

Base Prospectus



ADIB SUKUK COMPANY LTD.

(incorporated in the Cayman Islands with limited liability)

US\$5,000,000,000

Trust Certificate Issuance Programme

Under the trust certificate issuance programme described in this Base Prospectus (the **Programme**), ADIB Sukuk Company Ltd. (in its capacity as issuer, the **Issuer** and, in its capacity as trustee, the **Trustee**), subject to compliance with all relevant laws, regulations and directives, may from time to time issue trust certificates (the **Trust Certificates**) in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Trust Certificates may only be issued in registered form. The maximum aggregate face amount of all Trust Certificates from time to time outstanding under the Programme will not exceed US\$5,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Trust Certificates may be issued on a continuing basis to the Dealer specified under "*General Description of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Trust Certificates being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Trust Certificates.

The Trust Certificates will be limited recourse obligations of the Issuer. An investment in Trust Certificates issued under the Programme involves certain risks. For a discussion of these risks, see "Risk Factors".

Each Series (as defined herein) of Trust Certificates issued under the Programme will be constituted by (i) a master trust deed (the **Master Trust Deed**) dated 1 December 2006 entered into between the Issuer, the Trustee, Abu Dhabi Islamic Bank PJSC (**ADIB**) and HSBC Trustee (C.I.) Limited as delegate of the Trustee (in such capacity, the **Delegate**) and (ii) a supplemental trust deed (the **Supplemental Trust Deed**) in relation to the relevant Series. Trust Certificates of each Series confer on the holders of the Trust Certificates from time to time (the **Certificateholders**) the right to receive certain payments (as more particularly described herein) arising from the assets of a trust declared by the Trustee in relation to the relevant Series (the **Trust**) over a co-ownership interest in *ijara* (lease) contracts originated by ADIB (the **Co-ownership Assets** which, together with any other assets in the relevant Trust, constitute the **Trust Assets** for the relevant Series).

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for Trust Certificates issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Trust Certificates to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market.

References in this Base Prospectus to Trust Certificates being **listed** (and all related references) shall mean that such Trust Certificates have been admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market and having been admitted to the Official List. The London Stock Exchange's Gilt Edged and Fixed Interest Market is a regulated market for the purposes of Directive 93/22/EEC (the Investment Services Directive).

Notice of the aggregate face amount of Trust Certificates and any other terms and conditions not contained herein which are applicable to each Series of Trust Certificates will be set out in a final terms supplement (the **Final Terms**) which, with respect to Trust Certificates to be listed on the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange.

The Programme provides that Trust Certificates may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Trust Certificates and/or Trust Certificates not admitted to trading on any market.

The Issuer may agree with any Dealer that Trust Certificates may be issued with terms and conditions not contemplated by the Terms and Conditions of the Trust Certificates herein, in which event a supplemental Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Trust Certificates.

Arranger and Dealer

HSBC

The date of this Base Prospectus is 1 December 2006.

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**).

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

This Base Prospectus should be read and construed together with any amendments or supplements hereto and with any other documents incorporated by reference herein and, in relation to any Series (as defined herein) of Trust Certificates, should be read and construed together with the relevant Final Terms.

Copies of Final Terms will be available from the registered office of the Issuer and the specified office set out below of the Principal Paying Agent (as defined below) save that, if the relevant Trust Certificates are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Certificateholder holding one or more Trust Certificates and such Certificateholder must produce evidence satisfactory to the Issuer or, as the case may be, the Principal Paying Agent as to its holding of such Trust Certificates and identity.

Certain information identified as such in this Base Prospectus has been extracted from independent sources identified in this Base Prospectus. Each of the Issuer 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, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Dealers and the Delegate have not 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 the Dealers and the Delegate as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer or ADIB in connection with the Programme. No Dealer nor the Delegate accepts any liability in relation to the information contained in this Base Prospectus or any other information provided by the Issuer and ADIB in connection with the Programme.

No person is or has been authorised by the Issuer and ADIB to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Trust Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Trustee, ADIB, the Delegate or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Trust Certificates (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Trustee, ADIB, the Delegate or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Trust Certificates should purchase any Trust Certificates. Each investor contemplating purchasing any Trust Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and ADIB. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Trust Certificates constitutes an offer or invitation by or on behalf of the Issuer, the Trustee, ADIB, the Delegate or any of the Dealers to any person to subscribe for or to purchase any Trust Certificates.

No comment is made or advice given by the Issuer, the Trustee, ADIB, the Delegate or the Dealers in respect of taxation matters relating to any Trust Certificates or the legality of the purchase of Trust Certificates by an investor under applicable or similar laws.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, ATTORNEY AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF TRUST CERTIFICATES.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Trust Certificates shall in any circumstances imply that the information contained herein concerning the Issuer or ADIB is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Delegate and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer or ADIB during the life of the Programme or to advise any investor in the Trust Certificates of any information coming to their attention.

The Trust Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**). Subject to certain exceptions, Trust Certificates may not be offered, sold or delivered within the United States or to U.S. persons, see "*Subscription and Sale*".

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Trust 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 Base Prospectus and the offer or sale of Trust Certificates may be restricted by law in certain jurisdictions. The Issuer, the Trustee, ADIB, the Delegate and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Trust 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 assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Trustee, ADIB, the Delegate or the Dealers which would permit a public offering of any Trust Certificates or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Trust Certificates may be offered or sold, directly or indirectly, and neither this Base 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 Base Prospectus or any Trust Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Trust Certificates. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Trust Certificates in the United States, the European Economic Area (including the United Kingdom), the United Arab Emirates, the Kingdom of Saudi Arabia, Bahrain, Dubai International Financial Centre, Malaysia, Hong Kong and the Cayman Islands, see "*Subscription and Sale*".

This Base Prospectus includes forward-looking statements. All statements other than statements of historical facts included in this Base Prospectus may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology, such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue" or similar terminology. Although ADIB believes that the expectations reflected in its forward-looking statements are reasonable at this time, there can be no assurance that these expectations will prove to be correct.

Certain Publicly Available Information

Certain statistical data and other information appearing in this Base Prospectus have been extracted from public sources. ADIB does not accept responsibility for the factual correctness of any such statistics or information but both the Issuer 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 **US dollars**, **US\$** 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** and **UAE Dirham** are to the lawful currency of the United Arab Emirates. The UAE Dirham has been pegged to the US 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 AED3.6725 = US\$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. In addition, all references in this document to **UAE** are to the United Arab Emirates.

NOTICE TO UK RESIDENTS

The Trust Certificates represent interests in a collective investment scheme (as defined in the Financial Services and Markets Act 2000 (the FSMA) which has not been authorised, recognised or otherwise approved by the Financial Services Authority. Accordingly, this Base 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 Base Prospectus, any Final Terms and any other marketing materials relating to the Trust 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 (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 (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 Base Prospectus, any Final Terms or any other marketing materials in relation to the Trust Certificates.

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

Any individual intending to invest in any investment described in this Base Prospectus 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 Trust Certificates.

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RISK FACTORS

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

Although the Issuer and ADIB believe that the various structural elements described in this Base 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 in respect of the Trust Certificates of any Series on a timely basis or at all.

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

Risk factors relating to the Issuer

At the date of this Base Prospectus, the Issuer is a newly established exempted limited company incorporated on 18 September 2006 and has no operating history. The Issuer will not engage in any business activity other than the issuance of Trust Certificates under the Programme, 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 relating to each Series of Trust Certificates, including the obligation of ADIB to make payments under the Management Agreement and the Purchase Undertaking Deed to the Issuer.

The ability of the Issuer to pay amounts due on the Trust Certificates will primarily be dependent upon receipt by the Issuer from ADIB of all amounts due under the Management Agreement and the Purchase Undertaking Deed (which in aggregate may not be sufficient to meet all claims under the Trust Certificates and the Transaction Documents).

Risk factors 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 and liquidity risks. Whilst ADIB believes it has implemented the appropriate policies, systems and processes to control and mitigate these risks, investors should note that any failure to adequately control these risks could be greater than anticipated and which could result in adverse effects on ADIB's financial condition and reputation.

Credit risks

Credit risks arising from adverse changes in the credit quality and recoverability of loans, 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. See "*Description of Abu Dhabi Islamic Bank PJSC – Risk Management*" for a description of ADIB's exposure to credit risks.

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, 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. See "*Description of Abu Dhabi Islamic Bank PJSC – Risk Management*" for a description of ADIB's exposure to operational risks.

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. See "*Description of Abu Dhabi Islamic Bank PJSC – Risk Management*" for a description of ADIB's exposure to liquidity risks.

Foreign exchange movements may adversely affect ADIB's profitability

ADIB maintains its accounts and reports its results in AED. The UAE Dirham has been pegged at a fixed exchange rate to the U.S. dollar since 22 November 1980. ADIB is exposed to the potential impact of any alteration to or abolition of this foreign exchange peg.

Majority of business in the UAE

ADIB has all its operations and the majority of its assets in the UAE and accordingly 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 generally.

These markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Political, economic and related considerations

The UAE has enjoyed significant economic growth and relative political stability. There can be no assurance that such growth or stability will continue. 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.

No assurance can be given that the UAE Government will not implement regulations or 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, financial condition, results of operations or prospects or which could adversely affect the market price and liquidity of the Trust Certificates.

ADIB's business may be affected if there are geo-political events that prevent ADIB from delivering its services. 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 instability in certain sectors of the UAE or regional economy could have an adverse effect on the ADIB's business, financial condition, results of operations or prospects.

These markets are subject to risks similar to other developed markets, including in some cases significant legal, economic and political risks. 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.

ADIB's financial performance is affected by general economic conditions

Risks arising from changes in credit quality and the recoverability of amounts due from borrowers 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, collaterals and insurance that reduce the credit risk level to be within the ADIB strategy and risk appetite. However, there can be no guarantee that such measures will eliminate or reduce such risks.

Competition

There are an increasing number of Islamic banks and other institutions offering Islamic financial products and services within the UAE. To date there are 4 Islamic banks and a number of financial institutions offering Islamic products and solutions. Other financial institutions may consider offering *Sharia* 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 Gulf Cooperation Council or any other similar entities, it is likely to lead to a more competitive environment for ADIB and other domestic financial institutions.

Principal shareholder

As at 31 August 2006, ADIB's principal beneficial shareholders were the Abu Dhabi Investment Authority (**ADIA**), holding 10 per cent. of ADIB's share capital and representing the Government of Abu Dhabi, members of the ruling family of Abu Dhabi, who together hold 19.7 per cent. of ADIB's share capital, Emirates International Investment Company which holds 4.5 per cent. of ADIB's share capital and the General Pension and Social Security Authority which holds 3 per cent. of ADIB's share capital. The remaining 62.8 per cent. of ADIB's share capital is held by the public. By virtue of their shareholdings, ADIA and the members of the ruling family of Abu Dhabi 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.

Risk factors relating to the Trust Certificates

Absence of secondary market/limited liquidity

There is no assurance that a market for the Trust Certificates of any Series will develop or, if it does develop, that it will continue for the life of such Trust Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Trust Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Trust Certificates may fluctuate and a lack of liquidity, in particular, can have a severe adverse effect on the market value of the Trust Certificates. Accordingly, the purchase of the Trust Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Trust Certificates and the financial and other risks associated with an investment in the Trust Certificates.

The Trust Certificates are limited recourse obligations

Recourse to the Issuer in respect of each Series of Trust Certificates is limited to the Trust Assets of that Series and proceeds of such Trust Assets are the sole source of payments on the relevant Trust Certificates. Upon occurrence of a Dissolution Event, or early dissolution pursuant to Conditions 11.2 (*Early Dissolution for Tax Reasons*) or 11.3 (*Dissolution at the Option of the Issuer*), the sole rights of each of the Issuer, the Trustee, the Delegate and the Certificateholders of the relevant Series of Trust Certificates will be against ADIB to pay the Exercise Price in respect of such Series and otherwise perform its obligations under the Transaction Documents. Certificateholders will otherwise have no recourse to any assets of the Trustee, the Delegate, ADIB, the relevant Dealer, the Issuer and the Principal Paying Agent or any affiliate of any of the foregoing entities in respect of any shortfall in the expected amounts due under the relevant Trust Assets. ADIB is obliged to make certain payments under the Transaction Documents directly to the Issuer, and the Trustee and the Delegate will have direct recourse against ADIB to recover payments due to the Issuer from ADIB pursuant to the Transaction Documents. There can be no assurance that the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets will be sufficient to make all payments due in respect of the Trust Certificates of the relevant Series. Furthermore, under no circumstances shall any Certificateholder, the Trustee or the Delegate have any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Purchase Undertaking Deed and the sole right of the Trustee, the Delegate and the Certificateholders against ADIB shall be to enforce the obligation of ADIB to pay the relevant Exercise Price under the Purchase Undertaking Deed and otherwise perform its obligations under the Transaction Documents.

Risk factors relating to the Co-ownership Assets

Liability attaching to owners of assets

In order to comply with the requirements of *Sharia*, a co-ownership interest in the Co-ownership Assets of each Series will pass to the Issuer in its capacity as trustee under the Master Purchase Agreement and the relevant Supplemental Purchase Contract. The Trustee will declare a trust in respect of its co-ownership interest in such Co-ownership Assets and the other Trust Assets of the relevant Series in favour of the Certificateholders of such Series pursuant to a Supplemental Trust Deed constituting the Series. Accordingly, Certificateholders will have beneficial co-ownership interests in the relevant Co-ownership Assets unless transfer of the Co-ownership Assets is prohibited by, or ineffective under, any applicable law (see "*Transfer of the Co-ownership Assets*" below).

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Co-ownership Assets. Only limited representations will be obtained from ADIB in respect of the Co-ownership Assets of any Series. In particular, the precise terms of the Co-ownership Assets or the nature of the assets leased or sold will not be known (including whether there are any restrictions on transfer or any further obligations required to be performed by ADIB to give effect to the transfer of the co-ownership interest in the relevant Co-ownership Assets). No steps will be taken to perfect any transfer of the co-ownership interest in the relevant Co-ownership Assets or otherwise give notice to any lessee or obligor in respect thereof. Obligors and lessees may have rights of set off or counterclaim against ADIB in respect of such Co-ownership Assets.

In addition, if and to the extent that a third party is able to establish a direct claim against the Issuer, the Trustee or any Certificateholders on the basis of a legal or beneficial ownership in the Co-ownership Assets, ADIB has agreed in the Master Trust Deed to indemnify the Issuer, the Trustee and the Certificateholders against any such liabilities. In the event that ADIB is unable to meet any such claims then the Certificateholders may suffer losses in excess of the original face amount invested.

Transfer of the Co-ownership Assets

No investigation has been or will be made as to whether any interest in any Co-ownership Assets may be transferred as a matter of the law governing the contracts, the law of the jurisdiction where such assets are located or any other relevant law. No investigation will be made to determine if the Master

Purchase Agreement, together with the relevant Supplemental Purchase Contract, will have the effect of transferring a co-ownership interest in the Co-ownership Assets of the relevant Series of Trust Certificates. There are doubts whether, under UAE law, a co-ownership interest in certain assets (in particular those assets which are real estate based) can be effectively transferred. Accordingly, no assurance is given that any co-ownership interest in the relevant Co-ownership Assets has been or will be transferred to the Issuer.

Nevertheless, as indicated earlier, the Certificateholders will not have any rights of enforcement as against the Trust Assets and their rights are limited to enforcement against ADIB of its obligation to purchase the Issuer's co-ownership interest in the Co-ownership Assets pursuant to the terms of the Purchase Undertaking Deed. Accordingly, any such restriction on the ability of ADIB to make a "true sale" of the co-ownership interest in the Co-ownership Assets to the Issuer is likely to be of limited consequence to the rights of the Certificateholders.

By way of further assurance, ADIB has covenanted in the Purchase Undertaking Deed that to the extent that any transfer of a co-ownership interest in any of the Co-ownership Assets is not effective in any jurisdiction for any reason, it will make restitution in respect of those Co-ownership Assets.

Risk factors relating to payments

Periodic Distribution Amount

It is expected that the rate of return on the Co-ownership Assets of each Series will exceed the relevant Periodic Distribution Amount due in respect of such Series. It is expected that pending each Periodic Distribution Date, the Trustee will receive profit collections in respect of the Co-ownership Assets of each Series and that such amounts will be invested in *Sharia* compliant investments.

There is no assurance that such profit collections will be so invested nor any assurance that the rate of return of any such *Sharia* compliant investments will be sufficient to ensure that the Trustee will have sufficient profit collections to pay Periodic Distribution Amounts in respect of any Series of Trust Certificates. Any failure to pay the Periodic Distribution Amount due on a Periodic Distribution Date could constitute a Dissolution Event in respect of the relevant Series of Trust Certificates and, if such Series is not redeemed in accordance with its terms, each other Series of Trust Certificates.

Credit risk

The Issuer will fund the redemption amount payable by it in respect of each Series of Trust Certificates with the Exercise Price paid to it by ADIB under the Purchase Undertaking Deed, see "*Summary of the Principal Transaction Documents – Purchase Undertaking Deed*".

Risk factors relating to taxation

Taxation risks on payments

Payments made by ADIB to the Issuer under the Transaction Documents or by the Issuer in respect of the Trust Certificates could become subject to taxation. The Management Agreement and the Purchase Undertaking Deed 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 Issuer under those documents. Condition 12 (*Taxation*) provides that the Issuer 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 Issuer fails to gross-up for any such withholding or deduction on payments due in respect of the Trust Certificates to Certificateholders, ADIB has, pursuant to the Master Trust Deed, unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Issuer (for the benefit of the Certificateholders) an amount equal to the liabilities of the Issuer in respect of any and all additional amounts required to be paid in respect of the Trust 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 on the taxation of savings income, Member States are required, from 1 July 2005, 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. However, for a transitional period, Belgium, 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 agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If, following implementation of this Directive, 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 Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Trust Certificate as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Risk factors relating to enforcement

UAE bankruptcy law

In the event of ADIB's insolvency, UAE bankruptcy law may adversely affect ADIB's ability to perform its obligations under the Purchase Undertaking Deed and, consequently, the Issuer'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 Trust Certificates under the Programme is based on English law, UAE law and administrative practices in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible change to English law, UAE law or administrative practices after the date of this Base Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Trust Certificates to be issued under the Programme or of ADIB to comply with its obligations under the Transaction Documents.

Enforcement risk

Ultimately the payments under the Trust Certificates are dependent upon ADIB making payments 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 to certain documentation being governed by English law and to the courts of England having exclusive jurisdiction to settle disputes. Notwithstanding that a judgment may be obtained in an English court 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 Trust Certificates. In addition, judicial precedents in Abu Dhabi have no binding effect on subsequent decisions. Court decisions in Abu Dhabi are also generally not recorded. These factors create greater judicial uncertainty in Abu Dhabi.

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. 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 risks

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Trust Certificates. The ratings may not reflect the potential impact of all risks related to the transaction structure, the market, the additional factors discussed above or any other factors that may affect the value of the Trust Certificates. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Suitability of investments

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

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Trust Certificates, the merits and risks of investing in the Trust Certificates and the information contained in this Base Prospectus;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Trust Certificates and the impact the Trust Certificates will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Trust Certificates, including where the currency of payment is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Trust Certificates and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) 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.

Trust Certificates subject to early dissolution by the Issuer

An early dissolution feature of any Trust Certificate is likely to limit its market value. During any period when the Issuer may elect to dissolve Trust Certificates, the market value of those Trust Certificates generally will not rise substantially above the dissolution amount payable. This also may be true prior to any dissolution period.

ADIB's obligations under any Sale Agreement entered into in respect of a Series of Subordinated Trust Certificates are subordinated

ADIB's obligations under any Sale Agreement entered into in respect of a Series of Subordinated Trust Certificates will be unsecured and subordinated and, upon the occurrence of any winding up proceedings with respect to ADIB, will rank junior in priority of payment to obligations owed to Senior Creditors. **Senior Creditors** means all creditors of ADIB (including depositors and, for this purpose, issuers of obligation similar to the Trust Certificates) other than creditors in respect of obligations, where, by the terms of such obligations, the claims of the creditors rank or are expressed to rank *pari passu* with, or junior to, the claims of the Issuer under any Sale Agreement entered into in respect of a Series of Subordinated Trust Certificates.

Although Subordinated Trust Certificates issued by the Issuer may give rise to a higher return than comparable Trust Certificates which are not subordinated, there is a real risk that an investor in Subordinated Trust Certificates will lose all or some of his investment should ADIB become insolvent.

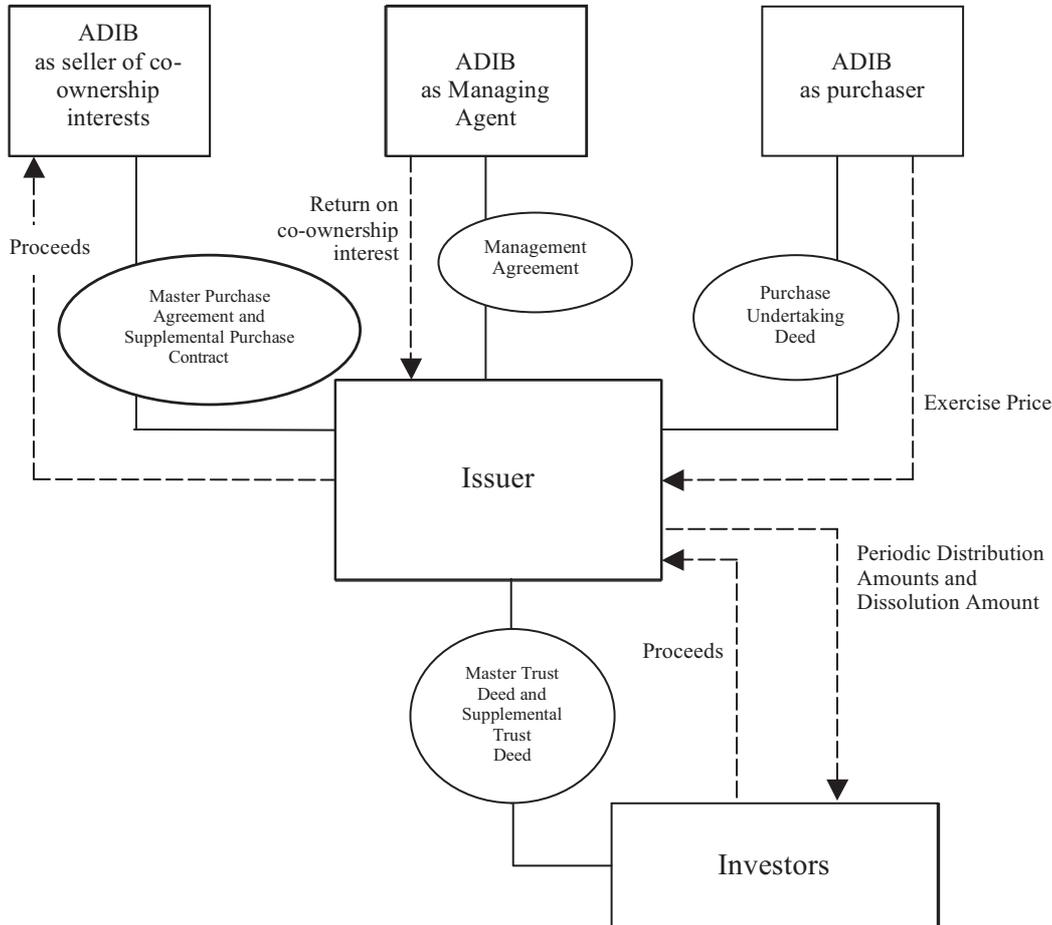
Emerging markets

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. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

STRUCTURE DIAGRAM AND CASHFLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying the transaction. Potential investors are referred to the terms and conditions of the Trust Certificates and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this document for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below.

Structure Diagram



Cashflows

Payments by the Certificateholders and the Issuer

On the Issue Date of each Series of Trust Certificates, the relevant Certificateholders will pay the issue price in respect thereof to the Issuer and the Issuer will pay an equivalent amount to ADIB in respect of the sale and delivery by ADIB of a co-ownership interest in the relevant Co-ownership Assets.

Periodic Payments by ADIB

On each Periodic Distribution Date, ADIB (as Managing Agent) will pay the Issuer an amount representing the Issuer's share of the return on account of profit in respect of the Co-ownership Assets in an amount which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Issuer under the Trust Certificates.

Dissolution Payments

On the Maturity Date, the Issuer will sell its co-ownership interest in the Co-ownership Assets to ADIB and the Exercise Price paid by ADIB is intended to fund the Dissolution Amount payable by the Issuer under the Trust Certificates.

The Trust may be dissolved prior to the Maturity Date for a range of reasons including (i) default or the imposition of Taxes or (ii) in certain cases where so specified in the applicable Final Terms, at the option of the Issuer. In any such case the Dissolution Amount will be funded through the sale of the Issuer's co ownership interest in the Co-ownership Assets to ADIB or action taken to enforce such sale.

GENERAL DESCRIPTION OF THE PROGRAMME

The following is an overview of the principal features of the Programme. This overview does not contain all of the information that an investor should consider before investing in Trust Certificates and is qualified in its entirety by the remainder of this Base Prospectus and the applicable Final Terms. Each investor should read the entire Base Prospectus and the applicable Final Terms carefully, especially the risks of investing in the Trust Certificates issued under the Programme discussed under "Risk Factors."

Words and expressions defined in "Form of the Trust Certificates" and "Terms and Conditions of the Trust Certificates" shall have the same meanings in this general description.

The Programme provides a facility for the issuance of Trust Certificates in series (each, a **Series**). The terms and conditions governing each Series of Trust Certificates will be the "Terms and Conditions of the Trust Certificates" as described herein, as modified or supplemented by the applicable Final Terms. The following is an overview of the principal features of the Trust Certificates.

On the occasion of each issuance of Trust Certificates, the Issuer will receive contributions from the Certificateholders representing the proceeds of the Trust Certificates in the amount specified in the relevant Supplemental Trust Deed.

The Issuer (acting in its capacity as Trustee) has agreed to apply, on each occasion on which Trust Certificates of a Series are issued, the net proceeds of the issue of such Trust Certificates to purchase a co-ownership interest in certain *ijara* (lease) contracts (the **Co-ownership Assets**) from ADIB pursuant to a master purchase agreement dated on or about 1 December 2006 between the Issuer, the Trustee and ADIB (the **Master Purchase Agreement**). The co-ownership interests of the Issuer and ADIB in the Co-ownership Assets of each Series will be set out in the applicable Final Terms.

The initial Co-ownership Assets relating to each Series of Trust Certificates will be the subject of, and specified in, a Supplemental Purchase Contract between the Issuer, the Trustee and ADIB (each a **Supplemental Purchase Contract**).

ADIB has agreed to manage the Co-ownership Assets relating to each Series of Trust Certificates pursuant to a management agreement dated on or about 1 December 2006 between, *inter alios*, the Issuer, the Trustee and ADIB (the **Management Agreement**).

The Managing Agent will maintain a Collection Account in respect of each Series of Trust Assets. All monies received by the Managing Agent in respect of Co-ownership Assets of each Series will be credited to the Collection Account and applied by the Managing Agent in a defined order of priority. In particular, profit received in respect of the Issuer's co-ownership interest in the Co-ownership Assets of each Series of Trust Certificates will, after investment (if applicable) in short-term *Sharia* compliant investments and after paying the expenses of the relevant Trust (as defined below), be paid into the relevant Transaction Account and applied to make periodic distributions in respect of the relevant Series on the relevant Periodic Distribution Date, as more particularly described in the Conditions. Principal collections received in respect of the Issuer's co-ownership interest in the Co-ownership Assets of each Series of Trust Certificates will be reinvested by the Managing Agent on behalf of the Issuer in acquiring from ADIB co-ownership interests in additional *ijara* contracts originated by ADIB for the relevant Trust in respect of that Series of Trust Certificates. Any such additional co-ownership interests will form part of the Trust Assets of the relevant Series of Trust Certificates.

Pursuant to the terms of the Management Agreement, the Managing Agent shall, where relevant and available, procure the *takaful* (insurance) of Co ownership Assets against certain risks (including without limitation, fire, flooding and natural perils) in an amount sufficient to reinstate the assets in full, and shall:

- (a) ensure that such insurance is provided by a reputable insurer and one which is at all times in good financial standing;

- (b) make such enquiries and obtain such assurances as it deems fit to ensure that paragraph (a) above is, and shall at all times be, fully complied with;
- (c) ensure that such insurance is otherwise satisfactory to ensure compliance with the Managing Agent's obligations under the Management Agreement;
- (d) diligently make and pursue any claim under such insurance; and
- (e) ensure that nothing is done or omitted to be done by it which is contrary to the terms of any such insurance, or which might result in such insurance being restrained, repudiated, vitiated, cancelled, made void or voidable, or otherwise become prejudiced or impaired.

Any insurance proceeds received by the Managing Agent in respect of the Co-ownership Assets will be treated as Co-ownership Revenues and applied in accordance with the Management Agreement.

If the Managing Agent breaches its obligations, including its obligations in relation to insurance, under the Management Agreement, the Managing Agent shall be liable to indemnify the Issuer in accordance with the Management Agreement.

The Managing Agent shall also provide *Sharia* compliant funding (without recourse to the Co-ownership Assets) to ensure that, among other matters, the Issuer's entitlement to the Co-ownership Revenues is paid to the Issuer on a timely basis and in accordance with the Management Agreement.

ADIB has agreed to purchase the Issuer's co-ownership interest in the outstanding Co-ownership Assets of each Series of Trust Certificates on the relevant Maturity Date or, as the case may be, on the relevant Dissolution Date (as defined in the Conditions) pursuant to a purchase undertaking deed dated on or about 1 December 2006 executed by ADIB (the **Purchase Undertaking Deed**), to be supplemented, at the time of each such purchase, by a Sale Agreement (each a **Sale Agreement**) substantially in the form annexed to the Purchase Undertaking Deed and containing the specific terms applicable to the relevant purchase. The price payable by ADIB pursuant to each such Sale Agreement will be an amount equal to (a) the Aggregate Face Amount (as specified in the applicable Final Terms) of the relevant Series of Trust Certificates, and (b) the amount of payable but unpaid Periodic Distribution Amounts on such date (including any additional amounts payable pursuant to Condition 12 (*Taxation*)). The Trustee will distribute the proceeds of sale of the Issuer's co-ownership interests in the Co-ownership Assets of the relevant Series of Trust Certificates to Certificateholders of the relevant Series in the amounts required to be paid in respect of the relevant Trust Certificates under the Conditions or as otherwise specified in the Final Terms applicable to such Series.

Pursuant to a master trust deed (the **Master Trust Deed**) dated on or about 1 December 2006 between the Issuer, the Trustee, ADIB and HSBC Trustee (C.I.) Limited (in its capacity as the Trustee's delegate, the **Delegate**), as the same will be supplemented (on the occasion of the issue of each Series of Trust Certificates) by a supplemental trust deed (each, a **Supplemental Trust Deed**) in respect of the relevant Series of Trust Certificates, the Issuer (acting in its capacity as Trustee) will declare a trust (each, a **Trust**) over, *inter alia*, the Issuer's co-ownership interests in the Co-ownership Assets, its rights under the Purchase Undertaking Deed and certain other documents which it has entered into and any amounts it may have deposited in the Transaction Account in relation to the relevant Series of Trust Certificates, subject to the terms of the relevant Supplemental Trust Deed.

The Issuer will act as trustee in respect of the Trust Assets for the benefit of Certificateholders of each Series in accordance with the Master Trust Deed, the relevant Supplemental Trust Deed and the Conditions. Under the Master Trust Deed, the Issuer will unconditionally and irrevocably delegate authority to the Delegate to take all necessary action on its behalf should a Dissolution Event (as set forth in Condition 14) occur.

Following the distribution of the Trust Assets to the Certificateholders in accordance with the Conditions and the Master Trust Deed, the Trustee shall not be liable for any further sums, and accordingly the Certificateholders may not take any action against the Trustee or any other person to recover any such sum, in respect of the Trust Certificates or the Trust Assets.

The Trustee shall not be bound in any circumstances to take any action to enforce or to realise such Trust Assets or take any action against ADIB under any Transaction Documents to which ADIB is a party unless directed or requested to do so by the Certificateholders in accordance with the Conditions, and then only to the extent indemnified to its satisfaction.

No Certificateholder shall be entitled to proceed directly against ADIB unless (i) the Trustee, having become bound so to proceed, fails to do so within 30 days of becoming so bound and such failure is continuing and (ii) the relevant Certificateholder (together with the other Certificateholders who propose to proceed directly against ADIB) holds at least one-fifth of the aggregate face amount of the Trust Certificates then outstanding.

The foregoing is subject to the following: after enforcing or realising such Trust Assets and distributing the net proceeds of the Trust Assets in accordance with Condition 5.2, the obligations of the Trustee in respect of such Trust Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee to recover any further sums in respect of such Trust Certificates and the right to receive any such sums unpaid shall be extinguished. Under no circumstances shall the Trustee or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Purchase Undertaking Deed, and the sole right of the Trustee and the Certificateholders against ADIB shall be to enforce the obligation of ADIB to pay the Dissolution Amount and amounts due under the Transaction Documents.

Certificateholders, by subscribing for or acquiring Trust Certificates, acknowledge that no recourse may be had for the payment of any amount owing in respect of any Trust Certificates against the Trustee, the Issuer or the Delegate, in any circumstances whatsoever, or the relevant Trust to the extent the relevant Trust Assets have been exhausted, following which all obligations of the Trustee, Issuer, the Delegate and the relevant Trust shall be extinguished.

Certificateholders should note that through, *inter alia*, the Purchase Undertaking Deed, the Trustee and the Delegate will have recourse to ADIB and the ability of the Issuer to pay the amounts due in respect of the Trust Certificates will ultimately be dependent on ADIB.

A description of ADIB is included within this Base Prospectus under "*Description of Abu Dhabi Islamic Bank PJSC*" below.

Certain Transaction Documents are described in more detail in "*Summary of the Principal Transaction Documents*" below.

Issuer and Trustee:	ADIB Sukuk Company Ltd., a company incorporated in accordance with the laws of, and formed and registered in, the Cayman Islands.
Obligor:	Abu Dhabi Islamic Bank PJSC.
Ownership of the Issuer:	The authorised share capital of the Issuer is US\$50,000 consisting of 50,000 shares of US\$1 each, of which 250 shares are fully paid up and issued. The Issuer's entire issued share capital is held by Maples Finance Limited, P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands under the terms of a trust for charitable purposes.
Administration of the Issuer:	The affairs of the Issuer are managed by Maples Finance Limited (the Issuer Administrator), who will provide, amongst other things, certain administrative services for and on behalf of the Issuer pursuant to the Corporate Services Agreement dated on or about 30 November 2006 between, <i>inter alia</i> , the Issuer and the Issuer Administrator (the Corporate Services Agreement).

Arranger:	HSBC Bank plc
Dealers:	HSBC Bank plc and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	<p>Each issue of Trust Certificates denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "<i>Subscription and Sale</i>") including the following restrictions applicable at the date of this Base Prospectus.</p> <p>The proceeds of any issue of Trust Certificates will not be accepted in the United Kingdom.</p>
Delegate:	HSBC Trustee (C.I.) Limited
Principal Paying Agent, Calculation Agent, Transfer Agent, Registrar and Replacement Agent:	HSBC Bank plc
Payment Administrator:	HSBC Bank plc will act as payment administrator (the Payment Administrator) under the Agency Agreement. The Payment Administrator is authorised to transfer funds standing to the credit of the Transaction Account to an account of the Principal Paying Agent in order to enable the Issuer to make payments in respect of the Trust Certificates, subject to and in accordance with the Agency Agreement.
Programme Size:	Up to US\$5,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Trust Certificates may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Maturities:	The Trust Certificates will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Trust Certificates may only be issued on a fully-paid basis and at an issue price which is at par.
Form of Trust Certificates:	The Trust Certificates will be issued in registered form as described in " <i>Form of the Trust Certificates</i> ".

Status:	Each Trust Certificate will evidence an undivided beneficial ownership interest of the Certificateholders in the Trust Assets of the relevant Series, will be a limited recourse obligation of the Issuer and will rank <i>pari passu</i> , without any preference or priority, with all other Trust Certificates of the relevant Series issued under the Programme.
Periodic Distributions:	Certificateholders are entitled to receive Periodic Distribution Amounts calculated on the basis specified in the applicable Final Terms.
Redemption of Trust Certificates:	Trust Certificates shall be redeemed at the Dissolution Amount as may be specified in the applicable Final Terms.
Denomination of Trust Certificates:	The Trust Certificates will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Trust Certificate will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see " <i>Certain Restrictions</i> " above, and save that the minimum denomination of each Trust Certificate admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €50,000 (or, if the Trust Certificates are denominated in a currency other than euro, the equivalent amount in such currency).
Dissolution Events:	Upon the occurrence of any Dissolution Event, the Trust Certificates may be redeemed on the Dissolution Date at 100 per cent. of their face amount and the relevant Return Accumulation Period may be adjusted accordingly. See Condition 14 (<i>Dissolution Events</i>).
Optional Dissolution:	If so specified in the applicable Final Terms, a Series of Trust Certificates may be dissolved prior to its scheduled dissolution in the circumstances set out in Condition 11.2 (<i>Early Dissolution for Tax Reasons</i>) and Condition 11.3 (<i>Dissolution at the Option of the Issuer</i>).
Withholding Tax:	All payments in respect of Trust Certificates by the Issuer shall be made without withholding or deduction for, or on account of, any taxes, levies, imposts, duties, fees, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction. In the event that any such withholding or deduction is made, the Issuer will, save in the limited circumstances provided in Condition 12 (<i>Taxation</i>), be required to pay additional amounts so that the holders of the Trust Certificates will receive the full amounts that they would have received in the absence of such withholding or deduction.
Negative Pledge:	The Purchase Undertaking Deed contains a negative pledge given by ADIB. See " <i>Summary of the Principal Transaction Documents</i> ".

