti-Money Laundering (AML) Policies

The GCD has established a separate AML unit and implemented a transaction monitoring system to monitor and continually review suspicious transactions, as well as to establish AML and "Know Your Client" policies (as per the Central Bank's requirements and internationally accepted standards). The AML unit conducts regular training to ensure that ADIB and its subsidiaries are always in compliance with requisite policies.

ADIB believes that it is in substantial compliance with the Central Bank's requirements in relation to money laundering. To date, neither ADIB, nor any of its subsidiaries has been subject to sanctions or punitive actions related to anti-money laundering or terrorism financing by any regulator or law enforcement authorities.

Internal Audit

The Group Internal Audit Division ("**GIAD**") comprises a team of qualified auditors who perform internal audits of all of the branches and departments of ADIB and provide an independent appraisal function. It advises the Board of Directors, the Audit Committee, the management team and ADIB's subsidiaries and associated companies. GIAD has a direct reporting line to the Audit Committee. Each internal audit unit within each of ADIB's subsidiary companies has a functional reporting to GIAD.

GIAD adopts the Internal Audit Standards requirements including the risk-based approach in line with the best practices in the financial industry.

Ratings

Fitch Ratings Ltd ("**Fitch**") has assigned ADIB a long term issuer default rating of 'A+' with stable outlook and a short-term rating of F1. Moody's Investors Service Ltd ("**Moody's**") has assigned ADIB a foreign currency issuer rating of A2/Prime-1 and a financial strength rating of D.

Fitch is established in the European Union and was registered under Regulation 1060/2009/EC of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**") on 31 October 2011. Moody's was registered under the CRA Regulation on 31 October 2011. A list, published by the European Securities and Markets Authority, of credit rating agencies registered or certified in accordance with the CRA Regulation can be found at the following website: http://www.esma.europa.eu/page/List-registered-and-CRAs.

DIRECTORS, MANAGEMENT AND EMPLOYEES

In accordance with applicable federal UAE and Abu Dhabi laws and ADIB's by-laws, ADIB's executive management is currently comprised of a Board of Directors and a number of appointed Board Committees.

The Board of Directors

The management of ADIB is vested in a Board of Directors comprised of seven members (the "**Directors**"), elected through secret ballot by the General Assembly of the Company or appointed by the Board of Directors and confirmed by the General Assembly. A majority of the Directors and the Chairman must be UAE nationals.

The Board of Directors is appointed for three year renewable terms and is required to meet at least four times per annum. Details of the current Directors are set out below.

Name	*Positions*	*Appointment*
H.E. Jawaan Awaidha Suhail Al Khaili	Chairman of the Board since March 2008 and Board Member since February 2008.	Appointed by the Board of Directors and appointment confirmed by the General Assembly.
Mr. Khaled Abdulla Neamat Khouri	Board Member and Deputy Chairman since April 2007.	Elected by the General Assembly and appointed as Deputy Chairman by the Board of Directors
Mr. Khamis Mohamed Buharoon	Board Member since August 2007. He is also the Chairman of Burooj Properties Abu Dhabi, Vice Chairman of Takaful Insurance Co. Abu Dhabi, Chairman and the Chairman of Abu Dhabi Islamic Securities Company LLC Abu Dhabi.	Appointed by the Board of Directors and appointment confirmed by the General Assembly
Mr. Juma Khamis Al Khaili	Board Member since April 2004	Elected by the General Assembly
Mr. Ragheed Najeeb Shanti	Board Member since April 2007	Elected by the General Assembly
Dr. Sami Ali Al Amri	Board Member since March 2009	Appointed by the Board of directors and appointment confirmed by the General Assembly
Mr. Abdulla Bin Aqueeda Al Muhairi	Board Member since April 2010	Elected by the General Assembly

Board Committees

As part of ADIB's corporate governance programme, the Board has appointed a number of committees which have specific mandates, consisting of Directors, the Managing Director, the Chief Executive Officer (CEO), Group Heads and Division Heads as follows:

- *Shari'a* Committee
- Group Audit Committee
- Group Strategy Execution Committee
- Group Risk Policy Committee
- Group Remuneration Committee
- Group Nomination Committee

The purpose of these Committees and their members are set out below.

Committee	*Members*	*Purpose*
Shari'a Committee	Sheikh Mohamed Taqi Uthmani, Chairman Dr. Abdul Sattar Abu Ghuddeh, Vice Chairman Dr. Jassem Ali Al Shamsi, Member Sheikh Nizam Ya'koubi, Member Dr. Muhamed Elqari, Member	Further particulars are set out in the section "*Shari'a* Committee" below. The *Shari'a* Committee is appointed for three year terms. All members should be present by principal or by proxy to constitute a quorate meeting of the *Shari'a* Committee.
Audit Committee	Mr. Abdulla Bin Aqueeda Al Muhairi, Chairman Mr. Juma Khamis Al Khaili, Member	The Audit Committee's mandate is to: 1. Review and recommend internal audit policies and procedures to the Board for approval. 2. Oversee the audit function in ADIB to ensure that adequate planning, audit work performance, reporting and follow up activities are carried out.

Committee	*Members*	*Purpose*
		3. Approve internal audit plans and special audit assignments. 4. Select and recommend the appointment of external auditors and review the audit fee and engagement letter. Ensure the independence of external and internal auditors. Review the results of external and internal audits and of examinations undertaken by the regulatory authorities. 5. Evaluate overall performance and success of the audit function. Review corrective actions taken by the management against audit findings, business plans, the budget, financial reports, periodical financial statements and reports on cases of major frauds, theft and irregularity cases.
Group Strategy Execution Committee	Mr. Ragheed Najeeb Shanti, Chairman Mr. Tirad Mahmoud – Vice Chairman Mr. Khaled Abdulla Neamat Khouri, Member Mr. Khamis Mohamed Buharoon, Member Dr. Sami Ali Al Amri, Member	The Strategy Execution Committee's mandate is to: 1. Review, consider, discuss and challenge the relevant recommendations submitted by the relevant management teams within the Group. 2. Work with the relevant management teams to make recommendations to the Board on strategy and the long-term objectives of the Group. 3. Review and approve the delegation of approval authority to management with regard to the overall policies and procedures of the Group. 4. Approve the authority delegated to the Group's executives. 5. Approve significant and high-value transactions with regard to credit facilities, acquisitions and divestures, new business initiatives and proprietary investments. 6. Review proposals from the management for establishment of branches, subsidiaries, and new joint ventures and their related budgets, and to forward the same to the Directors for strategic decisions. 7. Review and make recommendations to the Board on any material related transactions.
Risk Policy Committee	Mr. Arthur Grady, Chairman and Subject Matter Expert Mr. Tirad Mahmoud, Vice Chairman Mr. Juma Khamis Al Khaili, Member Mr. Khamis Mohamed Buharoon, Member Mr. Ragheed Najeeb Shanti, Member Mr. Masarrat Husain, and non-voting member	The Risk Policy Committee's mandate is to: 1. Provide oversight in respect of the risks inherent in the business of the Group and the related control processes. 2. Approve and recommend to the Directors, when necessary, the policy standards, guidelines and procedures for risk assessment and risk management. 3. Review and approve the risks inherent in the business of the Group and the control processes with respect to such risks. 4. Review and approve the risk profile and risk appetite of the Group. 5. Review the risk management, compliance and control activities of the Group. 6. Review and approve ICAAP (Internal Capital Adequacy Assessment Process) and the steps taken to implement Basel II.
Remuneration Committee	Mr. Juma Khamis Al Khaili, Chairman Mr. Khaled Abdulla Neamat Khouri, Member Mr. Noble Powar, Member and Subject Matter Expert	The Remuneration Committee's mandate is to: 1. Review the selection criteria and the number of executive and employee positions required by the Group. 2. Review on an annual basis the policy for the remuneration, benefits, incentives and salaries of all Group employees.

Committee	*Members*	*Purpose*
Nomination Committee	H.E. Jawaan Awaidha Suhail Al Khaili, Chairman Mr. Juma Khamis Al Khaili, Member Dr Sami Ali Al Amri, Member	The Nomination Committee's mandate is to: 1. Lead the process for Directors' appointments and re-appointment. 2. Make recommendations to the Directors for the succession of directors. 3. Ensure the independence of the independent Directors at all times.

Senior Management

ADIB's senior management structure comprises senior members heading different divisions and departments within ADIB. With the exception of the Group Financial Controller, who reports to the Global Head of Strategy and Finance, they all report to the Chief Executive Officer who in turn reports to the Directors. The senior managers and their positions are as follows:

Name	*Position*
Tirad Marouf Mahmoud	Chief Executive Officer
Arif Usmani	Global Head of Wholesale Banking
Sarvesh Sarup	Global Head of Retail Banking
Masarrat Husain	Global Head of Risk
Andrew Douglas Moir	Global Head of Strategy and Finance
Majaz Khan	Group Head Operations and Technology
Stuart Crocker	Global Head of Private Banking
Noble Powar	Global Head of Human Resources
Abdul Rahman Abdulla	Head of Strategic Clients and Community Banking
Abdulla Al Shahi	Head of International Expansion
Adnan Said Abrahim	Head of Legal
Osaid M.A. Kailani	Global Head of *Shari'a*
Abdul Hakim Kanan	Global Head of Audit and Chief Internal Auditor
Badaruzzaman Ahmed	Global Head of Corporate Governance and Compliance
Waheeb Al Khazraji	Head of Human Resources
Ahsan Ahmed Akhtar	Group Financial Controller

The address of each of the Directors and the members of senior management named above is P.O. Box 313, Abu Dhabi, United Arab Emirates.

As at the date of this Prospectus, none of the Directors, the Chief Executive Officer, or any member of senior management or member of any supervisory body stated above has any actual or potential conflict of interest between his duties to ADIB and his private interest or other duties.

The registered office and headquarters of ADIB are currently located at P.O. Box 313, Abu Dhabi, United Arab Emirates (telephone: +971 26343000). However, ADIB are currently constructing new headquarters which are scheduled to be operational from 2013.

Below is a brief summary of the qualifications and experience of ADIB's key senior management:

Tirad Marouf Mahmoud – Chief Executive Officer. Mr. Mahmoud joined ADIB in March 2008. He holds a Bachelor degree (major in Corporate Finance) from Loyala of Concordia University in Montreal, Canada and has also completed the Executive Management Program at Wharton. He previously worked at Citibank for 22 years on various assignments: as Division Head in the Corporate Bank and later as the Regional Senior Credit Officer (1992-1998); Regional Credit Director (for Citibank North Africa, based in Egypt, Morocco, Tunisia and Algeria) (1998-2000); Chief Executive Officer & Managing Director for Citibank Romania; Regional Business Head for Citibank Bulgaria (2003) and CEO for Citibank Slovakia (2000-2003). His previous position was General Manager and Head of the Corporate and Investment Banking with Samba Financial Group, Riyadh, the Kingdom of Saudi Arabia (2004-2007).

Arif Usmani – Global Head of Wholesale Banking: Mr. Usmani joined ADIB on 6 March 2012. He holds a First Class B.Sc. (Hons) degree from Imperial College, University of London and is an Associate of the Royal College of Science. He has previously worked for over 30 years with Citibank in 6 different countries and was the Chief Risk Officer of Samba Financial Group from October 2003 till August 2007. His last position was Chief Executive Officer with Citibank in Pakistan.

Sarvesh Sarup – Global Head of Retail Banking: Mr. Sarup joined ADIB in December 2008. He holds a Master of Business Administration degree from the University of Delhi, India. He previously worked at Unisys (1985-1987) and Citibank (1987-2008) and worked at Citibank as Country Manager, India, Division Executive, UK / Germany and Retail Banking Head, EMEA.

Masarrat Husain – Global Head of Risk: Mr. Husain joined ADIB on 3 June 2008. He holds a Masters in Business Administration from Tulane University, New Orleans, Louisiana, USA and a Major in Finance and a Bachelor's degree in Science and Chemical Engineering from Texas A&M University, College Station, Texas, USA. He previously worked at Citibank (1975-2000) and Samba Financial Group, Riyadh (2001-2008). His last position before joining ADIB was GM/Deputy Chief Risk Officer with Samba Financial Group, Riyadh (2007-2008).

Andrew Douglas Moir – Global Head of Strategy and Finance: Mr. Moir joined ADIB on 1 October 2007. He holds Bachelor of Commerce degree (Hons) from Rhodes University and an MBA from University of Cape Town, South Africa. He previously worked at HSBC (1990-2007) where his last position was Chief Operating Officer, Sub Saharan Africa (2003-2007).

Majaz Khan – Group Head Operations and Technology: Mr. Khan joined ADIB on 8 November 2009. He holds an MBA from Central Michigan University and a Bachelor in Commerce from the University of Karachi. He has worked with Citigroup in five countries (1981-2007). His previous position before joining ADIB was Chief Operating Officer for Arab Bank Plc in Amman, Jordan (2007-2009).

Stuart Crocker – Global Head of Private Banking: Mr. Crocker Joined ADIB on 1 May 2011. He holds a Graduate Degree from the Royal Military Academy, Sandhurst. Previously, he was the CEO of HSBC Private Bank in UAE & Oman (2007-2011) and a member of the General Management of HSBC in Geneva (2005-2007). He has also spent 15 years in various senior management positions with Merrill Lynch in the UAE and the UK.

Noble Powar – Global Head of Human Resources: Mr. Powar Joined ADIB on 1 January 2012. He holds a Master's degree in Personnel Management & Industrial Relations and has worked for over 20 years with global banks in the Middle East, UK, USA, Europe, Asia and Africa. His previous position was Managing Director of Talent First Limited; a UK based HR Consulting Company.

Abdul Rahman Abdulla – Head of Strategic Clients and Community Banking: Mr. Abdulla joined ADIB on 12 September 1998. He holds a Bachelor degree in Science. His previous position was Deputy Head of the Private Banking Department at the National Bank of Abu Dhabi (1980-1998).

Abdulla Al Shahi – Head of International Expansion: Mr. Al Shahi joined ADIB in November 1998. He holds an MBA from the United Arab Emirates University, UAE. His previous position was a branch manager for Oman Housing Bank.

Adnan Said Abrahim – Head of Legal: Mr. Abrahim joined ADIB on 6 May 2012. He has 30 years of banking experience in managing in-house legal departments and acting as general legal counsel to various banks and investment companies over the span of his career. He holds a Bachelor of Science from University of Michigan and a Juris Doctor from Michigan State University Law School in the United States.

Osaid M.A. Kailani – Global Head of Shari'a: Dr Kailani holds a Bachelor degree in *Shari'a* and Law the University of the UAE, a Postgraduate Diploma in Islamic law from Cairo University and a PhD in Islamic Comparative Jurisprudence from the University of Wales. He is a member of the *Shari'a* Standard Committee related to Accounting and Auditing Organisation for Islamic Financial Institutions in Bahrain; a member of the Fatwa and *Shari'a* Supervisory Board of Abu Dhabi National Takaful Company; a member of the Fatwa and *Shari'a* Supervisory Board of Manazel Real Estate Company; and a member of *Shari'a* Coordination Committee of *Shari'a* Boards of Islamic Financial Institutions in UAE.

Abdul Hakim Kanan – Global Head of Audit & Chief Internal Auditor: Mr. Kanan joined ADIB on 18 April 2010. He holds a Certified Public Accountant (CPA) from the State Board of Accountancy, New Hampshire, US. He also holds the following professional qualifications: Certified Internal Auditor, Certified Information Systems Auditor, Certified Information Technology Professional, Certified Financial Services Auditor, and Certified Fraud Examiner and is certified in the Governance of Enterprise IT. He has over 24 years of experience in internal audit. His previous position was Group Chief Internal Auditor of Dubai Islamic Bank.

Badaruzzaman Ahmed – Global Head of Corporate Governance and Compliance: Mr. Ahmed joined ADIB on 12 January 1998. He holds a Bachelor of Commerce degree and professional certifications from The Institute of Internal Auditors, USA, Institute of Chartered Accountants, Pakistan, and Certified Anti-Money Laundering Association, USA. He previously worked with Ernst & Young and

Arthur Andersen. His previous position was Chief Internal Auditor with Arab European Financial Management Co., Kuwait (a former subsidiary of BNP), and Assistant Manager – Internal Audit with Kuwait Finance House (1991-1998).

Waheeb Al Khazraji – Head of Human Resources: Mr. Al Khazraji joined ADIB on 10 December 2005. He holds a Chemical Engineering degree from the ADNOC Technical Institute and an MBA degree from Helwan University, Egypt along with Chartered Human Resource Consultant (CHRC), Canada and Chartered in Personal Development (CIPD), UK. He has six years banking experience with ADIB. His previous position was HR & Training Manager with ADCO, Abu Dhabi.

Ahsan Ahmed Akhtar – Group Financial Controller: Mr. Akhtar joined ADIB on 9 April 2008. He is a Chartered Accountant from the UK and holds a Bachelor of Science degree in Accounting & Finance from the London School of Economics and Political Science. He has previously worked with PricewaterhouseCoopers (1991-1998) and Citibank (1998-2008). His previous position was Country CFO with Citibank, Pakistan.

Shari'a Committee

The Board of Directors of ADIB nominates the *Shari'a* Committee members and they are appointed at a General Assembly meeting following the grant of the approval of the *Shari'a* Supreme Authority pursuant to Article (6) of Law No. (6) of 1985.

The responsibilities of the *Shari'a* Committee comprise:

(a) the supervision and control of ADIB's activities to ensure that they comply with Islamic principles and rules;

(b) issuing Fatwas pertaining to ADIB's activities at the request of ADIB's executive management or Board of Directors;

(c) the submission of any objections in writing to the Board of Directors with respect to any of ADIB's activities not complying with Islamic principles;

(d) the review of all forms of contracts and agreements pertaining to any of ADIB's transactions to ensure their compliance with Islamic principles; and

(e) the review at any time of ADIB's books, records and documents, the status of ADIB's assets and liabilities and the ability, at any time, to request any information deemed necessary to ensure compliance with *Shari'a* principles.

In the event of the *Shari'a* Committee's inability to discharge its duties, it reports the same in writing to the Board of Directors.

A brief summary of the main qualifications and experience of the members of the *Shari'a* Committee is set out below:

Sheikh Muhammad Taqi Al Uthmani (Chairman) is a judge of the *Shari'a* Appellate Bench, Supreme Court of Pakistan (since 1982). He was deputy Chairman of the International Islamic Fiqh Academy, Jeddah; Vice President of the Dar-ul Uloom, Karachi; Chairman of the Centre for Islamic Economics, Pakistan since 1991; Chairman of the *Shari'a* Boards for Saudi American Bank, Jeddah – Robert Fleming Oasis Fund, Luxembourg – *Shari'a* Council, Islamic Accounting and Auditors Standards Organisation – Citi Islamic Investment Bank, Bahrain and Amana Investments Ltd., Sri Lanka; and a Member of the *Shari'a* Boards for The Ahli United Bank (UK) PLC, London; Al-Baraka Group, Jeddah and First Islamic Investment Bank, Bahrain.

Sheikh Dr. Abdul Sattar Abu Ghudda (Vice Chairman) is a *Shari'a* Advisor and Director of the Department of Financial Instruments at AI-Baraka Investment Co. of the Kingdom of Saudi Arabia. He holds a PhD. in Islamic Law from AI Azhar University, Cairo and is an active member of the Islamic Fiqh Academy and the Accounting & Auditing Standards Board of Islamic Financial Institutions. Dr. Abu Ghudda was a member of the Fatwa Board in the Ministry of Awqaf and Islamic Affairs in Kuwait from 1982 to 1990.

Sheikh Nizam Muhammad Yaqoubi is a Member of the Islamic Supervisory Boards for the Islamic Investment Banking Unit of The Ahli United Bank (UK) PLC, London, and several other Islamic banks and institutions. He also has a number of publications such as Risalah fi al Tawbah, Irshad al-Uqala ila Hukm al Qira h min al-Mushaf fi al-Salah.

Sheikh Dr. Jasem Ali Al Shamsi is the Dean of the Faculty of *Shari'a* and Law and Professor of Civil Law, Dean at the Emirates University, a practitioner lawyer and member of *Shari'a* Standards (Accounting and Auditing Organisation for Islamic Financial Institutions) in Bahrain, the Chairman of the *Shari'a* Supervisory Board of Financing Islamic Company, Dubai and Financing Islamic Company, a subsidiary of the National Bank of Abu Dhabi. He holds a Diploma in *Shari'a* and in Private Law from Ein Shams University and a PhD. in Law from Cairo.

Dr. Muhamed Elqari is a member of numerous *Shari'a* Boards of Islamic Banks including those of Arab National Bank, Banque Saudi Fransi, Bank Al-Jazira, Citi Islamic Investment Bank, Dow Jones, HSBC Amanah, Islamic Development Bank, National Commercial Bank, Riyad Bank, Samba Financial Group, Saudi British Bank and Saudi Holland Bank and of Takaful Companies including Dow Jones, International Islamic Fund Market, Citi Islamic Investment Bank, Merrill Lynch and Saudi American Bank. He is an expert at the Islamic Jurisprudence Academy of OIC and the Islamic Jurisprudence Academy of the Islamic World League and a member of the *Shari'a* Council of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOFI). Dr. Elqari is a member of the editorial board of several academic publications in the field of Islamic Finance and Jurisprudence and has written several books on Islamic finance and published numerous articles on the subject. Dr. Elqari holds a PhD. in Economics from the University of California, USA. Dr. Elqari was formerly professor of Islamic Economics and Director of the Centre for Research in Islamic Economics at King Abdulaziz University, Jeddah, the Kingdom of Saudi Arabia.

Litigation Statement about Directors and Senior Management

Within the period of five years preceding the date of this Prospectus, none of the Directors or members of Senior Management:

- has any convictions in relation to fraudulent offences;
- has been a director or senior manager of any company at the time of any bankruptcy, receivership or liquidation of such company; or
- has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

Human Resources

ADIB's human resources policies aim to attract and retain highly skilled, motivated and experienced staff. Following its internal restructuring in 2008, ADIB has brought together a strong senior management team of bankers with extensive expertise in banking and finance both at ADIB and domestic, regional and international banks.

As at 30 September 2012, ADIB employed 1,639 staff members.

Training

Training is a high priority within ADIB and, in addition to the mandatory core skills training programmes, a major focus is placed on customer service and relationship management training in all areas of business. Training programmes cover corporate finance, credit, anti-money laundering, compliance and product training as well as various areas of Islamic banking, interpersonal skills and use of the core banking system of ADIB.

The training programmes include formal training courses (held both in-house and externally), conferences, workshops and seminars, diploma courses at the Emirates Institute of Banking & Finance and English language and computer training.

Remuneration Policy

ADIB has a variable pay scheme for middle and senior management under which performance bonuses are awarded based on annual performance appraisals. The bonus paid to individual employees is based on a combination of their performance, the performance of their respective business unit and the performance of ADIB.

ADIB applies recognition schemes such as promotions, salary increments, bonuses, recognition certificates and other rewards for teams. ADIB has an annual performance appraisal scheme for all staff. The general compensation and remuneration policy, as well as, senior management compensation and remuneration is approved by the Group Remuneration Committee.

ADIB is currently in the process of evaluating the feasibility, as part of its remuneration practice, of establishing an Employee Capital Participation Scheme ("**ECPS**"). The ECPS may participate in the offering of the Certificates. See "*–Risk Relating to the Certificates – Absence of secondary market/limited liquidity*".

Pension Scheme

ADIB's employees benefit from a pension scheme. For all employees who are UAE nationals, the pension scheme is governed by the Abu Dhabi Retirement Pensions and Benefits Fund. ADIB, after deducting 5 percent from the salaries of UAE national employees, also makes payment to the relevant authority by directly contributing 15 percent as an employer's contribution (to make the total contribution 20 percent) on the following basis: basic salary, housing allowance, and national allowance.

Employees who are not UAE nationals are covered by a fully funded end of service benefits scheme that is accrued on the basis of 30 days' basic salary for each year for the first five years of continued service and 45 days' basic salary for each of the remaining years of service.

There are no pension liabilities accrued to date, since ADIB makes the required payment on a monthly basis.

Emiratisation

ADIB has adopted an Emiratisation scheme in the UAE which is intended to attract experienced national candidates at all professional levels. Although ADIB provides equal employment opportunities to all nationalities, it is required to achieve certain national recruitment targets set by external regulatory bodies and these are incorporated into an annual strategic plan. Specifically, the Central Bank requires all banks to achieve a 4 percent per annum increase in the number of employees who are UAE nationals.

ADIB increased the percentage of employees in its UAE banking business who are UAE nationals to 48.2 percent for the year ended 31 December 2011 compared to 44.5 percent for the year ended 31 December 2010. The total number of UAE nationals who are employed in the UAE banking business as at 30 September 2012 was 717.

ADIB has been recognised for its continued commitment to Emiratisation and of UAE nationals and employment, training and development by the Emirates Institute of Banking and Financial Studies ("**EIBFS**") and was presented with a Human Resource Development Award for 2009 for organisations in the banking and financial sectors.

A centralised Emiratisation Unit within the Human Resources and Administration division prepares and manages the Emiratisation plan under the guidance and supervision of the Head of the division and Managing Director. The Emiratisation plan is prepared in conjunction with the Human Resources annual plan after the manpower requirements for all divisions have been determined. The annual targets for Emiratisation are proportionately broken down for and communicated to each division for implementation.

The statistics below shows the change in the number of UAE national staff in ADIB over the last two years and as at 30 September 2012.

Year	*Total no. of staff*	*No. of Nationals*	*Actual (%)*
31 December 2010	1,672	744	44.5
31 December 2011	1,755	846	48.2
30 September 2012	1,639	717	43.8

Primarily, ADIB looks for UAE national candidates with relevant banking experience, but in cases where it cannot find UAE national candidates with such experience, other industry experience is also considered.

In addition to hiring experienced UAE national staff for all positions in ADIB, there is also a detailed programme for hiring undergraduate and graduate candidates for clerical and supervisory positions. ADIB has established the Abu Dhabi Islamic Bank Leadership Programme to offer talented UAE graduates an entry into the financial services industry through a structured training programme. The aim is to prepare them to be bankers with a clear understanding of all aspects of all fundamental banking functions within a *Shari'a*-inspired organisation like ADIB.

In 2010, ADIB also signed a memorandum of understanding with five universities in an effort to recruit graduates and introduce undergraduates to the attractions of a career in banking. The signatories are the Dubai American University, EIBFS, Al Hosn University Abu Dhabi, the Abu Dhabi University and UAE Higher Colleges of Technology.

ADIB also sponsors UAE national candidates in higher education within the UAE by paying them a monthly stipend from their second year of university study and by providing them with one month of compulsory vocational training and a work placement for a fixed period.

OVERVIEW OF THE UNITED ARAB EMIRATES

Introduction

The UAE is a federation of seven Emirates, Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al-Quwain, Fujairah and Ras Al Khaimah. Formerly known as the Trucial States, the Emirates were British protectorates until they achieved independence in December 1971 and merged to form the federation of the United Arab Emirates. Each Emirate has a local government headed by the Ruler of the Emirate. There is a federal government which is headed by the President. The federal budget is principally funded by Abu Dhabi.

The UAE as a whole extends along the West coast of the Arabian Gulf, from the coast of the Kingdom of Saudi Arabia near the base of the Qatar peninsula in the West to Ras Al Khaimah in the North and across the Mussandum peninsula to the Gulf of Oman in the East, covering an area of 83,699 square kilometres in total.

The Emirate of Abu Dhabi is located in the western and south western part of the UAE along the southern cost of the Arabian Gulf. The total area of the Emirate is 59,402 square kilometres, which represents approximately 87 percent of the total area of the UAE. The territorial waters of the Emirate include approximately 200 islands off its coastline.

Abu Dhabi

Abu Dhabi is the richest and largest of the seven Emirates and the city of Abu Dhabi is also the capital of the UAE federation.

Abu Dhabi, with proven crude oil reserves estimated to be in excess of 97 billion barrels, has approximately 94 percent of the UAE's total oil reserves according to ADNOC and over 6 percent of the world's proven oil reserves according to OPEC. In recent years, Abu Dhabi has produced approximately 2.2 million barrels of oil per day and at this rate of production, Abu Dhabi's oil reserves would last over 100 years. In Abu Dhabi, the non-associated Khuff natural gas reservoirs beneath the Umm Shaif and Abu al-Bukhush oil fields rank among the world's largest. Abu Dhabi has approximately 212 trillion cubic metres of natural gas reserves, representing approximately three percent of the world's natural gas reserves according to ADNOC.

According to the Abu Dhabi Statistics Center, Abu Dhabi's nominal GDP per capita of over US$ 115,000 in 2011 (based on an estimated population of 1.9 million) is one of the highest in the Gulf region. The oil and gas industry dominates Abu Dhabi's economy and contributed approximately US$ 407 billion, or 58.5 percent, of nominal GDP in 2011 according to the Abu Dhabi Statistics Center. Increases in oil and gas production rates combined with increases in oil prices contributed significantly to the growth in Abu Dhabi's GDP from 2005 to 2010. The table below shows Abu Dhabi's crude oil exports and the average price of such exports per barrel for each of the years indicated.

	2005	*2008*	*2009*	*2010*
Volume of Exports	749,080	852,072	719,994	744,525
Average Price (USD/Barrel)	51.9	96.6	62.7	78.5

Source: Abu Dhabi Statistic Centre

According to the Abu Dhabi Statistic Centre, the value of Abu Dhabi's nominal GDP at current prices reached AED 806 billion in 2011, marking an increase of 30% compared with 2010. The table below shows nominal and per capita GDP and nominal and per capita GDP growth rates for each of the years indicated.

	2009	*2010*	*2011*
Nominal GDP (mid-2011 prices) in AED Millions	535,311	620,316	806,031 (est.)
Nominal Growth Rate (%)	(25.1)	16.1	30.0 (est.)
GDP per capita (Thousand AED)	293.1	315.3	422.05 (est.)
GDP per capital annual growth (%)	(29.5)	7.6	33.85 (est.)

Source: Abu Dhabi Statistic Centre

The GDP of Abu Dhabi in 2010 represented approximately 60 percent of the real GDP of the UAE in that year, although the Emirate's population represents only about 33 percent of the total UAE population. In 2009 and 2008, the equivalent proportions were approximately 54 and 60 percent

According to the Abu Dhabi Statistics Centre, Abu Dhabi's GDP is dominated by the oil and gas sector, which contributed at mid-2011 prices approximately 45 percent in 2009, approximately 50 percent in 2010 and approximately 58.5 percent in 2011. Outside the oil and gas sector, the principal contributors to nominal GDP in Abu Dhabi have been: manufacturing industries; construction; financial institutions and insurance; government services; real estate and business services; and wholesale and retail trade and repairing services, which together accounted for around 45 percent in 2009, around 41 percent in 2010 and around 41.5 per cent in 2011.

In terms of growth, the fastest growing sectors during 2011, according to the Abu Dhabi Statistics Center, were mining and quarrying activities (annual growth rate 53.2 percent); transport, storage and communication (22.4 percent); manufacturing (21.5 percent); financial corporations and insurance (13.6 percent); real estate and business services (11.5 percent); electricity, gas and water (10.5 percent); and education (10.5 percent).

Including oil and gas which are treated as being under public ownership, the public sector is estimated to have accounted for approximately 73 percent of Abu Dhabi's GDP in 2011. This proportion is forecast to continue to decline over time as the size of the public sector is reduced while the private sector expands as a result of privatisation, education and job creation initiatives in the private sector.

Governance, Legislation and Judiciary

UAE Constitution

The original constitution of the UAE (the "**Constitution**") was initially provisional and provided the legal framework for the Federation. The Constitution was made permanent pursuant to a constitutional amendment in May 1996.

The major principle adopted by the Constitution was that jurisdiction for enacting substantive legislation was confined to the federal government, but the local governments of the seven Emirates were authorised to regulate those matters that were not the subject of legislation by the federal government.

Pursuant to Articles 120 and 121 of the Constitution, the federal government is responsible for foreign affairs; security and defence; nationality and immigration; education; public health; the currency; postal, telephone and other communications services; air traffic control and the licensing of aircraft and a number of other matters including labour relations; banking; the delimitation of territorial waters; and the extradition of criminals.

Federal matters are regulated through a number of specially created federal ministries which include the Ministries of Foreign Affairs, Defence, Justice, Finance and Economy. Although most of the federal government ministries are based in Abu Dhabi, many also maintain offices in Dubai. The UAE's monetary and exchange rate policy is managed on a federal basis by the Central Bank. Article 122 of the Constitution states that the Emirates shall have jurisdiction in all matters not assigned to the exclusive jurisdiction of the Federation, in accordance with the provision of the preceding two Articles.

The individual Emirates are given flexibility in the governance and management of their own Emirates. The Constitution permits individual Emirates to elect to maintain their own competencies in certain sectors.

The natural resources and wealth in each Emirate are considered to be the public property of that Emirate. Each Emirate manages its own budget on an independent basis and no Emirate has any obligation to contribute to the budget of any other Emirate. Each Emirate makes contributions to the federal budget in agreed amounts.

Governance

The governance of the UAE is split between (i) the Supreme Council of the Rulers of all the Emirates (the "**Supreme Council**"); (ii) the Federal Council of Ministers (the "**Cabinet**"); and (iii) the Federal National Council (the "**Council**").

Federal Supreme Council

The Supreme Council is the highest federal governing body and consists of the Rulers of the seven Emirates. The Supreme Council elects from its own membership the President and the Vice President of the UAE (for renewable five-year terms). Decisions relating to substantive matters are decided by a majority vote of five Emirates, provided that the votes of both Dubai and Abu Dhabi are included in that majority, but matters that are purely procedural are decided by a simple majority vote.

The Supreme Council is vested with legislative as well as executive powers. It ratifies federal laws and decrees, plans general policy and approves the nomination of the Prime Minister and accepts his resignation. It also relieves him from his post upon the recommendation of the President.

The then Ruler of Abu Dhabi, Sheikh Zayed bin Sultan Al Nahyan, was elected in 1971 as the first President of the UAE and was re-elected as President for successive five-year terms until his death in November 2004. Sheikh Zayed bin Sultan Al Nahyan was succeeded by his son Sheikh Khalifa bin Zayed Al Nahyan as Ruler of Abu Dhabi who was elected as President of the UAE in November 2004 by the members of the Supreme Council.

Federal Council of Ministers

The Cabinet is described in the Constitution as the executive authority for the UAE and is responsible for implementing policy decisions of the Supreme Council. The Cabinet is the principal executive body of the UAE. The Constitution defines the responsibilities of the Cabinet, which include the issuing of regulations, the preparation of draft laws and the drawing up of the annual federal budget.

Based in Abu Dhabi, the Cabinet is headed by the Prime Minister and consists of two Deputy Prime Ministers and a number of other Ministers. These Ministers are normally selected (for no fixed term) by the approval of the Supreme Council on the recommendation of the Prime Minister.

Federal National Council

The Council is a parliamentary body which comprises 40 members who are UAE nationals. From 1972 to 2006, each Emirate appointed members for a particular number of seats based on such Emirate's population and size. Abu Dhabi and Dubai have eight members each, Sharjah and Ras Al Khaimah have six members each and the other Emirates have four members each. The nomination of representative members is left to the discretion of each Emirate, and the members' legislative term is four calendar years. The members represent the UAE as a whole rather than their individual Emirates. Presided over by a speaker, or either of two deputy speakers elected from amongst its members, the Council has both a legislative and supervisory role under the Constitution. This means that it is responsible for examining and, if required, amending, all proposed federal legislation, and is empowered to summon and to question any federal minister regarding ministry performance. One of the main duties of the Council is to discuss the annual budget of the UAE. Although the Council can monitor and debate government policy, it has no veto or amendment power and cannot initiate any legislation by itself.

During 2006, reforms were made with a view to enhancing public participation in indirect elections to the Council. Under these reforms, the Ruler of each Emirate selects an electoral college whose members are at least 100 times the number of Council members for the Emirate. The members of each electoral college elect half of the Council members for their Emirate, with the remainder being appointed by the Ruler. A second round of elections to the National Council was successfully held in 2011, with an electoral college that had tripled in size relative to the electoral college of the first election in 2006.

Legal and Court System

There are three primary sources of law in the UAE, namely (i) federal laws and decrees (applicable in all seven Emirates), (ii) local laws and decrees (i.e. laws and regulations enacted by the Emirates individually), and (iii) the *Shari'a* (Islamic law). The secondary form of law is trade custom or practice. In the absence of federal legislation on areas specifically reserved to federal authority, the Ruler or local government of each Emirate can apply his or its own rules, regulations and practices.

The federal judiciary, whose independence is guaranteed under the Constitution, includes the Federal Supreme Court and Courts of First Instance. The Federal Supreme Court consists of five judges appointed by the Supreme Council. The judges decide on the constitutionality of federal laws and arbitrate on inter-Emirate disputes and disputes between the federal government and the Emirates.

In accordance with the Constitution, three of the seven Emirates (Abu Dhabi, Dubai and Ras Al Khaimah) have elected to maintain their own court system, separate from that of the UAE, and these courts have sole jurisdiction to hear cases brought in the respective Emirates.

Economy of the UAE

The UAE is the second largest economy in the GCC region after the Kingdom of Saudi Arabia. Although it has a more diversified economy than most of the other countries in the GCC region, its wealth is still largely based on oil and gas. According to data collected by the Organisation of the Petroleum Exporting Countries ("**OPEC**"), as at 31 December 2011 the UAE had approximately 6.6 percent of proven crude oil reserves in the world (giving it the sixth largest oil reserves in the world). The UAE's oil reserves generated approximately 31.4 percent of the UAE's GDP in 2010 (according to the UAE Ministry of Economy) and approximately 36 percent of its export earnings (including re-exports) in 2010 (according to the Central Bank).

Moody's Investor Services has estimated that real GDP in the UAE increased to AED 1,321 billion in 2011, representing a real GDP growth rate of 4.9 per cent and reflecting the general economic recovery in the wake of the global economic crisis and the increase in oil prices during 2010 and 2011.

The table below shows the UAE's nominal GDP and nominal and real GDP growth rates for each of the years indicated.

	2008	*2009*	*2010*	*2011*
Nominal GDP (USD billion)	314.8	270.3	297.6	360.1
Nominal Growth Rate (%)	22	(14.1)	10.1	21.0
Real Growth Rate (%)	5.3	(3.3)	0.9	4.9

Source: Moody's Investor Services

Although it has one of the most diversified economies in the GCC, the UAE's wealth remains largely based on oil and gas. Whilst fluctuations in energy prices do have a bearing on economic growth, the UAE is generally viewed as being less vulnerable than some of its GCC neighbours, due to the growth in the non-oil sector, particularly trading, finance, real estate and tourism.

The UAE's economy remains heavily protected and nearly all utilities and most major industries are controlled by the state. However, tight restrictions placed on foreign investment are gradually being relaxed. For example, whilst foreigners are not permitted to have a controlling interest in UAE businesses or corporates, many of the Emirates have established trade and industry free zones (in which 100 percent foreign ownership is permitted) as a means of attracting overseas investment and diversifying the economy. Despite the UAE's membership of the WTO, progress towards economic liberalisation has been slow, although trade agreements with Europe and the United States are being negotiated.

Credit Rating

On 31 January 2012, Moody's reaffirmed the UAE's long-term rating of Aa2 with a stable outlook. In its report, Moody's cited the fact that the Federal Government of the UAE is fully supported by the Government of Abu Dhabi. The UAE is not rated by any of the other rating agencies.

The Abu Dhabi government's long-term foreign and local currency issuer ratings were also affirmed by Moody's Investors Service, Inc at Aa2 and its short-term foreign and local currency issuer ratings at Prime-1 in a report on 29 January 2012. Reasons cited for these high investment grade ratings include a robust fiscal position and a long history of domestic political stability, as well as very little direct or explicitly guaranteed debt and an extensive portfolio of financial assets.

Population

The UAE National Bureau of Statistics (the "**NBS**") estimated that the population of the UAE was 8.3 million at the end of 2010, with the Abu Dhabi Statistics Centre estimating that the population of Abu Dhabi was approximately 2 million at the end of 2010. The populations of both the UAE and Abu Dhabi have grown significantly in recent years, reflecting an influx of foreign labour, principally from Asia, as the Emirates have developed and the table below illustrates this growth using the 2010 NBS and SCAD estimates and official census data for 1975, 1980, 1985, 1995, 2005 and 2010 (the most recent census):

	1980	*1985*	*1995*	*2005*	*2010*
Total UAE population	1,042,099	1,379,303	2,411,041	4,106,427	8,264,070
Total Abu Dhabi population	211,812	451,848	566,036	1,374,169	1,967,659

Source: UAE National Bureau of Statistics and Abu Dhabi Statistic Centre

The majority of the population of the UAE are estimated to be non-UAE nationals, mainly drawn from the Indian subcontinent, Europe and other Arab countries. Approximately 75 percent of the population is estimated to be male and 25 percent female, reflecting the large male expatriate workforce.

Relations with Other Countries

The UAE enjoys good relations with the other states in the GCC and its regional neighbours. The UAE does have, however, a long-standing territorial dispute with Iran over three islands in the Gulf and, as such, is not immune to the political risks and volatility in the region, particularly in recent years.

THE UAE BANKING SECTOR AND REGULATIONS

Summary

The financial corporations sector in Abu Dhabi contributed AED 34.5 million (approximately 6.0 percent) to Abu Dhabi's real GDP in 2011, according to the Abu Dhabi Statistics Center.

Within the UAE as a whole, the financial sector was estimated to have contributed approximately 7.0 percent of real GDP in 2011, according to preliminary estimates published by the National Bureau of Statistics. With 51 licensed commercial banks (comprising 23 local banks with 800 branches and 28 licenced foreign banks with 83 branches) at 31 July 2012 according to the Central Bank, serving a population estimated to be in the region of 8.3 million at the end of 2010, the UAE could be viewed as an over-banked market, even by regional standards.

