values@work

integrity
care
ambition
respect
discipline

Abu Dhabi Commercial Bank PJSC
2017 Annual Report

بنك أبوظبي التجاري
ADCB

His Highness
Sheikh Khalifa bin Zayed Al Nahyan

President of the United Arab Emirates and Ruler of Abu Dhabi
Supreme Commander of the UAE Armed Forces

His Highness
Sheikh Mohammed bin Zayed Al Nahyan

Crown Prince of Abu Dhabi
Deputy Supreme Commander of the UAE Armed Forces
Chairman of the Abu Dhabi Executive Council

Success through values

A leading bank in the UAE, ADCB stands out for its excellent service and innovation. Whether individuals or corporates, our customers reward us for this—with fierce loyalty and enduring trust, which translates into growing business volumes.

In 2017, these characteristics increased the resilience of ADCB. Despite the year's challenges and headwinds, our underlying performance remained robust.

Importantly, our values played a part in the year's success. In 2017, we defined and formalised our values, taking time to communicate them to everyone throughout the Bank. Integrity, Care, Ambition, Respect and Discipline—these are the core values that make us different. They are the cornerstone principles that guide our actions every hour of every day, defining our culture and driving our success.

Our values are linked to the high-performance culture that drives our sustainable growth.

values @work

THESE ARE ADCB'S VALUES@WORK:

INTEGRITY, CARE, AMBITION, RESPECT & DISCIPLINE

Guided by our values, our aim is to accelerate customer service excellence to new heights and to become the most valuable bank in the UAE.

These principles drive our actions

Integrity

WE DO THINGS RIGHT, EVEN WHEN NO ONE IS LOOKING.

At ADCB, each employee is honest and consistent in everything we say and do. We deliver what we promise when we promise.

Our Integrity means we go beyond compliance with regulations and governance codes. We aim to be known for our good conduct, to be market leaders when it comes to governance, compliance and customer care.

WE ARE PROUD THAT HONESTY AND RELIABILITY SET US APART.

Ambition

WE STRIVE TO BE THE BEST EVERY DAY.

Ambition has long been a hallmark of ADCB. We are restless, continually looking for better ways of doing things. We are focused and determined to succeed.

For many years, Ambition has propelled our superior growth, our quest for innovation and drive for customer service excellence.

Her Excellency Noura Al Kaabi, UAE Minister of Culture and Knowledge Department, handing over the "Women in Leadership" Award to our Tamooha team.

WE HAVE A DRIVING AMBITION. WE WANT TO BE RENOWNED FOR EXCELLENT CUSTOMER SERVICE.

Care

WE PROTECT OUR PEOPLE AND HONOUR OUR COMMITMENTS.

Our people come here to make the most of their careers and to fulfil their personal ambitions. We listen to them and support them, just as they listen to and support our customers.

This culture of Care breeds trust—trust among our employees, our customers and the wider community.

ADCB's annual Pink Run is just one example of the Bank's tangible commitment to caring for the people of the UAE.

WE LISTEN AND SUPPORT EACH OTHER. WE TAKE OWNERSHIP AND FOLLOW THROUGH.

Respect

WE VALUE OUR COLLECTIVE DIVERSITY.

Our vibrant workforce represents over 70 nationalities—a varied blend of talented people from all over the world. We value the differences between us, recognising them as a strength we are lucky to have. We respect the views of others and follow our code of conduct and professional standards.

Through diversity we have the richest pool of talent and gain a greater understanding of our customers.

WE VIEW OUR DIVERSITY AS A STRENGTH.

Discipline

WE DO THINGS RIGHT EVERY TIME.

Discipline lies at the heart of banking. At ADCB, we understand this, it is one of the principles we live by. For this reason, we always act within agreed policies and standards. We do our best work every day.

Our controlled approach makes us resilient and professional. As a result, we perform well in challenging markets and are well respected by our customers.

WE BELIEVE DISCIPLINE IS THE FOUNDATION OF WHAT WE DO.

every minute
of every day

On behalf of the Bank's
Board of Directors,

I am pleased to report that
2017 was a year of strong growth
in a testing environment.

Eissa

Chairman's Message

On behalf of ADCB's Board of Directors, I am pleased to report that 2017 was a year of strong growth in a testing environment. ADCB achieved this by remaining true to its strengths—focusing on the UAE, putting the customer first, fostering a healthy culture and providing world-class standards of corporate governance.

The Bank's net profit increased 3% year on year, while operating income of AED 8.895 billion was up 5% and our return on average equity remained strong at 15%. All other significant performance metrics remain healthy.

This is a time of continuing regional and economic uncertainty in the GCC, as well as change in the banking industry. The removal of subsidies and introduction of new taxes are fundamentally altering the economy, while new regulations are strengthening the banking sector. Furthermore, digitisation is transforming the banking industry. In this environment, ADCB's qualities of discipline and ambition will continue to serve us well. We will remain focused on the Bank's proven strategy that has driven sustainable growth and long-term returns for shareholders.

INCORPORATING DIGITAL INTO OUR STRATEGY

ADCB's strategy, with its focus on the UAE, continues to prove successful and has guided the Bank steadily towards its goal of being the most valuable Bank in the UAE.

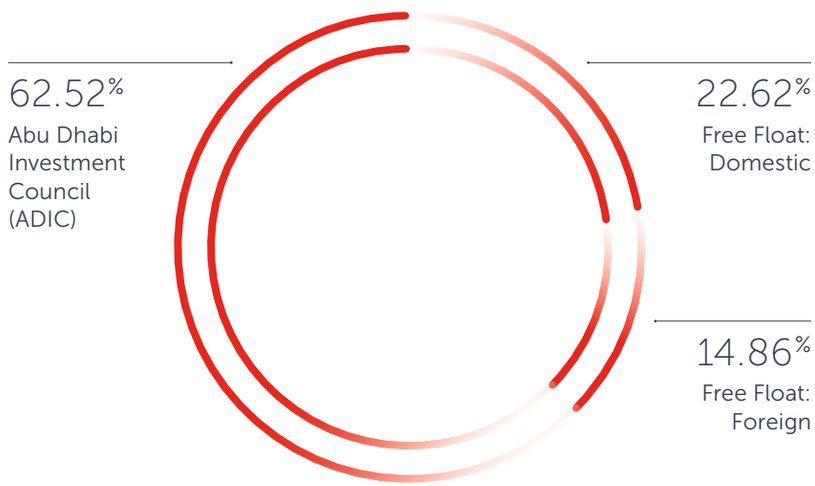
NET PROFIT
(AED BILLION)

4.278

RECOMMENDED DIVIDEND PER SHARE
(AED)

0.42

SHAREHOLDING STRUCTURE



In July, the Board reviewed and reaffirmed ADCB's strategy and added a digital pillar (see further details on ADCB's strategic pillars on pages 39–45). This is an important development. As the global banking industry continues to evolve, ADCB has both opportunities and challenges. We aim to take advantage of these changes by leveraging and building digital technologies designed to support growth and enhance operational efficiency.

DIFFERENTIATION THROUGH CULTURE AND GOVERNANCE

Against this background of change, culture and governance are more critical than ever. ADCB's strong culture and governance allow it to grow at a faster pace than the UAE's banking market, manage risk and deliver excellent customer service. The Board reviewed ADCB's culture during 2017, and appreciates the need for the Board and senior management to set the appropriate 'tone from the top'. Your Board is pleased that ADCB has developed a positive culture comprising several elements including customer service excellence, risk awareness, integrity and efficiency.

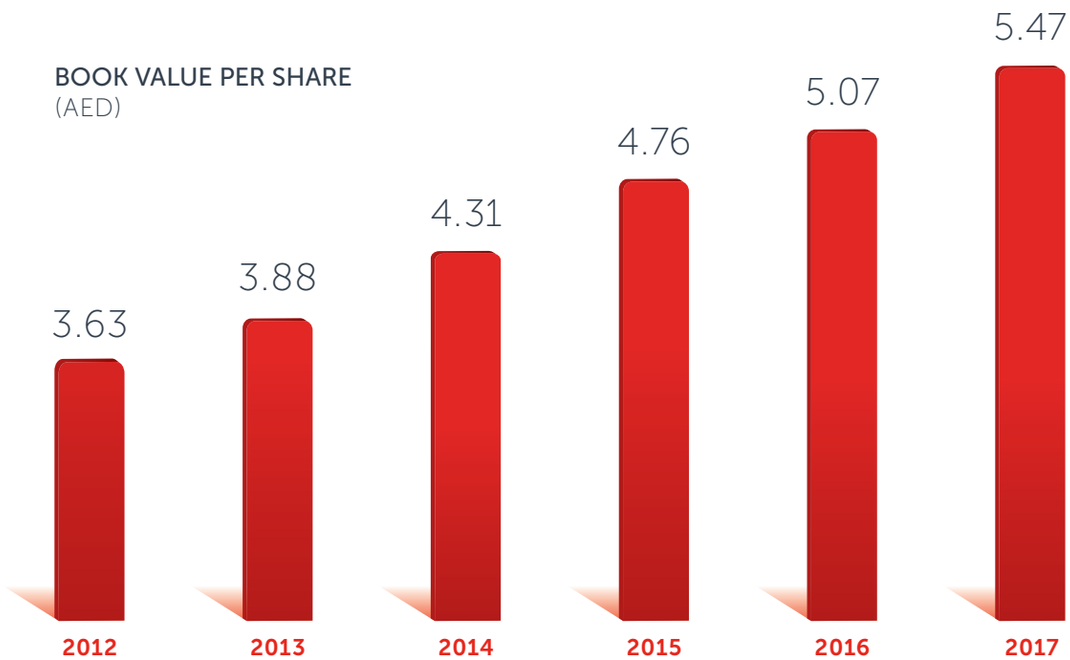
This strong culture builds on ADCB's focus on corporate governance. During 2017, the Board commissioned an independent review of ADCB's governance framework, which judged its governance to be 'strong and leading in the local market'.