Cross Default:	The Purchase Undertaking Deed contains a cross default provision in relation to ADIB. See <i>“Summary of the Principal Transaction Documents”</i> .
Covenants:	The Issuer has given certain restrictive covenants in the Master Trust Deed, as more fully set out in Condition 6 (<i>Covenants</i>).
Subordination:	The obligation of ADIB under the Sale Agreement in respect of certain Series of Trust Certificates (referred to as Subordinated Trust Certificates) will be subordinated as described in Condition 4.2.
Ratings:	The ratings assigned to each Series of Trust Certificates to be issued under the Programme will be specified in the applicable Final Terms.
Listing and admission to trading:	<p>Application has been made to the UK Listing Authority for Trust Certificates issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Trust Certificates to be admitted to trading on the London Stock Exchange’s Gilt Edged and Fixed Interest Market.</p> <p>Trust Certificates may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Trust Certificates which are neither listed nor admitted to trading on any market may also be issued.</p> <p>The applicable Final Terms will state whether or not the relevant Trust Certificates are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.</p>
Governing Law and Jurisdiction:	<p>The Trust Certificates will be governed by, and construed in accordance with, English law.</p> <p>The Master Trust Deed, each Supplemental Trust Deed, the Programme Agreement, the Agency Agreement, the Purchase Undertaking Deed, the Costs Undertaking Deed and the Certificates will be governed by English law and subject to the exclusive jurisdiction of the English courts. In addition, in respect of any dispute under any such Transaction Document to which it is a party, ADIB has consented to arbitration in accordance with the Rules of The London Court of International Arbitration if the Issuer (as Trustee) so requires.</p> <p>The remaining Transaction Documents (other than the Corporate Services Agreement) will be governed by the federal laws of the UAE. The courts of Abu Dhabi have non-exclusive jurisdiction to hear all disputes relating to them.</p> <p>The Corporate Services Agreement will be governed by the laws of the Cayman Islands. The courts of the Cayman Islands have jurisdiction to hear all disputes relating to it.</p>
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Trust Certificates in the United States, the European Economic Area (including the United Kingdom), the United Arab Emirates, the Kingdom of Saudi Arabia, Bahrain, Dubai International

Financial Centre, Malaysia, Hong Kong and the Cayman Islands and such other restrictions as may be required in connection with the offering and sale of a particular Series of Trust Certificates, see "*Subscription and Sale*".

United States Selling Restrictions: Regulation S, Category 2.

FORM OF THE TRUST CERTIFICATES

The Trust Certificates of each Series will be in registered form. Trust Certificates will be issued outside the United States in reliance on Regulation S under the U.S. Securities Act of 1933, as amended.

Each Series of Trust Certificates will initially be represented by a global trust certificate in registered form (a **Global Trust Certificate**). Global Trust Certificates will be deposited with a common depository (the **Common Depository**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) and will be registered in the name of a nominee for the Common Depository. Persons holding beneficial interests in Global Trust Certificates will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Trust Certificates in fully registered form.

Payments of any amount in respect of the Global Trust Certificates will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 2.2 (*Register*)) as the registered holder of the Global Trust Certificates. None of the Issuer, the Trustee, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Global Trust Certificates or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payment of any amounts in respect of Trust Certificates in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 1.1 (*Definitions*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Global Trust Certificate will be exchangeable (free of charge), in whole but not in part, for definitive Trust Certificates only upon the occurrence of an Exchange Event. The Issuer will promptly give notice to Certificateholders in accordance with Condition 17 (*Notices*) if an Exchange Event occurs. For these purposes, **Exchange Event** means that (i) a Dissolution Event (as defined in Condition 14 (*Dissolution Events*)) has occurred and is continuing or (ii) the Issuer 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 holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Global Trust Certificate) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Trustee may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

For so long as any of the Trust Certificates is represented by a Global Trust Certificate held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular face amount of such Trust Certificates (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the face amount of such Trust 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 treated by the Issuer and its agents as the holder of such face amount of such Trust Certificates for all purposes other than with respect to any payment on such face amount of such Trust Certificates, for which purpose the registered holder of the relevant Global Trust Certificate shall be treated by the Issuer, the Trustee and their respective agents as the holder of such face amount of such Trust Certificates in accordance with and subject to the terms of the relevant Global Trust Certificate and the expressions **Certificateholder** and **holder of Trust Certificates** and related expressions shall be construed accordingly.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Series of Trust Certificates issued under the Programme.

[Date]

ADIB Sukuk Company Ltd.

**Issue of [Aggregate Face Amount of Series] [Title of Trust Certificates]
under the
US\$5,000,000,000
Trust Certificate Issuance Programme**

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 1 December 2006 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Trust Certificates described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer, Abu Dhabi Islamic Bank PJSC and the offer of the Trust Certificates is only available on the basis of a combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at the registered office of the Issuer at P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands and the Principal Paying Agent at [address] and copies may be obtained from those offices.

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

[The proceeds of any issue of Trust Certificates should not be accepted in the United Kingdom.]

- | | |
|---|--|
| 1. Issuer and Trustee: | ADIB Sukuk Company Ltd. |
| 2. Obligor: | Abu Dhabi Islamic Bank PJSC |
| 3. Series Number: | [] |
| 4. Specified Currency: | [] |
| 5. Aggregate Face Amount of Series: | [] |
| 6. Issue Price: | 100 per cent. of the Aggregate Face Amount |
| 7. Specified Denominations:
<i>(this means the minimum integral amount in which transfers can be made)</i> | []
[] |

(N.B. If an issue of Trust Certificates is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €50,000 minimum denomination is not required.)

8. (a) Issue Date: []
- (b) Return Accrual Commencement Date: [Issue Date][specify other]
9. Maturity Date: *[Specify date or (for Floating Periodic Distribution Trust Certificates) Periodic Distribution Date falling in or nearest to the relevant month and year.]*
10. Periodic Distribution Amount Basis: [[] per cent. Fixed Periodic Distribution Amount] *[[specify reference rate] +/- [] per cent. Floating Periodic Distribution Amount]*
(further particulars specified below)
11. Dissolution Basis: Dissolution at par
12. Change of Periodic Distribution Basis: *[Specify details of any provision for convertibility of Trust Certificates into another Periodic Distribution basis.] [Not Applicable]*
13. Call Options: [Not Applicable]
[Optional Dissolution (Call)]
[further particulars specified below]
14. Subordination: [Applicable/Not Applicable]
15. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO PERIODIC DISTRIBUTIONS PAYABLE

16. Fixed Periodic Distribution Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Rate(s): [] per cent. per annum [payable [annually/ semi-annually/quarterly/monthly] in arrear]
- (b) Periodic Distribution Date(s): [[] in each year up to and including the Maturity Date] *[specify other]*
- (c) Fixed Amount(s): [] per Trust Certificate of [] Specified Denomination [and [] per Trust Certificate of [] Specified Denomination]
- (d) Broken Amount(s): []
(Insert particulars of any initial or final broken Periodic Distribution Amounts which do not correspond with the Fixed Amount(s) specified under paragraph 16(c))
- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or [specify other]]
- (f) Determination Date(s): [] in each year
[Insert regular periodic distribution dates, ignoring issue date or maturity date in the case of a long or short first or last return accumulation period]
N.B. This will need to be amended in the case of regular periodic distribution dates which are not of equal duration

N.B. Only relevant where Day Count Fraction is Actual/Actual (ISMA)]

- (g) Other terms relating to the method of calculating Fixed Periodic Distributions: [Not Applicable/give details]
17. Floating Periodic Distribution Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Specified Periodic Distribution Dates: [] [Not Applicable]
(Specified Period and Specified Periodic Distribution Dates are alternatives. If the Business Day Convention is the Floating Rate Convention, insert "Not Applicable")
- (b) Specified Period: [] [Not Applicable]
(Specified Period and Specified Periodic Distribution Dates are alternatives. A Specified Period, rather than Specified Periodic Distribution Dates, will only be relevant if the Business Day Convention is the Floating Rate Convention. Otherwise, insert "Not Applicable")
- (c) Business Day Convention: [Floating Rate Convention / Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention / *[specify other]*]
- (d) Additional Business Centre(s): [Not Applicable/give details]
- (e) Manner in which the Rate(s) is/are to be determined: [Screen Rate Determination (Condition 8.3 (Screen Rate Determination) applies/specify other]
- (f) Screen Rate Determination: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub paragraphs of this paragraph)
- (i) Reference Rate: [For example, LIBOR or EURIBOR]
- (ii) Periodic Distribution Determination Date: []
(Second London business day prior to the start of each Return Accumulation Period if LIBOR (other than Sterling or euro LIBOR), first day of each Return Accumulation Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Return Accumulation Period if EURIBOR or euro LIBOR)
- (iii) Relevant Screen Page: [For example, Telerate page [3750/248]]
- (iv) Relevant Time: [For example, 11.00 a.m. London time/Abu Dhabi time]
- (g) Margin: []

- (h) Day Count Fraction: [Actual/365
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
Other]
(See Condition 8 for alternatives)
- (i) Calculation Agent: [Principal Paying Agent] [specify other]
- (j) Other terms relating to the method of calculating Floating Periodic Distributions: [Not Applicable] [give details]

PROVISIONS RELATING TO DISSOLUTION

18. Optional Dissolution (Call) [Applicable/Not Applicable]
(If not applicable, delete the remaining sub paragraphs of this paragraph)
- (a) Optional Dissolution Amount: [Final Dissolution Amount] [[] per Trust Certificate of [] Specified Denomination] [specify other]
- (b) Optional Dissolution Date: [Any Periodic Distribution Date] [specify other]
- (c) Notice period (if other than as set out in the Conditions): []
19. Final Dissolution Amount: [] per Trust Certificate of Specified Denomination] [specify other]
20. Early Dissolution Amount (Tax): [Final Dissolution Amount] [[] per Trust Certificate of [] Specified Denomination] [specify other]

GENERAL PROVISIONS APPLICABLE TO THE TRUST CERTIFICATES

21. Form of Trust Certificates: Global Trust Certificate exchangeable for Trust Certificates in definitive registered form in the limited circumstances specified in the Global Trust Certificate
22. Additional Financial Centre(s): []

(Note that this item relates to the place of payment and not Return Accumulation Period end dates, to which item 17(d) relates)

PROVISIONS IN RESPECT OF THE CO-OWNERSHIP ASSETS

23. Co-ownership Assets on the Issue Date: As scheduled to the Supplemental Purchase Contract dated [], a copy of which schedule is set out in the Annex hereto
24. Co-ownership interests in the Co-ownership Assets: Issuer: [] per cent.
ADIB: [] per cent.
25. Trust Assets: [Condition 5.1 (Trust Assets) applies] [specify other]

26. Details of Transaction Account: ADIB Sukuk Company Ltd. Transaction Account No: [Series No.: 1/2/3 etc] with []
27. Other Transaction Document Information:
- (a) Supplemental Trust Deed: Supplemental Trust Deed dated [] between the Issuer, the Trustee, ADIB and the Delegate
- (b) Supplemental Purchase Contract: Supplemental Purchase Contract dated [] between the Issuer, the Trustee and ADIB
- (c) Late Payment Percentage: [] per cent. per annum
(For the purpose of Clause 3.5 of the Purchase Undertaking Deed)
28. Other final terms: [Not Applicable/give details]
(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive)

DISTRIBUTION

29. (a) If syndicated, names of Managers: [Not Applicable/give names]
- (b) Date of Subscription Agreement: []
30. If non-syndicated, name of relevant Dealer: []
31. Additional selling restrictions: [Not Applicable/give details]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Trust Certificates described herein pursuant to the US\$5,000,000,000 Trust Certificate Issuance Programme of ADIB Sukuk Company Ltd.]

RESPONSIBILITY

Each of the Issuer and the Obligor accepts responsibility for the information contained in these Final Terms. To the best of the knowledge and belief of each of the Issuer and the Obligor (having taken all reasonable care to ensure that such is the case) the information contained in these Final Terms is in accordance with the facts and does not omit anything likely to affect the import of such information. [] has been extracted from []. Each of the Issuer and the Obligor 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 [], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of ADIB Sukuk Company Ltd. Signed on behalf of Abu Dhabi Islamic Bank PJSC

By: _____ By: _____
Duly authorised Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing: [London] [*specify other*] [None]
- (ii) Admission to trading: [Application has been made for the Trust Certificates to be admitted to trading on [] with effect from []] [Not Applicable]
- (iii) Estimate of total expenses related to admission to trading: []

2. RATINGS

Ratings: The Trust Certificates to be issued have been rated:

[S & P: []]

[Moody's: []]

[Fitch: []]

[[*Other*]: []]

(The above disclosure should reflect the rating allocated to Trust Certificates of the type being issued under the Programme generally or, where the issue has been specially rated, that rating).

3. NOTIFICATION

The Financial Services Authority [has been requested to provide/has provided – *include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues*] the [*names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealer], so far as each of the Issuer and the Obligor is aware, no person involved in the issue of the Trust Certificates has an interest material to the offer. – *Amend as appropriate if there are other interests.*]

5. YIELD (*Fixed Periodic Distribution Trust Certificates only*)

Indication of yield: []
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6. OPERATIONAL INFORMATION

- (i) ISIN Code: []
- (ii) Common Code: []

- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s) [Not Applicable/give name(s) and number(s)]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): []

Annex 1

Co-ownership Assets*

* *Insert Schedule of initial Co-ownership Assets contained in relevant Supplemental Purchase Contract once in final form.*

TERMS AND CONDITIONS OF THE TRUST CERTIFICATES

The following is the text of the Terms and Conditions of the Trust Certificates, which will be endorsed on each Trust Certificate in definitive registered form issued under the Programme. The applicable Final Terms in relation to any series of Trust Certificates may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Trust Certificates.

ADIB Sukuk Company Ltd. (in its capacity as issuer, the **Issuer** and, in its capacity as trustee, the **Trustee**, which latter expression shall include the Delegate (as defined below)) has established a programme (the **Programme**) for the issuance of up to US\$5,000,000,000 in aggregate face amount of Trust Certificates.

Trust Certificates issued under the Programme are issued in series (each a **Series**). The final terms for this Trust Certificate (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Trust Certificate which supplement these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Trust Certificate. References to the **applicable Final Terms** are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Trust Certificate.

Each of the Trust Certificates will represent an undivided beneficial ownership (real ownership) interest in the Trust Assets which are held by the Trustee on trust (the **Trust**) for, *inter alia*, the benefit of the registered holders of the Trust Certificates pursuant to (i) a Master Trust Deed (the **Master Trust Deed**) dated 1 December 2006 and made between the Issuer, the Trustee, Abu Dhabi Islamic Bank PJSC (**ADIB**) and HSBC Trustee (C.I.) Limited (the **Delegate**) and (ii) a supplemental trust deed (the **Supplemental Trust Deed** and, together with the Master Trust Deed, the **Trust Deed**) having the details set out in the applicable Final Terms.

In these Conditions, references to **Trust Certificates** shall be references to the Trust Certificates which are the subject of the applicable Final Terms.

Payments relating to the Trust Certificates will be made pursuant to an agency agreement dated on or about 1 December 2006 (the **Agency Agreement**) made between the Issuer, the Trustee, ADIB and HSBC Bank plc in its capacities as principal paying agent (in such capacity, the **Principal Paying Agent**, which expression shall include any successor), payment administrator (in such capacity, the **Payment Administrator**, which expression shall include any successor), calculation agent (in such capacity, the **Calculation Agent**, which expression shall include any successor), transfer agent (in such capacity, the **Transfer Agent**, which expression shall include any successor), replacement agent (in such capacity, the **Replacement Agent**, which expression shall include any successor) and registrar (in such capacity, the **Registrar**, which expression shall include any successor) and, together with the Principal Paying Agent, the Payment Administrator, the Calculation Agent, the Transfer Agent and the Replacement Agent, the **Agents**).

Subject as set below, copies of the documents set out below are available for inspection and obtainable free of charge during normal business hours at the specified office for the time being 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 documents set out below:

- (a) a master purchase agreement between the Issuer, the Trustee and ADIB dated on or about 1 December 2006 (the **Master Purchase Agreement**);
- (b) the Supplemental Purchase Contract (the **Supplemental Purchase Contract** and, together with the Master Purchase Agreement, the **Purchase Agreement**) having the details set out in the applicable Final Terms;

- (c) a management agreement between, *inter alia*, the Issuer, the Trustee and ADIB as managing agent (the **Managing Agent**) dated on or about 1 December 2006 (the **Management Agreement**);
- (d) a purchase undertaking deed entered into by ADIB dated on or about 1 December 2006 (the **Purchase Undertaking Deed**), containing the form of Sale Agreement (the **Sale Agreement**) to be executed by ADIB, the Issuer and the Trustee on the Maturity Date or, as the case may be, the Dissolution Date;
- (e) the Trust Deed;
- (f) the Agency Agreement;
- (g) a corporate services agreement between Maples Finance Limited (as provider of corporate services to the Issuer) and the Issuer dated on or about 30 November 2006 (the **Corporate Services Agreement**);
- (h) a programme agreement between the Issuer, the Trustee, ADIB and the Dealers dated on or about 1 December 2006 (the **Programme Agreement**);
- (i) a costs undertaking deed entered into by ADIB dated on or about 1 December 2006 (the **Costs Undertaking Deed**); and
- (j) the applicable Final Terms.

The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Each initial Certificateholder, by its acquisition and holding of its interest in a Trust Certificate, shall be deemed to authorise and direct the Issuer (acting as trustee on behalf of the Certificateholders) to apply the sums paid by it in respect of its Trust Certificates to purchase from ADIB a co-ownership interest in ADIB's undivided rights, title and interest in the Co-ownership Assets and to enter into each Transaction Document to which it is a party, subject to the terms and conditions of the Trust Deed and these Conditions.

1. INTERPRETATION

1.1 Definitions

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

Calculation Agent means the Principal Paying Agent or such other Person specified in the applicable Final Terms as the party responsible for calculating the Periodic Distribution Amount and/or such other amount(s) as may be specified in the applicable Final Terms in accordance with Condition 8;

Co-owners means the Issuer and ADIB and **Co-owner** shall be construed accordingly;

Co-ownership Assets means (i) the initial portfolio of assets in relation to the Trust Certificates as more particularly described in the Supplemental Purchase Agreement and the applicable Final Terms and (ii) any further assets in which the Issuer acquires a co-ownership interest in accordance with the terms of the Management Agreement provided that any assets in which the Issuer ceases to have a co-ownership interest shall not thereafter be deemed to be Co-ownership Assets;

Co-ownership Liabilities Amount means the amount of any claims, losses, costs and expenses properly incurred or suffered by the Managing Agent in providing the services;

Co-ownership Revenues means all rental, sale proceeds or consideration, damages, insurance proceeds, compensation or other sums received by the Managing Agent in whatever currency in connection with the Co-ownership Assets;

Dissolution Amount means, as appropriate, the Final Dissolution Amount, the Early Dissolution Amount (Tax), the Optional Dissolution Amount (Call) or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the applicable Final Terms;

Dissolution Date means, as the case may be, (a) following the occurrence of a Dissolution Event (as defined in Condition 14 (*Dissolution Events*)), the date on which the Trust Certificates are dissolved in accordance with the provisions of Condition 14 (*Dissolution Events*), (b) the date on which the Trust Certificates are dissolved in accordance with the provisions of Condition 11.2 (*Early Dissolution for Tax Reasons*), or (c) the Optional Dissolution Date (Call) in accordance with the provisions of Condition 11.3 (*Dissolution at the Option of the Issuer*);

Encumbrance means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or arrangement having a similar effect.

Extraordinary Resolution has the meaning given in Schedule 4 to the Master Trust Deed;

Indebtedness means any present or future indebtedness of any person for or in respect of any money borrowed or raised including (without limitation) any borrowed money or liability arising under or in respect of any acceptance or acceptance credit or evidenced by any notes, bonds, debentures, debenture stock, loan stock or other securities or any moneys raised under any transaction having the commercial effect of borrowing or raising money;

Liability means any loss, damage, cost, charge, claim, demand, expense, judgment, action, proceeding or liability whatsoever (including, without limitation, in respect of taxes, duties, levies, imposts and other charges) and including any value added tax or similar tax charged or chargeable in respect thereof and legal fees and expenses on a full indemnity basis;

Payment Business Day means:

- (a) a day on which banks in the relevant place of surrender of the Certificate of Registration are open for presentation and payment of registered securities and for dealings in foreign currencies; and
- (b) in the case of payment by transfer to an account:
 - (i) if the currency of payment is euro, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
 - (ii) if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the principal financial centre of the currency of payment and in each (if any) Additional Financial Centre;

Periodic Distribution Amount means, in relation to a Trust Certificate and a Return Accumulation Period, the amount of profit distribution payable in respect of that Trust Certificate for that Return Accumulation Period which amount may be a Fixed Amount, a Broken Amount or an amount otherwise calculated in accordance with Condition 7 (*Fixed Periodic Distribution Provisions*) or Condition 8 (*Floating Periodic Distribution Provisions*);

Permitted Encumbrance means any Encumbrance:

- (a) arising solely by operation of law;

- (b) that is granted to any third party and which has been disclosed to the Trustee as at the date of the Supplemental Purchase Contract or to which the Trustee subsequently agrees;

Person means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

Rate means the rate or rates (expressed as a percentage per annum) representing a defined share of the profits distributable by the Trustee in respect of the Trust Certificates specified in the applicable Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the applicable Final Terms;

Rating Agencies means Fitch Ratings Limited, Moody's Investors Service Limited and Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. and their successors, and each a **Rating Agency**;

Record Date means the date falling on the fifteenth day before the relevant Periodic Distribution Date;

Reference Banks means the principal London office of each of four major banks engaged in the London or Eurozone inter-bank market selected by or on behalf of the Issuer, provided that once a Reference Bank has first been selected by the Issuer or its duly appointed representative, such Reference Bank shall not be changed unless it ceases to be capable of acting as such;

Relevant Date means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the principal financial centre of the currency of payment by the Principal Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Certificateholders by the Trustee in accordance with Condition 17 (*Notices*);

Relevant Jurisdiction means the Cayman Islands and the United Arab Emirates;

Relevant Screen Page means the page, section or other part of a particular information service (including, without limitation, the Reuter Money 3000 Service and the Telerate Service) specified as the Relevant Screen Page in the applicable Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

Stock Exchange means, in relation to the Trust Certificates, the stock exchange or exchanges (if any) on which the Trust Certificates are for the time being quoted or listed;

Subsidiary means, in relation to any Person (the **first Person**) at any particular time, any other Person (the **second Person**):

- (i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

TARGET Settlement Day means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the **TARGET System**) is open;

Taxes means any taxes, levies, imposts, duties, fees, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction, and all interest, penalties or similar liabilities with respect thereto;

Transaction Account means the account in the Issuer's name, details of which are specified in the applicable Final Terms;

Transaction Documents means the Purchase Agreement, the Management Agreement, the Purchase Undertaking Deed, the Trust Deed, the Costs Undertaking Deed, the Agency Agreement, the Corporate Services Agreement, the Programme Agreement, any Subscription Agreement (as defined in the Programme Agreement) and any Sale Agreement;

Treaty means the Treaty establishing the European Communities, as amended; and

Trust Assets means the assets, rights, cash or investments described in Condition 5.1 (*Trust Assets*).

1.2 Interpretation

In these Conditions:

- (a) any reference to face amount shall be deemed to include the Dissolution Amount, any additional amounts (other than relating to Periodic Distribution Amounts) which may be payable under Condition 12 (*Taxation*), and any other amount in the nature of face amounts payable pursuant to these Conditions;
- (b) any reference to Periodic Distribution Amounts shall be deemed to include any additional amounts in respect of profit distributions which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of a profit distribution payable pursuant to these Conditions;
- (c) references to Trust Certificates being "outstanding" shall be construed in accordance with the Agency Agreement; and
- (d) any reference to a Transaction Document shall be construed as a reference to that Transaction Document as amended and/or supplemented up to and including the Issue Date.

2. FORM, DENOMINATION AND TITLE

2.1 Form and Denomination

The Trust Certificates are issued in registered form in the Specified Denominations. If the Trust Certificates have more than one Specified Denomination, Trust Certificates of one Specified Denomination will not be exchangeable for Trust Certificates of another Specified Denomination. The Trust Certificates are serially numbered.

For so long as any of the Trust Certificates is represented by a Global Trust Certificate held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular face amount of such Trust Certificates (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the face amount of such Trust Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error or proven error) shall be treated by the Issuer, the Trustee, ADIB and the Agents as the holder of such face amount of such Trust Certificates for all purposes other than with respect to payment in respect of such Trust Certificates, for which purpose the registered holder of the Global Trust Certificate shall be treated by the Issuer, the Trustee, ADIB and any Agent as the holder of such face amount of such Trust Certificates in accordance with and subject to the terms of the relevant Global Trust Certificate and the expressions **Certificateholder** and **holder** in relation to any Trust Certificates and related expressions shall be construed accordingly.

Trust Certificates which are represented by a Global Trust Certificate will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

2.2 Register

The Registrar will maintain a register (the **Register**) of Certificateholders in respect of the Trust Certificates in accordance with the provisions of the Agency Agreement. A certificate of registration (each a **Certificate of Registration**) will be issued to each Certificateholder in respect of its entire registered holding of Trust Certificates and will be serially numbered with an identifying number which will be recorded also on the Register.

2.3 Title

The Issuer, the Trustee, ADIB and the Agents may (to the fullest extent permitted by applicable laws) deem and treat the person in whose name any outstanding Trust Certificate is for the time being registered (as set out in the Register) as the holder of such Trust Certificate or of a particular face amount of the Trust Certificates for all purposes (whether or not such Trust Certificate or face amount shall be overdue and notwithstanding any notice of ownership thereof or of trust or other interest with regard thereto, and any notice of loss or theft or any writing thereon), and the Issuer, the Trustee, ADIB and the Agents shall not be affected by any notice to the contrary.

All payments made to such registered holder shall be valid and, to the extent of the sums so paid, effective to satisfy and discharge the liability for moneys payable in respect of such Trust Certificate or face amount.

3. TRANSFERS OF TRUST CERTIFICATES AND ISSUE OF CERTIFICATES

3.1 Transfers

Subject to Conditions 3.4 (*Closed periods*) and 3.5 (*Regulations*), a Trust Certificate may be transferred in whole or in an amount equal to the Specified Denomination or any integral multiple thereof by depositing the Certificate of Registration issued in respect of that Trust Certificate, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar.

3.2 Delivery of new Certificates of Registration

Each new Certificate of Registration to be issued upon transfer of Trust Certificates will, within five business days of receipt by the Registrar of the duly completed form of transfer endorsed on the relevant Certificate of Registration, be mailed by uninsured mail at the risk of the holder entitled to the Trust 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 Registrar is located.

Where some but not all of the Trust Certificates in respect of which a Certificate of Registration is issued are to be transferred, a new Certificate of Registration in respect of the Trust Certificates not so transferred will, within five business days of receipt by the Registrar of the original Certificate of Registration, be mailed by uninsured mail at the risk of the holder of the Trust 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 transfer of Trust Certificates will be effected without charge by or on behalf of the Issuer and the Registrar but upon payment (or the giving of such indemnity as the Issuer and the Registrar may reasonably require) in respect of any 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 Trust Certificate to be registered during the period of 15 days ending on a Periodic Distribution Date, the Maturity Date, a Dissolution Date or any other date on which any payment of the face amount or payment of any profit in respect of a Trust Certificate falls due.

3.5 Regulations

All transfers of Trust Certificates and entries on the Register will be made subject to the detailed regulations concerning the transfer of Trust Certificates scheduled to the Master Trust Deed. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests one. Among other things, such regulations require the following: The Issuer shall ensure that the Registrar maintains the Register showing the amount of the outstanding Trust Certificates (with each Trust Certificate bearing an identifying serial number), the issue dates and the names and addresses of the holders of the Trust Certificates. The Trustee and the holders of Trust Certificates may inspect the Register. The Trust Certificates are transferable (in whole or in part) and the Certificate of Registration in respect of the Trust Certificates to be transferred must be delivered for registration to the specified office of the Registrar with the form of transfer, which may be obtained from the Registrar, endorsed and accompanied by such other evidence as the Issuer may require to prove the title of the transferor or his right to transfer the Trust Certificates. The holder of Trust Certificates shall be entitled to receive in accordance with Condition 3.2 (*Delivery of New Certificates of Registration*) only one Certificate of Registration in respect of his entire holding of Trust Certificates. In the case of a transfer of a portion of the face amount of a Certificate of Registration, a new Certificate of Registration in respect of the balance of the Trust Certificates not transferred will be issued to the transferor in accordance with Condition 3.2 (*Delivery of New Certificates of Registration*).

4. STATUS, SUBORDINATION AND LIMITED RECOURSE

4.1 Status

Each Trust Certificate evidences an undivided beneficial ownership (real ownership) interest in the Trust Assets subject to the terms of the Trust Deed, the Purchase Undertaking Deed, the Sale Agreement and these Conditions and is a limited recourse obligation of the Issuer. Each Trust Certificate ranks *pari passu*, without any preference or priority, with all other Trust Certificates.

4.2 Subordination

If Subordination is indicated in the applicable Final Terms as being applicable, the payment obligations of ADIB under the Purchase Undertaking Deed (to the extent that it applies to this Trust Certificate), the Sale Agreement and any other Transaction Document (to the extent that it applies to this Trust Certificate) (the **Relevant Obligations**) will be subordinated to all unsubordinated obligations of ADIB in the manner described below but will rank *pari passu* with all other subordinated obligations of ADIB which do not rank or are not expressed by their terms to rank junior to the Relevant Obligations and in priority to all claims of shareholders of ADIB. The rights of the Issuer and the Trustee against ADIB under the Relevant Obligations are subordinated in right of payment to the claims of all Senior Creditors of Issuer and the Trustee

and accordingly payments in respect of the Relevant Obligations by ADIB are conditional upon ADIB being solvent at the time of such payment and no payment shall be payable by ADIB in respect of any Relevant Obligation except to the extent that ADIB could make such payment and any other payment required to be made to a creditor in respect of obligations which rank or are expressed to rank *pari passu* with the Relevant Obligations and still be solvent immediately thereafter. For this purpose ADIB shall be solvent if (i) it is able to pay its debts as they fall due and (ii) its assets exceed its liabilities, and the **Senior Creditors** shall mean creditors of ADIB (including depositors and, for this purpose, issuers of obligation similar to the Trust Certificates) other than creditors in respect of obligations where, by the terms of such obligations, the claims of the creditors rank or are expressed to rank *pari passu* with, or junior to, the claims of the Issuer in respect of the Relevant Obligations.

The Issuer and 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 in respect of 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 Limited Recourse

Proceeds of the Trust Assets are the sole source of payments on the Trust Certificates. The Trust Certificates do not represent an interest in any of the Issuer, the Trustee, ADIB, any of the Agents or any of their respective affiliates. Accordingly, Certificateholders will have no recourse to any assets of the Issuer (other than the Trust Assets), the Trustee (including, in particular other assets comprised in other trusts, if any), ADIB (to the extent it fulfils all of its obligations under the relevant 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. However, ADIB is obliged to make the payments under the relevant Transaction Documents to which it is a party directly to the Issuer and the Issuer, as trustee for and on behalf of Certificateholders, will have direct recourse against ADIB to recover payments due to the Issuer 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 Trust Certificates. If, following distribution of such proceeds, there remains a shortfall in payments due under the Trust Certificates, subject to Condition 15 (*Enforcement and Exercise of Rights*), no Certificateholder will have any claim against the Issuer, the Trustee, the Agents or ADIB (to the extent it fulfils all of its obligations under the relevant Transaction Documents to which it is a party) or any of their affiliates or other assets in respect of such shortfall and any unsatisfied claims of the Certificateholders shall be extinguished. In particular, no Certificateholder 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, ADIB (to the extent it fulfils all of its obligations under the relevant Transaction Documents to which it is a party) or any of their affiliates as a consequence of such shortfall or otherwise.

4.4 Agreement of Certificateholders

By purchasing the Trust Certificates, each Certificateholder agrees that notwithstanding anything to the contrary contained herein or in any other Transaction Document:

- (a) no payment of any amount whatsoever shall be made by any of the Issuer, the Trustee or the Trust or any of their respective agents on their 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 other Transaction Document, whether for the payment of any fee or other amount hereunder or any other

obligation or claim arising out of or based upon any Transaction Document, 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, the Trustee and the Trust shall be extinguished; and

- (b) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer 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.

5. THE TRUST

5.1 Trust Assets

Unless otherwise specified in the Supplemental Purchase Contract and the applicable Final Terms, the Trust Assets will comprise:

- (a) the Issuer's co-ownership interest in the Co-ownership Assets;
- (b) the rights, titles, interests and benefits, present and future, of the Issuer and the Trustee in, to and under the Transaction Documents;
- (c) all monies standing to the credit of the Transaction Account; and
- (d) any other assets, rights, cash or investments as may be specified in the applicable Final Terms,

and all proceeds of the foregoing.

5.2 Application of Proceeds from the Trust Assets

Pursuant to the Trust Deed, the Trustee holds the Trust Assets for and on behalf of the holders of the Certificates. On each Periodic Distribution Date, or on any Dissolution Date, the Payment Administrator, notwithstanding any instructions to the contrary from the Trustee, will apply the monies standing to the credit of the Transaction Account in the following order of priority:

- (a) first, to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate;
- (b) second, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;
- (c) third, only if such payment is made on the Maturity Date or any Dissolution Date, to the Principal Paying Agent in or towards payment *pari passu* and rateably of the Dissolution Amount; and
- (d) fourth, only if such payment is made on the Maturity Date or any Dissolution Date, to the Issuer.

The Management Agreement provides that the Managing Agent will maintain a Collection Account in respect of the Trust Assets and will pay certain monies credited to this account to the Transaction Account on or prior to each Periodic Distribution Date. See "Summary of the Principal Transaction Documents - Management Agreement - Operation of Collection Accounts" below.

6. COVENANTS

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

- (a) incur any indebtedness in respect of borrowed money whatsoever, 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) other than the Trust Certificates issued under the Programme;
- (b) secure any of its present or future indebtedness for borrowed money by 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 other than a Permitted Encumbrance), any part of (i) its title to the Co-ownership Assets or any interest therein except pursuant to any Transaction Document or (ii) its interests in any of the other Trust Assets except pursuant to any Transaction Document;
- (d) use the proceeds of the issue of the Trust Certificates for any purpose other than as set out in the applicable Final Terms;
- (e) amend or agree to any amendment of any Transaction Document to which it is a party, or its memorandum and articles of association, in a manner which is materially prejudicial to the rights of holders of outstanding Trust Certificates (it being accepted that an increase in the aggregate face amount of the Programme will not be materially prejudicial to such rights) 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;
- (f) act as trustee in respect of any trust other than the Trust corresponding to a Series of Trust Certificates issued from time to time pursuant to the Programme;
- (g) have any subsidiaries or employees;
- (h) redeem 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 or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it, otherwise than for the purposes of, or pursuant to, an amalgamation, reorganisation or restructuring whilst solvent; 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 Trust Assets as provided in the Transaction Documents; and
 - (iii) such other matters which are incidental thereto.

7. FIXED PERIODIC DISTRIBUTION PROVISIONS

7.1 Application

This Condition 7 is applicable to the Trust Certificates only if the Fixed Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable.

7.2 Periodic Distribution Amount

A Periodic Distribution Amount representing a defined share of the profit in respect of the Co-ownership Assets for the Trust Certificates will be payable in respect of the Trust Certificates and be distributable by the Issuer to the Certificateholders in accordance with these Conditions.

7.3 Determination of Periodic Distribution Amount

Except as provided in the applicable Final Terms, the Periodic Distribution Amount payable in respect of each Trust Certificate for any Return Accumulation Period shall be the Fixed Amount and, if the Trust Certificates are in more than one Specified Denomination, shall be the Fixed Amount in respect of the relevant Specified Denomination. Payments of Periodic Distribution Amount on any Periodic Distribution Date may, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, **Return Accumulation Period** means the period from (and including) a Periodic Distribution Date (or the Return Accumulation Commencement Date) to (but excluding) the next (or first) Period Distribution Date.

If any Periodic Distribution Amount is required to be calculated for a period other than a Return Accumulation Period or if no relevant Fixed Amount or Broken Amount is specified in the applicable Final Terms, such Periodic Distribution Amount shall be calculated by applying the Rate to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

Day Count Fraction means, in respect of the calculation of Periodic Distribution Amount in accordance with this Condition 7.3:

- (a) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:
 - (i) in the case of Trust Certificates where the number of days in the relevant period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accumulation Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (ii) in the case of Trust Certificates where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such

Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

- (b) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accumulation Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Return Accrual Commencement Date or the final Periodic Distribution Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

7.4 Payment in Arrear

Subject to Condition 7.5 (*Cessation of Profit Entitlement*), Condition 11.2 (*Early Dissolution for Tax Reasons*), Condition 11.3 (*Dissolution at the Option of the Issuer*) and Condition 14 (*Dissolution Events*) below, and unless otherwise specified in the applicable Final Terms, each Periodic Distribution Amount will be paid in respect of the relevant Trust Certificates in arrear on each Periodic Distribution Date.

7.5 Cessation of Profit Entitlement

No further amounts will be payable on any Trust Certificate from and including the Maturity Date or, as the case may be, the Dissolution Date.

8. FLOATING PERIODIC DISTRIBUTION PROVISIONS

8.1 Application

This Condition 8 is applicable to the Trust Certificates only if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable.

8.2 Periodic Distribution Amount

A Periodic Distribution Amount representing a defined share of the profit in respect of the Co ownership Assets for the Trust Certificates will be payable in respect of the Trust Certificates and be distributable by the Issuer to the Certificateholders in accordance with these Conditions. Such Periodic Distribution Amounts will be payable in arrear on either:

- (a) the Specified Periodic Distribution Date(s) in each year specified in the applicable Final Terms; or
- (b) if no Specified Periodic Distribution Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Periodic Distribution Date, a **Periodic Distribution Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Periodic Distribution Date or, in the case of the first Periodic Distribution Date, after the Return Accumulation Commencement Date.