While UAE banks continue to be profitable, they have been affected by the liquidity issues that have been experienced by banks globally since the second half of 2008. According to the Central Bank of the UAE (the "**Central Bank**"), the aggregate loans and advances extended to residents and non-residents of the UAE at 31 July 2012 were AED 1,091.3 billion, compared to AED 1,071.0 billion at 31 December 2011, AED 1,031.3 billion at 31 December 2010 and AED 1,017.7 billion at 31 December 2009. Of these amounts, specific and general provisions were AED 80.7 billion, AED 71.6 billion, AED 56.8 billion and AED 43.3 billion, respectively equating to provision rates of 7.4 percent, 6.7 percent, 5.5 percent and 4.3 percent, respectively.

The table below provides a statistical analysis of the UAE banking sector as at 31 December in each of 2009, 2010, 2011 and 31 July 2012.

	2009	*2010*	*2011*	*31 July 2012*
Total number of commercial banks	52	51	51	51
Total number of branches	756	815	851	889
Total number of employees	37,704	37,403	37,499	36,807[3]
Total credit facilities[1] (AED billions)	1,017.7	1,031.3	1,071.0	1,091.3
Total assets[1] (AED billions)	1,519.1	1,605.6	1,662.1	1,724.6
Total deposits[1] (AED billions)	982.6	1,049.6	1,069.7	1,114.9

Sources: Central Bank and Emirates Banks Association

Notes:

(1) Net of provisions and interest in suspense

(2) Estimated figures

(3) As at 31 March 2012

Principal Banks in Abu Dhabi

The table below provides summary information for each of the five principal banks established in Abu Dhabi by asset size as at 30 June 2012:

	Number of Branches	*Year Established*	*Government ownership[1] (%)*	*Assets (AED Millions)*
National Bank of Abu Dhabi	121	1968	70.48	269,998
Abu Dhabi Commercial Bank	48	1985(2)	61.59	180,797
First Gulf Bank	19	1974	—	162,939
Union National Bank	56	1982	50	82,714
Abu Dhabi Islamic Bank	73	1997	8	78,857

Sources: Central Bank and published financial statements

Notes:

(1) Excludes holdings by members of the Ruling Family of Abu Dhabi

(2) Year of merger between Emirates Commercial Bank and Federal Commercial Bank and Khaleej Commercial Bank

Supervision of Banks

Banking and financial institutions established or operating in the UAE are subject to supervision and regulation by the competent federal authorities – principally the Central Bank and the Securities and Commodities Authority (the "**SCA**") – as well as the competent local authority in the emirate in which they are established or operate. The Central Bank was established under Union Law No. (10) of 1980 Concerning the Central Bank, the Monetary System and Organization of Banking (the "**Union Law**"), and the SCA was established by UAE Federal Law No. 4 of 2000. In the Emirate of Abu Dhabi, the competent local authority is the Department of Economic Development (the "**DED**"), established by Abu Dhabi Amiri Decree No. 2 of 2009.

While the responsibility for regulating and exercising oversight of banks and financial institutions in the UAE has historically rested primarily with the Central Bank, the UAE has begun to transition towards a "twin peaks" regulatory model, with the Central Bank and SCA discharging different responsibilities. Under this model, the Central Bank will continue to be responsible for monetary policy, macro-economic stability, systemic risk management and the licensing of local banks and branches of foreign banks operating in the UAE. In particular, the Central Bank will remain the principal authority responsible for setting and supervising bank capital adequacy requirements. The Central Bank will also retain oversight for overseeing anti-money laundering and anti-terrorism compliance by banks and financial institutions, which is currently handled through its Anti-Money Laundering and Suspicious Cases Unit. The Central Bank does not act as a lender of last resort, a role which tends to fall on the individual Emirates.

The SCA, whose role has historically been limited to being the UAE's federal securities regulator, is expected to become increasingly active in more commercial and consumer-oriented areas previously regulated by the Central Bank, including exercising oversight over financial markets and consumer protection in financial services generally, including banking services and the establishment and marketing of investment products in the UAE. The SCA also has responsibility for oversight of certain day-to-day corporate law matters affecting public joint stock companies (including ADIB) incorporated in the UAE, such as the conduct of general assembly meetings and the passing of shareholder resolutions.

Monitoring by the Central Bank is undertaken by way of regular inspections of banks and their records and the requirement for regular submission to the Central Bank of data, including, but not limited to, funds on deposit, loans and mortgages, liquidity status and anti-money laundering measures. ADIB submits monthly, quarterly and annual reports to the Banking Supervision and Examination Department of the Central Bank. In addition, ADIB's Memorandum and Articles of Association and any amendments thereto, its audited financial statements, its distribution of dividends and certain other documents are all submitted for approval by the Central Bank.

Within the Emirate of Abu Dhabi, the DED has wide jurisdiction in relation to administrative, commercial and trade matters, including the incorporation and licensing of companies, establishment of branches, regulation of internal and external trade and promoting the development of Abu Dhabi's economy.

ADIB's business units and subsidiaries in the UAE are engaged in a wide range of banking and investment activities which also fall within the jurisdiction of certain other regulatory regimes located in other countries, including the United Kingdom, the Kingdom of Saudi Arabia, Egypt, Iraq and Qatar. ADIB has an excellent track record in meeting regulatory standards and neither the Central Bank, SCA, DED nor any other federal or local regulatory authority in any jurisdiction has raised any material unresolved issues.

Structure of the Banking System

Banking institutions in the UAE fall into a number of categories, as defined by the Union Law. Domestic commercial banks, also known as local banks, of which there were 23 as at 31 December 2011, are required to be public shareholding companies with a minimum share capital of AED 40 million.

Licensed foreign commercial banks, of which there were 28 as at 31 December 2011, need to demonstrate that at least AED 40 million has been allocated as capital funds for their operations in the UAE. The 1980 Law also licences financial institutions (institutions whose principal functions are to extend credit, carry out financial transactions, invest in moveable property and other activities but are not permitted to accept funds in the form of deposits), investment banks (institutions which may not accept deposits with maturities of less than two years but which may borrow from their head office or other banks and the financial markets) and financial and monetary intermediaries (money and stock brokers).

Capital Adequacy

All banks are required to follow the framework of the Basel Committee on Banking Supervision (the "**BCBS**" or the "**Basel Committee**") in calculating their capital adequacy ratios, as implemented by the Central Bank.

Basel Framework

The Basel II Accord ("**Basel II**") is an international capital adequacy framework, originally issued by the BCBS in June 2004, with the objective of strengthening the soundness and stability of the international banking system and providing a baseline of capital adequacy regulation among international banks. Basel II comprises risk-based guidelines on capital adequacy requirements and regulatory standards and are a progression of the original 1988 Basel I Global Capital Adequacy Rules for Banks and Financial Institutions. Basel II is based on three "pillars": minimum capital requirements, supervisory review process and market discipline.

- *Pillar I:* The minimum capital requirements pillar was based on market, credit and operational risk and was designed to reduce the risk of failure by providing sufficient regulatory capital to enable continued access to financial markets for meeting the banks' liquidity needs as well as providing incentives for prudent risk management through allowing some discretion on the part of banks to utilise their own risk assessment as part of the minimum capital calculations.
- *Pillar II:* The supervisory review pillar provided national regulators with increased tools to monitor internal bank risk control and capital assessment, and in certain instances, oblige banks to increase their regulatory capital beyond the minimum requirements under Pillar I.
- *Pillar III:* The market discipline pillar implemented new and improved disclosure requirements with respect to capital adequacy in order to improve the effectiveness of the other two pillars.

Basel II requires banks to maintain a minimum capital adequacy ratio of 8 percent calculated as the percentage of total eligible regulatory capital to total risk-weighted assets for credit risks, operational and market risks. In July 2009, BCBS revised the Basel II Accord with respect to trading book capital and market risk framework, informally known as "Basel 21/2" in response to the initial dislocations caused by the financial crisis originating in the internal valuation and classification of re-securitisations such as collateralised debt obligations of asset-backed securities. Basel 21/2 obliged banks to implement more risk and stress-sensitive methodologies in the internal models utilised for calculating trading book and counterparty risk.

The Basel Committee has approved significant changes to Basel II, known as the Basel III Framework which was published by BCBS in December 2010 and January 2011, including new capital and liquidity standards for credit institutions, in response to the global financial crisis (the "**Basel III Framework**"). The Basel III Framework does not replace Basel II, rather, it implements a series of modifications to the existing regulatory structure.

The Basel III Framework increases the quantity and quality of the regulatory capital banks are required to hold. In particular, the changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit and market exposures arising from certain assets and transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity. The most significant features of the reforms introduced by the Basel III Framework are as follows:

- *Capital Base:* Between 2013 and 2019, the common equity component of capital (known as Core Tier 1) will increase from 2 percent of a bank's risk-weighted assets before certain regulatory deductions to 4.5 percent after such deductions. In addition, a new capital conservation buffer will be introduced, as well as a zero to 2.5 percent countercyclical capital buffer. As a result, the overall capital requirement (Tier I and Tier II) will increase from 8 percent at the Basel II baseline to 10.5 percent by 2019 with full Basel III Framework implementation.
- *Common equity:* will continue to form the basis of Tier I capital, but other hybrid capital instruments permitted under Basel II will be replaced with instruments that are more loss-absorbing and do not have incentives to redeem. Non-qualifying instruments issued on or after 12 September 2010 will be derecognised in full from 1 January 2013; certain other instruments issued prior to 12 September 2010 which qualified as Tier 1 capital under Basel II but do not so

qualify under Basel III, consisting of, among other instruments, perpetual non-cumulative preference shares, will be gradually derecognised at a rate of 10 percent per year from 2013 to 2023.

- *Capital charges:* Increased capital charges will be introduced with respect to re-securitisation exposures and certain liquidity commitments held in the banking book will require more capital. With respect to a banks' trading books, more robust risk assessment methodologies will be Utilised to value assets and increased counterparty and market risk charges will be assessed for exposure to other financial institutions and securitised assets.
- *Leverage ratio:* A minimum 3 percent leverage ratio, measured against a bank's gross (and not risk-weighted) balance sheet, will be adopted on a trial basis until 2018 and definitively adopted in 2019.
- *Liquidity standards:* A "liquidity coverage ratio" requiring high quality liquid assets to equal or exceed certain cash outflows will be adopted from 2015, thereby ensuring that a bank has sufficient high quality liquid assets to survive a one-month period of market stress. In addition, a "net stable funding ratio" requiring "available" stable funding sources to equal or exceed "required" stable funding will be adopted from 2018, thereby ensuring that a bank has access to capital or high quality funding to survive a one-year period of market stress.

The Central Bank issued guidelines on the implementation of the Basel III Framework in July 2012 under the heading "Liquidity Regulations at Banks" (see "*The UAE Banking Sector and Regulations – Liquidity*" for further details). It is expected that the Central Bank will issue UAE specific guidelines regarding capital compliance with the Basel III Framework prior to the end of 2012.

UAE

Since 1993, the Central Bank has imposed a 10 percent minimum total capital ratio. In a circular dated 30 August 2009, the Central Bank announced amendments to its capital adequacy requirements stating that UAE banks were required to have total capital adequacy ratios of at least 11 percent, with a Tier 1 ratio of not less than 7 percent, by 30 September 2009 and at least 12 percent, with a Tier 1 ratio of not less than 8 percent, by 30 June 2010. The circular stated that the new requirements, which were effective on 31 August 2009, apply to national and foreign banks. As at the date of this Prospectus, no further developments have been announced. Profits for the current period, goodwill, other intangibles, unrealised gains on investments and any shortfall in loan loss provisions are deducted from regulatory capital.

Whilst the calculation of capital adequacy ratios in the UAE follows the BCBS guidelines, claims on or guaranteed by GCC central governments and central banks are risk-weighted at zero percent; claims on GCC government non-commercial public sector entities are risk-weighted at 50 percent; and GCC sovereign debt is risk-weighted at nil percent.

All UAE banks were required to implement the standardised approach for credit risk proposed under the Basel II Accord by 31 December 2007 and were required to be internal risk-based compliant for credit risk by 1 January 2011.

In Abu Dhabi, government-owned institutions assisted certain Abu Dhabi banks during 2008 in strengthening their capital base through the subscription of mandatory convertible securities and in February 2009, the Abu Dhabi Government (acting through its Department of Finance) subscribed, in aggregate, for a sum of AED 16 billion in subordinated Tier 1 capital notes issued by the five largest Abu Dhabi banks: Abu Dhabi Islamic Bank, National Bank of Abu Dhabi, Abu Dhabi Commercial Bank, First Gulf Bank and the Union National Bank.

In addition, the UAE federal government provided AED 50 billion in deposits to certain UAE banks and these banks (as part of a larger AED 70 billion package) were given the option to convert those deposits into Tier 2 capital in order to enhance capital adequacy ratios. A number of banks in the UAE, including ADIB, subsequently made such conversions. As a result, the average capital adequacy ratio of all UAE national banks increased from 13.3 percent as at 31 December 2008 to 19.2 percent as at 31 December 2009 to 20.8 percent as at 31 December 2010 and remained at 20.8 percent as at 30 June 2012.

Liquidity

The Central Bank closely monitors the level of liquidity in the banking system. It also requires that banks have adequate systems and controls to manage their liquidity positions, as well as contingency plans to cope with periods of liquidity stress. Banks must also adhere to a maximum loan deposit ratio of 100 percent set by the Central Bank. In this context, loans comprise loans and advances to customers and interbank assets maturing after three months.

UAE banks are mostly funded through customer deposits made by UAE resident private individuals and private sector companies. Together, these deposits constituted approximately 65 percent of total deposits of the UAE banking sector as at 31 December 2011, excluding inter-bank deposits and bank drafts but including commercial payments. The federal government and the public sector deposits contributed approximately 23 percent and non-resident and other sources contributed approximately 11 percent as at the same date.

There is currently no formal deposit protection scheme in the UAE. While no bank has, so far, been permitted to fail, during the 1980s and early 1990s a number of banks were restructured by the authorities and, in May 2011, Dubai Bank was taken over by the Government of Dubai. In October 2008, in response to the global financial crisis, the UAE federal government announced that it intended to guarantee the deposits of all UAE banks and foreign banks with core operations in the UAE. Thereafter, in May 2009, the Council approved a draft law guaranteeing federal deposits, although the law is awaiting the approval of the President of the UAE and is therefore yet to be enacted. There can be no assurance that any draft law will subsequently be passed. As such, until such time as the law is passed, there is no guaranteed governmental support of deposits with banks.

In response to the global financial crisis, the Central Bank has announced a number of measures aimed at ensuring that adequate liquidity is available to banks operating in the UAE. In September 2008, the Central Bank established an AED 50 billion liquidity facility which banks can draw upon subject to posting eligible debt securities or *Shari'a* compliant securities as collateral. The liquidity facility is available only for the purpose of funding existing commitments. New lending is required to be based on growth in the customer deposit base. The Central Bank also established a repo facility for Certificates of Deposit under which banks can use Certificates of Deposit as collateral for dirham or USD funding from the Central Bank.

The Central Bank issued guidelines on the implementation of the Basel III Framework entitled "Liquidity Regulations at Banks" in July 2012 to increase regulations on how banks in the UAE manage liquidity through the introduction of new qualitative, quantitative and reporting requirements on liquidity risk management with the objective of ensuring that their liquidity risk is well managed in the UAE and is in line with Basel Committee recommendations and international best practices.

The qualitative requirements include, *inter alia*, clear articulation of liquidity risk tolerance for the relevant bank; at least one board member with a detailed understanding of liquidity risk management; incorporation of liquidity costs, benefits and risks into the product pricing and approval process; establishment of a forward-looking funding strategy to ensure effective diversification in the sources and tenor of funding; maintenance of high quality liquid assets; and development of transfer pricing framework to reflect the actual cost of funding.

The quantitative requirements include the following:

- Liquidity Assets Ratio ("**LAR**"): The LAR is designed to ensure that banks hold at least 10 percent of their liabilities in high quality liquid assets. The LAR will become effective on 1 January 2013 and will remain in force until 31 December 2014 after which the Liquidity Coverage Ratio becomes effective;
- Liquidity Coverage Ratio ("**LCR**"): The LCR is taken from the Basel III Framework. It represents a 30 day stress scenario with combined assumptions covering both bank specific and market wide stresses that the bank should be able to survive using a stock of high quality assets. The LCR requires that banks should always be able to cover their net cash outflow with eligible liquid assets for a 30 day period. The LCR will become effective on 1 January 2015;
- Uses (of funds) to Stable Resources Ratio ("**USSR**"): The USSR is an amended version of the current "Advances to Stable Resources Ratio" and represents the ratio of key uses of funds against funding sources used by banks after assignment of stability factors to these sources. This is a structural ratio that aims to prepare banks for the implementation of the Net Stable Funding Ratio (as defined below), and will ensure that banks have adequate stable funding to fund the assets on their balance sheets. After applying the relevant factors, the net uses of funds is divided by net sources of funds and the result should be less than 100 percent. The USSR will become effective on 1 September 2013 and will remain in force until 31 December 2017; and

- Net Stable Funding Ratio ("**NSFR**"): The NSFR is a structural ratio that aims to ensure that long-term assets on bank's balance sheets are funded using a sufficient amount of stable liabilities. It also requires an amount of stable liabilities to cover a portion of the contingent liabilities. The NSFR will become effective on 1 January 2018.

Increased Provisions

Over the course of the past three years a number of UAE banks have announced exposures to well-known GCC-based companies which have become insolvent or have been or are being restructured. These include the Saad and Algosaibi groups of the Kingdom of Saudi Arabia and Tabreed and the Dubai World Group in the UAE. As a result of declining economic conditions since late 2008 and the increasing number of insolvencies and restructurings, the provisions recorded by banks in the UAE have increased from AED 43.3 billion, or 2.9 percent of total UAE bank assets, as at 31 December 2009 to AED 56.8 billion, or 3.5 percent of total UAE bank assets at 31 December 2010 to AED 71.6 billion, or 4.3 percent of total UAE bank assets, as at 31 December 2011 and to AED 80.7 billion, or 4.7 percent of total UAE bank assets as at 31 July 2012, according to the Central Bank. It is possible that bank provisions may continue to increase in 2012 in light of the on-going global economic downturn.

The Central Bank stipulates that non-performing credits should be classified as either "substandard", "doubtful" or "loss" depending on the likelihood of recovery, with provisions charged at a minimum of 25 percent, 50 percent and 100 percent, respectively for retail accounts between 90 and 180 days past due and for corporate accounts after the exercising of mature judgement. Any loans with either interest or principal in arrears by more than 90 days must be placed on a non-accrual basis and classified as "non-performing". In practice, several banks operate more stringent policies and place loans on a non-accrual basis as soon as their recovery is in doubt and also apply International Accounting Standard 39 in calculating provisions on non-retail credits.

In November 2010, the Central Bank published a new set of rules making it mandatory for banks and financial institutions to make provisions for their impaired loans on a quarterly basis (banks had previously written-off non-performing/impaired loans from their books after all legal options for recovery have been exhausted). The new guidelines also prescribe specific provisions for three categories of impaired loans and stipulate that lenders should build up general provisions equal to 1.5 percent of customer credit risk-weighted assets over a period of 4 years through to December 2014 and are intended to improve transparency within the banking industry in accordance with Basel Committee standards.

Banks in the UAE generally do not write off non-performing loans from their books until all legal avenues of recovery have been exhausted. This factor tends to inflate the level of impaired loans carried on the balance sheets of UAE banks when compared to banks operating in other economies.

Large Exposures

The Central Bank defines large exposures as any funded on-or-off balance sheet exposure to a single borrower or group of related borrowers exceeding prescribed limits. In relation to private sector entities, the Central Bank has set a large exposures funded limit of 10 percent of bank capital. In relation to government-related commercial entities, the Central Bank has set a single holding funded limit of 15 percent of bank capital. The Central Bank has not specified a single holding limit for banks in relation to UAE government departments, although in April 2012, a limit of 25 percent of bank capital was put in place for exposures to local governments within the UAE and their non-commercial entities. Exposures above these limits are subject to Central Bank approval.

Banks are required to establish credit policies and procedures commensurate with their size and activities. They must also have a proper credit assessment and approval process and adequate controls in place to monitor credit concentrations to, among others, individual borrowers, economic sectors and foreign countries.

In addition, the following the Central Bank lending limits also require that:

- no commercial bank can hold shares or bonds issued by commercial companies in excess of 25 percent of the bank's own funds; and
- no bank is permitted to grant loans or advances for the purpose of funding commercial or residential real estate construction in an amount exceeding 20 percent of its total deposits, unless it has prior authorisation from the Central Bank as an institution specialising in this type of business

In February 2011, the Central Bank issued new regulations in relation to the retail banking sector, aimed at controlling lending activities and excessive charges by banks, whilst also protecting banks by regulating lending and encouraging banks to carry out proper due diligence on potential borrowers. In addition, new regulations governing personal loans and financing advances was brought into effect on 1 May 2011. These regulations cap personal loans and financing advances at 20 times a borrower's monthly salary and stipulate repayment of such personal financing within 48 months.

Federal Debt Management

In December 2010, the Council approved a draft federal law on public debt (the "**Public Debt Law**") under which the total value of UAE's public debt should not be more than 25 percent of the GDP or AED 200 billion, whichever is lower at the time of issuing public debt. The Public Debt Law is awaiting the approval of the President of the UAE and is therefore yet to be enacted. The Public Debt Law could therefore change before it is enacted.

Reserve Requirements

Reserve requirements are used by the Central Bank as a means of prudential supervision and to control credit expansion. The reserve requirements are 1 percent for term deposits and 14 percent for all other customer balances. In addition, under the Union Law, banks are required to transfer 10 percent of profit each year into a statutory reserve until this reaches 50 percent of capital. Distributions cannot be made from this reserve, except in special legally defined circumstances. All dividends paid by UAE banks have to be authorised in advance by the Central Bank.

World Trade Organisation

The UAE's membership in the World Trade Organisation (the "**WTO**") will require greater economic liberalisation, but it is unclear to what extent this will encourage foreign banks to expand their presence in the UAE market. In the long-term, however, it may lead to increased competition, which may spur consolidation, both within the UAE and across the Middle East region generally.

Characteristics of the Banking System

Lack of Consolidation

The UAE may be seen as being over-banked with 51 (comprised of 23 locally-incorporated banks and 28 foreign banks) different banks licensed to operate inside the federation (excluding the Dubai International Financial Centre ("**DIFC**")) serving a population estimated to be in the region of approximately 8.3 million people (according to National Bureau of Statistics). Traditionally there has been little impetus for consolidation. However, mergers in the past have tended to come as a result of banks facing financial difficulties and some commentators suggest that the recent financial crisis has created more favourable conditions for consolidation. The federal structure of the country has, to some extent, encouraged the fragmented nature of the banking sector, with the individual Emirates wishing to retain their own national banks. Rivalries between large local business families and a desire not to dilute shareholdings have also hampered the process of consolidation. However, in October 2007 the UAE's second and fourth largest banks, Emirates Bank International PJSC and National Bank of Dubai PJSC merged to create Emirates NBD PJSC ("**ENBD**").

In addition, in May 2011, Dubai Bank PJSC was taken over by the Government of Dubai. The objective of this was to ensure the preservation of all of Dubai Bank's depositors' interests and the takeover was designed to ensure that Dubai Bank's business continued uninterrupted while options for the bank's future, whether to be run on a standalone basis or to be potentially merged with another Government of Dubai-owned bank, were assessed. In October 2011, ENBD acquired Dubai Bank, and Dubai Bank is now a fully owned subsidiary of ENBD.

The relatively small size of most UAE banks has sometimes hindered them from competing for large financing deals in the region. It also means that they have comparatively small franchises with which to absorb capital costs, such as IT system development. The advent of WTO liberalisation should allow greater competition as existing players expand their operations, which may eventually result in more mergers, possibly even creating banks with pan-Gulf franchises.

Domestic Focus

The UAE incorporated banks are predominantly focused on the domestic market but a number have small operations overseas and are showing growing interest in cross border business.

With a large number of domestic banks competing for a limited number of wholesale lending opportunities, most banks have turned to retail banking, a previously untapped market. However, increasing competition in this area is gradually eroding margins and encouraging a relaxation of lending criteria. As the market has been tested only to a limited extent under adverse conditions, it is difficult to predict the future likelihood of asset quality problems.

Expansion of retail operations has required heavy investment in distribution channels, particularly branches, ATM networks, and telephone and internet banking services. As a consequence, IT and premises costs have been a prominent feature of many banks' expenses in addition to employee costs.

Limited Foreign Ownership

In 1987, the Government placed a freeze on new foreign banks opening operations in the UAE. At the same time, existing foreign banks were limited to a maximum of eight branches which restricted their ability to develop any retail banking operations. However, three banks of GCC state origin, the National Bank of Kuwait, SAMBA and Doha Bank, were awarded licences by the Central Bank following an agreement to allow market access to banks of GCC state origin in line with continuing efforts in regional integration. The number of foreign banks operating in the UAE is 28, with a total of 51 foreign and national banks as at 31 December 2011. The opening of the DIFC in 2004 has enabled international banks to establish a presence in the UAE and compete in the wholesale banking market.

Exposure to the Oil Sector

With much of the economy directly or indirectly dependent on the oil sector, UAE banks are potentially vulnerable to business erosion during long periods of low oil prices. In particular, oil revenues tend to drive levels of liquidity and government infrastructure investment. Gradually however, private non-oil sectors are gaining ground and the UAE economy is becoming less susceptible to oil price movements.

Islamic Banking

Shari'a forbids, amongst other practices, the charging of interest on any financial transaction. A number of banks, such as ADIB, have developed in the Islamic world to serve customers who wish to observe this principle. These institutions offer a range of products which, whilst broadly corresponding with conventional banking transactions, are structured in such a way as to avoid the application of interest. The UAE is home to numerous institutions offering Islamic banking and financial products, such as ADIB, Dubai Islamic Bank, Emirates Islamic Bank, Sharjah Islamic Bank, Noor Islamic Bank and Al Hilal Bank. In addition, existing conventional banks within the UAE also offer *Shari'a*-compliant products.

Lack of Developed Capital Markets

The absence of mature bond or equity markets in the UAE means that banks have tended to shoulder the burden of long-term financing. This has tended to create a maturity mismatch in their balance sheets, as most of their liabilities are short-term customer deposits. Although the two stock markets, the Dubai Financial Market ("**DFM**") and the Abu Dhabi Securities Exchange ("**ADX**") (both of which were established in 2000) have grown rapidly over recent years, their growth has been affected by the recent global financial crisis.

During 2002, the Government of Dubai issued a decree establishing the DIFC. The DIFC, located in the Emirate of Dubai, is a free trade zone and financial services centre focusing on private banking, asset management, investment banking, re-insurance activities, Islamic finance, securities trading and back office operations. The DIFC has its own civil and commercial laws and has been granted authority to self-legislate in civil and commercial cases. The NASDAQ Dubai (formerly known as the Dubai International Financial Exchange) is a securities exchange located in the DIFC which commenced operations on 26 September 2005. In May 2011, DFM acquired two thirds of the shares in NASDAQ Dubai, in accordance with plans announced in December 2009 to consolidate markets. The two markets linked their platforms in July 2010, via the outsourcing by NASDAQ Dubai of its trading, clearing, settlement and custody functions for equities to DFM's systems. Responsibility for maintaining the NASDAQ Dubai's Official List of securities was transferred to the Dubai Financial Services Authority with effect from 1 October 2011.

Government Involvement

There is a high degree of state involvement in the UAE banking sector. Most of the larger banks have some degree of government or sovereign ownership. Privatisation, though advocated in principle, has progressed slowly in practice. The state is also the banking sector's largest customer, in terms of both deposits and project financing.

Expatriate Workforce

An unusual feature of the UAE economy is its reliance on overseas labour, with expatriates making up approximately 80 percent of the workforce. The banking sector is no exception to this and expatriates are represented in the senior management of most of the major banks. This has brought expertise from more developed markets to the sector. The high level of expatriates in the economy has been an increasing concern to the federal government and, as part of a policy of "Emiratisation", banks were instructed, in 1999, to increase UAE nationals employed by banks to 40 percent by increasing the percentage of UAE nationals by on their payroll by 4 percent per annum. Banks are generally moving closer to, or have met, this target, providing better training and compensation for UAE nationals.

Accounting Standards

Since 1 January, 1999 all UAE banks have been required to prepare their financial statements in accordance with International Financial Reporting Standards (formerly International Accounting Standards ("**IAS**")). Although this has led to a substantial improvement in disclosure standards, there remains some variability in the quality and depth of disclosure across the banking sector. Basel II was introduced effective as from 1 January, 2008.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions).

Declaration of Trust

The Declaration of Trust will be entered into on 19 November 2012 between ADIB, the Issuer, the Trustee and the Delegate and will be governed by English law.

Pursuant to the Declaration of Trust, the Trustee will declare a trust for the benefit of the Certificateholders over the Trust Assets.

The Trust Assets comprise (i) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets; (ii) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by ADIB (acting in any capacity) pursuant to any of the Transaction Documents to which it is a party); and (iii) all monies standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing.

The Declaration of Trust shall provide that the rights of recourse in respect of Certificates shall be limited to the amounts from time to time available therefor from the Trust Assets, subject to the priority of payments set out in the Declaration of Trust. After enforcing or realising the Trust Assets and distributing the net proceeds of the Trust Assets in accordance with the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished.

Pursuant to the Declaration of Trust, the Trustee will, *inter alia*:

a) hold the Trust Assets on trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the provisions of the Declaration of Trust and the Conditions; and

b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust and the Conditions.

In the Declaration of Trust, the Trustee shall by way of security for the performance of all covenants, obligations and duties of the Trustee under the Declaration of Trust irrevocably and unconditionally appoint the Delegate to be its delegate and attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust (including but not limited to the authority to request instructions from any Certificateholders and the power to sub-delegate and to make any determinations to be made under the Declaration of Trust). The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and, subject to certain provisions of the Declaration of Trust, does not affect the Trustee's continuing role and obligations as trustee.

Pursuant to the Declaration of Trust:

a) upon the occurrence of a Dissolution Event (other than in relation to a Trustee Event to which Condition 11.2 (*Trustee Events*) applies) and the delivery of a Dissolution Notice by the Delegate to the Trustee, to the extent that the amounts payable in respect of the Certificates have not been paid in full pursuant to Condition 11.1 (*Dissolution Events*), the Delegate may or shall, if so requested in writing by Certificateholders holding at least 20 per cent. of the then aggregate face amount of the Certificates outstanding (subject in either case to being indemnified and/or secured and/or pre-funded to its satisfaction) (i) institute steps, actions or proceedings for the winding-up of ADIB and/or (ii) prove in the winding-up of ADIB and/or (iii) institute steps, actions or proceedings for the bankruptcy of ADIB; and/or (iv) claim in the liquidation of ADIB (in each case for all amounts due to the Trustee under the Mudaraba Agreement and the terms of the other Transaction Documents) and/or (v) take such other action which, under the laws of the United Arab Emirates, has an analogous effect to the actions referred to (i) to (iv) above;

b) the Delegate may or shall upon being directed to do so by Certificateholders holding at least 20 per cent. of the then aggregate face amount of the Certificates outstanding (subject, in either case, to being indemnified and/or secured and/or pre-funded to its satisfaction) institute such steps, actions or proceedings against ADIB and the Trustee, as it may think fit to enforce any term or condition binding on ADIB or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of ADIB under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations) and in no event shall ADIB, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

A Transaction Account will be established in the name of the Trustee. Monies received in the Transaction Account will, *inter alia*, comprise payments of Mudaraba Capital, Trustee Mudaraba Profit, Trustee Final Mudaraba Profit and Premium immediately prior to each Periodic Distribution Date (see "*Summary of the Principal Transaction Documents – Mudaraba Agreement*" below). The Declaration of Trust shall provide that all monies credited to the Transaction Account from time to time will be applied in the order of priority set out in the Declaration of Trust.

Mudaraba Agreement

The Mudaraba Agreement will be entered into on or before the Issue Date between ADIB (as the Mudareb) and the Issuer (as Rab-al-Maal and Trustee) and will be governed by the laws of the Emirate of Abu Dhabi and, to the extent applicable in Abu Dhabi, the federal laws of the UAE.

The Mudaraba will commence on the date of the Mudaraba Agreement and will end on the date on which the Certificates are redeemed in whole but not in part in accordance with the Conditions (the "**Mudaraba End Date**"). Pursuant to the Mudaraba Agreement the proceeds of the issue of the Certificates will be applied as the Mudaraba Capital.

The Mudaraba Capital shall be invested in ADIB's General Pool in accordance with the investment plan prepared by the Mudareb and scheduled to the Mudaraba Agreement (the "**Investment Plan**"). The Mudareb will acknowledge and agree that the Investment Plan was prepared by it with due skill, care and attention, and acknowledge that the Trustee has entered into the Mudaraba in reliance on the Investment Plan.

The Mudareb is authorised to co-mingle any of its own assets from time to time with the Mudaraba Assets, provided that prior to the calculation of any Mudaraba Profit or Final Mudaraba Profit the Mudareb shall deduct a proportion of any profit earned for its own account in accordance with the profit sharing ratio set out below.

The Mudaraba Agreement provides that the profit generated by the Mudaraba will be distributed by the Mudareb on each Mudaraba Profit Distribution Date on the basis of a constructive liquidation of the Mudaraba by the Mudareb in accordance with the following profit sharing ratio:

a) the Trustee 90 per cent; and

b) the Mudareb 10 percent

If the Mudareb elects to make a payment of Mudaraba Profit or Final Mudaraba Profit, and the Trustee's share of the Mudaraba Profit (the "**Trustee Mudaraba Profit**") or the Trustee's share of the Final Mudaraba Profit (the "**Trustee Final Mudaraba Profit**") (as applicable) payable to the Trustee is greater than the corresponding Periodic Distribution Amount, the amount of any excess shall be retained by the Mudareb and credited to a reserve account and the proposed payment to the Trustee will be reduced accordingly. The Mudareb shall be entitled to deduct amounts standing to the credit of the Mudaraba Reserve (at its sole discretion) at any time prior to the Mudaraba End Date, and to re-invest these in the same manner as it invested in the Mudaraba Capital for and on behalf of the Trustee in accordance with the Investment Plan.

If the Mudareb makes a Non-Payment Election or a Non-Payment Event occurs, then the Mudareb shall give notice to the Trustee, the Delegate and the Certificateholders, in each case providing details of such Non-Payment Election or Non-Payment Event (due to its being credited to the Mudaraba Reserve). The Trustee shall have no claim in respect of any Trustee Mudaraba Profit or Trustee Final Mudaraba Profit not paid as a result of either a Non-Payment Election or a Non-Payment Event and such non-payment in such circumstance will not constitute a Dissolution Event. From the date of a Non-Payment Election or Non-Payment Event, the Mudareb shall be prohibited from declaring or paying certain distributions or dividends, paying profit or other distributions on certain of its securities, or redeeming, purchasing, cancelling, reducing or otherwise acquiring certain of its share capital and securities, in each case unless or until two consecutive payments of Mudaraba Profit are made in full to the Trustee following such Non-Payment Election or Non-Payment Event.

Subject to certain conditions as set out in the Mudaraba Agreement, ADIB (as Mudareb) may (in its sole discretion) liquidate the Mudaraba in whole, but not in part, on the basis of an actual liquidation of the Mudaraba in the following circumstances:

a) on the First Call Date or any Periodic Distribution Date thereafter by giving not less than 30 nor more than 60 days' prior notice to the Trustee; or

b) on any date, on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 30 nor more than 60 days' prior notice to the Trustee:

    i. upon the occurrence of a Tax Event; or

    ii. upon the occurrence of a Capital Event.

If the Mudareb exercises its option to liquidate in accordance with paragraph (a) or (b)(i) above and the capital to be returned to the Trustee (the "**Dissolution Mudaraba Capital**") is less than the Mudaraba Capital, the Mudareb shall either continue investing the Dissolution Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or indemnify the Trustee in respect of such shortfall and pay an amount equal to the aggregate of the Dissolution Mudaraba Capital and such shortfall to the Trustee in which case there shall be an actual liquidation of the Mudaraba.

If the Mudareb exercises its option to liquidate in accordance with paragraph (b)(ii) above and the Dissolution Mudaraba Capital is less than the Mudaraba Capital plus the Mudaraba Premium, the Mudareb shall either continue investing the Dissolution Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or indemnify the Trustee in respect of such shortfall and pay an amount equal to the aggregate of the Dissolution Mudaraba Capital and such shortfall to the Trustee in which case there shall be an actual liquidation of the Mudaraba.

Under the terms of the Mudaraba Agreement, the Mudaraba will automatically be liquidated in whole but not in part if at any time an order is made, or an effective resolution is passed, for the winding-up, bankruptcy, dissolution or liquidation (or other analogous event) of the Mudareb and/or if a Dissolution Event occurs and a Dissolution Notice is delivered pursuant to Condition 11.1 (*Dissolution Events*). The Mudareb acknowledges under the Mudaraba Agreement that the Trustee shall in such case be entitled to claim for all amounts due in accordance with the terms of the Mudaraba Agreement in such winding-up, bankruptcy, dissolution or liquidation (or analogous event) subject to certain conditions.

ADIB (as Mudareb) and the Trustee undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by ADIB to be varied upon the occurrence of a Tax Event or a Capital Event pursuant to the Conditions, to make such variations to the Mudaraba Agreement as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Tier 1 Instruments.

The Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by (i) the Mudareb's breach of the Mudaraba Agreement or (ii) the Mudareb's negligence, wilful misconduct or fraud.

The Mudareb shall exercise its rights, powers and discretions under the Mudaraba Agreement and take such action as it deems appropriate in accordance with material applicable laws, with the degree of skill and care that it would exercise in respect of its own assets and in a manner that is not repugnant to Shari'a.

Other than its share of profit from the Mudaraba and any incentive fee payable in accordance with the Mudaraba Agreement, the Mudareb shall not be entitled to receive any remuneration from the Mudaraba.

The Mudareb will agree in the Mudaraba Agreement that all payments by it under the Mudaraba Agreement will be made without any withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction unless required by law. In the event that there is any deduction or withholding and/or if Additional Amounts are payable by the Trustee in respect of the Certificates in accordance with Condition 12 (*Taxation*), the Mudareb shall pay all additional amounts so that the full amount which otherwise would have been due and payable to the Trustee, and/or under the Certificates, is received by the Trustee. Any taxes incurred in connection with the operation of the Mudaraba (including in connection with any transfer, sale or disposal of any Mudaraba Asset during the Mudaraba Term) will be borne by the Mudaraba itself.

The Mudaraba Agreement also provides for the Mudaraba Capital to be increased accordingly should further Certificates be issued pursuant to Condition 16 (*Further Issues*).

Agency Agreement

The Agency Agreement will be entered into on 19 November 2012 between the Trustee, ADIB, the Delegate, the Principal Paying Agent, the Calculation Agent, the Registrar and the Transfer Agent.

Pursuant to the Agency Agreement, the Registrar has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to authenticate and deliver the Global Certificate and, if any, each Definitive Certificate; the Principal Paying Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to pay all sums due under such Global Certificate; the Calculation Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to calculate the Profit Rate in respect of each Reset Period commencing on the relevant Reset Date, subject to and in accordance with the Conditions; and the Transfer Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to effect requests to transfer all of part of the Definitive Certificate and issue Definitive Certificates in accordance with each request.

On the Issue Date, the Registrar will (i) authenticate the Global Certificate in accordance with the terms of the Declaration of Trust; and (ii) deliver the Global Certificate to the Common Depositary.

The Trustee shall cause to be deposited into the Transaction Account opened by the Trustee with the Principal Paying Agent, in same day freely transferable, cleared funds, any payment which may be due under the Certificates in accordance with the Conditions.

The Principal Paying Agent agrees that it shall, on each Periodic Distribution Date and on the date fixed for payment of the Dissolution Distribution Amount, or any earlier date specified for the liquidation of the Mudaraba, apply the monies standing to the credit of the Transaction Account in accordance with the order of priority set out in the Declaration of Trust.

TAXATION

The following is a general description of certain tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates. Prospective purchasers of the Certificates should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes of acquiring, holding and disposing of Certificates and receiving payments under the Certificates. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Cayman Islands

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of present legislation. The Trustee has obtained an undertaking from the governor-in-cabinet of the Cayman Islands, pursuant to the Tax Concessions Law (revised) of the Cayman Islands, that for a period of 20 years from the date of grant of that undertaking no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Trustee or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other obligations (which includes the Certificates) of the Trustee or by way of the withholding in whole or part of any relevant payment. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of the Certificates. An annual registration fee is payable by the Trustee to the Cayman Islands Registry of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is approximately US$855. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

United Arab Emirates

The following summary of the anticipated tax treatment in the UAE in relation to payments on the Certificates and pursuant to the Mudaraba Agreement is based on the taxation law in force at the date of this Prospectus, and does not constitute legal or tax advice. Prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change.

There is currently in force in the Emirate of Abu Dhabi legislation establishing a general corporate taxation regime (the Abu Dhabi Income Tax Decree 1965 (as amended)). The regime is, however, not enforced save in respect of companies active in the hydrocarbon industry, some related service industries and branches of foreign banks operating in the UAE. It is not known whether the legislation will or will not be enforced more generally or within other industry sectors in the future. Under current legislation, there is no requirement for withholding or deduction for or on account of UAE or Abu Dhabi taxation in respect of payments made by ADIB under the Mudaraba Agreement and/or the Trustee under the Certificates. If any such withholding or deduction is required to be made in respect of payments due by ADIB under the Mudaraba Agreement, ADIB has undertaken in the Mudaraba Agreement to gross-up the payments due by it accordingly. If any such withholding or deduction is required to be made in respect of payments due by the Trustee under the Certificates, (i) the Trustee has undertaken to gross-up the payment(s) accordingly (subject to certain limited exceptions) and (ii) ADIB has undertaken under the Mudaraba Agreement to pay such additional amounts to the Trustee to enable the Trustee to discharge such obligation.