Your Board continued to govern the bank actively during 2017. We held 65 full Board or Committee meetings and a strategy day. Both inside and outside these meetings the Board engaged constructively with management, guiding and challenging their decisions in a spirit of openness and transparency.

ADCB's strategy, with its focus on the UAE, continues to prove successful and has guided the Bank steadily towards its goal of being the most valuable Bank in the UAE.

RECOMMENDED DIVIDEND

ADCB continues to deliver value. Since 2010, the Bank's dividend has grown substantially and the payout ratio has remained close to 50%. For the 2017 financial year, the Board recommends a cash dividend of AED 0.42 per share, translating to a payout of AED 2.183 billion,



equivalent to 51% of net profit. This dividend payment is subject to approval at the annual general meeting.

LOOKING TO 2018

We expect to see a gradual pickup in economic growth in 2018 and beyond.

As well as the introduction of VAT, 2018 will see the introduction of Basel III regulations with implications for capital and liquidity. Additionally, new accounting regulations (IFRS9) will bring forward recognition of loan impairments. ADCB is prepared for these changes, aided by our strong capital position and conservative approach to risk management.

Your Board believes that ADCB's strategy, with the addition of a digital pillar, will continue to drive revenue and profit growth ahead of the market and deliver solid returns for our shareholders.

We give our longstanding and stable senior management team the full support of the Board as it leads the Bank's digital transformation.

EXTENDING OUR APPRECIATION

On behalf of the Board and all at ADCB, I extend our most sincere appreciation and gratitude to His Highness Sheikh Khalifa bin Zayed Al Nahyan, the UAE President and Ruler of Abu Dhabi; to His Highness Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces; to His Highness Sheikh Mansour bin Zayed Al Nahyan, Deputy Prime Minister and Minister of Presidential Affairs; and to the UAE Central Bank.

I also thank our shareholders, our valued customers and the ADCB executive management team and employees for their continued dedication and support.

Eissa Mohamed Al Suwaidi

Chairman

2017 was a true test of the Bank's ambition and discipline.

The year brought challenges and headwinds, yet our underlying performance remained robust.

Ala'a

Group CEO's Message

This annual report is more than just a celebration of our strong and consistent financial performance. It is also a testament to all those who have played a part in our ongoing journey to become the bank of choice for customers throughout the UAE.

2017 was a true test of ADCB's ambition and discipline. The year brought challenges and headwinds, yet our underlying performance remained robust. We witnessed good growth in our year-on-year profits, which was particularly strong in the last quarter of the year.

BUILT FOR CONTINUING SUCCESS

We continued to invest in our franchise, whilst demonstrating healthy growth in loans and deposits, up 3% and 5% respectively. Our current and savings account (CASA) deposits increased significantly and comprised 43% of total customer deposits. Islamic banking delivered double-digit growth, with net Islamic financing assets up 17% and Islamic deposits up 23% year on year.

Against a backdrop of continuing economic challenges, I am pleased to see our key indicators performing well, with a strong return on average equity of 15%, robust capital adequacy ratio (Basel III) of 19.09% and a stable cost to income ratio of 33.1%. You can read more about our performance in the CFO letter on page 21 and in the consolidated financial statements on page 122.

But while the balance sheet is always an important measure of achievement, we believe success goes beyond the numbers.

CASA DEPOSITS

43%

OF TOTAL CUSTOMER DEPOSITS

For us, it means being a trusted partner to each and every one of our customers and creating long-term, sustainable value for our shareholders. It means developing and nurturing our people. It means offering an outstanding customer experience, a comprehensive and growing range of products and services, first-rate digital innovation, and, of course, secure, straightforward access to your money no matter where you are.

Competition in the market is growing—and not just from other banks. Feisty start-ups, fintech companies and even non-financial players, such as Uber, are starting to disrupt the world of finance. That is why we are driving sustainable growth through a diversified portfolio and making certain that our customers are front and centre of everything we do, so their banking experience is second to none. This is more than automating processes; it is designed to change how the bank interacts with the entire financial ecosystem.

To achieve this, we have relied on a carefully-considered strategy, a clear and compelling vision, and—perhaps most important—a strong set of shared values from our talented and committed workforce.

LIVING OUR VALUES

Values are important: they make us who we are and set us apart from our competitors. For this reason, we spent time over the past year considering, developing and creating a set of core values shared by everyone at the Bank, from the bottom to the very top.

These values are: Integrity, Care, Ambition, Respect and Discipline.

Each one influences our behaviour, plays a vital part in the decisions we make, and positively contributes to our culture and the very success of our business.

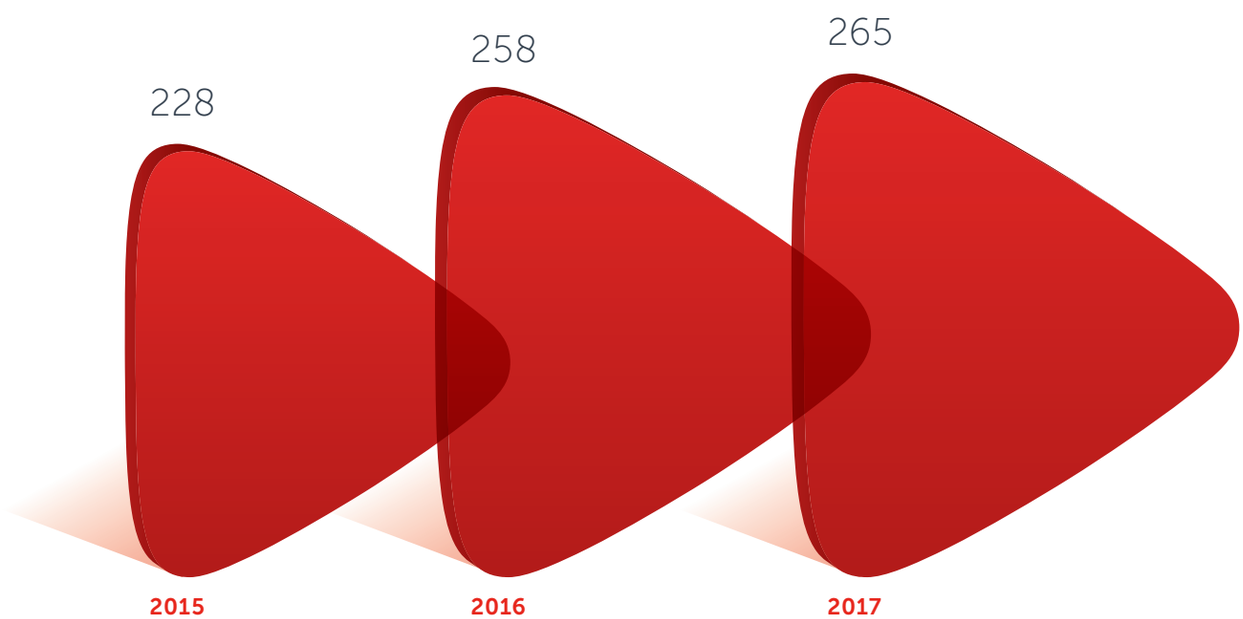
I am pleased and proud to have played a part in bringing these to life. They have already helped us to work better together, enriching our work, our culture of ambition, and our relationships with our colleagues and customers.

These values are now the common currency of our entire workforce—part of every staff ID card—and are used to help review, improve and reward performance. For that reason, our values are intrinsically linked to our

5-YEAR TOTAL SHAREHOLDER RETURN (TSR)

183%

TOTAL ASSETS
(AED BILLION)



Net Promoter Score (NPS) and form a major part of the objectives set for staff across the organisation. Launched 3 years ago, NPS measures our customers' propensity to recommend ADCB to family and friends. NPS is a vital tool for helping us to improve the customer experience we deliver both inside our Bank and externally.

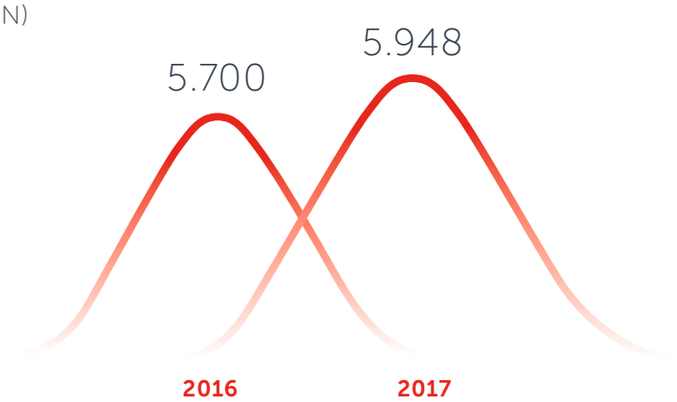
Another strong insight into our performance comes from our company-wide engagement survey. The results have shown a keen awareness of our values, with scores up by 4% year-on-year to 92% in 2017, a high level by any standard.

FOCUS ON STRATEGY

Our strategy is another key contributor to our success. It has remained steady and consistent—acting as the rudder with which we have successfully navigated the headwinds of a relentlessly challenging global economy. With its five key pillars, it continues to harness our collective ambition to ensure we remain the most valuable and resilient bank in the UAE.

We retain our sharp focus on serving the UAE, generating profit and sustainable growth for all our stakeholders through effective risk management.

OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES
(AED BILLION)



We are also committed to placing our customers at the heart of everything we do, creating a seamless customer journey.

Over the past year, we have done even more to ensure that the voice of the customer comes in loud and clear in every part of the organisation. Our net promoter score is measured across the entire brand and gives us immediate feedback. This helps us to develop and improve our services as well as creating an opportunity to engage with our customers on a uniquely personal level.

A best-in-class customer experience is central to our ability to grow and prosper and we are committed to a continuous improvement. I am pleased to say the system is working. Our NPS scores have improved significantly. The results have shown a positive trend across all dimensions of our service ambition. Customers are confirming that ADCB is moving in the right direction in line with our ambition, with substantial increment in NPS Points from 2014.

We were also honoured with the Mohammed Bin Rashid Al Maktoum Business Innovation Award and the Outstanding Award for Business Innovation in 2017. These awards recognise our contributions in business innovation, which have resulted in a superior customer experience.

DIGITAL TRANSFORMATION

Digital development and innovation are also key ingredients to our success.

Following a two-year programme of planning, testing and training, we transformed and upgraded our core banking system in 2017, migrating and consolidating many complex systems into a single, fast, agile and secure platform.

We now have an unprecedented capability to deliver fast-to-market solutions and a solid foundation for the further development of customer experience enhancing solutions. This is an essential tool for the development of our digital services, anticipating the changing needs of customers in an increasingly connected world.

Indeed, to underscore this commitment, we have made digitisation one of the five key pillars in our strategic plan.

Our aim is to use cutting-edge technology that creates value for our customers by improving their experience. We also want to harness digital for growth and efficiency across the Bank, enhancing our systems and making greater use of data analytics to improve our services.

This year we have expanded our uBank network, creating even more self-service opportunities. The

number of customers using mobile and internet banking also continued to rise; today 96% of all retail transactions are completed electronically. On the corporate side, we have actively migrated our clients from physical to electronic banking. In just two years, the proportion of clients serving themselves this way has risen from 38% to 80%.

As the Bank becomes ever-more digital, we must also become a more agile organisation, able to adapt quickly to changes in the market and to drive greater efficiency.

SOCIAL ENGAGEMENT

Our success also means helping others and empowering financial literacy remains a significant objective for us. It also helps to contribute to the economy and stability of the UAE overall.

Through our long-standing partnership with the Emirates Foundation, we continue to work hard to raise levels of financial awareness, especially with young adults.

In 2017, we launched our Money Sense programme designed to promote financial literacy among UAE nationals aged 18–35. During the year, we reached more than 1,000 people with information on topics such as budgeting, saving, responsible borrowing and planning for the future. This followed a successful pilot programme started in 2016.

In view of the changing economic landscape, this approach remains both valuable and increasingly relevant. That is why we have fully revamped the programme and made it available on a new digital platform which allows us to reach even more people.

We have also developed our Tamooha initiative, which provides work for Emirati women who want to work in an environment suited to their traditional values. We have widened the initiative to cover more areas of our operations and improved its performance.

We are a pioneer in responsible lending practices and I am delighted that we continue to play an important role in encouraging the adoption of sound financial management practices across the UAE.

TOMORROW AT WORK

Last year, we laid important foundations for growth. Our decision to develop a formal digital strategy, backed by significant investment, will improve our operating model and increase our agility to better serve our customers.

For all the discussion around economic headwinds, there is much to be positive about in the economy too. There are plenty of opportunities on which to capitalise in this evolving market.

We remain well-positioned to benefit from the long-term growth prospects of the UAE economy and a well-articulated and well-executed strategy that has been tested relentlessly over the past nine years. Our deeply experienced and stable management team have provided outstanding leadership that continues to yield strong results.

To stay ahead, we must remain an agile organisation, open to positive challenges, new ways of working and ground-breaking ideas. Our values will help create this change and our strategy will enable it to flourish.

So, I invite you to celebrate the achievements we have all made together and to continue on this exciting and rewarding journey with us.

Ala'a Eraiqat

Group Chief Executive Officer
Member of the Board of Directors

I am pleased to report that our solid franchise and strong fundamentals in 2017 meant we delivered a net profit of 4.278 billion dirhams with a return on average equity of 15%.

Deepak

Group CFO's Message

Against a backdrop of continuing economic challenges in our market, our performance has once again demonstrated ADCB's stability and resilience.

I am pleased to report that our solid franchise and strong fundamentals in 2017 meant we delivered a net profit of AED 4.278 billion with a return on average equity of 15%.

Thanks to our unwavering adherence to our long-term strategy, our prudent attitude to risk, and our robust commitment to world-class governance, the Bank was shielded from the economic volatility the region has faced.

CHANGING TRENDS

While oil prices appear to be on the rise again and prospects for the global economy are looking more optimistic every day, we are by no means complacent. The geo-political climate in the region continues to present regular challenges as we witness a general shift in the financial philosophy of customers. With less economic certainty, and concerns about consumer confidence, spending and saving patterns for individuals are changing as are the trends for businesses, both large and small.

While our cost of risk remained stable in 2017, reflecting this challenging operating environment, the Bank has moved more towards secured lending, which, in time, should help to reduce the cost of risk. We saw a significant improvement in our Non-Performing Loans (NPL), which were 20% lower than 2016 at AED 3.692 billion.

LIQUIDITY COVERAGE RATIO

135%

COST TO INCOME RATIO

33.1%

BASIC EARNINGS PER SHARE
(AED)

The Bank is on very solid foundations in terms of its compliance with evolving Basel III and UAE regulatory requirements. Notably, the bank is also well-prepared to transition to the IFRS 9 accounting standard, introduced in 2018.

Our Capital Adequacy Ratios (CAR) reflect this preparedness. Under Basel III, our CAR was 19.09% compared to minimum capital requirement of 12% prescribed by the UAE Central Bank for 2017. Meanwhile, our Tier 1 and common equity tier 1 (CET1) ratios were 15.92% and 13.96% respectively, compared to the Central Bank's minimum requirements of 10% and 8.5% (including buffers).

Having a robust and liquid balance sheet is a priority and we believe that long-term profitability cannot be achieved without it. ADCB is a very liquid bank, with a liquidity coverage ratio (LCR) of 135% as at 31 December 2017, compared to the 80% minimum requirement ratio prescribed by the UAE Central Bank. Additionally, we have a liquid pool of investment securities of AED 49 billion, primarily invested in government bonds. Finally, ADCB was a net lender in the interbank markets every day in 2017, as it has been for many years.

It is reassuring to see the overall liquidity conditions in the UAE improve as deposit growth continues to outpace credit growth.

DIVERSIFIED GROWTH

Our balance sheet remains resilient with healthy and diversified growth in loans backed by a disciplined and selective lending strategy.

Against a backdrop of limited growth across the UAE banking sector, our net loans increased by 3%, driven by a 4% rise in Wholesale Banking loans and a 2% rise in Consumer Banking loans. Loans to SMEs rose by 6% as those to our MCD (mid-sized corporates) portfolio grew by 12% year-on-year.

Customer deposits were up by 5%, while our CASA deposits increased by AED 5.8 billion to AED 71 billion, an increase of 9% year-on-year. CASA balances now represent 43.4% of total customer deposits compared to 41.8% in 2016. We have been concentrating on CASA deposits because they provide stable, low-cost deposits that help to hold down the overall cost of funding. They also create opportunities for cross-selling ancillary products and services.

Each of our business segments demonstrated a strong underlying performance. We enter 2018 with confidence. ADCB continues to demonstrate strong momentum.

Our credit ratings remain strong. Standard & Poor's, Fitch and RAM reaffirmed our ratings at A, A+, and AAA respectively.

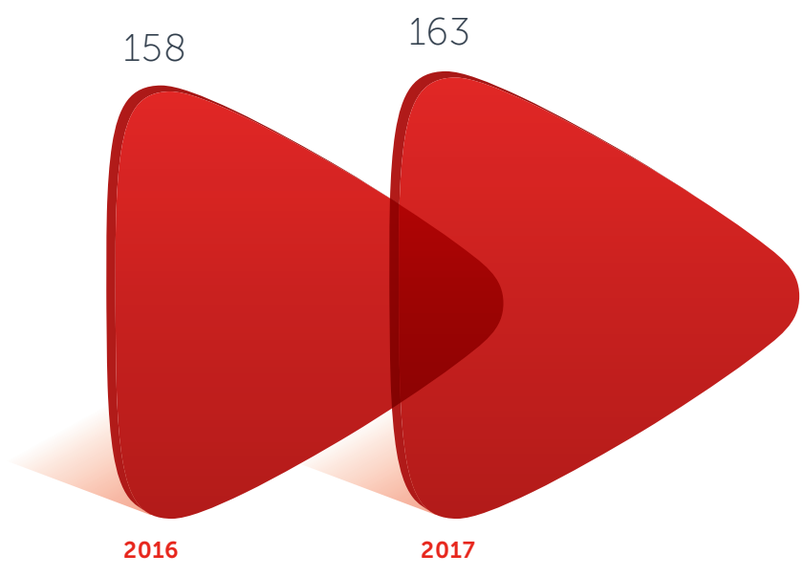
Each of our business segments demonstrated a strong underlying performance. Total operating income was AED 8.895 billion, up 5% year-on-year. Operating income for Consumer Banking was up 3%, Wholesale Banking was up 6% and Treasury and Investments delivered an increase of 11% year-on-year.

Gross fee and commission income grew 9%, reflecting a consistent trend. As we have diversified, our fees are no longer linked to lending only. The majority of our fees are driven by spending on our card base, trade finance, asset management fees and insurance commission.