Such Periodic Distribution Amounts will be payable in respect of each Return Accumulation Period.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which a Periodic Distribution Date should occur or (y) if any Periodic Distribution Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 8.2(b) above, the Floating Rate Convention, such Periodic Distribution Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Periodic Distribution Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Periodic Distribution Date occurred; or
- (B) the Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, **Business Day** means a day which is both:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre) or (ii) in relation to any sum payable in euro, a day on which the TARGET System is open.

8.3 Screen Rate Determination

If Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate(s) is/are to be determined, the Rate applicable to the Trust Certificates for each Return Accumulation Period will be determined by the Calculation Agent on the following basis:

- (a) if the Reference Rate specified in the applicable Final Terms is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;
- (b) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;

- (c) if, in the case of (a) above, such rate does not appear on that page or, in the case of (b) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
 - (i) request each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Periodic Distribution Determination Date to prime banks in the London or Eurozone interbank market, as the case may be, in an amount that is representative for a single transaction in that market at that time; and
 - (ii) determine the arithmetic mean of such quotations; and
- (d) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the principal financial centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the principal financial centre of the Specified Currency) on the first day of the relevant Return Accumulation Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Return Accumulation Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate for such Return Accumulation Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Return Accumulation Period, the Rate applicable to the Trust Certificates during such Return Accumulation Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Trust Certificates in respect of a preceding Return Accumulation Period.

8.4 Cessation of Profit Entitlement

No further amounts will be payable on any Trust Certificate from and including the Maturity Date or, as the case may be, the Dissolution Date.

8.5 Calculation of Periodic Distribution Amount

The Calculation Agent will, as soon as practicable after the time at which the Rate is to be determined in relation to each Return Accumulation Period, calculate the Periodic Distribution Amount payable in respect of each Trust Certificate for such Return Accumulation Period. The Periodic Distribution Amount will be calculated by applying the Rate applicable to the relevant Return Accumulation Period to the face amount (in the case of a Trust Certificate in global form) or Specified Denomination (in the case of a Trust Certificate in individual registered form) of such Trust Certificate during such Return Accumulation Period, multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards).

Day Count Fraction means, in respect of the calculation of a Periodic Distribution Amount in accordance with this Condition 8:

- (a) if "Actual/365" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 365 (or, if any portion of that Return Accumulation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Return Accumulation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Return Accumulation Period falling in a non-leap year divided by 365);
- (b) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 365;

- (c) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 365 or, in the case of a Periodic Distribution Date falling in a leap year, 366;
- (d) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 360;
- (e) if “30/360” “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Return Accumulation 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 (unless (A) the last day of the Return Accumulation Period is the 31st day of a month but the first day of the Return Accumulation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (B) the last day of the Return Accumulation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (f) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Return Accumulation 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, without regard to the date of the first day or last day of the Return Accumulation Period unless, in the case of the final Return Accumulation Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

8.6 Calculation of Other Amounts

If the applicable Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the applicable Final Terms.

8.7 Publication

The Calculation Agent will cause each Rate and Periodic Distribution Amount determined by it, together with the relevant Periodic Distribution Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Trust Certificates have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate, Periodic Distribution Amount and Periodic Distribution Date) in any event not later than the first day of the relevant Return Accumulation Period. Notice thereof shall also promptly be given to the Certificateholders. The Calculation Agent will be entitled to recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Return Accumulation Period.

8.8 Notifications, etc. to be final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 8 by the Calculation Agent will (in the absence of wilful default, bad faith or manifest or proven error) be binding on the Issuer, the Trustee, the Principal Paying Agent and all Certificateholders (in the absence as referred to above). No liability to the Issuer, the Trustee, ADIB, the Principal Paying Agent or the Certificateholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition 8.

9. PAYMENT

Payment of Dissolution Amounts and Periodic Distribution Amounts will be made by transfer to the registered account (as defined below) of the Certificateholder or by cheque drawn on a bank that processes payments in the Specified Currency mailed to the registered address of the Certificateholder if it does not have a registered account. Payments of Dissolution Amounts and payments of Periodic Distribution Amounts due otherwise than on a Periodic Distribution Date will only be made against surrender of the relevant Certificate of Registration at the specified office of the Registrar or the Principal Paying Agent. Periodic Distribution Amounts due on a Periodic Distribution Date will be paid to the holder shown on the Register at the close of business on the Record Date.

For the purposes of this Condition, a Certificateholder's **registered account** means the account in the Specified Currency maintained by or on behalf of such Certificateholder with a bank that processes payments in the Specified Currency, details of which appear on the Register at the close of business, in the case of face amounts and Periodic Distribution Amounts due otherwise than on a Periodic Distribution Date, on the second Payment Business Day before the due date for payment and, in the case of face amounts and Periodic Distribution Amounts due on a Periodic Distribution Date, on the relevant Record Date, and a Certificateholder's registered address means its address appearing on the Register at that time.

All such payments will be made subject to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions described in Condition 12 (*Taxation*).

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, for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Payment Business Day preceding the due date for payment or, in the case of a payment of face amounts or Periodic Distribution Amounts due otherwise than on a Periodic Distribution Date, if later, on the Payment Business Day on which the relevant Certificate of Registration is surrendered at the specified office of the Registrar or the Principal Paying Agent.

Unless otherwise specified in the applicable Final Terms, Certificateholders will not be entitled to any payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the Certificateholder is late in surrendering its Certificate of Registration (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

If the amount of any Dissolution Amount or Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount of such Dissolution Amount or Periodic Distribution Amount in fact paid.

10. AGENTS

10.1 Agents of Issuer

In acting under the Agency Agreement and in connection with the Trust Certificates, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Certificateholders.

10.2 Specified Offices

The names of the initial Agents and their initial specified offices are set out below. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents *provided, however, that:*

- (a) there will at all times be a Principal Paying Agent;
- (b) there will at all times be a Registrar;
- (c) so long as any Trust Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, there will at all times be a Paying Agent and a Transfer Agent having its specified office in such place (if any) as may be required by the rules of such listing authority, stock exchange and/or quotation system;
- (d) there will at all times be a Replacement Agent;
- (e) there will at all times be a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced to conform to, such Directive; and
- (f) there will at all times be a Calculation Agent.

Notice of any termination or appointment and of any changes in specified offices will be given to the Certificateholders promptly by the Issuer in accordance with Condition 17 (*Notices*).

11. CAPITAL DISTRIBUTIONS OF TRUST

11.1 Scheduled Dissolution

Unless the Trust Certificates are redeemed earlier, each Trust Certificate will be redeemed on the Maturity Date at its Final Dissolution Amount together with any Periodic Distribution Amount payable. Upon payment in full of such amounts and the termination of the Trust, the Trust Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer and the Trustee shall have no further obligations in respect thereof.

11.2 Early Dissolution for Tax Reasons

The Trust may be dissolved at the option of the Issuer (with the prior written consent of ADIB) in whole, but not in part:

- (a) at any time (if the Floating Periodic Distribution Provisions are not specified in the applicable Final Terms as being applicable); or
- (b) on any Periodic Distribution Date (if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Certificateholders in accordance with Condition 17 (*Notices*) (which notice shall be irrevocable), at their Early Dissolution Amount (Tax), together with Periodic Distribution Amounts accrued (if any) to the Dissolution Date, if:

- (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 12 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction or, by any authority in or of a Relevant Jurisdiction having a power tax), which change or amendment becomes effective on or after the Issue Date; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of dissolution shall be given earlier than:

- (A) where the Trust Certificates may be dissolved at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Trust Certificates were then due; or
- (B) where the Trust Certificates may be dissolved only on a Periodic Distribution Date, 60 days prior to the Periodic Distribution Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Trust Certificates were then due.

Prior to the publication of any notice of dissolution pursuant to this paragraph, the Issuer shall deliver to the Principal Paying Agent (a) a certificate signed by two directors of the Issuer, which shall be binding on the Certificateholders, stating that the Trustee is entitled to effect such dissolution and setting forth a statement of facts showing that the conditions precedent in (i) and (ii) above to the right of the Trustee so to dissolve have occurred, and (b) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 11.2, the Trustee shall be bound to dissolve the Trust Certificates in accordance with this Condition 11.2. Upon such dissolution as aforesaid and the termination of the Trust, the Trust Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer and the Trustee shall have no further obligations in respect thereof.

11.3 Dissolution at the Option of the Issuer

If the Optional Dissolution (Call) option is specified in the applicable Final Terms as being applicable, the Trust shall be dissolved in whole but not in part on any Optional Dissolution Date at the relevant Optional Dissolution Amount together with Periodic Distribution Amounts accrued (if any) to the Optional Dissolution Date on the Issuer (with the prior written consent of ADIB) giving not less than 30 nor more than 60 days' notice to the Certificateholders in accordance with Condition 17 (*Notices*) (which notice shall be irrevocable and shall oblige the Trustee to dissolve the Trust Certificates on the relevant Optional Dissolution Date). Upon payment in full of such amounts and the termination of the relevant Trust, the Trust Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer and the Trustee shall have no further obligations in respect thereof.

11.4 No Other Optional Early Dissolution

The Issuer shall not be entitled to redeem the Trust Certificates, and the Trustee shall not be entitled to dissolve the Trust, at its option otherwise than as provided in Conditions 11.1 (*Scheduled Dissolution*), 11.2 (*Early Dissolution for Tax Reasons*) and 11.3 (*Dissolution at the Option of the Issuer*) above.

11.5 Cancellation

All Trust Certificates which are redeemed will forthwith be cancelled and destroyed and accordingly may not be held, reissued or resold.

12. TAXATION

All payments in respect of the Trust Certificates shall be made without withholding or deduction for, or on account of, any Taxes, unless the withholding or deduction of the Taxes is required by law. In such event, the Issuer will pay to the Certificateholders additional amounts so that the full amount which otherwise would have been due and payable under the Trust Certificates is received by parties entitled thereto, except that no such additional amount shall be payable to any Certificateholder:

- (a) who is liable for such Taxes in respect of such Trust Certificate by reason of having some connection with any Relevant Jurisdiction other than the mere holding of such Trust 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 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (c) where the Certificate of Registration is required to be presented for payment and is presented for payment by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate of Registration to another Paying Agent in a Member State of the European Union; or
- (d) where (in the case of the payment of face amounts or Periodic Distribution Amounts on dissolution) the relevant Certificate of Registration is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Certificateholder would have been entitled to such additional amount if it had surrendered the relevant Certificate of Registration on the last day of such period of 30 days.

13. PRESCRIPTION

The rights to receive distributions in respect of the Trust Certificates will be forfeited unless claimed within periods of 10 years (in the case of Dissolution Amounts) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof.

14. DISSOLUTION EVENTS

If any of the following events occurs and is continuing (each, a **Dissolution Event**):

- (a) default is made in the payment of the Dissolution 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
- (b) the Issuer fails duly to perform or comply with any of the obligations expressed to be assumed by it in the Transaction Documents; or
- (c) an ADIB Event (as defined in the Purchase Undertaking Deed) occurs; or
- (d) the Issuer repudiates any Transaction Document or does or causes to be done any act or thing evidencing an intention to repudiate any Transaction Document; or
- (e) at any time it is or will become unlawful for the Issuer (by way of insolvency or otherwise) to perform or comply with any of its obligations under the Transaction Documents or any of the obligations of the Issuer under the Transaction Documents are not or cease to be legal, valid, binding and enforceable,

then the Trustee at its discretion may, and if so requested in writing by Certificateholders representing not less than one-fifth in face amount of the Trust Certificates for the time being outstanding (subject to being indemnified and/or secured to its satisfaction) shall, by written notice addressed to the Issuer and ADIB, declare the Trust Certificates to be immediately due and payable, whereupon they shall become immediately due and payable at their Dissolution Amount together with accrued Periodic Distribution Amounts (if any). Notice of any such declaration shall promptly be given to the Certificateholders in accordance with Condition 17 (*Notices*). Upon payment in full of such amounts, the Trust Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer and the Trustee shall have no further obligations in respect thereof.

For the purpose of (a) above, amounts shall be considered due in respect of the Trust Certificates (including for the avoidance of doubt any amounts calculated as being payable under Condition 7 (*Fixed Periodic Distribution Provisions*), Condition 8 (*Floating Periodic Distribution Provisions*) and Condition 11 (*Capital Distributions of Trust*)) notwithstanding that the Issuer or the Trustee has at the relevant time insufficient funds or Trust Assets to pay such amounts.

15. ENFORCEMENT AND EXERCISE OF RIGHTS

15.1 Enforcement

Upon the occurrence of a Dissolution Event, to the extent that the amounts payable in respect of the Trust Certificates have not been paid in full pursuant to Condition 14 (*Dissolution Events*), the Trustee shall, upon being requested in writing by Certificateholders representing not less than one-fifth in face amount of the Trust Certificates for the time being outstanding (subject to being indemnified and/or secured to its satisfaction), take one or more of the following steps:

- (a) enforce the provisions of the Purchase Undertaking Deed and the Sale Agreement against ADIB; and/or
- (b) take such other steps as the Trustee may consider necessary in its absolute discretion to protect the interests of the Certificateholders.

Notwithstanding the foregoing, the Trustee may at any time, at its discretion and without notice, take such proceedings and/or other steps as it may think fit against or in relation to each of the Issuer and/or ADIB to enforce their respective obligations under the Transaction Documents, the Conditions and the Trust Certificates.

15.2 Limitation on liability of the Trustee

Following the distribution of the proceeds of the Trust Assets in respect of the Trust Certificates to the Certificateholders in accordance with these Conditions and the Trust Deed, the Trustee shall not be liable for any further sums, and accordingly no Certificateholder may take any action against the Trustee or any other person (other than ADIB) to recover any such sum in respect of the Trust Certificates or Trust Assets.

15.3 Trustee not obliged to take action

The Trustee shall not be bound in any circumstances to take any action to enforce or to realise the Trust Assets or take any action against ADIB under any Transaction Document to which ADIB is a party unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least one-fifth in aggregate face amount of the Certificates then outstanding and, in each case, indemnified and/or secured to its satisfaction.

15.4 Direct enforcement by Certificateholders

No Certificateholder shall be entitled to proceed directly against the Issuer or ADIB unless (i) the Trustee, having become bound so to proceed, fails to do so within 30 days of becoming so bound and such failure is continuing and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against ADIB) holds at least one-fifth of the aggregate face amount of the Trust Certificates then outstanding. Under no circumstances shall the Trustee or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Purchase Undertaking Deed, and the sole right of the Trustee and the Certificateholders against ADIB shall be to enforce the obligation of ADIB to pay the Exercise Price under the Purchase Undertaking Deed and any other amounts due by it under the Transaction Documents.

15.5 Limited recourse

Conditions 15.2 (*Limitation on liability of the Trustee*), 15.3 (*Trustees not obliged to take action*) and 15.4 (*Direct enforcement by Certificateholders*) are subject to this Condition 15.5. After distributing the net proceeds of the Trust Assets in accordance with Condition 5.2 (*Application of Proceeds from the Trust Assets*), the obligations of the Trustee in respect of the Trust Certificates shall be satisfied and no holder of the Trust Certificates may take any further steps against the Trustee to recover any further sums in respect of the Trust Certificates and the right to receive any such sums unpaid shall be extinguished. In particular, no holder of the Trust Certificates shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee nor shall any of them have any claim in respect of the trust assets of any other trust established by the Trustee.

16. REPLACEMENT OF CERTIFICATES OF REGISTRATION

Should any Certificate of Registration be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Replacement Agent 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 Issuer may reasonably require. Mutilated or defaced Certificates of Registration must be surrendered before replacements will be issued.

17. NOTICES

All notices regarding Trust Certificates will be deemed to be validly given if published in one or more leading English language daily newspapers of general circulation in London and the Gulf region. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and *Gulf News* in the Gulf region. The Issuer 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 Trust Certificates are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

Until such time as any definitive Trust Certificates are issued, there may, so long as the Global Trust Certificate representing the Certificates is held in its entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Trust Certificates. Any such notice shall be deemed to have been given to the holders of the Trust Certificates on the third day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with the relative Trust Certificate or Trust Certificates, with the Principal Paying Agent.

18. MEETINGS OF CERTIFICATEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

- 18.1 The Master Trust Deed contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. 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 a majority in face amount of the Trust 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 Trust Certificates held or represented by him or them except that any meeting the business of which includes the modification of certain provisions of the Trust Certificates (including modifying the Maturity Date, reducing or cancelling any amount payable in respect of the Trust Certificates or altering the currency of payment of the Trust Certificates or amending certain covenants given by the Issuer in the Master Trust Deed), the quorum shall be one or more persons present holding or representing not less than 75 per cent. in aggregate face amount of the Trust 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 Trust 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 holders of the Trust Certificates, whether or not they are present at the meeting and whether or not voting.

- 18.2 The Trustee 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 Trust Deed or determine, without any such consent as aforesaid, that any Dissolution Event shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Certificateholders or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest or proven error.
- 18.3 In connection with the exercise by it of any of the powers, trusts, authorities and discretions vested in it (including, without limitation, any modification, waiver, authorisation or determination), the Trustee 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 Trustee shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Trustee 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*).
- 18.4 Any modification, abrogation, waiver, authorisation or determination shall be binding on all the Certificateholders and shall be notified to the Certificateholders as soon as practicable thereafter in accordance with Condition 17 (*Notices*).

19. INDEMNIFICATION AND LIABILITY OF THE TRUSTEE

- 19.1 The Trust Deed contains provisions for the indemnification of the Trustee in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction.
- 19.2 The Trustee makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of ADIB under any Transaction Document 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 payment which should have been made by ADIB, but is 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 Trust Deed.
- 19.3 The Trustee is exempted from (i) any liability in respect of any loss or theft of the Trust Assets or any cash, (ii) any obligation to insure the Trust Assets or any cash and (iii) 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 depository 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 default or misconduct of the Trustee.

- 19.4 Subject to Condition 14 (*Dissolution Events*) and Condition 15 (*Enforcement and Exercise of Rights*), the Trustee waives any right to be indemnified by the Certificateholders in circumstances where the Trust Assets are insufficient therefor.

20. **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 the Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21. **GOVERNING LAW AND SUBMISSION TO JURISDICTION**

The Trust Deed is governed by, and will be construed in accordance with, English law.

The Issuer has in the Trust Deed irrevocably and unconditionally agreed that the courts of England are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Trust Deed (**Proceedings**) and has accordingly submitted to the exclusive jurisdiction of the English courts. This submission is made for the benefit of the Trustee and the Certificateholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

The Issuer has also agreed to waive any objection to the Proceedings on the grounds that they are an inconvenient or inappropriate forum.

Without limiting the rights of the Certificateholders under this Condition 21, any dispute arising from or connected with the Trust Certificates (including any dispute regarding the existence, validity or termination of the Trust Certificates (each a **Dispute**)) may be referred by any Certificateholder to arbitration in Paris in accordance with the rules of the London Court of International Arbitration (the **Rules**), the Rules being incorporated into this Condition 21 by reference. The number of arbitrators shall be three and the arbitration shall be conducted in English. Any arbitration award so made shall be binding.

The Issuer has in the Trust Deed appointed an agent for service of process and has undertaken that, in the event of such agent ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Trustee as its agent for service of process in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any matter permitted by law.

USE OF PROCEEDS

The net proceeds of each Series of Trust Certificates issued under the Programme will be applied by the Issuer for the purchase of a co-ownership interest in the Co-ownership Assets of the relevant Series from ADIB.

DESCRIPTION OF THE ISSUER

General

ADIB Sukuk Company Ltd., a Cayman Islands exempted company with limited liability, was incorporated on 18 September, 2006 under the Companies Law (2004 Revision) of the Cayman Islands with company registration number 174190. The Issuer has been established as a special purpose vehicle for the sole purpose of issuing Trust Certificates under the Programme and entering into the transactions contemplated by the Transaction Documents. The registered office of the Issuer is at P.O. Box 1093GT, Queensgate House, South Church Street, George Town, 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 Maples Finance Limited as share trustee (the **Share Trustee**) under the terms of a declaration of trust (the **Declaration of Trust**) dated 30 November 2006 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 Certificateholders or Qualified Charities (as defined in the Declaration of Trust). It is not anticipated that any distribution will be made whilst any Trust 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 has no prior operating history or prior business and will not have any substantial liabilities other than in connection with the Trust Certificates to be issued under the Programme. The Trust 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 18 September, 2006.

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:
Guy Major	Senior Vice President of Maples Finance Limited
Carlos Farjallah	Vice President of Maples Finance Limited
Stephen O'Donnell	Senior Vice President of Maples Finance Limited

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

Maples Finance Limited will also act as the corporate administrator of the Issuer (in such capacity, the **Corporate Administrator**). The office of the Corporate Administrator will serve as the general business office of the Issuer. Through the office, and pursuant to the terms of a corporate services agreement to be entered into between the Issuer and the Corporate Administrator (the **Corporate Services**

Agreement), the Corporate Administrator will perform in the Cayman Islands various administrative functions on behalf of the Issuer, including communications with shareholders and the general public, and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. 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 provide that the Issuer may terminate the appointment of the Corporate Administrator by giving 14 days' notice to the Corporate Administrator at any time within 12 months of the happening of any certain stated events, including any breach by the Corporate Administrator of its obligations under the Corporate Services Agreement. In addition, the Corporate Services Agreement provides that the Corporate Administrator shall be entitled to retire from its appointment by giving at least three months' notice in writing.

The Corporate Administrator will be subject to the overview of the Issuer's Board of Directors. The Corporate Services Agreement may be terminated, (other than as stated above) by either the Issuer or the Corporate Administrator giving the other party at least three months' written notice.

The Corporate Administrator's principal office is P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands.

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

SELECTED FINANCIAL INFORMATION

The following information has been derived from, and should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements of ADIB and its subsidiaries and the other information contained in this Base Prospectus.

The following table sets forth information extracted from the audited financial statements of ADIB for the years ended 31 December 2004, 2005 and the unaudited reviewed financial statements of ADIB for the nine months ended 30 September 2006.

	30 September 2006	2005	2004
	<i>(in USD Millions, except percentages and where otherwise stated)</i>		
Income Statement Highlights			
Total Operating Income.....	479.7	395.0	133.6
Total Operating Expenses	93.8	104.9	60.9
Net Profit	110.6	93.8	33.5
Financial Statement Highlights			
Total Assets	8,363.0	6,042.0	3,454.6
Total Financing	5,200.2	3,637.6	2,100.9
Investments	724.8	373.4	215.6
Customer Deposits	6,226.9	4,909.7	2,605.5
Total Deposits	7,514.5	5,373.2	2,996.5
Shareholders Equity.....	690.6	548.7	410.0
Profitability			
Return on Assets (%)	1.32%	1.55%	0.96%
Return on Shareholders equity (%)	16.02%	17.1%	8.16%
Efficiency Ratio (%)	36.80%	31.71%	45.53%
Earning Per Share	2.77	3.45	1.23
Profit Per Employee (AED)	317,702	332,525	241,949
Capital			
Shareholders' Equity (%) Total Assets.....	8.26%	9.08%	11.87%
Capital Adequacy Ratio	10.34%	14.08%	21.44%
Liquidity & Business Indicators			
Due from Banks/Due to Banks	154.66%	354.03%	241.05%
Liquid Assets/Total Assets.....	37.51%	35.86%	36.30%
Financing/Total Deposits	69.20%	67.70%	70.11%
Customer Deposits/Total Deposits	82.87%	91.37%	86.95%
Number of Employees.....	1,275	1,036	508

DESCRIPTION OF ABU DHABI ISLAMIC BANK PJSC

History and Development

Abu Dhabi Islamic Bank PJSC (**ADIB**) was established on 20 May 1997 in Abu Dhabi, UAE by the Government of Abu Dhabi with the purpose of being the leading Islamic bank in the UAE. ADIB was incorporated as a public joint stock 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 and was registered in the Commercial Register on 3 November 1997 (under commercial registration number 36148). ADIB's registered office is at Al Sultan Tower, Najda Street, PO Box 313, Abu Dhabi, United Arab Emirates and its telephone number is +97126 343 000.

On 18 October 1998, ADIB was licensed as an Islamic bank by the UAE 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 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 initially provided *Sharia* compliant deposit, automobile and personal and corporate financing services to its retail and corporate customers.

Subsequently, ADIB focused on expanding its retail, commercial and corporate operations by improving and increasing the range of products and services it offered to its customers and increasing the size of its branch and ATM network. By the end of 2005, ADIB's range of products and services included Islamic covered drawings (i.e. overdraft solutions) and property, automobile, educational, travel and equity finance products and it operated 22 branches and 42 ATMs located throughout the UAE.

In addition to its retail, commercial, and corporate divisions, ADIB also operates a treasury division and an investment banking division which manage the bank's surplus liquidity, foreign exchange services and investment products business. Such investment products comprise *Sharia* compliant mutual funds.

On 15 November 2000, ADIB was listed on the Abu Dhabi Securities Market (the **ADSM**) and as at 30 September 2006 had a market capitalisation of approximately AED 11.3 billion (corresponding to USD 3.1 billion).

In 2005, ADIB established two subsidiaries, Abu Dhabi Islamic Financial Services to carry on brokerage business and Burooj Properties LLC to provide real estate finance products and services in response to customer demand driven by the high rates of growth in the UAE's capital markets and real estate market.

In addition to operating its own business divisions and subsidiaries, ADIB is also a major investor in Bosna Bank International which provides Islamic banking services to its customers in Bosnia and Abu Dhabi National Takaful PJSC which provides Islamic insurance products and services.

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.

On 26 March 2006, the shareholders of ADIB passed a resolution which authorised an increase in the share capital of ADIB from AED 1 billion to up to AED 3 billion over a period of five years. The shareholders on this date also approved an AED 200 million issue of bonus shares and an AED 300 million rights issue.

Accordingly, as at 30 September 2006, the authorised and issued share capital of ADIB was AED 1.5 billion (corresponding to approximately USD 408.4 million) divided into 150 million fully paid shares with a nominal value of AED 10 each. The Government of Abu Dhabi, represented by the Abu Dhabi Investment Authority (the **ADIA**), held 15 million of such shares (representing 10 per cent. of the share capital of ADIB), 29.5 million of such shares (representing 19.7 per cent. of the share capital of ADIB) were held by members of the Ruling Family of Abu Dhabi, 6.7 million shares (representing 4.5 per cent. of the share capital of ADIB) were owned by Emirates International Investment Company, an investment company controlled by members of the ruling family of Abu Dhabi, with a further 4.5 million of such shares (representing 3 per cent. of the share capital of ADIB) were held by the General Pension and Social Security Authority. The remaining 94.2 million of such shares (representing 62.8 per cent. of the share capital of ADIB) were held by over 70,000 UAE nationals and UAE companies.

The major shareholders of ADIB and details of their shareholdings as at 30 September 2006 are set out below:

Investor name	No of Shares	Percentage of total share capital
ADIA	15,000,000	10.0
Sheikh Saif Bin Zayed Al Nahyan.....	7,009,550	4.7
Emirates International Investment Company.....	6,730,198	4.5
Sheikh Ahmed Bin Zayed Al Nahyan	6,563,247	4.4
Sheikh Hamed Bin Zayed Al Nahyan.....	6,089,998	4.1
Jouaan Awaidah Suhail Al Khaili	5,239,413	3.5
Sheikha Fatma Bint Mubaraak Al Ketbi	4,559,472	3.0
General Pension and Social Security Authority	4,546,856	3.0
Total.....		37.2

Source:ADSM

The Articles of Association of ADIB restrict the ownership of its shares to UAE nationals. In addition, the Articles of Association of ADIB also provide that only the Government of Abu Dhabi or any of its departments, authorities or the Private Department of HH the President of the State may hold more than 5% of the share capital.

Bank Operations

ADIB is organised into five business divisions comprising:

- (i) Retail Banking;
- (ii) Commercial Banking;
- (iii) Corporate Banking;
- (iv) Investment Banking; and
- (v) Treasury and Financial Institutions.

The divisions are managed from ADIB's headquarters in Abu Dhabi and operated through an extensive network of branches located across the UAE.

The divisions are supported by a Risk Management unit which focuses on key credit, market and operational risks and an administration unit which provides support in the areas of information technology, internal audit, legal, compliance and human resources.

Retail Banking

ADIB has one of the largest Islamic retail banking operations in the UAE. Historically, ADIB's retail customer base largely comprised high net-worth UAE nationals but now increasingly includes upper-tier Muslim and non-Muslim residents of the UAE. ADIB has focused on growing its deposit base and increasing its range of *Sharia* 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 principal deposit products offered by the Retail Banking division comprise current accounts, electronic (telephone banking) accounts, savings accounts, short term investment accounts, and long term investment accounts.

The principal finance products offered by the Retail Banking division comprise Islamic Covered Drawings (the *Sharia* solution for conventional bank overdrafts), Al Khair (Consumer Finance for debt consolidation and *Sharia* cleansing), Islamic Covered Card (Al Tawarok the *Sharia* solution for credit cards), Noor (educational finance), Terhal (travel finance), Sahel (car finance) and Qwareb (boat finance).

In addition, ADIB provides a number of innovative finance products which have been developed to meet the specific needs of its customers. An example of such a product is Tadawul which has been specifically designed to finance the sale and purchase of *Sharia* compliant shares traded on the Dubai Financial Market and the ADMS.

ADIB has identified real estate finance as an area for growth. Projects for which real estate financing was made available during the year 2006 include: Al Dar Properties, Bin Hamooda Properties, Reem Island Properties, Sheikh Khalifa Bin Mohammed Properties, Nujoom Islands, Sheikha Qasimi (Sinogulf) Project, and Damac Properties Moosa Towers.

In order to meet demand for finance from expatriates for the upfront payment of annual rent, ADIB is developing a rent finance product which will be structured in line with Operating Ijara and Forward Ijara models.

ADIB has a wide range of distribution channels, including, as at 30 September 2006:

- (a) 32 branches in the UAE (giving ADIB one of the largest networks of any Islamic bank in the country);
- (b) full service E-banking;
- (c) a call centre which operates 24 hours a day 7 days a week allowing customers to carry out routine banking transactions by telephone at any time; and
- (d) an ATM network consisting of over 78 ATMs.

Commercial Banking

In order to meet the specific needs of higher-end retail customers as well as small to medium size businesses, in 2005, ADIB created a separate Commercial Banking division. The Commercial Banking division, which operates from ADIB's branch network, offers the full range of products available under the Retail Banking division (as set out above) including a new real estate finance scheme which is available only to UAE nationals called "Al Tamweel Al Mutakamil".

The growth of the Commercial Banking division has been largely driven by growth in the local equity and real estate markets.

Corporate Banking

ADIB's Corporate Banking division is divided into two units: a domestic corporate banking unit which provides financing products and a project and structured finance unit which provides international project finance services, international and domestic corporate finance services and syndication facilities for government, public sector and large corporate borrowers.

ADIB's Islamic financing products include Mudarabah (venture capital finance), Murabahah (asset finance), Islamic covered drawings (working capital finance), Musharakah (equity participations), Istisna'a (construction and manufacturing finance), Ijarah (leasing) and trade finance.

ADIB's corporate client base is dominated by local and GCC governments, quasi-government entities and large and medium-sized private companies. ADIB divides its Corporate Banking customers by market segment, size, track record and performance for the purpose of managing and controlling its corporate portfolio and associated risk exposure.

The principal market sectors covered by Corporate Banking comprise contracting, real estate, government agencies, manufacturing, trading, hospitality and tourism.

ADIB services its Corporate Banking customers from its head office in Abu Dhabi as well as an office in Dubai through two dedicated teams of analysts, corporate finance and investment specialists, finance officers and relationship managers.

Investment Banking

The Investment Banking division has two main functions: firstly, to manage ADIB's portfolio of listed and private equities, strategic and real estate investments, as well as income producing instruments such as Sukuks; and secondly, to operate ADIB's fund business. The Investment Banking division reviews all investment opportunities presented to ADIB or otherwise identified by it for inclusion in its proprietary portfolio or for structuring into an investment vehicle for ADIB's clients. All investment proposals or funds must meet certain criteria set by ADIB's investment policy and must be further reviewed by ADIB's Credit and Risk Committee and finally approved by ADIB's Executive Committee.

ADIB's investment portfolio as at 30 September 2006 amounted to approximately AED 2.7 billion and comprised:

- (a) **Equity investments in quoted and private companies.** Such investments are selected and held pursuant to ADIB's investment policy which provides criteria for a balanced portfolio including target performance, exposure limits and period of investment. As at 30 September 2006, investments in quoted equities amounted to approximately AED 455 million and predominantly comprised shares in UAE companies. Investment in private equity amounted to AED 115 million.
- (b) **Strategic investments in subsidiaries and affiliates.** Such investments are held for a longer term and reflect ADIB's strategic position in the domestic and international market. In addition, certain investments are made to promote and support the growth of Islamic banking. The current portfolio of such strategic investments comprises:
 - (i) Abu Dhabi National Takaful Company, PJSC, Abu Dhabi;
 - (ii) Abu Dhabi Islamic Financial Services LLC, Abu Dhabi;
 - (iii) Bosna Bank International, Bosnia Herzegovina;
 - (iv) Burooj Properties LLC, Abu Dhabi; and
 - (v) Islamic International Rating Agency, Bahrain.
- (c) **Real estate investments:** Such investments are divided in two broad categories: stabilised properties or funds held primarily for income (with a targeted return of at least 8 per cent.) and

development projects held for aggressive growth (with a targeted return of at least 15 per cent.). As at 30 September 2006, real estate assets held for income amounted to AED 290 million) and those held for growth (being subject to a maximum tenor of seven years) amounted to AED 281 million.

- (d) **Sukuks:** This portfolio consists of sovereign and supra-sovereign Sukuks amounting to approximately AED 599 million.

The Investment Banking division is also responsible for developing asset management products and services which are distributed to ADIB's customers by the Retail, Commercial and Corporate Banking divisions.

ADIB's asset management products include five Sharia compliant mutual funds, three of which are in the process of being wound up and two new funds. These funds invest in global equities, co-ownerships, murabahas, real estate and ijarah equipment leasing comprising:

The funds of ADIB which are being wound up comprise:

- (a) the Al Hilal Fund (USD 20 million): this was the first fund launched by ADIB. The fund was a "balanced fund" investing in equities, Ijaras and short term international Murabahas. The Fund performed its benchmarks and was liquidated during 2006;
- (b) ADIB Sentinel Multi-Family Fund, (USD 75 million) comprises real estate investments in Texas, Florida and Arizona, USA. The fund was designed as an income fund and had an expected life of five years renewable by a further two years. However, following a strong performance the fund's assets were liquidated after approximately four years. The sales proceeds have now been distributed with the investors' achieving an IRR of just over 17 per cent.
- (c) the Ijara Fund (USD 50 million) was invested in investment grade US equipment leases starting in 2000. The fund achieved an average income yield just over 7 per cent. Having reached close to its maturity this fund has now been wound up.

In addition, ADIB has launched two new funds comprising:

- (a) the ADIB Nujoom Islands Fund is a new real estate fund (AED 685 million) based upon a premier waterfront development in Sharjah. The fund life is expected to be five years with an IRR projected at just over 19 per cent. The marketing of the fund is scheduled for the start of November 2006.
- (b) the Al-Shorouq Fund is a new income fund which will invest in *Sharia* compliant assets with a target return of 6 per cent. and the life of the fund is expected to be two years.

ADIB is currently focusing upon further developing its asset management capabilities through structuring new funds across a wide range of risk appetites.

Treasury and Financial Institutions

ADIB's Treasury and Financial Institutions division is responsible for managing ADIB's surplus liquidity and foreign exchange needs as well as providing funding facilities for domestic and international financial institutions. The Treasury function, which comprises six employees, is managed by an associate vice president. ADIB also has two senior relationship managers to manage its relationships with other financial institutions.

Competition

ADIB faces competition in all of its business areas from domestic and foreign banks operating in the UAE. As at 30 September 2006, there were 46 banks holding full commercial banking licenses in the UAE.

The Islamic banking sector in the UAE includes four Islamic banks, comprising Dubai Islamic Bank, Abu Dhabi Islamic Bank, Sharjah Islamic Bank and Emirates Islamic Bank. In addition, a number of conventional banks have established Islamic windows through which they provide *Sharia* compliant products and services establishing Islamic banking offerings, including RAKBANK, Mashreq Bank, Union National Bank and HSBC.

Competitive Advantages

ADIB's management believes that it enjoys a number of advantages as against its competitors as set out below:

1. **Established track record and knowhow:** As the second oldest Islamic bank in the UAE, ADIB, compared to more recent arrivals to the UAE Islamic banking industry, has a track record in developing and offering Islamic finance products to meet the increasingly sophisticated needs of its customers.
2. **Strong brand:** ADIB, as the second oldest Islamic bank in the UAE, has a strong brand in the Islamic finance market which enables it to attract a significant share of the market for Islamic finance products and services and to successfully launch innovative products and services.
3. **Strong support from influential shareholders:** ADIB's shareholding provides it with a significant competitive advantage in terms of influential support, public profile and growth opportunities.
4. **Experienced management:** The senior management team of ADIB has considerable experience in the Islamic finance industry and knowledge of the issues relating to the operations of Islamic finance institutions.
5. **Sharia Board:** The *Sharia* Board of ADIB comprises pre-eminent scholars in Islamic finance who have significant experience in this field.
6. **High growth:** ADIB's total assets grew from AED 12.7 billion (corresponding to approximately USD 3.5 billion) as at 31 December 2004 to AED 30.7 billion (corresponding to approximately USD 8.4 billion) representing an increase of 141.7 per cent. as at September 2006. During the same period customers deposits grew from AED 9.6 billion (corresponding to approximately USD 2.7 billion) to AED 22.9 billion (corresponding to approximately USD 6.2 billion) representing an increase of 137.5 per cent. as at September 2006. This high rate of growth provides ADIB with the funding required to provide a greater level of financing and for investment in new launches, improved infrastructure and the potential for further growth.
7. **Large branch network:** ADIB's comparatively large branch network provides a significant advantage over competitors with a smaller number of branches in terms of attracting new customers and customer services. ADIB's customer service offering is further enhanced by its comprehensive distribution channels to its customers. ADIB's network is backed by a variety of channels which includes a large ATM network, a call centre and internet banking.
8. **Innovative products:** ADIB provides its customers with a wide range of innovative products in order to meet their diversified and sophisticated needs. For instance, ADIB was the first Islamic bank to launch and promote Qwareb and Islamic credit card products.
9. **High level of profit rate:** Currently ADIB believes that it has the highest level of profit rate for its saving's products as compared to its local competitors in the UAE. As of July 2006, according to a review carried out by ADIB, ADIB's customers earned a 3.35 per cent. rate of profit on their saving accounts against 3.28 per cent. and 3.08 per cent. offered by ADIB's nearest competitors.