The Constitution of the UAE specifically reserves to the Federal Government of the UAE the right to raise taxes on a federal basis for purposes of funding its budget. It is not known whether this right will be exercised in the future.

The UAE has entered into double taxation arrangements with certain other countries, but these are not extensive in number.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income, which may include Periodic Distribution Amounts) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement (the "**Subscription Agreement**") dated 14 November 2012 between the Trustee, ADIB, Abu Dhabi Islamic Bank PJSC, HSBC Bank plc, Morgan Stanley & Co. International plc, National Bank of Abu Dhabi P.J.S.C. and Standard Chartered Bank (together, the "**Joint Lead Managers**"), Barwa Bank P.Q.S.C. and Sharjah Islamic Bank P.J.S.C. (the "**Co-Lead Managers**" and, together with the Joint Lead Managers, the "**Managers**"), the Trustee has agreed to issue and sell to the Managers (other than ADIB in its capacity as such) U.S.$1,000,000,000 in aggregate face amount of the Certificates and, subject to certain conditions, the Managers (other than ADIB in its capacity as such) have jointly and severally agreed to subscribe for the Certificates.

The Subscription Agreement provides that the obligations of the Managers (other than ADIB in its capacity as such) to pay for and accept delivery of the Certificates are subject to the approval of certain legal matters by their counsel and certain other conditions. The Managers (other than ADIB in its capacity as such) will be paid certain commissions in respect of their services for managing the issue and sale of the Certificates and a further placing commission will be paid to third parties. The Managers (other than ADIB in its capacity as such) will also be reimbursed in respect of certain of their expenses, and each of the Trustee and ADIB has agreed to indemnify the Managers against certain liabilities incurred in connection with the issue and offering of the Certificates.

Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to ADIB and/or their affiliates in the ordinary course of business.

Selling Restrictions

United States

The Certificates have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Certificates (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells the Certificates.

The Certificates are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Certificates, an offer or sale of Certificates within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Certificate in circumstances in which section 21(1) of the FSMA does not apply to the Trustee or ADIB; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Cayman Islands Notice

No invitation may be made to any member of the public of the Cayman Islands to subscribe for the Certificates.

Dubai International Financial Centre

Each Manager has represented, warranted and agreed that it has not offered and will not offer the Certificates to any person in the DIFC unless such offer is an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the DFSA Rulebook issued by the DFSA Rulebook. This document is not to be relied upon by, or distributed to, any person who is a Retail Client for purposes of Rule 2.3.5 of the Conduct of Business (COB) Module of the DFSA Rulebook.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Certificates. Any investor in the Kingdom of Saudi Arabia (a "**Saudi Investor**") who acquires Certificates pursuant to any offering should note that the offer of Certificates is being made as a private placement by way of an "offer restricted to sophisticated investors" pursuant to Article 10 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**KSA Regulations**"), through a person authorised by the Capital Markets Authority ("CMA") to carry on the securities activity of arranging and following a notification to the CMA under the KSA Regulations.

The Certificates may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 10 of the KSA Regulations. Each Manager has represented, warranted and undertaken that any offer of Certificates to a Saudi Investor will comply with the KSA Regulations.

Investors are informed that Article 17 of the KSA Regulations place restrictions on secondary market activity with respect to the Certificates, including as follows:

(a) a Saudi Investor (referred to as a "transferor") who has acquired Certificates pursuant to a private placement may not offer or sell Certificates to any person (referred to as a "transferee") unless the offer or sale is made through an authorised person where one of the following requirements is met:

   1. the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyals one million or an equivalent amount;

   2. the Certificates are offered or sold to a sophisticated investor; or

   3. the Certificates are being offered or sold in such other circumstances as the CMA may prescribe for these purposes;

(b) if the requirement of paragraph (a)(1) above cannot be fulfilled because the price of the Certificates being offered or sold to the transferee has declined since the date of the original private placement, the transferor may offer or sell the Certificates to the transferee if their purchase price during the period of the original private placement was equal to or exceeded Saudi Riyals 1 million or an equivalent amount;

(c) if the requirement in paragraph (b) above cannot be fulfilled, the transferor may offer or sell Certificates if he/she sells his/her entire holding of Certificates to one transferee; and

(d) the provisions of paragraphs (a), (b) and (c) (inclusive) above shall apply to all subsequent transferees of the Certificates.

Kingdom of Bahrain

Each Manager has represented and agreed that it has not offered and will not offer any Certificates to the Public (as defined in Articles 142-146 of the Commercial Companies Law (decree Law No. 21/2001) of Bahrain) in Bahrain.

State of Qatar

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell or deliver, directly or indirectly, any Certificates in the State of Qatar, except: (a) in compliance with all applicable laws and regulations of the State of Qatar; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.

Hong Kong

Each Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong by means of any document, any Certificates other than: (i) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to any Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"). Accordingly, each Manager has represented and agreed that it has not offered or sold and that it will not offer or sell any Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, nor will it circulate or distribute this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription to purchase, of any Certificates, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the SFA, or (b) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the SFA.

Malaysia

Each Manager has represented and agreed that:

(a) the Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia (the "**SC**") under the Capital Markets and Services Act 2007 of Malaysia ("**CMSA**"). While a copy of the Prospectus will be deposited with the SC, the SC takes no responsibility for its content; and

(b) accordingly, the Certificates have not been and will not be issued, offered for subscription or purchase, sold or delivered, nor will any invitation to subscribe for or purchase the Certificates be made, directly or indirectly, nor may the prospectus, any application for the Certificates or any document or other material in connection with the offering, the prospectus or the Certificates be circulated or distributed in Malaysia, other than to persons falling within Schedule 6 (paragraph 229(1)(b)), Schedule 7 or Section 230(1)(b), Schedule 8 or Section 257(3) of the CMSA, subject to any law, order, regulation, or official directive of the Central Bank of Malaysia, the SC and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

General

Neither the Issuer nor ADIB nor any Manager has made any representation that any action will be taken in any jurisdiction by the Managers or the Issuer or ADIB that would permit a public offering of the Certificates, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Certificates (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Manager has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers any Certificates or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense.

GENERAL INFORMATION

Listing

The listing of the Certificates on the Official List will be expressed as a percentage of their face amount (exclusive of accrued profit). It is expected that listing of the Certificates on the Official List and admission of the Certificates to trading on the Market will be granted on or before 20 November 2012, subject only to the issue of the Global Certificate. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

Authorisation

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Issuer dated 13 November 2012. ADIB Capital Invest 1 Ltd, in its capacity as Issuer and Trustee has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of the Certificates and the execution and performance of the Transaction Documents to which it is a party. The entry by ADIB into the Transaction Documents was authorised by the shareholders of ADIB on 21 October 2012 and by the directors of ADIB on 13 May 2012.

Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records) under common code 085108166 and ISIN XS0851081660.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, LI 855 Luxembourg.

Significant or Material Change

There has been no significant change in the financial or trading position of ADIB and its subsidiaries since 30 September 2012 and there has been no material adverse change in the prospects of ADIB and its subsidiaries since 31 December 2011. There has been no significant change in the financial or trading position of the Issuer or the Trustee and no material adverse change in the prospects of the Issuer or the Trustee, in each case since the date of its incorporation.

Litigation

None of the Issuer, the Trustee, ADIB nor any of their subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer, the Trustee or ADIB is aware) in the 12 months preceding the date of this Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Issuer, the Trustee or ADIB or any of their subsidiaries.

Auditors

The consolidated financial statements of ADIB for each of the two years ended 31 December 2011 and 31 December 2010 have been audited in accordance with International Standards on Auditing by Ernst & Young Middle East (Abu Dhabi Branch) as stated in their reports appearing herein. The unaudited interim condensed consolidated financial statements of ADIB for the nine-month period ended 30 September 2012 have been reviewed in accordance with International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" by Ernst & Young Middle East (Abu Dhabi Branch) as stated in their report appearing herein.

Documents Available

Copies of the following documents will be available in electronic and physical format and in English to be inspected during normal business hours at the specified office for the time being of the Principal Paying Agent for the life of the Certificates from the date of this Prospectus:

(a) the Memorandum and Articles of Association of the Trustee and ADIB;

(b) the Financial Statements. ADIB currently prepares audited consolidated financial statements on an annual basis and consolidated interim financial information for every quarter of each year. The Trustee is not required to, and does not intend to, publish any annual financial or interim financial statements;

(c) a copy of this Prospectus together with any supplement to this Prospectus; and

(d) the Transaction Documents.

This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at *http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html.*

Shari'a Approvals

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Executive Committee of the Fatwa & *Shari'a* Supervisory Committee of ADIB, the HSBC Amanah Central *Shariah* Committee, the Morgan Stanley *Shari'a* Supervisory Board and the *Shari'a* Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on any of the approvals referred to above in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction is in compliance with *Shari'a* principles.

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Abu Dhabi Islamic Bank PJSC

INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

30 SEPTEMBER 2012 (UNAUDITED)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF ABU DHABI ISLAMIC BANK PJSC

Introduction
We have reviewed the accompanying interim condensed consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries (together "the Group") as at 30 September 2012, comprising of the interim consolidated statement of financial position as at 30 September 2012 and the related interim consolidated statements of income and comprehensive income for the three-month and nine-month periods then ended and the related statements of changes in equity and cash flows for the nine-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review
We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Signed by:
Richard Mitchell
Partner
Ernst & Young
Registration No. 446

Abu Dhabi

INTERIM CONSOLIDATED INCOME STATEMENT

Three months and nine months ended 30 September 2012 (Unaudited)

	Notes	***Three months ended 30 September***		***Nine months ended 30 September***	
		2012	*2011*	***2012***	*2011*
		AED '000	*AED '000*	***AED '000***	*AED '000*
OPERATING INCOME					
Income from murabaha, mudaraba and wakala with financial institutions		**26,251**	24,128	**79,459**	90,022
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	5	**899,305**	866,541	**2,721,664**	2,675,204
Investment income (loss)	6	**91,776**	(1,598)	**153,996**	77,719
Share of results of associates		**3,453**	3,530	**7,759**	11,549
Fees and commission income, net	7	**90,534**	118,915	**301,318**	335,359
Foreign exchange income		**11,654**	8,812	**36,218**	22,211
Income from investment properties		**4,456**	2,934	**11,457**	4,403
Income from development properties		**-**	-	**1,140**	7,615
Other income (loss)		**752**	(375)	**1,330**	3,137
		1,128,181	1,022,887	**3,314,341**	3,227,219
OPERATING EXPENSES					
Employees' costs	8	**(231,473)**	(221,228)	**(679,003)**	(661,071)
General and administrative expenses	9	**(131,057)**	(109,192)	**(384,004)**	(329,194)
Depreciation		**(30,973)**	(24,238)	**(85,405)**	(66,382)
Provision for impairment, net	10	**(202,070)**	(150,814)	**(574,749)**	(546,148)
		(595,573)	(505,472)	**(1,723,161)**	(1,602,795)
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS		**532,608**	517,415	**1,591,180**	1,624,424
Distribution to depositors and sukuk holders	11	**(204,095)**	(198,318)	**(632,726)**	(685,525)
PROFIT FOR THE PERIOD		**328,513**	319,097	**958,454**	938,899
Attributable to:					
Equity holders of the Bank		**328,181**	319,071	**957,628**	938,771
Non-controlling interest		**332**	26	**826**	128
		328,513	319,097	**958,454**	938,899
Basic and diluted earnings per share attributable to ordinary shares (AED)	12	**0.126**	0.122	**0.367**	0.359

The attached notes 1 to 40 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three months and nine months ended 30 September 2012 (Unaudited)

	Notes	*Three months ended 30 September* ***2012*** ***AED '000***	*2011* *AED '000*	*Nine months ended 30 September* ***2012*** ***AED '000***	*2011* *AED '000*
PROFIT FOR THE PERIOD		**328,513**	319,097	**958,454**	938,899
Other comprehensive income (loss)					
Net gain (loss) on valuation of investments carried at fair value through other comprehensive income	29	**66,051**	(12,963)	**70,090**	(35,012)
Directors' remuneration paid		**-**	-	**(4,200)**	(4,200)
Exchange differences arising on translation of foreign operations	29	**2,840**	(3,810)	**887**	2,452
(Loss) gain on hedge of foreign operations	29	**(2,840)**	3,810	**(887)**	(2,452)
Exchange difference recycled on disposal of investment in associate	19	**(1,915)**	-	**(1,915)**	-
Fair value gain (loss) on cash flow hedge	29	**1,040**	(697)	**(3,776)**	1,196
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		**65,176**	(13,660)	**60,199**	(38,016)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**393,689**	305,437	**1,018,653**	900,883
Attributable to:					
Equity holders of the Bank		**393,357**	305,411	**1,017,827**	900,755
Non-controlling interest		**332**	26	**826**	128
		393,689	305,437	**1,018,653**	900,883

The attached notes 1 to 40 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 September 2012 (Unaudited)

	Notes	***30 September 2012 AED '000***	*Audited 31 December 2011 AED '000*
ASSETS			
Cash and balances with central banks	13	**12,188,739**	11,207,145
Balances and wakala deposits with Islamic banks and other financial institutions	14	**3,168,878**	2,515,371
Murabaha and mudaraba with financial institutions	15	**5,961,637**	5,216,501
Murabaha and other Islamic financing	16	**23,445,977**	23,365,559
Ijara financing	17	**27,411,118**	25,465,782
Investments	18	**4,168,377**	1,652,605
Investment in associates	19	**845,531**	851,503
Investment properties	20	**308,984**	155,240
Development properties	21	**837,381**	966,747
Other assets	22	**2,056,968**	1,964,650
Property and equipment		**1,146,789**	973,963
TOTAL ASSETS		**81,540,379**	74,335,066
LIABILITIES			
Due to financial institutions	23	**2,569,844**	1,931,426
Depositors' accounts	24	**61,188,483**	55,171,783
Other liabilities	25	**1,984,883**	1,862,757
Tier 2 wakala capital	26	**2,207,408**	2,207,408
Sukuk financing instruments	27	**4,590,625**	4,590,625
Total liabilities		**72,541,243**	65,763,999
EQUITY			
Share capital	28	**2,364,706**	2,364,706
Legal reserve		**1,755,894**	1,755,894
General reserve		**585,921**	585,921
Retained earnings		**2,203,550**	1,311,406
Proposed dividends	37	**-**	577,546
Proposed dividends to charity		**-**	1,028
Other reserves	29	**37,640**	(28,043)
Tier 1 sukuk	30	**2,000,000**	2,000,000
Equity attributable to the equity holders of the Bank		**8,947,711**	8,568,458
Non-controlling interest		**51,425**	2,609
Total equity		**8,999,136**	8,571,067
TOTAL LIABILITIES AND EQUITY		**81,540,379**	74,335,066
CONTINGENT LIABILITIES AND COMMITMENTS	31	**13,206,175**	14,378,921

Vice Chairman

Chief Executive Officer

The attached notes 1 to 40 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Nine months ended 30 September 2012 (Unaudited)

		Attributable to the equity holders of the Bank										
	Notes	*Share capital AED '000*	*Legal reserve AED '000*	*General reserve AED '000*	*Retained earnings AED '000*	*Proposed dividends AED '000*	*Proposed dividends to charity AED '000*	*Other reserves AED '000*	*Tier 1 sukuk AED '000*	*Total AED '000*	*Non-controlling interest AED '000*	*Total equity AED '000*
Balance at 1 January 2012 - audited		2,364,706	1,755,894	585,921	1,311,406	577,546	1,028	(28,043)	2,000,000	8,568,458	2,609	8,571,067
Total comprehensive income		-	-	-	953,428	-	-	64,399	-	1,017,827	826	1,018,653
Loss on disposal of investments carried at fair value through other comprehensive income	29	-	-	-	(1,284)	-	-	1,284	-	-	-	-
Profit paid on Tier 1 sukuk	30	-	-	-	(60,000)	-	-	-	-	(60,000)	-	(60,000)
Dividends paid	37	-	-	-	-	(577,546)	-	-	-	(577,546)	-	(577,546)
Dividends paid to charity		-	-	-	-	-	(1,028)	-	-	(1,028)	-	(1,028)
Non-controlling interest arising on a business combination	38	-	-	-	-	-	-	-	-	-	47,990	47,990
Balance at 30 September 2012 - unaudited		**2,364,706**	**1,755,894**	**585,921**	**2,203,550**	**-**	**-**	**37,640**	**2,000,000**	**8,947,711**	**51,425**	**8,999,136**
Balance at 1 January 2011 - audited		2,364,706	1,754,899	443,182	984,069	511,783	6,816	42,122	2,000,000	8,107,577	3,075	8,110,652
Transition adjustment on adoption of IFRS 9		-	-	-	38,248	-	-	(5,746)	-	32,502	-	32,502
Balance at 1 January 2011 - adjusted		2,364,706	1,754,899	443,182	1,022,317	511,783	6,816	36,376	2,000,000	8,140,079	3,075	8,143,154
Total comprehensive income (loss)		-	-	-	934,571	-	-	(33,816)	-	900,755	128	900,883
Profit paid on tier 1 sukuk	30	-	-	-	(60,000)	-	-	-	-	(60,000)	-	(60,000)
Dividends paid	37	-	-	-	-	(511,783)	-	-	-	(511,783)	(588)	(512,371)
Dividends paid to charity		-	-	-	-	-	(6,816)	-	-	(6,816)	-	(6,816)
Balance at 30 September 2011 - unaudited		**2,364,706**	**1,754,899**	**443,182**	**1,896,888**	**-**	**-**	**2,560**	**2,000,000**	**8,462,235**	**2,615**	**8,464,850**

The attached notes 1 to 40 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
Nine months ended 30 September 2012 (Unaudited)

	Notes	***Nine months ended 30 September 2012 AED '000***	*Nine months ended 30 September 2011 AED '000*
OPERATING ACTIVITIES			
Profit for the period		**958,454**	938,899
Adjustments for:			
Depreciation on investment properties	20	**6,346**	3,956
Depreciation on property and equipment		**79,059**	62,426
Share of results of associates		**(7,759)**	(11,549)
Dividend income	6	**(4,180)**	(19)
Realised gain on sale of investments carried at fair value through profit and loss	6	**(16,307)**	(48,968)
Unrealised (gain) loss on investments carried at fair value through profit and loss	6	**(15,224)**	14,097
Gain on disposal of property and equipment		**-**	(47)
Provision for impairment, net	10	**574,749**	546,148
Gain on disposal of investment in associate	6	**(44,328)**	-
(Gain) loss on sale of investment properties		**(1,720)**	73
Gain on sale of development properties		**(1,140)**	(9,365)
Operating profit before changes in operating assets and liabilities		**1,527,950**	1,495,651
Proceeds from encashment (purchase) of certificate of deposits		**1,405,121**	(2,054,914)
Decrease in balances and wakala deposits with Islamic banks and other financial institutions		**141,153**	248,317
Decrease in murabaha and mudaraba with financial institutions		**300,590**	3,002,070
Increase in murabaha and other Islamic financing		**(137,249)**	(357,420)
Increase in ijara financing		**(2,297,255)**	(595,739)
Purchase of investments carried at fair value through profit and loss		**(2,629,375)**	(1,942,789)
Proceeds from sale of investments carried at fair value through profit and loss		**2,421,478**	1,306,947
Increase in other assets		**(252,208)**	(429,890)
Decrease in due to financial institutions		**(389,224)**	(390,467)
Increase (decrease) in depositors' accounts		**6,017,125**	(2,121,847)
Increase (decrease) in other liabilities		**96,317**	(17,233)
Cash from (used in) operations		**6,204,423**	(1,857,314)
Directors' remuneration paid		**(4,200)**	(4,200)
Net cash from (used in) operating activities		**6,200,223**	(1,861,514)
INVESTING ACTIVITIES			
Dividend received	6	**4,180**	19
Purchase of investments carried at fair value through other comprehensive income		**(53,586)**	(78,045)
Proceeds from sale of investments carried at fair value through other comprehensive income		**10,551**	410,849
Purchase of investments carried at amortised cost		**(2,249,698)**	-
Dividend received from an associate		**4,497**	1,710
Proceeds from disposal of investment in associate	19	**51,535**	-
Proceeds from sale of investment properties		**10,033**	248
Additions to development properties	21	**(4,246)**	(16,446)
Proceeds from sale of development properties		**3,649**	22,246
Additions to property and equipment		**(251,631)**	(157,809)
Proceeds from disposal of property and equipment		**-**	66
Net cash (used in) from investing activities		**(2,474,716)**	182,838
FINANCING ACTIVITIES			
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	30	**(60,000)**	(60,000)
Dividends paid		**(561,007)**	(465,642)
Proceeds from sukuk repurchased (second issue)		**-**	244,589
Net cash used in financing activities		**(621,007)**	(281,053)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**3,104,500**	(1,959,729)
Cash and cash equivalents at 1 January		**11,392,464**	15,955,903
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	32	**14,496,964**	13,996,174

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

Profit received		**2,620,696**	2,552,959
Profit paid to depositors and sukuk holders		**499,754**	672,017

The attached notes 1 to 40 form part of these interim condensed consolidated financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

The 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, 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 73 branches in UAE and 1 overseas branch in Iraq and subsidiaries in the UAE, Kingdom of Saudi Arabia and the United Kingdom. The interim condensed consolidated financial statements combine the activities of the Bank's head office, its branches, subsidiaries and its associates.

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

The interim condensed consolidated financial statements of the Group were authorised for issued by the Board of Directors on 16 October 2012.

2 DEFINITIONS

The following terms are used in the interim condensed 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 consists of the purchasing 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 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 enables the borrower to use the borrowed amounts for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

Musharaka
A contract between the Group and a customer to enter 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.

2 DEFINITIONS continued

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 interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, and in compliance with general principles of the Shari'a as determined by the Group's Fatwa and Shari'a Supervisory Board.

3.1.b Accounting convention
The interim condensed 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 included in property and equipment which has been carried at revalued amount.

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

3.1.c Basis of consolidation
The interim condensed consolidated financial statements comprise the financial statements of the Bank and those of its following subsidiaries:

	Activity	*Country of incorporation*	*Percentage of holding* **2012**	*2011*
Abu Dhabi Islamic Securities Company LLC	Equity brokerage services	United Arab Emirates	**95%**	95%
Burooj Properties LLC	Real estate investments	United Arab Emirates	**100%**	100%
ADIB Invest 1	Equity brokerage services	BVI	**100%**	100%
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	**-**	-
Kawader Services Company LLC	Manpower supply	United Arab Emirates	**100%**	100%
Saudi Installment House	Retail finance	Kingdom of Saudi Arabia	**51%**	-
ADIB (UK) Limited	Islamic banking	United Kingdom	**100%**	-

*The Bank does not have any direct holding in ADIB Sukuk Company Ltd, ADIB Sukuk Company II Ltd or ADIB Capital Invest 1 Ltd and each are considered to be a subsidiary by virtue of control.

3 BASIS OF PREPARATION continued

3.1.c Basis of consolidation continued

A subsidiary is an entity over which the Bank exercises control, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from its activities. These interim condensed 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 interim condensed financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

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

3.2 Standards issued but not yet effective

The following new standards / amendments to standards which were issued and are not yet effective for the period ended 30 September 2012 have not been applied while preparing these interim condensed consolidated financial statements:

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income- 1 July 2012
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.

IAS 19 Employee Benefits (Amendment) – 1 January 2013
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

IAS 27 Separate Financial Statements (as revised in 2011) – 1 January 2013
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011) – 1 January 2013
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

3 BASIS OF PREPARATION continued

3.2 Standards issued but not yet effective continued

IFRS 10 Consolidated Financial Statements – 1 January 2013

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

IFRS 11 Joint Arrangements – 1 January 2013

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

IFRS 12 Disclosure of Involvement with Other Entities – 1 January 2013

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

IFRS 13 Fair Value Measurement – 1 January 2013

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted.

Management anticipates that these amendments will be adopted in the Group's consolidated financial statements for the period when they become effective. Management is in the process of assessing the potential impact of the adoption of these standards.

3.3 Significant judgements and estimates

The preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standards requires management to make judgment, 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 periods. Estimates and judgments are currently evaluated and are based on historical experience and other factors. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows in order to estimate the level of impairment provision required for non-performing financing as well as for non-trading investments carried at amortised cost. 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.

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2011.

4 ACCOUNTING POLICIES

The interim condensed consolidated financial statements do not contain all information and disclosures for full consolidated financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2011. In addition, results for the nine months ended 30 September 2012 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2011, except as noted below:

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 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;
- 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 (or disposal Banks) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

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

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.

4 ACCOUNTING POLICIES continued

Business combinations continued
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.

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 Bank’s 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.

As required by Securities and Commodities Authority of UAE (“SCA”) notification no. 2635/2008 dated 12 October 2008, accounting policies related to financial instruments as disclosed in the annual consolidated financial statements are provided below:

4 ACCOUNTING POLICIES continued

Financial Instruments

(i) Recognition and Measurement

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

- Customer financing;
- Balances and wakala deposits Islamic banks and other financial institutions;
- Murabaha and mudaraba with financial institutions;
- Investment in sukuk;
- Investment in equity instruments; 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 IFRS 9 'Financial Instruments' 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.

Financing assets are measured at amortised cost only if:

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

If either of the two criteria is not met the financial instrument is classified as 'fair value through profit or loss' ("FVTPL"). Further, even if the asset meets the amortised cost criteria, the Group may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Following the above criteria, the Group measures its financial assets at amortised cost except investment in equity investments and certain sukuk which are designated as FVTPL.

Sharia compliant alternatives of derivates, investment in equity instruments and certain sukuk which do not meet the above criteria are measured at fair value.

Amortised cost (which excludes deferred profit) 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

Investments in equity instruments are classified and measured as FVTPL except if the equity investment is not held for trading or is designated by the Group as 'fair value through other comprehensive income' ("FVTOCI"). If the equity investment is designated at FVTOCI, all gains and losses, except for dividend income are recognised in accordance with IAS 18 Revenue, in other comprehensive income and are not subsequently reclassified to the statement of income.

Profit and dividend income on financial assets classified as FVTPL are recorded in the consolidated income statement.

4 ACCOUNTING POLICIES continued

Financial Instruments continued

(i) ***Recognition and Measurement*** continued

Fair value of investments quoted in an active market is determined by reference to quoted market prices. Investments where there is no active market, fair value is based on the most appropriate of the following:

- expected cash flows of the instrument discounted at current profit rates applicable for items with similar terms and risk characteristics;
- brokers' quote (based on recent market transactions);
- option pricing models;
- net asset value.

Financial liabilities of the Group including depositors' account are measured at amortised cost.

(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 to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

(iii) Impairment of financial assets

Customer financing

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

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

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

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

	Three months ended 30 September		***Nine months ended 30 September***	
	2012	*2011*	***2012***	*2011*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Vehicle murabaha	**116,367**	130,842	**363,293**	426,922
Goods murabaha	**30,457**	46,440	**136,279**	148,687
Share murabaha	**199,356**	167,710	**580,408**	505,297
Commodities murabaha – Al Khair	**57,359**	61,218	**174,435**	191,482
Other murabaha	**15,935**	8,812	**39,504**	31,568
Total murabaha	**419,474**	415,022	**1,293,919**	1,303,956
Mudaraba	**12,711**	27,799	**91,643**	99,100
Ijara	**412,921**	372,544	**1,174,583**	1,122,582
Islamic covered cards (murabaha)	**50,009**	45,785	**147,533**	132,461
Istisna'a	**4,190**	5,391	**13,986**	17,105
	899,305	866,541	**2,721,664**	2,675,204

6 INVESTMENT INCOME (LOSS)

	Three months ended 30 September		***Nine months ended 30 September***	
	2012	*2011*	***2012***	*2011*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Income from Islamic sukuk	**34,809**	13,280	**69,024**	35,122
Income from other investment assets	**2,613**	141	**4,933**	7,707
Dividend income	**2,082**	6	**4,180**	19
Gain from disposal of investment in associate (note 19)	**44,328**	-	**44,328**	-
Realised gain on sale of investments carried at FVTPL	**4,897**	4,771	**16,307**	48,968
Unrealised gain (loss) on investments carried at FVTPL	**3,047**	(19,796)	**15,224**	(14,097)
	91,776	(1,598)	**153,996**	77,719

7 FEES AND COMMISSION INCOME, NET

	Three months ended 30 September		*Nine months ended 30 September*	
	2012	*2011*	***2012***	*2011*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Fees and commission income				
Fees and commission income on cards	**71,138**	58,630	**191,636**	155,763
Trade related fees and commission	**25,455**	19,608	**73,965**	55,235
Accounts services fees	**7,641**	15,317	**28,392**	55,132
Projects and property management fees	**8,652**	11,058	**28,391**	31,660
Risk participation and arrangement fees	**9,605**	32,155	**45,387**	60,370
Brokerage fees and commission	**3,783**	3,410	**14,465**	11,783
Other fees and commissions	**13,886**	15,985	**46,028**	59,056
Total fees and commission income	**140,160**	156,163	**428,264**	428,999
Fees and commission expenses				
Card related fees and commission expenses	**(42,865)**	(30,733)	**(105,579)**	(75,187)
Other fees and commission expenses	**(6,761)**	(6,515)	**(21,367)**	(18,453)
Total fees and commission expenses	**(49,626)**	(37,248)	**(126,946)**	(93,640)
Fees and commission income, net	**90,534**	118,915	**301,318**	335,359

8 EMPLOYEES' COSTS

	Three months ended 30 September		*Nine months ended 30 September*	
	2012	*2011*	***2012***	*2011*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Salaries and wages	**209,815**	201,876	**618,711**	600,329
End of service benefits	**15,307**	12,275	**41,347**	38,491
Other staff expenses	**6,351**	7,077	**18,945**	22,251
	231,473	221,228	**679,003**	661,071

9 GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 30 September		*Nine months ended 30 September*	
	2012	*2011*	***2012***	*2011*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Legal and professional expenses	**16,094**	18,421	**58,866**	61,541
Premises expenses	**41,532**	35,999	**119,272**	100,168
Marketing and advertising expenses	**22,309**	22,263	**69,093**	69,430
Communication expenses	**10,866**	10,613	**31,250**	30,770
Technology related expenses	**15,625**	7,460	**46,217**	18,893
Other operating expenses	**24,631**	14,436	**59,306**	48,392
	131,057	109,192	**384,004**	329,194

10 PROVISION FOR IMPAIRMENT, NET

		Three months ended 30 September		*Nine months ended 30 September*	
		2012	*2011*	***2012***	*2011*
		AED '000	*AED '000*	***AED '000***	*AED '000*
Murabaha and mudaraba with financial institutions	15	**-**	(17,068)	**-**	(19,854)
Murabaha and other Islamic financing	16	**(50,372)**	144,699	**94,675**	174,925
Ijara financing	17	**201,521**	15,566	**351,919**	288,018
Direct write-off		**199**	-	**675**	-
Investments	18	**3,267**	1,377	**3,267**	1,377
Other assets	22	**47,455**	6,240	**124,213**	101,682
		202,070	150,814	**574,749**	546,148

The above provision for impairment includes AED 124,213 thousand (2011: AED 101,682 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank.

11 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

	Three months ended 30 September		*Nine months ended 30 September*	
	2012	*2011*	***2012***	*2011*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Saving accounts	**29,377**	28,668	**95,415**	81,712
Investment accounts	**106,186**	113,633	**332,286**	435,546
Sukuk holders and Tier 2 wakala capital	**68,532**	56,017	**205,025**	168,267
	204,095	198,318	**632,726**	685,525

12 BASIC AND DILUTED EARNINGS PER SHARE

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

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

	Note	*Three months ended 30 September* **2012**	*2011*	*Nine months ended 30 September* **2012**	*2011*
Profit for the period attributable to equity holders (AED '000)		**328,181**	319,071	**957,628**	938,771
Less: profit attributable to Tier 1 sukuk holder (AED '000)	30	**(30,000)**	(30,000)	**(90,000)**	(90,000)
Profit for the period attributable to ordinary shareholders after deducting profit relating to Tier 1 sukuk (AED '000)		**298,181**	289,071	**867,628**	848,771
Weighted average number of ordinary shares in issue (000's)		**2,364,706**	2,364,706	**2,364,706**	2,364,706
Basic and diluted earnings per share (AED)		**0.126**	0.122	**0.367**	0.359

The Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised.

13 CASH AND BALANCES WITH CENTRAL BANKS

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Cash on hand	**988,862**	1,121,403
Balances with central banks:		
- Current accounts	**1,595,575**	1,310,023
- Statutory reserve	**5,043,810**	4,216,019
- Islamic certificate of deposits	**4,560,492**	4,559,700
	12,188,739	11,207,145

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

13 CASH AND BALANCES WITH CENTRAL BANKS continued

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

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
UAE	**12,101,585**	11,180,439
Middle East	**30,788**	26,706
Europe	**1,278**	**-**
Others	**55,088**	-
	12,188,739	11,207,145

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

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Current accounts	**390,437**	92,766
Wakala deposits	**2,778,441**	2,422,605
	3,168,878	2,515,371

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 balances and wakala deposits with Islamic banks and other financial institutions by geographic region was as follows:

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
UAE	**1,822,591**	1,504,836
Middle East	**44,952**	5,449
Europe	**56,498**	35,874
Others	**1,244,837**	969,212
	3,168,878	2,515,371

15 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Murabaha	**5,874,696**	5,128,884
Mudaraba	**216,752**	217,428
	6,091,448	5,346,312
Less: provision for impairment	**(129,811)**	(129,811)
	5,961,637	5,216,501

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

At the beginning of the period	**129,811**	190,310
Reversal for the period	**-**	(16,178)
Written off during the period	**-**	(44,321)
At the end of the period	**129,811**	129,811

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

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
UAE	**5,343,230**	4,410,811
Middle East	**228,615**	229,943
Europe	**373,105**	548,322
Others	**146,498**	157,236
	6,091,448	5,346,312

16 MURABAHA AND OTHER ISLAMIC FINANCING

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Vehicle murabaha	**6,682,468**	7,254,813
Goods murabaha	**3,454,568**	3,750,614
Share murabaha	**10,920,226**	9,796,068
Commodities murabaha – Al Khair	**3,570,611**	3,762,154
Other murabaha	**2,295,330**	2,189,802
Total murabaha	**26,923,203**	26,753,451
Mudaraba	**2,096,328**	2,592,419
Islamic covered cards (murabaha)	**4,606,881**	4,156,481
Istisna'a	**185,850**	235,756
Other financing receivables	**113,789**	163,584
Total murabaha and other Islamic financing	**33,926,051**	33,901,691
Less: deferred income on murabaha	**(8,259,507)**	(8,318,993)
	25,666,544	25,582,698
Less: provision for impairment	**(2,220,567)**	(2,217,139)
	23,445,977	23,365,559

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

	30 September 2012			*Audited 31 December 2011*		
	Individual impairment AED '000	***Collective impairment AED '000***	***Total AED '000***	*Individual impairment AED '000*	*Collective impairment AED '000*	*Total AED '000*
At the beginning of the period	**1,829,876**	**387,263**	**2,217,139**	1,608,567	289,023	1,897,590
Charge for the period (note 10)	**86,565**	**8,110**	**94,675**	232,849	98,240	331,089
Written off during the period	**(91,247)**	**-**	**(91,247)**	(11,540)	-	(11,540)
At the end of the period	**1,825,194**	**395,373**	**2,220,567**	1,829,876	387,263	2,217,139

16 MURABAHA AND OTHER ISLAMIC FINANCING continued

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

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
***Industry sector**:*		
Government	**43,828**	131,803
Public sector	**246,266**	216,847
Corporate	**4,795,967**	5,517,910
Financial institutions	**623,609**	590,049
Individuals	**19,257,641**	18,592,543
Small and medium enterprises	**699,233**	533,546
	25,666,544	25,582,698
Geographic region:		
UAE	**24,415,305**	24,427,314
Middle East	**867,604**	759,202
Europe	**361,502**	363,382
Others	**22,133**	32,800
	25,666,544	25,582,698

17 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 include a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
The aggregate future lease receivables are as follows:		
Due within one year	**6,851,296**	6,405,365
Due in the second to fifth year	**17,108,128**	17,025,468
Due after five years	**11,462,066**	9,347,515
Total ijara financing	**35,421,490**	32,778,348
Less: deferred income	**(6,921,822)**	(6,519,499)
Net present value of minimum lease payments receivable	**28,499,668**	26,258,849
Less: provision for impairment	**(1,088,550)**	(793,067)
	27,411,118	25,465,782

17 IJARA FINANCING continued

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

	30 September 2012			*Audited 31 December 2011*		
	Individual impairment AED '000	***Collective impairment AED '000***	***Total AED '000***	*Individual impairment AED '000*	*Collective impairment AED '000*	*Total AED '000*
At the beginning of the period	**417,485**	**375,582**	**793,067**	92,779	286,321	379,100
Charge for the period (note 10)	**307,175**	**44,744**	**351,919**	324,706	89,261	413,967
Written off during the period	**(56,436)**	**-**	**(56,436)**	-	-	-
At the end of the period	**668,224**	**420,326**	**1,088,550**	417,485	375,582	793,067

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

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Industry sector:		
Government	**94,952**	165,087
Public sector	**2,429,401**	2,285,682
Corporate	**11,894,183**	10,327,176
Financial institutions	**787,583**	678,460
Individuals	**12,818,507**	12,394,098
Small and medium enterprises	**475,042**	408,346
	28,499,668	26,258,849
Geographic region:		
UAE	**27,552,342**	25,439,128
Middle East	**13,115**	15,670
Others	**934,211**	804,051
	28,499,668	26,258,849

18 INVESTMENTS

	30 September 2012 AED '000	Audited 31 December 2011 AED '000
Investments carried at fair value through profit or loss		
Equities	**-**	2,625
Sukuk	**1,088,414**	846,361
	1,088,414	848,986
Investments carried at fair value through other comprehensive income		
Quoted investments		
Equities	**27,891**	16,454
Unquoted investments		
Funds	**107,048**	174,723
Private equities	**258,184**	172,033
	365,232	346,756
	393,123	363,210
Investments carried at amortised cost		
Sukuk	**2,686,840**	440,409
Total investments	**4,168,377**	1,652,605

Investments in private equity funds represent investments made in funds and limited partnerships to fund primary investment commitments in target companies with the objective of generating returns outperforming the public equity markets.

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

	30 September 2012 AED '000	Audited 31 December 2011 AED '000
At the beginning of the period - audited	**78,041**	108,391
Transition adjustment upon adoption of IFRS 9	**-**	(31,727)
At the beginning of the period - adjusted	**78,041**	76,664
Charge for the period (note 10)	**3,267**	1,377
At the end of the period	**81,308**	78,041

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

UAE	**2,549,008**	1,109,453
Middle East	**1,310,357**	422,111
Europe	**177**	178
Others	**390,143**	198,904
	4,249,685	1,730,646

19 INVESTMENT IN ASSOCIATES

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Cost of investment in associates	**831,063**	861,273
Share of results	**12,751**	12,479
Dividends received	**(4,497)**	(1,710)
Foreign currency translation	**10,498**	12,244
	849,815	884,286
Less: provision for impairment	**(4,284)**	(32,783)
	845,531	851,503

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

Balance at the beginning of the period	**32,783**	32,783
Written off during the period	**(28,499)**	-
Balance at the end of the period	**4,284**	32,783

Details of the Bank's investment in associates at 30 September 2012 is as follows:

Name of associate	*Place of incorporation*	*Proportion of ownership interest and voting power*		*Principal activity*
		2012 %	*2011 %*	
Abu Dhabi National Takaful PJSC	UAE	**40**	40	Islamic insurance
BBI Leasing and Real Estate D.O.O	Bosnia	**-**	32	Islamic leasing and real estate
Bosna Bank International D.D	Bosnia	**27**	27	Islamic banking
National Bank for Development	Egypt	**49**	49	Banking (under conversion to Islamic bank)

The distribution of the gross investment in associates by geographic region was as follows:

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
UAE	**129,152**	127,633
Europe	**33,105**	69,095
Others	**687,558**	687,558
	849,815	884,286

19 INVESTMENT IN ASSOCIATES continued

Disposal of investment in associate

In September 2012, the Bank entered into a binding sale and purchase agreement ("Agreement") for the disposal of its entire equity holding in BBI Leasing and Real Estate D.O.O for a consideration of AED 51,535 thousand. Through this agreement the Bank transferred its risks and rewards with respect to the ownership of BBI Leasing and Real Estate D.O.O to the purchaser and recognized the disposal and gain on disposal in the third quarter of 2012. This investment was treated as an associate until the date the disposal was occurred. The total share of profits from BBI Leasing and Real Estate D.O.O recognized in the interim consolidated income statement during the period ended 30 September 2012 amounted to AED 101 thousand.