Across the competitive landscape of the UAE banking industry, margins have been under pressure. However, ADCB's net interest margin remained consistent at 2.91%, slightly down from 2.97% in 2016—a notable achievement in a tough environment—while asset yields increased to 4.28% in 2017.

We have maintained solid discipline in managing costs and increasing operational efficiency across the Bank. Our cost to income ratio of 33.1% was stable over 2016 and has consistently remained in this range for the past five years. While the increase in staff costs was modest, there was an increase in depreciation reflecting the Bank's investment in technology, which included the commissioning of a new, state-of-the-art core banking system.

NET LOANS
(AED BILLION)



SUSTAINABLE VALUE

In line with our strategy, we remain focused on the UAE, supporting our customers and the economy by creating and delivering sustainable value through our products and services. For example, we are investing heavily in digital—from the systems we use in the Bank, to the innovative apps and services we offer our customers.

This is helping to make us more efficient, to reduce costs and to make banking safer, faster and easier for all.

At the same time, we are continuing to invest in attracting and retaining the best people and ensuring they are well-trained in matters of compliance and good governance, encouraging first-class risk management.

This solid performance positions us well to tackle the financial challenges and opportunities that lie ahead.

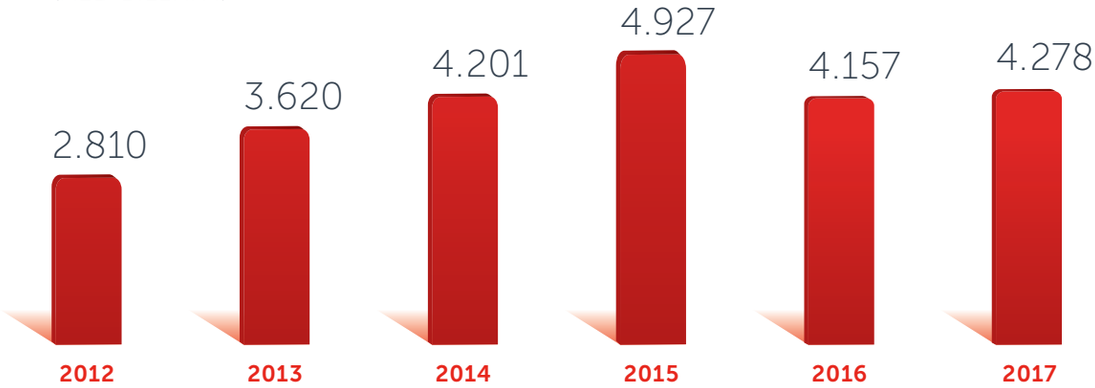
We enter 2018 with confidence. The UAE stands out as one of the strongest economies in the GCC and ADCB continues to demonstrate strong momentum. We remain well-capitalised and liquid, making the investments needed to grow in a changing environment. Together with our laser-like focus on enhancing our customer journey, new and better banking through our ongoing digital initiatives, and our continued drive for sustainable growth, we expect to deliver greater value for all our stakeholders.

Deepak Khullar

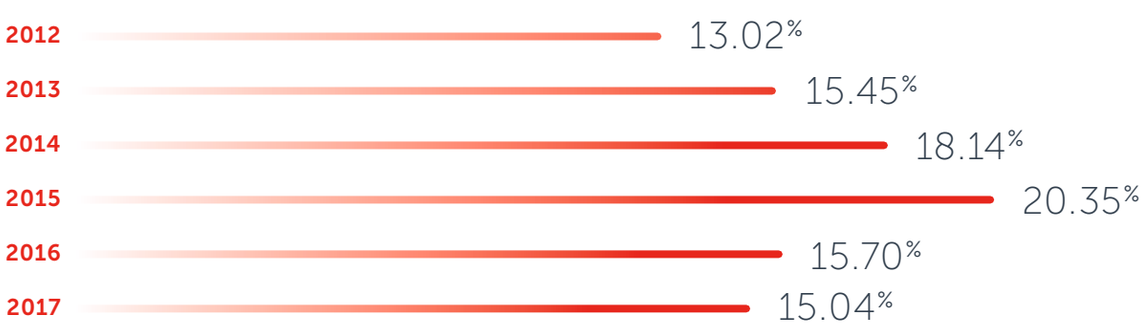
Group Chief Financial Officer

Key Financial Highlights

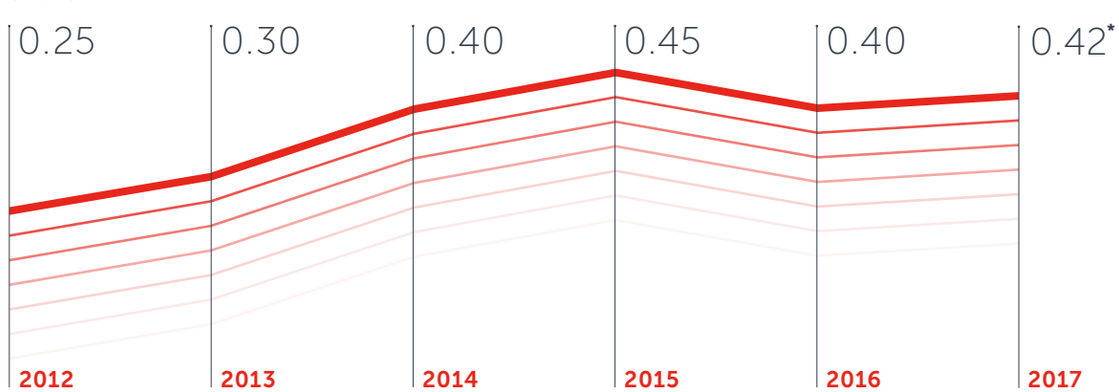
NET PROFIT
(AED BILLION)



RETURN ON AVERAGE EQUITY

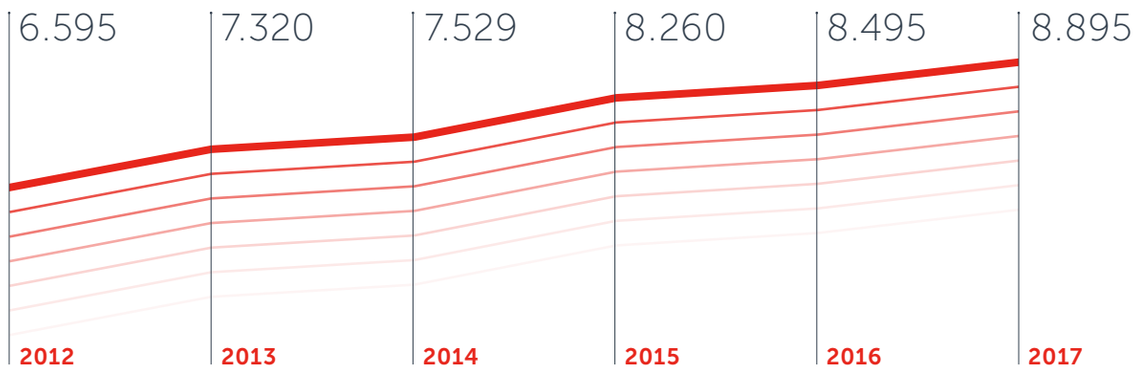


DIVIDEND PER SHARE
(AED)

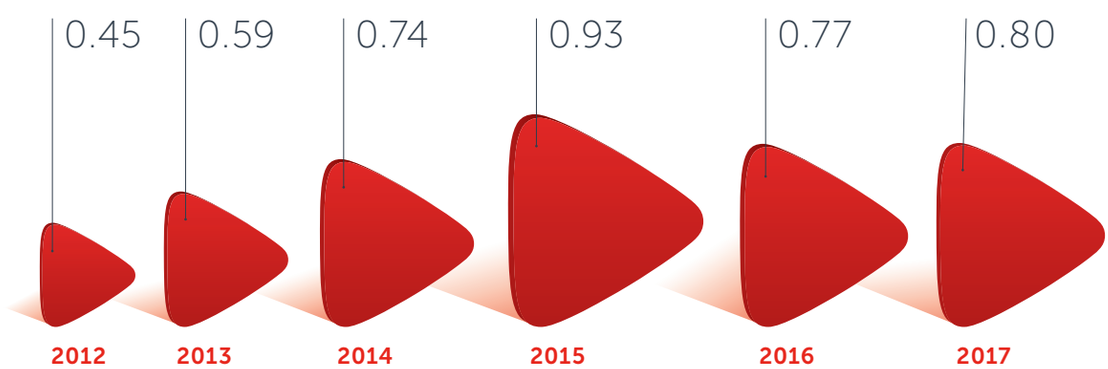


*Subject to approval by the shareholders at the Annual General Meeting

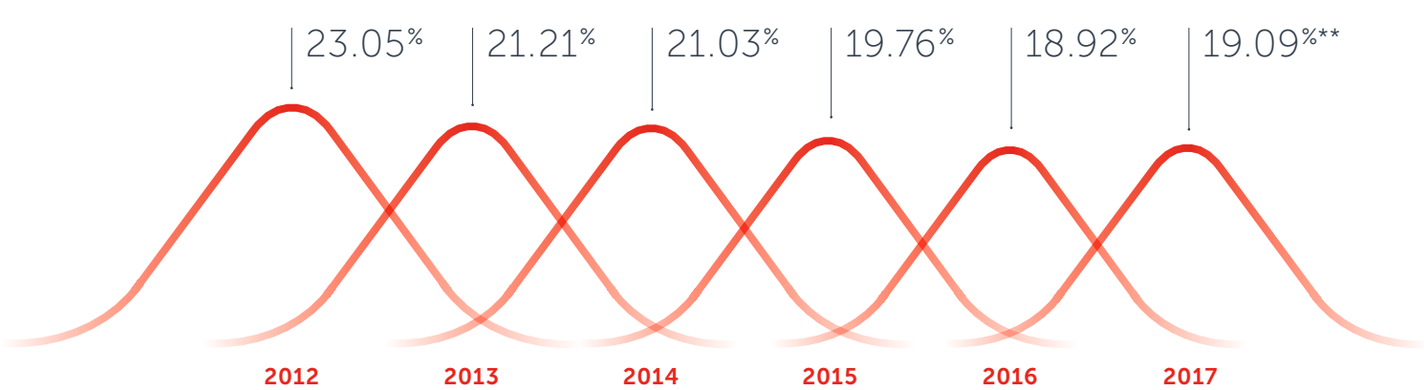
TOTAL OPERATING INCOME
(AED BILLION)



BASIC EARNINGS PER SHARE
(AED)



CAPITAL ADEQUACY RATIO



**Basel III

Board Roundtable

Eissa Mohamed Al Suwaidi

Chairman & Non-Executive Director

Faisal Suhail Al Dhaheri

Non-Executive Director

Khaled H. Al Khoori

Non-Executive Director

THE ADCB BOARD DISCUSSES SOME OF THE KEY ISSUES THAT INFLUENCE THE PERFORMANCE OF THE BANK AND HOW THEY MANAGE THEM.