Strategy

Objective and Strategy

ADIB expects that the continuing growth of the UAE economy and the expansion of its private sector will sustain strong demand for financing from both the private and public sectors. ADIB's objective is to exploit this continued growth and access new markets, both geographically and in terms of products and services. ADIB's strategy to achieve this objective comprises a number of initiatives which focus on growing core businesses mainly in the UAE complemented by an expansion into new markets as set out below.

Capitalise on its strength in retail banking: ADIB's historical strength in retail business provides a basis for the launch of new and innovative products. ADIB believes that its growing distribution network, wider range of products and services and increased efficiencies will allow it to maintain and improve its market position. To this extent it is widening its product range, investing in new branches (and also alternative channels) and setting up new subsidiaries to complement its core banking business.

Diversify deposit base: ADIB intends to improve its funding base by increasing its share of the domestic deposits market through its extensive retail branch network and by increasing its deposits and international commodity accounts from foreign and local banks and selective depositors. In addition, ADIB intends to bridge the gap in the maturities of the sources of its funds by launching medium and long term Co-ownership Sukuk. In order to maintain a strong capital base, ADIB may increase its capital by holding rights issues as and when needed pursuant to the authority granted by its shareholders on 26 March 2006 and which remains valid until 2010.

Increase business with small and medium enterprises (SME): Recently, both the UAE government and the Central Bank of the UAE have emphasised the importance of the UAE's SME sector. ADIB plans to increase substantially its SME business, in terms of value and number of clients, and to establish a leading position in this sector, as it believes that this market will represent one of the most important areas for growth and profitability for banks.

New Markets: Currently ADIB intends to primarily focus on meeting increasing domestic demand resulting from the growth in the economy of the UAE. However, ADIB will also explore opportunities for geographical diversification. ADIB plans to open approximately 60 branches by the end of 2010 including branches in Qatar, Jordan, Egypt and Bahrain. ADIB intends to set up additional branches in a number of other countries in the Middle East and North Africa region. In addition to branch expansion, ADIB is also exploring other investment opportunities in the GCC in order to diversify its revenue sources and spread risk.

Risk Management

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

ADIB has established a total risk management department which is responsible for credit, market and operational risks. Additionally, in 2005, ADIB set up a risk management and Basel II committee to implement risk management controls /procedures and Basel II as required by the Central Bank of the UAE.

Credit Risk Management

Credit risk is the risk that a customer will fail to meet its obligations to ADIB and cause ADIB to incur financial loss.

ADIB's primary exposure to loss from credit risk arises from financing transactions.

Credit approval process

ADIB maintains documented risk management procedures and controls and has adopted a committee-based approach to monitor credit risk, based on five levels of authority based on specified credit limits. Proposals for credit approval are originated by the respective business units, assigned a risk rating and are initially considered by the business unit. Any credit applications above a set limit are independently evaluated by the Credit Risk Management (**CRM**) team. Larger applications are submitted for approval to the Investment and Credit Committee (**ICC**) if deemed viable. The ICC is primarily responsible for credit policy and the credit approval process. All proposals above a specified limit and/or term require the approval of the Executive Committee. Proposals for significant amounts or exposure are submitted to the Board.

It is the policy of ADIB to comply strictly with UAE 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

ADIB collateralises all of its financing facilities.

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. Country limits are initially proposed by Treasury and Financial Institutions (**T&FI**). These proposals are then forwarded to the CRM team, which, after reviewing the proposals, forwards them with its comments and/or recommendations to the ICC for further review and onward submission to the Executive Committee (**EC**) for approval. The limit for any country may be varied by the EC in accordance with specific business requirements or due to any significant development in the respective country.

The ICC is responsible for setting and monitoring industry and economic sector limits. These limits may be increased or decreased, for instance 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. 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 uses external data where available.

ADIB's credit grading system uses 10 different risk rating criteria. Risk ratings from 1 to 5 are considered good credits 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, debt service coverage, cash flow, etc). Risk rating 6 is considered marginally acceptable/ higher risk credit (demonstrating less stable characteristics than the previous risk rating financial ratios providing greater historical volatility). Risk ratings 7 to 10 are considered to be non-performing 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, 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 2006 (AED million):

Business Group	Performing	Non	Total
		Performing	
Corporate/Government	11,240,870	30,228	11,271,098
Commercial	5,061,550	41,743	5,103,293
Retail	2,674,410	48,928	2,723,338
Total	18,976,830	120,900	18,097,729

Source: ADIB

ADIB's 20 largest non-performing exposures as at 30 September 2006 amounted to AED 45.383 million (corresponding to USD 12.358 million) and profit in suspense relating to these accounts amounted to AED 3.558 million (corresponding to USD 0.968 million). AED 25.461 million (corresponding to USD 6.933 million) of this amount was provisioned. The financial data in this paragraph is derived from the ADIB's unaudited management data.

Debt and recovery

ADIB adopts a rigorous approach to managing its bad and doubtful debts. Its managers maintain effective contact with non-performing borrowers with a view to maximising recoveries. In appropriate cases, claims may be litigated and/or compromised with the authority of the appropriate body within ADIB.

Any debt not paid for up to 60 days is actively followed up for settlement by the assigned recovery staff at the business unit level of ADIB. Any debt not paid for over 60 days is passed on to the Remedial Management Unit (**RMU**) within CRM for settlement either through negotiation with the borrower or by litigation through ADIB's Legal Department. RMU is headed by a Manager who is supported by one Recovery Officer and two Recovery Supervisors. Debts are only written off once they have been classified as bad debts for at least six months, there is no further prospect of recovery and they meet certain other conditions. Only the Managing Director or senior credit approval bodies may decide to write off a debt.

Retail financing applications

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 UAE Central Bank are checked. The UAE Central Bank has established an on-line Risk Bureau Customer Rating System for individuals seeking financing of up to AED 250,000 (corresponding to USD 68,000).

Real estate and car financing: such financing is secured against the asset being financed. Personal instalment financing and overdraft type facilities are granted subject to the applicant's salary being paid to an account with ADIB and this being formalised by appropriate arrangements with the employer.

Consumer finance limits: financing facilities (funded) up to AED 250,000 (corresponding to USD 68,000) which are granted to an individual against salary and end of service benefit are considered by the UAE Central Bank as personal loans/finance. Financing to individuals exceeding this amount is considered to be commercial finance and is generally supported by tangible securities and/or assigned cash flow sources for repayment.

Retail personal financing: retail personal financing is granted against an assignment of salary and end of service benefit to ADIB. The maximum limit per customer is AED 250,000 (corresponding to USD 68,000) subject to the Debt Service Ratio (**DSR**) not exceeding 60 per cent. DSR is defined as the ratio of total of monthly instalments to net monthly salary received in the customer's account with ADIB.

Retail product: on the basis of the general criteria set out above ADIB has developed various retail products which have specific criteria/parameters which *inter alia* define the maximum finance allowable in terms of multiples of net salary per month plus accumulated end of service benefit.

Market Risk Management

Market risk is the risk of loss to ADIB from adverse movements in foreign exchange rates, interest rates or equity and commodity prices.

ADIB calculates market risks based on Value at Risk (**VAR**) modelling. VAR is the preferred market risk management measure of the UAE Central Bank. VAR is a statistical model that sets a single contingent loss figure that, subject to a confidence level (usually 99 per cent.), a trading operation will not expect to exceed on any given day. VAR models take account of the observed relationships between market prices to generate statistically a large number of different market scenarios. For each scenario, all transactions are marked to market and the aggregate profit or loss is calculated. Once this is completed for every scenario, a distribution of potential profit and loss outcomes is constructed and the loss for the 99th percentile scenario (i.e. the 100th worst case loss out of 10,000) is the value-at-risk. VAR is not a limit but rather is a value that, with 99 per cent. confidence, ADIB relies on its losses not exceeding.

VAR is calculated on a monthly basis using a non-stochastic forward yield curve approach, as well as a stochastic approach under which 243 optimised interest rate paths and their individual probabilities were developed using the Linear Path Space approach, and where rates are developed along each of these paths using market volatility and drift.

As for regulatory capital adequacy purposes, ADIB uses the internal models approach. Stress testing is provided for any credit facilities equal to AED75 million or more.

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.

The UAE Central Bank requires banks to match financing against customer deposits. Interbank borrowings and facilities with a residual maturity in excess of six months also qualify as customer deposits. Liquidity is measured on a daily basis by the ALCO unit.

Operations Risk Management

Operations risk relates to the risk of loss arising through fraud, unauthorised activity, human or systems errors, omissions, inefficiency, failure or from external events.

Operations risk management is the responsibility of the Total Risk Management & Basel II Committee (**TRM**). The Internal Audit function is responsible for reviewing and monitoring compliance with the policies and systems established by TRM in co-ordination with the Internal Control Department of the Central Operations Division. In order to identify and assess operational risk, ADIB is currently using risk mapping.

In 2003, ADIB established a disaster recovery site at its branch in the emirate of Sharjah. In addition, during 2004/2005, ADIB implemented a new business continuity plan.

Capital Management/Adequacy

As at 30 September 2006, ADIB's Tier 1 capital ratio was 9.6 per cent. and its combined Tier 1 and Tier 2 capital ratio was 10.3 per cent. ADIB's Tier 1 capital currently constitutes 93.3 per cent. of its total capital base. ADIB completed its first rights issue in May 2006 and its ratio of equity to loans

and advances was 13.3 per cent. at 30 September 2006 compared with 15.1 per cent. at 31 December 2005; the resulting decline in the ratio of equity to loans and advances was due to a significant increase in loans and advances compared to the increase in equity. Equity to total assets was 8.3 per cent. at 30 September 2006. In 2004, ADIB paid a dividend of AED 70 million equating to 7 per cent. of nominal share value. In 2005, there was no dividend payout, instead ADIB approved an AED 200 million issue of bonus shares and an AED 300 million rights issue.

The capital adequacy ratio of ADIB is calculated in accordance with the TRM guidelines and UAE Central Bank instructions. The following table shows the risk assets and their risk weighted values for capital adequacy ratio purposes under Basel I as at 30 September 2006, 31 December 2005 and 31 December 2004, respectively:

	30		
	September		
	2006	2005	2004
	AED 000	AED 000	AED 000
Capital Base	2,093,757	1,931,805	1,399,742
Risk Weighted Assets			
Off-balance sheet exposures	341,552	331,547	71,069
Balance sheet assets	19,908,141	13,387,914	6,457,040
Total risk weighted assets	<u>20,249,693</u>	<u>13,719,462</u>	<u>6,528,109</u>

Basel II

The UAE Central Bank has required that the Basel II Standardised/Basic Indicator Approach for Credit Risk to be implemented by 31 December 2007. All banks are expected to be "Internal Rating Based Approach" compliant for Credit Risk by 1 January 2011. To date, ADIB has successfully completed the initial framework for Basel II implementation. ADIB has taken a proactive role in working with the UAE Central Bank in understanding, communicating and implementing the requirements of Basel II.

A steering committee of members of senior management has been formed by ADIB to oversee the implementation of systems to ensure that ADIB is fully compliant with the requirements of Basel II. The committee is reporting independently to the Managing Director.

Information Technology

ADIB's Information Technology strategy is focused on providing reliable and available information and systems to its customers and employees in a secure environment.

ADIB has recently established a call centre, 24 hour phone banking and internet banking. Other information technology systems that are being developed or are in the process of being implemented include customer relationship management, treasury management and total risk management.

ADIB's core banking, branch operations, trade finance, ATM, call centre, 24 hour phone banking, internet banking and credit card centre operations are fully computerised and connected on-line to the bank's network centre on a real-time basis.

In terms of security and reliability of service, ADIB has implemented a disaster and recovery site on remote premises that can be activated in the case of any unforeseen accident to ensure that critical systems and data continue to be fully operational and to provide essential services to its customers. ADIB carries out daily and other periodic data back-ups which are stored at a location away from its head office. ADIB also carries out annual intrusion tests on its Information Technology network with the assistance of an external vendor. There is no evidence of intrusion attempts to date. ADIB's disaster recovery plan provides for back up of information technology systems at its disaster recovery site.

Subsidiaries

Currently, ADIB's subsidiaries comprise Abu Dhabi Islamic Financial Services (**ADIFS**) and Burooj Properties LLC, both of which operate in the UAE. ADIFS is a brokerage firm which was established in February 2005 and which is 95 per cent. owned by ADIB. Currently, ADIFS provides brokerage services to the full range of investors in the local stock market (comprising both the DFM and the ADSM). It is intended that, by the end of 2008, ADIFS would have expanded its services to include brokerage services for exchanges in the GCC and wider Middle East and North Africa region.

Burooj Properties LLC is a real estate company which was established in October 2005 and which is 100 per cent. owned by ADIB. Burooj Properties LLC provides customers with tailored products relating to real estate financing, commercial properties, small and large scale housing and various other businesses.

ADIB also has three affiliated companies as set out below:

	Place of Incorporation	Proportion of ownership Interest	Proportion of Voting Power	Principal Activity
Bosna Bank International	Bosnia	27 per cent.	27 per cent.	Islamic Banking
Abu Dhabi National Takful PJSC, (Takaful)	United Arab Emirates	23 per cent.	23 per cent.	Islamic Insurance
Islamic/ International Rating Agency	Bahrain	3.33 per cent.	3.33 per cent.	Credit/Corporate Islamic Rating Agency

Industry Regulation and Supervision

The principal source of banking regulation in the UAE is the Central Bank. The Central Bank provides prudential supervision of each bank's capital adequacy, liquidity and anti-money laundering controls and its general banking activities. 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 anti-money laundering measures.

As a UAE company, ADIB is also subject to supervision and regulation by both 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 Abu Dhabi Securities Market, ADIB is subject to the rules and regulations of that securities market as enforced by the Emirates Securities and Commodities Authority.

Legal Proceedings

No material provision has been made as at 30 September 2006 regarding any outstanding proceedings against ADIB.

Property

ADIB's property portfolio, including ADIB's new head office which is currently under construction, had a net book value of AED 74.6 million as at 30 September 2006.

Internal Audit

The Internal Audit Department (**IAD**), which comprises a team of qualified auditors, performs internal audits of all of the branches and departments of ADIB. The IAD reports to the Chairman of the Audit and Governance Committee.

The IAD has unrestricted access to all of ADIB's functions, records (either manual or electronic), assets, physical properties and personnel as are relevant to the audit engagement.

The IAD conducted its last bank-wide internal audit in 2005 and discovered no significant unreported off-balance sheet liabilities or unreported items that would affect ADIB's earnings or capital as at that time. There were no material issues or problems raised in that audit.

Anti-Money Laundering Policies

Compliance with anti-money laundering procedures and internal training in such procedures is monitored by the compliance manager. Since January 2002, there have been "know your customer" requirements imposed on banks which include regular reporting to the UAE Central Bank. ADIB believes that it is in substantial compliance with these requirements.

Ratings

On 10 October 2006, Fitch Ratings affirmed ADIB ratings at Issuer Default 'A-' (A minus) with Stable Outlook, Short-term 'F2', Individual 'C' and Support '1'.

In February 2006 Capital Intelligence, noting significant improvement in 2005 in the balance sheet and profitability, changed the outlook to Positive and awarded foreign currency ratings of long term 'A-' (A minus) and Short-term 'A2', financial strength rating of 'A-' (A minus) and support rating of 2.

As at 10 October 2006, Moody's Investors Service affirmed ADIB ratings at A2/Prime-1 foreign currency issuer and a D financial strength rating.

Directors, Management and Employees

In accordance with applicable UAE law and ADIB's by-laws, ADIB's executive management is currently comprised of a Board of Directors, an Executive Committee and a number of appointed Board Committees.

The Board of Directors

The management of ADIB is vested in a Board of Directors comprised of nine members (the **Directors**). The Government of Abu Dhabi, or any other government authority authorised to do so, appoints three members including the Chairman and the Managing Director, the Private Department of HH the President of the UAE appoints one member and the remaining five members are elected at the Ordinary General Assembly by the other shareholders. The majority of the Directors 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. Recently, two of the Directors submitted their resignations which were then subsequently accepted by the Board. Details of the current Directors are set out below.

Name	Positions	Appointment/Election
His Excellency Mohammed Bin Humooda	Chairman of the Board as since 12 April 2004 and Board member as since 20 May 1997. Head of the North American Equities Division in ADIA	Appointed by ADIA on behalf of the Government of Abu Dhabi
His Excellency Ahmed Darwish Bin Dagher Al Marar	Board Member since 21 April 2001 and Managing Director since 22 May 2005. Member of the Finance Department of Abu Dhabi Government.	Appointed by the Finance Department of the Government of Abu Dhabi
His Excellency Mohamed Saif Ghanem Al Suwaidi	Board Member since 11 April 2004. Head of Treasury of Abu Dhabi Government at ADIA.	Appointed by ADIA on behalf of the Government of Abu Dhabi
His Excellency Saeed Hafeedh Al Mazrouei	Board Member since 19 April 2004	Elected
His Excellency Juma Khamis Al Khaili	Board Member since 19 April 2004	Elected
His Excellency Ahmed Mohamed Sharif Folathi	Board Member since 19 April 2004	Elected
His Excellency Khalid Ahmed Khalifa Al Suwaidi	Board Member since 19 April 2004	Elected

Board Committees

Each of the Committees is appointed by the Board of Directors and each Committee elects its own Chairman.

Committee	Purpose
<i>Executive Committee</i> (the EC) (nine members of the Board)	<ol style="list-style-type: none"> 1. Mandated to take decisions for: <ol style="list-style-type: none"> (a) direct investments of up to AED 50 million per investment; (b) Foreign Exchange deals of up to AED 250 million; (c) Islamic investments and marketable securities of up to AED 100 million per investment or security; (d) short term placements of up to one year (no limit), placement for more than one year up to AED 350 million; (e) Islamic financing operations up to AED 150 million per operation; (f) capital expenditure up to AED 50 million; and (g) structuring self sponsored investment funds (e.g. Ijara etc) up to AED 370 million and seeding the same fund for up to AED 100 million; and

2. providing investment and Islamic finance guidelines, strategies, geographical and sector limits and dealing with key employee matters (hiring, promotion, termination, loans etc).

Appointed for three year terms. Quorum is three members including Chairman or Vice Chairman. The EC may delegate its such powers to the Managing Director or any other specific committee.

Further particulars are set out below.

Appointed for three year renewable terms.

*Fatwa & Sharia Supervisory Board (the **Sharia Board**)*

Sheikh Muhammad Taqi Al Uthmani (Chairman); Dr. Abdul Sattar Abu Ghudda (Vice Chairman, Head of Executive Committee); Dr. Jasem Ali Al Shamisi (Board and Executive Committee member); and Sheikh Nizam Muhammad Yaqoubi (Board and Executive Committee member)

Audit Committee (four members)

Oversees financial reporting, internal control, risk management, corporate governance and anti-money laundering compliance as well as ensures the adequate planning and reporting, the independence of internal and external auditors, the quality of internal control and the effectiveness of investigative audits and reviews. The committee is in charge of selecting and appointing external auditors and Chief Internal Auditor, reviewing business plans and budget.

*Management Committee (the **MC**) (16 members and a secretary)*

Review and recommend actions on key issues: strategies, budget, quality initiatives, bank rating, quarterly performance reviews, capital investment, financial statements, as well as evaluating and implementing new controls, reorganizing business units and sub-committees.

*Investment & Credit Committee (the **ICC**) (seven members and a secretary)*

Responsible, among other things, for investment and credit policy, supervise and approve credits and investment portfolio composition, concentration and diversification by fixing limits/parameters for financing and investment.

The committee's decisions may be subject to EC approval.

*Asset and Liability Management Committee (the **ALCO**) (14 members)*

Responsible for asset and liability structure. ALCO's policies are subject to approval by the Executive Committee. Once approved, ALCO is be responsible for liquidity, market and credit risks of all assets and liabilities.

*Automation Committee (the **AC**) (five members)*

Review and approve IT policies and procedures, IT strategic plans and acquisitions for new solutions of more than AED 100,000.

*Total Risk Management Committee (the **TRMC**) (seven members) and two facilitators*

Responsible for the reviews, recommendation, implementation, and decisions on major issues

related to Total Risk Management including market, operational and credit risks as well as Basel II framework.

Directly reports to the Managing Director and updates are submitted to the Audit Committee.

*Tender Opening Committee (the **TOC**)* (at least three members representing HR and Administration, Financial Control and Internal Control)

Responsible for all aspects of tender processes within ADIB.

*Human Resources Committee (the **HR**)* (five members)

Responsible, among other things, for overseeing and reviewing human resources policies, requirements, training programs, disciplinary policies, compensations, reorganization and overall performance of the ADIB employees. The committee ensures compliance with the UAE Central Bank requirement for compliance with the 4 per cent. increase per annum of intake of nationals.

Managing Director

ADIB's Managing Director is His Excellency Ahmed Darwish Dagher Al Marar who was appointed by the Board on 18 May 2005 and is responsible for the day-to-day operation of ADIB.

Senior Management

ADIB's senior management structure comprises 14 senior division heads reporting to the Managing Director who in turn reports to the Board of Directors. The senior managers and their positions are as follows:

Name	Position
Noor Imam Beck	General Manager (Central Operations, Human Resources and Administration, Information Technology Department and Retail Banking)
Abdul Razak Meman	SVP Head, Credit Risk Management and Administration
Amgad S. Younes	SVP Financial Control, Strategic Planning and Total Risk Management
Aref Ismail Khoury	SVP Commercial Banking
Abdul Rahman Abdulla	SVP Private Banking
Badaruzzaman Ahmed	SVP Internal Audit and Corporate Governance
Dr. Abdulrahman Yousif Habil	SVP Legal Department
M.T.Nilamdeen	SVP Corporate Banking Group
Mohamed Alimuddin Ashraf	Head of Private and Wealth Management
P.P.Abdulla	SVP Corporate & Commercial Finance, Dubai and Northern Emirates
Abdulla Al Shahi	Head of Treasury and Financial Institutions
Saeed Hilal Al Balooshi	SVP Human Resources and Administration
Osaid M.A.Kailani	VP and Head, Sharia Division
Khalid Nazir	VP and Head, Investment Banking
Adel Ahmed Al Zarouni	General Manager, Burooj Properties (Subsidiary)

The Directors and senior management of ADIB have not been granted any stock options or other forms of options. However, some Board members do hold shares in the capital, which are traded on the ADSM. The holdings are not substantial and as of 30 September 2006 approximately 60,000 shares were held by three Board members. ADIB intends to issue a stock incentive programme to its employees after it has been approved by the Extraordinary General Meeting.

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 Offering Circular, none of the Directors, the Managing Director, 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 intends to construct new headquarters to be located on the Airport Road, Abu Dhabi. The new headquarters are currently being designed and are expected to be completed in 2009.

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

Ahmed Darwish Dagher Al Marar – Managing Director and Board member of ADIB: Mr. Al Marar joined ADIB on 18 May 2005. He holds a BA degree in Business Administration, London. He was previously a financial analyst and a Director at the Department of Finance of Abu Dhabi Government.

Noor Imam Beck – General Manager: Mr. Beck joined ADIB on 30 September 1999. He holds a Diploma in International Securities from ISMA, England and an Executive Management Program Certificates from the Institute of Banking and Finance, Singapore. He previously worked at ABC Islamic Bank, Bahrain (1991-1996), ABC Investment and Services Co., Bahrain (1983-1990) and First National Bank of Chicago, Singapore (1972-1983). His previous positions included Vice President and Team Leader at Arab Banking Corporation, Bahrain (1998-1999 and earlier in 1991-1996).

Abdul Razak Meman – SVP Head of Credit Risk Management: Mr. Meman joined ADIB on 18 August 1999. He holds an MBA major in Financing and Marketing and has previously worked as Manager (Regional Advance Unit) in the National Bank of Abu Dhabi (worked for sixteen years). He also worked for the Bank of Baroda (for seven years) and the Bank of Credit and Commerce (for five years).

Amgad S. Younes – SVP Financial Control: Mr. Younes joined ADIB on 31 August 1999. He holds among other things an MBA, a degree of Certified Public Account (USA), and a degree of Arab Certified Public Account (Cairo). He joined Arab African International Bank (Cairo, 1981-1984), Arab International Bank, (Cairo, 1985-1986) and Albaraka Investment and Development Co. (1987-1991). His previous position was Manager, Banking Operations and Finance Department in Alamin Co. Saudi Arabia (1991-1999).

Aref Ismail Khoury – SVP Commercial Banking: Mr. Khoury joined ADIB on 1 March 1998. He holds an MBA Finance and Accounting from Regis University, Colorado, USA and has previously worked as a financial analyst with Abu Dhabi Investment Authority (1991 – 1998).

Abdul Rahman Abdulla – SVP Private Banking: Mr. Abdulla joined ADIB on 12 September 1998. He holds a BSc. His previous position was Deputy Head of Private Banking Department at the National Bank of Abu Dhabi (1980-1998).

Badaruzzaman Ahmed – SVP Internal Audit: Mr. Ahmed joined ADIB on 12 January 1998. He holds a B Com and a Certified Internal Auditor degree (USA). He worked as an Assistant Manager (Internal Audit) in Kuwait Finance House, as Audit Manager in Sidat Hyder Aslam & Co (1990-1991) and as Chief Internal Auditor in Arab European Financial Management (1990). His previous position was legal and *Sharia* consultant for ABC Islamic Bank (1999-2000).

Dr. Abdulrahman Yousif Habil – SVP Legal Department: Dr. Habil joined ADIB on 3 August 2000. He holds a PhD (Islamic Legal Theory) and a Master of Laws-Indiana University (USA). His previous positions were Legal and *Sharia* Consultant for ABC Islamic Bank (1999-2000) and Legal Consultant for the Department of Ports and Customs (Dubai).

M.T. Nilamdeen – SVP Corporate Banking Group: Mr. Nilamdeen holds an MBA in Marketing, University of Karachi. He worked for National Bank of Abu Dhabi (for ten years) and American

Express Bank (for four years). His previous position was Chief Credit Officer for Union Bank of Colombo Ltd (for four years),

Mohammed Alimuddin Ashraf – Head of Private and Wealth Management: Mr. Ashraf joined ADIB on 1 April 2004. He holds a B Com, University of Karachi, and a Chartered Accountancy Group II. His previous position was Senior Deputy General Manager, Treasury, Investment & Private Banking Unit at Abu Dhabi Commercial Bank (1982-2004).

P.P.Abdulla – SVP Corporate Finance, Dubai and Northern Emirates: Mr. Abdulla joined ADIB on 2 February 1998. He holds a BA from Poona University, India. He worked for Citibank, Abu Dhabi (for twelve years), National Bank of Abu Dhabi (for seven years) and Abu Dhabi Commercial Bank (for four years).

Abdulla Al Shahi – Head of Treasury and Financial Institutions: Mr Al Shahi joined ADIB in November 1998. He holds an MBA from the UAE University. His previous position was as a branch manager for Oman Housing Bank.

Saeed Hilal Al Balooshi – SVP Human Resources and Administration: Mr. Balooshi joined ADIB on 2 March 1998. He holds a BBA from Emirates University, Al Ain. He worked at the Ministry of Health, UAE (1986-1990). His previous position as Assistant Manager, Equity Section at the Abu Dhabi Investment Authority (1990-1998).

Osaid M.A. Kailani – VP and Head of Sharia division: Mr Kailani holds a B.A. in Sharia and Law and a Diploma in Islamic law. He is a member of Sharia Standard Committee related to Accounting and Auditing Organisation for Islamic Financial Institutions in Bahrain; a member of Fatwa and Sharia Supervisory Board of Abu Dhabi National Takaful Company; a member of Fatwa and Sharia Supervisory Board of Manazel Real Estate Company; and a member of Sharia Coordination Committee of Sharia Boards of Islamic Financial Institutions in UAE.

Khalid Nazir – VP and Head of Investment Banking: Mr Nazir joined ADIB in 2001. He holds an Engineering Science and Economics degree from Trinity College, Oxford University. His previous position was, among other things, Director for AKD Securities and Safe Deposit Co. Ltd (1995-1997) and Senior Vice President Head of Investment Banking for Shamil Bank (1998-2001).

Adel Ahmed Al Zarouni – General Manager of Burooj Properties LLC: Mr. Al Zarouni joined ADIB on 1 November 1998. He holds a BSc and Microsoft Certified System Engineer. His previous position was at ADNOC (1997-1998).

Fatwa and Sharia Supervisory Board

The Board of Directors of ADIB appointed the Sharia Board following the grant of the approval of the Sharia Supreme Authority pursuant to Article (6) of Law No. (6) of 1985.

The responsibilities of the Sharia Board comprise:

- (a) the supervision and control of ADIB's activities to ensure that they comply with Islamic principles and rules;
- (b) 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; and
- (c) review all forms of contracts and agreements to ensure compliance with *Sharia*.

The Sharia Board has the following subcommittees:

- (a) Sharia Executive Committee (comprising three members): which has responsibility for dealing with any matters which may arise from time to time and which require immediate attention; and

- (b) Sharia Product Committee (comprising two members): which has responsibility for reviewing and approving the structure and documentation relating to new products developed by the bank.

A brief summary of the main qualifications and experience of the members of the Sharia Board is set out below:

Sheikh Muhammad Taqi Al Uthmani (Chairman) is a judge of the Sharia 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 Sharia Boards for Saudi American Bank, Jeddah – Robert Fleming Oasis Fund, Luxembourg – Sharia Council, Islamic Accounting and Auditors Standards Organisation – Citi Islamic Investment Bank, Bahrain and Amana Investments Ltd., Sri Lanka; Vice Chairman of the Sharia Board of Abu Dhabi Islamic Bank, Abu Dhabi; and Member of the Sharia Boards for The Ahli United Bank (UK) PLC, London; Al-Baraka Group, Jeddah and First Islamic Investment Bank, Bahrain.

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

Sheikh Dr. Abdul Sattar Abu Ghudda (Vice Chairman) is a *Sharia* Advisor and Director of the Department of Financial Instruments at Al-Baraka Investment Co. of Saudi Arabia. He holds a PhD. in Islamic Law from Al 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 Dr. Jasem Ali Al Shamisi (Board and Executive Committee member) is the Dean of the Faculty of *Sharia* and Law and Professor of Civil Law, Dean at the Emirates University, a practitioner lawyer and member of Sharia Standards (Accounting and Auditing Organization for Islamic Financial Institutions) in Bahrain and, Chairman of the Sharia 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 *Sharia* and in Private Law from Ein Shams University and a PhD. in Law from Cairo.

Employees

As at 30 September 2006, ADIB employed 1275 staff members.

Training

Training is a high priority within ADIB and courses for staff include corporate finance, anti money laundering, compliance, product training and customer service as well as various areas of Islamic banking, interpersonal skills and use of the core banking system of ADIB.

The training programme provided include formal training courses (held both inhouse 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 a function of their performance, the performance of their respective business unit and the performance of ADIB.

ADIB has an annual performance appraisal scheme for all staff and merit pay increases and bonuses are paid on the basis of performance rankings.

ADIB applies recognition schemes such as: promotions, salary increments, general and merit bonuses, Employee of the Month/Year Award (under development), recognition certificates, and reward for teams.

The general compensation and remuneration policy is determined by the Human Resources Committee while for ADIB’s senior management it is determined by the EC.

Pension scheme

ADIB employees benefit from a pension scheme. For all UAE national employees, the pension scheme is governed by Abu Dhabi Retirement Pensions and Benefits Fund. ADIB, after deducting 5 per cent. from the salaries of UAE national employees, also makes payment to the relevant authority by contributing directly 15 per cent. itself (to make the total contribution 20 per cent.) on the following base: basic salary, housing allowance, and national allowance.

As regards non UAE national employees, they are covered by a fully funded end of service benefits scheme, that is accrued and is based on the following criteria:

- (a) 30 days’ basic salary for each year for the first five years of continued service; and
- (b) for the remaining years of service, after five years in service, the scheme covers 45 days basic salary.

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

Emiratisation

ADIB has adopted an Emiratisation drive which is intended to attract experienced national candidates at all 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 which are incorporated in the annual strategic plan. Specifically, the UAE Central Bank requires all banks to achieve a 4 per cent. per annum increase in the number of UAE national employees.

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 has been determined. The annual targets for Emiratisation are proportionately broken down for and communicated to each division for implementation.

The statistics below shows the growth in the number of UAE national staff in ADIB over the last two years and as at 30 September 2006.

Year	Total no. of staff	No. of Nationals	Actual (%)
2004	508	120	23.6
2005	1036	246	23.7
30 September 2006	1275	357	28.0

Primarily, ADIB looks for national candidates with relevant banking experience, but in cases where it cannot find national candidates preference is also given to cross industry experience.

In addition to hiring experienced national staff for all positions in ADIB, there is also a detailed programme for hiring under-graduate and graduate candidates for clerical and supervisory positions.

Recruitment of such candidates is carried out in co-ordination with the management and alumni affairs sections of the higher educational institutions in the UAE.

From September 2006, ADIB intends to sponsor national candidates in higher education within the UAE by paying them a monthly stipend from their 2nd year of graduation and by providing them with one month of compulsory vocational training and a work placement for a fixed period.

As at 30 September 2006, the Emirati to non national employee ratio was 38.9 per cent. ADIB intends to increase this ratio in the short to medium term with a target of 40 per cent. to be reached by 2008.

Selected Financial Information

Funding

The Business Units are responsible for the funding of all of ADIB's operations. The main source of funding is customer deposits. As at 31 December 2005, the aggregate amount of ADIB's liabilities totalled AED 20.2 billion, including customer deposits of AED 18 billion.

The following table sets out the sources of funding for ADIB as at 31 December 2004 and 2005 and as at 30 September 2006.

Customer Deposits

	30 September		
	2006	2005	2004
	AED 000	AED 000	AED 000
Investment accounts	9,422,794	4,509,557	3,769,050
Non-investment accounts	3,530,981	3,445,853	2,218,997
Wakala deposits	9,914,442	10,075,624	3,580,789
Total Customer Deposits	22,868,217	18,031,034	9,568,836

Due to banks

	30 September		
	2006	2005	2004
	AED 000	AED 000	AED 000
Current Accounts.....	41,065	409,491	47,997
Investment Accounts	181,000	0	127,143
Reverse Murabaha.....	0	33,728	222,136
Wakala Deposits	4,506,635	1,258,856	1,038,703
Total due to bank	4,728,700	1,702,075	1,435,979

Other Liabilities

	30 September		
	2006	2005	2004
	AED 000	AED 000	AED 000
Accounts payable	130,106	130,878	62,416
Accrued profit distribution to depositors	187,608	109,652	28,360
Other.....	262,155	200,648	85,935
	579,869	441,178	176,711

As at 30 September 2006, ADIB's 20 largest depositors accounted for 51.2 per cent. (compared to 54.9 per cent. as of 31 December 2005) of ADIB's total customer deposits at that date.

In accordance with Sharia, interest cannot be paid or received for all types of accounts. Therefore except for current accounts, deposit accounts are granted a profit distribution.

Distribution to depositors for the year ended 31 December 2005 amounted to AED 721 million (as compared to AED 144 million in 2004).

Accrued profit distribution is payable to depositors when their deposits mature.

Balance Sheet Maturity Profile

The tables below set out information regarding the maturity profile of ADIB's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take into account the effective 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 maturity profile of the assets and liabilities at year end is based on contractual repayment arrangements.