The excess of sale consideration over the net carrying value of the investment in associate and net of hedge reserves as on the date of disposal has been included in the 'Gain on disposal of investment in associate' in the interim consolidated income statement and is calculated as follows:

	30 September 2012 AED '000
Sale consideration	51,535
Less: carrying value of investment in associate	(8,809)
Add: foreign currency translation reserve recycled from other comprehensive income	1,915
	44,641
Less: transaction cost	(313)
Gain on disposal of investment in associate (note 6)	**44,328**

20 INVESTMENT PROPERTIES

The movement in investment properties during the period was as follows:

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Cost:		
Balance at the beginning of the period	**177,629**	222,495
Transfer from development properties (note 21)	**131,103**	93,439
Transfer from other assets	**37,300**	66,027
Transfer to property and equipment	**-**	(204,011)
Disposals	**(8,581)**	(321)
Gross balance at the end of the period	**337,451**	177,629
Less: provision for impairment	**(14,761)**	(14,761)
Net balance at the end of the period	**322,690**	162,868
Accumulated depreciation:		
Balance at the beginning of the period	**7,628**	12,759
Charge for the period	**6,346**	5,793
Related to disposal	**(268)**	-
Relating to transfer to property and equipment	**-**	(10,924)
Balance at the end of the period	**13,706**	7,628
Net book value at the end of the period	**308,984**	155,240

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 9,737 thousand (2011: AED 3,714 thousand) for the nine months period ended 30 September 2012.

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

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Balance at the beginning of the period	**14,761**	18,082
Charge for the period	**-**	1,631
Written off during the period	**-**	(4,952)
Balance at the end of the period	**14,761**	14,761

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

UAE	**315,497**	161,753
Middle East	**8,248**	8,248
	323,745	170,001

21 DEVELOPMENT PROPERTIES

The movement in development properties during the period was as follows:

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Balance at the beginning of the period	**966,747**	1,050,445
Additions	**4,246**	16,447
Transfers to investment properties (note 20)	**(131,103)**	(93,439)
Disposals	**(2,509)**	(6,706)
Balance at the end of the period	**837,381**	966,747

Development properties include land with a carrying value of AED 800,000 thousand (31 December 2011: AED 800,000 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

22 OTHER ASSETS

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Advances against purchase of properties	**1,373,454**	1,299,280
Trade receivables	**257,339**	277,761
Cheques for collection	**2,583**	2,614
Prepaid expenses	**338,583**	259,880
Income receivable	**44,572**	6,017
Advance to contractors	**777**	1,653
Advance for investments	**183,625**	183,625
Others	**197,839**	177,323
	2,398,772	2,208,153
Less: provision for impairment	**(341,804)**	(243,503)
	2,056,968	1,964,650

22 OTHER ASSETS continued

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

	Advances against purchase of properties AED '000	*Trade receivables AED '000*	*Advance for investments AED '000*	*Others AED '000*	*Total AED '000*
At 1 January 2012 - audited	**192,575**	**30,100**	**-**	**20,828**	**243,503**
Charge for the period (note 10)	**121,158**	**-**	**-**	**3,055**	**124,213**
Written off during the period	**(24,843)**	**(1,069)**	**-**	**-**	**(25,912)**
At 30 September 2012 - unaudited	**288,890**	**29,031**	**-**	**23,883**	**341,804**
At 1 January 2011 - audited	74,031	30,100	106,392	10,414	220,937
Charge (reversal) for the year	184,013	-	(106,392)	10,414	88,035
Written off during the year	(65,469)	-	-	-	(65,469)
At 31 December 2011 - audited	192,575	30,100	-	20,828	243,503

23 DUE TO FINANCIAL INSTITUTIONS

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Current accounts	**211,055**	171,203
Investment deposits	**2,358,789**	1,760,223
	2,569,844	1,931,426

24 DEPOSITORS' ACCOUNTS

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Current accounts	**16,437,397**	14,234,786
Saving accounts	**13,945,684**	11,182,629
Investment accounts	**30,594,012**	29,613,769
Profit equalisation reserve	**211,390**	140,599
	61,188,483	55,171,783

24 DEPOSITORS' ACCOUNTS continued

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

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
At the beginning of the period	**140,599**	64,788
Share of profit for the period	**70,791**	75,811
At the end of the period	**211,390**	140,599

The distribution of gross depositors' accounts by industry sector was as follows:

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Industry sector:		
Government	**9,354,383**	7,555,541
Public sector	**9,015,454**	8,208,031
Corporates	**3,965,998**	5,058,507
Financial institutions	**1,909,263**	2,709,678
Individuals	**29,865,759**	25,473,050
Small and medium enterprises	**7,077,626**	6,166,976
	61,188,483	55,171,783

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

With respect to investment deposits, the Bank is liable only in case of willful 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).

25 OTHER LIABILITIES

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Accounts payable	**286,869**	349,922
Payable for purchase of properties	**23,823**	64,578
Accrued profit for distribution to depositors and sukuk holders	**220,345**	158,164
Bankers' cheques	**263,780**	137,903
Provision for staff benefits and other expenses	**215,872**	258,895
Retentions payable	**202,865**	274,202
Advances from customers	**38,641**	58,803
Accrued legal and professional charges	**3,828**	3,494
Accrued expenses	**131,133**	73,003
Unclaimed dividends	**107,370**	90,831
Deferred income	**78,157**	26,679
Charity account	**3,192**	6,528
Donation account	**723**	344
Negative fair value on Shari'a compliant alternatives of derivative financial instruments	**21,978**	19,578
Others	**386,307**	339,833
	1,984,883	1,862,757

26 TIER 2 WAKALA CAPITAL

In December 2008, the UAE Federal government ("the Government") placed deposits with the Bank for a period of 3 - 5 years. Subsequent to the deposit placements, the Government offered, subject to certain terms and conditions and in accordance with the Central Bank's capital adequacy requirements, to convert the deposits, into capital qualifying as Tier 2 capital. Pursuant to the Extraordinary General Meeting held on 22 March 2009, the shareholders approved, subject to the terms of an instrument to be entered into with the Government, the conversion of these deposits into a Tier 2 capital. On 31 December 2009, a Shari'a compliant wakala agreement was signed by the Bank. In accordance with the terms of that agreement the deposits were converted into Tier 2 qualifying wakala capital.

The wakala capital is an unsecured subordinated obligation of the Bank which has been provided to the Bank for a term of 7 years. However, the Bank may, subject to certain conditions, return the wakala capital to the Government prior to the expiry of the 7 year term. The Tier 2 qualifying wakala capital bears an expected profit rate ranging, over the term that it has been provided, from 4% - 5.25%. The profit rate is payable quarterly in arrears. In limited circumstances and subject to certain conditions, the Government has the ability to convert all or part of the wakala capital into ordinary shares of the Bank at the prevailing market price.

27 SUKUK FINANCING INSTRUMENTS

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Second issue	**2,754,375**	2,754,375
Third issue	**1,836,250**	1,836,250
	4,590,625	4,590,625

Second issue - USD 750 million
In November 2010, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 2,754,375 thousand (USD 750 million) as the second issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in November 2015. The sukuk deserved profit is distributed in accordance with fixed profit rate.

Third issue - USD 500 million
In November 2011, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 1,836,250 thousand (USD 500 million) as the third issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in November 2016. The sukuk deserved profit is distributed in accordance with fixed profit rate.

Terms of arrangement
The terms of the arrangement include transfer of the ownership of certain assets ("the Co-Owned Assets"), including original ijara assets of the Bank, to a sukuk company, ADIB Sukuk Company Ltd - the Issuer, a subsidiary of the Bank, specially formed for the sukuk transaction. The assets are owned by the investors, however the assets are controlled by the Bank and shall continue to be serviced by the Bank as the managing agent.

The issuer will pay the quarterly distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the sukuk holders on the quarterly distribution dates. Upon maturity of the sukuk, the Bank has undertaken to repurchase the assets at an exercise price which equals the value of the Issuer's co-ownership interest in the unpaid rental installments due and payable in respect of the Co-Owned Assets, which may equal the amount of AED 4,590,625 thousand (USD 1,250 million) (31 December 2011: AED 4,590,625 thousand (USD 1,250 million)).

28 SHARE CAPITAL

	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Authorised share capital:		
3,000,000 thousand (2011: 3,000,000 thousand) ordinary shares of AED 1 each (2011: AED 1 each)	**3,000,000**	3,000,000
Issued and fully paid share capital:		
2,364,706 thousand (2011: 2,364,706 thousand) ordinary shares of AED 1 each (2011: AED 1 each)	**2,364,706**	2,364,706

29 OTHER RESERVES

	Cumulative changes in fair values AED '000	*Land revaluation reserve AED '000*	*Foreign currency translation reserve AED '000*	*Hedging reserve AED '000*	*Total AED '000*
At 1 January 2012 - audited	(165,030)	143,000	13,565	(19,578)	(28,043)
Net gain on valuation of investments carried at FVTOCI	70,090	-	-	-	70,090
Loss on disposal of investment carried at fair value through other comprehensive income	1,284	-	-	-	1,284
Exchange differences arising on translation of foreign operations	-	-	(887)	-	(887)
Gain on hedge of foreign operations	-	-	887	-	887
Exchange difference recycled from consolidated income statement on disposal of investment in associate (note 19)	-	-	(1,915)	-	(1,915)
Fair value loss on cash flow hedge	-	-	-	(3,776)	(3,776)
At 30 September 2012 - unaudited	**(93,656)**	**143,000**	**11,650**	**(23,354)**	**37,640**
At 1 January 2011 - audited	(92,040)	129,239	13,565	(8,642)	42,122
Transition adjustment on adoption of IFRS 9	(5,746)	-	-	-	(5,746)
At 1 January 2011 - adjusted	(97,786)	129,239	13,565	(8,642)	36,376
Net loss on valuation of investments carried at FVTOCI	(35,012)	-	-	-	(35,012)
Exchange differences arising on translation of foreign operations	-	-	2,452	-	2,452
Loss on hedge of foreign operations	-	-	(2,452)	-	(2,452)
Fair value gain on cash flow hedge	-	-	-	1,196	1,196
At 30 September 2011 - unaudited	**(132,798)**	**129,239**	**13,565**	**(7,446)**	**2,560**

30 TIER 1 SUKUK

On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk") 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 was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

This Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba. The Sukuk is callable by the Bank subject to certain conditions. The Sukuk 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.

31 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments include commitments to extend Islamic credit facilities, standby letters of credit, guarantees and acceptances, 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, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of contracts.

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

	30 September 2012 AED ‘000	*Audited 31 December 2011 AED ‘000*
Contingent liabilities		
Letters of credit	**1,716,966**	1,666,121
Letters of guarantee	**8,601,849**	9,003,727
Acceptances	**334,969**	439,322
	10,653,784	11,109,170
Commitments		
Undrawn facilities commitments	**783,658**	1,293,858
Investment securities	**70,700**	70,700
Future capital expenditure	**277,992**	345,750
Investment and development properties	**1,420,041**	1,559,443
	2,552,391	3,269,751
	13,206,175	14,378,921

32 CASH AND CASH EQUIVALENTS

	30 September 2012 AED '000	*30 September 2011 AED '000*
Cash and balances with central banks, short term	**9,034,095**	6,900,875
Balances and wakala deposits with Islamic banks and other financial institutions, short term	**3,031,179**	2,363,186
Murabaha and mudaraba with financial institutions, short term	**5,001,534**	6,014,298
Due to financial institutions, short term	**(2,569,844)**	(1,282,185)
	14,496,964	13,996,174

33 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank enters into transactions with related parties, comprising associates, directors, major shareholders, 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. 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 period have ranged from 0% to 9.0% (2011: 0% to 9.5% per annum).

Profit rates paid on due to financial institution and customers' deposits placed by related parties during the period have ranged from 0% to 2.3% per annum (2011: 0% to 6.0% per annum).

Fees and commissions earned on transactions with related parties during the period was Nil (2011: 1.93% per annum).

During the period, significant transactions with related parties included in the interim consolidated income statement are as follows:

	Major Shareholder AED '000	***Directors AED '000***	***Associates AED '000***	***Others AED '000***	***Total AED '000***
30 September 2012 (unaudited)					
Income from murabaha, mudaraba and wakala with financial institutions	**-**	**-**	**1,923**	**-**	**1,923**
Income from murabaha, mudaraba, ijara and other Islamic financing	**87,609**	**440**	**-**	**140,065**	**228,114**
Operating expenses	**-**	**216**	**-**	**-**	**216**
Distribution to depositors and sukuk holders	**56**	**32**	**200**	**402**	**690**
30 September 2011 (unaudited)					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	2,214	-	2,214
Income from murabaha, mudaraba, ijara and other Islamic financing	81,138	338	-	123,962	205,438
Investment income	5,973	-	-	-	5,973
Fees and commission income, net	-	-	-	19,862	19,862
Operating expenses	-	327	-	-	327
Distribution to depositors and sukuk holders	56	34	430	318	838

33 RELATED PARTY TRANSACTIONS continued

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

	Major Shareholder AED '000	*Directors AED '000*	*Associates AED '000*	*Others AED '000*	*Total AED '000*
30 September 2012 - unaudited					
Balances and wakala deposits with Islamic banks and other financial institutions	**-**	**-**	**985,087**	**-**	**985,087**
Murabaha, mudaraba, ijara and other Islamic financing	**2,355,401**	**10,991**	**-**	**3,236,632**	**5,603,024**
Other assets	**-**	**-**	**1,897**	**183,625**	**185,522**
	2,355,401	**10,991**	**986,984**	**3,420,257**	**6,773,633**
Due to financial institutions	**-**	**-**	**3,308**	**-**	**3,308**
Depositors' accounts	**25,289**	**11,660**	**37,400**	**138,416**	**212,765**
Other liabilities	**4**	**16**	**16**	**265**	**301**
	25,293	**11,676**	**40,724**	**138,681**	**216,374**
Undrawn facilities commitments	**-**	**-**	**-**	**83**	**83**
31 December 2011 - audited					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	927,919	-	927,919
Murabaha, mudaraba, ijara and other Islamic financing	2,432,231	11,476	-	2,899,814	5,343,521
Other assets	-	-	3,103	183,625	186,728
	2,432,231	11,476	931,022	3,083,439	6,458,168
Due to financial institutions	-	-	3,192	-	3,192
Depositors' accounts	15,966	7,797	35,236	75,218	134,217
Other liabilities	4	-	46	1,563	1,613
	15,970	7,797	38,474	76,781	139,022
Undrawn facilities commitments	-	-	-	1,517	1,517

Compensation of key management personnel

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

	Nine months ended	
	30 September 2012 AED '000	*30 September 2011 AED '000*
Salaries and other benefits	**21,070**	21,659
Employees' end of service benefits	**2,231**	2,069
	23,301	23,728

Board of Directors remuneration for the year ended 31 December 2011 amounting to AED 4,200 thousand (2010: AED 4,200 thousand) was paid to Board of Directors after the approval by the shareholders at the Annual General Assembly held on 4 April 2012.

34 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.

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.

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.

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

Real estate – Subsidiary 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, foreign branches and subsidiaries other than above categories including unallocated costs.

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

Business segments information for the period ended 30 September 2012 were as follows:

	Retail banking AED '000	*Wholesale banking AED '000*	*Private banking AED '000*	*Capital markets AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
Revenue and results							
Segment revenues, net	**1,682,271**	**735,800**	**170,283**	**60,976**	**(32,256)**	**64,541**	**2,681,615**
Operating expenses excluding provision for impairment, net	**(758,663)**	**(154,099)**	**(69,495)**	**(45,845)**	**(56,389)**	**(63,921)**	**(1,148,412)**
Operating profit (margin)	**923,608**	**581,701**	**100,788**	**15,131**	**(88,645)**	**620**	**1,533,203**
Provision for impairment, net	**(149,852)**	**(191,106)**	**(109,057)**	**-**	**(124,213)**	**(521)**	**(574,749)**
Profit (loss) for the period	**773,756**	**390,595**	**(8,269)**	**15,131**	**(212,858)**	**99**	**958,454**
Non-controlling interest	**-**	**-**	**-**	**(260)**	**-**	**(566)**	**(826)**
Profit (loss) for the period attributable to equity holders of the Bank	**773,756**	**390,595**	**(8,269)**	**14,871**	**(212,858)**	**(467)**	**957,628**
Assets							
Segmental assets	**26,855,202**	**19,954,489**	**6,138,714**	**24,563,225**	**2,597,707**	**1,431,042**	**81,540,379**
Liabilities							
Segmental liabilities	**30,109,500**	**16,627,382**	**6,889,887**	**18,203,338**	**296,792**	**414,344**	**72,541,243**

34 SEGMENT INFORMATION continued

Business segments information for the period ended 30 September 2011 were as follows:

	Retail banking AED '000	*Wholesale banking AED '000*	*Private banking AED '000*	*Capital markets AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
Revenue and results							
Revenue and results							
Segment revenues, net	1,648,392	640,347	130,355	111,957	7,029	3,614	2,541,694
Operating expenses excluding provision for impairment, net	(709,120)	(142,133)	(62,378)	(47,382)	(56,652)	(38,982)	(1,056,647)
Operating profit (margin)	939,272	498,214	67,977	64,575	(49,623)	(35,368)	1,485,047
Provision for impairment, net	(134,172)	(100,360)	(209,934)	-	(101,682)	-	(546,148)
Profit (loss) for the period	805,100	397,854	(141,957)	64,575	(151,305)	(35,368)	938,899
Non-controlling interest	-	-	-	(128)	-	-	(128)
Profit (loss) for the period attributable to equity holders of the Bank	805,100	397,854	(141,957)	64,447	(151,305)	(35,368)	938,771
Assets							
Segmental assets	25,592,482	18,475,775	6,042,088	19,350,764	2,900,931	1,800,781	74,162,821
Liabilities							
Segmental liabilities	24,956,139	16,959,850	7,071,597	15,936,706	409,664	364,015	65,697,971

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 branch in Iraq 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 given.

35 FINANCIAL RISK MANAGEMENT

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset and impairment losses, if any. The table shows the maximum exposure to credit risk / price risk for murabaha, mudaraba, ijara, other Islamic financing and investments. Details of credit risk arising from contingencies and commitments are disclosed in note 31 to the interim condensed consolidated financial statements.

	Balances and wakala deposits with Islamic banks and other financial institutions		*Murabaha and mudaraba with financial institutions*		*Murabaha and other Islamic financing*		*Ijara financing*		*Investments*	
	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*	***30 September 2012 AED '000***	*Audited 31 December 2011 AED '000*	***30 September 2012 AED '000***	*Audited 31 December 2011 AED '000*	***30 September 2012 AED '000***	*Audited 31 December 2011 AED '000*	***30 September 2012 AED '000***	*Audited 31 December 2011 AED '000*
Individually impaired										
Substandard	**-**	-	**-**	-	**504,319**	642,672	**814,728**	697,991	**12,802**	12,802
Doubtful	**-**	-	**-**	-	**925,869**	1,271,088	**457,097**	579,247	**91,813**	91,813
Loss	**-**	-	**129,811**	129,811	**1,179,236**	1,080,220	**251,085**	237,341	**-**	-
Gross amount	**-**	-	**129,811**	129,811	**2,609,424**	2,993,980	**1,522,910**	1,514,579	**104,615**	104,615
Provision for individual impairment	**-**	-	**(129,811)**	(129,811)	**(1,825,194)**	(1,829,876)	**(668,224)**	(417,485)	**(81,308)**	(78,041)
	-	-	**-**	-	**784,230**	1,164,104	**854,686**	1,097,094	**23,307**	26,574
Past due but not impaired										
Gross amount	**-**	-	**-**	-	**204,483**	220,498	**1,401,833**	1,438,185	**-**	-
Neither past due nor impaired	**3,168,878**	2,515,371	**5,961,637**	5,216,501	**22,852,637**	22,368,220	**25,574,925**	23,306,085	**4,145,070**	1,626,031
Collective allowance for impairment	**-**	-	**-**	-	**(395,373)**	(387,263)	**(420,326)**	(375,582)	**-**	-
Carrying amount	**3,168,878**	2,515,371	**5,961,637**	5,216,501	**23,445,977**	23,365,559	**27,411,118**	25,465,782	**4,168,377**	1,652,605

36 CAPITAL ADEQUACY RATIO

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the period and year ended 30 September 2012 and 31 December 2011 respectively. During those two periods, the Group has complied with all of the externally imposed capital requirements to which it is subject to:

	Basel II	
	30 September 2012 AED '000	*Audited 31 December 2011 AED '000*
Tier 1 capital		
Share capital	**2,364,706**	2,364,706
Legal reserve	**1,755,894**	1,755,894
General reserve	**585,921**	585,921
Retained earnings	**2,203,550**	1,311,406
Proposed dividends	**-**	577,546
Proposed dividends to charity	**-**	1,028
Tier 1 sukuk	**2,000,000**	2,000,000
Non-controlling interest	**51,425**	2,609
Total	**8,961,496**	8,599,110
Tier 2 capital		
Tier 2 wakala capital	**2,207,408**	2,207,408
Cumulative changes in fair value	**(105,360)**	(171,043)
Collective impairment provision for financing assets	**815,111**	757,312
Total	**2,917,159**	2,793,677
Total tier 1 and tier 2 capital	**11,878,655**	11,392,787
Deductions for Tier 1 and Tier 2 capital	**(845,531)**	(851,503)
Total capital base	**11,033,124**	10,541,284
Risk weighted assets		
Credit risk	**59,694,069**	56,137,854
Market risk	**1,756,455**	1,240,708
Operational risk	**3,758,370**	3,247,006
Total risk weighted assets	**65,208,894**	60,625,568
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**16.92%**	17.39%
Tier 1 capital expressed as a percentage of total risk weighted assets	**13.74%**	14.18%

The Basel II capital adequacy ratio was above the minimum requirement of 12% for 30 September 2012 (31 December 2011 – 12%) as stipulated by the Central Bank of the United Arab Emirates.

37 DIVIDENDS

Cash dividend of 24.42% of the paid up capital relating to year ended 31 December 2011 amounting to AED 577,546 thousand (2011: AED 511,783 thousand) was payable to the shareholders after the approval by the shareholders in the Annual General Assembly held on 4 April 2012.

38 BUSINESS COMBINATION – ACQUSITION OF SAUDI INSTALLMENT HOUSE COMPANY

Effective 11 January 2012, the Group acquired 51% equity stake in Saudi Installment House, a limited liability company incorporated in Saudi Arabia ("the Company") and engaged in the business of cash and installment sales of wholesale and retail segment. The Group has paid a consideration of AED 54.8 million. The acquisition provides opportunities for the Bank to grow its business and create one of the affluent businesses in the Kingdom of Saudi Arabia. Non-controlling interest has been measured at the proportionate share in the recognised amounts of the acquiree's identifiable net assets.

39 SEASONALITY OF RESULTS

The nature of Group's business is such that the income and expenditure are incurred in a manner, which is not impacted by any forms of seasonality. These interim condensed consolidated financial statements were prepared based upon accrual concept, which requires income and expenses to be recorded as earned or incurred and not as received or paid throughout the period.

40 COMPARATIVE FIGURES

Following comparatives were reclassified to conform to the current period presentation. The reclassification has no effect on the previously reported profit or equity of the Group:

An amount of AED 66,958 thousand has been re-classified from "distribution to investment accounts by financial institutions" and has been included in "distribution to sukuk holders and Tier 2 wakala capital" in note 11 to the interim condensed consolidated financial statements.

Abu Dhabi Islamic Bank PJSC

REPORT OF THE BOARD OF DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2011

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REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2011

REPORT OF THE BOARD OF DIRECTORS
Year ended 31 December 2011

The Board of Directors have pleasure in submitting their report together with the consolidated financial statements of Abu Dhabi Islamic PJSC ("the Bank") and its subsidiaries (collectively known as the "the Group") for the year ended 31 December 2011.

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 of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) 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, 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 UAE Federal Law No. 8 of 1984 (as amended).

Financial commentary
The Group net profit reached a record AED 1,155.1 million for 2011 (2010: AED 1,023.6 million) for 2011 up 12.8%. 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 2011 was AED 3,425.8 million (2010: AED 3,074.0 million) increased by 11.4%.
- Group operating profit ("margin") for 2011 increased by 11.5% to reach at AED 1,976.2 million (2010: AED 1,772.8 million).
- Total credit provisions and impairments for 2011 were AED 821.1 million (2010: AED 749.2 million).
- Group net profit for 2011 reached a record AED 1,155.1 million (2010: AED 1,023.6 million) up 12.8%.
- Group earnings per share increased to AED 0.438 compared to AED 0.382 in 2010.
- Total assets as of 31 December 2011 were AED 74.3 billion (2010: AED 75.3 billion).
- Net customer financing (murabaha, ijara and other Islamic financing) as of 31 December 2011were AED 48.8 billion (2010: AED 48.0 billion).
- Customer deposits as of 31 December 2011 were AED 55.2 billion (2010: AED 56.5 billion).

Dividends and proposed appropriations
The Board of Directors have recommended a cash dividend of 24.42% to be paid out of 2011 profit.

The Board of Directors also proposed the following appropriations from retained earnings:

	AED '000
• Transfer to legal reserves	(995)
• Transfer to general reserves	(142,739)
• Proposed dividends to charity for the year ended 31 December 2011	(1,028)
• Proposed cash dividend to shareholders for the year ended 31 December 2011	(577,546)
• Profit paid on Tier 1 sukuk during the year	(120,000)
• Directors' fees paid for the year ended 31 December 2010	(4,200)

REPORT OF THE BOARD OF DIRECTORS
Year ended 31 December 2011

Board of Directors
The directors during the year were as follows:

1.	H.E. Jawaan Awaida Suhail Al Khaili	Chairman
2.	Khaled Abdulla Neamat Khouri	Vice Chairman
3.	Khamis Mohamed Buharoon	Board Member
4.	Juma Khamis Mugheer Al Khaili	Board Member
5.	Ragheed Najeeb Shanti	Board Member
6.	Dr. Sami Ali Al Amri	Board Member
7.	Abdulla Bin Aqeeda Al Muhairi	Board Member

Auditors
Ernst & Young were appointed as external auditors of the Group for the year ended 31 December 2011. Ernst & Young are eligible for reappointment for 2012 and have expressed their willingness to continue in office.

On behalf of the Board of Directors
Khaled Abdulla Neamat Khouri
Vice Chairman
13 February 2012
Abu Dhabi

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI ISLAMIC BANK PJSC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, 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 a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Bank and the UAE Commercial Companies Law of 1984 (as amended), 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.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Bank; proper books of account have been kept by the Bank; and the contents of the report of the Board of Directors relating to these consolidated financial statements are consistent with the books of account. We further report that we have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Group or on its financial position.

Ernst & Young

Signed by
Richard Mitchell
Partner
Ernst & Young
Registration No. 446

13 February 2012
Abu Dhabi

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2011

	Notes	2011 AED '000	2010 AED '000
OPERATING INCOME			
Income from murabaha, mudaraba and wakala with financial institutions		**118,236**	187,719
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	5	**3,609,400**	3,453,005
Investment income	6	**86,056**	75,699
Share of results of associates		**17,339**	14,798
Fees and commission income, net	7	**429,339**	343,325
Foreign exchange income		**30,083**	29,071
Income from investment properties	8	**7,743**	5,265
Income (loss) from development properties	9	**4,178**	(4,300)
Other income		**9,926**	14,441
		4,312,300	4,119,023
OPERATING EXPENSES			
Employees' costs	10	**(895,735)**	(792,815)
General and administrative expenses	11	**(462,529)**	(431,210)
Depreciation	22 & 25	**(91,390)**	(77,215)
Provision for impairment, net	12	**(821,070)**	(749,212)
		(2,270,724)	(2,050,452)
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS		**2,041,576**	2,068,571
Distribution to depositors and sukuk holders	13	**(886,485)**	(1,045,006)
PROFIT FOR THE YEAR		**1,155,091**	1,023,565
Attributable to:			
Equity holders of the Bank		**1,154,969**	1,023,345
Non-controlling interest	36	**122**	220
		1,155,091	1,023,565
Basic and diluted earnings per share attributable to ordinary shares (AED)	14	**0.438**	0.382

The attached notes 1 to 46 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2011

	Notes	**2011 AED '000**	2010 AED '000
PROFIT FOR THE YEAR		**1,155,091**	1,023,565
Other comprehensive (loss) income			
Net loss on valuation of investments carried at fair value through other comprehensive income	34	**(86,616)**	-
Net gain on valuation of available-for-sale investments	34	**-**	24,899
Impairment on available-for-sale investments	34	**-**	50,621
Surplus on revaluation of land	25	**13,761**	-
Directors' remuneration paid	41	**(4,200)**	(3,000)
Exchange differences arising on translation of foreign operations	34	**(1,321)**	(6,375)
Gain on hedge of foreign operations	34	**1,321**	-
Fair value loss on cash flow hedges	34	**(10,936)**	(2,566)
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		**(87,991)**	63,579
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,067,100**	1,087,144
Attributable to:			
Equity holders of the Bank		**1,066,978**	1,086,924
Non-controlling interest		**122**	220
		1,067,100	1,087,144

The attached notes 1 to 46 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2011

	Notes	*2011* *AED '000*	*2010* *AED '000*
ASSETS			
Cash and balances with central banks	15	**11,207,145**	5,400,335
Balances and wakala deposits with Islamic banks and other financial institutions	16	**2,515,371**	2,906,382
Murabaha and mudaraba with financial institutions	17	**5,216,501**	12,823,542
Murabaha and other Islamic financing	18	**23,365,559**	22,682,521
Ijara financing	19	**25,465,782**	25,270,071
Investments	20	**1,652,605**	1,639,414
Investment in associates	21	**851,503**	837,195
Investment properties	22	**155,240**	191,654
Development properties	23	**966,747**	1,050,445
Other assets	24	**1,964,650**	1,870,072
Property and equipment	25	**973,963**	585,887
TOTAL ASSETS		**74,335,066**	75,257,518
LIABILITIES			
Due to financial institutions	26	**1,931,426**	891,390
Depositors' accounts	27	**55,171,783**	56,517,045
Other liabilities	28	**1,862,757**	2,091,500
Tier 2 wakala capital	29	**2,207,408**	2,207,408
Sukuk financing instruments	30	**4,590,625**	5,439,523
Total liabilities		**65,763,999**	67,146,866
EQUITY			
Share capital	31	**2,364,706**	2,364,706
Legal reserve	32	**1,755,894**	1,754,899
General reserve	32	**585,921**	443,182
Retained earnings		**1,311,406**	984,069
Proposed dividends	33	**577,546**	511,783
Proposed dividends to charity		**1,028**	6,816
Other reserves	34	**(28,043)**	42,122
Tier 1 sukuk	35	**2,000,000**	2,000,000
Equity attributable to the equity holders of the Bank		**8,568,458**	8,107,577
Non-controlling interest	36	**2,609**	3,075
Total equity		**8,571,067**	8,110,652
TOTAL LIABILITIES AND EQUITY		**74,335,066**	75,257,518
CONTINGENT LIABILITIES AND COMMITMENTS	37	**14,378,921**	12,156,042

Khaled Abdulla Neamat Khouri
Vice Chairman

Tirad M. Mahmoud
Chief Executive Officer

The attached notes 1 to 46 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

		Attributable to the equity holders of the Bank										
	Notes	*Share capital AED '000*	*Legal reserve AED '000*	*General reserve AED '000*	*Retained earnings AED '000*	*Proposed dividends AED '000*	*Proposed dividends to charity AED '000*	*Other reserves AED '000*	*Tier 1 sukuk AED '000*	*Total AED '000*	*Non-controlling interest AED '000*	*Total equity AED '000*
Balance at 1 January 2010		1,970,588	1,754,475	321,297	724,632	394,118	1,028	(24,457)	2,000,000	7,141,681	2,855	7,144,536
Total comprehensive income		-	-	-	1,020,345	-	-	66,579	-	1,086,924	220	1,087,144
Profit paid on Tier 1 sukuk	35	-	-	-	(120,000)	-	-	-	-	(120,000)	-	(120,000)
Bonus shares issued		394,118	-	-	-	(394,118)	-	-	-	-	-	-
Dividends paid to charity		-	-	-	-	-	(1,028)	-	-	(1,028)	-	(1,028)
Transfer to reserves	32	-	424	121,885	(122,309)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	(6,816)	-	6,816	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	(511,783)	511,783	-	-	-	-	-	-
Balance at 1 January 2011 - audited		2,364,706	1,754,899	443,182	984,069	511,783	6,816	42,122	2,000,000	8,107,577	3,075	8,110,652
Transition adjustment on adoption of IFRS 9	3.2	-	-	-	38,248	-	-	(5,746)	-	32,502	-	32,502
Balance at 1 January 2011 - adjusted		2,364,706	1,754,899	443,182	1,022,317	511,783	6,816	36,376	2,000,000	8,140,079	3,075	8,143,154
Total comprehensive income		-	-	-	1,150,769	-	-	(83,791)	-	1,066,978	122	1,067,100
Loss on disposal of investment carried at fair value through other comprehensive income	34	-	-	-	(19,372)	-	-	19,372	-	-	-	-
Profit paid on Tier 1 sukuk	35	-	-	-	(120,000)	-	-	-	-	(120,000)	-	(120,000)
Dividends paid	33	-	-	-	-	(511,783)	-	-	-	(511,783)	(588)	(512,371)
Dividends paid to charity		-	-	-	-	-	(6,816)	-	-	(6,816)	-	(6,816)
Transfer to reserves	32	-	995	142,739	(143,734)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	(1,028)	-	1,028	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	(577,546)	577,546	-	-	-	-	-	-
Balance at 31 December 2011		**2,364,706**	**1,755,894**	**585,921**	**1,311,406**	**577,546**	**1,028**	**(28,043)**	**2,000,000**	**8,568,458**	**2,609**	**8,571,067**

The attached notes 1 to 46 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2011

	Notes	2011 AED '000	2010 AED '000
OPERATING ACTIVITIES			
Profit for the year		**1,155,091**	1,023,565
Adjustments for:			
Depreciation on investment properties	22	**5,793**	4,022
Depreciation on property and equipment	25	**85,597**	73,193
Share of results of associates		**(17,339)**	(14,798)
Dividend income	6	**(229)**	(949)
Realised gain on sale of investments carried at fair value through profit and loss	6	**(38,217)**	-
Unrealised loss on investments carried at fair value through profit and loss	6	**8,451**	-
Realised gain on sale of available-for-sale investments	6	**-**	(25)
Unrealised gain on held for trading investments	6	**-**	(3,028)
Realised gain on sale of held for trading investments	6	**-**	(2,205)
Gain on disposal of property and equipment		**(47)**	(29)
Provision for impairment, net	12	**821,070**	749,212
Loss on sale of investment properties	8	**73**	-
Gain on sale of development properties	9	**(4,283)**	(33,603)
Operating profit before changes in operating assets and liabilities		**2,015,960**	1,795,355
Purchase of Islamic certificate of deposits		**(3,659,611)**	(900,089)
Decrease (increase) in balances and wakala deposits with Islamic banks and other financial institutions		**69,982**	(53,912)
Decrease in murabaha and mudaraba with financial institutions		**2,274,889**	2,702,632
Increase in murabaha and other Islamic financing		**(1,015,276)**	(2,330,190)
Increase in ijara financing		**(609,678)**	(5,705,764)
Purchase of investments carried at fair value through profit and loss		**(2,018,601)**	-
Proceeds from sale of investments carried at fair value through profit and loss		**1,994,030**	-
Purchase of held for trading investments		**-**	(2,125,426)
Proceeds from sale of held for trading investments		**-**	1,794,386
(Increase) decrease in other assets		**(286,214)**	307,609
Decrease in due to financial institutions		**(1,243)**	(15,518)
(Decrease) increase in depositors' accounts		**(1,343,941)**	8,297,383
Decrease in other liabilities		**(285,557)**	(204,404)
Cash (used in) from operations		**(2,865,260)**	3,562,062
Directors' remuneration paid	41	**(4,200)**	(3,000)
Net cash (used in) from operating activities		**(2,869,460)**	3,559,062
INVESTING ACTIVITIES			
Dividend received		**229**	949
Purchase of investments carried at fair value through other comprehensive income		**(11,018)**	-
Proceeds from sale of investments carried at fair value through other comprehensive income		**37,092**	-
Purchase of investments carried at amortised cost		**(40,419)**	-
Purchase of available-for-sale investments		**-**	(329,448)
Proceeds from sale of available-for-sale investments		**-**	61,255
Investment in associates		**-**	(90,640)
Dividends received from an associate	21	**1,710**	-
Proceeds from sale of investment properties	8	**248**	-
Additions to development properties	23	**(16,447)**	(75,800)
Proceeds from sale of development properties	9	**10,989**	77,485
Purchase of property and equipment	25	**(235,451)**	(280,255)
Proceeds from disposal of property and equipment		**1,295**	29
Net cash used in investing activities		**(251,772)**	(636,425)
FINANCING ACTIVITIES			
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	35	**(120,000)**	(120,000)
Repurchase of sukuk assets - first issue	30	**(2,938,000)**	-
Proceeds from the issuance of sukuk - third issue / second issue	30	**1,836,250**	2,754,375
Proceeds from (repurchase) of sukuk assets - second issue		**252,852**	(252,852)
Dividends paid		**(473,309)**	(2,542)
Dividends paid to charity		**-**	(1,028)
Net cash (used in) from financing activities		**(1,442,207)**	2,377,953
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(4,563,439)**	5,300,590
Cash and cash equivalents at 1 January		**15,955,903**	10,655,313
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	40	**11,392,464**	15,955,903

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

	Notes	2011 AED '000	2010 AED '000
Profit received		**3,444,502**	3,454,570
Profit paid to depositors and sukuk holders	13	**652,510**	797,399

The attached notes 1 to 46 form part of these consolidated financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

The 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, 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 69 branches in UAE and 1 branch in Iraq. The consolidated financial statements combine the activities of the Bank's head office, its branches, subsidiaries and its associates.

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 issued by the Board of Directors on 13 February 2012.

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 consists of the purchasing 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 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 enables the borrower to use the borrowed amounts for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

Musharaka
A contract between the Group and a customer to enter 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.

2 DEFINITIONS continued

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 UAE Federal Law No. 8 of 1984 (as amended).

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 (Previously: held for trading investments, available-for-sale investments), Shari'a compliant alternatives of derivative financial instruments which have been measured at fair value and land which has been carried at revalued amount.

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

3.1 (c) Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and those of its following subsidiaries:

	Activity	*Country of incorporation*	*Percentage of holding* **2011**	*2010*
Abu Dhabi Islamic Securities Company LLC	Equity brokerage services	United Arab Emirates	**95%**	95%
Burooj Properties LLC	Real estate investments	United Arab Emirates	**100%**	100%
ADIB Invest 1	Equity brokerage services	BVI	**100%**	100%
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	**-**	-
Kawader Services Company LLC	Manpower supply	United Arab Emirates	**100%**	100%

A subsidiary is an entity over which the Bank exercises control, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from its activities. 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 Bank does not have any direct holding in ADIB Sukuk Company Ltd and is considered to be a subsidiary by virtue of control.

3 BASIS OF PREPARATION continued

3.1 (c) Basis of consolidation continued
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 profits and losses resulting from intra-group transactions are eliminated in full.

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

3.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements in UAE, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

3 BASIS OF PREPARATION continued

3.2 CHANGES IN ACCOUNTING POLICIES continued

During the year, the Group has early adopted the following accounting policy:

IFRS 9 Financial Instruments: Recognition and Measurement
The Group has early adopted IFRS 9 Financial Instruments ("IFRS 9") issued in November 2009 and revised in October 2010 and related consequential amendments in advance of its effective date.

International Accounting Standards Board (IASB) issued exposure draft (ED) "Mandatory effective date of IFRS 9" that proposes to move the mandatory effective date to periods beginning on or after 1 January 2015 with early application continued to be permitted.

The Group has chosen 1 January 2011 as its date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities) in accordance with the transitional provisions of IFRS 9. The Group has not restated comparative information as permitted by the transitional provisions of IFRS 9 and has recognized impact of early adoption of IFRS 9 as at 1 January 2011, the opening retained earnings and other reserves as of that date.

IFRS 9 (phase 1) has been applied by the Group for the classification and measurement of financial assets and financial liabilities. IAS 39 is still being followed for impairment of financial assets and hedge accounting, as these will be covered through phase 2 and phase 3 of IFRS 9, respectively, which have not yet been completed by the IASB. As IASB completes these phases, it will delete the relevant portions of IAS 39 and create chapters in IFRS 9 that would replace the requirements in IAS 39.

IFRS 9 requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are subsequently measured at either fair value or amortized cost on the basis of both:

a. its business model for managing the financial assets; and
b. the contractual cash flow characteristics of the financial asset.

Classification (as per IFRS 9)
Financial assets at amortised cost
Murahaba and other Islamic financing and Ijara financing i.e. customer financing and investment in sukuks, 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.

Financial assets that do not meet the amortised cost criteria are classified as FVTPL. In addition, 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.

3 BASIS OF PREPARATION continued

3.2 CHANGES IN ACCOUNTING POLICIES continued

IFRS 9 Financial Instruments: Recognition and Measurement continued

Classification (as per IFRS 9) continued
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. Designation at FVTOCI is not permitted if the equity investment is classified as FVTPL.

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 the 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 (as per IFRS 9)
Financial assets or financial liabilities carried at amortised cost
Financial assets at amortised cost including customer financing and investment in sukuks are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

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

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

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

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

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

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

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

3 BASIS OF PREPARATION continued

3.2 CHANGES IN ACCOUNTING POLICIES continued

Measurement (as per IFRS 9) continued
Financial assets at fair value through profit or loss ("FVTPL")
Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included within 'investment income' in the consolidated income statement.

Financial assets at fair value through other comprehensive income ("FVTOCI")
Investments in equity instruments are initially measured at fair value plus transaction costs. Subsequently they are measured at fair value with gains and losses arising from changes in fair value recognised in the consolidated statement of other comprehensive income and accumulated in the cumulative changes in fair values within equity. Where the assets are disposed off, the cumulative gain or loss previously accumulated in the cumulative changes in fair values is not transferred to the consolidated income statement, but is reclassified to retained earnings. As per the requirement of IFRS 9, financial assets measured at FVTOCI are not tested for impairment.