Economic optimism

The market remained challenging last year but with signs of recovery in oil prices and a general pick-up in the global economy, there is a growing sense of cautious optimism in the Board.

EISSA MOHAMED AL SUWAIDI

Last year was a challenging one when it came to the economy, oil prices and regional differences. The introduction of some new taxes also had an impact. Of course, people knew that these issues would affect performance. But despite these issues, it was a good year for ADCB in terms of financial performance.

Now we have entered 2018 with optimism. Given that oil prices have shown signs of recovery and the government's fiscal position is stronger, we see growth in our operations and a rising demand for credit. These factors are encouraging and we are facing much better prospects this year.

FAISAL SUHAIL AL DHAHERI

When I joined ADCB two years ago, the Bank was fully aware that 2017 would present challenges. So, what we experienced was not surprising and the Bank managed these tests by applying its longstanding strategy and principles to great effect. Having successfully navigated through 2017, we are optimistic about the year ahead, which I think is going to be prosperous.

KHALED H. AL KHOORI

This year is likely to be better than the past two have been for us. Oil prices have partially recovered, political issues appear to be stabilising—even improving—and public finances are in good shape.

"As a Board, we have a responsibility to foster a healthy culture, where innovation and success can thrive. Our values and culture set the tone of the Bank and help drive that success."

EISSA MOHAMED AL SUWAIDI

Digital acceleration

Our investment in the digital transformation of the Bank is critical to its success, enabling us to stay ahead of the competition, drive efficiency, and to serve our customers better. That is why our Board is leading the way.

EISSA MOHAMED AL SUWAIDI

We see digitisation as being synonymous with convenience, satisfaction and ease for the customer. As a bank, we always track developments in technology and ask ourselves: What are other banks doing to improve services using digital technology?

Digitisation is very important. We realised that a long time ago, and we are investing heavily on this front. We need to be a leader in digital banking, with a serious proposition—our clients expect this of us. We want to continue to be the bank of choice, so it is important that we invest and adapt. It is essential.

Our strategy for accelerating ADCB's digitisation is already delivering great results, not least by providing the business with a cutting-edge core banking system that is driving efficiency and pace.

FAISAL SUHAIL AL DHAHERI

Digital means three things to me: better customer service; management empowerment at all levels; and gaining an edge over the competition.

We are bringing a range of innovations and digital applications to the market. Our task is to look at what is available, listen to our customers and decide what is going to help them most.

Meanwhile, the advance of digital has enabled managers to make better decisions, faster and that is crucial to helping us become more competitive.

KHALED H. AL KHOORI

I think the Bank has been in the lead in terms of digitisation, including mobile applications and online services, for some time. Fewer customers now visit branches. More transactions are conducted online and our internal processes are mostly automated. We have invested a lot into IT systems and I think the challenge now is to stay in the lead.

EISSA MOHAMED AL SUWAIDI

Looking to the future, we must be more sophisticated internally but at the same time simplify ADCB's offers to customers. We must make our digital services accessible

to the mass market. This is an ongoing task and we have no option but to excel. The whole of ADCB is collaborating to achieve this. So, the Board is closely following the progress of management and tracking the execution of our digital strategy.

FAISAL SUHAIL AL DHAHERI

I agree, the digital transformation exercise must involve the whole Bank equally—it is a collaborative effort that cuts across every part of the business, bringing greater agility and efficiency.

Fostering the Bank's culture and values

Our vision, mission and values combine to create a vibrant culture at ADCB, empowering our people and instilling best-practice across the organisation. In 2017, the Board was instrumental in helping to amplify the importance of our values in shaping a culture shared by all.

EISSA MOHAMED AL SUWAIDI

As a Board, we have a responsibility to foster a healthy culture, where innovation and success can thrive. Our values and culture set the tone of the Bank and help drive that success. They also form a key part of the management's KPIs and influence their remuneration and incentives.

Integrity, Care, Ambition, Respect and Discipline are not just words to us: they are embedded in our culture, a guide to every action we take and every decision we make.

FAISAL SUHAIL AL DHAHERI

This is exactly right. At every Board meeting, some of the most distinguished employees come and meet us, regardless of their level. Those employees are chosen because they have performed well and because they have demonstrated our culture and values. This helps to nurture our culture and to cascade knowledge and ideas both up and down through the business.

KHALED H. AL KHOORI

The ADCB values are set out on the iCard carried by every ADCB employee. Walking around any of our buildings with the Chairman during our regular tours, it is heartening to see how much the employees follow the ADCB values and reflect them in their behaviours.

EISSA MOHAMED AL SUWAIDI

Above all, we prize transparency, good governance and open interaction with management, and cherish the fair and clear behaviour that distinguish ADCB. We have encouraged these practices for many years. Sitting together in this boardroom, management and the Board speak very clearly, very transparently, very directly. That is how we maintain our values.

"We are always challenging ourselves. You think that you have done everything you are supposed to do. But every time you meet the Board you notice new challenges that need new and inventive solutions."

FAISAL SUHAIL AL DHAHERI

FAISAL SUHAIL AL DHAHERI

Summarising ADCB's values in a few statements and launching iCard was a fantastic idea.

Employees can see them at all times while working. We have zero tolerance towards any violations of these values. And that helps to determine the decisions and performance of our people and, ultimately, drives success.

Resilience and risk management

Successfully balancing risk with reward relies on in-depth experience, outstanding governance, and rigid discipline. Getting it right creates a resilience that the Board is committed to protect.

FAISAL SUHAIL AL DHAHERI

The Bank's approach towards risk and risk management has been exemplified by what we have seen in 2017. The geopolitical issues that developed were not expected, but their potential risks were absorbed by our disciplined risk-management approach. We will build on this resilience which will help us to be more prosperous in 2018, given the economy's improving growth prospects.

KHALED H. AL KHOORI

The Bank is continually looking to strengthen risk management—it's a process of continuous improvement. The management and the Board always keep a close eye on risk, making use of modern, in-depth, risk reporting and processes.

EISSA MOHAMED AL SUWAIDI

ADCB is known for being focused on risk analysis and risk awareness, and that approach is shared by the Board and management. This is our collective responsibility. The management presents on risk during both the committee meetings and the full Board meetings, and the risk framework is under constant review and renewal. We pride ourselves on ADCB's strong risk management culture.

Leading the way in governance

Our award-winning corporate governance is a key contributor to our culture and the Bank's trusted reputation. In 2017, KPMG found our governance to be 'strong and leading in the local market.'

EISSA MOHAMED AL SUWAIDI

The Board ensures ADCB has a strong governance culture. This starts with being transparent; information is shared and communication channels between Board and management are clear. Both sides are engaged and collaborative. In addition, we hold regular Board and committee meetings, and have appointed an external advisor to assist the Board. We also all share one priority: the interests of the Bank and its stakeholders.

"Integrity, Care, Ambition, Respect and Discipline are not just words to us: they are embedded in our culture, a guide to every action we take and every decision we make."

EISSA MOHAMED AL SUWAIDI

From time to time, we might adjust our guidance to management, such as encouraging a more conservative approach, or suggest that they evaluate different opportunities. We have an open culture that has been in place for many years, and that makes everything easy to monitor. Everything is accessible. There are no limits to what can be discussed. That sets ADCB's governance apart.

FAISAL SUHAIL AL DHAHERI

When you look at best-practice in governance, you will see that ADCB is a great example. We set a standard, I think, globally; our benchmark is set against international standards. And, despite the difficulties of setting up these high standards of governance, I think we have done so with relative ease.

KHALED H. AL KHOORI

We have clear guidelines and principles for our activities, which is a fundamental part of our culture. We communicate these guidelines to everybody within the institution, which contributes to our healthy governance culture.

EISSA MOHAMED AL SUWAIDI

In every topical area of governance in banking, internationally or locally, we make sure that we are the benchmark for others to aspire to. Whether it is compliance, or changes in regulations, everyone discusses the issues in the Board and committee meetings. We also have regular sessions with the management. I think that is the only way you can ensure everyone is aligned.

Committed to ambition and discipline

Embedded in everything we do are two words: ambition and discipline. How do they help to shape who we are?