The maturity profile of the assets and liabilities at 30 September 2006 (unconsolidated excluding subsidiaries) was as follows:

	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 months to 1 Year	1 Year to 5 Years	5 Years and Above	Non-Rate Sensitive	Total
Assets								
Cash & Deposits with CB ..	1,137,977	-	-	-	-	-	-	1,137,977
Due from Banks (Int'l Murabahas, Revolving Financing & Nostro)	2,578,730	3,666,172	610,203	18,430	-	-	-	6,873,535
Financing Receivables:								
- Int'l Murabahas with Corporate Customers ..	147,588	186,526	-	-	-	-	-	334,114
- Corporate Finance.....	102,161	926,447	2,155,176	736,569	1,644,654	6,352,700	-	11,917,707
- Retail Commercial	162,996	239,031	543,880	115,377	1,748,333	1,918,219	-	4,727,836
- Retail Consumer	71,590	103,791	325,325	338,984	1,922,089	15,852	-	2,777,631
- Investments	-	-	-	-	2,495,658	-	-	2,495,658
Fixed Assets.....	-	-	-	-	70,911	-	-	70,911
Other Assets	250,647	-	-	-	-	-	30,785	281,432
Total Assets	4,451,689	5,121,967	3,634,584	1,209,360	7,881,645	8,286,771	30,785	30,616,801
Liabilities and Equity								
Due to banks and financial institutions	4,352,068	133,304	76,609	10,654	-	-	-	4,572,635
Customers Deposits.....	11,910,271	5,834,423	1,949,206	3,584,501	-	-	-	23,278,401
Other Liabilities	368,777	49,730	37,348	43,844	44	-	-	499,743
Equity attributable to equity holders	-	-	-	-	-	-	2,266,022	2,266,022
Total Liabilities	16,631,116	6,017,457	2,063,163	3,638,999	44	-	2,266,022	30,616,801

* The above maturity profile is Unconsolidated excluding subsidiaries

The maturity profile of the assets and liabilities at 31 December 2005 was as follows:

	Within 3 months AED 000	3 to 6 months AED 000	6 to 12 months AED 000	1 to 3 years AED 000	Over 3 years AED 000	Total AED 000
Assets						
Balances with financial institutions, UAE Central Bank and cash	1,113,971	–	–	–	–	1,113,971
Murabaha with financial institutions	5,744,665	257,234	2,238	21,742	–	6,025,879
Murabaha and other Islamic financing.....	3,410,843	525,323	1,533,307	1,561,938	1,181,831	8,213,242
Ijara financing.....	350,941	102,506	284,241	1,954,008	2,454,260	5,145,956
Investments	22,047	1,947	77,108	299,283	970,821	1,371,206
Other assets	198,661	6,445	3,045	1,120	–	209,271
Property, plant and equipment.....	–	–	–	–	109,880	109,880
	10,841,128	893,455	1,899,939	3,838,091	4,716,792	22,189,405
Liabilities and equity						
Due to financial institutions	1,702,075	–	–	–	–	1,702,075
Depositors' accounts.....	16,192,222	540,531	1,298,281	–	–	18,031,034
Other liabilities	394,512	13,376	13,076	1,323	18,891	441,178
Equity attributable to equity holders	–	–	–	–	2,014,799	2,014,799
Minority investment	–	–	–	–	319	319
Total liabilities and equity	18,288,809	553,907	1,311,357	1,323	2,034,009	22,189,405

The maturity profile of the assets and liabilities at 31 December 2004 was as follows:

	Within 3 months AED 000	3 to 6 months AED 000	6 to 12 months AED 000	1 to 3 years AED 000	Over 3 years AED 000	Total AED 000
Assets						
Balances with banks and financial institutions,						
UAE Central Bank and cash	611,126	-	-	-	-	611,126
Murabaha with financial institutions	2,466,719	677,754	280,220	36,725	-	3,461,418
Murabaha and other Islamic financing.....	2,717,831	362,942	675,281	581,559	251,072	4,588,685
Ijara financing.....	54,968	54,708	203,879	505,510	2,307,732	3,126,797
Investments on securities..	1,399	116,016	38,240	90,856	545,266	791,777
Other assets	54,134	4,981	2,970	1,007	-	63,092
Property and equipment ..	-	-	-	-	44,274	44,274
	5,906,177	1,216,401	1,200,590	1,215,657	3,148,344	12,687,169
Liabilities and equity						
Due to banks and financial institutions	1,213,297	222,682	-	-	-	1,435,979
Depositors' accounts.....	8,178,378	586,509	771,828	32,121	-	9,568,836
Other liabilities	145,198	8,560	10,774	150	12,029	176,711
Equity attributable to equity holders	70,000	-	-	-	1,435,643	1,505,643
	9,606,873	817,751	782,602	32,271	1,447,672	12,687,169

It should be noted that the maturity profile of the assets and liabilities of ADIB as at 30 September 2006 has been prepared on an unconsolidated basis, excluding subsidiaries, and that the maturity profiles of such assets and liabilities as at 31 December 2005 and 31 December 2004 have been prepared on a consolidated basis.

Portfolio of Financing and Advances

The following table summarises the types of ADIB's financing activities as at 31 December 2004 and 2005 and as at 30 September 2006.

	30 September 2006 AED 000	2005 AED 000	2004 AED 000
Finance and advances			
Term Finance.....	16,374,087	11,554,078	6,920,074
Islamic Covered Drawings.....	4,812	4,435	2,154
Personal Finance (Consumer)	2,575,291	1,727,627	769,512
Covered Card	141,867	71,860	22,737
Other Facilities (Qard Hasan)	1,672	1,199	1,005
Total Finance and advances	19,097,729	13,359,198	7,715,482

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 30 September 2006 and 31 December

2005 and 2004. The concentration of assets and liabilities by geographical segment is based primarily upon the location of the counterparty.

	30 September 2006	
	Assets	Liabilities
	AED 000	AED 000
Geographic region:		
UAE	28,597,944	24,953,896
Middle East.....	1,020,212	1,653,449
Europe	536,077	130,663
North America	40,341	1,258
Other	518,484	1,437,520
	30,713,058	28,176,786
Industry Sector		
Banks and financial institutions	8,829,155	5,764,151
Trading and manufacturing.....	1,701,385	845,706
Construction and real estate	2,273,018	1,311,890
Telecommunications.....	371,981	300,000
Energy	2,074,506	1,576,500
Government	1,254,317	7,972,500
Personal	9,683,933	8,213,983
Other	4,524,763	2,192,056
	30,713,058	28,176,786

* Off-balance sheet items are consolidated at year end

	2005			2004		
	Assets	Liabilities	Commitment and contingent liabilities	Assets	Liabilities	Commitment and contingent liabilities
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Geographical region						
UAE.....	16,072,695	18,618,367	1,965,419	8,424,246	10,500,668	3,498,661
Middle East	4,932,643	993,057	609,897	2,998,272	657,209	534,223
Europe.....	562,135	96,149	73,871	904,943	7,123	53,205
North America.....	163,473	-	4,090	242,260	-	523
Others	458,459	466,714	139,296	117,448	16,526	90,675
	22,189,405	20,174,287	2,792,573	12,687,169	11,181,526	4,177,287
Industry sector						
Financial institutions	7,795,097	2,303,200	596,147	4,589,095	1,566,453	127,174
Trading and manufacturing ..	911,170	647,922	369,518	838,742	966,308	408,061
Construction and real estate	1,014,741	193,427	447,315	514,684	115,725	300,509
Telecommunications	597,266	-	5,045	600,093	300,000	2,289
Energy	3,372,466	956	360,026	3,092,193	902,500	1,393,889
Personal.....	5,970,314	7,415,979	97,519	1,802,478	4,219,061	-
Others	2,528,351	9,612,803	917,003	1,249,884	3,111,479	1,945,365
	22,189,405	20,174,287	2,792,573	12,687,169	11,181,526	4,177,287

Commitments and Contingent Liabilities

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. 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.

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

	30 September		
	2006	2005	2004
	AED 000	AED 000	AED 000
Letters of credit	655,904	440,684	195,411
Letters of guarantee	1,849,832	894,315	403,087
Acceptances	80,298	25,708	12,493
Buy back commitments	475,147	319,750	299,877
Commitment for future capital expenditure	22,216	45,807	18,422
Others	–	–	1,571
	3,083,397	1,726,264	930,861

Irrevocable commitments to extend credits:

	2005	2004
	AED 000	AED 000
Maturing in less than a year	845,012	2,505,791
Maturing in one year to three years	218,633	541,472
Maturing over three years	2,664	199,163
	1,066,309	3,246,426
	2,792,573	4,177,287

As at 30 September 2006, irrevocable commitments to extend credit were AED 1.236 billion. A maturity profile as at 30 September 2006 is not available as this is only generated at each year end.

Provisions for Credit Losses

The following table sets out the movements in provisions for credit losses as at 31 December 2005 and as at 30 September 2006.

Provision	AED 000
Balance as at 1 January 2005	74,064
Additional provision during the year	139,421
Written off 2005.....	–673
Balance as at 31 December 2005	212,812
Additional provision during the period.....	67,825
Written off during the period	–741
Balance as at 30 September 2006	279,896

Capital Adequacy

ADIB is required to comply with capital adequacy requirements promulgated by the UAE Central Bank. The following table sets out capital adequacy information of ADIB as at 31 December 2004 and 2005 and as at 30 September 2006 in accordance with UAE Central Bank rules:

	30 September		
	2006	2005	2004
	AED 000	AED 000	AED 000
Capital Base	2,093,757	1,931,805	1,399,742
Risk Weighted Assets			
Off-balance sheet exposures	341,552	331,547	71,069
Balance sheet assets	19,908,141	13,387,914	6,457,040
Total risk weighted assets	20,249,693	13,719,462	6,528,109

The capital adequacy ratio of ADIB as of 30 September 2006 was 10.3 per cent. compared to 31 December 2005 which was 14.1 per cent. (2004 – 21.4 per cent.).

Investments

The fair value of the available for sale investments at 30 September 2006, 31 December 2005 and 2004 is comprised of the following:

	30 September		
	2006	2005	2004
	AED 000	AED 000	AED 000
Investment in quoted securities	876,459	816,448	469,097
Investment in quoted unconsolidated funds.....	599	599	63,416
Investment in unquoted securities	712,979	416,277	99,972
Investment in unquoted unconsolidated funds.....	16,721	18,587	22,098
Other Investments	42,907	32,180	30,348
	1,649,655	1,284,091	684,931
Held to maturity investment			
Forfeiting deals	110,686	87,115	106,846
Investment in Real Estate.....	901,479	0	0
Total investments	2,661,830	1,371,206	791,777

Unquoted investments with a value of AED 434 million as of 31 December 2005 (2004 – AED 130 million) are carried at cost less allowance for impairment. This is due to the unpredictable nature of future cash flows and lack of other suitable methods of arriving at a reliable fair value. These investments consist mainly of companies in the United States and an equity holding in a private Islamic bank in Bosnia.

Related Party Transactions

Balances with related parties arise from commercial transactions in the normal course of business on an arm's length basis. At the balance sheet date, balances with related parties comprise the following:

	2005	2004
	AED 000	AED 000
Due from:		
Receivables and leased assets	290,024	103,228
Other assets	17,123	–
	307,147	103,228
Due to:		
Due to financial institutions	335	88
Depositors' accounts.....	189,131	86,432
Other liabilities.....	–	56
	189,466	86,576
Irrevocable commitments and contingencies	377,453	52,685

During the year, significant transactions with related parties comprised of the following:

	2005	2004
	AED 000	AED 000
Dividends and other investment income.....	1,527	1,724
Fees income	1,224	1,529
Income from Murabaha, Ijara and Istisna'a	8,892	5,261
Profit Distribution to depositors	1,426	653
General expenses	3,855	1,756

OVERVIEW OF THE UNITED ARAB EMIRATES

The UAE is a federation of seven Emirates. Formerly known as the Trucial States, they were a British protectorate until they achieved independence in December 1971 and merged to form 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 federation is governed by the Supreme Council of the Rulers which consists of the Rulers of the seven Emirates. The Supreme Council elects from its own membership the President and the Vice President (for renewable five year terms). HH Sheikh Zayed Bin Sultan Al-Nahyan, the late Ruler of Abu Dhabi, held the position of President from 1971 until his death in November 2004. Following his death, his son HH Sheikh Khalifa Bin Zayed Al-Nahyan took over as Ruler of Abu Dhabi and has been elected as President of the UAE.

The UAE is the third largest economy in the Arab world after Saudi Arabia and Egypt. It has a more diversified economy than most of the other countries in the GCC. The UAE has approximately 10 per cent. of proven global oil reserves (giving it the fifth largest oil reserves in the world, which would last for 100 years at current rates of production), which generate approximately one-third of the UAE's gross domestic product (**GDP**) and approximately one-half of export earnings. The UAE enjoys one of the highest GDP per capita in the region (being similar to that of Spain on a purchasing power parity basis).

The performance of the UAE economy during 2004 and 2005 was very strong. GDP is estimated to have reached USD74.8 billion in 2005. In addition to record oil prices, the major contribution to GDP growth was from construction, manufacturing, tourism and the service sectors. The stock markets reflected the general confidence in the economy and the market capitalisation of listed stocks increased 171.3 per cent. in 2005 to reach USD248.0 billion. Sustained fiscal and current account surpluses have enabled the public and private sectors in the UAE to accumulate a significant foreign asset position.

In October 2006, Moody's Investors Service, Inc. (**Moody's**) upgraded the rating of the UAE federal government's long-term foreign currency bonds to Aa3 from A1.

Abu Dhabi is the richest and largest of the seven Emirates and the city of Abu Dhabi is also the capital of the federation. During his long presidency, HH Sheikh Zayed oversaw massive investment in the infrastructure of the UAE, which has transformed the country.

Dubai is the second largest city and has a long history as a trading port. It has gradually reduced its dependency on oil and gas revenues. Under its present Ruler, HH Sheikh Mohammed Bin Rashid Al Maktoum, the Government of Dubai continues to invest heavily in the infrastructure of the Emirate and its economic development.

The UAE enjoys good relations with the other states in the GCC. However, it does have a longstanding territorial dispute with Iran over three islands in the Gulf and, as such, is not immune to the political risks that have over-shadowed the region.

THE UAE BANKING SECTOR AND REGULATIONS

Domestic Focus

The UAE banks are predominantly focused on the domestic market.

Expansion of retail operations has required heavy investment in distribution channels, particularly ATM networks and telephone and Internet banking services. As a consequence, IT costs have been a prominent feature of many banks' expenses.

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. The 26 foreign banks in the country currently have a 25 per cent. share of the market. As noted above, these restrictions will soon have to be reconsidered as part of the UAE's compliance with the WTO provisions. Under UAE law, locally incorporated banks must be majority-owned by UAE nationals.

Exposure to the Oil Sector

With much of the economy directly or indirectly dependent on the oil sector, the UAE banks are vulnerable during long periods of low oil prices. In particular, oil revenues tend to drive levels of liquidity.

Developing Capital Markets

The absence of mature bond and 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. However, the two stock markets, the Dubai Financial Market and the Abu Dhabi Securities Market (both of which were established in 2000) and the recently established Dubai International Financial Exchange in the Dubai International Financial Centre, continue to develop and the number of listed companies continues to increase.

Growing mortgage market

The UAE's mortgage market is witnessing an unprecedented growth; it is expected to rise 50 per cent. from AED 8 billion to AED 12 billion. Analysts attribute the increase to investor confidence sparked by recent property laws issued in Dubai and Abu Dhabi and the increase in population and businesses.

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 ownership.

Islamic Finance and Banking

Sharia law forbids 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 broadly correspond to conventional banking transactions and are structured in such a way as to avoid the application of interest.

Legal Environment

There are three primary sources of law in the UAE: federal laws and decrees; local laws; and *Sharia*. The secondary form of law is trade custom or practice. In the absence of federal legislation on areas

specifically reserved to federal authority, the local government will apply their own rules, regulations and practices.

Supervision of Banks

The main legislation covering the banking system is Union Law No. 10 of 1980 (the **Union Law**) which established the Central Bank. The Central Bank's primary roles are to formulate and implement banking, credit, monetary and fiscal policy and to be responsible for ensuring price and currency stability with free convertibility to foreign denominations.

It is also the "bank for banks" in the country; however, it is not the "lender of last resort". In the event of a bank getting into financial difficulties or facing a solvency crisis, it would be expected that long-term liquidity or equity support would be provided by the Emirate in which the institution is based. However, in the event of a run on the currency or a major banking crisis, it would ultimately be the Government of Abu Dhabi who would stand as de facto defender of the currency and the lender of last resort.

Income from overseas investments has been used to fund fiscal deficits, obviating the need for the Central Bank to issue government debt. However, the Central Bank does issue certificates of deposit to the banks, denominated in both USD and dirhams, in order to absorb excess liquidity rather than to meet a specific funding need. There is no secondary market in these securities, but they can be redeemed at face value at the Central Bank at any time.

The Central Bank is also responsible for regulating financial institutions in relation to money laundering controls. It has established a Financial Intelligence Unit, issued a number of detailed regulatory instructions in pursuit of anti money laundering policies and procedures, and hosted teams from the Financial Action Task Force (**FATF**) and the International Monetary Fund who reviewed, discussed and tested existing UAE laws and regulations. This led the FATF to decide in January 2002 that the UAE had put in place adequate anti money laundering systems.

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, are required to be public shareholding companies.

The Union Law also licenses "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) and financial and monetary intermediaries (money and stock brokers).

Recent trends in banking

Profitability

The performance of the UAE economy is influenced by oil prices, which directly affect fiscal revenues and hence determine government expenditure. High oil prices, high liquidity and strong retail demand due to booming non-oil economy in the last few years improved the profitability of the banking sector.

Capital

The national banks are well capitalised by international standards. The Central Bank requires all UAE banks to have capital adequacy ratios of 10 per cent. Whilst the calculation of capital adequacy ratios in the UAE follows the BIS guidelines, GCC State sovereign debt is risk-weighted at zero per cent.

All banks are required to follow the principles of the Basel accord in calculating their capital adequacy ratios. Since 1993, the Central Bank has imposed a 10 per cent. minimum total capital

ratio. The Tier 1 ratio must be above 6 per cent. and the Tier 2 capital must not exceed 67 per cent. of Tier 1 capital. Tier 2 capital includes undisclosed reserves, revaluations of assets (limited to a maximum of 45 per cent. of the excess of market value over net book value and property revaluation reserves are excluded), hybrid capital instruments and subordinated term loans. Profits for the current period, goodwill, other intangibles, unrealised gains on investments and any shortfall in loan loss provisions are deducted from regulatory capital. GCC sovereign debt is risk-weighted at zero per cent.

Under the Union Law, banks are required to transfer 10 per cent. of profit each year into a statutory reserve until this reaches 50 per cent. 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.

Position of Depositors

There is no formal deposit protection scheme in the UAE. Whilst no bank, so far, has been permitted to fail, during the 1980s and early 1990s a number were rescued by the authorities.

Prudential Regulations

The Central Bank has supervisory responsibility for all banking institutions in the UAE. Supervision is carried out through on-site inspections and review of periodic submissions from the banks. The frequency of inspection depends on the perceived risk of the bank, but inspections are carried out in all banks at least once every 18 months. Prudential returns are made monthly, quarterly, semi-annually or annually, depending on the nature of the information they contain. An improved risk management framework is currently being implemented, which is designed to provide the Central Bank with more up-to-date information on credit, market and operational risks within the banking sector.

Liquidity of the Banking System

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 utilisation of funds to stable source of funds ratio of 100 per cent. set by the Central Bank. For this purpose, utilisations comprise loans and advances to customers and interbank assets maturing after three months. Sources of funds comprise 85 per cent. of deposits, 100 per cent. of interbank borrowings maturing after six months and free capital and reserves (net of fixed and illiquid assets).

Reserve Requirements

Reserve requirements are used periodically by the Central Bank as a means of prudential supervision and to control credit expansion.

Diversification of Risk

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 individual borrowers, economic sectors and foreign countries.

Financial Statements

The Central Bank has required all UAE banks to prepare their financial statements in accordance with International Financial Reporting Standards since 2001. With effect from 1 January 2001, banks were required to adopt IAS 39 treatment of financial instruments.

GENERAL DESCRIPTION OF THE CO-OWNERSHIP ASSETS

The Co-ownership Assets which are the subject of the Trust constituted for each Series of Trust Certificates may comprise, *inter alia*, a co-ownership interest in a portfolio of rights in *ijara* (lease) contracts (and the relevant underlying assets) originated by ADIB. The *ijara* contracts comprise lease contracts where ADIB (as lessor) has leased property to a lessee in respect of which regular payments are due from the lessee.

The Co-ownership Assets in respect of each Series of Trust Certificates will be originated by ADIB and represent obligations of lessees and obligors in the United Arab Emirates. ADIB will represent in the Master Purchase Agreement that the co-ownership interests in Co-ownership Assets transferred to the Trustee in respect of each Series of Trust Certificates will be *Sharia* compliant assets.

An outline summary of the co-ownership interests in Co-ownership Assets which will be purchased by the Issuer on the Issue Date of the relevant Series of Trust Certificates will be set out in the applicable Final Terms. The composition of the Co-ownership Assets may change over the life of each Series of Trust Certificates as such assets may mature and as the Managing Agent may utilise the Issuer's share of collections from the relevant Co-ownership Assets to purchase rights in additional *ijara* contracts (and the relevant underlying assets) (which will form part of the Co-ownership Assets of that relevant Series).

No investigation or enquiry will or has been made and no due diligence will or has been conducted by or on behalf of any Dealer, the Issuer or the Trustee in respect of any Co-ownership Assets or their transferability under relevant local law. Reference should be made to the paragraphs under "*Risk Factors – Risk factors relating to the Co-ownership Assets*".

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).

The Master Trust Deed, as supplemented by each Supplemental Trust Deed

The Master Trust Deed is entered into on 1 December 2006 between ADIB, the Issuer, the Trustee and the Delegate and is governed by English law. A Supplemental Trust Deed between the same parties shall be entered into on the Issue Date of each Series of Trust Certificates and shall also be governed by English law.

Upon issue of the Global Trust Certificate initially representing the Trust Certificates of any Series, the Master Trust Deed and the relevant Supplemental Trust Deed shall together constitute the Trust declared by the Trustee in relation to such Series.

The Trust Assets in respect of each Series of Trust Certificates comprise (unless otherwise specified in the relevant Supplemental Trust Deed), *inter alia*, the Issuer's co-ownership interest in the Co-ownership Assets, its rights under the Purchase Undertaking Deed and certain other documents it has entered into and any amounts it may have deposited in the relevant Transaction Account, subject to the terms of the relevant Supplemental Trust Deed.

The Master Trust Deed specifies that, on or after the relevant Maturity Date or, as the case may be, Dissolution Date of a Series of Trust Certificates, the rights of recourse in respect of Trust Certificates shall be limited to the amounts from time to time available and comprising the relevant Trust Assets of that Series, subject to the priority of payments set out in the Master Trust Deed, the relevant Supplemental Trust Deed, the relevant Trust Certificates and the Conditions. The Certificateholders have no claim or recourse against the Issuer or the Trustee in respect of any amount which is or remains unsatisfied and any unsatisfied amounts will be extinguished.

Pursuant to the Master Trust Deed, the Trustee will, in relation to each Series of Trust Certificates, *inter alia*:

- (a) hold the Trust Assets;
 - (b) enforce the Trust Assets including, insofar as it is able, taking all reasonably necessary steps to enforce each of the Purchase Undertaking Deed and any other relevant Transaction Document if ADIB shall have at any time failed to perform its obligations under it;
 - (c) collect and invest the proceeds of the Trust Assets in accordance with the terms of the Master Trust Deed and, if applicable, the terms of the relevant Supplemental Trust Deed;
 - (d) distribute the proceeds of any enforcement of the Trust Assets, as described in the Master Trust Deed and in the Management Agreement (see the section entitled "*Summary of the Principal Transaction Documents — Management Agreement*");
 - (e) maintain proper books of account in respect of the relevant Trust; and
- take such other steps as are reasonably necessary to ensure that the Certificateholders of each Series receive the distributions to be made to them in accordance with the Transaction Documents.

In the Master Trust Deed the Trustee also undertakes that, *inter alia*:

- (a) it may or shall upon being directed to do so by the Certificateholders enforce the obligations of ADIB under the Master Trust Deed, the Purchase Undertaking Deed and any other Transaction Document to which ADIB is a party;

- (b) to the extent that it prepares accounts, it shall cause to be prepared and certified by its auditors in respect of each financial accounting period accounts in such form as will comply with all relevant legal and accounting requirements and all requirements for the time being of any stock exchange on which the Trust Certificates are listed; and
- (c) following the occurrence of a Dissolution Event in respect of any Series of Trust Certificates and subject to Condition 14 (*Dissolution Events*), it shall (i) promptly notify the Certificateholders of the occurrence of such Dissolution Event, and (ii) take all such steps as are necessary to enforce the obligations of ADIB under the Purchase Undertaking Deed and any other Transaction Document to which ADIB is a party.

A Transaction Account will be established in respect of each Series of Trust Certificates. Monies received in the Transaction Account in respect of each Series will, *inter alia*, comprise (i) payments from the relevant Collection Account immediately prior to each Periodic Distribution Date (see "*Summary of the Principal Transaction Documents – Management Agreement*") below) and (ii) the Exercise Price received from ADIB under the relevant Sale Agreement (see "*Summary of the Principal Transaction Documents – Purchase Undertaking Deed*" below). The Master Trust Deed provides that all monies credited to the Transaction Account in respect of each Series will be applied in the following order of priority:

- (a) first, to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate;
- (b) second, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;
- (c) third, only if such payment is made on the Maturity Date or any Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the relevant Dissolution Amount; and
- (d) fourth, only if such payment is made on the Maturity Date or any Dissolution Date, to the Issuer.

The Master Purchase Agreement, as supplemented by each Supplemental Purchase Contract

The Master Purchase Agreement between ADIB, the Issuer and the Trustee, as supplemented and amended from time to time, and each Supplemental Purchase Contract applicable to a Series of Trust Certificates are and will be, governed by UAE law.

Sale of co-ownership interest in Co-ownership Assets

On the Issue Date of the relevant Series, ADIB agrees to sell to the Issuer a co-ownership interest in the Co-ownership Assets identified in a schedule to the relevant Supplemental Purchase Contract. To the extent that any transfer of such co-ownership interest in any of the Co-ownership Assets is not effective in any jurisdiction for any reason, ADIB has agreed to make restitution in respect of all amounts received by it in respect of those Co-ownership Assets.

Purchase Price

The purchase price payable for the co-ownership interest in the Co-ownership Assets of any relevant Series of Trust Certificates will be set out in the relevant Supplemental Purchase Contract.

Records

All records in respect of the Co-ownership Assets will be retained by ADIB.

Representations and Warranties

ADIB will only provide very limited representations and warranties in respect of the Co-ownership Assets on the Issue Date of the relevant Series.

Undertakings of ADIB

ADIB provides only very limited undertakings in the Master Purchase Agreement.

Management Agreement

The Management Agreement is entered into on or about 1 December 2006 between the Issuer, the Trustee and ADIB, in its capacity as managing agent of the Co-ownership Assets (the **Managing Agent**) and is governed by UAE law.

Appointment of ADIB as Managing Agent

The Issuer will appoint the Managing Agent to service its co-ownership interest in the Co-ownership Assets applicable to each Series of Trust Certificates. In particular, the Managing Agent will:

- (a) use its best endeavours to do all acts and things (including execution of such documents, issue of notices and commencement of any proceedings) to ensure the assumption and compliance by each *ijara* transaction party of its covenants, undertakings or other obligations under the *ijara* contracts to which it is party in accordance with applicable law and terms of the *ijara* contracts;
- (b) use its best endeavours to discharge all obligations in respect of any assets that are at any time the subject of an *ijara* contract (the **Leased Co-ownership Assets**) required by the *Sharia* to be assumed by a lessor, including: (A) all structural repair and major maintenance without which the Leased Co-ownership Assets could not be reasonably and properly used by a lessee; and (B) payment of all Taxes in relation to the Leased Co-ownership Assets by law imposed, charged or levied against a proprietor, but excluding all Taxes that are by law imposed, charged or levied against a lessee;
- (c) use its best endeavours to procure the *takaful* (insurance) (if available) of any Leased Co-ownership Assets against such risks (including without limitation, fire, flooding and natural perils) in an amount sufficient to reinstate the assets in full, and shall: (A) ensure that such insurance is provided by a reputable insurer and one which is at all times in good financial standing; (B) make such enquiries and obtain such assurances as it deems fit to ensure that clause (A) above is, and shall at all times be, fully complied with; (C) ensure that such insurance is otherwise satisfactory to ensure compliance with the Managing Agent's obligations under the Management Agreement; (D) diligently make and pursue any claim under such insurance; and (E) ensure that nothing is done by it or omitted to be done which is contrary to the terms of any such insurance, or which might result in such insurance being restrained, repudiated, vitiated, cancelled, made void or voidable, or otherwise become prejudiced or impaired; and
- (d) ensure that, in discharging its obligations under (b) and (c) above, those obligations are delegated to a *ijara* transaction party acting as servicing agent (in a manner and on such terms as are compliant with the *Sharia*) in accordance with the *ijara* contracts such servicing agent is or will become a party to;
- (e) use its best endeavours to ensure the timely receipt of all Co-ownership Revenues, investigate non-payment of Co-ownership Revenues and generally make all reasonable efforts to collect or enforce the collection of such Co-ownership Revenues under the relevant contract as and when the same shall become due;
- (f) maintain each Collection Account in accordance with the Management Agreement;

- (g) pay all taxes (if any) charged, levied or claimed in respect of the Co-ownership Assets by any relevant taxing or other authority;
- (h) obtain all necessary authorisations in connection with any of the Co-ownership Assets and its obligations under or in connection with the Management Agreement;
- (i) provide *Sharia* compliant funding without recourse to the Co-ownership Assets to ensure, among other matters, that the Issuer's entitlement to Co-ownership Revenues is paid to the Issuer on a timely basis and in accordance with the Management Agreement; and
- (j) carry out any incidental matters relating to any of the above.

Standard of Care

The Managing Agent shall perform its duties under the Management Agreement in accordance with all applicable laws and regulations, 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 the *Sharia*.

Fees

ADIB shall be entitled to receive a fee for acting as Managing Agent which will comprise a fixed basic fee of US\$100 and an incentive fee calculated as the remaining amounts available from the application of profit collections, as more particularly described in "*Operation of the Collection Accounts*" below.

Operation of Collection Accounts

The Managing Agent will maintain a Collection Account in respect of each Series of Trust Certificates. All monies received by the Managing Agent in respect of Co-ownership Assets of each Series will be credited to the Collection Account and applied by the Managing Agent in the following order of priority:

- (a) first, payment of all or any due and payable Co-ownership Liabilities Amounts;
- (b) second, to the extent that the Co-ownership Revenues comprise return on account of profit on Co-ownership Assets (**Return Co-ownership Revenues**), to the Co-owners in proportion to their respective co-ownership interests. In the case of the Return Co-ownership Revenues attributable to the Issuer's co-ownership interest, such revenues will be paid into the relevant Transaction Account immediately prior to the next following Periodic Distribution Date and, pending such payment, will be invested in *Sharia* compliant investments;
- (c) third, to the extent that the Co-ownership Revenues do not comprise Return Co-ownership Revenues, to the Co-owners in proportion to their respective co-ownership interests. In the case of such Co-ownership Revenues attributable to the Issuer's co-ownership interest, the revenues will be applied by the Managing Agent in acquiring co-ownership interests in further assets of ADIB such that the assets become Co-ownership Assets, all on and subject to the terms of the Transaction Documents; and
- (d) fourth, to the extent that the Co-ownership Revenues comprise Return Co-ownership Revenues and only to the extent permitted by the Management Agreement, in payment of incentive fees.

Representations and Warranties

The Managing Agent shall make certain limited representations and warranties including, *inter alia*, as to due incorporation, power and authority and the validity of its obligations under the Management Agreement.

Termination of Appointment

ADIB's appointment as Managing Agent may be terminated without notice upon the occurrence of any ADIB Event (see "Summary of the Principal Transaction Documents – Purchase Undertaking Deed" below). The occurrence of an ADIB Event will also be a Dissolution Event allowing the Trustee, at its option to declare (or, upon written request of Certificateholders representing not less than one-fifth in face amount of the relevant Series of Trust Certificates for the time being outstanding and being indemnified and/or secured to its satisfaction, requiring it to declare) the Trust Certificates of the relevant Series to be immediately due and payable.

Except in relation to payments in respect of any Trust Certificates which are identified in the applicable Final Terms as being issued on a subordinated basis, the payment obligations of the Managing Agent under the Management Agreement are and will be direct, unconditional, unsecured and general obligations of the Agent and shall rank at least *pari passu* with all other unsecured, unsubordinated and general obligations of the Managing Agent.

Purchase Undertaking Deed

The Purchase Undertaking Deed is entered into on or about 1 December 2006 between ADIB, the Issuer and the Trustee and is governed by English law.

ADIB has irrevocably undertaken in favour of the Issuer and the Trustee to purchase all of the Issuer's rights in and to the Co-ownership Assets of each Series of Trust Certificates on the relevant Maturity Date or, if earlier, on the Dissolution Date of the relevant Series of Trust Certificates. The price (the **Exercise Price**) payable by ADIB shall be calculated by reference to the value of the Issuer's co-ownership interest in the unpaid rental instalment amounts due and payable in respect of the Co-ownership Assets. ADIB has undertaken in the Purchase Undertaking Deed that, in respect of each Series of Trust Certificates, it shall maintain the value of the Issuer's co-ownership interest in the unpaid rental instalment amounts due and payable in respect of the Co-ownership Assets applicable to the relevant Series at an amount at least equal to the outstanding face amount of the Trust Certificates of such Series.

The specific terms applicable to each such sale will be confirmed in a Sale Agreement, to be executed by the Issuer, the Trustee and ADIB on the Dissolution Date or, as the case may be, the Maturity Date of the relevant Series of Trust Certificates. The form of each such Sale Agreement is appended to the Purchase Undertaking Deed.

In the Purchase Undertaking Deed, ADIB has undertaken that, until the Trust Certificates have been redeemed in accordance with the Conditions, it shall not, and it shall procure that none of its Subsidiaries will, create or permit to subsist any Security upon the whole or any part of its present or future assets or revenues (including uncalled capital) to secure any of its Indebtedness or any Guarantee of Indebtedness given by it, other than Permitted Security, without (i) at the same time or prior thereto securitising equally and rateably therewith its obligations under the Transaction Documents to which it is, in whatever capacity, a party, or (ii) providing such other Security for those obligations as may be approved by the Certificateholders by an Extraordinary Resolution.

For these purposes:

Guarantee means, in relation to any Indebtedness of any person, any obligation of another person to pay such Indebtedness following demand or claim on that person including (without limitation):

- (a) any obligation to purchase such Indebtedness;
- (b) any obligation to extend financing, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (d) any other agreement to be responsible for such Indebtedness.

Indebtedness means any present or future indebtedness of any person for or in respect of any money borrowed or raised including (without limitation) any borrowed money or liability arising under or in respect of any acceptance or acceptance credit or evidenced by any notes, bonds, debentures, debenture stock, loan stock or other securities or any moneys raised under any transaction having the commercial effect of borrowing or raising money.

Permitted Security means:

- (a) any Security created or outstanding with the approval of an Extraordinary Resolution;
- (b) any Security arising by operation of law, provided that such Security is discharged within 30 days of arising;
- (c) any Security granted by a Subsidiary in favour of ADIB;
- (d) any Security arising in the ordinary course of banking transactions (such as sale and repurchase transactions and share, loan and *sukuk* transactions) provided that the Security is limited to the assets which are the subject of the relevant transactions;
- (e) any Security created by the operation of a reservation of title clause contained in a vendor's or supplier's standard terms and conditions of sale in respect of goods acquired by ADIB or a Subsidiary in the ordinary course of its business;
- (f) any Security on assets or property existing at the time ADIB or any Subsidiary acquired such assets or property provided that such Security was not created in contemplation of such acquisition and does not extend to other assets or property (other than proceeds of such acquired assets or property), provided that the maximum amount of Indebtedness thereafter secured by such Security does not exceed the purchase price of such property or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;
- (g) any Security securing Indebtedness of any person and/or its Subsidiaries existing at the time that such person is merged into or consolidated with ADIB or a Subsidiary provided that such Security was not created in contemplation of such merger or consolidation and does not extend to any other assets or property of ADIB or any Subsidiary;
- (h) any other Security provided that the aggregate outstanding amount secured by that Security and any other Security permitted to be created and in effect under the Purchase Undertaking Deed does not, at any time, exceed 10 per cent. of the aggregate share capital and reserves of ADIB as shown in its most recent audited consolidated (if then prepared by ADIB) or non consolidated (if consolidated financial statements are not then prepared by ADIB) financial statements prepared in accordance with International Financial Reporting Standards; and
- (i) any renewal of or substitution for any Security permitted by any of the preceding sub paragraphs (a) through (h), provided that with respect to any such Security incurred pursuant to this sub-paragraph (i) the principal amount secured has not increased and the Security has not been extended to any additional property (other than the proceeds of such property).

Security means any mortgage, pledge, lien, charge, assignment by way of security, hypothecation or security interest or any other agreement or arrangement having the effect of conferring security.

Subsidiary means in relation to any person (the first person) at any particular time, and other person (the **second person**);

- (a) whose affairs and policies the first person controls or has power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person.

In addition, ADIB has agreed that the following events will constitute **ADIB Events** for the purposes of Condition 14:

- (a) ADIB fails to pay any amount payable pursuant to any Transaction Document to which it is a party unless its failure to pay is caused by an administrative or technical error and such payment is made within 5 business days of its due date; or
- (b) ADIB fails to perform or observe any of its covenants and/or obligations or is in breach of any of its representations and warranties in each case under the Management Agreement or under any other Transaction Document to which it is a party and such breach is, in the opinion of the Delegate, materially prejudicial to the interests of the Certificateholders;
- (c) at any time it is or will become unlawful or contrary for ADIB to perform or comply with any of its material (in the opinion of the Delegate) obligations under any Transaction Document or any of the material (in the opinion of the Delegate) obligations of ADIB under any Transaction Document are not or cease to be legal, valid, binding and enforceable;
- (d) (i) any Indebtedness of ADIB or any of its Principal Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period, (ii) any such Indebtedness becomes due and payable prior to its stated maturity by reason of default (however described) or (iii) ADIB or any of its Principal Subsidiaries fails to pay when due or (as the case may be) within any originally applicable grace period any amount payable by it under any Guarantee of any Indebtedness, provided that each such event shall not constitute a Dissolution Event unless the aggregate amount of all such Indebtedness, either alone or when aggregated with all other Indebtedness in respect of which such an event shall have occurred and be continuing, shall be more than US\$10,000,000 (or its equivalent in any other currency or currencies);
- (e) ADIB ceases to carry on its business or a substantial part of its business (unless it does so for the purpose of a reorganisation, the terms of which have been approved in writing by the Trustee and where ADIB demonstrates to the satisfaction of the Trustee that it is solvent);
- (f) any action, condition or thing at any time required to be taken, fulfilled or done in order (A) to enable ADIB lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Transaction Documents or (B) to ensure that those obligations are legal, valid, binding and enforceable, is not taken, fulfilled or done within 14 days of the Trustee giving notice in writing to ADIB;
- (g) (A) ADIB becomes insolvent or is unable to pay its debts as they fall due, (B) an administrator, receiver or liquidator of ADIB or the whole or any part of the undertaking, assets and revenues of ADIB is appointed (or application for any such appointment is made and such application is not set aside, discharged or struck out within 21 days) or (C) ADIB takes any action or commences any negotiations or proceedings with a view to (aa) any adjustment of a material proportion of the whole or a specified class or category of Indebtedness or (bb) any deferment of any of its obligations or (cc) making a general assignment or an arrangement or composition with or for the benefit of its creditors provided always that this sub-paragraph (g)(C) shall not apply to any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority;
- (h) an order or decree is made or an effective resolution is passed for the winding-up, liquidation or dissolution of ADIB provided always that this paragraph (i) shall not apply to any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or
- (i) any event occurs which has an analogous effect to any of the events referred to in paragraphs (g) and (h) (inclusive) above.