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

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

- the expected cash flows discounted at current profit rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent transactions
- option pricing models
- net asset values

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.

Management has reviewed and assessed all of the Group's existing financial assets and financial liabilities as at the date of initial application of IFRS 9. As a result:

- the Group's Balances and wakala deposits with Islamic banks and other financial institutions, Murabaha and mudaraba with financial institutions, customer financing and investment in sukuk excluding those held for trading, meeting the required criteria are measured at amortised cost; and
- the Group's equity investments not held for trading have been designated at FVTOCI.
- the Group's all financial liabilities including depositors' account are measured at amortised cost.

The change in accounting policy has been applied retrospectively, in accordance with the transitional provisions of IFRS 9, where no restatement of comparative figures is required.

3 BASIS OF PREPARATION continued

3.2 CHANGES IN ACCOUNTING POLICIES continued

IFRS 9 Financial Instruments: Recognition and Measurement continued

Measurement (as per IFRS 9) continued
The impact of the early 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 2011) is as follows:

	Cumulative changes in fair value reserve AED'000	***Retained earnings AED'000***
Due to reclassification of financial assets:		
Investments measured at FVTPL	-	6,521
Investments measured at FVTOCI– cumulative impairment losses recognised in the consolidated income statement in prior years	(31,727)	31,727
Investments carried at amortised cost	25,981	-
	(5,746)	**38,248**

Had the Bank not early adopted IFRS 9, the net profit for the year ended 31 December 2011 would have been lower by AED 43,851 thousand and other reserves in equity as at 31 December 2011 would have been higher by AED 4,132 thousand.

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.

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards / amendments to standards which were issued up to 31 December 2011 and are not yet effective for the year ended 31 December 2011 have not been applied while preparing these consolidated financial statements:

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.

IAS 12 Income Taxes – Recovery of Underlying Assets
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset.

3 BASIS OF PREPARATION continued

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

IAS 19 Employee Benefits (Amendment)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted.

Management anticipates that these amendments will be adopted in the Group's consolidated financial statements for the period when they become effective. Management is in the process of assessing the potential impact of the adoption of these standards.

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES

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

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

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

Impairment losses on financing assets and investments carried at amortised cost
The Group reviews its financing assets and investments carried at amortised cost on a regular basis to assess whether a provision for impairment should be recorded in the consolidated income 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 individually impaired provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

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

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

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

Operating lease commitments - Group as lessor
The Group has entered into commercial property leases 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 and so accounts for the contracts as operating leases.

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES *continued*

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

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

Impairment of investments in associates
Management regularly reviews its investment in associates 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 associate 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 discounting 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 probable impairment.

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. During the year, management has revised the estimated useful life of buildings to 25 years from 20 years. The change in estimated useful life is a change in accounting estimate that has been applied prospectively from 1 January 2011.

The impact of this change in current and future periods is as follows:

	(Amounts in AED thousands) Year ending 31 December		
	2011	*2012*	*2013 onwards*
Increase in net profit	**918**	**918**	**18,890**

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 delivery to the buyer takes place.

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

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

Gain on sale of investments (as per IFRS 9)
Gain or loss on disposal of FVTPL 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 FVTOCI 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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued
Gain on sale of investments (as per IAS 39)
Gain or loss on disposal of trading 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. Gain or loss on disposal of available-for-sale investments represents the difference between sale proceeds and their original cost less associated selling costs.

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 books.

Financial instruments as per IAS 39
(i) Classification (as per IAS 39)
The Group classifies its financial instruments in the following categories: Financial assets and financial liabilities at fair value through profit or loss, Murabaha, Ijara, Mudaraba, and certain other Islamic financing, available-for-sale investments and held to maturity investments. Management determines the classification of financial instruments at the time of initial recognition.

Financial assets or financial liabilities at fair value through profit or loss
This category has two sub-categories: financial assets or financial liabilities held for trading and those designated at fair value through profit or loss at inception. A financial asset or financial liability is classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short term. The Group has designated financial assets and liabilities at fair value through profit or loss when either the assets and liabilities are managed, evaluated and reported internally on a fair value basis; or the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments as per IAS 39 continued
Financial assets or financial liabilities at amortised cost continued
The Ijara is classified as a finance lease, when the Bank undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

Held to maturity
Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity and the Group's management has the positive intention and the ability to hold to maturity.

Available-for-sale
Financial assets that are not classified under any other category of financial assets are classified as available-for-sale.

(ii) Recognition / De-recognition
The Group initially recognises financial assets held for trading, financial assets at fair value through profit or loss, financial assets held to maturity and financial assets available-for-sale on the trade 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 originated. A financial liability is recognised on the date the Group becomes a party to contractual provisions of the instruments.

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, assets held for trading and assets available-for-sale 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.

(iii) Measurement (as per IAS 39)
Financial assets and liabilities are measured initially at fair value plus, in case of a financial asset or financial liability or at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from a change in the fair value of assets at fair value through profit or loss account are recorded directly in the consolidated income statement.

Financial assets which are classified as available-for-sale are measured at fair value. Unrealised gains and losses on measurement to fair value of assets are recognised in the statement of other comprehensive income reported as a separate component of equity until the assets is sold or otherwise disposed of, or the assets is determined to be impaired, at which the cumulative gains of losses previously recognised through the statement of other comprehensive income are included in the consolidated income statement. For investments in equity instruments, where a reasonable estimate of the fair value cannot be determined, the investment is carried at cost less impairment allowance, if any.

All financial assets or liabilities at amortised cost, customer financing and held-to-maturity investments 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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments as per IAS 39 continued

(iv) Fair value measurement principles (as per IAS 39)

For investments quoted in active market, fair value is determined by reference to quoted market prices. The fair values of investments in funds or similar investment vehicles are based on the last net asset value published by the fund manager. 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 transactions
- option pricing models

The estimated fair value of deposits with no stated maturity, which includes non-profit bearing deposits, is the amount payable on demand.

(v) Offsetting of financial instruments

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

(vi) Impairment of financial assets

Customer financing

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

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

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

Held to maturity investments (as per IAS 39)

Impairment losses on held to maturity investments carried at amortised cost are measured as the difference between the carrying amount and the present value of estimated cash flows discounted at the original profit rate. Impairment losses are recognised in the consolidated income statement and reflected in an allowance account against such financial assets. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated income statement.

Available-for-sale investments (as per IAS 39)

Impairment losses on available-for-sale investments are recognised by transferring the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in consolidated income statement out of equity to the consolidated income statement. Impairment losses recognised on equity instruments are not reversed through the consolidated income statement.

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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

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

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

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

Investment 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 between 25 years.

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

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

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

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

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

Provisions and contingent liabilities
Provisions are 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.

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

Zakat
Zakat is computed in accordance with the Articles and Memorandum of Association of the Bank and is approved by the Fatwa and Shari'a Supervisory Board. As stated in the Articles and Memorandum of Association of the Bank, it is the responsibility of the shareholders to pay Zakat due on their investment.

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

In accordance with the Memorandum of Association, the Group communicates the amount of Zakat per share and it is the responsibility of each shareholder to dispose personally his/her own Zakat (note 39).

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

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

The assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their income statement is translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are taken directly to a separate component of equity. 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.

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

	2011 AED '000	*2010* AED '000
Vehicle murabaha	**556,244**	615,974
Goods murabaha	**201,773**	255,916
Share murabaha	**702,333**	494,955
Commodities murabaha – Al Khair	**251,607**	233,357
Other murabaha	**57,184**	67,248
Total murabaha	**1,769,141**	1,667,450
Mudaraba	**116,420**	189,871
Ijara	**1,521,106**	1,408,323
Islamic covered cards (murabaha)	**181,386**	158,448
Istisna'a	**21,347**	28,913
	3,609,400	3,453,005

6 INVESTMENT INCOME

	2011 AED '000	*2010* AED '000
Income from Islamic sukuk	**46,674**	36,272
Income from other investment assets	**9,387**	33,220
Dividend income	**229**	949
Realised gain on sale of investments carried at fair value through profit and loss	**38,217**	-
Unrealised loss on investments carried at fair value through profit and loss	**(8,451)**	-
Realised gain on sale of available-of-sale investments	-	25
Realised gain on sale of held for trading investments	-	2,205
Unrealised gain on held for trading investments	**-**	3,028
	86,056	75,699

7 FEES AND COMMISSION INCOME, NET

	2011 *AED '000*	*2010* *AED '000*
Fees and commission income		
Fees and commission income on cards	**207,185**	142,160
Trade related fees and commission	**76,997**	61,646
Accounts services fees	**66,888**	66,296
Projects and property management fees	**42,674**	40,129
Risk participation and arrangement fees	**71,588**	30,277
Brokerage fees and commission	**14,703**	17,370
Other fees and commissions	**76,631**	49,695
Total fees and commission income	**556,666**	407,573
Fees and commission expenses		
Card related fees and commission expenses	**(102,022)**	(47,639)
Other fees and commission expenses	**(25,305)**	(16,609)
Total fees and commission expenses	**(127,327)**	(64,248)
Fees and commission income, net	**429,339**	343,325

8 INCOME FROM INVESTMENT PROPERTIES

	2011 *AED '000*	*2010* *AED '000*
Proceeds from sale of investment properties	**248**	-
Less: cost of properties sold (note 22)	**(321)**	-
Loss on sale of investment properties	**(73)**	-
Rental income	**7,816**	5,265
	7,743	5,265

9 INCOME (LOSS) FROM DEVELOPMENT PROPERTIES

	2011 *AED '000*	*2010* *AED '000*
Revenue from sale of development properties	**10,989**	77,485
Less: cost of properties sold (note 23)	**(6,706)**	(43,882)
Gain on sale of development properties	**4,283**	33,603
Provision for rent guarantee	**(105)**	(37,903)
	4,178	(4,300)

Provision for rent guarantee represents provision against the minimum rental income guaranteed by a subsidiary of the Bank to the buyers of properties at the time of sale. Rent guarantee is computed as the difference between guaranteed and expected rent as of the reporting date.

10 EMPLOYEES' COSTS

	2011 AED '000	2010 AED '000
Salaries and wages	**814,342**	720,569
End of service benefits	**50,713**	45,351
Other staff expenses	**30,680**	26,895
	895,735	792,815

11 GENERAL AND ADMINISTRATIVE EXPENSES

	2011 AED '000	2010 AED '000
Legal and professional expenses	**89,592**	96,596
Premises expenses	**141,637**	116,181
Marketing and advertising expenses	**88,987**	95,518
Communication expenses	**41,601**	41,750
Technology related expenses	**29,808**	21,143
Other operating expenses	**70,904**	60,022
	462,529	431,210

12 PROVISION FOR IMPAIRMENT, NET

	Notes	2011 AED '000	2010 AED '000
Murabaha and mudaraba with financial institutions	17	**(16,178)**	38,902
Murabaha and other Islamic financing	18	**331,089**	558,559
Ijara financing	19	**413,967**	(1,297)
Direct write-off		**1,149**	-
Investments, net	20	**1,377**	50,621
Investment properties	22	**1,631**	18,082
Other assets	24	**88,035**	84,345
		821,070	749,212

The above provision for impairment includes AED 196,058 thousand (2010: AED 119,458 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank.

13 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

	2011 *AED '000*	*2010* *AED '000*
Depositors and sukuk holders share of profit for the year	**886,485**	1,045,006
Less: pertaining to depositors' profit equalisation reserve (note 27)	**(75,811)**	(15,194)
	810,674	1,029,812
Less: paid during the year	**(652,510)**	(797,399)
Depositors and sukuk holders share of profit payable (note 28)	**158,164**	232,413

Share of profits distributable to customers, sukuk holders and Tier 2 wakala capital are as follows:

	2011 *AED '000*	*2010* *AED '000*
Saving accounts	**110,669**	83,919
Investment accounts	**546,512**	825,296
Sukuk holders and Tier 2 wakala capital	**229,304**	135,791
	886,485	1,045,006

14 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:

	Note	*2011*	*2010*
Profit for the year attributable to equity holders (AED '000)		**1,154,969**	1,023,345
Less: profit attributable to Tier 1 sukuk holder (AED '000)	35	**(120,000)**	(120,000)
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000)		**1,034,969**	903,345
Weighted average number of ordinary shares in issue at 1 January (000's)		**2,364,706**	1,970,588
Effect of bonus shares issued (000's)		**-**	394,118
Weighted average number of ordinary shares in issue at 31 December (000's)		**2,364,706**	2,364,706
Basic and diluted earnings per share (AED)		**0.438**	0.382

As of 31 December 2011 and 2010, the Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised.

15 CASH AND BALANCES WITH CENTRAL BANKS

	2011 AED '000	2010 AED '000
Cash on hand	**1,121,403**	738,396
Balances with central banks:		
- Current accounts	**1,310,023**	141,202
- Statutory reserve	**4,216,019**	3,620,648
- Islamic certificate of deposits	**4,559,700**	900,089
	11,207,145	5,400,335

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

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

	2011 AED '000	2010 AED '000
UAE	**11,180,439**	5,374,627
Middle East	**26,706**	25,708
	11,207,145	5,400,335

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

	2011 AED '000	2010 AED '000
Current accounts	**92,766**	108,249
Wakala deposits	**2,422,605**	2,798,133
	2,515,371	2,906,382

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:

	2011 AED '000	2010 AED '000
UAE	**1,504,836**	2,264,096
Middle East	**5,449**	4,509
Europe	**35,874**	34,305
Others	**969,212**	603,472
	2,515,371	2,906,382

17 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	2011 *AED '000*	*2010* *AED '000*
Murabaha	**5,128,884**	12,748,177
Mudaraba	**217,428**	265,675
	5,346,312	13,013,852
Less: provision for impairment	**(129,811)**	(190,310)
	5,216,501	12,823,542

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

At 1 January	**190,310**	186,298
(Reversal) charge for the year (note 12)	**(16,178)**	38,902
Written off during the year	**(44,321)**	(34,890)
At 31 December	**129,811**	190,310

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

UAE	**4,410,811**	12,193,125
Middle East	**229,943**	230,270
Europe	**548,322**	367,421
Others	**157,236**	223,036
	5,346,312	13,013,852

18 MURABAHA AND OTHER ISLAMIC FINANCING

	2011 *AED '000*	*2010* *AED '000*
Vehicle murabaha	**7,254,813**	7,904,499
Goods murabaha	**3,750,614**	4,168,262
Share murabaha	**9,796,068**	7,644,552
Commodities murabaha – Al Khair	**3,762,154**	3,654,793
Other murabaha	**2,189,802**	2,295,820
Total murabaha	**26,753,451**	25,667,926
Mudaraba	**2,592,419**	2,763,970
Islamic covered cards (murabaha)	**4,156,481**	4,004,584
Istisna'a	**235,756**	301,219
Other financing receivables	**163,584**	116,809
Total murabaha and other Islamic financing	**33,901,691**	32,854,508
Less: deferred income on murabaha	**(8,318,993)**	(8,274,397)
	25,582,698	24,580,111
Less: provision for impairment	**(2,217,139)**	(1,897,590)
	23,365,559	22,682,521

18 MURABAHA AND OTHER ISLAMIC FINANCING continued

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

	2011			*2010*		
	Individual impairment AED '000	***Collective impairment AED '000***	***Total AED '000***	*Individual impairment AED '000*	*Collective impairment AED '000*	*Total AED '000*
At 1 January	**1,608,567**	**289,023**	**1,897,590**	1,088,461	281,694	1,370,155
Charge for the year (note 12)	**232,849**	**98,240**	**331,089**	551,230	7,329	558,559
Written off during the year	**(11,540)**	**-**	**(11,540)**	(31,124)	-	(31,124)
At 31 December	**1,829,876**	**387,263**	**2,217,139**	1,608,567	289,023	1,897,590

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

	2011 AED '000	*2010 AED '000*
Industry sector*:*		
Government	**131,803**	242,115
Public sector	**216,847**	89,294
Corporates	**5,517,910**	5,743,157
Financial institutions	**590,049**	614,920
Individuals	**18,592,543**	17,422,133
Small and medium enterprises	**533,546**	468,492
	25,582,698	24,580,111
Geographic region:		
UAE	**24,427,314**	23,387,881
Middle East	**759,202**	783,656
Europe	**363,382**	377,757
Others	**32,800**	30,817
	25,582,698	24,580,111

19 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 include a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

	2011 ***AED '000***	*2010* *AED '000*
The aggregate future lease receivables are as follows:		
Due within one year	**6,405,365**	6,371,984
Due in the second to fifth year	**17,025,468**	16,739,421
Due after five years	**9,347,515**	8,789,073
Total ijara financing	**32,778,348**	31,900,478
Less: deferred income	**(6,519,499)**	(6,251,307)
Net present value of minimum lease payments receivable	**26,258,849**	25,649,171
Less: provision for impairment	**(793,067)**	(379,100)
	25,465,782	25,270,071

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

	2011			*2010*		
	Individual impairment AED '000	***Collective impairment AED '000***	***Total AED '000***	*Individual impairment AED '000*	*Collective impairment AED '000*	*Total AED '000*
At 1 January	**92,779**	**286,321**	**379,100**	144,737	235,906	380,643
Charge (reversal) for the year (note 12)	**324,706**	**89,261**	**413,967**	(51,712)	50,415	(1,297)
Written off during the year	**-**	**-**	**-**	(246)	-	(246)
At 31 December	**417,485**	**375,582**	**793,067**	92,779	286,321	379,100

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

	2011 ***AED '000***	*2010* *AED '000*
Industry sector:		
Government	**165,087**	119,191
Public sector	**2,285,682**	2,173,962
Corporates	**10,327,176**	9,589,736
Financial institutions	**678,460**	827,682
Individuals	**12,394,098**	12,567,807
Small and medium enterprises	**408,346**	370,793
	26,258,849	25,649,171
Geographic region:		
UAE	**25,439,128**	24,774,860
Middle East	**15,670**	20,890
Others	**804,051**	853,421
	26,258,849	25,649,171

20 INVESTMENTS

The analysis of the Group's investments as of 31 December 2011 (classified in accordance with IFRS 9) was as follows:

	2011 ***AED '000***
Investments carried at fair value through profit or loss ("FVTPL")	
Equities	**2,625**
Sukuk	**846,361**
	848,986
Investments carried at fair value through other comprehensive income ("FVTOCI")	
Quoted investments	
Equities	**16,454**
Unquoted investments	
Funds	**174,723**
Private equities	**172,033**
	346,756
	363,210
Investments carried at amortised cost	
Sukuk	**440,409**
Total investments	**1,652,605**

The analysis of the Group's investments as of 31 December 2010 (classified in accordance with IAS 39) was as follows:

	2010 *AED '000*
Held for trading	
Equities	6,920
Sukuk	329,353
	336,273
Available-for-sale	
Quoted investments	
Equities	58,817
Sukuk	604,280
	663,097
Unquoted investments	
Funds	223,322
Private equities	281,272
	504,594
	1,167,691

20 INVESTMENTS continued

	2010 AED '000
Held to maturity	
Sukuk	135,450
Total investments	1,639,414

Investments in private equity funds represent investments made in funds and limited partnerships to fund primary investment commitments in target companies with the objective of generating returns outperforming the public equity markets.

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

	2011 *AED '000*	*2010* *AED '000*
At 1 January - audited	**108,391**	57,770
Transition adjustment upon adoption of IFRS 9 (note 3.2)	**(31,727)**	-
At 1 January - adjusted	**76,664**	57,770
Charge for the year (note 12)	**1,377**	50,621
At 31 December	**78,041**	108,391

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

UAE	**1,109,453**	1,147,659
Middle East	**422,111**	465,031
Europe	**178**	104
Others	**198,904**	135,011
	1,730,646	1,747,805

21 INVESTMENT IN ASSOCIATES

	2011 *AED '000*	*2010* *AED '000*
Cost of investment in associates	**861,273**	861,273
Share of results	**12,479**	(4,860)
Dividends received	**(1,710)**	-
Foreign currency translation	**12,244**	13,565
	884,286	869,978
Less: provision for impairment	**(32,783)**	(32,783)
	851,503	837,195

21 INVESTMENT IN ASSOCIATES continued

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

Name of associate	*Place of incorporation*	*Proportion of ownership interest and voting power*		*Principal activity*
		2011	*2010*	
		%	*%*	
Abu Dhabi National Takaful PJSC	UAE	**40**	40	Islamic insurance
BBI Leasing and Real Estate D.O.O	Bosnia	**32**	32	Islamic leasing and real estate
Bosna Bank International D.D	Bosnia	**27**	27	Islamic banking
National Bank for Development	Egypt	**49**	49	Banking (under conversion to Islamic bank)

Summarised financial information of investment in associates is set out below:

	2011	*2010*
	AED '000	*AED '000*
Share of associates' statement of financial position		
Assets	**4,258,643**	3,634,996
Liabilities	**(4,412,165)**	(3,879,386)
Net assets	**(153,522)**	(244,390)
Share of associates' revenue and profits:		
Revenue for the year	**104,843**	105,110
Profit for the year	**17,339**	14,798

As of 31 December 2011, the Bank's share of the contingent liabilities and commitments of associates amounted to AED 148,438 thousand (2010: AED 155,040 thousand).

The distribution of the gross investment in associates by geographic region was as follows:

	2011	*2010*
	AED '000	*AED '000*
UAE	**127,633**	117,337
Europe	**69,095**	65,083
Others	**687,558**	687,558
	884,286	869,978

22 INVESTMENT PROPERTIES

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

	Land *AED '000*	*Other properties* *AED '000*	*Total* *AED '000*
2011			
Cost:			
Balance at 1 January	30,452	192,043	222,495
Transfer from development properties (note 23)	-	93,439	93,439
Transfer from other assets (note 40)	-	66,027	66,027
Transfer to property and equipment	-	(204,011)	(204,011)
Disposals (note 8)	(321)	-	(321)
Gross balance at 31 December	30,131	147,498	177,629
Less: provision for impairment	(5,542)	(9,219)	(14,761)
Net balance at 31 December	**24,589**	**138,279**	**162,868**
Accumulated depreciation:			
Balance at 1 January	-	12,759	12,759
Charge for the year	-	5,793	5,793
Relating to transfer to property and equipment	-	(10,924)	(10,924)
Balance at 31 December	**-**	**7,628**	**7,628**
Net book value at 31 December	**24,589**	**130,651**	**155,240**
2010			
Cost:			
Balance at 1 January	30,452	185,046	215,498
Transfer from other assets (note 40)	-	6,997	6,997
Gross balance at 31 December	30,452	192,043	222,495
Less: provision for impairment	(5,442)	(12,640)	(18,082)
Net balance at 31 December	25,010	179,403	204,413
Accumulated depreciation:			
Balance at 1 January	-	8,737	8,737
Charge for the year	-	4,022	4,022
Balance at 31 December	-	12,759	12,759
Net book value at 31 December	25,010	166,644	191,654

The Bank has reclassified investment properties with carrying value of AED 188,135 thousand to property and equipment based on managements' reassessment of future use of these properties.

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 7,816 thousand (2010: AED 5,265 thousand).

The fair values of investment properties at 31 December 2011 amounted to AED 173,064 thousand (2010: AED 203,693 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 qualification 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 based on valuation models.

22 INVESTMENT PROPERTIES continued

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

	Land AED '000	*Other properties AED '000*	*Total AED '000*
At 1 January 2010	-	-	-
Charge for the year (note 12)	5,442	12,640	18,082
At 1 January 2011	5,442	12,640	18,082
Charge for the year (note 12)	100	1,531	1,631
Written off during the year	-	(4,952)	(4,952)
At 31 December 2011	**5,542**	**9,219**	**14,761**

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

	Land AED '000	*Other properties AED '000*	*Total AED '000*
2011:			
UAE	21,883	139,870	161,753
Middle East	8,248	-	8,248
	30,131	**139,870**	**170,001**
2010:			
UAE	21,883	179,284	201,167
Middle East	8,569	-	8,569
	30,452	179,284	209,736

23 DEVELOPMENT PROPERTIES

The movement in development properties during the year was as follows:

	2011 AED '000	*2010 AED '000*
Balance at 1 January	**1,050,445**	931,070
Additions	**16,447**	75,800
Transfer to investment properties (note 22)	**(93,439)**	-
Transfer from other assets (note 40)	-	87,457
Disposals (note 9)	**(6,706)**	(43,882)
Balance at 31 December	**966,747**	1,050,445

Development properties include land with a carrying value of AED 800,000 thousand (2010: AED 815,750 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

24 OTHER ASSETS

	2011 **AED '000**	2010 AED '000
Advances against purchase of properties	**1,299,280**	1,247,680
Trade receivables	**277,761**	214,345
Cheques for collection	**2,614**	3,382
Prepaid expenses	**259,880**	180,571
Income receivable	**6,017**	16,616
Advance to contractors	**1,653**	8,443
Advance for investments	**183,625**	290,017
Others	**177,323**	129,955
	2,208,153	2,091,009
Less: provision for impairment	**(243,503)**	(220,937)
	1,964,650	1,870,072

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

	Advances against purchase of properties AED '000	*Trade receivables AED '000*	*Advance for investments AED '000*	*Others AED '000*	*Total AED '000*
At 1 January 2010	-	46,547	106,392	-	152,939
Charge for the year (note 12)	74,031	(100)	-	10,414	84,345
Written off during the year	-	(16,347)	-	-	(16,347)
At 1 January 2011	74,031	30,100	106,392	10,414	220,937
Charge for the year (note 12)	184,013	-	(106,392)	10,414	88,035
Written off during the year	(65,469)	-	-	-	(65,469)
At 31 December 2011	**192,575**	**30,100**	**-**	**20,828**	**243,503**

25 PROPERTY AND EQUIPMENT

	Land *AED '000*	*Buildings* *AED '000*	*Furniture and fixtures* *AED '000*	*Computer and office equipment* *AED '000*	*Motor vehicles* *AED '000*	*Capital work-in progress* *AED '000*	*Total* *AED '000*
2011							
Cost or revaluation:							
At 1 January	129,315	14,838	199,647	304,133	9,818	196,546	854,297
Additions	-	350	8,557	66,197	1,986	158,361	235,451
Transfers from capital work-in-progress	-	42,753	41,239	8,519	-	(92,511)	-
Transfer from investment properties	98,402	89,733	-	-	-	-	188,135
Transfer from other assets (note 40)	-	37,574	-	-	-	-	37,574
Surplus on revaluation (note 34)	13,761	-	-	-	-	-	13,761
Disposals	-	-	(1,514)	-	(131)	-	(1,645)
At 31 December	**241,478**	**185,248**	**247,929**	**378,849**	**11,673**	**262,396**	**1,327,573**
Depreciation:							
At 1 January	-	2,951	83,797	175,889	5,773	-	268,410
Charge for the year	-	2,536	26,735	54,214	2,112	-	85,597
Relating to disposals	-	-	(285)	-	(112)	-	(397)
At 31 December	**-**	**5,487**	**110,247**	**230,103**	**7,773**	**-**	**353,610**
Net book value							
At 31 December	**241,478**	**179,761**	**137,682**	**148,746**	**3,900**	**262,396**	**973,963**
2010							
Cost or revaluation:							
At 1 January	129,315	14,838	143,932	190,470	9,140	86,771	574,466
Additions	-	-	42,239	95,957	1,102	140,957	280,255
Transfers	-	-	13,476	17,706	-	(31,182)	-
Disposals	-	-			(424)	-	(424)
At 31 December	129,315	14,838	199,647	304,133	9,818	196,546	854,297
Depreciation:							
At 1 January	-	2,206	61,748	127,286	4,401	-	195,641
Charge for the year	-	745	22,049	48,603	1,796	-	73,193
Relating to disposals	-	-	-	-	(424)	-	(424)
At 31 December	-	2,951	83,797	175,889	5,773	-	268,410
Net book value							
At 31 December	129,315	11,887	115,850	128,244	4,045	196,546	585,887

During 2011, the Bank revalued plots of land held for its own use to their estimated fair value based on professional valuations performed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations, and has appropriate qualification and experience in the valuation of properties in the UAE. The fair value of the land has been determined either based on transactions observable in the market or based on valuation models. The surplus on revaluation of land was transferred to the revaluation reserve within equity which is not available for distribution to shareholders.

26 DUE TO FINANCIAL INSTITUTIONS

	2011 *AED '000*	*2010* *AED '000*
Current accounts	**171,203**	240,660
Investment deposits	**1,760,223**	650,730
	1,931,426	891,390

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

UAE	**753,337**	68,487
Middle East	**143,174**	507,458
Europe	**163,473**	169,147
Others	**871,442**	146,298
	1,931,426	891,390

27 DEPOSITORS' ACCOUNTS

	2011 *AED '000*	*2010* *AED '000*
Current accounts	**14,234,786**	12,635,323
Saving accounts	**11,182,629**	8,911,158
Investment accounts	**29,613,769**	34,905,776
Profit equalisation reserve	**140,599**	64,788
	55,171,783	56,517,045

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

At 1 January	**64,788**	49,594
Share of profit for the year (note 13)	**75,811**	15,194
At 31 December	**140,599**	64,788

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

	2011 *AED '000*	*2010* *AED '000*
Industry sector:		
Government	**7,555,541**	8,736,816
Public sector	**8,208,031**	9,999,671
Corporates	**5,058,507**	7,414,994
Financial institutions	**2,709,678**	2,286,598
Individuals	**25,473,050**	22,098,723
Small and medium enterprises	**6,166,976**	5,980,243
	55,171,783	56,517,045

27 DEPOSITORS' ACCOUNTS continued

	2011 AED '000	*2010 AED '000*
Geographic region:		
UAE	**54,956,943**	56,077,875
Middle East	**42,779**	289,220
Europe	**5,074**	1,793
Others	**166,987**	148,157
	55,171,783	56,517,045
Currencies:		
UAE Dirham	**45,630,631**	46,347,084
US Dollar	**9,146,904**	9,901,370
Euro	**355,754**	233,890
Sterling Pound	**35,153**	32,780
Others	**3,341**	1,921
	55,171,783	56,517,045

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

With respect to investment deposits, the Bank is liable only in case of willful 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).

28 OTHER LIABILITIES

	2011 AED '000	*2010 AED '000*
Accounts payable	**349,922**	566,690
Payable for purchase of properties	**64,578**	109,679
Accrued profit for distribution to depositors and sukuk holders (note 13)	**158,164**	232,413
Bankers' cheques	**137,903**	62,108
Provision for staff benefits and other expenses	**258,895**	214,901
Retentions payable	**274,202**	345,815
Advances from customers	**58,803**	29,079
Accrued legal and professional charges	**3,494**	6,729
Accrued expenses	**73,003**	45,569
Unclaimed dividends	**90,831**	51,769
Deferred income	**26,679**	62,932
Charity account	**6,528**	6,000
Donation account	**344**	4,198
Negative fair value on Shari'a compliant alternatives of derivative financial instruments (note 38)	**19,578**	8,642
Others	**339,833**	344,976
	1,862,757	2,091,500

29 TIER 2 WAKALA CAPITAL

In December 2008, the UAE Federal government ("the Government") placed deposits with the Bank for a period of 3 - 5 years. Subsequent to the deposit placements, the Government offered, subject to certain terms and conditions and in accordance with the Central Bank's capital adequacy requirements, to convert the deposits, into capital qualifying as Tier 2 capital. Pursuant to the Extraordinary General Meeting held on 22 March 2009, the shareholders approved, subject to the terms of an instrument to be entered into with the Government, the conversion of these deposits into a Tier 2 capital. On 31 December 2009, a Shari'a compliant wakala agreement was signed by the Bank. In accordance with the terms of that agreement the deposits were converted into Tier 2 qualifying wakala capital.

The wakala capital is an unsecured subordinated obligation of the Bank which has been provided to the Bank for a term of 7 years. However, the Bank may, subject to certain conditions, return the wakala capital to the Government prior to the expiry of the 7 year term. The Tier 2 qualifying wakala capital bears an expected profit rate ranging, over the term that it has been provided, from 4% - 5.25%. The profit rate is payable quarterly in arrears. In limited circumstances and subject to certain conditions, the Government has the ability to convert all or part of the wakala capital into ordinary shares of the Bank at the prevailing market price.

30 SUKUK FINANCING INSTRUMENTS

	2011	*2010*
	AED '000	*AED '000*
First issue	**-**	2,938,000
Second issue	**2,754,375**	2,501,523
Third issue	**1,836,250**	-
	4,590,625	5,439,523

First issue - USD 800 million
In December 2011, the Bank purchased back the sukukholders' entire Co-Owned Assets of the first issue of medium term sukuk amounting to AED 2,938,000 thousand (USD 800 million) under a USD 5 billion programme.

Second issue - USD 750 million
In November 2010, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 2,754,375 thousand (USD 750 million) as the second issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in November 2015. The sukuk deserved profit is distributed in accordance with fixed profit rate. As of 31 December 2010, sukuk with a face value of AED 252,852 thousand (USD 68.9 million) were repurchased by the Bank.

Third issue - USD 500 million
In November 2011, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 1,836,250 thousand (USD 500 million) as the third issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in November 2016. The sukuk deserved profit is distributed in accordance with fixed profit rate.

Terms of arrangement
The terms of the arrangement include transfer of the ownership of certain assets ("the Co-Owned Assets"), including original ijara assets of the Bank, to a sukuk company, ADIB Sukuk Company Ltd - the Issuer, a subsidiary of the Bank, specially formed for the sukuk transaction. The assets are owned by the investors, however the assets are controlled by the Bank and shall continue to be serviced by the Bank as the managing agent.

The issuer will pay the quarterly distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the sukuk holders on the quarterly distribution dates. Upon maturity of the sukuk, the Bank has undertaken to repurchase the assets at an exercise price which equals the value of the Issuer's co-ownership interest in the unpaid rental installments due and payable in respect of the Co-Owned Assets, which may equal the amount of AED 4,590,625 thousand (USD 1,250 million) (31 December 2010: AED 5,692,375 thousand (USD 1,550 million)).

31 SHARE CAPITAL

	2011 AED '000	2010 AED '000
Authorised share capital:		
3,000,000 thousand (2010: 3,000,000 thousand) ordinary shares of AED 1 each (2010: AED 1 each)	**3,000,000**	3,000,000
Issued and fully paid share capital:		
At 1 January 2,364,706 thousand (2010: 1,970,588 thousand) ordinary shares of AED 1 each (2010: AED 1 each)	**2,364,706**	1,970,588
Bonus shares issued	**-**	394,118
At 31 December 2,364,706 thousand (2010: 2,364,706 thousand) ordinary shares of AED 1 each (2010: AED 1 each)	**2,364,706**	2,364,706

32 RESERVES

32.1 Legal reserve

As required by the UAE Federal Commercial Companies Law No. 8 of 1984 (as amended) 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.

32.2 General reserve

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

33 PROPOSED DIVIDENDS

	2011 AED '000	2010 AED '000
Cash dividend: AED 0.2442 per share of AED 1 each (2010: AED 0.2164 per share of AED 1 each)	**577,546**	511,783

Cash dividend of 24.42% (2010: 21.64%) of the paid up capital relating to year ended 31 December 2011 amounting to AED 577,546 thousand (2010: AED 511,783 thousand) shall be paid after the approval by the shareholders in the Annual General Assembly.

34 OTHER RESERVES

	Cumulative changes in fair values AED '000	*Land revaluation reserve AED '000*	*Foreign currency translation reserve AED '000*	*Hedging reserve AED '000*	*Total AED '000*
At 1 January 2010	(167,560)	129,239	19,940	(6,076)	(24,457)
Net gain on valuation of available-for-sale investments	24,899	-	-	-	24,899
Impairment on available-for-sale investments (note 12)	50,621	-	-	-	50,621
Exchange differences arising on translation of foreign operations	-	-	(6,375)	-	(6,375)
Fair value loss on cash flow hedges	-	-	-	(2,566)	(2,566)
At 1 January 2011 - audited	(92,040)	129,239	13,565	(8,642)	42,122
Transition adjustment on adoption of IFRS 9 (note 3.2)	(5,746)	-	-	-	(5,746)
At 1 January 2011 – adjusted	(97,786)	129,239	13,565	(8,642)	36,376
Net loss on valuation of investments carried at FVTOCI	(86,616)	-	-	-	(86,616)
Loss on disposal of investment carried at fair value through other comprehensive income	19,372	-	-	-	19,372
Surplus on revaluation of land (note 25)	-	13,761	-	-	13,761
Exchange differences arising on translation of foreign operations	-	-	(1,321)	-	(1,321)
Gain on hedge of foreign operations	-	-	1,321	-	1,321
Fair value loss on cash flow hedges	-	-	-	(10,936)	(10,936)
At 31 December 2011	**(165,030)**	**143,000**	**13,565**	**(19,578)**	**(28,043)**

35 TIER 1 SUKUK

On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk") 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 was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

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

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

36 NON-CONTROLLING INTEREST

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

37 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments include commitments to extend Islamic credit facilities, standby letters of credit, guarantees and acceptances, 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, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of contracts.

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

	2011 ***AED '000***	*2010* *AED '000*
Contingent liabilities		
Letters of credit	**1,666,121**	1,077,025
Letters of guarantee	**9,003,727**	7,004,417
Acceptances	**439,322**	173,516
	11,109,170	8,254,958
Commitments		
Undrawn facilities commitments	**1,293,858**	2,047,396
Investment securities	**70,700**	144,200
Future capital expenditure	**345,750**	42,325
Investment and development properties	**1,559,443**	1,667,163
	3,269,751	3,901,084
	14,378,921	12,156,042

38 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

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

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

31 December 2011: Notional amount by term to maturity

	Negative fair value AED '000	*Notional amount AED '000*	*Less than 3 months AED '000*	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*
Shari'a compliant alternatives of swap (note 28)	**19,578**	**1,382,631**	**631,583**	**254,298**	**496,750**	**-**

31 December 2010: Notional amount by term to maturity

Shari'a compliant alternatives of swap (note 28)	8,642	915,777	-	734,500	180,617	-

39 ZAKAT

The Bank's Articles of Association do not authorise management to pay Zakat directly, 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 134,112 thousand (2010: AED 128,696 thousand) and accordingly, Zakat is estimated at AED 0.05671 (2010: AED 0.05442) per outstanding share.

40 CASH AND CASH EQUIVALENTS

	2011	*2010*
	AED '000	*AED '000*
Cash and balances with central banks, short term	**6,647,445**	4,500,246
Balances and wakala deposits with Islamic banks and other financial institutions, short term	**2,331,413**	2,652,442
Murabaha and mudaraba with financial institutions, short term	**3,955,808**	9,304,138
Due to financial institutions, short term	**(1,542,202)**	(500,923)
	11,392,464	15,955,903

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

	2011	*2010*
	AED '000	*AED '000*
Transfer from investment properties to property and equipment (note 25)	**188,135**	-
Transfer from other assets to property and equipment (note 25)	**37,574**	-
Surplus on revaluation on land (note 25)	**13,761**	-
Transfer from development properties to investment properties (note 23)	**93,439**	-
Transfer from other assets to investment properties (note 22)	**66,027**	6,997
Transfer from other assets to development properties (note 23)	**-**	87,457

41 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank enters into transactions at commercial profit and commission rates, with related parties, comprising associates, directors, major shareholders, 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. All financing to related parties are performing financing 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.

41 RELATED PARTY TRANSACTIONS continued

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

	Major shareholder AED '000	*Directors AED '000*	*Associates AED '000*	*Others AED '000*	*Total AED '000*
31 December 2011					
Income from murabaha, mudaraba and wakala with financial institutions	**-**	**-**	**2,935**	**-**	**2,935**
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	**110,340**	**341**	**-**	**165,487**	**276,168**
Investment income	**5,973**	**-**	**-**	**-**	**5,973**
Fees and commission income, net	**11,410**	**-**	**-**	**9,452**	**20,862**
Operating expenses	**-**	**450**	**-**	**-**	**450**
Distribution to depositors and sukuk holders	**75**	**48**	**526**	**325**	**974**
31 December 2010					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	1,195	-	1,195
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	117,620	134	-	152,536	270,290
Fees and commission income, net	-	-	8,000	-	8,000
Operating expenses	-	183	-	-	183
Distribution to depositors and sukuk holders	59	44	2,083	3,055	5,241

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

	Major shareholder AED '000	*Directors AED '000*	*Associates AED '000*	*Others AED '000*	*Total AED '000*
31 December 2011					
Balances and wakala deposits with Islamic banks and other financial institutions	**-**	**-**	**927,919**	**-**	**927,919**
Murabaha, mudaraba, ijara and other Islamic financing	**2,432,231**	**11,476**	**-**	**2,899,814**	**5,343,521**
Other assets	**-**	**-**	**3,103**	**183,625**	**186,728**
	2,432,231	**11,476**	**931,022**	**3,083,439**	**6,458,168**
Due to financial institutions	**-**	**-**	**3,192**	**-**	**3,192**
Depositors' accounts	**15,966**	**7,797**	**35,236**	**75,218**	**134,217**
Other liabilities	**4**	**-**	**46**	**1,563**	**1,613**
	15,970	**7,797**	**38,474**	**76,781**	**139,022**
Undrawn facilities commitments	**-**	**-**	**-**	**1,517**	**1,517**

41 RELATED PARTY TRANSACTIONS continued

	Major shareholder AED '000	*Directors AED '000*	*Associates AED '000*	*Others AED '000*	*Total AED '000*
31 December 2010					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	569,735	-	569,735
Murabaha, mudaraba, ijara and other Islamic financing	2,270,460	8,409	-	2,556,854	4,835,723
Other assets	3,982	-	2,736	183,694	190,412
	2,274,442	8,409	572,471	2,740,548	5,595,870
Due to financial institutions	-	-	1,800	-	1,800
Depositors' accounts	9,785	12,713	74,344	70,075	166,917
Other liabilities	4	-	420	1,563	1,987
	9,789	12,713	76,564	71,638	170,704
Undrawn facilities commitments	-	-	-	1,517	1,517

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

	2011 AED '000	*2010 AED '000*
Salaries and other benefits	**29,936**	24,051
Employees' end of service benefits	**3,319**	2,253
	33,255	26,304

In accordance with the Ministry of Economy and Commerce interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), Directors' remuneration is recognised in the consolidated statement of comprehensive income.