EISSA MOHAMED AL SUWAIDI

Our ambition is to see the Bank and its stakeholders flourish. And our discipline is to make sure that we are delivering this within acceptable risk parameters.

We carefully balance risk with reward in an ambitious yet disciplined way. We also service our customers with discipline, because we need to make sure that everything is deliverable and that we always maintain high standards of customer service.

FAISAL SUHAIL AL DHAHERI

When it comes to discipline, we stick to our values. All the parameters are set by the Board and management. Our ambition is to improve our products and services, as well as ADCB's financial results for the long-term benefit of all stakeholders.

What makes ADCB different

To be the bank of choice in the UAE, it is important to go beyond the balance sheet alone. What makes us stand out, also drives trust and customer loyalty.

EISSA MOHAMED AL SUWAIDI

ADCB's main distinguishing factor is the unrelenting focus on its core market and customers. The UAE is the country where we know how to serve our customers better than others, and that makes our task easier than other banks that are stretched across different geographies.

Because we only operate in this country, we know that we cannot afford to be bad at what we do. We must be the preferred bank. Perhaps this focus has helped us to avoid what has been happening in other countries and protect us from damaging currency exposures.

The UAE is at the forefront of economic growth compared to the rest of the region. So, we are fortunate to have a domestic focus on which we can capitalise.

FAISAL SUHAIL AL DHAHERI

ADCB is also distinguished by its social contributions and its sponsorship of cultural attractions. We support initiatives that promote positive social and economic development in our communities, which reinforces UAE values, supports national causes and celebrates our heritage.

KHALED H. AL KHOORI

I think in many ways it is our knowledge and our people that differentiate us. We leverage what we know best, or what we have been successful at in the UAE, such as supporting SMEs and mid-sized corporates and remaining committed to providing the best customer experience. We will continue to serve our clients in thoughtful ways that make their lives easier.

EISSA MOHAMED AL SUWAIDI

ADCB is creating something for the present and for the future. We are establishing something which will last and be sustainable. That is one of the factors that motivates us and sets us apart from our competitors.

FAISAL SUHAIL AL DHAHERI

We are always challenging ourselves. You think that you have done everything you are supposed to do. But every time you meet the Board you notice new challenges that need new and inventive solutions. This is what is driving our digital transformation, which also sets us apart from our peers.

We must find lasting solutions that make the business sustainable. We must—and do—think differently. And that is what you see the Board and the committees doing.

KHALED H. AL KHOORI

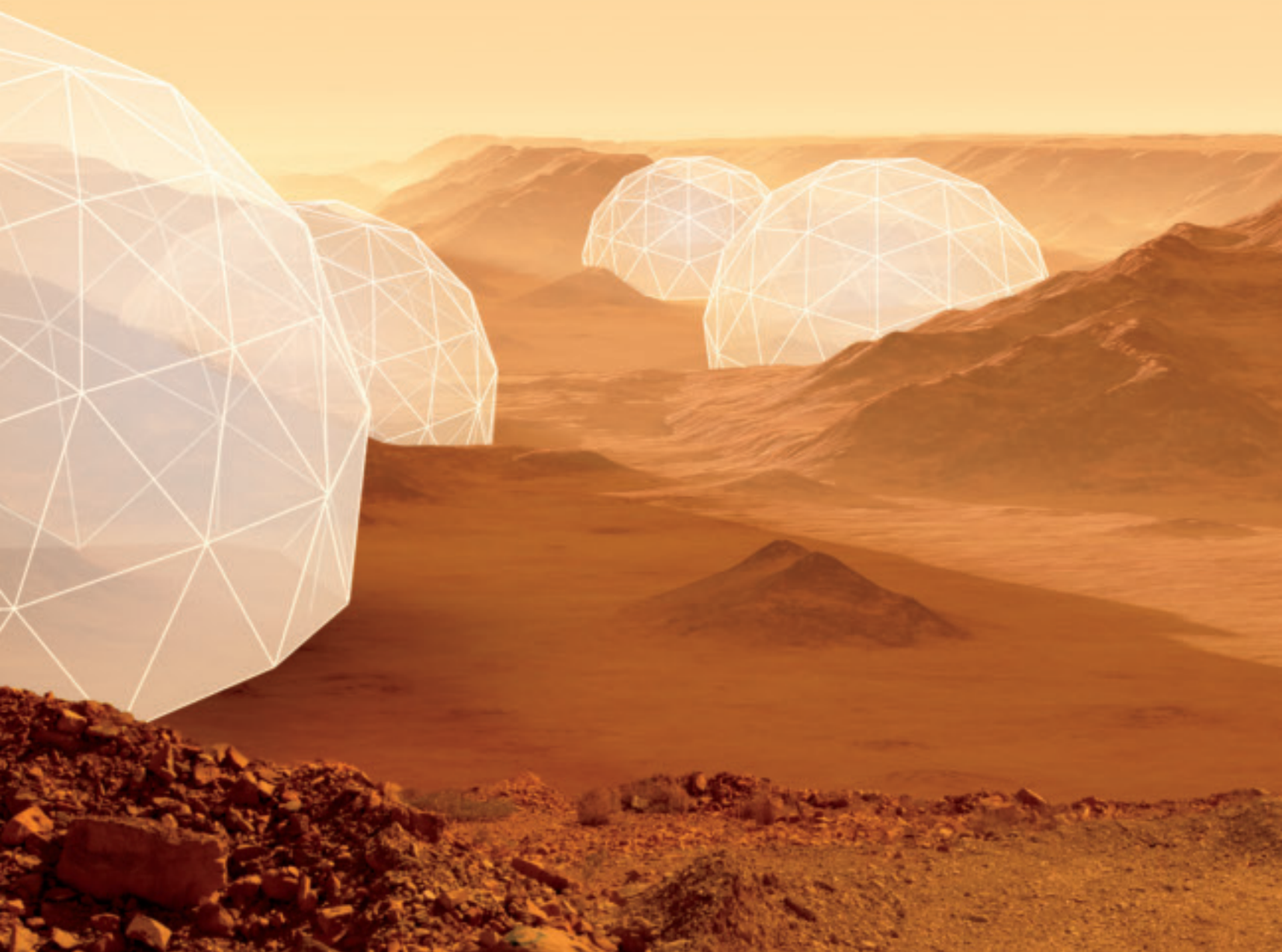
We deliver great results for our customers, who then go and tell everybody about the positive experience they had with ADCB. We also provide great results for our stakeholders, who value our resilience and stability.

Ambition

Ambition is the catalyst that drives and maintains economic growth across the United Arab Emirates.

Driven by ambition, the economy of the UAE has progressed significantly over the last 40 years. Guided by a clear leadership vision, the United Arab Emirates continues to pursue inspiring and ambitious projects, such as the Mission to Mars.

This forward-looking mission, to build a new city on Mars, is a first for the region and the world, exemplifying the UAE's ongoing commitment to ambition.



Economic Overview

The UAE stands out as one of the strongest and best-positioned economies in the GCC, with a more diversified economy and a strong foreign exchange reserve position.

Economic activity outside the oil sector is showing signs of a recovery and banking sector liquidity is comfortable. Additionally, the government has acted early to introduce fiscal reform and tentatively broaden tax revenues away from hydrocarbons. The introduction of 5% VAT from 1 January 2018 is also a significant move to deepen tax revenue. However, this is likely to have an impact on spending in 2018.

The business environment experienced a gradual improvement throughout 2017. Investment activity gained momentum driven by an increase in project activity, particularly in Dubai, while the recovering global economy fuelled an increase in trade flows and service exports.

A steady rise in the price of oil has also brightened the economic picture, although it seems unlikely that it will match the historic levels of the past anytime soon.

2017 DEVELOPMENTS

In general, weakness in the regional economy was partly offset by a pronounced pickup in global growth in 2017 which served to support the UAE. As a major trading centre, the UAE has benefitted from rising trade volumes, experiencing solid growth in the volume of goods coming through its ports throughout the year.

The ongoing measures to diversify and broaden the economy, a focus on fiscal reform and a strong foreign exchange reserve position will all act to support a growing economy in the UAE.

A rising number of tourist visits also supported external growth and tourism-related sectors provided a welcome revenue boost. The significant rise was triggered by a relaxation in visa regulations for Chinese and Russian tourists, and for Indians with US or Eurozone visas.

INVESTMENT ACTIVITY

Investment activity across the UAE gained solid traction during 2017 and is expected to play an even stronger role in the non-oil sector this year.

We saw robust growth in project awards—and activity—in 2017. Infrastructure projects related to Expo 2020, direct and indirect, alongside construction, power and transportation, featured heavily in Dubai. In 2017, more than AED 10 billion direct Expo-related projects were awarded.

There was also a surge of project awards in Abu Dhabi, particularly towards the year end. Plans to increase oil, petrochemical and gas capacity are behind the major projects.

SOFT CONSUMER DEMAND

While there is much to be positive about, some economic headwinds persist. Weak regional demand, the still relatively strong dollar and continuing concerns about job security have all played a part in dampening consumer appetite. This resulted in many corporates, particularly in hospitality and retail, cutting prices to bolster demand, thereby impacting their margins. Consequently, private sector credit growth remained soft in both the corporate and consumer sectors.

BANKING SECTOR LIQUIDITY

Deposit growth outpaced credit growth across the year, resulting in a lower loan-to-deposit ratio compared to 2016. As a result, interbank rates did not fully follow the 75 bps rise in the US Federal Funds rate and the rise in the UAE repo rate. The easing in banking sector liquidity conditions was also reflected in the narrowing in spreads between UAE and US benchmark rates.

While the overall data continues to highlight the weak credit demand environment, the main drivers of deposit growth in 2017 were the government and the GRE (Government Related Entities) sectors.