Principal Subsidiary is defined in the Purchase Undertaking Deed and, in summary, means a subsidiary of ADIB whose gross assets exceed 10 per cent. of the consolidated gross assets of ADIB

and its subsidiaries, taken as a whole, or the revenues of which exceed 10 per cent. of the consolidated revenues of ADIB and its subsidiaries, taken as a whole.

Except in relation to payments in respect of any Trust Certificates which are identified in the applicable Final Terms as being issued on a subordinated basis, the payment obligations of ADIB under the Purchase Undertaking Deed are and will be direct, unconditional, unsecured and general obligations of ADIB and shall rank at least *pari passu* with all other unsecured, unsubordinated and general obligations of ADIB.

Costs Undertaking Deed

Pursuant to a Costs Undertaking Deed given by ADIB, it will pay certain fees and expenses of, and indemnify against certain losses of, among others, the Trustee, the Delegate, the Principal Paying Agent, the Payment Administrator, the Transfer Agent, the Replacement Agent, the Calculation Agent and the Registrar.

Representations of no Immunity

In each of the Transaction Documents to which ADIB is a party, ADIB has represented and warranted that it has entered into such Transaction Document in connection with the exercise of its powers to raise money. Accordingly, ADIB has, in each of those Transaction Documents, acknowledged and agreed that it is not entitled to claim for itself or any of its assets immunity from legal process in actions taken in relation to any Transaction Document and brought against ADIB in a court of competent jurisdiction irrespective of the identity of the holders of beneficial interests in the Trust Certificates.

TAXATION

The following is a general description of certain tax considerations relating to the Trust Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Trust Certificates. Prospective purchasers of Trust 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 Trust Certificates and receiving payments of profit, principal and/or other amounts under the Trust Certificates. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

United Arab Emirates

The following summary of the anticipated tax treatment in the UAE in relation to the payments on the Trust Certificates is based on the taxation law and practice in force at the date of this Base Prospectus, and does not constitute legal or tax advice and prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change. Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Trust Certificates and the receipt of any payments in respect of any Periodic Distribution Amounts and distributions (whether or not on a winding-up) with respect to such Trust Certificates under the laws of the jurisdictions in which they may be liable to taxation.

There is currently in force in the Emirates of Abu Dhabi and Dubai legislation establishing a general corporate taxation regime (the Abu Dhabi Income Tax Decree 1965 (as amended) and the Dubai Income Tax Decree 1969 (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 United Arab Emirates. 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, Abu Dhabi or Dubai taxation in respect of payments on debt securities (including Periodic Distribution Amounts or the Dissolution Amounts in relation to the Trust Certificates).

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 United Arab Emirates has entered into Double Taxation Arrangements with certain other countries, but these are not extensive in number.

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 Issuer has applied for and expects to obtain 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 Issuer 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 Trust Certificates) of the Issuer 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 Trust 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\$575. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

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. However, for a transitional period, Belgium, 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 as 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) with effect from the same date.

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 1 December 2006, agreed with the Issuer and ADIB a basis upon which they or any of them may from time to time agree to purchase Trust Certificates. Any such agreement will extend to those matters stated under “*Terms and Conditions of the Trust Certificates*”. In the Programme Agreement, each of the Issuer and ADIB has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Trust Certificates under the Programme.

United States

The Trust 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 accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented and agreed that it has offered and sold any Trust Certificates, and will offer and sell any Trust Certificates (a) as part of their distribution at any time and (b) otherwise until 40 days after the completion of the distribution of all Trust Certificates of the Series of which such Trust Certificates are a part as determined and certified as provided below, only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer who purchases Trust Certificates of a Series (or in the case of a sale of a Series of Trust Certificates issued to or through more than one Dealer, each of such Dealers as to the Trust Certificates of such Series to be purchased by or through it or, in the case of a syndicated issue, the relevant Lead Manager) shall determine and certify to the Principal Paying Agent the completion of the distribution of the Trust Certificates of such Series. On the basis of such notification or notifications, the Principal Paying Agent has agreed to notify such Dealer/Lead Manager of the end of the distribution compliance period with respect to such Series. Each Dealer has also agreed that, at or prior to confirmation of sale of Trust Certificates, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Trust Certificates from it during the distribution compliance period a confirmation or notice to substantially the following effect:

“The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (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 (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S.”

Terms used in this sub-section have the meanings given to them by Regulation S.

Each Dealer has represented and agreed that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Trust Certificate, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Trust Certificates to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Trust Certificates to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Trust Certificates which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Trust Certificates to the public** in relation to any Trust Certificates in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Trust Certificates to be offered so as to enable an investor to decide to purchase or subscribe the Trust Certificates, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an 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 Trust Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer 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 any Trust Certificates in, from or otherwise involving the United Kingdom.

United Arab Emirates

Each Dealer has acknowledged and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) the Trust Certificates to be issued under the Programme 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; and
- (b) the information contained in this Base Prospectus does not constitute an offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1986 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Base Prospectus is not intended to lead to the conclusions of any contract of whatsoever nature within the territory of the United Arab Emirates.

Kingdom of Saudi Arabia

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to be represent and agree, that:

- (a) no action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering or private placement of Trust Certificates in the Kingdom of Saudi Arabia or possession or distribution of any offering materials in relation thereto; and
- (b) it will not offer or sell any Trust Certificates in the Kingdom of Saudi Arabia other than in accordance with Part 5 Exempt Offers; Article 17: "Conditions for an Exempt Offer" 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 published on 3 December 2004 (the **Regulations**) and subject to obtaining any necessary approvals from the Capital Markets Authority.

The total number of offerees in the Kingdom of Saudi Arabia may not exceed in aggregate 60 offerees between all the Dealers, in each case where the amount payable by each offeree is at least SAR 1 million. Article 20 of the Regulations places certain restrictions on secondary market sales of such exempt securities.

Bahrain

Each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake, that it has not offered and will not offer Trust Certificates to the Public (as defined in Articles 162-146 of the Commercial Companies Law (decree Law No. 21/2001) of Bahrain) in Bahrain.

Dubai International Financial Centre

This Base Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (**DFSA**). It is intended for distribution only to persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this document nor taken steps to verify the information set out in it and has no responsibility for it. The securities to which this document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the securities offered should conduct their own due diligence on the securities. If you do not understand the contents of this document you should consult an authorised financial adviser.

Malaysia

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that the offer of Trust Certificates in Malaysia can only be made to investors specified in Schedules 2, 3 and 5 of the Securities Commission Act 1993 (i.e. sophisticated investors, e.g. unit trust schemes, licensed dealers, closed-end funds, fund managers, licensed financial institutions, licensed offshore banks, licensed insurance companies, corporations with total net assets exceeding ten million Malaysian ringgit or its equivalent in foreign currencies, statutory bodies and pension funds).

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Trust Certificates other than (i) to persons whose ordinary business is to buy or sell shares

on debentures (whether as principal or agent); or (ii) in other circumstances which do not result in the document being an offer to the public within the meaning of the Companies Ordinance (Cap. 32) (the **CO**); or (iii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) (the **SFO**) and any rules made under the SFO; or (iv) in other circumstances which do not result in the document being a “prospectus” which do not constitute an offer to the public within the meaning of the CO; 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 (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to any Trust 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 laws of Hong Kong) other than with respect to any Trust Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the SFO and any rules made under the SFO.

Cayman Islands

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it shall not make any invitation to the public of the Cayman Islands to subscribe for any Trust Certificates.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Trust Certificates or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Trust Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, ADIB, the Delegate and any other Dealer shall have any responsibility therefor.

None of the Issuer, ADIB, the Delegate and any of the Dealers represents that Trust Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

With regard to each Series, the relevant Dealer will be required to comply with any additional restrictions agreed between the Issuer and the relevant Dealer and set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Trust Certificates have been duly authorised by a resolution of the Board of Directors of the Issuer dated 15 October 2006. The Issuer has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of the Trust Certificates. The entry into the Transaction Documents to which it is a party (other than any supplemental documents specific to a particular Series) was authorised by the directors of ADIB on 2 November 2006.

Listing of Trust Certificates

It is expected that each Series of Trust Certificates which is to be admitted to the Official List and to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market will be admitted separately as and when issued, subject only to the issue of a Global Trust Certificate initially representing the Trust Certificates of such Series. Application has been made to the UK Listing Authority for Trust Certificates issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Trust Certificates to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. The listing of the Programme in respect of Trust Certificates is expected to be granted on or before 4 December 2006.

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

- (a) the Memorandum of Association and Articles of Association of the Issuer;
- (b) the consolidated audited financial statements of ADIB in respect of the financial years ended 31 December 2004 and 31 December 2005. ADIB currently prepares audited consolidated accounts on an annual basis;
- (c) the most recently published consolidated audited annual financial statements of ADIB and the most recently published consolidated unaudited interim financial statements (if any) of ADIB. ADIB currently prepares unaudited consolidated interim accounts on a quarterly basis;
- (d) the Programme Agreement, the Master Trust Deed, the Agency Agreement, the Management Agreement, the Purchase Undertaking Deed (which contains the form of Sale Agreement), and the forms of the Global Trust Certificate and the Trust Certificates in definitive form;
- (e) any Supplemental Trust Deed in relation to Trust Certificates which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system;
- (f) a copy of this Base Prospectus;
- (g) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that a Final Terms relating to a Trust Certificate which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Trust Certificate and such holder must produce evidence satisfactory to the Issuer and the Principal Paying Agent as to its holding of Trust Certificates and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and

- (h) in the case of each issue of Trust Certificates which is listed on the London Stock Exchange subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Trust Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Series of Trust Certificates allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Trust Certificates are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 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 2006 and there has been no material adverse change in the financial position or prospects of ADIB and its subsidiaries since 31 December 2005. There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position or prospects of the Issuer, in each case, since the date of its incorporation.

Litigation

None of the Issuer, ADIB nor any of its 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 or ADIB is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer, ADIB or any of its subsidiaries.

Auditors

The auditors of ADIB are Deloitte & Touche, Chartered Accountants, who have audited ADIB's accounts, without qualification, in accordance with IFRS for each of the two financial years ended on 31 December 2005. The auditors of ADIB have no material interest in ADIB.

The auditors of the Issuer are Deloitte & Touche, Chartered Accountants. The Issuer has not prepared any financial statements to date. The auditors of the Issuer have no material interest in the Issuer.

Dealers transacting with ADIB

Certain of the Dealers 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 its affiliates in the ordinary course of business.

Supplement to this Base Prospectus

The Issuer and ADIB will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Trust Certificates, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Trust Certificates. Each of the Issuer and ADIB has undertaken to the Dealers in the Programme Agreement (as defined in "*Subscription and Sale*") that it will comply with section 87G of the Financial Services and Markets Act 2000.

FINANCIAL INFORMATION

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ABU DHABI ISLAMIC BANK PJSC

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ABU DHABI ISLAMIC BANK PJSC

**Review report and interim
condensed consolidated financial
statements for the period
ended 30 September 2006**

ABU DHABI ISLAMIC BANK PJSC

Review report and interim condensed consolidated financial statements for the period ended 30 September 2006

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the Directors of
Abu Dhabi Islamic Bank PJSC
Abu Dhabi, UAE

We have reviewed the accompanying consolidated balance sheet of Abu Dhabi Islamic Bank P.J.S.C. ("the Bank") as of 30 September 2006, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the period then ended as set out in pages 2 to 16. These interim condensed consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with International Standards on Review Engagement 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of bank personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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 presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

Ahmad Nimer
Registration Number 380
25 October 2006

**Consolidated balance sheet
as at 30 September 2006**

	Notes	30 September 2006 (unaudited) AED' 000	31 December 2005 (audited) AED' 000
ASSETS			
Balances with financial institutions, Central Bank and cash	8	1,174,653	1,113,971
Murabaha and Mudaraba with financial institutions		7,313,549	6,025,879
Murabaha and other Islamic financing	3	10,270,851	8,213,242
Ijara financing		8,826,878	5,145,956
Investments	4	1,760,351	1,371,206
Investment property		901,479	-
Other assets		390,737	209,271
Property, plant and equipment	5	74,560	109,880
Total assets		30,713,058	22,189,405
LIABILITIES			
Due to financial institutions		4,728,700	1,702,075
Depositors' accounts		22,868,217	18,031,034
Other liabilities		579,869	441,178
Total liabilities		28,176,786	20,174,287
SHAREHOLDERS' EQUITY			
Share capital	6	1,500,000	1,000,000
Reserves		181,258	181,258
Retained earnings		672,546	267,476
Proposed bonus shares issue		-	200,000
Revaluation reserve		180,945	366,065
Equity attributable to equity holders of the Parent Entity		2,534,749	2,014,799
Minority interest		1,523	319
Total equity		2,536,272	2,015,118
Total liabilities and equity		30,713,058	22,189,405
Commitments and contingent liabilities	9	4,319,258	2,792,573

Mohamed Bin Humooda
Chairman of the Board

Ahmed Darweesh Bin Dagher Al Marar
Managing Director

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**Consolidated income statement
for the period ended 30 September 2006**

	Note	<u>3 months period ended</u>		<u>9 months period ended</u>	
		<u>30 September</u>	2005	<u>30 September</u>	2005
		<u>2006</u>	(unaudited)	<u>2006</u>	(unaudited)
		<u>AED'000</u>	AED'000	<u>AED'000</u>	AED'000
OPERATING INCOME					
Income from Murabaha and Mudaraba with financial institutions, net		64,905	92,112	409,996	198,636
Income from Murabaha, Ijara and other Islamic financing, net		399,293	243,437	1,142,691	661,447
Investment income		18,075	10,456	52,609	28,235
Fees, commissions and foreign exchange income, net		22,563	17,287	66,770	35,712
Gain from sale of investments		21,269	1,890	89,476	5,555
Other operating income		32	105	294	385
Total income		526,137	365,287	1,761,836	929,970
OPERATING EXPENSES					
Staff costs		(65,112)	(32,626)	(183,400)	(103,844)
General and administrative expenses		(27,161)	(17,625)	(76,334)	(47,746)
Directors' fees		(747)	(196)	(3,139)	(692)
Depreciation of property, plant and equipment		(4,961)	(3,819)	(13,652)	(10,920)
Provision for impairment		(14,199)	(7,731)	(67,821)	(60,950)
Total expenses		(112,180)	(61,997)	(344,346)	(224,152)
Profit from operations, before distribution to depositors and minority interest		413,957	303,290	1,417,490	705,818
Distribution to depositors		(299,608)	(206,629)	(1,011,216)	(467,534)
Net profit for the period		114,349	96,661	406,274	238,284
Attributed to:					
Equity holders of the Parent Entity		113,371	96,641	405,070	238,124
Minority interest		978	20	1,204	160
Net profit for the period		114,349	96,661	406,274	238,284
Basic earnings per share (AED)	7	0.75	0.966	2.770	2.381

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**Consolidated Statement of changes in shareholders' equity
for the period ended 30 September 2006 (unaudited)**

	Share capital AED'000	Reserves AED'000	Retained Earnings AED'000	Proposed cash dividends AED'000	Proposed bonus shares issue AED'000	Revaluation reserve AED'000	Attributable to the equity holders of the Parent Entity AED'000	Minority interest AED'000	Total AED'000
Balance at 1 January 2005	1,000,000	112,321	199,529	70,000	-	123,792	1,505,642	-	1,505,642
Net profit for the period	-	-	238,124	(70,000)	-	-	238,124	160	238,284
Dividends paid	-	-	-	-	-	-	(70,000)	-	(70,000)
Increase in fair values of available for sale investments	-	-	-	-	-	159,252	159,252	-	159,252
Balance at 30 September 2005	1,000,000	112,321	437,653	-	-	283,044	1,833,018	160	1,833,179
Balance at 1 January 2006	1,000,000	181,258	267,476	-	200,000	366,065	2,014,799	319	2,015,118
Net profit for the period	-	-	405,070	-	-	-	405,070	1,204	406,274
Bonus shares issued	-	-	-	-	(200,000)	-	(200,000)	-	(200,000)
Right issue of shares	500,000	-	-	-	-	-	500,000	-	500,000
Increase in fair values of available for sale investments	-	-	-	-	-	(185,120)	(185,120)	-	(185,120)
Balance at 30 September 2006	1,500,000	181,258	672,546	-	-	180,945	2,534,749	1,523	2,536,272

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**Consolidated statement of cash flows
for the period ended 30 September 2006**

	<u>9 months ended 30 September</u>	
	2006 (unaudited) AED'000	2005 (unaudited) AED'000
Operating activities		
Net profit for the period before minority interest	406,274	238,284
Adjustments for:		
Depreciation of property, plant and equipment	13,652	10,920
Provision for impairment of Islamic financing and investments	67,821	60,950
Gain on disposal of investments	(89,476)	(5,555)
Gain on disposal of property, plant and equipment	(44)	(12)
Operating profit before changes in operating assets and liabilities	398,227	304,587
(Increase)/decrease Murabaha & Mudaraba with financial institutions	(2,391,480)	745,902
Increase Murabaha and other Islamic financing	(2,125,430)	(3,484,705)
Increase Ijara financing	(3,680,922)	(1,149,519)
Increase other assets	(169,919)	(214,703)
Increase/(decrease) due to financial institutions	3,312,833	(759,177)
Increase depositors' accounts	4,837,183	8,738,806
Increase other liabilities	133,135	846,709
Net cash from operating activities	313,627	5,027,900
Investing activities		
Purchase of investments	(1,651,468)	(380,404)
Proceeds from sale of investments	319,364	202,159
Purchase of property, plant and equipment	(38,289)	(12,676)
Proceeds from sale of property, plant and equipment	44	12
Net cash used in investing activities	(1,370,349)	(190,909)
Financing activities		
Distributions paid	(1,403)	(70,000)
Increase in share capital	500,000	-
Bonus shares issued	(200,000)	-
Minority interest	1,204	90
Net cash from (used in) financing activities	299,801	(69,910)
Net (decrease) increase in cash and cash equivalents	(756,921)	4,767,081
Cash and cash equivalents at beginning of the period	3,253,572	730,376
Cash and cash equivalents at end of the period (note7)	2,496,651	5,497,457

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**Notes to the interim condensed consolidated financial statements
for the period ended 30 September 2006****1 General**

Abu Dhabi Islamic Bank – Public Joint Stock Company (“the Bank”) is incorporated in the Emirate of Abu Dhabi - United Arab Emirates in accordance with the provisions of UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) and the Amiri Decree No. 9 of 1997.

The registered head office of the Bank is at P.O. Box 313, Abu Dhabi, United Arab Emirates (UAE).

The principal activities of the Bank consist of Islamic financing, investments, commercial and other banking services activities in accordance with Islamic Shari’a as approved by the Bank’s Fatwa and Shari’a Supervisory Board.

The interim condensed consolidated financial statements are presented in UAE Dirhams (AED) since this is the currency of the Bank.

2 Summary of significant accounting policies**Basis of preparation**

The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The interim condensed consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and investment property.

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard No. 34. Interim Financial Reporting issued by the International Accounting Standard Board and also comply with the applicable requirements of the laws in the U.A.E.

The accounting policies and estimates used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the audited annual financial statements for the year ended 31 December 2005.

**Notes to the interim condensed consolidated financial statements
for the period ended 30 September 2006 (continued)**

2 Summary of significant accounting policies (continued)

Basis of consolidation

The interim condensed consolidated financial statements comprise the interim condensed financial statements of the Bank and the following subsidiaries:

Name of subsidiary	Country of incorporation	Proposition of ownership interest %	Principal Activities
Abu Dhabi Islamic Financial Services L.L.C.	UAE	95	Brokerage Services
Burooj Properties L.L.C.	UAE	100	Real Estate
ADIB Invest 1	BVI	100	Investments

All significant inter-company transactions and balances are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiary is identified separately from the Parent's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's shares of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity is allocated against the interests of the Bank except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

**Notes to the interim condensed consolidated financial statements
for the period ended 30 September 2006 (continued)**

3 Murabaha and other Islamic financing

	30 September 2006 (unaudited) AED' 000	31 December 2005 (audited) AED' 000
Murabaha	10,193,763	8,659,072
Istisna'a	251,250	143,348
Mudaraba	1,637,383	565,257
Other financing receivables	48,548	8,686
	<hr/>	<hr/>
Total performing Murabaha and other Islamic financing	12,130,944	9,376,363
Total non- performing Murabaha and other Islamic financing	104,729	51,778
	<hr/>	<hr/>
Total Murabaha and other Islamic financing	12,235,673	9,428,141
Less: Deferred income	(1,739,205)	(1,022,551)
Less: Provision for impairment	(225,617)	(192,348)
	<hr/>	<hr/>
	10,270,851	8,213,242
	<hr/> <hr/>	<hr/> <hr/>

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

	30 September 2006 (unaudited) AED' 000	31 December 2005 (audited) AED'000
At 1 January	192,348	54,885
Charge for the period/ year	33,911	138,136
Written off during the period / year	(642)	(673)
	<hr/>	<hr/>
	225,617	192,348
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the interim condensed consolidated financial statements
for the period ended 30 September 2006 (continued)**

4 Investments

The fair value of the investments at the end of the period/ year are comprised of the following:

	30 September 2006 (unaudited) AED' 000	31 December 2005 (audited) AED'000
Investment in quoted securities	876,459	816,448
Investment in quoted unconsolidated funds	599	599
Investment in unquoted securities	712,979	416,277
Investment in unquoted unconsolidated funds	16,721	18,587
	<hr/> 1,606,758 <hr/>	<hr/> 1,251,911 <hr/>
Held to maturity investment	110,686	87,115
Investment in associates	42,907	32,180
Total investments	1,760,351	1,371,206

Notes to the interim condensed consolidated financial statements
for the period ended 30 September 2006 (continued)

5 Property, Plant and Equipment

	Land	Property	Furniture and leasehold improvements	Computer and office equipment	Motor vehicles	Capital work in progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cost							
At 1 January 2005	-	6,196	31,636	54,833	1,551	7,774	101,990
Additions	59,940	199	3,699	9,740	670	6,353	80,601
Disposals	-	-	(51)	(565)	(36)	-	(652)
Transfer from capital work in progress	-	-	5,862	3,244	-	(9,106)	-
At 1 January 2006	59,940	6,395	41,146	67,252	2,185	5,021	181,939
Additions	-	7	3,933	17,910	1,351	15,088	38,289
Disposals	-	-	-	-	-	-	-
Reclassification to investment property	(59,940)	-	-	-	-	-	(59,940)
Transfer from capital work in progress	-	-	8,748	165	-	(8,913)	-
Transfer to investments	-	-	-	-	-	(18)	(18)
At 30 September 2006	-	6,402	53,828	85,327	3,536	11,178	160,271
Accumulated depreciation							
At 1 January 2005	-	78	19,673	36,922	1,043	-	57,716
Charge for the year	-	317	5,414	8,963	301	-	14,995
Disposals	-	-	(51)	(565)	(36)	-	(652)
At 1 January 2006	-	395	25,036	45,320	1,308	-	72,059
Charge for the year	-	240	4,002	8,994	416	-	13,652
At 30 September 2006	-	635	29,038	54,314	1,724	-	85,711
Net book value							
At 30 September 2006	-	5,767	24,790	31,013	1,812	11,178	74,560
At 31 December 2005	59,940	6,000	16,110	21,932	877	5,021	109,880

**Notes to the interim condensed consolidated financial statements
for the period ended 30 September 2006 (continued)**

6 Share capital

	30 September 2006 (unaudited) AED'000	31 December 2005 (audited) AED'000
Authorised, issued and fully paid: 150 million (31 December 2005: 100 million) ordinary shares of par value AED 10 each	1,500,000	1,000,000

The Banks Shareholders' Extraordinary General Assembly which was held on 26 March 2006 authorised and approved the increase of the paid up capital of the Bank, from AED 1,000,000,000 to AED 1,500,000,000 through issuing of bonus shares at one bonus share for each 5 shares issued and outstanding and a rights issue of 30,000,000 shares at AED 10 per share fully subscribed and paid by 30 June 2006.

7 Basic earnings per share

Basic earnings per share is calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the period.

	30 September 2006 (unaudited)	30 September 2005 (unaudited)
Net profit for the period (AED' 000)	405,070	238,124
Weighted average number of shares outstanding during the period (Thousands of shares)	146,049	100,000
Basic earnings per share (AED)	2.770	2.381

The basic earnings per share for 30 September 2006 has been adjusted retroactively to reflect the bonus and the right shares issue in accordance with the requirement of International Financial Reporting Standards.

**Notes to the interim condensed consolidated financial statements
for the period ended 30 September 2006 (continued)**

8 Balances with financial institutions, Central Bank and cash

	30 September 2006 (unaudited) AED'000	31 December 2005 (audited) AED'000
Balances with UAE Central Bank	991,596	960,483
Balances with financial institutions	19,759	31,523
Cash on hand	163,298	121,965
	<hr/>	<hr/>
Balances with Central Bank, financial institutions and cash	1,174,653	1,113,971
Cash and cash equivalents:		
Short term Murabaha with financial institutions	2,597,870	3,701,680
Short term due to banks and financial institutions	(1,275,872)	(1,562,080)
	<hr/>	<hr/>
Cash and cash equivalents	2,496,651	3,253,571
	<hr/> <hr/>	<hr/> <hr/>

In accordance with Islamic Shari'a, no interest is earned on balances with banks and financial institutions.

9 Commitments and contingent liabilities

The Bank has the following credit related commitments and contingencies:

	30 September 2006 (unaudited) AED'000	31 December 2005 (audited) AED'000
Letters of credit	655,904	440,684
Letters of guarantee	1,849,832	894,315
Undrawn loan commitments	1,235,861	1,066,309
Acceptances	80,298	25,708
Other commitments	475,147	319,750
Commitments for future capital expenditure	22,216	45,807
	<hr/>	<hr/>
	4,319,258	2,792,573
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the interim condensed consolidated financial statements
for the period ended 30 September 2006 (continued)****10 Seasonality of results**

No income of seasonal nature was recorded in the consolidated income statement for the nine months period ended 30 September 2006 and 2005.

11 Business segments

For management purposes, the Bank is organised into three major business segments:

Retail banking

Principally handling the deposits of individual customers and small businesses, providing consumer and commercial type Murabaha and Ijara facilities.

Corporate banking

Principally handling Murahaba, Ijara and Istisna'a facilities for corporate and institutional customers.

Investment and treasury

Principally handling the Bank's and customers' investments as well as treasury operations which include international Murabaha and Mudaraba primarily with financial institutions, as well as the management of the Bank's funding operations.

**Notes to the interim condensed consolidated financial statements
for the period ended 30 September 2006 (continued)**

11 Business segments (continued)

Business segments information for the period ended 30 September 2006 is as follows:

	Retail Banking (unaudited) AED'000	Corporate banking (unaudited) AED'000	Investment and treasury (unaudited) AED'000	Others (unaudited) AED'000	Total (unaudited) AED'000
Operating income	572,663	627,481	561,398	294	1,761,836
Unallocated costs					(344,346)
					<hr/>
Profit from operations					1,417,490
Profit distribution to Depositors					(1,011,216)
					<hr/>
Net profit for the period					406,274
Minority interest					(1,204)
					<hr/>
Net profit for the period attributed to equity holders of the Parent Entity					405,070
					<hr/> <hr/>
Assets					
Segmental assets	7,019,814	12,205,514	11,300,486	187,243	30,525,814
					<hr/>
Total assets					30,713,057
					<hr/> <hr/>
Liabilities					
Segmental liabilities	7,977,027	15,088,002	4,728,700	384,580	27,793,729
					<hr/>
Total liabilities					28,178,309
					<hr/> <hr/>

**Notes to the interim condensed consolidated financial statements
for the period ended 30 September 2006 (continued)**

11 Business segments (continued)

Business segments information for the period ended 30 September 2005 is as follows:

	Retail Banking (unaudited) AED'000	Corporate banking (unaudited) AED'000	Investment and treasury (unaudited) AED'000	Others (unaudited) AED'000	Total (unaudited) AED'000
Operating income	171,144	505,553	239,499	13,774	929,970
Unallocated costs					(224,152)
Profit from operations					705,818
Profit distribution to Depositors					(467,534)
Net profit for the period					238,284
Minority interest					(160)
Net profit for the period attributed to equity holders of the Parent Entity					238,124
Assets					
Segmental assets	4,655,591	7,716,080	9,970,135	162,877	22,341,806
Total assets					22,504,683
Liabilities					
Segmental liabilities	6,826,413	12,338,120	1,358,455	148,426	20,522,988
Total liabilities					20,671,414

**Notes to the interim condensed consolidated financial statements
for the period ended 30 September 2006 (continued)**

12 Capital adequacy

The capital adequacy ratio of the Bank as of 30 September 2006 (unaudited) is 10.34% (31 December 2005 (audited) – 14.1%) and the decrease is due to increase in assets represented in financing extended to the Bank’s customers. This ratio is calculated in accordance with the guidelines of the UAE Central Bank (with a minimum ratio of 10%).

13 Related parties transactions

Balances with related parties arise from commercial transactions in the normal course of business on an arm’s length basis. At the balance sheet date, balances with related parties comprise the following:

	2006	2005
	AED 000	AED 000
Due from:		
Receivables and leased assets	326,689	290,024
Other assets	17,123	17,123
	<hr/> 343,812 <hr/>	<hr/> 307,147 <hr/>
Due to:		
Due to financial institutions	226	335
Depositors’ accounts	274,827	189,131
	<hr/> 275,053 <hr/>	<hr/> 189,466 <hr/>
Irrevocable commitments and contingencies	<hr/> 18,149 <hr/>	<hr/> 377,453 <hr/>

14 Comparative figures

Certain comparative figures were reclassified to conform with the current period/year presentation.

ABU DHABI ISLAMIC BANK
Public Joint Stock Company

Abu Dhabi - United Arab Emirates

**Report and Consolidated financial
statements for the year ended
December 31, 2005**

P.O. Box 313
Abu Dhabi
United Arab Emirates

ABU DHABI ISLAMIC BANK
Public Joint Stock Company

**Report and Consolidated financial statements for
the year ended December 31, 2005**

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Report of Fatwa & Shari'a Supervisory Board of ADIB
To the General Assembly members
for the year ended December 31, 2005

In the name of Allah the Most Gracious, and the Most Merciful

Praise be to Allah, and peace upon his messenger Muhammad's soul.

To all Shareholders of Abu Dhabi Islamic Bank,

Peace and Mercy of Allah bestowed upon you.

In accordance with the Article (69) of the Bank's Articles of Association, we are required to report the following:

We have reviewed the principles followed and contracts related to transactions and activities undertaken by the Bank during the period on which we carried out the necessary review in order to express an opinion as to whether the bank has undertaken its activities in accordance with Islamic Shari'a principles and the specific Fatwas, resolutions and guidelines issued by us.

It is the responsibility of the Bank's management to ensure that the Bank operates in accordance with the rules and principles of Islamic Sharia. Our responsibility is restricted to express an independent opinion based on our review of the Bank's operations and to report our opinion to you.

Our review included examination of the documentation and procedures adopted by the Bank which covered all types of the Bank's transactions.

Through the Executive Committee of the Fatwa and Sharia Supervisory Board and its Managing Director, we have planned and executed our review in a manner that allowed us to obtain all information and explanations that we deemed necessary for providing us with sufficient evidential matter and reasonable assurance that the Bank did not violate any of the rules or principles of Islamic Sharia.

We have also reviewed the periodic Internal Sharia Audit reports submitted by the Shari'a Division covering various types of transactions that were executed by the Bank and evaluated the observations thereon in light of the explanations provided by the affected parties within the Bank, and we made the appropriate decisions and issued guidance in each particular case.

Report of Fatwa & Shari'a Supervisory Board of ADIB
To the General Assembly members
for the year ended December 31, 2005 (continued)

In our opinion:

- The contracts, operations and transactions executed by the Bank during the year ended 31 December, 2005 that were reviewed were carried out, mostly, in accordance with the rules and principles of Islamic Sharia, and appropriate steps have been taken to address any reservations and any consequences in their regard.
- The distribution of profits and losses on the investments accounts complies with the basis approved by us in accordance with the Islamic Sharia principles.
- All profits achieved from sources or methods that were not in line with Sharia principles have been set aside to be spent for charitable purposes, in accordance with our directions.
- Since the management of the bank is not authorized to pay Zakat directly, the responsibility of paying Zakat is that of the shareholders.

We ask Allah, the Most High, Most Capable to grant the ADIB management the consistency on the track of welfare and integrity.

Fatwa and Shari'a Supervisory Board:

Sheikh Muhammad Taqi Al Uthmani	Chairman
Dr. Abdul Sattar Abu Ghudda	Vice Chairman, Head of Executive Committee
Dr. Jasem Ali Al Shamisi	Board and Executive Committee Member
Sheikh Nizam Muhammad Yaqoubi	Board and Executive Committee Member

INDEPENDENT AUDITOR'S REPORT

To the shareholders of
Abu Dhabi Islamic Bank
Abu Dhabi, UAE

We have audited the accompanying consolidated balance sheet of **Abu Dhabi Islamic Bank** – Public Joint Stock Company as of December 31, 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of **Abu Dhabi Islamic Bank P.J.S.C.** as of December 31, 2005 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Central Bank of United Arab Emirates.

Also, in our opinion, proper books of account are maintained by the Bank, and the contents of the accompanying Board of Directors' report are in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of the audit and to the best of our knowledge and belief there were no violations of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) or the Bank's Articles of Association which might have a material affect on the financial position of the Bank or the results of its operations for the year.

Ahmad Nimer
Registration Number 380
Abu Dhabi, United Arab Emirates
22 January 2006
(26 March 2006 as to note 16)

ABU DHABI ISLAMIC BANK
Public Joint Stock Company

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Consolidated balance sheet
as at December 31, 2005

	Notes	2005 AED 000	2004 AED 000
ASSETS			
Balances with financial institutions, Central Bank and cash	5	1,113,971	611,126
Murabaha and Mudaraba with financial institutions		6,025,879	3,461,418
Murabaha and other Islamic financing	6	8,213,242	4,588,685
Ijara financing	7	5,145,956	3,126,797
Investments	8	1,371,206	791,777
Other assets	9	209,271	63,092
Property, plant and equipment	10	109,880	44,274
Total assets		22,189,405	12,687,169
LIABILITIES			
Due to financial institutions	11	1,702,075	1,435,979
Depositors' accounts	12	18,031,034	9,568,836
Other liabilities	13	441,178	176,711
Total liabilities		20,174,287	11,181,526
SHAREHOLDERS EQUITY			
Share capital	14	1,000,000	1,000,000
Legal reserve	15	90,629	56,161
General reserve	15	90,629	56,161
Retained earnings		267,476	199,529
Proposed cash dividends	16	-	70,000
Proposed bonus shares issue	16	200,000	-
Revaluation reserve	17	366,065	123,792
Equity attributable to equity holders of the Parent Entity		2,014,799	1,505,643
Minority interest	18	319	-
Total equity		2,015,118	1,505,643
Total liabilities and equity		22,189,405	12,687,169
Commitments and contingent liabilities	26	2,792,573	4,177,287

Mohamed Bin Humooda
Chairman of the Board

Ahmed Darweesh Bin Dagher Al Marar
Managing Director

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated income statement
for the year ended December 31, 2005**

	Notes	2005 AED 000	2004 AED 000
OPERATING INCOME			
Income from Murabaha and Mudaraba with financial institutions, net		297,502	48,241
Income from Murabaha, Ijara and other Islamic financing, net		1,037,986	377,739
Investment income	19	57,562	34,084
Fees, commissions and foreign exchange income, net	20	55,606	28,752
Other operating income		1,955	1,729
		<hr/>	<hr/>
Total income		1,450,611	490,545
OPERATING EXPENSES			
Employees' costs	21	145,818	103,417
General and administrative expenses		70,607	42,507
Depreciation of property, plant and equipment	10	14,995	11,895
Provision for Islamic Financing	6 & 7	139,421	51,409
Impairment of investments	8	14,558	14,504
		<hr/>	<hr/>
Total expenses		385,399	223,732
		<hr/>	<hr/>
Profit from operations, before distribution to depositors and minority interest		1,065,212	266,813
Distribution to depositors		(720,716)	(143,903)
		<hr/>	<hr/>
Net profit for the year		344,496	122,910
Attributed to:			
Equity holders of the Parent Entity		344,677	122,910
Minority interest		(181)	-
		<hr/>	<hr/>
		344,496	122,910
		<hr/>	<hr/>
Basic earnings per share (AED)	22	3.45	1.23
		<hr/>	<hr/>

The accompanying notes are an integral part of these consolidated financial statements.