Board of Directors remuneration for the year ended 31 December 2011 amounting to AED 4,200 thousand is subject to the approval of the shareholders at the forthcoming Annual General Assembly. During 2011, AED 4,200 thousand was paid to Board of Directors pertaining to the year ended 31 December 2010 after the approval by the shareholders in the Annual General Assembly held on 31 March 2011.

42 SEGMENT INFORMATION

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

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.

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.

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

Real estate – Subsidiary 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, foreign branches and subsidiaries other than above categories including unallocated costs.

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

Business segments information for the year ended 31 December 2011 were as follows:

	Retail banking AED '000	*Wholesale banking AED '000*	*Private banking AED '000*	*Capital markets AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
Revenue and results							
Segment revenues, net	2,191,820	869,274	231,159	127,140	143	6,279	3,425,815
Operating expenses excluding provision for impairment, net	(967,328)	(193,028)	(86,476)	(62,529)	(78,199)	(62,094)	(1,449,654)
Operating profit (margin)	1,224,492	676,246	144,683	64,611	(78,056)	(55,815)	1,976,161
Provision for impairment, net	(240,844)	(155,314)	(228,854)	-	(196,058)	-	(821,070)
Profit (loss) for the year	983,648	520,932	(84,171)	64,611	(274,114)	(55,815)	1,155,091
Non-controlling interest	-	-	-	(122)	-	-	(122)
Profit (loss) for the year attributable to equity holders of the Bank	983,648	520,932	(84,171)	64,489	(274,114)	(55,815)	1,154,969
Assets							
Segmental assets	25,785,489	18,863,772	6,121,370	19,941,941	2,715,080	907,414	74,335,066
Liabilities							
Segmental liabilities	25,267,760	17,015,481	6,520,916	16,294,716	278,126	387,000	65,763,999

42 SEGMENT INFORMATION continued

Business segments information for the year ended 31 December 2010 were as follows:

	Retail banking AED '000	*Wholesale banking AED '000*	*Private banking AED '000*	*Capital markets AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
Revenue and results							
Segment revenues, net	2,016,538	709,399	154,634	189,008	5,056	(618)	3,074,017
Operating expenses excluding provision for impairment, net	(850,005)	(174,043)	(77,197)	(54,456)	(82,432)	(63,107)	(1,301,240)
Operating profit (margin)	1,166,533	535,356	77,437	134,552	(77,376)	(63,725)	1,772,777
Provision for impairment, net	(165,465)	(399,509)	(58,730)	(6,050)	(119,458)	-	(749,212)
Profit (loss) for the year	1,001,068	135,847	18,707	128,502	(196,834)	(63,725)	1,023,565
Non-controlling interest	-	-	-	(220)	-	-	(220)
Profit (loss) for the year attributable to equity holders of the Bank	1,001,068	135,847	18,707	128,282	(196,834)	(63,725)	1,023,345
Assets							
Segmental assets	23,481,356	18,572,025	7,323,063	22,258,929	2,908,311	713,834	75,257,518
Liabilities							
Segmental liabilities	21,013,344	20,994,935	7,796,163	16,625,052	376,340	341,032	67,146,866

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

	Retail banking AED '000	*Wholesale banking AED '000*	*Private banking AED '000*	*Capital markets AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
2011							
External revenues, net	2,297,527	946,620	273,031	(96,644)	143	5,138	3,425,815
Inter-segment revenues, net	(105,707)	(77,346)	(41,872)	223,784	-	1,141	-
Segment revenues, net	**2,191,820**	**869,274**	**231,159**	**127,140**	**143**	**6,279**	**3,425,815**
2010							
External revenues, net	2,175,403	739,974	219,135	(66,380)	5,056	829	3,074,017
Inter-segment revenues, net	(158,865)	(30,575)	(64,501)	255,388	-	(1,447)	-
Segment revenues, net	2,016,538	709,399	154,634	189,008	5,056	(618)	3,074,017

Geographical information

The Bank operates principally in the United Arab Emirates and has only one branch overseas, in Iraq. Given that, UAE contributes the majority of the revenues and the Bank'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 given.

43 RISK MANAGEMENT

43.1 Introduction

Risk is inherent in all of the Group's activities. It is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls in accordance to regulatory requirements. This process of risk management is critical to the Group's continuing profitability, and each individual within the Group is accountable for the risk exposures relating to his responsibilities and for the observance of documented policies and procedures which govern this process. The Group is exposed principally to credit risk, liquidity risk, market risk and operational risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

43.1.1 Risk management governance structure

Changes made during the year ended 31 December 2010 to strengthen the overall governance structure of the group in the area of Risk Management have been successfully embedded. These changes were made as a natural consequence of the growth and development of the Bank's business. The key features are as follows:

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.

Group Strategy Execution Committee ("GSEC")
The GSEC is responsible, amongst a number of other duties, for the review and approval of all major exposures and investments, within authorized limits and Board guidelines. The GSEC is appointed by the Board and has been given the delegated authority by the Board to assist the Groups executive management teams execute the Board's strategy and achieve the Group's strategic objectives. The authorities delegated to the GSEC by the Board, as they pertain to the Risk Management Governance function include:

- Reviewing and approving the delegation of approval authority to management in regard to the overall policies and procedures of the Group;
- Approving the authorities delegated to the Group's executives; and
- Approval of significant and high value transactions in regard to credit facilities, acquisitions and divestitures, new business initiatives and proprietary investments within the GSEC's delegation of authority.

Duties and responsibilities of the GSEC are governed by a formally approved charter. The GSEC replaced the Executive Committee of the Board.

Group Risk Policy Committee ("GRPC")
The GRPC is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in respect of the following:

- Approving and recommending to the Board when necessary the policies, standards, guidelines and procedures for risk assessment and risk management;
- Reviewing and approving the risk inherent in the business of the Group and the control processes with respect to such risks;
- Reviewing and approving the risk profile and the risk appetite of the Group;
- Reviewing the risk management, compliance and control activities of the Group; and
- Review and approve the Internal Capital Adequacy Assessment Process ("ICAAP") and Basel II implementation.

The GRPC is comprised of three directors, all of which are non-executive directors, in addition to the Chief Executive Officer ("CEO") and the Group Chief Risk Officer ("GCRO") (non-voting member) and is chaired by a highly experienced and qualified subject matter expert, who is neither a director nor an employee of the Group. Duties and responsibilities of the GRPC are governed by a formally approved charter. The GRPC was formed during 2010 and has held regular meetings during the year as per its charter.

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.1 Risk management governance structure continued

Audit and Governance Committee ("AGC")

The AGC comprises one independent member and two members representing the Board of the Bank. The AGC has the overall responsibility to oversee management activities relating to accounting and financial reporting policies and internal controls, auditing practices, and legal and regulatory compliance; to discuss the integrity of the Group's consolidated financial statements and the adequacy and reliability of disclosures to shareholders, to review the qualifications and independence of the internal and external auditors, the performance of internal and external auditors, and to review and recommend to the Board, the corporate governance guidelines applicable to the Group. Duties and responsibilities of the AGC are governed by a formally approved charter.

- The Group Internal Audit Division ("GIAD") reports directly to the AGC, and provides independent validation of the business units' compliance with risk policies and procedures, together with a regular assessment as to the effectiveness and adequacy of the risk management function across the Bank.
- The risk management function is independent of the business divisions and is headed by the GCRO, who reports directly to the CEO.

The Bank realizes the importance of creating and maintaining a strong risk culture throughout the organization. The management of all types of risk is deeply embedded throughout the Bank as a core competency of every staff member. In order to promote this, the Bank places a high degree of importance on clearly written, well distributed and readily accessible policies, procedures and communication of risk issues across the Bank.

43.1.2 The Risk Management Group ("RMG")

An independent risk organization that works in close partnership with the rest of the business to support their activities, whilst safeguarding the risk profile of the Bank. The primary objectives of the RMG, headed by the GCRO are:

- Ensure adherence and compliance of individual and portfolio performance to agreed terms and policies;
- Institute prudent control mechanisms (process and systems);
- Approve commercial and consumer financing transactions within its delegated authority;
- Ensure compliance with local legal and regulatory guidelines including those issued by the UAE Central Bank and Basel II; and
- Maintain the primary relationship with local regulators with respect to risk related issues.

Reporting to the GCRO are senior and qualified individuals who manage specific areas of risk expertise, amongst which are the Chief Credit Officer, the Market Risk Head, the Consumer Risk Head, the Financial Institution and Business Banking Risk Head, the Private Bank Risk Head, the Head of Operational Risk and the Head of Group Risk Architecture, each supported as appropriate by individuals and systems.

The "Asset Recovery Management Unit" formed last year, has continued its function during the course of 2011 with a strengthened team of recovery specialists. This is a specialized unit specifically formed to manage corporate and private Bank relationships that are impaired and experiencing difficulties in meeting their obligations to the Bank.

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

On 27 November 2009, Central Bank of UAE published Circular 27/2009 with regard to Basel II implementation and submission of annual ICAAP report. The first ICAAP was submitted to the UAE CB within the deadline. The second ICAAP was submitted to the UAE CB in March 2011, receiving favourable commentary with regard to the quality and thoroughness of the preparation. The Basel II FIRB implementation program initiated in the 2nd quarter of 2010, under the leadership of a dedicated Basel II Program Manager and team has continued as per plan during the course of 2011, and is due for completion during the first half of 2012. As at close of 2011, the program was fully on schedule and progressing well, thus demonstrating the Bank's total commitment to full compliance with the requirements of the circular. This program, apart from meeting the requirements of the regulator, continues to materially enhance and strengthen the risk management capability of the Bank.

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.2 The Risk Management Group ("RMG") continued

Asset & Liability Committee ("ALCO")

The Asset & Liability Management ("ALM") process is focused on planning, acquiring, and directing the flow of funds through the organisation. 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. A number of related policies contained within the Basel program were approved and implemented during the course of the year.

Credit Committee

All the business proposals of clients are approved through a committee empowered by the GSEC through the CEO. The Credit Committee approves all the funded and non-funded transactions within limits as delegated by the Board. The committee consists of senior management personnel including the CEO. The approval process and the authorities vested with the committee members are well defined in the Bank Credit Policy & Procedures Manual. The policy manual enumerates the various requirements and procedures to be followed in bringing a relationship to the Bank and assessment of the risks involved.

43.1.3 Risk measurement and reporting systems

In order to effectively monitor and control risks, the Policy and Portfolio Management Unit and the Credit Administration units within the risk organization is tasked, in close partnership with the relevant business units, with the documentation and communication of credit and risk related policies, the maintenance and adherence of delegated credit approval authorities, and the monitoring and general adherence to risk related policies by the business units. Within the ambit of portfolio management, specific responsibilities include:

- Preparing portfolio reports across a diverse range of indicators such as portfolio concentrations by geography, industry type, product, risk rating etc. which are used to analyse and monitor overall portfolio quality;
- Monitoring the integrity and consistency of data, including risk ratings, migration, exposures and losses, including the maintenance of a central loss database for the monitoring and analysis of losses;
- Setting and advising the values of input parameters to be used for the calculation of expected loss and economic capital requirements;
- Consolidation and consolidation of portfolio management data and reports for use by Executive Management and the Board; and
- The establishment and management of early warning tools to identify emerging risk problems.

On a monthly basis detailed reporting of industry, customer and geographic risks takes place and assessed against the risk profile and overall risk appetite of the Bank. Senior management assesses the appropriateness of the provision for credit losses on a monthly basis.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

The Bank actively uses collateral to reduce its credit risks.

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.4 Risk concentration
Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

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 in specific locations or businesses. It also obtains security when appropriate.

Details of the composition of the financing portfolio are provided in notes 18 and 19.

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

43.1.6 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 AGC. The Head of Group Internal Audit has direct reporting lines to the AGC in securing his independence and objectivity in all audit engagements undertaken within the Bank.

43.2 Credit risk

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

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

All commercial credit risk exposures are risk rated using Moody's Risk Analyst risk rating system, recognized as an industry wide standard. During the course of the year, a number of additional rating models were added to this platform in accordance with the requirements of Basel II, and these are now well embedded. The use of Facility Risk Ratings was also introduced. Consumer exposures are rated using a pool concept as required by Basel II.

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

43 RISK MANAGEMENT continued

43.2 Credit risk continued

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

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

	Notes	***Gross maximum exposure 2011 AED '000***	*Gross maximum exposure 2010 AED '000*
Balances and wakala deposits with Islamic banks and other financial institutions	16	**2,515,371**	2,906,382
Murabaha and mudaraba with financial institutions	17	**5,346,312**	13,013,852
Murabaha and other Islamic financing	18	**25,582,698**	24,580,111
Ijara financing	19	**26,258,849**	25,649,171
Investments		**1,364,811**	1,145,746
Other assets		**465,368**	372,741
		61,533,409	67,668,003
Contingent liabilities	37	**11,109,170**	8,254,958
Commitments		**1,293,858**	2,047,396
Total		**12,403,028**	10,302,354
Total credit risk exposure		**73,936,437**	77,970,357

43.2.2 Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The credit exposure to the top 5 customers as of 31 December 2011 was AED 5,280,107 thousand (2010: AED 5,606,752 thousand) before taking account of collateral or other credit enhancements.

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

The distribution of the Group's financial assets by geographic region is as follows:

	Balances and wakala deposits with Islamic banks and other financial institutions AED '000	*Murabaha and mudaraba with financial institutions AED '000*	*Murabaha and other Islamic financing AED '000*	*Ijara financing AED '000*	*Investments AED '000*	*Other assets AED '000*	*Total AED' 000*
31 December 2011							
UAE	**1,504,836**	**4,410,811**	**24,427,314**	**25,439,128**	**903,553**	**465,368**	**57,151,010**
Middle East	**5,449**	**229,943**	**759,202**	**15,670**	**323,636**	**-**	**1,333,900**
Europe	**35,874**	**548,322**	**363,382**	**-**	**-**	**-**	**947,578**
Others	**969,212**	**157,236**	**32,800**	**804,051**	**137,622**	**-**	**2,100,921**
Financial assets subject to credit risk	**2,515,371**	**5,346,312**	**25,582,698**	**26,258,849**	**1,364,811**	**465,368**	**61,533,409**
31 December 2010							
UAE	2,264,096	12,193,125	23,387,881	24,774,860	811,574	372,741	63,804,277
Middle East	4,509	230,270	783,656	20,890	313,682	-	1,353,007
Europe	34,305	367,421	377,757	-	-	-	779,483
Others	603,472	223,036	30,817	853,421	20,490	-	1,731,236
Financial assets subject to credit risk	2,906,382	13,013,852	24,580,111	25,649,171	1,145,746	372,741	67,668,003

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.2 Credit risk concentration continued
The distribution of the Group's financial assets by industry sector is as follows:

	2011	*2010*
	AED '000	*AED '000*
Industry sector:		
Government	**661,862**	781,084
Public sector	**2,502,529**	2,263,256
Financial institutions	**9,276,295**	17,475,861
Trading and manufacturing	**3,727,551**	1,598,264
Construction and real estate	**6,167,035**	7,486,697
Energy	**484,177**	521,217
Personal	**30,986,641**	29,989,940
Others	**7,727,319**	7,551,684
Financial assets subject to credit risk	**61,533,409**	67,668,003

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

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

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

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

43 RISK MANAGEMENT continued

43.2 Credit risk continued

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

The main types of collateral obtained are as follows:

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

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

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

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

43.2.5 Credit quality per class of financial assets
The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset 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 Bank's credit rating system.

	Moody's equivalent grade	***2011 AED '000***	*2010 AED '000*
Low risk			
Risk rating class 1	Aaa	**4,394**	26,177
Risk rating classes 2 and 3	Aa1-A3	**4,446,789**	11,379,387
Risk rating class 4	Baa1-Baa3	**3,635,375**	6,910,592
Risk rating classes 5 and 6	Ba1-B3	**42,434,246**	40,388,416
Fair risk			
Risk rating class 7	Caa1-Caa3	**4,544,056**	3,547,708
Impaired			
Risk rating class 8, 9 and 10		**4,638,370**	3,897,236
		59,703,230	66,149,516

It is the Bank'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 analytics, 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 Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class. In accordance with the requirements of Basel II 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 whose terms have been renegotiated during the year amounted to AED 1,322,098 thousand (2010: AED 919,453 thousand).

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued

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

	Balances and wakala deposits with Islamic banks and other financial institutions 31 December		*Murabaha and mudaraba with financial institutions 31 December*		*Murabaha and other Islamic financing 31 December*		*Ijara financing 31 December*		*Investments 31 December*	
	2011 AED '000	*2010 AED '000*	***2011 AED '000***	*2010 AED '000*	***2011 AED '000***	*2010 AED '000*	***2011 AED '000***	*2010 AED '000*	***2011 AED '000***	*2010 AED '000*
Individually impaired										
Substandard	-	-	-	186,476	**642,672**	625,853	**697,991**	846,627	**12,802**	68,142
Doubtful	-	-	-	-	**1,271,088**	952,964	**579,247**	347,371	**91,813**	91,813
Loss	-	-	**129,811**	129,811	**1,080,220**	789,389	**237,341**	18,745	-	9,571
Gross amount	-	-	**129,811**	316,287	**2,993,980**	2,368,206	**1,514,579**	1,212,743	**104,615**	169,526
Provision for individual impairment	-	-	**(129,811)**	(190,310)	**(1,829,876)**	(1,608,567)	**(417,485)**	(92,779)	**(78,041)**	(108,391)
	-	-	-	125,977	**1,164,104**	759,639	**1,097,094**	1,119,964	**26,574**	61,135
Past due but not impaired										
Gross amount	-	-	-	-	**220,498**	877,558	**1,438,185**	1,125,280	-	-
Neither past due nor impaired	**2,515,371**	2,906,382	**5,216,501**	12,697,565	**22,368,220**	21,334,347	**23,306,085**	23,311,148	**1,626,031**	1,578,279
Collective allowance for impairment	-	-	-	-	**(387,263)**	(289,023)	**(375,582)**	(286,321)	-	-
Carrying amount	**2,515,371**	2,906,382	**5,216,501**	12,823,542	**23,365,559**	22,682,521	**25,465,782**	25,270,071	**1,652,605**	1,639,414

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued
An analysis of past due financing, by age, is provided below:

Ageing analysis of past due but not impaired

	Less than 30 days AED '000	*31 -60 days AED '000*	*61 -90 days AED '000*	*More than 90 days AED '000*	*Total AED '000*
2011					
Murabaha and other Islamic financing	**42,264**	**16,195**	**17,203**	**144,836**	**220,498**
Ijara financing	**51,566**	**38,214**	**17,066**	**1,331,339**	**1,438,185**
	93,830	**54,409**	**34,269**	**1,476,175**	**1,658,683**
2010					
Murabaha and other Islamic financing	7,671	5,959	3,698	860,230	877,558
Ijara financing	17,614	24,219	52,892	1,030,555	1,125,280
	25,285	30,178	56,590	1,890,785	2,002,838

More detailed information in respect of the allowance for impairment losses on murabaha and other islamic financing and ijara financing have been disclosed in notes 18 and 19 respectively.

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

The Bank 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 Bank 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 scenarios, given due consideration to stress factors relating to both the market in general and specifically to the Bank.

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

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.1 Liquidity risk management process

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

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

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

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

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
31 December 2011					
ASSETS					
Cash and balances with central banks	**6,647,445**	**4,559,700**	**-**	**-**	**11,207,145**
Balances and wakala deposits with Islamic banks and other financial institutions	**2,331,413**	**183,958**	**-**	**-**	**2,515,371**
Murabaha and mudaraba with financial institutions	**3,952,980**	**208,846**	**819,683**	**234,992**	**5,216,501**
Murabaha and other Islamic financing	**3,877,328**	**4,476,853**	**11,544,136**	**3,467,242**	**23,365,559**
Ijara financing	**1,693,387**	**2,947,464**	**12,582,135**	**8,242,796**	**25,465,782**
Investments	**848,985**	**73,827**	**729,793**	**-**	**1,652,605**
Investment in associates	**-**	**-**	**-**	**851,503**	**851,503**
Other assets	**66,574**	**227,625**	**105,642**	**5,649**	**405,490**
Financial assets	**19,418,112**	**12,678,273**	**25,781,389**	**12,802,182**	**70,679,956**
Non-financial assets					**3,655,110**
Total assets					**74,335,066**
LIABILITIES					
Due to financial institutions	**1,542,202**	**389,224**	**-**	**-**	**1,931,426**
Depositors' accounts	**50,285,426**	**4,411,403**	**473,454**	**1,500**	**55,171,783**
Other liabilities	**827,788**	**588,768**	**446,201**	**-**	**1,862,757**
Tier 2 Wakala capital	**-**	**-**	**2,207,408**	**-**	**2,207,408**
Sukuk financing instruments	**-**	**-**	**4,590,625**	**-**	**4,590,625**
Total liabilities	**52,655,416**	**5,389,395**	**7,717,688**	**1,500**	**65,763,999**

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

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

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
31 December 2010					
ASSETS					
Cash and balances with central banks	4,500,246	900,089	-	-	5,400,335
Balances and wakala deposits with Islamic banks and other financial institutions	2,652,442	253,940	-	-	2,906,382
Murabaha and mudaraba with financial institutions	9,304,138	3,324,334	82,974	112,096	12,823,542
Murabaha and other Islamic financing	2,994,160	3,763,028	11,296,464	4,628,869	22,682,521
Ijara financing	1,760,939	3,460,654	13,018,088	7,030,390	25,270,071
Investments	337,198	152,631	1,149,585	-	1,639,414
Investment in associates	-	-	-	837,195	837,195
Other assets	222,391	183,625	31,243	4,562	441,821
Financial assets	21,771,514	12,038,301	25,578,354	12,613,112	72,001,281
Non-financial assets					3,256,237
Total assets					75,257,518
LIABILITIES					
Due to financial institutions	500,923	390,467	-	-	891,390
Depositors' accounts	51,860,160	4,433,656	221,729	1,500	56,517,045
Other liabilities	978,111	665,294	448,095	-	2,091,500
Tier 2 Wakala capital	-	-	-	2,207,408	2,207,408
Sukuk financing instruments	-	2,938,000	2,501,523	-	5,439,523
Total liabilities	53,339,194	8,427,417	3,171,347	2,208,908	67,146,866

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

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
31 December 2011					
LIABILITIES					
Due to financial institutions	**1,542,955**	**390,035**	**-**	**-**	**1,932,990**
Depositors' accounts	**50,320,410**	**4,445,331**	**486,957**	**1,957**	**55,254,655**
Other liabilities	**827,788**	**588,768**	**446,201**	**-**	**1,862,757**
Tier 2 Wakala capital	**-**	**-**	**2,764,779**	**-**	**2,764,779**
Sukuk financing instruments	**-**	**-**	**5,336,098**	**-**	**5,336,098**
Total liabilities	**52,691,153**	**5,424,134**	**9,034,035**	**1,957**	**67,151,279**
31 December 2010					
LIABILITIES					
Due to financial institutions	500,973	390,754	-	-	891,727
Depositors' accounts	51,906,626	4,510,188	232,014	2,002	56,650,830
Other liabilities	978,111	665,294	448,095	-	2,091,500
Tier 2 Wakala capital	-	-	-	2,853,075	2,853,075
Sukuk financing instruments	-	2,958,042	3,459,478	-	6,417,520
Total liabilities	53,385,710	8,524,278	4,139,587	2,855,077	68,904,652

The disclosed financial instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net.

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

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

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

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
2011					
Contingent liabilities	**8,605,755**	**2,082,969**	**417,300**	**3,146**	**11,109,170**
Commitments	**62,585**	**152,789**	**1,760,519**	**-**	**1,975,893**
Total	**8,668,340**	**2,235,758**	**2,177,819**	**3,146**	**13,085,063**
2010					
Contingent liabilities	4,688,822	1,680,027	1,886,109	-	8,254,958
Commitments	412,810	821,035	619,843	-	1,853,688
Total	5,101,632	2,501,062	2,505,952	-	10,108,646

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

43.4 Market risk

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

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

The trading market risk framework comprises of the following elements:

- Limit to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by the senior management.
- 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.

43 RISK MANAGEMENT continued

43.4.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability of 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 risk management strategies.

The effective profit rate (effective yield) of a monetary instrument is the rate that, when used in present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating instrument or an instrument carried at fair value.

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.

Currency	***Increase in basis points 2011***	***Sensitivity of profit on financial assets and liabilities AED '000***	*Increase in basis points 2010*	*Sensitivity of profit on financial assets and liabilities AED '000*
AED	**50**	**71,487**	50	80,657
USD	**50**	**(28,050)**	50	(6,021)
Euro	**50**	**516**	50	825
Other currencies	**50**	**936**	50	559

43.4.2 Currency risk

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

	% Increase currency rates	*Effect on net profit AED '000*	*Effect on equity AED '000*
31 December 2011			
Currency			
USD	**5**	**(116,547)**	**8,212**
Euro	**5**	**(3,216)**	**1,821**
Other currencies	**5**	**8,015**	**35,154**
31 December 2010			
Currency			
USD	5	(67,414)	33,648
Euro	5	(1,899)	1,620
Other currencies	5	5,707	37,404

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.2 Currency risk

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

	AED *AED '000*	*USD* *AED '000*	*Euro* *AED '000*	*GBP* *AED '000*	*Others* *AED '000*	*Total* *AED '000*
31 December 2011						
Assets						
Cash and balances with central banks	**10,926,829**	**279,875**	**170**	**27**	**244**	**11,207,145**
Balances and wakala deposits with Islamic banks and other financial institutions	**1,504,400**	**957,325**	**32,746**	**2,764**	**18,136**	**2,515,371**
Murabaha and mudaraba with financial institutions	**1,500,731**	**2,678,306**	**652,644**	**215,069**	**169,751**	**5,216,501**
Murabaha and other Islamic financing	**20,920,206**	**2,357,697**	**86,840**	**815**	**1**	**23,365,559**
Ijara financing	**21,642,791**	**3,810,527**	**-**	**-**	**12,464**	**25,465,782**
Investments	**734,923**	**899,591**	**102**	**-**	**17,989**	**1,652,605**
Investment in associates	**127,633**	**-**	**36,312**	**-**	**687,558**	**851,503**
Other assets	**(916,834)**	**1,347,538**	**1,740**	**-**	**(26,954)**	**405,490**
	56,440,679	**12,330,859**	**810,554**	**218,675**	**879,189**	**70,679,956**
Liabilities						
Due to financial institutions	**858,091**	**466,696**	**411,827**	**182,582**	**12,230**	**1,931,426**
Depositors' accounts	**45,630,631**	**9,146,904**	**355,754**	**35,153**	**3,341**	**55,171,783**
Other liabilities	**1,497,372**	**293,334**	**70,882**	**189**	**980**	**1,862,757**
Tier 2 wakala capital	**2,207,408**	**-**	**-**	**-**	**-**	**2,207,408**
Sukuk financing instruments	**-**	**4,590,625**	**-**	**-**	**-**	**4,590,625**
	50,193,502	**14,497,559**	**838,463**	**217,924**	**16,551**	**65,763,999**
31 December 2010						
Assets						
Cash and balances with central banks	5,183,368	216,887	30	2	48	5,400,335
Balances and wakala deposits with Islamic banks and other financial institutions	1,754,931	1,111,158	31,028	2,969	6,296	2,906,382
Murabaha and mudaraba with financial institutions	4,758,756	7,574,750	167,361	210,579	112,096	12,823,542
Murabaha and other Islamic financing	21,038,194	1,552,740	88,719	2,868	-	22,682,521
Ijara financing	21,400,362	3,815,838	-	-	53,871	25,270,071
Investments	585,263	993,695	104	-	60,352	1,639,414
Investment in associates	117,337	-	32,300	-	687,558	837,195
Other assets	219,208	201,413	20,370	-	830	441,821
	55,057,419	15,466,481	339,912	216,418	921,051	72,001,281
Liabilities						
Due to financial institutions	109,859	490,350	56,065	179,937	55,179	891,390
Depositors' accounts	46,347,084	9,901,370	233,890	32,780	1,921	56,517,045
Other liabilities	1,691,900	310,562	88,939	51	48	2,091,500
Tier 2 wakala capital	2,207,408	-	-	-	-	2,207,408
Sukuk financing instruments	-	5,439,523	-	-	-	5,439,523
	50,356,251	16,141,805	378,894	212,768	57,148	67,146,866

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.3 Equity price risk

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

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

	% Increase in market indices 2011	*Effect on net profit AED '000*
Investments carried at fair value through profit and loss		
Dubai Financial Market	**10**	**262**

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 (previously: available-for-sale investments) at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	% Increase in market indices 2011	*Effect on equity AED '000*
Investments carried at fair value through other comprehensive income		
Others	**10**	**1,553**

	% Increase in market indices 2010	*Effect on net profit AED '000*	*Effect on equity AED '000*
Held for trading investments			
Abu Dhabi Exchange	10	182	-
Dubai Financial Market	10	510	-
Available-for-sale investments			
Others	10	-	5,789

43.4.4 Operational risk

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

The Bank is developing and implementing a detailed operational risk framework in accordance with Basel II guidelines. The framework articulates clearly defined roles and responsibilities of individuals / units across different functions of the Bank involved in performing various operational risk management tasks. The Operational Risk Management Framework ensures that operational risks within the Bank are properly identified, monitored, reported and actively managed. Key elements of the framework include process mapping, management of an operational loss database, key risk indicators, regular business unit level self assessment, risk analysis and risk management reporting.

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.4 Operational risk continued

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operational risk in their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being actively identified, monitored and managed within their respective business units. The day-to-day operational risk is managed also through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedures to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning, which is regularly assessed and tested.

43.5 Capital management

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The Central Bank of the UAE vide circular No. 4004/2009 dated 30 August 2009, requires all banks operating in the UAE to maintain a risk asset ratio at a minimum of 12% (2010: 12%) at all times in which Tier 1 capital should not be less than 8% (2010: 8%) of the total risk weighted assets. In implementing current capital requirements of the Central Bank of the U.A.E, the Group maintains the required ratio of the regulatory capital to total risk weighted assets.

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

- Tier 1 capital, which includes ordinary share capital, retained earnings, translation reserve and non-controlling interest after deductions of goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment provisions on financing assets and the element of the fair value reserve relating to unrealised gains and losses on financial instruments classified as investments carried at fair value through other comprehensive income (previously: the fair value reserve relating to unrealised gains and losses on financial instruments classified as available-for-sale investments), gains or losses arising on translation of foreign operations and unrealised gains or losses arising on Sharia'a compliant financial instruments designated as cashflow hedges.

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

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

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

Furthermore, as required by the above circular, certain Basel II pillar 3 disclosures will be included in the annual report issued by the Bank for the year 2011.

43 RISK MANAGEMENT continued

43.5 Capital management continued

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2011 and 2010. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	Basel II	
	2011	*2010*
	AED '000	*AED '000*
Tier 1 capital		
Share capital	**2,364,706**	2,364,706
Legal reserve	**1,755,894**	1,754,899
General reserve	**585,921**	443,182
Retained earnings	**1,311,406**	984,069
Proposed dividends	**577,546**	511,783
Proposed dividends to charity	**1,028**	6,816
Tier 1 sukuk	**2,000,000**	2,000,000
Non-controlling interest	**2,609**	3,075
Total	**8,599,110**	8,068,530
Tier 2 capital		
Tier 2 wakala capital	**2,207,408**	2,207,408
Cumulative changes in fair value	**(171,043)**	(92,040)
Collective impairment provision for financing assets	**757,312**	575,344
Total	**2,793,677**	2,690,712
Total tier 1 and tier 2 capital	**11,392,787**	10,759,242
Deductions for Tier 1 and Tier 2 capital	**(851,503)**	(837,195)
Total capital base	**10,541,284**	9,922,047
Risk weighted assets		
Credit risk	**56,137,854**	58,320,901
Market risk	**1,240,708**	1,008,157
Operational risk	**3,247,006**	2,565,177
Total risk weighted assets	**60,625,568**	61,894,235
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**17.39%**	16.03%
Tier 1 capital expressed as a percentage of total risk weighted assets	**14.18%**	13.04%

44 FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted investments – at fair value
Quoted investments represent marketable equities and sukuk that are measured at fair value. The fair values of these investments are based on quoted prices as of the reporting date. For investments carried at fair value through other comprehensive income (previously: available-for-sale investments), 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 in associates (note 21) and available-for-sale investments that are carried at cost (note 20)), since those financial assets and liabilities are either short term in nature or in the case of deposits and financing asset, are frequently repriced. The fair value of investments carried at amortised cost is disclosed below.

Fair value of investments - at amortised cost

	Carrying amount AED '000	*Fair value AED '000*
31 December 2011		
Amortised cost investments - sukuk (as per IFRS 9 (note 20))	**440,409**	**421,525**
31 December 2010		
Held to maturity investments - sukuk (as per IAS 39 (note 20))	135,450	141,971

Fair value measurement recognized in the consolidated statement of financial position
The Group uses the following hierarchy for determining and disclosing the fair value of financial instrument by valuation technique:

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

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

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

44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

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

	Level 1 AED '000	*Level 2 AED '000*	*Level 3 AED '000*	*Total AED '000*
31 December 2011				
Financial assets				
Investments carried at fair value through profit and loss				
Equities	**2,625**	-	-	**2,625**
Sukuk	**846,361**	-	-	**846,361**
	848,986	-	-	**848,986**
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	**16,454**	-	-	**16,454**
Unquoted investments				
Funds	-	-	**174,723**	**174,723**
Private equities	-	-	**172,033**	**172,033**
	-	-	**346,756**	**346,756**
	16,454	-	**346,756**	**363,210**
Financial liabilities				
Shari'a compliant alternatives of swap (note 28)	-	**19,578**	-	**19,578**
31 December 2010				
Financial assets				
Held for trading investments (as per IAS 39)				
Equities	6,920	-	-	6,920
Sukuk	329,353	-	-	329,353
	336,273	-	-	336,273
Available-for-sale investments (as per IAS 39)				
Quoted investments				
Equities	58,817	-	-	58,817
Sukuk	604,280	-	-	604,280
	663,097	-	-	663,097
Unquoted investments				
Funds	-	-	140,110	140,110
Private equities	-	-	276,549	276,549
	-	-	416,659	416,659
	999,370	-	416,659	1,416,029
Financial liabilities				
Shari'a compliant alternatives of swap (note 28)	-	8,642	-	8,642

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

44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

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

	2011	*2010*
	AED '000	*AED '000*
At 1 January	**416,659**	393,575
Transition adjustment on adoption of IFRS 9	**27,493**	-
Net (disposals) purchases	**(32,221)**	73,149
Impairment loss on available-for-sale investments	**-**	(23,081)
Losses recorded in equity	**(65,175)**	(26,984)
At 31 December	**346,756**	416,659

45 SUBSEQUENT EVENT

On 9 January 2012, the Bank acquired an installment house in the Kingdom of Saudi Arabia for a total cash consideration of SAR 56,000 thousand (AED 54,846 thousand). This acquisition has been approved by the Saudi Arabia regulatory authorities. The acquisition provides opportunities for the Bank to grow its business and create one of the affluent businesses in the Kingdom of Saudi Arabia.

46 COMPARATIVE INFORMATION

Following comparatives were reclassified to conform to the current period presentation. The reclassification has no effect on the previously reported profit or equity of the Group:

An amount of AED 89,522 thousand has been re-classified from "distribution to investment accounts by financial institutions" and has been included in "distribution to sukuk holders and Tier 2 wakala capital" in note 13 to the consolidated financial statements.

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED FINANCIAL STATEMENTS

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31 December 2010

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, 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 a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Bank and the UAE Commercial Companies Law of 1984 (as amended), 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements
We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Bank; proper books of account have been kept by the Bank; and the contents of the Chairman's Report relating to these consolidated financial statements are consistent with the books of account. We further report that we have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Bank or on its financial position.

Ernst & Young

Signed by
Richard Mitchell
Partner
Ernst & Young
Registration No. 446

14 February 2011
Abu Dhabi

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2010

	Notes	**2010 AED '000**	2009 AED '000
OPERATING INCOME			
Income from murabaha, mudaraba and wakala with financial institutions		**187,719**	344,484
Income from murabaha, mudaraba, ijara and other Islamic financing	5	**3,453,005**	2,742,044
Investment income	6	**75,699**	39,498
Share of results of associates	21	**14,798**	(3,219)
Fees and commission income, net	7	**343,325**	198,574
Foreign exchange income		**29,071**	38,950
Income from investment properties	8	**5,265**	38,900
Income from development properties	9	**(4,300)**	99,845
Other income		**14,441**	(851)
		4,119,023	3,498,225
OPERATING EXPENSES			
Employees' costs	10	**(792,815)**	(634,029)
General and administrative expenses	11	**(431,210)**	(306,104)
Depreciation	22 & 25	**(77,215)**	(53,279)
Provision for impairment, net	12	**(749,212)**	(1,448,819)
		(2,050,452)	(2,442,231)
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS		**2,068,571**	1,055,994
Distribution to depositors and sukuk holders	13	**(1,045,006)**	(977,968)
PROFIT FOR THE YEAR		**1,023,565**	78,026
Attributable to:			
Equity holders of the Bank		**1,023,345**	77,778
Non-controlling interest	36	**220**	248
		1,023,565	78,026
Basic and diluted earnings per share attributable to ordinary shares (AED)	14	**0.382**	0.008

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2010

	Notes	***2010*** ***AED '000***	*2009* *AED '000*
PROFIT FOR THE YEAR		**1,023,565**	78,026
Other comprehensive income (loss)			
Net realised gain on sale of available-for-sale investments	34	**-**	(9,324)
Net gain (loss) on valuation of available-for-sale investments		**24,899**	(66,867)
Impairment on available-for-sale investments	12	**50,621**	-
Directors' remuneration paid		**(3,000)**	(3,000)
Exchange differences arising on translation of foreign operations	34	**(6,375)**	1,724
Fair value loss on cash flow hedge	34	**(2,566)**	(6,076)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**63,579**	(83,543)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**1,087,144**	(5,517)
Attributable to:			
Equity holders of the Bank		**1,086,924**	(5,768)
Non-controlling interest		**220**	251
		1,087,144	(5,517)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2010

	Notes	2010 AED '000	2009 AED '000
ASSETS			
Cash and balances with central banks	15	**5,400,335**	3,330,948
Balances and wakala deposits with Islamic banks and other financial institutions	16	**2,906,382**	2,467,919
Murabaha and mudaraba with financial institutions	17	**12,823,542**	12,189,945
Murabaha and other Islamic financing	18	**22,682,521**	20,910,890
Ijara financing	19	**25,270,071**	19,563,010
Investments	20	**1,639,414**	1,010,024
Investment in associates	21	**837,195**	738,132
Investment properties	22	**191,654**	206,761
Development properties	23	**1,050,445**	931,070
Other assets	24	**1,870,072**	2,356,480
Property and equipment	25	**585,887**	378,825
TOTAL ASSETS		**75,257,518**	64,084,004
LIABILITIES			
Due to financial institutions	26	**891,390**	1,278,518
Depositors' accounts	27	**56,517,045**	48,219,662
Other liabilities	28	**2,091,500**	2,295,880
Tier 2 wakala capital	29	**2,207,408**	2,207,408
Sukuk financing instruments	30	**5,439,523**	2,938,000
Total liabilities		**67,146,866**	56,939,468
EQUITY			
Share capital	31	**2,364,706**	1,970,588
Legal reserve	32	**1,754,899**	1,754,475
General reserve	32	**443,182**	321,297
Retained earnings		**984,069**	724,632
Proposed dividends	33	**511,783**	394,118
Proposed dividends to charity		**6,816**	1,028
Other reserves	34	**42,122**	(24,457)
Equity attributable to the equity holders of the Bank		**6,107,577**	5,141,681
Tier 1 sukuk	35	**2,000,000**	2,000,000
Non-controlling interest	36	**3,075**	2,855
Total equity		**8,110,652**	7,144,536
TOTAL LIABILITIES AND EQUITY		**75,257,518**	64,084,004
CONTINGENT LIABILITIES AND COMMITMENTS	37	**12,156,042**	14,449,339

H.E. Jawaan Awaidha Al Khaili
Chairman

Tirad M. Mahmoud
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2010

		Attributable to the equity holders of the Bank										
	Notes	*Share capital AED '000*	*Legal reserve AED '000*	*General reserve AED '000*	*Retained earnings AED '000*	*Proposed dividends AED '000*	*Proposed dividends to charity AED '000*	*Other reserves AED '000*	*Total AED '000*	*Tier 1 sukuk AED '000*	*Non-controlling interest AED '000*	*Total equity AED '000*
Balance at 1 January 2009		1,970,588	1,753,990	309,704	1,117,078	425,631	1,028	56,089	5,634,108	-	2,604	5,636,712
Total comprehensive income (loss)		-	-	-	74,778	-	-	(80,546)	(5,768)	-	251	(5,517)
Tier 1 sukuk issued to Government of Abu Dhabi	35	-	-	-	-	-	-	-	-	2,000,000	-	2,000,000
Profit paid on Tier 1 sukuk	35	-	-	-	(60,000)	-	-	-	(60,000)	-	-	(60,000)
Dividends paid	33	-	-	-	-	(425,631)	-	-	(425,631)	-	-	(425,631)
Dividends paid to charity		-	-	-	-	-	(1,028)	-	(1,028)	-	-	(1,028)
Transfer to reserves	32	-	485	11,593	(12,078)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	(1,028)	-	1,028	-	-	-	-	-
Proposed bonus share dividend to shareholders	33	-	-	-	(394,118)	394,118	-	-	-	-	-	-
Balance at 1 January 2010		1,970,588	1,754,475	321,297	724,632	394,118	1,028	(24,457)	5,141,681	2,000,000	2,855	7,144,536
Total comprehensive income		-	-	-	1,020,345	-	-	66,579	1,086,924	-	220	1,087,144
Profit paid on Tier 1 sukuk	35	-	-	-	(120,000)	-	-	-	(120,000)	-	-	(120,000)
Dividends paid	33	394,118	-	-	-	(394,118)	-	-	-	-	-	-
Dividends paid to charity		-	-	-	-	-	(1,028)	-	(1,028)	-	-	(1,028)
Transfer to reserves	32	-	424	121,885	(122,309)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	(6,816)	-	6,816	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	(511,783)	511,783	-	-	-	-	-	-
Balance at 31 December 2010		**2,364,706**	**1,754,899**	**443,182**	**984,069**	**511,783**	**6,816**	**42,122**	**6,107,577**	**2,000,000**	**3,075**	**8,110,652**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2010

	Notes	2010 AED '000	2009 AED '000
OPERATING ACTIVITIES			
Profit for the year		**1,023,565**	78,026
Adjustments for:			
Depreciation on investment properties	22	**4,022**	4,644
Depreciation on property and equipment	25	**73,193**	48,635
Share of results of associates	21	**(14,798)**	3,219
Dividend income	6	**(949)**	(7,366)
Realised gain on sale of available-for-sale investments	6	**(25)**	(11,288)
Unrealised gain on held for trading investments	6	**(3,028)**	-
Realised (gain) loss on sale of held for trading investments	6	**(2,205)**	5,378
(Gain) loss on disposal of property and equipment		**(29)**	48
Provision for impairment, net	12	**749,212**	1,448,819
Gain on sale of investment properties	8	**-**	(40,738)
Gain on sale of development properties	9	**(33,603)**	(143,474)
Operating profit before changes in operating assets and liabilities		**1,795,355**	1,385,903
Purchase of certificate of deposits	15	**(900,089)**	-
Increase in balances and wakala deposits with Islamic banks and other financial institutions		**(53,912)**	(200,028)
Decrease (increase) in murabaha and mudaraba with financial institutions		**2,702,632**	(3,671,022)
Increase in murabaha and other Islamic financing		**(2,330,190)**	(3,533,873)
Increase in ijara financing		**(5,705,764)**	(3,923,875)
Purchase of held for trading investments		**(2,125,426)**	-
Proceeds from sale of held for trading investments		**1,794,386**	-
Decrease (increase) in other assets		**307,609**	(340,089)
Decrease in due to financial institutions		**(15,518)**	(369,642)
Increase in depositors' accounts		**8,297,383**	12,940,824
(Decrease) increase in other liabilities		**(204,404)**	693,454
Cash from operations		**3,562,062**	2,981,652
Directors' remuneration paid		**(3,000)**	(3,000)
Net cash from operating activities		**3,559,062**	2,978,652
INVESTING ACTIVITIES			
Dividend received		**949**	7,366
Purchase of available-for-sale investments		**(329,448)**	(299,950)
Proceeds from sale of available-for-sale investments		**61,255**	371,050
Investment in associates		**(90,640)**	(82,821)
Proceeds from liquidation of an associate		-	140,280
Additions to investment properties		-	(3,644)
Proceeds from sale of investment properties		-	53,192
Additions to development properties	23	**(75,800)**	(433,144)
Proceeds from sale of development properties	9	**77,485**	349,368
Purchase of property and equipment	25	**(280,255)**	(106,065)
Proceeds from disposal of property and equipment		**29**	106
Net cash used in investing activities		**(636,425)**	(4,262)
FINANCING ACTIVITIES			
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	35	**(120,000)**	(60,000)
Proceeds from issuance of Tier 1 sukuk to Government of Abu Dhabi		-	2,000,000
Proceeds from the issuance of sukuk (second issue)	30	**2,754,375**	-
Repurchase of sukuk (second issue)	30	**(252,852)**	-
Dividends paid		**(2,542)**	(402,611)
Dividends paid to charity		**(1,028)**	(1,028)
Net cash from financing activities		**2,377,953**	1,536,361
INCREASE IN CASH AND CASH EQUIVALENTS		**5,300,590**	4,510,751
Cash and cash equivalents at 1 January		**10,655,313**	6,144,562
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	40	**15,955,903**	10,655,313

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

Profit received		**3,454,570**	2,706,034
Profit paid to depositors and sukuk holders	13	**797,399**	760,527

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

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

The 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, 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 66 branches in the UAE. The consolidated financial statements combine the activities of the Bank's head office, its branches, subsidiaries and its associates.