We expect liquidity to remain comfortable in 2018 on the back of a higher oil price, further international debt issuance and a contained acceleration in credit growth. We see further traction building in the UAE's investment programme in 2018, which should support a gradual pick-up in credit growth, though potential headwinds remain.

LOOKING AHEAD

We expect investment to be the central driver of improving non-oil GDP growth in 2018, as economic activity builds ahead of Expo 2020, and as the implementation of hydrocarbon sector projects in Abu Dhabi progresses.

A further strengthening of the global economy and trade volumes will also support the UAE's economic activity in 2018.

The introduction of VAT from 1 January 2018 is likely to raise taxes of around 1.5% of GDP in its first full year, realising a balanced fiscal position in 2018 with higher government revenue despite a pick-up in government spending.

However, this is likely to result in dampening of consumer spending and a lift in inflation. Some corporates might have to initially absorb part of the VAT given the impact on demand.

The ongoing measures to diversify and broaden the economy; a focus on fiscal reform, and a strong foreign exchange reserve position will continue to underpin the UAE's strong fundamentals.

We remain positive on the outlook of the UAE economy.

an evolving strategy


بنك أبوظبي التجاري
ADCB
يو بنك
What can you do at uBank?

Discipline

The realisation of sustainable growth requires a dedication to discipline. In the UAE discipline continues to be the guidepost in the pursuit of continued economic success. This measured approach to progress ensures increased efficiency across the vibrant economic landscape of the UAE.

Strategic Pillars

Our long-term strategy has remained consistent, clear and focused. Our core pillars have served to underpin our success, helping to build a resilient and innovative organisation with exceptional customer service.

In this section, we outline each of these pillars, and their enablers, which together bring us closer to our goal of being the most valuable bank in the UAE.

In 2017, digital transformation was incorporated as one of our pillars, underscoring our drive to enhance growth and efficiency by capitalising on technology. By adopting and enhancing digital processes, our aim is to empower our customers, providing them with a banking experience that is simpler, faster and more secure.

Enabling our strategy is our people, whose every action is guided by a strong corporate culture and a robust set of shared values. That is why we make it a priority to attract, retain and reward the best talent with incentives aligned to our strategic objectives. Our agility is also a key enabler to support and improve our services.

PILLAR ONE

Generate sustainable profit growth through a UAE-centric approach

Our commitment to the UAE and its economy remains a cornerstone of our strategy. The UAE is a dynamic, growing market with great ambition and significant long-term business potential as it continues to diversify. Dedicating ourselves to this one market gives us a sharp focus on the developing needs of our customers.

Our strong franchise, well-established network, and unrivalled local knowledge gives us a clear competitive advantage in the UAE. We have a growing customer base of more than 800,000, and 94% of our loans are in the UAE. Our UAE-centric approach is also reflected in our market share in loans at 11% and deposits at 10%, which remained stable over 2016.

We support our clients with a selective international presence that includes two branches in India, one in Jersey and representative offices in London and Singapore. Additionally, our strategic partnership with Bank of America Merrill Lynch provides a global network for our clients.

PILLAR TWO

Sustainability through liability growth and funding diversification

The Bank has a diversified liability base with increasing customer deposits, which comprised 70% of total liabilities in 2017 compared to 68% last year. Loan growth is funded through growth in customer deposits, which resulted in a significant improvement in the Bank's loan to deposit ratio since the launch of our strategy.

Our current and savings account (CASA) deposits continue to play an important role in promoting sustainable liability growth for the Bank. Over the years, our CASA balances have increased from AED 25 billion (24% of total customer deposits) in 2010 to AED 71 billion in 2017 (43% of total customer deposits). Our award-winning and world-class cash management platform is a key source of growing CASA balances.

Our time deposits provide additional liquidity with longer-term funding and totalled AED 92 billion in 2017. Diversification of our funding profile is a significant element of our liquidity risk management framework. As such, wholesale funding (including Euro Commercial Paper) accounted for 19% of total liabilities in 2017. Our wholesale funding remains diversified by markets, tenors, currencies and products, providing a stable and reliable source of funding.

PILLAR THREE

Superior customer experience through service excellence

It is our ambition to provide exceptional customer service and we believe excelling in this helps to set us apart from our competitors. We are committed to continuous improvement—simplifying our processes, improving our products, and training our people to enhance each and every customer journey.

Customer satisfaction is continually measured through our Net Promoter Score (NPS), allowing us to react in real-time to better assist customers while improving our service. This is central to our strategy and NPS scores account for at least 30% of every employee's annual performance objectives. Launched three years ago, our NPS scores have consistently gone up, reporting a positive trend.

Our values also play a crucial role in driving a better customer experience. By developing our people, processes and infrastructure, we have created a culture where innovation can flourish and where customers always come first. This approach has enabled us to provide customers with an evolving range of innovative products and services.

PILLAR FOUR

Effective risk taking and management in line with a predefined risk appetite

We seek to promote a robust risk culture throughout our organisation. Our disciplined approach to risk management is fundamental to protecting the Bank's long-term financial strength and has given us the flexibility to adjust to the challenges in the operating environment over the past few years. This kept our cost of risk stable in 2017.

Our risk appetite is designed in partnership with the Board and ensures an effective balance between risk and reward, whilst protecting the safety and soundness of the organisation. We continuously review our risk management practices in order to adapt and improve our approach. As such, the Bank reviewed and adjusted all risk models to ensure a smooth transition to, and implementation of, the Basel III and IFRS9 regimes introduced in 2017 and 2018 respectively.

Our risk management framework protects the Bank's financial strength and growth potential by providing a conservative balance sheet, a clear governance structure, and a robust capital and liquidity position.

Our approach to risk management covers a broad spectrum of economic and other key risk areas, such as credit, market, liquidity, funding, capital, operational, regulatory, legal, compliance, reputational, information security risk, with controls and governance established for each area, as appropriate.

You can read more about Risk Management on page 48.

PILLAR FIVE

Exploitation of digital for growth and efficiency—leveraging data analytics

In 2017, the Bank decided to accelerate its digital transformation and to make this one of the key strategic pillars. Our goal is to continue to simplify the client experience and improve the digital ecosystems for all our customers. With a new core banking system in place, we will boost customer satisfaction, increase operational efficiency and enhance risk analytics. A detailed digital strategic plan has been prepared to guide implementation over the next few years.

ADCB already has a strong digital offering. In total, 96% of our retail financial transactions occur digitally. Over the past year, the number of active users adopting the ADCB mobile app increased by 38%. 2017 also saw the launch of a second uBank digital centre, allowing customers to switch from traditional banking to paperless digital banking.

The philosophy behind this is simple. Using technology in the right way will help us to serve our customers better, enabling faster, more secure and efficient banking.

THE SUCCESS OF OUR STRATEGIC PILLARS DEPENDS ON

Our enablers

ATTRACTING AND REWARDING THE BEST TALENT WITH INCENTIVES ALIGNED TO STRATEGIC OBJECTIVES

We recognise that the Bank's long-term success depends on our staff—and that channelling our people's ambition is critical to the successful realisation of our strategic aspirations. We benefit from having a highly-talented, motivated and inclusive workforce, who passionately support our purpose to build strong partnerships with customers.

Our people are empowered through structured professional development and training, supported by solid career opportunities. We attract and retain talent through a competitive compensation structure and a high-performance culture.

The success of our efforts can be seen in our unrivalled retention rates, and outstanding engagement scores. Loyalty of staff and management is one of our key strengths. Many of our executive team have served with the Bank for more than nine years, whilst more than a third of our staff have been with ADCB for more than five years.

AGILE ORGANISATION AND INNOVATIVE CULTURE

To stay ahead of the competition, we continually enhance our ways of working. We are improving our culture by being nimbler, offering greater empowerment at all levels and reducing the number of siloes across the business.

As we continue to digitise our processes, we are also integrating our teams from across the Bank. These new teams, made up of staff from differing disciplines, focus on continual innovation. This way, we aim to accelerate the pace of product and service innovation to improve customer service. We regard greater agility as a key enabler for our digital strategy.

Our strategic framework has consistently guided our management decisions. Our five pillars are refined and calibrated to reflect changing conditions in our markets. The most notable example of this flexibility was the addition of a digital pillar in 2017.

Looking ahead, we are confident that we have the right strategy to deliver strong growth. With the optimal balance of ambition and discipline, we aim to progress towards our goal of being the most valuable bank in the UAE.

Our Key Performance Indicators (KPIs)

Through a range of performance indicators, we rigorously measure our progress against our strategy.