ABU DHABI ISLAMIC BANK
Public Joint Stock Company

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**Consolidated statement of changes in equity
for the year ended December 31, 2005**

	Notes	Share capital AED 000	Legal reserve AED 000	General Reserve AED 000	Retained earnings AED 000	Proposed dividends AED 000	Proposed bonus shares issue AED 000	Revaluation reserve AED 000	Attributable to the equity holders of the Parent		
									Minority interest AED 000	Total AED 000	
Balance at January 1, 2004		1,000,000	43,870	43,870	172,101	70,000	-	70,578	1,400,419	-	1,400,419
Increase in fair values of available for sale investments	17	-	-	-	-	-	-	57,092	57,092	-	57,092
Realized on disposal of available for sale investments	17	-	-	-	-	-	-	(9,686)	(9,686)	-	(9,686)
Realized on impairment of available for sale investments	17	-	-	-	-	-	-	5,808	5,808	-	5,808
Net profit for the year		-	-	-	122,910	-	-	-	122,910	-	122,910
Transfer to reserves	15	-	12,291	12,291	(24,582)	-	-	-	-	-	-
Directors' remuneration		-	-	-	(900)	-	-	-	(900)	-	(900)
Dividends paid		-	-	-	(70,000)	(70,000)	-	-	(70,000)	-	(70,000)
Proposed dividends	16	-	-	-	70,000	70,000	-	-	-	-	-
Balance at January 1, 2005		1,000,000	56,161	56,161	199,529	70,000	-	123,792	1,505,643	-	1,505,643
Increase in fair values of available for sale investments	17	-	-	-	-	-	-	242,273	242,273	-	242,273
Net profit for the year		-	-	-	344,677	-	-	-	344,677	(181)	344,496
Transfer to reserves	15	-	34,468	34,468	(68,936)	-	-	-	-	-	-
Directors' remuneration		-	-	-	(900)	-	-	-	(900)	-	(900)
Dividends paid		-	-	-	(70,000)	(70,000)	-	-	(70,000)	-	(70,000)
Proposed bonus shares issue	16	-	-	-	(200,000)	200,000	200,000	-	-	-	-
Proposed cash dividends to charity	16	-	-	-	(6,894)	-	-	-	(6,894)	-	(6,894)
Minority interest		-	-	-	-	-	-	-	-	500	500
Balance at December 31, 2005		1,000,000	90,629	90,629	267,476	-	200,000	366,065	2,014,799	319	2,015,118

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated statement of cash flows
for the year ended December 31, 2005**

	2005	2004
	AED 000	AED 000
Cash flow from operating activities		
Net profit for the year	344,677	122,910
Adjustments for:		
Depreciation	14,995	11,895
Provision for impairment of Islamic financing and investments	153,979	65,913
Gain on disposal of investments	(22,460)	(9,686)
(Gain)/loss on disposal of property, plant and equipment	(23)	39
Operating profit before changes in operating assets and liabilities	491,168	191,071
Increase in Murabaha and Mudaraba with financial institutions	(115,040)	(740,726)
Increase in Murabaha and other Islamic financing	(3,762,693)	(1,150,418)
Increase in Ijara financing	(2,020,446)	(575,895)
Increase in other assets	(146,179)	(23,466)
Decrease in due to banks and financial institutions	(162,973)	(181,448)
Increase in depositors' accounts	8,462,198	3,445,310
Increase in other liabilities	257,573	65,050
Cash from operations	3,003,608	1,029,478
Directors' remuneration paid	(900)	(900)
Net cash from operating activities	3,002,708	1,028,578
Cash flows from investing activities		
Purchase of investments	(603,425)	(150,566)
Proceeds from sale of investments	274,171	35,862
Purchase of property, plant and equipment	(80,601)	(21,527)
Proceeds from sale of property, plant and equipment	23	76
Net cash used in investing activities	(409,832)	(136,155)
Cash flows from financing activities		
Dividends paid	(70,000)	(70,000)
Minority interest	319	-
Net cash used in financing activities	(69,681)	(70,000)
Net increase in cash and cash equivalents	2,523,195	822,423
Cash and cash equivalents at the beginning of the year	730,376	(92,047)
Cash and cash equivalents at the end of the year (Note 5)	3,253,571	730,376

The accompanying notes are an integral part of these consolidated financial statements.

**Notes to the consolidated financial statements
for the year ended December 31, 2005**

1 General

Abu Dhabi Islamic Bank – Public Joint Stock Company (the Bank) is incorporated in the Emirate of Abu Dhabi - United Arab Emirates in accordance with the provisions of UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) and the Amiri Decree No. 9 of 1997.

The principal activities of the Bank consist of Islamic financing, investments, commercial and other banking services activities in accordance with Islamic Shari'a as approved by the Bank's Fatwa and Shari'a Supervisory Board.

The Bank operates solely in the United Arab Emirates through 24 branches (2004 –16 branches).

The consolidated financial statements of the Abu Dhabi Islamic Bank and its subsidiaries (the "Group") for the year ended 31 December 2005 comprise the financial statements of the Bank and the following entities controlled by the Bank:

Name of subsidiaries	Country of incorporation	Ownership interest
		%
Abu Dhabi Islamic Financial Services L.L.C.	UAE	95
Burooj Real Estate Company L.L.C.	UAE	100
ADIB Invest 1	BVI	100

The consolidated financial statements are presented in UAE Dirhams (AED) since this is the currency of the Bank.

Murabaha

Murabaha is the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognised.

Istisna'a

Istisna'a is a sale contract between a contract owner and a contractor, whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by installments or deferred to a specific future date.

Qard Hasan

Qard Hasan is a non-profit bearing financing intended to allow the borrower to use the loaned funds for a period of time with the understanding that the same amount of the loaned funds would be repaid at the end of the Qard period.

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

1 General (continued)

Mudaraba

Mudaraba is a contract between the Bank and a customer, whereby the Bank extends a certain amount of money to the customer to be invested in a project or certain activity against a fixed share of the profit representing the total profit for the project less the customer's share as a Mudarib.

Wakalah

Wakalah is an Islamic transaction involving the Muwakkil (the principal) who wishes to appoint the Wakkil (the agent) to be the agent of Muwakkil with respect to the investment of the Muwakkil's funds in Islamically acceptable transactions.

2 Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting period beginning on January 1, 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Bank's presentations and disclosure in the consolidated financial statements as required by the following International Accounting Standards:

- Presentation of Financial Statements (IAS 1)
- Property, Plant and Equipment (IAS 16)
- Related Party Disclosures (IAS 24)
- Financial Instruments: Recognition and Measurement (IAS 39)

3 Summary of significant accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of the UAE Central Bank regulations.

The consolidated financial statements have been prepared based on the historical cost convention, except for the measurement at fair value of certain financial instruments. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies and decisions of a subsidiary so as to obtain benefits from its activities.

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

3 Summary of significant accounting policies (continued)

Basis of consolidation (continued)

All significant intra group transactions and balances eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's shares of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Bank except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Management estimates

The preparation of financial statements requires the management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. In this regard, management believes that the critical accounting policies where judgement is necessarily applied are those which relate to advances and receivables impairment.

Murabaha and Mudaraba with financial institutions and Mudaraba

Murabaha and Mudaraba are stated in the balance sheet at cost less any amounts written off and impairment, if any.

Murabaha and other Islamic financing

These are stated at amortised cost less provision for impairment.

Ijara financing

Ijara financing are finance lease receivables stated at amounts equal to the net investment outstanding in the leases including the income earned thereon.

Impairment of tangible and intangible assets

At each balance sheet date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

3 Summary of significant accounting policies (continued)

Impairment of tangible and intangible assets (continued)

The provision for impairment of Murabaha and other Islamic financing also covers losses where there is objective evidence that probable losses are present in components of Murabaha and other Islamic financing portfolio at the balance sheet date. These are estimated based on historical patterns of losses in each component, and the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

Investments

Held to maturity

Investments which have fixed or determinable payments and are intended to be held to maturity, are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition.

Available for sale investments

Investments are recognised on a trade date basis. Investments classified as “available for sale” are initially recognised at cost and are measured at fair value at subsequent reporting dates. Increases or decreases in the fair value of these investments are taken to revaluation reserve under shareholders’ equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

Investment in subsidiary companies

A subsidiary is defined as an enterprise controlled by the parent. Control is presumed to exist when the parent owns, directly or indirectly, more than 50% of the voting power of an enterprise or where the parent has the power to govern the financial and operating policies of the enterprise under a statute or an agreement.

Subsidiary companies formed or acquired with the intention of resale in the near future are not consolidated as control is intended to be temporary. The unconsolidated subsidiaries are accounted for in the same manner as available for sale investments.

Investments in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating decisions of the investee.

The results, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Investment in associates are carried in the consolidated balance sheet at cost, less any impairment in the value of individual investments.

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

3 Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment losses, if any.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method at the following annual rates:

Property	20 years
Furniture and leasehold improvements	7 years
Computer and office equipment	4 years
Motor vehicles	4 years

Capital work in progress is stated at cost and not depreciated, when commissioned, assets under construction are transferred to the appropriate property, plant and equipment asset category and depreciated in accordance with the Group's policies.

Non-investment accounts

Non-investment accounts represent, in accordance with Islamic Shari'a, Qard Hasan from depositors to the Group and take the form of current accounts. These accounts are not entitled to profit nor do they bear any risk of loss, as the Bank guarantees to pay the related balance on demand. Investing Qard Hasan is made at the discretion of the Board of Directors of the Bank and the results of such investments are attributable to the Group's shareholders.

Investment accounts

Investment accounts may take the form of investment deposits, which are valid for specified periods of time ranging from one month to one year, and are automatically renewable on maturity for the same period unless the concerned depositors give written notice to the contrary, or take the form of investment saving accounts for unspecified periods. In all cases, investment accounts receive a proportion of the profit and bear a share of loss based on the results of the financial period determined by the Board of Directors of the Group.

Reverse Murabaha

Reverse Murabaha is an Islamic transaction involving the Group's purchase of an asset from a counterparty and settlement thereof at cost plus an agreed profit on a deferred payment basis. The purchase price is payable to the counterparty on maturity. Reverse Murabaha is included in the balance sheet under counterparty deposits and the accrued profit payable to the counter party is classified under other liabilities.

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

3 Summary of significant accounting policies (continued)

Employees' end of service benefits

The Bank provides end of service benefits for its employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Pension and national insurance contributions for U.A.E. citizens are made by the Bank in accordance with Federal Law No. 7 of 1999.

Provisions

Provisions are recognised at the management's best estimate, when the Group has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Foreign currencies

Transactions in currencies other than UAE Dirhams (AED) are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies at year end are retranslated at the rates prevailing on the consolidated balance sheet date. Profits and losses arising on exchange are included in the consolidated income statement for the year.

Fiduciary assets

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

Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase or to sell the asset and are initially measured at fair value. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Revenue recognition

Income from Murabaha, Ijara and other Islamic financing is recognised on a time apportioned basis over the period based on the financial amounts outstanding.

Income from Istisna'a is recognised on a pattern reflecting a constant periodic return on the net investment outstanding.

Dividend income is recognised when the right to receive dividend is established.

Fee and commission income are recognised at the time the related services are provided.

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

3 Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash balances with the UAE Central Bank, current accounts with other banks and financial institutions and short term international Murabaha with and due to financial institutions that are maturing within 30 days of the date of acquisition.

Fair values

Fair value of a quoted equity investment is determined by reference to the Stock Exchange quoted market bid price at the close of business on the balance sheet date.

Fair value of an unquoted equity investment is determined by reference to the current market value of another instrument which is substantially the same or is based on acceptable valuation techniques.

Fair value of financing receivables (net of allowances) is determined based on expected future cash flows discounted at estimated profit rates for financing receivables with similar terms and risk characteristics.

Fair value of Murabaha with financial institutions is estimated based on discounted cash flows using profit rates for items with similar remaining maturity.

Investments with no reliable measure of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment.

Offsetting

Financial assets and financial liabilities are offset and the net amount disclosed in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts or the Group intends to either settle on a net basis, or realise the asset and settle the liability simultaneously.

4 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in Note 3, management has made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

Impairment of financial assets

The Group's accounting policy for allowances in relation to impaired Murabaha and other Islamic financial portfolios is described in Note 3. Impairment is estimated on the basis of historical pattern of losses in each component and credit rating allocated to the borrowers and reflecting the current economic environment in which the borrowers operate.

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of financial assets (continued)

The allowance for financial asset losses is established through charges to income in the form of an allowance for financial asset loss. Increases and decreases in the allowances due to changes in the measurement of the impaired Murabaha and other Islamic portfolios are included in the allowance for financial asset and affect the income statement accordingly.

Individually assessed Murabaha and other Islamic financing portfolios

Impairment losses for individually assessed Murabaha and other Islamic financial portfolio are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate Murabahas and other Islamic financing portfolios which are individually significant accounts or are not subject to the portfolio-based approach.

The following factors are considered when determining impairment losses on individually assessed accounts:

- The customer's aggregate borrowings.
- The customer's ability to perform profitable trade and generate sufficient cash to repay the borrowed amount.
- The value of the collateral and the probability of successful repossession.
- The cost involved to recover the debts.

The Group's policy requires regular review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired Murabahas and other Islamic portfolios continue to be classified as impaired unless they are brought fully current and the collection of the amount due is considered probable.

Collectively assessed Murabahas and other Islamic financing portfolios

Collective assessment of allowance for impairment is made in respect of losses incurred in portfolios of retail Islamic financing with common features and where individual amounts are not significant.

The portfolio approach is applied to account in the following portfolios:

- Islamic covered cards
- Car Murabahas
- Goods Murabahas
- Al Khair Financing
- Other retail financing

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Collectively assessed Murabahas and other Islamic financing portfolios (continued)

These portfolio allowances are reassessed on a periodical basis and allowances are adjusted accordingly.

Performing Murabahas and other Islamic financing portfolios

The management of the Group assesses, based on historical experience and the prevailing economical and credit conditions, the magnitude of Murabaha and other Islamic financial portfolios which may be impaired but not identified as of the consolidated balance sheet date.

5 Cash and cash equivalents

	2005	2004
	AED 000	AED 000
Balances with UAE Central Bank	960,483	540,745
Balances with financial institutions	31,523	5,603
Cash on hand	121,965	64,778
	<hr/>	<hr/>
Balances with Central Bank, financial institutions and cash	1,113,971	611,126
Short term Murabaha with financial institutions	3,701,680	1,252,261
Short term due to banks and financial institutions	(1,562,080)	(1,133,011)
	<hr/>	<hr/>
Cash and cash equivalents	3,253,571	730,376
	<hr/> <hr/>	<hr/> <hr/>

In accordance with Islamic Shari'a, no interest is earned on balances with banks and financial institutions.

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

6 Murabaha and other Islamic financing

	2005	2004
	AED 000	AED 000
Murabaha	8,659,072	4,398,964
Istisna'a	143,348	79,111
Mudaraba	565,257	347,761
Other financing receivables	8,686	8,422
	<hr/>	<hr/>
Total performing Murabaha and other Islamic financing	9,376,363	4,834,258
Total non- performing Murabaha and other Islamic financing	51,778	34,444
	<hr/>	<hr/>
Total Murabaha and other Islamic financing	9,428,141	4,868,702
Less: Deferred income	(1,022,551)	(225,132)
Less: Allowance for impairment	(192,348)	(54,885)
	<hr/>	<hr/>
	8,213,242	4,588,685
	<hr/> <hr/>	<hr/> <hr/>

The composition of Murabaha and other Islamic financing portfolios is as follows:

	2005				2004
	UAE	Middle	Other	Total	
	AED 000	East	Countries	AED 000	AED 000
		AED 000	AED 000	AED 000	
Commercial and business	2,894,922	858,145	248,448	4,001,515	3,242,967
Individuals	5,426,626	-	-	5,426,626	1,625,735
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
December 31, 2005	8,321,548	858,145	248,448	9,428,141	4,868,702
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
December 31, 2004	3,964,475	755,310	148,917		4,868,702
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>		<hr/> <hr/>

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

6 Murabaha and other Islamic financing (continued)

The movements in the allowance for impairment during the years were as follows:

	2005	2004
	AED 000	AED 000
At January 1	54,885	22,897
Charge for the year	138,136	32,230
Written off during the year	(673)	(242)
	<hr/>	<hr/>
At December 31	192,348	54,885
	<hr/> <hr/>	<hr/> <hr/>

7 Ijara financing

This represents net investments in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The lease agreements stipulate that the lessor undertakes to transfer the leased assets to the lessee upon receiving the final rental payment.

	2005	2004
	AED 000	AED 000
Amounts receivable under financing leases		
Due within one year	925,974	357,508
Due in the second to fifth year	4,018,780	2,166,409
Due after five years	1,478,124	1,212,231
	<hr/>	<hr/>
	6,422,878	3,736,148
Less: Unearned income	(1,253,369)	(588,098)
Deferred income	(3,089)	(2,074)
Allowance for impairment	(20,464)	(19,179)
	<hr/>	<hr/>
Net value of minimum lease payments receivable	5,145,956	3,126,797
	<hr/> <hr/>	<hr/> <hr/>

At December 31, 2005, the non-performing Ijara financing amounted to AED 18.6 million (2004 –19 million).

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

8 Investments

	2005 AED 000	2004 AED 000
Available for sale investments		
Fair value at January 1,	654,583	592,821
Additions during the year	494,622	43,717
Payments received during the year	(9,762)	(7,811)
Sales/disposal during the year	(131,772)	(28,048)
Increase in fair value	242,273	57,092
Recovery/(impairment) of investments	1,967	(3,188)
	<hr/>	<hr/>
Fair value at December 31,	1,251,911	654,583
	<hr/> <hr/>	<hr/> <hr/>
The fair value of the available for sale investments at December 31 are comprised of the following:		
Investment in quoted securities	816,448	469,097
Investment in quoted unconsolidated funds	599	63,416
Investment in unquoted securities	416,277	99,972
Investment in unquoted unconsolidated funds	18,587	22,098
	<hr/>	<hr/>
	1,251,911	654,583
	<hr/> <hr/>	<hr/> <hr/>
Held to maturity investment		
Forfeiting deals	87,115	106,846
	<hr/>	<hr/>
Investment in associates		
Investment at cost	32,180	30,348
	<hr/>	<hr/>
Total investments	1,371,206	791,777
	<hr/> <hr/>	<hr/> <hr/>

Unquoted investments with a value of AED 434 million as of December 31, 2005 (2004 – AED 130 million) are carried at cost less allowance for impairment. This is due to the unpredictable nature of future cash flows and lack of other suitable methods of arriving at a reliable fair value. These investments consist mainly of companies in the United States and an equity holding in a private Islamic bank in Bosnia.

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

8 Investments (continued)

Details of the Group's investments in unconsolidated funds at December 31 are as follows:

<u>Name of Fund</u>	<u>Place of Incorporation</u>	<u>Proportion of Ownership Interest</u>		<u>Proportion of Voting Power</u>		<u>Principal activity</u>
		2005	2004	2005	2004	
Al Ijara Fund (unquoted)	Cayman Islands	100%	86%	100%	86%	Finance leasing

Details of the Group's investments in associates at December 31 were as follows:

<u>Name of Associate</u>	<u>Place of Incorporation</u>	<u>Proportion of Ownership Interest</u>	<u>Proportion of Voting Power</u>	<u>Principal activity</u>
Bosnia Bank International D.D.	Bosnia	27%	27%	Islamic banking
Abu Dhabi National Takaful PJSC	Abu Dhabi	23%	23%	Islamic insurance

9 Other assets

	2005 AED 000	2004 AED 000
Prepayments	19,552	15,576
Advances receivable	118,538	8,505
Others	71,181	39,011
	209,271	63,092
	209,271	63,092

ABU DHABI ISLAMIC BANK
Public Joint Stock Company

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**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

10 Property, plant and equipment

	Lands AED 000	Property AED 000	Furniture and leasehold improvements AED 000	Computer and office equipment AED 000	Motor vehicles AED 000	Capital work in progress AED 000	Total AED 000
Cost							
At January 1, 2004	-	-	28,410	44,843	1,647	7,383	82,283
Additions	-	-	2,473	7,897	202	10,955	21,527
Disposals	-	-	(96)	(1,369)	(355)	-	(1,820)
Transfer from capital work in progress	-	6,196	849	3,462	57	(10,564)	-
At January 1, 2005	-	6,196	31,636	54,833	1,551	7,774	101,990
Additions	59,940	199	3,699	9,740	670	6,353	80,601
Disposals	-	-	(51)	(565)	(36)	-	(652)
Transfer from capital work in progress	-	-	5,862	3,244	-	(9,106)	-
At December 31, 2005	59,940	6,395	41,146	67,252	2,185	5,021	181,939
Accumulated depreciation							
At January 1, 2004	-	-	15,245	31,256	1,025	-	47,526
Charge for the year	-	78	4,479	7,025	313	-	11,895
Disposals	-	-	(51)	(1,359)	(295)	-	(1,705)
At January 1, 2005	-	78	19,673	36,922	1,043	-	57,716
Charge for the year	-	317	5,414	8,963	301	-	14,995
Disposals	-	-	(51)	(565)	(36)	-	(652)
At December 31, 2005	-	395	25,036	45,320	1,308	-	72,059
Net book value							
At December 31, 2005	59,940	6,000	16,110	21,932	877	5,021	109,880
At December 31, 2004	-	6,118	11,963	17,911	508	7,774	44,274

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

11 Due to financial institutions

	2005	2004
	AED 000	AED 000
Reverse Murabaha	33,728	222,136
Investment accounts	-	127,143
Wakalah deposits	1,258,856	1,038,703
Current accounts	409,491	47,997
	<hr/> 1,702,075 <hr/>	<hr/> 1,435,979 <hr/>

In accordance with Islamic Shari'a, no interest is incurred on current accounts.

12 Depositors' accounts

	2005	2004
	AED 000	AED 000
Investment accounts	4,509,557	3,769,050
Non-investment accounts	3,445,853	2,218,997
Wakalah deposits	10,075,624	3,580,789
	<hr/> 18,031,034 <hr/>	<hr/> 9,568,836 <hr/>

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

Distribution to depositors for the year ended December 31, 2005 amounted to AED 721 million (2004 - AED 144 million).

13 Other liabilities

	2005	2004
	AED 000	AED 000
Accounts payable	130,878	62,416
Accrued profit distribution to depositors	109,652	28,360
Others	200,648	85,935
	<hr/> 441,178 <hr/>	<hr/> 176,711 <hr/>

Accrued profit distribution is payable to depositors at maturity of deposits.

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

14 Share capital

	2005	2004
	AED 000	AED 000
Authorised, issued and fully paid:		
100 million ordinary shares of par value AED 10 each	1,000,000	1,000,000

There were no movements in the share capital of the Bank during 2005 and 2004.

15 Reserves

Legal reserve

As required by the UAE Federal Commercial Companies Law of 1984 (as amended) and the Bank's Articles of Association, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. The legal reserve is not available for distribution to the shareholders.

General reserve

Under Article 57 (2) of the Bank's Articles of Association, the shareholders' General Assembly of the Bank, upon recommendation of the Board of Directors, have resolved to transfer 10% of the net 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.

16 Bonus shares issue and proposed dividends

The Board of Directors have proposed a bonus share issue amounting to AED 200,000,000 (2004 – Nil) representing 20% of the paid up capital and no cash dividends (2004 – AED 70,000,000). The EGM held on 26 March 2006 approved the stock dividends and recommended and approved the appropriation of 2% annually of the annual net profit for disbursement for charity purposes.

17 Revaluation reserve

	2005	2004
	AED 000	AED 000
At January 1	123,792	70,578
Increase in fair value of available for sale investments	242,273	57,092
Realized on disposal of available for sale investments	-	(9,686)
Realized on impairment of available for sale investments	-	5,808
At December 31	366,065	123,792

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

18 Minority interest

	2005 AED 000	2004 AED 000
Share of minority on newly formed subsidiaries	500	-
Share of net loss for the year	(181)	-
	<hr/>	<hr/>
	319	-
	<hr/> <hr/>	<hr/> <hr/>

19 Investment income

	2005 AED 000	2004 AED 000
Dividend income from equity investments	6,212	6,747
Income from Islamic Sukuk	11,256	8,874
Profits from Investments in Ijara Fund (note 8)	1,335	1,539
Income from investments in real estate funds	10,033	5,326
Profit on disposal of available for sale investments	22,460	9,686
Others	6,266	1,912
	<hr/>	<hr/>
	57,562	34,084
	<hr/> <hr/>	<hr/> <hr/>

20 Fees, commissions and foreign exchange income

	2005 AED 000	2004 AED 000
Net fees and commissions	47,832	24,782
Foreign exchange gains	7,774	3,970
	<hr/>	<hr/>
	55,606	28,752
	<hr/> <hr/>	<hr/> <hr/>

21 Employees' costs

The employees' costs comprise salaries, bonuses and other benefits for the employees' and executive management and amounted to AED 146 million (2004 – AED 103 millions). The executive management compensation represents AED 15 million (2004 – AED 15 million) from the employees' costs.

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

22 Basic earnings per share

Basic earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year.

	2005	2004
Net profit for the year (AED 000)	344,677	122,910
Weighted average number of shares outstanding during the year (Thousands of shares)	100,000	100,000
Basic earnings per share (AED)	3.45	1.23

23 Related parties transactions

Balances with related parties arise from commercial transactions in the normal course of business on an arm's length basis. At the balance sheet date, balances with related parties comprise the following:

	2005	2004
	AED 000	AED 000
Due from:		
Receivables and leased assets	290,024	103,228
Other assets	17,123	-
	307,147	103,228
Due to:		
Due to financial institutions	335	88
Depositors' accounts	189,131	86,432
Other liabilities	-	56
	189,466	86,576
Irrevocable commitments and contingencies	377,453	52,685

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

23 Related parties transactions (continued)

During the year, significant transactions with related parties comprised of the following:

	2005	2004
	AED 000	AED 000
Dividends and other investment income	1,527	1,724
Fees income	1,224	1,529
Income from Murabaha, Ijara and Istisna'a	8,892	5,261
Profit Distribution to depositors	1,426	653
General expenses	3,855	1,756

24 Business and geographical segments

Business segments

For management purposes, the Group is organised into three major business segments:

- **Retail and Commercial Banking**

Principally handling the deposits of individual customers and small businesses, and providing consumer and commercial type Murabaha, Istisna'a, Ijara and Covered Cards facilities.

- **Corporate Banking**

Principally handling Murabaha, Ijara and Istisna'a facilities for corporate and institutional customers.

- **Investment and Treasury**

This segment consists of two separate units, Treasury & Financial Institutions and Investment Banking that are primarily handling banks and customers' investments as well as the management of the Group's funding operations. Group investments include international Murabaha and Mudaraba, primarily with financial institutions.

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

24 Business and geographical segments (continued)

Business segments information for the year ended December 31, 2005 were as follows:

	Retail and Commercial Banking AED 000	Corporate B AED 000	Investment and Treasury AED 000	Other AED 000	Total AED 000
Revenue and results					
Operating income	417,418	645,816	365,831	21,546	1,450,611
Unallocated costs					(385,399)
					<hr/>
Profit from operations					1,065,212
Profit distribution to depositors					(720,716)
					<hr/>
Profit before minority share					344,496
Minority interest					181
					<hr/>
Net profit for the year					344,677
					<hr/> <hr/>
Balance sheet					
Assets					
Segmental assets	5,330,378	8,053,582	8,660,845	-	22,044,805
Unallocated assets					144,600
					<hr/>
Total assets					22,189,405
					<hr/> <hr/>
Liabilities					
Segmental liabilities	4,924,693	13,254,975	1,758,307	-	19,937,975
Unallocated liabilities					236,312
					<hr/>
Total liabilities					20,174,287
					<hr/> <hr/>

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

24 Business and geographical segments (continued)

Business segments information for the year ended December 31, 2004 were as follows:

	Retail and Commercial Banking AED 000	Corporate I AED 000	Investment and Treasury AED 000	Other AED 000	Total AED 000
Revenue and results					
Operating income	224,048	168,615	87,045	10,837	490,545
Unallocated costs					(223,732)

Profit from operations					266,813
Profit distribution to depositors					(143,903)

Profit before minority share					122,910
Minority interest					-

Net profit for the year					122,910
					=====
Balance sheet					
Assets					
Segmental assets	1,666,507	6,061,253	4,874,491	-	12,602,251
Unallocated assets					84,918

Total assets					12,687,169
					=====
Liabilities					
Segmental liabilities	4,122,104	5,478,784	1,438,205	-	11,039,093
Unallocated liabilities					142,433

Total liabilities					11,181,526
					=====

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

24 Business and geographical segments (continued)

Geographical regions

Although the management of the Group is based primarily on major business segments, the Group operates in two geographical markets; the United Arab Emirates which is designated as domestic, and the remainder of the Middle East, Europe, the Far East and the USA which are designated as international. The following table shows the breakdown of the Group's income, total assets and total liabilities by geographical segments:

	Domestic AED 000	International AED 000	Total AED 000
2005			
Total operating income	1,137,230	313,381	1,450,611
	=====	=====	=====
Total assets	16,072,695	6,116,710	22,189,405
	=====	=====	=====
Total liabilities	18,618,367	1,555,920	20,174,287
	=====	=====	=====
2004			
Total operating income	393,976	96,569	490,545
	=====	=====	=====
Total assets	8,424,246	4,262,923	12,687,169
	=====	=====	=====
Total liabilities	10,500,668	680,858	11,181,526
	=====	=====	=====

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

25 Concentration of assets, liabilities and off balance sheet items

The distribution by geographical region and industry sector was as follows:

	2005			2004		
	Assets AED 000	Liabilities AED 000	Commitment and contingent liabilities AED 000	Assets AED 000	Liabilities AED 000	Commitment and contingent liabilities AED 000
Geographical region						
UAE	16,072,695	18,618,367	1,965,419	8,424,246	10,500,668	3,498,661
Middle East	4,932,643	993,057	609,897	2,998,272	657,209	534,223
Europe	562,135	96,149	73,871	904,943	7,123	53,205
North America	163,473	-	4,090	242,260	-	523
Others	458,459	466,714	139,296	117,448	16,526	90,675
	22,189,405	20,174,287	2,792,573	12,687,169	11,181,526	4,177,287
Industry sector						
Financial institutions	7,795,097	2,303,200	596,147	4,589,095	1,566,453	127,174
Trading and manufacturing	911,170	647,922	369,518	838,742	966,308	408,061
Construction and real estate	1,014,741	193,427	447,315	514,684	115,725	300,509
Telecommunications	597,266	-	5,045	600,093	300,000	2,289
Energy	3,372,466	956	360,026	3,092,193	902,500	1,393,889
Personal	5,970,314	7,415,979	97,519	1,802,478	4,219,061	-
Others	2,528,351	9,612,803	917,003	1,249,884	3,111,479	1,945,365
	22,189,405	20,174,287	2,792,573	12,687,169	11,181,526	4,177,287

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

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

26 Commitments and contingent liabilities

Credit related 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 Group'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. 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 Group to make payments on behalf of customers.

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

	2005	2004
	AED 000	AED 000
Letters of credit	440,684	195,411
Letters of guarantee	894,315	403,087
Acceptances	25,708	12,493
Buy back commitments	319,750	299,877
Commitment for future capital expenditure	45,807	18,422
Others		1,571
	<hr/> 1,726,264 <hr/>	<hr/> 930,861 <hr/>
Irrevocable commitments to extend credits:		
Maturing in less than a year	845,012	2,505,791
Maturing in one year to three years	218,633	541,472
Maturing over three years	2,664	199,163
	<hr/> 1,066,309 <hr/>	<hr/> 3,246,426 <hr/>
	<hr/> 2,792,573 <hr/>	<hr/> 4,177,287 <hr/>

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

27 Funds under management

The aggregate value of the funds managed in a fiduciary capacity at December 31, 2005 amounted to AED 19 million (2004 – AED 192 million). The Group holds a portion of those funds (refer note 8).

28 Capital adequacy

The capital adequacy ratio of the Group as of December 31, 2005 was 14.1 % (2004 – 21.4%). This ratio was calculated according to the instruction guidance of the UAE Central Bank with a minimum ratio of 10%.

29 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 Management valuation of the Group's net assets, which are subject to Zakat, the share value (for Zakat purposes based on Gregorian year) was estimated AED 13.64 as of 31 December 2005 and accordingly, Zakat is estimated at AED 0.35 per outstanding share.

30 Financial instruments

The main risks to which the Group's assets and liabilities are exposed and the main methods of risk management are as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, the Group's credit risk is primarily attributable to facilities receivable. The Group seeks to manage credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Group also enters into collateral arrangements with counterparties in appropriate circumstances to limit the exposure.

Concentration of credit risks arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical 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. Concentration of credit risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

30 Financial instruments (continued)

Credit risk (continued)

For details on the composition of Murabaha, Ijara and other Islamic financing portfolio refer to Note 6.

For segmental information refer to note 24, and for concentration of assets, liabilities and off – balance sheet items refer to note 25.

Foreign exchange risk

Foreign exchange risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the Group's open positions, current and expected exchange rate movements. The Group does not engage in foreign exchange trading and where necessary matches currency exposures inherent in current assets with liabilities in the same or a correlated currency.

Pricing risks

Price risks comprising market and valuation risks and are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

The Group is not excessively exposed to profit rate risk as its profit-sensitive assets and liabilities are repriced frequently.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Group is exposed to market risk with respect to its investments in marketable securities. The Group limits market risks by maintaining a diversified portfolio and by continuous monitoring of developments in the market. In addition, the Group actively monitors the key factors that affect stock and the market movements, including analysis of the operational and financial performance of investees.

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

30 Financial instruments (continued)

Fair values

In the ordinary course of business, the Group uses primary financial instruments such as cash and balances with or due to banks and other financial institutions, investments in securities, receivables and payables. The Group does not make use of derivative financial instruments.

While the Group prepares its consolidated financial statements under the historical cost convention modified for measurement to fair value of available for sale investments, 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, as these assets and liabilities are either short term in nature or in the case of financing receivables, frequently repriced. For impaired financing receivables, expected cash flows including anticipated realisation of collateral were discounted using the original effective profit rates, considering the time of collection and a provision for the uncertainty of the cash flows.

31 Currency risk

The Group had the following significant net balances of assets denominated in foreign currencies:

	2005	2004
	AED 000	AED 000
US Dollars	4,184,616	5,460,735
	=====	=====
Qatari Riyal	44,866	44,850
	=====	=====
Euro	40,339	22,122
	=====	=====
Other currencies	1,169	1,125
	=====	=====

32 Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and managed its assets with liquidity in mind, maintaining a healthy and adequate balance of cash and cash equivalents.

Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)

32 Liquidity risk (continued)

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take into account the effective maturities as indicated by the Group'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 maturity profile of the assets and liabilities at year end is based on contractual repayment arrangements.

The maturity profile of the assets and liabilities at December 31, 2005 was as follows:

	Within 3 months AED 000	3 to 6 months AED 000	6 to 12 months AED 000	1 to 3 years AED 000	Over 3 years AED 000	Tot AED 000
Assets						
Balances with financial institutions, UAE						
Central Bank and cash	1,113,971	-	-	-	-	1,113,971
Murabaha with financial institutions	5,744,665	257,234	2,238	21,742	-	6,025,879
Murabaha and other						
Islamic financing	3,410,843	525,323	1,533,307	1,561,938	1,181,831	8,213,242
Ijara financing	350,941	102,506	284,241	1,954,008	2,454,260	5,145,956
Investments	22,047	1,947	77,108	299,283	970,821	1,371,206
Other assets	198,661	6,445	3,045	1,120	-	209,271
Property, plant and equipment	-	-	-	-	109,880	109,880
	<u>10,841,128</u>	<u>893,455</u>	<u>1,899,939</u>	<u>3,838,091</u>	<u>4,716,792</u>	<u>22,189,405</u>
Liabilities and equity						
Due to financial institutions	1,702,075	-	-	-	-	1,702,075
Depositors' accounts	16,192,222	540,531	1,298,281	-	-	18,031,034
Other liabilities	394,512	13,376	13,076	1,323	18,891	441,178
Equity attributable to equity holders	-	-	-	-	2,014,799	2,014,799
Minority investment	-	-	-	-	319	319
	<u>18,288,809</u>	<u>553,907</u>	<u>1,311,357</u>	<u>1,323</u>	<u>2,034,009</u>	<u>22,189,415</u>

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

32 Liquidity risk (continued)

The maturity profile of the assets and liabilities at December 31, 2004 was as follows:

	Within 3 months AED 000	3 to 6 months AED 000	6 to 12 months AED 000	1 to 3 years AED 000	Over 3 years AED 000	Total AED 000
Assets						
Balances with banks and financial institutions, UAE Central Bank and cash	611,126	-	-	-	-	611,126
Murabaha with financial institutions	2,466,719	677,754	280,220	36,725	-	3,461,418
Murabaha and other Islamic financing	2,717,831	362,942	675,281	581,559	251,072	4,588,685
Ijara financing	54,968	54,708	203,879	505,510	2,307,732	3,126,797
Investments on securities	1,399	116,016	38,240	90,856	545,266	791,777
Other assets	54,134	4,981	2,970	1,007	-	63,092
Property and equipment	-	-	-	-	44,274	44,274
	5,906,177	1,216,401	1,200,590	1,215,657	3,148,344	12,687,169
Liabilities and equity						
Due to banks and financial institutions	1,213,297	222,682	-	-	-	1,435,979
Depositors' accounts	8,178,378	586,509	771,828	32,121	-	9,568,836
Other liabilities	145,198	8,560	10,774	150	12,029	176,711
Equity attributable to equity holders	70,000	-	-	-	1,435,643	1,505,643
	9,606,873	817,751	782,602	32,271	1,447,672	12,687,169

**Notes to the consolidated financial statements
for the year ended December 31, 2005 (continued)**

33 Employees

The total number of the Bank's employees at December 31, 2005 is 1,036 employee (2004 – 607 employee).

34 Comparative financial information

Certain comparative figures for the prior year have been reclassified, where necessary, to conform with the current year presentation.

35 Date of authorisation for issue

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 22 January 2006.