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 issued by the Board of Directors on 14 February 2011.

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 consists of the purchasing 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 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 enables the borrower to use the borrowed amounts for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

Musharaka
A contract between the Group and a customer to enter 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.

2 DEFINITIONS continued

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 UAE Federal Law No. 8 of 1984 (as amended).

3.1.b Accounting convention
The consolidated financial statements have been prepared under the historical cost convention except for held for trading investments, available-for-sale investments, Shari'a compliant alternatives of derivative financial instruments which have been measured at fair value and land which has been carried at re-valued amount.

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

3.1.c Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and those of its following subsidiaries:

	Activity	*Country of incorporation*	*Percentage of holding* **2010**	*2009*
Abu Dhabi Islamic Securities Company LLC	Equity brokerage services	United Arab Emirates	**95%**	95%
Burooj Properties LLC	Real estate investments	United Arab Emirates	**100%**	100%
ADIB Invest 1	Equity brokerage services	BVI	**100%**	100%
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	-	-
Kawader Services Company LLC	Manpower supply	United Arab Emirates	**100%**	100%

A subsidiary is an entity over which the Bank exercises control, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from its activities. 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 Bank does not have any direct holding in ADIB Sukuk Company Ltd and is considered to be a subsidiary by virtue of control.

3 BASIS OF PREPARATION continued

3.1.c Basis of consolidation continued

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 profits and losses resulting from intra-group transactions are eliminated in full.

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

3.2 CHANGES IN ACCOUNTING POLICIES

During the year, the Group has adopted the following new and amended IFRS interpretations as of or after 1 January 2010.

- IFRS 3 *Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009
- IFRIC 17 *Distributions of Non-cash Assets* to Owners effective 1 July 2009
- Improvements to IFRSs (May 2008 and April 2009)

The principal effects of these changes are as follows:

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements(Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

3 BASIS OF PREPARATION continued

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards / amendments to standards which were issued up to 31 December 2010 and are not yet effective for the year ended 31 December 2010 have not been applied while preparing these consolidated financial statements:

IAS 24 Related Party Disclosures (Amendment)
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets.

Management anticipates that these amendments will be adopted in the Group's consolidated financial statements for the period when they become effective. Management is in the process of assessing the potential impact of the adoption of these standards.

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.

Impairment losses on financing assets
The Group reviews its financing assets on a regular basis to assess whether a provision for impairment should be recorded in the consolidated income 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 individually impaired provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES

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

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

Impairment of equity investments
The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is ‘significant’ or ‘prolonged’ requires judgment for which management takes into consideration, amongst other factors, share price volatility for quoted equities and the underlying asset base of the investee companies for unquoted equities.

Classification of held-to-maturity investments
The Group follows the guidance of IAS 39: *Financial Instruments: Recognition and Measurement* on classifying financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances, it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

Operating lease commitments - Group as lessor
The Group has entered into commercial property leases 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 and so accounts for the contracts as operating leases.

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

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

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

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

Impairment of investments in associates
Management regularly reviews its investment in associates 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. The difference between the estimated recoverable amount and the carrying value of investment in associate is recognised as an expense in the consolidated income statement.

Impairment review of investment properties and advances paid against purchase of properties
Investment 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 discounting 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 probable impairment.

4 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued
Musharaka
Income is accounted for on the basis of the reducing balance 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 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 delivery to the buyer takes place.

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

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

Gain on sale of investments
Gain or loss on disposal of trading 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. Gain or loss on disposal of available-for-sale investments represents the difference between sale proceeds and their original cost less associated selling costs.

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 books.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments
(i) Classification
The Group classifies its financial instruments in the following categories: Financial assets and financial liabilities at fair value through profit or loss, Murabaha, Ijara, Mudaraba, and certain other Islamic financing, available-for-sale investments and held to maturity investments. Management determines the classification of financial instruments at the time of initial recognition.

Financial assets or financial liabilities at fair value through profit or loss
This category has two sub-categories: financial assets or financial liabilities held for trading and those designated at fair value through profit or loss at inception. A financial asset or financial liability is classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short term. The Group has designated financial assets and liabilities at fair value through profit or loss when either the assets and liabilities are managed, evaluated and reported internally on a fair value basis; or the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

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

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

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

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 less any provisions for impairment and deferred income.

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.

Held to maturity
Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity and the Group's management has the positive intention and the ability to hold to maturity.

Available-for-sale
Financial assets that are not classified under any other category of financial assets are classified as available-for-sale.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued

(ii) Recognition / De-recognition

The Group initially recognises financial assets held for trading, financial assets at fair value through profit or loss, financial assets held to maturity and financial assets available-for-sale on the trade 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 originated. A financial liability is recognised on the date the Group becomes a party to contractual provisions of the instruments.

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, assets held for trading and assets available-for-sale 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.

(iii) Measurement

Financial assets and liabilities are measured initially at fair value plus, in case of a financial asset or financial liability or at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from a change in the fair value of assets at fair value through profit or loss account are recorded directly in the consolidated income statement.

Financial assets which are classified as available-for-sale are measured at fair value. Unrealised gains and losses on measurement to fair value of assets are recognised in the statement of other comprehensive income reported as a separate component of equity until the assets is sold or otherwise disposed of, or the assets is determined to be impaired, at which the cumulative gains of losses previously recognised through the statement of other comprehensive income are included in the consolidated income statement. For investments in equity instruments, where a reasonable estimate of the fair value cannot be determined, the investment is carried at cost less impairment allowance, if any.

All financial assets or liabilities at amortised cost, customer financing and held-to-maturity investments 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.

(iv) Fair value measurement principles

For investments quoted in active market, fair value is determined by reference to quoted market prices. The fair values of investments in funds or similar investment vehicles are based on the last net asset value published by the fund manager. 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 transactions
- option pricing models

The estimated fair value of deposits with no stated maturity, which includes non-profit bearing deposits, is the amount payable on demand.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued
(v) 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 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.

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

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

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

Held to maturity investments
Impairment losses on held to maturity investments carried at amortised cost are measured as the difference between the carrying amount and the present value of estimated cash flows discounted at the original profit rate. Impairment losses are recognised in the consolidated income statement and reflected in an allowance account against such financial assets. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated income statement.

Available-for-sale investments
Impairment losses on available-for-sale investments are recognised by transferring the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in consolidated income statement out of equity to the consolidated income statement. Impairment losses recognised on equity instruments are not reversed through the consolidated income statement.

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 asset's 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

4 SIGNIFICANT ACCOUNTING POLICIES continued

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 statement of reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Investment 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 20 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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment
Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Land is recorded at the 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	20 years
• Furniture and leasehold improvements	7 years
• Computer and office equipment	4 years
• Motor vehicles	4 years

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

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

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

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

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

Provisions and contingent liabilities
Provisions are 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.

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

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.

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

Zakat
Zakat is computed in accordance with the Articles and Memorandum of Association of the Bank and is approved by the Fatwa and Shari'a Supervisory Board. As stated in the Articles and Memorandum of Association of the Bank, it is the responsibility of the shareholders to pay Zakat due on their investment.

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

In accordance with the Memorandum of Association, the Group communicates the amount of Zakat per share and it is the responsibility of each shareholder to dispose personally his/her own Zakat (note 39).

Profit distribution
Profits or losses of Mudaraba based 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 can be reserved as "Profit Equalization Reserve" and shall be subsequently utilized in order to maintain certain level of profit distribution to the account holders.

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

Foreign currencies
The Group's consolidated financial statements are presented in AED, which is the Bank's functional currency. That is the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position 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 statement of financial position date and their income statement is translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount 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.

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

	2010 ***AED '000***	*2009* *AED '000*
Vehicle murabaha	**615,974**	538,213
Goods murabaha	**255,916**	291,459
Share murabaha	**494,955**	260,797
Commodities murabaha – Al Khair	**233,357**	178,515
Other murabaha	**67,248**	99,167
Total murabaha	**1,667,450**	1,368,151
Mudaraba	**189,871**	167,742
Ijara	**1,408,323**	1,078,333
Islamic covered cards	**158,448**	98,686
Istisna'a	**28,913**	29,132
	3,453,005	2,742,044

6 INVESTMENT INCOME

	2010 ***AED '000***	*2009* *AED '000*
Income from Islamic sukuk	**36,272**	22,703
Income from other investment assets	**33,220**	3,519
Dividend income	**949**	7,366
Realised gain on sale of available-of-sale investments	**25**	11,288
Realised gain (loss) on sale of held for trading investments	**2,205**	(5,378)
Unrealised gain on held for trading investments	**3,028**	-
	75,699	39,498

7 FEES AND COMMISSION INCOME, NET

	2010 ***AED '000***	*2009* *AED '000*
Fees and commission income:		
Fees and commission income on cards	**142,160**	84,470
Trade related fees and commission	**61,646**	50,377
Accounts services fees	**66,296**	35,777
Projects and property management fees	**40,129**	29,428
Risk participation and arrangement fees	**30,277**	7,237
Brokerage fees and commission	**17,370**	22,015
Other fees and commissions	**49,695**	46,577
Total fees and commission income	**407,573**	275,881
Fees and commission expenses:		
Card related expenses	**(47,639)**	(35,380)
Other fees and commission expenses	**(16,609)**	(41,927)
Total fees and commission expenses	**(64,248)**	(77,307)
Fees and commission income, net	**343,325**	198,574

8 INCOME FROM INVESTMENT PROPERTIES

	2010	*2009*
	AED '000	*AED '000*
Proceeds from sale of investment properties	**-**	53,192
Less: carrying amount as of the date of sale	**-**	(12,454)
Gain on sale of investment properties	**-**	40,738
Rental income	**5,265**	5,432
Other direct expenses	**-**	(7,270)
	5,265	38,900

9 INCOME FROM DEVELOPMENT PROPERTIES

	2010	*2009*
	AED '000	*AED '000*
Revenue from sale of development properties	**77,485**	349,368
Less: cost of properties sold	**(43,882)**	(205,894)
Gain on sale of development properties	**33,603**	143,474
Provision for rent guarantee	**(37,903)**	(21,121)
Other direct expenses	**-**	(22,508)
	(4,300)	99,845

Provision for rent guarantee represents provision against the minimum rental income guaranteed by a subsidiary of the Bank to the buyers of properties at the time of sale. Rent guarantee is computed as the difference between guaranteed and expected rent as of the reporting date.

10 EMPLOYEES' COSTS

	2010	*2009*
	AED '000	*AED '000*
Salaries and wages	**720,569**	581,518
End of service benefits	**45,351**	32,812
Other staff expenses	**26,895**	19,699
	792,815	634,029

11 GENERAL AND ADMINISTRATIVE EXPENSES

	2010 AED '000	2009 AED '000
Legal and professional expenses	**96,596**	59,283
Premises expenses	**116,181**	92,048
Marketing and advertising expenses	**95,518**	73,443
Communication expenses	**41,750**	21,313
Technology related expenses	**21,143**	14,588
Other operating expenses	**60,022**	45,429
	431,210	306,104

12 PROVISION FOR IMPAIRMENT, NET

	Notes	2010 AED '000	2009 AED '000
Murabaha and mudaraba with financial institutions	17	**38,902**	186,298
Murabaha and other Islamic financing	18	**558,559**	961,301
Ijara financing	19	**(1,297)**	201,163
Investments, net	20	**50,621**	57,629
Investment properties	22	**18,082**	-
Other assets	24	**84,345**	42,428
		749,212	1,448,819

The above provision for impairment includes AED 119,458 thousand (2009: AED 40,864 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank and reversal of AED 100 thousand (2009: Charge of AED 3,007 thousand) pertaining to Abu Dhabi Islamic Securities Company LLC, an equity brokerage subsidiary of the Bank.

13 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

	2010 AED '000	2009 AED '000
Depositors and sukuk holders share of profit for the year	**1,045,006**	977,968
Less: pertaining to depositors' profit equalisation reserve (note 27)	**(15,194)**	(49,594)
	1,029,812	928,374
Less: paid during the year	**(797,399)**	(760,527)
Depositors and sukuk holders share of profit payable (note 28)	**232,413**	167,847

Share of profits distributable to customers and financial institutions are as follows:

	2010 AED '000	2009 AED '000
Saving accounts	**83,919**	81,669
Investment accounts by customers	**547,387**	423,095
Investment accounts by financial institutions	**367,431**	427,479
Sukuk holders	**46,269**	45,725
	1,045,006	977,968

14 BASIC AND DILUTED EARNINGS PER SHARE

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

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

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

	Notes	***2010***	*2009*
Profit for the year attributable to equity holders (AED '000)		**1,023,345**	77,778
Less: profit attributable to Tier 1 sukuk holder (AED '000)	35	**(120,000)**	(60,000)
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000)		**903,345**	17,778
Weighted average number of ordinary shares in issue at 1 January (000's)		**1,970,588**	1,970,588
Effect of bonus shares issued (000's)	33	**394,118**	394,118
Weighted average number of ordinary shares in issue at 31 December (000's)		**2,364,706**	2,364,706
Basic and diluted earnings per share (AED)		**0.382**	0.008

In 2010 and 2009, the Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised.

15 CASH AND BALANCES WITH CENTRAL BANKS

	2010 ***AED '000***	*2009* *AED '000*
Cash on hand	**738,396**	400,315
Balances with central banks:		
- Current accounts	**141,202**	41,243
- Statutory reserve	**3,620,648**	2,889,390
- Islamic certificate of deposits	**900,089**	-
	5,400,335	3,330,948

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

15 CASH AND BALANCES WITH CENTRAL BANKS continued

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

	2010 *AED '000*	*2009* *AED '000*
UAE	**5,374,627**	3,305,240
Middle East	**25,708**	25,708
	5,400,335	3,330,948

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

	2010 *AED '000*	*2009* *AED '000*
Current accounts	**108,249**	78,410
Wakala deposits	**2,798,133**	2,389,509
	2,906,382	2,467,919

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:

	2010 *AED '000*	*2009* *AED '000*
UAE	**2,264,096**	2,281,180
Middle East	**4,509**	4,483
Europe	**34,305**	62,728
Others	**603,472**	119,528
	2,906,382	2,467,919

17 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	2010 *AED '000*	*2009* *AED '000*
Murabaha	**12,748,177**	11,957,576
Mudaraba	**265,675**	418,667
	13,013,852	12,376,243
Less: provision for impairment	**(190,310)**	(186,298)
	12,823,542	12,189,945

17 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS continued

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

	2010 *AED '000*	*2009* *AED '000*
At 1 January	**186,298**	-
Charge for the year (note 12)	**38,902**	186,298
Written off during the year	**(34,890)**	-
At 31 December	**190,310**	186,298

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

	2010 *AED '000*	*2009* *AED '000*
UAE	**12,193,125**	11,565,133
Middle East	**230,270**	324,292
Europe	**367,421**	228,939
Others	**223,036**	257,879
	13,013,852	12,376,243

18 MURABAHA AND OTHER ISLAMIC FINANCING

	2010 *AED '000*	*2009* *AED '000*
Vehicle murabaha	**7,904,499**	8,022,334
Goods murabaha	**4,168,262**	4,893,373
Share murabaha	**7,644,552**	4,381,695
Commodities murabaha – Al Khair	**3,654,793**	2,781,555
Other murabaha	**2,295,820**	2,178,763
Total murabaha	**25,667,926**	22,257,720
Mudaraba	**2,763,970**	2,692,246
Islamic covered cards	**4,004,584**	3,226,955
Istisna'a	**301,219**	277,656
Other financing receivables	**116,809**	96,521
Total murabaha and other Islamic financing	**32,854,508**	28,551,098
Less: deferred income	**(8,274,397)**	(6,270,053)
	24,580,111	22,281,045
Less: provision for impairment	**(1,897,590)**	(1,370,155)
	22,682,521	20,910,890

18 MURABAHA AND OTHER ISLAMIC FINANCING continued

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

	2010			2009		
	Individual impairment AED '000	***Collective impairment AED '000***	***Total AED '000***	*Individual impairment AED '000*	*Collective impairment AED '000*	*Total AED '000*
At 1 January	**1,088,461**	**281,694**	**1,370,155**	337,351	72,271	409,622
Charge for the year (note 12)	**551,230**	**7,329**	**558,559**	751,878	209,423	961,301
Written off during the year	**(31,124)**	**-**	**(31,124)**	(768)	-	(768)
At 31 December	**1,608,567**	**289,023**	**1,897,590**	1,088,461	281,694	1,370,155

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

	2010 AED '000	*2009 AED '000*
Segment and industry sector:		
Wholesale banking		
Government	**242,115**	357,719
Public sector	**89,294**	41,889
Corporates	**5,743,157**	5,482,045
Financial institutions	**614,920**	544,832
	6,689,486	6,426,485
Retail banking		
Individuals	**15,848,819**	13,719,298
Small and medium enterprises	**468,492**	511,199
	16,317,311	14,230,497
Private banking		
Individuals	**1,573,314**	1,624,063
	24,580,111	22,281,045
Geographic region:		
UAE	**23,387,881**	20,972,629
Middle East	**783,656**	819,356
Europe	**377,757**	421,544
Others	**30,817**	67,516
	24,580,111	22,281,045

19 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 include a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

	2010 **AED '000**	2009 AED '000
The aggregate future lease receivables are as follows:		
Due within one year	**6,371,984**	4,335,846
Due in the second to fifth year	**16,739,421**	13,118,485
Due after five years	**8,789,073**	7,770,981
Total ijara financing	**31,900,478**	25,225,312
Less: deferred income	**(6,251,307)**	(5,281,659)
Net present value of minimum lease payments receivable	**25,649,171**	19,943,653
Less: provision for impairment	**(379,100)**	(380,643)
	25,270,071	19,563,010

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

	2010			2009		
	Individual impairment AED '000	***Collective impairment AED '000***	***Total AED '000***	*Individual impairment AED '000*	*Collective impairment AED '000*	*Total AED '000*
At 1 January	**144,737**	**235,906**	**380,643**	117,278	62,376	179,654
Charge for the year (note 12)	**(51,712)**	**50,415**	**(1,297)**	27,633	173,530	201,163
Written off during the year	**(246)**	**-**	**(246)**	(174)	-	(174)
At 31 December	**92,779**	**286,321**	**379,100**	144,737	235,906	380,643

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

	2010 **AED '000**	2009 AED '000
Segment and industry sector:		
Wholesale banking		
Government	**119,191**	45,378
Public sector	**2,173,962**	1,296,053
Corporates	**9,589,736**	6,851,614
Financial institutions	**827,682**	1,015,168
	12,710,571	9,208,213
Retail banking		
Individuals	**6,710,866**	4,806,702
Small and medium enterprises	**240,141**	295,801
	6,951,007	5,102,503

19 IJARA FINANCING continued

	2010 *AED '000*	*2009* *AED '000*
Private banking		
Individuals	**5,856,941**	5,540,156
Non-profit organisations	**130,652**	92,781
	5,987,593	5,632,937
	25,649,171	19,943,653
Geographic region:		
UAE	**24,774,860**	18,957,534
Middle East	**20,890**	26,112
Others	**853,421**	960,007
	25,649,171	19,943,653

20 INVESTMENTS

	2010 *AED '000*	*2009* *AED '000*
Held for trading		
Equities	**6,920**	-
Sukuk	**329,353**	-
	336,273	-
Available-for-sale		
Quoted investments		
Equities	**58,817**	925
Sukuk	**604,280**	298,555
	663,097	299,480
Unquoted investments		
Funds	**223,322**	210,445
Private equities	**281,272**	311,119
Musharaka	**-**	53,900
	504,594	575,464
Total available-for-sale investments	**1,167,691**	874,944
Held to maturity		
Sukuk	**135,450**	135,080
Total investments	**1,639,414**	1,010,024

Investments in private equity funds represent investments made in funds and limited partnerships to fund primary investment commitments in target companies with the objective of generating returns outperforming the public equity markets.

20 INVESTMENTS continued

All unquoted available for sale equities are recorded at their fair values except for investments amounting to AED 87,935 thousand (2009: AED 181,889 thousand) which are recorded at cost since their fair values cannot be reliably estimated. There is no active market for these investments and the Group intends to hold them for the long term.

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

	2010 *AED '000*	*2009* *AED '000*
At 1 January	**57,770**	129,479
Charge for the year (note 12)	**50,621**	57,629
Reversal of provision	**-**	(129,338)
At 31 December	**108,391**	57,770

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

	2010	*2009*
UAE	**1,147,659**	816,101
Middle East	**465,031**	224,417
Europe	**104**	-
Others	**135,011**	27,276
	1,747,805	1,067,794

21 INVESTMENT IN ASSOCIATES

	2010 *AED '000*	*2009* *AED '000*
Cost of investment in associates	**861,273**	770,633
Share of results	**(4,860)**	(19,658)
Foreign currency translation (note 34)	**13,565**	19,940
	869,978	770,915
Less: provision for impairment	**(32,783)**	(32,783)
	837,195	738,132

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

Name of associate	*Place of incorporation*	*Proportion of ownership interest and voting power* 2010 %	2009 %	*Principal activity*
Abu Dhabi National Takaful PJSC	UAE	**40**	40	Islamic insurance
BBI Leasing and Real Estate D.O.O	Bosnia	**32**	32	Islamic leasing and real estate
Bosna Bank International D.D	Bosnia	**27**	27	Islamic banking
National Bank for Development	Egypt	**49**	49	Banking (under conversion to Islamic bank)

21 INVESTMENT IN ASSOCIATES continued

Summarised financial information of investment in associates is set out below:

	2010 *AED '000*	2009 *AED '000*
Share of associates' statement of financial position		
Assets	**3,634,996**	3,030,807
Liabilities	**(3,879,386)**	(3,562,482)
Net assets	**(244,390)**	(531,675)
Share of associates' revenue and profits (losses):		
Revenue for the year	**105,110**	29,327
Profit (loss) for the year	**14,798**	(3,219)

As of 31 Dec 2010, the Bank's share of the contingent liabilities and commitments of associates amounted to AED 155,040 thousand (2009: AED 166,836 thousand).

The distribution of the gross investment in associates by geographic region was as follows:

	2010 *AED '000*	2009 *AED '000*
UAE	**117,337**	106,091
Europe	**65,083**	67,901
Others	**687,558**	596,923
	869,978	770,915

22 INVESTMENT PROPERTIES

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

	Land *AED '000*	Other properties *AED '000*	Total *AED '000*
2010:			
Cost			
Balance at 1 January	**30,452**	**185,046**	**215,498**
Transfer from other assets (note 40)	**-**	**6,997**	**6,997**
Gross balance at 31 December	**30,452**	**192,043**	**222,495**
Less: provision for impairment (note 12)	**(5,442)**	**(12,640)**	**(18,082)**
Net balance at 31 December	**25,010**	**179,403**	**204,413**
Accumulated depreciation:			
Balance at 1 January	**-**	**8,737**	**8,737**
Charge for the year	**-**	**4,022**	**4,022**
Balance at 31 December	**-**	**12,759**	**12,759**
Net book value at 31 December	**25,010**	**166,644**	**191,654**

22 INVESTMENT PROPERTIES continued

	Land AED '000	*Other properties AED '000*	*Total AED '000*
2009:			
Cost:			
Balance at 1 January	30,245	194,718	224,963
Additions	207	3,437	3,644
Disposals	-	(13,109)	(13,109)
Balance at 31 December	30,452	185,046	215,498
Accumulated depreciation:			
Balance at 1 January	-	4,748	4,748
Charge for the year	-	4,644	4,644
Relating to disposals	-	(655)	(655)
Balance at 31 December	-	8,737	8,737
Net book value at 31 December	30,452	176,309	206,761

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 5,265 thousand (2009: AED 5,432 thousand).

The fair values of investment properties at 31 December 2010 amounted to AED 203,693 thousand (2009: AED 184,845 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 qualification and experience in the valuation of properties in the UAE. The fair value of the properties has been determined either based on the transactions observable in the market or based on valuation models.

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

	Land AED '000	***Other properties AED '000***	***Total AED '000***
2010:			
UAE	**21,883**	**179,284**	**201,167**
Middle East	**8,569**	**-**	**8,569**
	30,452	**179,284**	**209,736**
2009:			
UAE	21,883	176,309	198,192
Middle East	8,569	-	8,569
	30,452	176,309	206,761

23 DEVELOPMENT PROPERTIES

The movement in development properties during the year was as follows:

	2010 *AED '000*	*2009* *AED '000*
Balance at 1 January	**931,070**	688,623
Additions	**75,800**	433,144
Transfers from other assets (note 40)	**87,457**	15,197
Disposals	**(43,882)**	(205,894)
Balance at 31 December	**1,050,445**	931,070

Development properties include land with a carrying value of AED 815,750 thousand (2009: AED 821,382 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

24 OTHER ASSETS

	2010 *AED '000*	*2009* *AED '000*
Advances against purchase of properties	**1,247,680**	1,288,969
Trade receivables	**214,345**	654,004
Cheques for collection	**3,382**	4,410
Prepaid expenses	**180,571**	90,531
Income receivable	**16,616**	8,418
Advance to contractors	**8,443**	19,607
Advance for investments	**290,017**	290,017
Others	**129,955**	153,463
	2,091,009	2,509,419
Less: provision for impairment	**(220,937)**	(152,939)
	1,870,072	2,356,480

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

	Advances against purchase of properties AED '000	*Trade receivables AED '000*	*Advance for investments AED '000*	*Others AED '000*	*Total AED '000*
At 1 January 2009	-	4,370	106,392	-	110,762
Charge for the year (note 12)	-	42,428	-	-	42,428
Written off	-	(251)	-	-	(251)
At 1 January 2010	-	46,547	106,392	-	152,939
Charge for the year (note 12)	74,031	(100)	-	10,414	84,345
Written off	-	(16,347)	-	-	(16,347)
At 31 December 2010	74,031	30,100	106,392	10,414	220,937

25 PROPERTY AND EQUIPMENT

	Land (note 34) AED '000	*Buildings AED '000*	*Furniture and fixtures AED '000*	*Computer and office equipment AED '000*	*Motor vehicles AED '000*	*Capital work-in progress AED '000*	*Total AED '000*
2010							
Cost or valuation:							
At 1 January	129,315	14,838	143,932	190,470	9,140	86,771	574,466
Additions	-	-	42,239	95,957	1,102	140,957	280,255
Transfers	-	-	13,476	17,706	-	(31,182)	-
Disposals	-	-			(424)	-	(424)
At 31 December	**129,315**	**14,838**	**199,647**	**304,133**	**9,818**	**196,546**	**854,297**
Depreciation:							
At 1 January	-	2,206	61,748	127,286	4,401	-	195,641
Charge for the year	-	745	22,049	48,603	1,796	-	73,193
Relating to disposals	-	-	-	-	(424)	-	(424)
At 31 December	**-**	**2,951**	**83,797**	**175,889**	**5,773**	**-**	**268,410**
Net book value							
At 31 December	**129,315**	**11,887**	**115,850**	**128,244**	**4,045**	**196,546**	**585,887**
2009							
Cost or valuation:							
At 1 January	129,315	14,838	83,437	149,742	5,235	86,216	468,783
Additions	-	-	12,632	29,456	4,198	59,779	106,065
Transfers	-	-	47,865	11,359	-	(59,224)	-
Disposals	-	-	(2)	(87)	(293)	-	(382)
At 31 December	129,315	14,838	143,932	190,470	9,140	86,771	574,466
Depreciation:							
At 1 January	-	1,462	44,930	97,865	2,977	-	147,234
Charge for the year	-	744	16,818	29,421	1,652	-	48,635
Relating to disposals	-	-	-	-	(228)	-	(228)
At 31 December	-	2,206	61,748	127,286	4,401	-	195,641
Net book value							
At 31 December	129,315	12,632	82,184	63,184	4,739	86,771	378,825

26 DUE TO FINANCIAL INSTITUTIONS

	***2010* AED '000**	*2009 AED '000*
Current accounts	**240,660**	251,426
Investment deposits	**650,730**	792,296
Murabaha payables	**-**	234,796
	891,390	1,278,518

Murabaha payables represent amounts due to other financial institutions by a subsidiary of the Bank.

26 DUE TO FINANCIAL INSTITUTIONS continued

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

	2010 ***AED '000***	*2009* *AED '000*
UAE	**68,487**	305,524
Middle East	**507,458**	168,659
Europe	**169,147**	241,332
Others	**146,298**	563,003
	891,390	1,278,518

27 DEPOSITORS' ACCOUNTS

	2010 ***AED '000***	*2009* *AED '000*
Current accounts	**12,635,323**	11,422,664
Saving accounts	**8,911,158**	6,653,208
Investment accounts	**34,905,776**	30,094,196
Profit equalisation reserve	**64,788**	49,594
	56,517,045	48,219,662
The movement in the profit equalisation reserve during the year was as follows:		
At 1 January	**49,594**	-
Share of profit for the year (note 13)	**15,194**	49,594
At 31 December	**64,788**	49,594

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

Segment and industry sector:

	2010 ***AED '000***	*2009* *AED '000*
Wholesale banking		
Government	**8,736,816**	9,801,118
Public sector	**9,999,671**	8,743,168
Corporates	**7,414,994**	4,785,803
Financial institutions	**2,286,598**	846,043
	28,438,079	24,176,132
Retail banking		
Individuals	**17,588,022**	14,544,206
Small and medium enterprises	**2,891,105**	2,534,324
	20,479,127	17,078,530
Private banking		
Individuals	**4,510,701**	4,798,513
Non-profit organisations	**3,089,138**	2,166,487
	7,599,839	6,965,000
	56,517,045	48,219,662

27 DEPOSITORS' ACCOUNTS continued

	2010 AED '000	2009 AED '000
Geographic region:		
UAE	**56,077,875**	47,937,258
Middle East	**289,220**	11,463
Europe	**1,793**	1,594
Others	**148,157**	269,347
	56,517,045	48,219,662
Currencies:		
UAE Dirham	**46,347,084**	38,304,027
US Dollar	**9,901,370**	9,651,048
Euro	**233,890**	172,969
Sterling Pound	**32,780**	90,304
Others	**1,921**	1,314
	56,517,045	48,219,662

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

With respect to investment deposits, the Bank is liable only in case of willful misconduct, negligence or breach of contract.

28 OTHER LIABILITIES

	2010 AED '000	2009 AED '000
Accounts payable	**566,690**	720,184
Payable for properties	**109,679**	91,008
Accrued profit for distribution to depositors and sukuk holders (note 13)	**232,413**	167,847
Bankers' cheques	**62,108**	128,329
Provision for staff benefits and other expenses	**214,901**	155,067
Retentions payable	**345,815**	378,366
Advances from customers	**29,079**	100,535
Accrued legal and professional charges	**6,729**	6,235
Accrued expenses	**45,569**	70,710
Unclaimed dividends	**51,769**	54,311
Deferred income	**62,932**	39,171
Charity account	**6,000**	6,761
Donation account	**4,198**	6,986
Negative fair value on Shari'a compliant alternatives of derivative financial instruments (note 38)	**8,642**	6,076
Others	**344,976**	364,294
	2,091,500	2,295,880

29 TIER 2 WAKALA CAPITAL

In December 2008, the UAE Federal government ("the Government") placed deposits with the Bank for a period of 3 - 5 years. Subsequent to the deposit placements, the Government offered, subject to certain terms and conditions and in accordance with the Central Bank's capital adequacy requirements, to convert the deposits, into capital qualifying as Tier 2 capital. Pursuant to the Extraordinary General Meeting held on 22 March 2009, the shareholders approved, subject to the terms of an instrument to be entered into with the Government, the conversion of these deposits into a Tier 2 capital. On 31 December 2009, a Shari'a compliant wakala agreement was signed by the Bank. In accordance with the terms of that agreement the deposits were converted into Tier 2 qualifying wakala capital.

The wakala capital is an unsecured subordinated obligation of the Bank which has been provided to the Bank for a term of 7 years. However, the Bank may, subject to certain conditions, return the wakala capital to the Government prior to the expiry of the 7 year term. The Tier 2 qualifying wakala capital bears an expected profit rate ranging, over the term that it has been provided, from 4% - 5.25%. The profit rate is payable quarterly in arrears. In limited circumstances and subject to certain conditions, the Government has the ability to convert all or part of the wakala capital into ordinary shares of the Bank at the prevailing market price.

30 SUKUK FINANCING INSTRUMENTS

	2010 ***AED '000***	*2009* *AED '000*
First issue	**2,938,000**	2,938,000
Second issue	**2,501,523**	-
	5,439,523	2,938,000

First issue - USD 800 million
In December 2006, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 2,938,000 thousand (USD 800 million) as the first issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in December 2011. The sukuk deserved profit distribution varies based on the market rate plus a margin.

Second issue - USD 750 million
In November 2010, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 2,754,375 thousand (USD 750 million) as the second issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in November 2015. The sukuk deserved profit is distributed in accordance with fixed profit rate. During the year, sukuk with a face value of AED 252,852 thousand (USD 68.9 million) were repurchased by the Bank.

Terms of arrangement
The terms of the arrangement include transfer of the ownership of certain assets ("the Co-Owned Assets"), including original ijara assets of the Bank, to a sukuk company, ADIB Sukuk Company Ltd - the Issuer, a subsidiary of the Bank, specially formed for the sukuk transaction. The assets are owned by the investors, however the assets are controlled by the Bank and shall continue to be serviced by the Bank as the managing agent.

The issuer will pay the quarterly distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the sukuk holders on the quarterly distribution dates. Upon maturity of the sukuk, the Bank has undertaken to repurchase the assets at an exercise price which equals the value of the Issuer's co-ownership interest in the unpaid rental installments due and payable in respect of the Co-Owned Assets, which may equal the amount of AED 5,692,375 thousand (USD 1,550 million).

31 SHARE CAPITAL

	2010	*2009*
	AED '000	*AED '000*
Authorised share capital:		
3,000,000 thousand (2009: 3,000,000 thousand) ordinary shares of AED 1 each (2009: AED 1 each)	**3,000,000**	3,000,000
Issued and fully paid share capital:		
At 1 January 1,970,588 thousand (2009: 1,970,588 thousand) ordinary shares of AED 1 each (2009: AED 1 each)	**1,970,588**	1,970,588
Bonus shares issued (note 33)	**394,118**	-
At 31 December 2,364,706 thousand (2009: 1,970,588 thousand) ordinary shares of AED 1 each (2009: AED 1 each)	**2,364,706**	1,970,588

32 RESERVES

32.1 Legal reserve

As required by the UAE Federal Commercial Companies Law No. 8 of 1984 (as amended) 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 the 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.

32.2 General reserve

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

33 PROPOSED DIVIDENDS

	2010	*2009*
	AED '000	*AED '000*
Cash dividend: AED 0.2164 per share of AED 1 each (2009: nil)	**511,783**	-
Bonus share dividend: Nil (2009: AED 0.2 per share of AED 1 each)	-	394,118
	511,783	394,118

Cash dividend of 21.64% of the paid up capital relating to year ended 31 December 2010 amounting to AED 511,783 thousand (2009: nil) shall be paid after the approval by the shareholders in the Annual General Assembly.

34 OTHER RESERVES

	Cumulative changes in fair values AED '000	*Land revaluation reserve AED '000*	*Foreign currency translation reserve AED '000*	*Hedging reserve AED '000*	*Total AED '000*
At 1 January 2009	(91,366)	129,239	18,216	-	56,089
Net realised gains on sale of available-for-sale investments	(9,324)	-	-	-	(9,324)
Net loss on valuation of available-for-sale investments	(66,870)	-	-	-	(66,870)
Exchange differences arising on translation of foreign operations	-	-	1,724	-	1,724
Fair value loss on cash flow hedge (note 38)	-	-	-	(6,076)	(6,076)
At 1 January 2010	**(167,560)**	**129,239**	**19,940**	**(6,076)**	**(24,457)**
Net gain on valuation of available-for-sale investments	**24,899**	**-**	**-**	**-**	**24,899**
Impairment on available-for-sale investments (note 12)	**50,621**	**-**	**-**	**-**	**50,621**
Exchange differences arising on translation of foreign operations	**-**	**-**	**(6,375)**	**-**	**(6,375)**
Fair value loss on cash flow hedge (note 38)	**-**	**-**	**-**	**(2,566)**	**(2,566)**
At 31 December 2010	**(92,040)**	**129,239**	**13,565**	**(8,642)**	**42,122**

35 TIER 1 SUKUK

On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk") 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 was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

This Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba. The Sukuk is callable by the Bank subject to certain conditions. The Sukuk 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. Sukuk holder will not have a right to claim the mudaraba profit if the Bank decided not to distribute dividends on its shares and the event is not considered an event of default.

36 NON-CONTROLLING INTEREST

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

37 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments include commitments to extend Islamic credit facilities, standby letters of credit, guarantees and acceptances, 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, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of contracts.

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

	2010 ***AED '000***	*2009* *AED '000*
Contingent liabilities		
Letters of credit	**1,077,025**	699,577
Letters of guarantee	**7,004,417**	5,709,968
Acceptances	**173,516**	101,094
	8,254,958	6,510,639
Commitments		
Undrawn facilities commitments	**2,047,396**	6,034,200
Investment securities	**144,200**	144,200
Future capital expenditure	**42,325**	144,792
Investment and development properties	**1,667,163**	1,615,508
	3,901,084	7,938,700
	12,156,042	14,449,339

38 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

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

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

31 December 2010: Notional amount by term to maturity

	Negative fair value AED 000	***Notional amount AED 000***	***Less than 3 months AED 000***	***3 months to 1 year AED 000***	***1 year to 5 years AED 000***	***Over 5 years AED 000***
Shari'a compliant alternatives of swap (note 28)	**8,642**	**915,117**	**-**	**734,500**	**180,617**	**-**
31 December 2009: Notional amount by term to maturity						
Shari'a compliant alternatives of swap (note 28)	6,076	734,500	-	-	734,500	-

39 ZAKAT

The Bank's Articles of Association do not authorise management to pay Zakat directly, 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 128,696 thousand (2009: AED 121,020 thousand) and accordingly, Zakat is estimated at AED 0.05442 (2009: AED 0.06142) per outstanding share.

40 CASH AND CASH EQUIVALENTS

	2010 ***AED '000***	*2009* *AED '000*
Cash and balances with central banks, short term	**4,500,246**	3,330,948
Balances and wakala deposits with Islamic banks and other financial institutions, short term	**2,652,442**	2,267,891
Murabaha and mudaraba with financial institutions, short term	**9,304,138**	5,929,007
Due to financial institutions, short term	**(500,923)**	(872,533)
	15,955,903	10,655,313

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

	2010 ***AED '000***	*2009* *AED '000*
Transfer from other assets to investment properties (note 22)	**6,997**	-
Transfer from other assets to development properties (note 23)	**87,457**	15,197

41 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank enters into transactions with related parties, comprising associates, directors, major shareholders, 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. All financing to related parties are performing financing and free of any provision for impairment.

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

	Major shareholder AED '000	***Directors AED '000***	***Associates AED '000***	***Others AED '000***	***Total AED '000***
31 December 2010					
Income from murabaha, mudaraba and wakala with financial institutions	**-**	**-**	**1,195**	**-**	**1,195**
Income from murabaha, mudaraba, ijara and other Islamic financing	**117,620**	**134**	**-**	**152,536**	**270,290**
Fees, commission and foreign exchange income, net	**-**	**-**	**8,000**	**-**	**8,000**
Operating expenses	**-**	**183**	**-**	**-**	**183**
Distribution to depositors and sukuk holders	**59**	**44**	**2,083**	**3,055**	**5,241**

41 RELATED PARTY TRANSACTIONS continued

	Major shareholder AED '000	*Directors AED '000*	*Associates AED '000*	*Others AED '000*	*Total AED '000*
31 December 2009					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	2,378	-	2,378
Income from murabaha, mudaraba, Ijara and other Islamic financing	136,537	359	-	85,478	222,374
Fees, commission and foreign exchange income, net	-	-	24	22	46
Operating expenses	-	348	-	-	348
Distribution to depositors and sukuk holders	1,146	57	1,433	291	2,927

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

	Major shareholder AED '000	***Directors AED '000***	***Associates AED '000***	***Others AED '000***	***Total AED '000***
31 December 2010					
Balances and wakala deposits with Islamic banks and other financial institutions	**-**	**-**	**569,735**	**-**	**569,735**
Murabaha, mudaraba, ijara and other Islamic financing	**2,270,460**	**8,409**	**-**	**2,556,854**	**4,835,723**
Other assets	**3,982**	**-**	**2,736**	**183,694**	**190,412**
	2,274,442	**8,409**	**572,471**	**2,740,548**	**5,595,870**
Due to financial institutions	**-**	**-**	**1,800**	**-**	**1,800**
Depositors' accounts	**9,785**	**12,713**	**74,344**	**70,075**	**166,917**
Other liabilities	**4**	**-**	**420**	**1,563**	**1,987**
	9,789	**12,713**	**76,564**	**71,638**	**170,704**
Undrawn facilities commitments	**-**	**-**	**1,517**	**-**	**1,517**
31 December 2009					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	113,756	-	113,756
Murabaha, mudaraba, ijara and other Islamic financing	2,338,206	7,380	-	1,346,524	3,692,110
Other assets	-	-	1,970	184,422	186,392
	2,338,206	7,380	115,726	1,530,946	3,992,258
Due to financial institutions	-	-	24,681	-	24,681
Depositors' accounts	555	3,976	59,127	48,168	111,826
Other liabilities	-	-	201	174	375
	555	3,976	84,009	48,342	136,882
Undrawn facilities commitments	-	615	-	175,067	175,682

41 RELATED PARTY TRANSACTIONS continued

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

	2010	*2009*
	AED '000	*AED '000*
Salaries and other benefits	**24,051**	22,497
Employees' end of service benefits	**2,253**	2,200
	26,304	24,697

In accordance with the Ministry of Economy and Commerce interpretation of Article 119 of Federal Law No. 8 of 1984 (as amended), Directors' remuneration is treated as an appropriation from equity via consolidated statement of comprehensive income.

Board of Directors remuneration for 2010 amounting to AED 4,200 thousand is subject to the approval of the shareholders at the forthcoming Annual General Assembly. During 2010, AED 3,000 thousand was paid to Board of Directors pertaining to the year 2009 after the approval by the shareholders in the Annual General Assembly held on 21 April 2010.

42 SEGMENT INFORMATION

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

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.

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.

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

Real estate – Subsidiary 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 and associates 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.

42 SEGMENT INFORMATION continued

Business segments information for the year ended 31 December 2010 were as follows:

	Retail banking AED '000	Wholesale banking AED '000	Private banking AED '000	Capital markets AED '000	Real estate AED '000	Other operations AED '000	Total AED '000
Revenue and results							
Segment revenues, net	2,016,538	709,399	154,634	189,008	5,056	(618)	3,074,017
Operating expenses excluding provision for impairment, net	(850,005)	(174,043)	(77,197)	(54,456)	(82,432)	(63,107)	(1,301,240)
Operating profit (margin)	1,166,533	535,356	77,437	134,552	(77,376)	(63,725)	1,772,777
Provision for impairment, net	(165,465)	(399,509)	(58,730)	(6,050)	(119,458)	-	(749,212)
Profit (loss) for the year	1,001,068	135,847	18,707	128,502	(196,834)	(63,725)	1,023,565
Non-controlling interest	-	-	-	(220)	-	-	(220)
Profit (loss) for the year attributable to equity holders of the Bank	1,001,068	135,847	18,707	128,282	(196,834)	(63,725)	1,023,345
Assets							
Segmental assets	23,481,356	18,572,025	7,323,063	22,258,929	2,908,311	713,834	75,257,518
Liabilities							
Segmental liabilities	21,013,344	20,994,935	7,796,163	16,625,052	376,340	341,032	67,146,866

Business segments information for the year ended 31 December 2009 were as follows:

	Retail banking AED '000	Wholesale banking AED '000	Private banking AED '000	Capital markets AED '000	Real estate AED '000	Other operations AED '000	Total AED '000
Revenue and results							
Segment revenues, net	1,283,072	570,542	180,006	379,792	97,283	9,562	2,520,257
Operating expenses excluding provision for impairment, net	(618,456)	(143,494)	(57,993)	(51,192)	(86,855)	(35,422)	(993,412)
Operating profit (margin)	664,616	427,048	122,013	328,600	10,428	(25,860)	1,526,845
Provision for impairment, net	(290,990)	(1,049,909)	(56,986)	(10,070)	(40,864)	-	(1,448,819)
Profit (loss) for the year	373,626	(622,861)	65,027	318,530	(30,436)	(25,860)	78,026
Non-controlling interest	-	-	-	(248)	-	-	(248)
Profit (loss) for the year attributable to equity holders of the Bank	373,626	(622,861)	65,027	318,282	(30,436)	(25,860)	77,778
Assets							
Segmental assets	19,390,133	14,987,011	7,082,950	18,546,112	3,470,339	607,459	64,084,004
Liabilities							
Segmental liabilities	18,296,969	16,577,231	7,125,767	13,822,895	791,272	325,334	56,939,468

Geographical information

The Bank operates principally in only one geographic area, the United Arab Emirates. Accordingly no further geographical analysis of segment revenues, expenses, operating profit (margin), assets and liabilities is given.

43 RISK MANAGEMENT

43.1 Introduction

Risk is inherent in all of the Group's activities. It is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability, and each individual within the Group is accountable for the risk exposures relating to his responsibilities. The Group is exposed to credit risk, liquidity risk, market risk and operational risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

43.1.1 Risk management governance structure

Important changes were made during the course of the year to strengthen the overall governance structure of the group in the area of Risk Management. These changes were made as a natural consequence of the growth and development of the Bank's business. The key features are as follows:

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.

Group Strategy Execution Committee ("GSEC")

The GSEC created during 2010, is responsible, amongst a number of other duties, for the review and approval of all major exposures and investments, within authorized limits and Board guidelines. The GSEC is appointed by the Board and has been given the delegated authority by the Board to assist the Groups executive management teams execute the Board's strategy and achieve the Group's strategic objectives. The authorities delegated to the GSEC by the Board, as they pertain to the Risk Management Governance function include:

- Reviewing and approving the delegation of approval authority to management in regard to the overall policies and procedures of the Group;
- Approving the authorities delegated to the Group's executives; and
- Approval of significant and high value transactions in regard to credit facilities, acquisitions and divestitures, new business initiatives and proprietary investments within the GSEC's delegation of authority.

Duties and responsibilities of the GSEC are governed by a formally approved charter which is in line with industry best practice. The GSEC replaced the Executive Committee of the Board.

Group Risk Policy Committee ("GRPC")

The GRPC was newly formed during the course of the year. The GRPC is appointed by the Group Board to assist the Board in fulfilling its oversight responsibilities in respect of the following, for the Group:

- Approving and recommending to the Board when necessary the policies, standards, guidelines and procedures for risk assessment and risk management;
- Reviewing and approving the risk inherent in the business of the Group and the control processes with respect to such risks;
- Reviewing and approving the risk profile and the risk appetite of the Group;
- Reviewing the risk management, compliance and control activities of the Group; and
- Review and approve the Internal Capital Adequacy Assessment Process ("ICAAP") and Basel II implementation.

The GRPC is comprised of three directors, all of which are non executive directors, in addition to the Chief Executive Officer ("CEO") and the Group Chief Risk Officer ("GCRO") (non-voting member) and is chaired by a highly experienced and qualified subject matter expert, who is neither a director nor an employee of the Group. Duties and responsibilities of the GRPC are governed by a formally approved charter which is in line with industry best practice.

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.1 Risk management governance structure continued

Audit and Governance Committee ("AGC")
The AGC comprises one independent member and two members representing the Board of the Bank. The AGC has the overall responsibility to oversee management activities relating to accounting and financial reporting policies and internal controls, auditing practices, and legal and regulatory compliance; to discuss the integrity of the Bank's financial statements and the adequacy and reliability of disclosures to shareholders, to review the qualifications and independence of the internal and external auditors, the performance of internal and external auditors, and to review and recommend to the Board, the corporate governance guidelines applicable to the Group. Duties and responsibilities of the AGC are governed by a formally approved charter which is in line with best practice.

- The Group Internal Audit Division ("GIAD") reports directly to the AGC, and provides independent validation of the business units' compliance with risk policies and procedures, together with a regular assessment as to the effectiveness and adequacy of the risk management function across the Bank.
- The risk management function is independent of the business divisions and is headed by the GCRO, who reports directly to the CEO.

The Bank realizes the importance of creating and maintaining a strong risk culture throughout the organization. The management of all types of risk is deeply embedded throughout the Bank as a core competency of every staff member. In order to promote this, the Bank places a high degree of importance on clearly written, well distributed and readily accessible policies, procedures and communication of risk issues across the Bank.

43.1.2 The Risk Management Group ("RMG")
An independent risk organization that works in close partnership with the rest of the business to support their activities, whilst safeguarding the risk profile of the Bank. The primary objectives of the RMG, headed by the GCRO are:

- Ensure adherence and compliance of individual and portfolio performance to agreed terms and policies;
- Institute prudent control mechanisms (process and systems);
- Approve commercial and consumer financing transactions within its delegated authority;
- Ensure compliance with local legal and regulatory guidelines; and
- Maintain the primary relationship with local regulators with respect to risk related issues.

Reporting to the GCRO are senior, seasoned and well qualified individuals who manage specific areas of risk expertise, amongst which are the Chief Credit Officer, the Market Risk Head, the Consumer Risk Head, the Financial Institution and Business Banking Risk Head, the Head of Operational Risk and the Risk Architecture Head, each supported as appropriate by individuals and systems.

During the course of the year, the "Asset Recovery Management Unit" was formed. This is a specialized unit specifically formed to manage corporate and private Bank relationships that are impaired and experiencing difficulties in meeting their obligations to the Bank. It is appropriately staffed with resources possessing the particular expertise and skill set that is required to effectively manage such category of relationship.

Basel II / Internal Capital Adequacy Assessment Process ("ICAAP")
On 27 November 2009, Central Bank of UAE published Circular 27/2009 with regard to Basel II implementation and submission of annual ICAAP report, the first of which was due on 1 March 2010. The Bank's ICAAP was diligently and comprehensively completed and submitted to Central Bank of UAE within the deadline. In addition, a detailed gap analysis was conducted in order to identify the Bank's current status viz-a-viz the requirements necessary to achieving Foundation Internal Ratings Based ("FIRB") approach as detailed in Central Bank of UAE Circular 27/2009. The results were formally presented to the Board together with a detailed plan aimed at achieving full compliance within the target date. This was subsequently approved by the Board. The Basel II FIRB implementation program was initiated in 2nd quarter of 2010, under the leadership of a dedicated Basel II Program Manager and team. As at close of 2010, the program was fully on schedule and progressing well, thus demonstrating the Bank's total commitment to full compliance with the requirements of the circular. This program, apart from meeting the requirements of the regulator, is materially enhancing and strengthening risk management capability of the Bank.

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.2 The Risk Management Group ("RMG")continued

Asset & Liability Committee ("ALCO")

The Asset & Liability Management ("ALM") process is focused on planning, acquiring, and directing the flow of funds through the organisation. 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 well 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 statement of financial position related risks. The ALCO consists of the Bank's senior management including the CEO and normally meets once a month.

Credit Committee

All the business proposals of clients are approved through a committee empowered by the GSEC through the CEO. The Credit Committee approves all the funded and non-funded transactions within limits as delegated by the Board. The committee consists of senior management personnel including the CEO. The approval process and the authorities vested with the committee members are well defined in the Bank Credit Policy & Procedures Manual. The policy manual enumerates the various requirements and procedures to be followed in bringing a relationship to the Bank and assessment of the risks involved. The Bank Credit Policy & Procedures manual was extensively revised and enhanced in the first quarter to fully align it with industry best practice.

43.1.3 Risk measurement and reporting systems

In order to effectively monitor and control risks, the Policy and Portfolio Management Unit and the Credit Administration units within the risk organization is tasked, in close partnership with the relevant business units, with the documentation and communication of credit and risk related policies, the maintenance and adherence of delegated credit approval authorities, and the monitoring and general adherence to risk related policies by the business units. Within the ambit of portfolio management, specific responsibilities include:

- Preparing portfolio reports across a diverse range of indicators such as portfolio concentrations by geography, industry type, product, risk rating etc which are used to analyse and monitor overall portfolio quality;
- Monitoring the integrity and consistency of data, including risk ratings, migration, exposures and losses, including the maintenance of a central loss database for the monitoring and analysis of losses;
- Setting and advising the values of input parameters to be used for the calculation of expected loss and economic capital requirements;
- Consolidation and consolidation of portfolio management data and reports for use by Executive Management and the Board; and
- The establishment and management of early warning tools to identify emerging risk problems.

On a monthly basis detailed reporting of industry, customer and geographic risks takes place and assessed against the risk profile and overall risk appetite of the Bank. Senior management assesses the appropriateness of the provision for credit losses on a quarterly basis.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

The Bank actively uses collateral to reduce its credit risks.

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.4 Risk concentration

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

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 in specific locations or businesses. It also obtains security when appropriate.

Details of the composition of the financing portfolio are provided in notes 18 and 19.

43.1.5 Treasury

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

43.1.6 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 AGC. The Head of Group Internal Audit has direct reporting lines to the AGC in securing his independence and objectivity in all audit engagements undertaken within the Bank.

43.2 Credit risk

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

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

All commercial credit risk exposures are risk rated using Moody's Risk Analyst risk rating system, recognized as an industry wide standard. Consumer exposures are rated using a pool concept as required by Basel II.

Credit-related commitments risks

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

43 RISK MANAGEMENT continued

43.2 Credit risk continued

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

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

	Notes	***Gross maximum exposure 2010 AED '000***	*Gross maximum exposure 2009 AED '000*
Balances and Wakala deposits with Islamic banks and other financial institutions	16	**2,906,382**	2,467,919
Murabaha and Mudaraba with financial institutions	17	**13,013,852**	12,376,243
Murabaha and other Islamic financing	18	**24,580,111**	22,281,045
Ijara financing	19	**25,649,171**	19,943,653
Investments		**1,145,746**	536,658
Other assets		**372,741**	839,902
		67,668,003	58,445,420
Contingent liabilities	37	**8,254,958**	6,510,639
Commitments		**2,047,396**	6,034,200
Total		**10,302,354**	12,544,839
Total credit risk exposure		**77,970,357**	70,990,259

43.2.2 Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The credit exposure to the top 5 customers as of 31 December 2010 was AED 5,606,752 thousand (2009: AED 4,716,444 thousand) before taking account of collateral or other credit enhancements.

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

The distribution of the Group's financial assets by geographic region is as follows:

	Balances and wakala deposits with Islamic banks and other financial institutions AED '000	*Murabaha and mudaraba with financial institutions AED '000*	*Murabaha and other Islamic financing AED '000*	*Ijara financing AED '000*	*Investments AED '000*	*Other assets AED '000*	*Total AED' 000*
31 December 2010							
UAE	**2,264,096**	**12,193,125**	**23,387,881**	**24,774,860**	**811,574**	**372,741**	**63,804,277**
Middle East	**4,509**	**230,270**	**783,656**	**20,890**	**313,682**	**-**	**1,353,007**
Europe	**34,305**	**367,421**	**377,757**	**-**	**-**	**-**	**779,483**
Others	**603,472**	**223,036**	**30,817**	**853,421**	**20,490**	**-**	**1,731,236**
Financial assets subject to credit risk	**2,906,382**	**13,013,852**	**24,580,111**	**25,649,171**	**1,145,746**	**372,741**	**67,668,003**
31 December 2009							
UAE	2,281,180	11,565,133	20,972,629	18,957,534	467,282	837,683	55,081,441
Middle East	4,483	324,292	819,356	26,112	69,376	2,219	1,245,838
Europe	62,728	228,939	421,544	-	-	-	713,211
Others	119,528	257,879	67,516	960,007	-	-	1,404,930
Financial assets subject to credit risk	2,467,919	12,376,243	22,281,045	19,943,653	536,658	839,902	58,445,420

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.2 Credit risk concentration continued
The distribution of the Group's financial assets by industry sector is as follows:

	2010	*2009*
	AED '000	*AED '000*
Industry sector:		
Government	**781,084**	696,092
Public sector	**2,263,256**	1,093,703
Financial institutions	**17,475,861**	15,725,189
Trading and manufacturing	**1,598,264**	1,192,246
Construction and real estate	**7,486,697**	5,677,305
Energy	**521,217**	501,384
Personal	**29,989,940**	25,733,701
Others	**7,551,684**	7,825,800
Financial assets subject to credit risk	**67,668,003**	58,445,420

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

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

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

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

43 RISK MANAGEMENT continued

43.2 Credit risk continued

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

The main types of collateral obtained are as follows:

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

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

Management 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. Management estimates the fair value of collaterals and other credit enhancements held against individually impaired financings assets approximating to be AED 1,207,378 thousand as at 31 December 2010 (2009: AED 905,597 thousand).

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

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

	Moody's equivalent grade	***2010 AED '000***	*2009 AED '000*
Low risk			
Risk rating class 1	Aaa	**26,177**	34,569
Risk rating classes 2 and 3	Aa1-A3	**11,379,387**	12,625,304
Risk rating class 4	Baa1-Baa3	**6,910,592**	4,524,467
Risk rating classes 5 and 6	Ba1-B3	**40,388,416**	34,734,774
Fair risk			
Risk rating class 7	Caa1-Caa3	**3,547,708**	2,377,432
Impaired			
Risk rating class 8, 9 and 10		**3,897,236**	2,772,314
		66,149,516	57,068,860

It is the Bank'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 analytics, 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 Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class.

Renegotiated murabaha, ijara and other Islamic financings
The total carrying amount of financing whose terms have been renegotiated during the year 2010 amounted to AED - 919,453 thousand (2009: AED 947,431 thousand).

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued

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

	Balances and wakala deposits with Islamic banks and other financial institutions 31 December		*Murabaha and mudaraba with financial institutions 31 December*		*Murabaha and other Islamic financing 31 December*		*Ijara financing 31 December*		*Investments 31 December*	
	2010	*2009*	***2010***	*2009*	***2010***	*2009*	***2010***	*2009*	***2010***	*2009*
	AED '000	*AED '000*	***AED '000***	*AED '000*	***AED '000***	*AED '000*	***AED '000***	*AED '000*	***AED '000***	*AED '000*
Individually impaired										
Substandard	-	-	**186,476**	-	**625,853**	354,738	**846,627**	550,890	**68,142**	6,421
Doubtful	-	-	**-**	117,983	**952,964**	699,179	**347,371**	282,057	**91,813**	68,651
Loss	-	-	**129,811**	127,306	**789,389**	583,146	**18,745**	57,015	**9,571**	9,571
Gross amount	-	-	**316,287**	245,289	**2,368,206**	1,637,063	**1,212,743**	889,962	**169,526**	84,643
Provision for individual impairment	-	-	**(190,310)**	(186,298)	**(1,608,567)**	(1,088,461)	**(92,779)**	(144,737)	**(108,391)**	(57,770)
	-	-	**125,977**	58,991	**759,639**	548,602	**1,119,964**	745,225	**61,135**	26,873
Past due but not impaired										
Gross amount	-	-	**-**	124,865	**877,558**	712,118	**1,125,280**	1,047,193	**-**	-
Neither past due nor impaired	**2,906,382**	**2,467,919**	**12,697,565**	12,006,089	**21,334,347**	19,931,864	**23,311,148**	18,006,498	**1,578,279**	983,151
Collective allowance for impairment	-	-	**-**	-	**(289,023)**	(281,694)	**(286,321)**	(235,906)	**-**	-
Carrying amount	**2,906,382**	2,467,919	**12,823,542**	12,189,945	**22,682,521**	20,910,890	**25,270,071**	19,563,010	**1,639,414**	1,010,024

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued

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

Ageing analysis of past due but not impaired

	Less than 30 days AED '000	*31 -60 days AED '000*	*61 -90 days AED '000*	*More than 90 days AED '000*	*Total AED '000*
2010					
Murabaha and Mudaraba with financial institutions	-	-	-	-	-
Murabaha and other Islamic financing	**7,671**	**5,959**	**3,698**	**860,230**	**877,558**
Ijara financing	**17,614**	**24,219**	**52,892**	**1,030,555**	**1,125,280**
	25,285	**30,178**	**56,590**	**1,890,785**	**2,002,838**
2009					
Murabaha and Mudaraba with financial institutions	-	-	-	124,865	124,865
Murabaha and other Islamic financing	23,958	41,423	30,430	616,307	712,118
Ijara financing	23	3,184	18,120	1,025,866	1,047,193
	23,981	44,607	48,550	1,767,038	1,884,176

More detailed information in respect of the allowance for impairment losses on murabaha and mudaraba with financial institutions, murabaha and other islamic financing and ijara financing have been disclosed in notes 17, 18 and 19 respectively.

43.3 Liquidity risk and funding management

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

The Bank 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 Bank 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 scenarios, given due consideration to stress factors relating to both the market in general and specifically to the Bank.

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

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

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

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

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

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

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
31 December 2010					
ASSETS					
Cash and balances with central banks	**4,500,246**	**900,089**	**-**	**-**	**5,400,335**
Balances and wakala deposits with Islamic banks and other financial institutions	**2,652,442**	**253,940**	**-**	**-**	**2,906,382**
Murabaha and mudaraba with financial institutions	**9,304,138**	**3,324,334**	**82,974**	**112,096**	**12,823,542**
Murabaha and other Islamic financing	**2,994,160**	**3,763,028**	**11,296,464**	**4,628,869**	**22,682,521**
Ijara financing	**1,760,939**	**3,460,654**	**13,018,088**	**7,030,390**	**25.270,071**
Investments	**337,198**	**152,631**	**1,149,585**	**-**	**1,639,414**
Investment in associates	**-**	**-**	**-**	**837,195**	**837,195**
Other assets	**222,391**	**183,625**	**31,243**	**4,562**	**441,821**
Financial assets	**21,771,514**	**12,038,301**	**25,578,354**	**12,613,112**	**72,001,281**
Non-financial assets					**3,256,237**
Total assets					**75,257,518**
LIABILITIES					
Due to financial institutions	**500,923**	**390,467**	**-**	**-**	**891,390**
Depositors' accounts	**51,860,160**	**4,433,656**	**221,729**	**1,500**	**56,517,045**
Other liabilities	**978,111**	**665,294**	**448,095**	**-**	**2,091,500**
Tier 2 Wakala capital	**-**	**-**	**-**	**2,207,408**	**2,207,408**
Sukuk financing instruments	**-**	**2,938,000**	**2,501,523**	**-**	**5,439,523**
Total liabilities	**53,339,194**	**8,427,417**	**3,171,347**	**2,208,908**	**67,146,866**

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

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

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
31 December 2009					
ASSETS					
Cash and balances with central banks	3,330,948	-	-	-	3,330,948
Balances and wakala deposits with Islamic banks and other financial institutions	2,267,891	200,028	-	-	2,467,919
Murabaha and mudaraba with financial institutions	5,929,007	5,335,514	792,411	133,013	12,189,945
Murabaha and other Islamic financing	2,942,375	4,560,622	10,499,751	2,908,142	20,910,890
Ijara financing	871,915	2,023,880	11,272,787	5,394,428	19,563,010
Investments	925	583,103	425,996	-	1,010,024
Investment in associates	-	-	-	738,132	738,132
Other assets	118,629	812,651	41,657	4,043	976,980
Financial assets	15,461,690	13,515,798	23,032,602	9,177,758	61,187,848
Non-financial assets					2,896,156
Total assets					64,084,004
LIABILITIES					
Due to financial institutions	872,533	397,443	8,542	-	1,278,518
Depositors' accounts	42,643,088	5,572,816	3,694	64	48,219,662
Other liabilities	1,404,797	647,626	243,457	-	2,295,880
Tier 2 Wakala capital	-	-	-	2,207,408	2,207,408
Sukuk financing instruments	-	-	2,938,000	-	2,938,000
Total liabilities	44,920,418	6,617,885	3,193,693	2,207,472	56,939,468

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

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
31 December 2010					
LIABILITIES					
Due to financial institutions	**500,973**	**390,754**	**-**	**-**	**891,727**
Depositors' accounts	**51,906,626**	**4,510,188**	**232,014**	**2,002**	**56,650,830**
Other liabilities	**978,111**	**665,294**	**448,095**	**-**	**2,091,500**
Tier 2 Wakala capital	**-**	**-**	**-**	**2,853,075**	**2,853,075**
Sukuk financing instruments	**-**	**2,958,042**	**3,459,478**	**-**	**6,417,520**
Total liabilities	**53,385,710**	**8,524,278**	**4,139,587**	**2,855,077**	**68,904,652**
31 December 2009					
LIABILITIES					
Due to financial institutions	872,714	397,838	8,542	-	1,279,094
Depositors' accounts	42,748,711	5,698,295	3,931	73	48,451,010
Other liabilities	1,327,852	647,626	243,457	-	2,218,935
Tier 2 Wakala capital	-	-	-	2,941,101	2,941,101
Sukuk financing instruments	-	-	3,027,189	-	3,027,189
Total liabilities	44,949,277	6,743,759	3,283,119	2,941,174	57,917,329

The disclosed financial instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net.

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

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

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

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
2010					
Contingent liabilities	**4,688,822**	**1,680,027**	**1,886,109**	**-**	**8,254,958**
Commitments	**412,810**	**821,035**	**619,843**	**-**	**1,853,688**
Total	**5,101,632**	**2,501,062**	**2,505,952**	**-**	**10,108,646**
2009					
Contingent liabilities	3,542,458	2,394,940	533,243	39,998	6,510,639
Commitments	90,253	406,862	1,407,385	-	1,904,500
Total	3,632,711	2,801,802	1,940,628	39,998	8,415,139

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

43.4 Market risk

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

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

43 RISK MANAGEMENT continued

43.4 Market risk continued

The trading market risk framework comprises of the following elements:

- Limit to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by the senior management.
- 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.

43.4.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability of 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 risk management strategies.

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability of 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-balance sheet instruments that mature or re-price in a given period. The Group manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary instrument is the rate that, when used in present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating instrument or an instrument carried at fair value.

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.

	Increase in basis points 2010	***Sensitivity of profit on financial assets and liabilities AED '000***	*Increase in basis points 2009*	*Sensitivity of profit on financial assets and liabilities AED '000*
Currency				
AED	**50**	**80,657**	50	136,483
USD	**50**	**(6,021)**	50	8,397
Euro	**50**	**825**	50	(74)
Other currencies	**50**	**559**	50	978

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The table below indicates the extent to which the Bank 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 the 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 available-for-sale equity instruments).

Currency	***Increase in currency rate in % 2010***	***Effect on net profit AED '000***	*Increase in currency rate in % 2009*	*Effect on net profit AED'000*
USD	**5**	**(33,766)**	5	(35,982)
Euro	**5**	**(279)**	5	(7,159)
Other currencies	**5**	**43,111**	5	476

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

	AED ***AED '000***	***USD*** ***AED '000***	***Euro*** ***AED '000***	***GBP*** ***AED '000***	***Others*** ***AED '000***	***Total*** ***AED '000***
31 December 2010						
Assets						
Cash and balances with central banks	**5,183,368**	**216,887**	**30**	**2**	**48**	**5,400,335**
Balances and wakala deposits with Islamic banks and other financial institutions	**1,754,931**	**1,111,158**	**31,028**	**2,969**	**6,296**	**2,906,382**
Murabaha and mudaraba with financial institutions	**4,758,756**	**7,574,750**	**167,361**	**210,579**	**112,096**	**12,823,542**
Murabaha and other Islamic financing	**21,038,194**	**1,552,740**	**88,719**	**2,868**	**-**	**22,682,521**
Ijara financing	**21,400,362**	**3,815,838**	**-**	**-**	**53,871**	**25,270,071**
Investments	**585,263**	**993,695**	**104**	**-**	**60,352**	**1,639,414**
Investment in associates	**117,337**	**-**	**32,300**	**-**	**687,558**	**837,195**
Other assets	**219,208**	**201,413**	**20,370**	**-**	**830**	**441,821**
	55,057,419	**15,466,481**	**339,912**	**216,418**	**921,051**	**72,001,281**
Liabilities						
Due to financial institutions	**109,859**	**490,350**	**56,065**	**179,937**	**55,179**	**891,390**
Depositors' accounts	**46,347,084**	**9,901,372**	**233,890**	**32,780**	**1,919**	**56,517,045**
Other liabilities	**1,691,900**	**310,562**	**88,939**	**51**	**48**	**2,091,500**
Tier 2 wakala capital	**2,207,408**	**-**	**-**	**-**	**-**	**2,207,408**
Sukuk financing instruments	**-**	**5,439,523**	**-**	**-**	**-**	**5,439,523**
	50,356,251	**16,141,807**	**378,894**	**212,768**	**57,146**	**67,146,866**
31 December 2009						
Assets						
Cash and balances with central banks	3,131,091	199,696	29	23	109	3,330,948
Balances and wakala deposits with Islamic banks and other financial institutions	1,343,149	1,056,607	57,904	4,646	5,613	2,467,919
Murabaha and mudaraba with financial institutions	5,433,837	6,171,985	116,483	334,627	133,013	12,189,945
Murabaha and other Islamic financing	19,628,860	1,282,030	-	-	-	20,910,890
Ijara financing	16,665,835	2,849,867	-	-	47,308	19,563,010
Investments	569,110	439,350	603	-	961	1,010,024
Investment in associates	106,091	-	35,118	-	596,923	738,132
Other assets	1,047,879	664,421	(1,302)	(216)	(733,802)	976,980
	47,925,852	12,663,956	208,835	339,080	50,125	61,187,848
Liabilities						
Due to financial institutions	359,219	546,108	76,689	248,681	47,821	1,278,518
Depositors' accounts	38,304,067	9,651,008	172,969	90,304	1,314	48,219,662
Other liabilities	1,946,932	248,472	100,351	95	30	2,295,880
Tier 2 wakala capital	2,207,408	-	-	-	-	2,207,408
Sukuk financing instruments	-	2,938,000	-	-	-	2,938,000
	42,817,626	13,383,588	350,009	339,080	49,165	56,939,468

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.3 Equity price risk

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

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	*% Increase in market indices 2010*	*Effect on net profit AED '000*	*Effect on equity AED '000*	*% Increase in market indices 2009*	*Effect on net profit AED '000*	*Effect on equity AED '000*
Held for trading investments						
Abu Dhabi Exchange	**10**	**182**	**-**	10	-	-
Dubai Financial Market	**10**	**510**		10	-	-
Available-for-sale investments						
Others	**10**	**-**	**5,789**	10	-	-

43.4.4 Operational risk

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

The Bank is developing and implementing a detailed operational risk framework in accordance with industry best practice and Basel II guidelines. The framework articulates clearly defined roles and responsibilities of individuals / units across different functions of the Bank involved in performing various operational risk management tasks. The Operational Risk Management Framework ensures that operational risks within the Bank are properly identified, monitored, reported and actively managed. Key elements of the framework include process mapping, management of an operational loss database, key risk indicators, regular business unit level self assessment, risk analysis and risk management reporting.

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operational risk in their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being actively identified, monitored and managed within their respective business units. The day-to-day operational risk is managed also through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedures to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning, which is regularly assessed and tested.

43 RISK MANAGEMENT continued

43.5 Capital management

The Central Bank of the U.A.E sets and monitors capital requirements for the Group as a whole. The Central Bank of the U.A.E vide circular No. 4004/2009 dated 30 August 2009, requires all banks operating in the UAE to maintain a risk asset ratio at a minimum of 12% (2009: 11%) at all times in which Tier 1 capital should not be less than 8% (2009: 7%) of the total risk weighted assets. In implementing current capital requirements of the Central Bank of the U.A.E, the Group maintains the required ratio of the regulatory capital to total risk weighted assets.

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

- Tier 1 capital, which includes ordinary share capital, retained earnings, translation reserve and non-controlling interest after deductions of goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment provisions on financing assets (Basel II only) and the element of the fair value reserve relating to unrealised gains and losses on financial instruments classified as available-for-sale.

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

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

The Bank has complied with all externally imposed requirements throughout the year.

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

Furthermore, as required by the above circular, certain Basel II pillar 3 disclosures will be included in the annual report issued by the Bank for the year 2010.

43 RISK MANAGEMENT continued

43.5 Capital management continued

The Central Bank of the U.A.E sets and monitors capital requirements for the Group as a whole. The Central Bank of the U.A.E vide circular No. 4004/2009 dated 30 August 2009, requires all banks operating in the UAE to maintain a risk asset ratio at a minimum of 12% (2009: 11%) at all times in which Tier 1 capital should not be less than 8% (2009: 7%) of the total risk weighted assets. In implementing current capital requirements of the Central Bank of the U.A.E, the Group maintains the required ratio of the regulatory capital to total risk weighted assets.

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2010 and 2009. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	Basel I		**Basel II**	
	2010	*2009*	***2010***	*2009*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Tier 1 capital				
Share capital	**2,364,706**	1,970,588	**2,364,706**	1,970,588
Legal reserve	**1,754,899**	1,754,475	**1,754,899**	1,754,475
General reserve	**443,182**	321,297	**443,182**	321,297
Retained earnings	**984,069**	724,632	**984,069**	724,632
Proposed dividends	**511,783**	394,118	**511,783**	394,118
Proposed dividends to charity	**6,816**	1,028	**6,816**	1,028
Tier 1 sukuk	**2,000,000**	2,000,000	**2,000,000**	2,000,000
Non-controlling interest	**3,075**	2,855	**3,075**	2,855
Total	**8,068,530**	7,168,993	**8,068,530**	7,168,993
Tier 2 capital				
Tier 2 wakala capital	**2,207,408**	2,207,408	**2,207,408**	2,207,408
Cumulative changes in fair value	**(92,040)**	(167,560)	**(92,040)**	(167,560)
Collective impairment provision for financing assets	**-**	-	**575,344**	517,600
Total	**2,115,368**	2,039,848	**2,690,712**	2,557,448
Total tier 1 and tier 2 capital	**10,183,898**	9,208,841	**10,759,242**	9,726,441
Deductions for Tier 1 and Tier 2 capital	**(837,195)**	(738,132)	**(837,195)**	(738,132)
Total capital base	**9,346,703**	8,470,709	**9,922,047**	8,988,309
Risk weighted assets				
On balance sheet	**54,666,166**	46,226,456	**-**	-
Off balance sheet	**4,263,158**	3,289,496	**-**	-
Credit risk	**-**	-	**58,320,901**	50,101,278
Market risk	**-**	-	**1,008,157**	585,580
Operational risk	**-**	-	**2,565,177**	2,323,706
Total risk weighted assets	**58,929,324**	49,515,952	**61,894,235**	53,010,564
Capital ratios				
Total regulatory capital expressed as a percentage of total risk weighted assets	**15.86%**	17.11%	**16.03%**	16.96%
Tier 1 capital expressed as a percentage of total risk weighted assets	**13.69%**	14.48%	**13.04%**	13.52%

44 FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted investments – at fair value
Quoted investments represent marketable equities and sukuk that are measured at fair value. The fair values of these investments are based on quoted prices as of the reporting date. For available for sale investments, the impact of change in fair valuation from previously existing 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, private equities and musharaka 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 previously existing 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 in associates (note 21) and available-for-sale investments that are carried at cost (note 20)), since those financial assets and liabilities are either short term in nature or in the case of deposits and financing asset, are frequently repriced. The fair value of investments carried at amortised cost is disclosed below.

Fair value of investments - at amortised cost

	31 December 2010		31 December 2009	
	Carrying amount AED '000	***Fair value AED '000***	*Carrying amount AED '000*	*Fair value AED '000*
Held to maturity investment - sukuk (note 20)	**135,450**	**141,971**	135,080	133,409

Fair value measurement recognized in the consolidated statement of financial position
The Group uses the following hierarchy for determining and disclosing the fair value of financial instrument by valuation technique:

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

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

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

44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

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

	Level 1 AED '000	*Level 2 AED '000*	*Level 3 AED '000*	*Total AED '000*
31 December 2010				
Financial assets				
Held for trading investments				
Equities	**6,920**	**-**	**-**	**6,920**
Sukuk	**329,353**	**-**	**-**	**329,353**
	336,273	**-**	**-**	**336,273**
Available-for-sale investments				
Quoted investments				
Equities	**58,817**	**-**	**-**	**58,817**
Sukuk	**604,280**	**-**	**-**	**604,280**
	663,097	**-**	**-**	**663,097**
Unquoted investments				
Funds	**-**	**-**	**140,110**	**140,110**
Private equities	**-**	**-**	**276,549**	**276,549**
	-	**-**	**416,659**	**416,659**
	999,370	**-**	**416,659**	**1,416,029**
Financial liabilities				
Shari'a compliant alternatives of swap (note 28)	**-**	**8,642**	**-**	**8,642**

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

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
31 December 2009				
Financial assets				
Available-for-sale investments				
Quoted investments				
Equities	925	-	-	925
Sukuk	298,555	-	-	298,555
	299,480	-	-	299,480
Unquoted investments				
Funds	-	-	125,823	125,823
Private equities	-	-	213,852	213,852
Musharaka	-	-	53,900	53,900
	-	-	393,575	393,575
	299,480	-	393,575	693,055
Financial liabilities				
Shari'a compliant alternatives of swap (note 28)	-	6,076	-	6,076

44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

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

	At 1 January 2010 AED '000	***Fair value gain / (loss) recorded in income statement AED '000***	***Gains / (losses) recorded in equity AED '000***	***Transfers, purchases and settlements AED '000***	***At 31 December 2010 AED '000***
Unquoted investments					
Funds	**125,823**	**-**	**(19,266)**	**33,553**	**140,110**
Private equities	**213,852**	**(23,081)**	**(7,718)**	**93,496**	**276,549**
Musharaka	**53,900**	**-**	**-**	**(53,900)**	**-**
	393,575	**(23,081)**	**(26,984)**	**73,149**	**416,659**

	At 1 January 2009 AED '000	*Fair value gain / (loss) recorded in income statement AED '000*	*Gains / (losses) recorded in equity AED '000*	*Transfers, purchases and settlements AED '000*	*At 31 December 2009 AED '000*
Unquoted investments					
Funds	118,129	-	(18,472)	26,166	125,823
Private equities	268,181	-	(54,329)	-	213,852
Musharaka	57,700	-	(3,800)	-	53,900
	444,010	-	(76,601)	26,166	393,575

45 COMPARATIVE FIGURES

Following comparatives were reclassified to conform to the current period presentation. The reclassification has no effect on the previously reported profit or equity of the Group:

- An amount of AED 38,950 thousand has been re-classified from "fees and commission income, net" and shown separately in the consolidated income statement as "foreign exchange income".

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