ABU DHABI ISLAMIC BANK
Public Joint Stock Company

Abu Dhabi - United Arab Emirates

**Reports and financial
statements for the year
ended December 31, 2004**

P.O. Box 313
Abu Dhabi
United Arab Emirates

ABU DHABI ISLAMIC BANK
Public Joint Stock Company

**Reports and financial statements for
the year ended December 31, 2004**

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of
Abu Dhabi Islamic Bank
Abu Dhabi, UAE

We have audited the accompanying balance sheet of **Abu Dhabi Islamic Bank** – Public Joint Stock Company as of December 31, 2004 and the related statements of income, changes in shareholders equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements, referred to above, present fairly, in all material respects, the financial position of **Abu Dhabi Islamic Bank** as of December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Also, in our opinion, proper books of account are maintained by the Bank, and the contents of the accompanying Board of Directors' report are in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of the audit and to the best of our knowledge and belief no violations of the UAE Federal Commercial Companies Law of 1984 (as amended) or the Articles of Association of the Bank have occurred during the year which would have had a material effect on the financial position of the Bank or on its results of operations.

for Deloitte & Touche

Saba Y. Sindaha
Registration Number 410
January 19, 2005

ABU DHABI ISLAMIC BANK
Public Joint Stock Company

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Balance sheet
as at December 31, 2004

	Notes	2004 AED 000	2003 AED 000
ASSETS			
Balances with banks, financial institutions, Central			
Bank and cash	3	611,126	485,081
Murabaha with financial institutions		3,461,418	1,991,994
Murabaha and other Islamic financing	4	4,588,685	3,470,497
Ijara financing	5	3,126,797	2,570,081
Investments	6	791,777	628,677
Other assets	7	63,092	39,626
Property, plant and equipment	8	44,274	34,757
		<hr/>	<hr/>
Total assets		12,687,169	9,220,713
		<hr/> <hr/>	<hr/> <hr/>
LIABILITIES			
Due to banks and financial institutions	9	1,435,979	1,585,107
Depositors' accounts	10	9,568,836	6,123,526
Other liabilities	11	176,711	111,661
		<hr/>	<hr/>
Total liabilities		11,181,526	7,820,294
		<hr/> <hr/>	<hr/> <hr/>
SHAREHOLDERS' EQUITY			
Share capital	12	1,000,000	1,000,000
Legal reserve	13	56,161	43,870
General reserve	13	56,161	43,870
Accumulated profits		199,529	172,101
Proposed dividends	14	70,000	70,000
Revaluation reserve	15	123,792	70,578
		<hr/>	<hr/>
Total shareholders' equity		1,505,643	1,400,419
		<hr/> <hr/>	<hr/> <hr/>
Total liabilities and shareholders' equity		12,687,169	9,220,713
		<hr/> <hr/>	<hr/> <hr/>
Commitments and contingent liabilities	22	4,177,287	3,816,707
		<hr/> <hr/>	<hr/> <hr/>

Mohamed Bin Humooda
Chairman of the Board

Abdul Aziz Al Mehairi
Acting Chief Executive Officer

The accompanying notes are an integral part of these financial statements.

**Income statement
for the year ended December 31, 2004**

	Notes	2004 AED 000	2003 AED 000
OPERATING INCOME			
Income from Murabaha and Mudaraba with financial institutions, net		48,241	54,190
Income from Murabaha, Ijara and other Islamic financing, net		377,739	152,846
Investment income	16	34,084	23,935
Fees, commissions and foreign exchange income, net	17	28,752	39,498
Other operating income		1,729	1,883
		490,545	272,352
OPERATING EXPENSES			
Staff costs		103,417	78,586
General and administrative expenses		42,507	32,187
Depreciation	8	11,895	10,044
Provision for Islamic Financing	4 & 5	51,409	3,438
Impairment of investments	6	14,504	1,482
		223,732	125,737
Profit from operations, before distribution to depositors		266,813	146,615
Distribution to depositors		(143,903)	(46,055)
Net profit for the year		122,910	100,560
Basic earnings per share	18	AED 1.229	AED 1.006

The accompanying notes are an integral part of these financial statements.

ABU DHABI ISLAMIC BANK
Public Joint Stock Company

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**Statement of changes in equity
for the year ended December 31, 2004**

	Notes	Share capital AED 000	Legal reserve AED 000	General reserve AED 000	Accumulated profits AED 000	Proposed dividends AED 000	Revaluation reserve AED 000	Total AED 000
Balance at January 1, 2003		1,000,000	33,814	33,814	162,553	50,000	22,791	1,302,972
Increase in fair values of available for sale investments	15	-	-	-	-	-	51,469	51,469
Released on sales / disposal of available for sale investments	15	-	-	-	-	-	(3,682)	(3,682)
Net profit for the year		-	-	-	100,560	-	-	100,560
Transfer to reserves	13	-	10,056	10,056	(20,112)	-	-	-
Directors' remuneration		-	-	-	(900)	-	-	(900)
Dividends paid		-	-	-	-	(50,000)	-	(50,000)
Proposed dividends	14	-	-	-	(70,000)	70,000	-	-
Balance at January 1, 2004		1,000,000	43,870	43,870	172,101	70,000	70,578	1,400,419
Increase in fair values of available for sale investments	15	-	-	-	-	-	57,092	57,092
Released on disposal of available for sale investments	15	-	-	-	-	-	(9,686)	(9,686)
Released on impairment of available for sale investments	15	-	-	-	-	-	5,808	5,808
Net profit for the year		-	-	-	122,910	-	-	122,910
Transfer to reserves	13	-	12,291	12,291	(24,582)	-	-	-
Directors' remuneration		-	-	-	(900)	-	-	(900)
Dividends paid		-	-	-	-	(70,000)	-	(70,000)
Proposed dividends	14	-	-	-	(70,000)	70,000	-	-
Balance at December 31, 2004		1,000,000	56,161	56,161	199,529	70,000	123,792	1,505,643

The accompanying notes are an integral part of these financial statements.

Statement of cash flows
for the year ended December 31, 2004

	2004	2003
	AED 000	AED 000
Operating activities		
Net profit for the year	122,910	100,560
Adjustments for:		
Depreciation	11,895	10,044
Provision for impairment of Islamic financing and investments	65,913	4,920
Gain on sale of investments	(9,686)	(3,682)
Loss (gain) on disposal of property, plant and equipment	39	(13)
	<hr/>	<hr/>
Operating profit before changes in operating assets and liabilities	191,071	111,829
(Increase) decrease in Murabaha with financial institutions	(740,726)	1,249,373
Increase in Murabaha and other Islamic financing	(1,150,418)	(1,093,836)
Increase in Ijara financing	(575,895)	(1,835,493)
Increase in other assets	(23,466)	(10,378)
Decrease (increase) in due to banks and financial institutions	(181,448)	93,418
Increase in depositors' accounts	3,445,310	922,810
Increase in other liabilities	65,050	33,300
	<hr/>	<hr/>
Cash from (used in) operations	1,029,478	(528,977)
Directors' remuneration paid	(900)	(900)
	<hr/>	<hr/>
Net cash from (used in) operating activities	1,028,578	(529,877)
	<hr/>	<hr/>
Investing activities		
Purchase of investments	(150,566)	(242,414)
Proceeds from sale of investments	35,862	85,483
Purchase of property, plant and equipment	(21,527)	(16,056)
Proceeds from sale of property, plant and equipment	76	26
	<hr/>	<hr/>
Net cash used in investing activities	(136,155)	(172,961)
	<hr/>	<hr/>
Financing activities		
Dividends paid	(70,000)	(50,000)
	<hr/>	<hr/>
Net cash used in financing activities	(70,000)	(50,000)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	822,423	(752,838)
Cash and cash equivalents at beginning of the year	(92,047)	660,791
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year (Note 3)	730,376	(92,047)
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements
for the year ended December 31, 2004

1 General

Abu Dhabi Islamic Bank – Public Joint Stock Company (the Bank) is incorporated in the Emirate of Abu Dhabi - United Arab Emirates in accordance with the provision of UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) and the Amiri Decree No. 9 of 1997.

The principal activities of the Bank consist of Islamic financing, investments, commercial and other banking services activities in accordance with Islamic Shari'a as approved by the Bank's Fatwa and Shari'a Supervisory Board.

The Bank operates solely in the United Arab Emirates through 16 branches (2003 –14 branches)

The financial statements are presented in UAE Dirhams (AED) since this is the currency in which the majority of the Bank's transactions are denominated.

Following are definitions of the main Islamic financing instruments of the Bank:

Murabaha

Murabaha is the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognised.

Istisna'a

Istisna'a is a sale contract between a contract owner and a contractor, whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by installments or deferred to a specific future date.

Qard Hasan

Qard Hasan is a non-profit bearing financing intended to allow the borrower to use the loaned funds for a period of time with the understanding that the same amount of the loaned funds would be repaid at the end of the Qard period.

Mudaraba

Mudaraba is a contract between the Bank and a client, whereby the Bank extends a certain amount of money to the client to be invested in a project or certain activity against a fixed share of the profit representing the total profit for the project less the client's share as a Mudarib.

Notes to the financial statements
for the year ended December 31, 2004 (continued)

1 General (continued)

Wakalah

Wakalah is an Islamic transaction involving the Muwakkil (the principal) who wishes to appoint the Wakkil (the agent) to be the agent of Muwakkil with respect to the investment of the Muwakkil's funds in Islamically acceptable transactions.

2 Summary of significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of the UAE Central Bank regulations.

The financial statements have been prepared based on the historical cost convention, except for the measurement at fair value of certain financial instruments. The principal accounting policies adopted are set out below:

Murabaha with financial institutions and Mudaraba

Murabaha and Mudaraba are stated in the balance sheet at cost less any amounts written off and provision for impairment, if any.

Murabaha and other Islamic financing

These are stated at amortised cost less provision for impairment.

Ijara financing

Ijara financing are finance lease receivables stated at amounts equal to the net investment outstanding in the leases including the income earned thereon.

Provision for impairment of financial assets

At each balance sheet date, the Bank reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The provision for impairment of Murabahas and others Islamic financing also covers losses where there is objective evidence that probable losses are present in components of Murabahas and others Islamic financing portfolio at the balance sheet date. These are estimated based on historical patterns of losses in each component, and the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

Notes to the financial statements
for the year ended December 31, 2004 (continued)

2 Summary of significant accounting policies (continued)

Investments

Held to maturity

Investments which have fixed or determinable payments and are intended to be held to maturity, are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition.

Available for sale investments

Investments are recognised on a trade date basis. Investments classified as “available for sale” are initially recognised at cost and are measured at fair value at subsequent reporting dates. Increases or decreases in the fair value of these investments are taken to revaluation reserve under shareholders’ equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

Investment in subsidiary companies

A subsidiary is defined as an enterprise controlled by the parent. Control is presumed to exist when the parent owns, directly or indirectly, more than 50% of the voting power of an enterprise or where the parent has the power to govern the financial and operating policies of the enterprise under a statute or an agreement.

Subsidiary companies formed or acquired with the intention of resale in the near future are not consolidated as control is intended to be temporary. The unconsolidated subsidiaries are accounted for in the same manner as available for sale investments.

Investments in associates

An associate is an enterprise over which the Bank is in a position to exercise significant influence, but not control, through participation in the financial and operating decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the cost method of accounting. Investment in associates are carried in the balance sheet at cost, less any impairment in the value of individual investments.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment losses, if any.

Notes to the financial statements
for the year ended December 31, 2004 (continued)

2 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using straight-line method at the following annual rates:

Property	20 years
Furniture and leasehold improvements	7 years
Computer and office equipment	4 years
Motor Vehicles	4 years

Capital work in progress is stated at cost and not depreciated, when commissioned, assets under construction are transferred to the appropriate property, plant and equipment asset category and depreciated in accordance with the Bank's policies.

Non-investment accounts

Non-investment accounts represent, in accordance with Islamic Shari'a, Qard Hasan from depositors to the Bank and take the form of current accounts. These accounts are not entitled to profit nor do they bear any risk of loss, as the Bank guarantees to pay the related balance on demand. Investing Qard Hasan is made at the discretion of the Board of Directors of the Bank and the results of such investments are attributable to the shareholders of the Bank.

Investment accounts

Investment accounts may take the form of investment deposits, which are valid for specified periods of time ranging from one month to 12 months, and are automatically renewable on maturity for the same period unless the concerned depositors give written notice to the contrary, or take the form of investment saving accounts for unspecified periods. In all cases, investment accounts receive a proportion of the profit and bear a share of loss based on the results of the financial period determined by the Board of Directors of the Bank.

Reverse Murabaha

Reverse Murabaha is an Islamic transaction involving the Bank's purchase of an asset from a counterparty and settlement thereof at cost plus an agreed profit on a deferred payment basis. The purchase price is payable to the counterparty on maturity. Reverse Murabaha is included in the balance sheet under counterparty deposits and the accrued profit payable to the counter party is classified under other liabilities.

Notes to the financial statements
for the year ended December 31, 2004 (continued)

2 Summary of significant accounting policies (continued)

End of service benefits and pension contributions

A provision is made for amounts payable to the employees for end of service benefits, which is calculated in accordance with the provisions of the Federal Labour Law of the United Arab Emirates.

Pension contributions in respect of UAE nationals are payable to the Finance Department of the Abu Dhabi Government, and calculated in accordance with Government regulations.

Provisions

Provisions are recognised at the management's best estimate, when the Bank has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Foreign currencies

Transactions in currencies other than UAE Dirhams (AED) are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the income statement for the period.

Fiduciary assets

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

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase or to sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**Notes to the financial statements
for the year ended December 31, 2004 (continued)**

2 Summary of significant accounting policies (continued)

Revenue recognition

Income from Murabaha, Ijara and other Islamic financing are recognised on a time apportionment basis.

Income from Istisna'a is recognised on a pattern reflecting a constant periodic return on the net investment outstanding.

Dividend income is recognised when the right to receive payment is established.

Fees and commission income is recognised at the time the related services are provided.

Cash and cash equivalents

Cash and cash equivalents consist of cash balances with the UAE Central Bank, current accounts with other banks and financial institutions and short term international Murabaha with and due to financial institutions that are maturing within 30 days of the date of acquisition.

Fair values

Fair value of unquoted equity investments is determined by reference to the current market value of another instrument which is substantially the same or is based on acceptable valuation techniques.

Fair value of quoted equity investments is determined by reference to the Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

Fair value of financing receivables (net of provisions) is determined based on expected future cash flows discounted at estimated profit rates for financing receivables with similar terms and risk characteristics.

Fair value of international Murabaha balances with financial institutions is estimated based on discounted cash flows using profit rates for items with similar remaining maturity.

Investments with no reliable measure of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value.

Offsetting

Financial assets and financial liabilities are only offset and the net amount disclosed in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Notes to the financial statements
for the year ended December 31, 2004 (continued)**

3 Cash and cash equivalents

	2004	2003
	AED 000	AED 000
Balances with UAE Central Bank	540,745	424,657
Balances with other banks and financial institutions	5,603	10,496
Cash	64,778	49,928
	<hr/>	<hr/>
Balances with Central Bank and other banks, financial institutions and cash	611,126	485,081
Short term Murabaha with financial institutions	1,252,261	523,562
Short term due to banks and financial institutions	(1,133,011)	(1,100,690)
	<hr/>	<hr/>
Cash and cash equivalents	730,376	(92,047)
	<hr/> <hr/>	<hr/> <hr/>

In accordance with Islamic Shari'a, no interest is receivable on balances with banks and financial institutions.

4 Murabaha and other Islamic financing

	2004	2003
	AED 000	AED 000
Murabaha	4,398,964	3,480,059
Istisna'a	79,111	72,433
Mudaraba	347,761	52,026
Other financing receivables	8,422	8,290
	<hr/>	<hr/>
Gross performing Murabaha and other Islamic financing	4,834,258	3,612,808
Gross non- performing Murabaha and other Islamic financing	34,444	17,385
	<hr/>	<hr/>
Total Murabaha and other Islamic financing	4,868,702	3,630,193
Less: Deferred income	(225,132)	(136,799)
Less: Provision for impairment	(54,885)	(22,897)
	<hr/>	<hr/>
	4,588,685	3,470,497
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the financial statements
for the year ended December 31, 2004 (continued)**

4 Murabaha and other Islamic financing (continued)

The composition of the gross financing receivables portfolio is as follows:

	UAE	Middle	Other	2004	2003
	AED 000	East	Countries	AED 000	AED 000
		AED 000	AED 000		
Commercial and business	2,338,740	755,310	148,917	3,242,967	2,408,323
Private individuals	1,625,735	-	-	1,625,735	1,221,870
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
December 31, 2004	3,964,475	755,310	148,917	4,868,702	
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	
December 31, 2003	3,068,480	505,114	56,599		3,630,193
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>		<hr/> <hr/>

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

	2004	2003
	AED 000	AED 000
At January 1	22,897	19,516
Charge for the year	32,230	3,438
Written off during the year	(242)	(57)
	<hr/>	<hr/>
At December 31	54,885	22,897
	<hr/> <hr/>	<hr/> <hr/>

The Bank has entered into a share financing agreement with certain customers, pursuant to which the formalities' procedures and Murabaha agreement will be signed with those customers.

Notes to the financial statements
for the year ended December 31, 2004 (continued)

5 Ijara financing

This represents net investments in assets leased for periods which either approximate or cover a major part of the estimated useful lives of such assets. The lease agreements stipulate that the lessor undertakes to transfer the leased assets to the lessee upon receiving the final rental payment.

	Net value of minimum lease payments	
	2004	2003
	AED 000	AED 000
Amounts receivable under financing leases		
Due within one year	357,508	184,481
Due in the second to fifth year	2,166,409	1,817,605
Due after five years	1,212,231	865,829
	<hr/>	<hr/>
	3,736,148	2,867,915
Less: Unearned income	(588,098)	(296,617)
Deferred income	(2,074)	(1,217)
Provision for impairment	(19,179)	-
	<hr/>	<hr/>
Net value of minimum lease payments receivable	3,126,797	2,570,081
	<hr/> <hr/>	<hr/> <hr/>

As at December 31, 2004, the non performing Ijara financing amounted to AED 19 million (2003 – Nil).

**Notes to the financial statements
for the year ended December 31, 2004 (continued)**

6 Investments

	2004	2003
	AED 000	AED 000
Available for sale investments		
Fair value at January 1	592,821	399,724
Additions to investments during the year	43,717	228,593
Payments received during the year	(7,811)	(59,221)
Sales/disposal during the year	(28,048)	(26,262)
Increase in fair value	57,092	51,469
Impairment of investments	(3,188)	(1,482)
	<hr/>	<hr/>
Fair value at December 31	654,583	592,821
	<hr/>	<hr/>
The fair value of the available for sales investments at December 31 are comprised of the following:		
Investment in quoted securities	469,097	440,305
Investment in quoted unconsolidated fund	63,416	62,929
Investment in unquoted securities	99,972	58,189
Investment in unquoted unconsolidated fund	22,098	31,398
	<hr/>	<hr/>
	654,583	592,821
	<hr/>	<hr/>
Held to maturity investment		
Cost of investments	106,846	-
	<hr/>	<hr/>
Investments in associates		
Cost of investments	30,348	35,856
	<hr/>	<hr/>
Total investments	791,777	628,677
	<hr/> <hr/>	<hr/> <hr/>

Unquoted investments with a value of AED 130 million as of December 31, 2004 (2003 – AED 94 million) are carried at cost less provision for impairment. This is due to the unpredictable nature of future cash flows and lack of other suitable methods of arriving at a reliable fair value. These investments consist mainly of companies in the United States and an equity holding in a private Islamic bank in Bosnia.

**Notes to the financial statements
for the year ended December 31, 2004 (continued)**

6 Investments (continued)

Details of the Bank's investments in unconsolidated funds at December 31 are as follows:

<u>Name of Fund</u>	<u>Place of Incorporation</u>	<u>Proportion of Ownership Interest</u>		<u>Proportion of Voting Power</u>		<u>Principal activity</u>
		2004	2003	2004	2003	
Al Hilal Fund (quoted)	Bermuda	94%	92%	94%	92%	Financial investments
Al Ijara Fund (unquoted)	Cayman Islands	86%	86%	86%	86%	Finance leasing

Details of the Bank's investments in associates at December 31 are as follows:

<u>Name of Associate</u>	<u>Place of Incorporation</u>	<u>Proportion of Ownership Interest</u>		<u>Proportion of Voting Power</u>		<u>Principal activity</u>
		2004	2003	2004	2003	
Bosna Bank International d.d	Bosnia	27%	27%	27%	27%	Islamic banking
Abu Dhabi National Takaful	Abu Dhabi	23%	23%	23%	23%	Islamic insurance

7 Other assets

	2004 AED 000	2003 AED 000
Prepayments	15,576	13,057
Income receivable on investments	8,505	7,320
Others	39,011	19,249
	63,092	39,626
	63,092	39,626

**Notes to the financial statements
for the year ended December 31, 2004 (continued)**

8 Property, plant and equipment

	Property AED 000	Furniture and leasehold improvements AED 000	Computer and office equipment AED 000	Motor vehicles AED 000	Capital work in progress AED 000	Total AED 000
Cost						
At January 1, 2004	-	28,410	44,843	1,647	7,383	82,283
Additions	-	2,473	7,897	202	10,955	21,527
Disposals	-	(96)	(1,369)	(355)	-	(1,820)
Transfer from capital work in progress	6,196	849	3,462	57	(10,564)	-
At December 31, 2004	6,196	31,636	54,833	1,551	7,774	101,990
Accumulated depreciation						
At January 1, 2004	-	15,245	31,256	1,025	-	47,526
Charge for the year	78	4,479	7,025	313	-	11,895
Disposals	-	(51)	(1,359)	(295)	-	(1,705)
At December 31, 2004	78	19,673	36,922	1,043	-	57,716
Net book value						
At December 31, 2004	6,118	11,963	17,911	508	7,774	44,274
At December 31, 2003	-	13,165	13,587	622	7,383	34,757

**Notes to the financial statements
for the year ended December 31, 2004 (continued)**

9 Due to banks and financial institutions

	2004	2003
	AED 000	AED 000
Reverse Murabaha	222,136	635,364
Investment accounts	127,143	337,655
Wakalah deposits	1,038,703	548,819
Current accounts	47,997	63,269
	<hr/> 1,435,979 <hr/>	<hr/> 1,585,107 <hr/>

In accordance with Islamic Shari'a, no interest is payable on current accounts.

10 Depositors' accounts

	2004	2003
	AED 000	AED 000
Investment accounts	3,769,050	4,196,028
Non-investment accounts	2,218,997	1,028,290
Wakalah deposits	3,580,789	899,208
	<hr/> 9,568,836 <hr/>	<hr/> 6,123,526 <hr/>

The Bank generally invests all of its investment deposits and saving accounts, adjusted for Central Bank reserve requirements and the Bank's liquidity requirements.

The distribution to depositors for the year ended December 31, 2004 amounted to AED 144 million (2003 - AED 46 million). The balance payable is included under other liabilities (note 11).

Notes to the financial statements
for the year ended December 31, 2004 (continued)

11 Other liabilities

	2004	2003
	AED 000	AED 000
Accounts payable	62,416	35,279
Accrued profit distribution payable to depositors	28,360	11,992
Others	85,935	64,390
	<u>176,711</u>	<u>111,661</u>

The accrued profit distribution is payable to depositors at maturity.

12 Share capital

	2004	2003
	AED 000	AED 000
Authorised, issued and fully paid: 100 million ordinary shares of par value AED 10 each	<u>1,000,000</u>	<u>1,000,000</u>

There were no movements in the share capital of the Bank during 2004 and 2003.

13 Reserves

Legal reserve

As required by the UAE Federal Commercial Companies Law of 1984 (as amended) and the Bank's Articles of Association, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. The legal reserve is not available for distribution to the shareholders.

General reserve

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

14 Proposed dividends

A dividend of AED 0.70 per share, totaling AED 70 million for the year 2004 (2003 – AED 70 million) has been proposed by the Board of Directors and will be submitted for the approval of the General Assembly.

**Notes to the financial statements
for the year ended December 31, 2004 (continued)**

15 Revaluation reserve

	2004 AED 000	2003 AED 000
At January 1	70,578	22,791
Increase in fair value of available for sale investments	57,092	51,469
Released on disposal of available for sale investments	(9,686)	(3,682)
Released on impairment of available for sale investments	5,808	-
	<hr/>	<hr/>
At December 31	123,792	70,578
	<hr/> <hr/>	<hr/> <hr/>

16 Investment income

	2004 AED 000	2003 AED 000
Dividend income from equity investments	6,747	6,525
Income from Islamic Sukuk	8,874	4,431
Profits from Investments in Ijara Fund (note 6)	1,539	4,061
Income from investments in real estate funds	5,326	5,236
Profits on sales / disposals of available for sale investments	9,686	3,682
Others	1,912	-
	<hr/>	<hr/>
	34,084	23,935
	<hr/> <hr/>	<hr/> <hr/>

17 Fees, commissions and foreign exchange income

	2004 AED 000	2003 AED 000
Net fees and commissions	24,782	36,421
Net income from dealing in foreign currencies	3,970	3,077
	<hr/>	<hr/>
	28,752	39,498
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements
for the year ended December 31, 2004 (continued)

18 Basic earnings per share

Basic earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year.

	2004	2003
Net profit for the year (AED 000)	122,910	100,560
Weighted average number of shares outstanding during the year (Thousands of shares)	100,000	100,000
Basic earnings per share (AED)	1.229	1.006

19 Related parties transactions

Balances with related parties arise from commercial transactions in the normal course of business on an arm's length basis. Balances with related parties at the balance sheet comprise:

	2004	2003
	AED 000	AED 000
Due from:		
Receivables and leased assets	103,228	30,508
Other assets	-	2,900
	103,228	33,408
Due to:		
Due to banks and financial institutions	88	83
Depositors' accounts	86,432	79,899
Other liabilities	56	-
	86,576	79,982
Irrevocable commitments and contingencies	52,685	26,172

**Notes to the financial statements
for the year ended December 31, 2004 (continued)**

19 Related parties transactions (continued)

Significant transactions with related parties are comprised of the following:

	2004	2003
	AED 000	AED 000
Dividends and other investment income	1,724	4,119
Fees income	1,529	1,491
Income from Murabaha, Ijara and Istisna'a	5,261	1,455
Profit distribution to depositors	653	1,282
General expenses	1,756	-

20 Business and geographical segments

Business segments

For management purposes, the Bank is organised into three major business segments:

- **Retail banking**

Principally handling the deposits of individual customers and small businesses, and providing consumer and commercial type Murabaha, Istisna'a, Ijara and Covered Cards facilities.

- **Corporate banking**

Principally handling Murabaha, Ijara and Istisna'a facilities for corporate and institutional customers.

- **Investment and treasury**

This segment consists of two separate units, Treasury & Financial Institutions and Investment Banking that are primarily handling banks and customers' investments as well as the management of the Bank's funding operations. Bank investments include international Murabaha and Mudaraba, primarily with financial institutions.

**Notes to the financial statements
for the year ended December 31, 2004 (continued)**

20 Business and geographical segments (continued)

Business segments information for the year ended December 31, 2004 were as follows:

	Retail Banking AED 000	Corporate banking AED 000	Investment and treasury AED 000	Other AED 000	Total AED 000
Revenue and results					
Operating income	224,048	168,615	87,045	10,837	490,545
Unallocated costs					(223,732)
					<hr/>
Profit from operations					266,813
Profit distribution to depositors					(143,903)
					<hr/>
Net profit for the year					122,910
					<hr/> <hr/>
Balance sheet					
Assets					
Segmental assets	1,666,507	6,061,253	4,874,491	-	12,602,251
Unallocated assets					84,918
					<hr/>
Total assets					12,687,169
					<hr/> <hr/>
Liabilities					
Segmental liabilities	4,122,104	5,478,784	1,438,205	-	11,039,093
Unallocated liabilities					142,433
					<hr/>
Total liabilities					11,181,526
					<hr/> <hr/>

**Notes to the financial statements
for the year ended December 31, 2004 (continued)**

20 Business and geographical segments (continued)

Business segments information for the year ended December 31, 2003 were as follows:

	Retail Banking AED 000	Corporate banking AED 000	Investment and treasury AED 000	Other AED 000	Total AED 000
Revenue and results					
Operating income	67,243	114,393	82,660	8,056	272,352
Unallocated costs					(125,737)
					<hr/>
Profit from operations					146,615
Profit distribution to depositors					(46,055)
					<hr/>
Net profit for the year					100,560
					<hr/> <hr/>
Balance sheet					
Assets					
Segmental assets	1,280,807	4,770,848	3,118,517	-	9,170,172
Unallocated assets					50,541
					<hr/>
Total assets					9,220,713
					<hr/> <hr/>
Liabilities					
Segmental liabilities	3,156,105	3,010,334	1,590,581	-	7,757,020
Unallocated liabilities					63,274
					<hr/>
Total liabilities					7,820,294
					<hr/> <hr/>

Notes to the financial statements
for the year ended December 31, 2004 (continued)

20 Business and geographical segments (continued)

Geographical segments

Although the management of the Bank is based primarily on major business segments, the Bank operates in two geographical markets; the United Arab Emirates which is designated as domestic, and the remainder of the Middle East, Europe, the Far East and the USA which are designated as international. The following table shows the distribution of the Bank's operating income, total assets and capital expenditure by geographical segments:

	Domestic AED 000	International AED 000	Total AED 000
2004			
Total operating income	393,976	96,569	490,545
	=====	=====	=====
Total assets	8,424,246	4,262,923	12,687,169
	=====	=====	=====
Total liabilities	10,500,668	680,858	11,181,526
	=====	=====	=====
Capital expenditure	21,527	-	21,527
	=====	=====	=====
2003			
Total operating income	190,549	81,804	272,353
	=====	=====	=====
Total assets	6,062,374	3,158,339	9,220,713
	=====	=====	=====
Total liabilities	7,364,904	455,390	7,820,294
	=====	=====	=====
Capital expenditure	16,056	-	16,056
	=====	=====	=====

Notes to the financial statements
for the year ended December 31, 2004 (continued)

21 Concentration of assets, liabilities and off balance sheet items

The distribution by geographic region and industry sector was as follows:

	2004			2003		
	Assets AED 000	Liabilities AED 000	Commitment and contingent liabilities AED 000	Assets AED 000	Liabilities AED 000	Commitment and contingent liabilities AED 000
Geographical region						
UAE	8,424,246	10,500,668	3,498,661	6,062,374	7,364,904	3,604,528
Middle East	2,998,272	657,209	534,223	1,902,299	265,865	104,428
Europe	904,943	7,123	53,205	891,845	184,942	64,583
North America	242,260	-	523	223,489	-	1,799
Others	117,448	16,526	90,675	140,706	4,583	41,369
	12,687,169	11,181,526	4,177,287	9,220,713	7,820,294	3,816,707
Industry sector						
Banks and financial institutions	4,589,095	1,566,453	127,174	2,703,461	1,707,969	37,635
Trading and manufacturing	838,742	966,308	408,061	522,392	228,512	200,448
Construction and real estate	514,684	115,725	300,509	437,018	59,607	742,026
Telecommunications	600,093	300,000	2,289	322,099	3,298	5,015
Energy	3,092,193	902,500	1,393,889	2,654,166	598,536	1,630,003
Personal	1,802,478	4,219,061	-	1,407,595	3,190,580	-
Others	1,249,884	3,111,479	1,945,365	1,173,982	2,031,792	1,201,580
	12,687,169	11,181,526	4,177,287	9,220,713	7,820,294	3,816,707

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

Notes to the financial statements
for the year ended December 31, 2004 (continued)

22 Commitments and contingent liabilities

Credit related 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. 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.

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

	2004	2003
	AED 000	AED 000
Letters of credit	195,411	158,874
Letters of guarantee	403,087	306,097
Acceptances	12,493	10,891
Buy back commitments	299,877	-
Commitment for future capital expenditure	18,422	14,175
Others	1,571	1,387
	<hr/> 930,861 <hr/>	<hr/> 491,424 <hr/>
Irrevocable commitments to extend credits:		
Maturing in one year or less	2,505,791	2,403,362
Maturing in one year to three years	541,472	676,011
Maturing over three years	199,163	245,910
	<hr/> 3,246,426 <hr/>	<hr/> 3,325,283 <hr/>
	<hr/> 4,177,287 <hr/> <hr/>	<hr/> 3,816,707 <hr/> <hr/>

Notes to the financial statements
for the year ended December 31, 2004 (continued)

23 Funds under management

The aggregate value of the funds managed in a fiduciary capacity at December 31, 2004 amounted to AED 192 million (2003 – AED 204 million). The Bank holds a portion of those funds (refer note 6).

24 Capital adequacy

The capital adequacy ratio of the Bank as of December 31, 2004 was 21.4 % (2003 – 24.7%). This ratio was calculated according to the instruction guidance of the UAE Central Bank with a minimum ratio of 10%.

25 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 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 for the year 2004 to be AED 9.64 and accordingly Zakat is estimated at AED 0.25 per share.

26 Financial instruments

The main risks to which the Bank's assets and liabilities are exposed and the main methods of risk management are as follows:

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 Banks' credit risk is primarily attributable to facilities receivable. The Bank seeks to manage credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Bank also enters into collateral arrangements with counterparties in appropriate circumstances to limit the duration of exposure.

Concentration of credit risks arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical 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. Concentration of credit risk indicates the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

Notes to the financial statements
for the year ended December 31, 2004 (continued)

26 Financial instruments (continued)

Credit risk (continued)

For details on the composition of Murabaha, Ijara and other Islamic financing portfolio refer to notes 4 and 5.

For segmental information refer to note 20, and for concentration of assets, liabilities and off – balance sheet items refer to note 21.

Foreign exchange risk

Foreign exchange risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the Bank's open position, current and expected exchange rate movements. The Bank does not engage in foreign exchange trading and where necessary matches currency exposures inherent in current assets with liabilities in the same or a correlated currency.

Price risks

Price risks comprising market and valuation risks are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

The Bank is not excessively exposed to interest rate risk as its interest-sensitive assets and liabilities are repriced frequently.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Bank is exposed to market risk with respect to its investments in marketable securities. The Bank limits market risks by maintaining a diversified portfolio and by the continuous monitoring of developments in the market. In addition, the Bank actively monitors the key factors that affect stock and the market movements, including analysis of the operational and financial performance of investees.

Notes to the financial statements
for the year ended December 31, 2004 (continued)

26 Financial instruments (continued)

Fair values

In the ordinary course of business, the Bank uses primary financial instruments such as cash and balances with or due to banks and other financial institutions, investments in securities, receivables and payables. The Bank does not make use of derivative financial instruments.

While the Bank prepares its financial statements under the historical cost convention modified for measurement to fair value of available for sale investments, 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 financial statements are not materially different, since assets and liabilities are either short term in nature or in the case of financing receivables, frequently repriced. For impaired financing receivable balances, expected cash flows including anticipated realisation of collateral were discounted using the original effective profit rates, considering the time of collection and a provision for the uncertainty of the cash flows.

27 Currency risk

The Bank had the following significant net balances of assets denominated in foreign currencies:

	2004	2003
	AED 000	AED 000
US Dollars	5,460,735	4,194,536
	<hr/> <hr/>	<hr/> <hr/>
Qatari Riyal	44,850	44,862
	<hr/> <hr/>	<hr/> <hr/>
Other currencies	23,244	22,937
	<hr/> <hr/>	<hr/> <hr/>

28 Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

Notes to the financial statements
for the year ended December 31, 2004 (continued)

28 Liquidity risk (continued)

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take into account the effective maturities as indicated by the Bank'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 maturity profile of the assets and liabilities at year end is based on contractual repayment arrangements.

The maturity profile of the assets and liabilities at December 31, 2004 was as follows:

	Within 3 months AED 000	3 to 6 months AED 000	6 to 12 months AED 000	1 to 3 years AED 000	Over 3 years AED 000	Tot: AED 00
Assets						
Balances with banks and financial institutions, Central Bank and cash	611,126	-	-	-	-	611,126
Murabaha with financial institutions	2,466,719	677,754	280,220	36,725	-	3,461,418
Murabaha and other Islamic financing	2,717,831	362,942	675,281	581,559	251,072	4,588,685
Ijara financing	54,968	54,708	203,879	505,510	2,307,732	3,126,797
Investments	1,399	116,016	38,240	90,856	545,266	791,777
Other assets	54,134	4,981	2,970	1,007	-	63,098
Property, plant and equipment	-	-	-	-	44,274	44,274
	5,906,177	1,216,401	1,200,590	1,215,657	3,148,344	12,687,169
Liabilities and equity						
Due to banks and financial institutions	1,213,297	222,682	-	-	-	1,435,979
Depositors' accounts	8,178,378	586,509	771,828	32,121	-	9,568,836
Other liabilities	145,198	8,560	10,774	150	12,029	176,751
Equity	70,000	-	-	-	1,435,643	1,505,643
	9,606,873	817,751	782,602	32,271	1,447,672	12,687,169

**Notes to the financial statements
for the year ended December 31, 2004 (continued)**

28 Liquidity risk (continued)

The maturity profile of the assets and liabilities at December 31, 2003 was as follows:

	Within 3 months AED 000	3 to 6 months AED 000	6 to 12 months AED 000	1 to 3 years AED 000	Over 3 years AED 000	Total AED 000
Assets						
Balances with banks and financial institutions, Central Bank and cash	485,081	-	-	-	-	485,081
Murabaha with financial institutions	856,798	619,211	109,627	406,358	-	1,991,994
Murabaha and other Islamic financing	1,702,372	602,652	635,621	393,042	136,810	3,470,497
Ijara financing	40,849	39,818	59,244	423,877	2,006,293	2,570,081
Investments	1,756	1,786	3,668	11,751	609,716	628,677
Other assets	31,534	4,268	3,039	785	-	39,626
Property, plant and equipment	-	-	-	-	34,757	34,757
	3,118,390	1,267,735	811,199	1,235,813	2,787,576	9,220,713
Liabilities and equity						
Due to banks and financial institutions	1,348,863	36,725	199,519	-	-	1,585,107
Depositors' accounts	5,062,024	487,247	559,812	12,974	1,469	6,123,526
Other liabilities	87,069	5,181	7,387	132	11,892	111,661
Equity	70,000	-	-	-	1,330,419	1,400,419
	6,567,956	529,153	766,718	13,106	1,343,780	9,220,713

**Notes to the financial statements
for the year ended December 31, 2004 (continued)**

29 Employees

The total number of the Bank employees at December 31, 2004 is 607 employees (2003 – 483 employees).

30 Comparative financial information

Certain comparative figures for the prior year have been reclassified, where necessary, to conform with the current year presentation.

31 Date of authorisation for issue

The financial statements were approved by the Board of Directors and authorised for issue on 19 January 2005.

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