Strategic Aim	How We Measure Our KPIs	2015 Performance	2016 Performance	2017 Performance
Most valuable bank in the UAE	**Total shareholder return (TSR)** Calculated as the growth in share price, plus dividends paid to shareholders during the year. TSR is recognised as one of the best measures of shareholder returns.	290% 5-YEAR TSR	214% 5-YEAR TSR	183% 5-YEAR TSR
Most profitable	**Return on average equity (ROAE)** Calculated as the profit attributable to equity shareholders as a percentage of average shareholders' equity. To increase ROAE, we focus on growing our business where risk-adjusted returns are maximised and capital is efficiently deployed.	20.35% RETURN ON AVERAGE EQUITY	15.70% RETURN ON AVERAGE EQUITY	15.04% RETURN ON AVERAGE EQUITY
Most resilient	**Basic earnings per share (EPS)** Calculated as profit attributed to equity shareholders, divided by the weighted average of the shares in issue during the year.	AED 0.93 BASIC EARNINGS PER SHARE	AED 0.77 BASIC EARNINGS PER SHARE	AED 0.80 BASIC EARNINGS PER SHARE
Most efficient	**Cost-to-income ratio** Calculated by dividing operating expenses by operating income. We are re-engineering our operational processes and increasing automation in order to do more with less. We are becoming more efficient, which provides greater scope to invest in our businesses.	34.2% COST-TO-INCOME RATIO	32.9% COST-TO-INCOME RATIO	33.1% COST-TO-INCOME RATIO
Best customer service	**Net Promoter Score (NPS)** NPS is based on the likelihood that customers will recommend ADCB to family or a friend. NPS is calculated as the percentage of customers who are promoters, rating ADCB a 9 or 10 on a 0 to 10 point scale, minus the percentage who are detractors, rating it 6 or lower. According to leading consultants, an increase of five points year on year is widely regarded as a significant achievement.	OVER THE THREE YEARS ADCB'S NPS SCORES HAVE IMPROVED SIGNIFICANTLY ACROSS ALL AREAS OF THE BUSINESS. SEE NEXT PAGE FOR MORE INFORMATION		

Net Promoter Score

ADCB's ambition of creating the most valuable and resilient bank in the UAE requires sustained commitment to providing superior customer experience which leads to loyal customers. At ADCB, we measure customer loyalty through Net Promoter Score (NPS) across all channels and transactions.

At ADCB, we listen to our customers, learn from their experience, and act on customer feedback. Insights generated from customer feedback are discussed at the Customer Experience forum chaired by our CEO. Transformation projects are commissioned to improve the processes through reengineering/automation/digitisation customer journeys to enhance the overall customer experience.

Improving customer experience at ADCB has a positive impact on the business. The results have been very positive year on year and are trending positively across all dimensions of our service ambition.

Strategic NPS is conducted annually among the existing ADCB customers across key segments to measure their experience with overall relationship with ADCB.

Strategic NPS	Variation in NPS Points from 2015
Corporate	+40
Retail	+17
Treasury	+12

According to leading consultants, an increase of five points year on year is widely regarded as a significant achievement.

We continue to grow in our journey towards service excellence and will keep focusing on what customers are telling us, staff development and implementation of actions. In 2017, we invested in the following areas to enhance customer experience.

STAFF TRAINED IN SERVICE

1,613

MYSTERY SHOPPING AUDITS

8,000

CUSTOMERS SPOKEN TO FOR FEEDBACK

89,049

STAFF PROVIDED FEEDBACK ON INTERNAL SERVICE PROVIDERS

30,787

SERVICE RECOVERIES FOLLOWING FEEDBACK FROM A FAST FEEDBACK LOOP

3,056

CUSTOMER EXPERIENCE AND SERVICE QUALITY FORUMS

16

Risk Management

ADCB faced a challenging operating environment in 2017 with headwinds from low oil prices and a stagnant GDP growth rate in our primary operating country—UAE.

Challenges were seen in the retail, SME and MCD (Midsize Corporate Division) portfolios. Despite these challenging operating conditions, the ADCB portfolio continued to be resilient, reflecting the inherent strength of our franchise. Some of our key metrics that reflect this are:

- Significant improvement in NPL ratio to 2.1% from 2.7% in 2016
- Cost of risk in 2017 was 0.81% compared to 0.83% in 2016
- Significant increase in provision coverage to 162.9% from 129.9% in 2016
- Robust capital adequacy ratio (BASEL III) of 19.09%
- Value at risk (VaR) and stressed value at risk (SVaR) of AED 10,786,584 and AED 33,559,730—within the Board-approved limits
- Liquidity coverage ratio (LCR) at 135% is well above the BCBS (Basel Committee on Banking Supervision) standard requirements
- Concentration reduction by name and sector

We continue to invest in our risk management capabilities through expanded portfolio-reporting and analytics, standardised enterprise-wide stress tests, reverse stress tests, assessments of ratings migration, lessons-learned coaching, technical training, model-development capabilities, and tuning/calibration. Strict enforcement of discipline is also applied using tools such

as Risk Adjusted Return on Capital (RAROC), economic capital computation, cross-selling, and portfolio-level returns.

We consistently monitor the impact of international developments and domestic challenges on our portfolio and continue to make changes as appropriate to our underwriting and policy measures. Developing work on automation and information management will improve both the quality and speed of response to regulatory reporting requirements. We are also continually upgrading the Bank's risk infrastructure to ensure that our risk management practices remain best-in-class.

In 2017, we continued our key projects—implementation of a digitised credit application processing system that improves the credit monitoring capabilities and automates and strengthens the processes around credit monitoring. Several forums and internal reviews were conducted to identify and act on portfolios showing enhanced credit risk. These proactive steps, with timely credit policy and underwriting changes, supported the Bank in lowering its cost of risk to 0.81% under challenging macroeconomic conditions. We worked on a core banking implementation platform and undertook a significant amount of uplift to our limit monitoring platform. We reviewed and adjusted all our risk models to ensure we were well prepared for the IFRS9 regime.

We track emerging risks closely and have augmented our related IT risk infrastructure accordingly.

Emerging Risk Scenarios

As part of our risk management strategy, we regularly identify and monitor "emerging risks." These are events that could lead to a significant, unexpected negative outcome that could cause the Bank, or one of its divisions, to fail to meet a strategic objective. When we assess the potential impact of an emerging risk, we consider both financial and reputational implications.

This section describes the categories of emerging risks that could materially affect the UAE banking system and ADCB: macroeconomic conditions, geopolitical risks, the additional costs and rigours imposed by enhanced regulatory requirements, risks related to information technology and data security, and concentration risks.

EMERGING RISK:

Macroeconomic conditions in the operating markets

DEFINITION AND POTENTIAL IMPACT:

Prolonged low oil prices will have an impact on the UAE economy and the GCC countries' economies. Most analyst reports forecast a slowdown in the GDP growth rates and an associated period of lower credit growth and tighter liquidity conditions.

MITIGATION STRATEGY:

The UAE economy is well-diversified across non-oil sectors, which will help partially mitigate the impact of lower oil prices in the banking system. ADCB has more than 90% of its loans in the UAE and therefore expects

to be a key beneficiary of this strategy compared to peer banks with more geographically diverse asset books within the MENA region. ADCB's portfolio diversification, in terms of investment in non-GCC bonds, lending to diversified industry groups, and focus on granular and well-structured lending, is expected to help soften the impact of macroeconomic conditions.

ADCB is well-capitalised in terms of capital adequacy and regularly runs stress tests to ensure there is sufficient capital coverage at all times. We also have a proactive approach to liquidity risk, which includes monitoring of positions, regular stress testing, and buffers in excess of the Basel requirements.

EMERGING RISK:

Geopolitical risk

DEFINITION AND POTENTIAL IMPACT:

This risk could stem from one of many sources unrelated to the Bank and its business. Geopolitical tension remains a persistent issue in the region.

MITIGATION STRATEGY:

The Bank regularly monitors geopolitical and economic situations around the world. In particular, ADCB's Chief Economist centrally assesses the economic impact of changing geopolitical risks and provides key inputs to drive the Bank's strategy. Where necessary, we adjust our country limits and exposures to reflect our appetite and to mitigate these risks.

EMERGING RISK:

Regulatory and legal risks to our business model

DEFINITION AND POTENTIAL IMPACT:

Governments and regulators often develop policies that impose new requirements, the recent VAT implementation being a key example. These developments may affect our business model and profitability. Should a regulatory change reduce the Bank's ability to respond to any of our customers' needs or to achieve fair customer outcomes, we may experience increased costs and reputational damage. Moreover, inability to satisfy our customers would cause the Bank to fall short of strategic objectives, which could have an adverse effect on earnings, liquidity, capital and shareholder confidence. The risk of failure due to emerging unanticipated regulatory and legal changes affects all our businesses.

MITIGATION STRATEGY:

We strive to ensure that the Bank's views are considered when UAE regulatory policy is developed. ADCB chairs, or is a key member of, several UAE Banks Federation forums. Internally, we analyse all new pipeline requirements, regulatory consultation, and draft regulations or circulars to measure their impact qualitatively and quantitatively as well as to ensure they can be implemented effectively. We also confirm that our capital and liquidity plans anticipate the potential effects of any changes. We constantly monitor and expand our capital allocation and liquidity management disciplines to incorporate future increased capital and liquidity requirements and to drive appropriate risk management and mitigating actions.

In the past few years, the Bank has launched several initiatives to reduce reputational risk to our business model. For example, our Customer Experience Committee ensures that customers enjoy a superior and consistent experience. We have well-developed policies and procedures to deal with customer complaints, and all front-office staff and officers are trained to deal with customer concerns in a timely manner.

EMERGING RISK:

Risks related to information technology and data security

DEFINITION AND POTENTIAL IMPACT:

Cyberattacks are increasing in frequency and severity across the globe. This risk affects all our businesses. A successful cyberattack could lead to fraudulent activity or the loss of customer data, leading to adverse business, financial and reputational consequences. The Bank could experience significant losses because of the need to reimburse customers, pay fines, or both. Furthermore, a significant cyberattack could cause serious damage to the Bank's reputation.

MITIGATION STRATEGY:

The Bank has a constantly-evolving and expanding large-scale programme to improve controls over user access security, as well as hardware and data integrity and protection. In addition, we have implemented additional anti-virus protection and engage in regular penetration testing and unusual-activity detection, mitigation, and elimination. We are insured against data-security risk and consequential risks, and conduct ongoing user and customer education on information protection.

Principal Risks Affecting ADCB and Risk Coverage

The principal risks faced by ADCB are presented in the following pages, together with a summary of the key areas of focus and how the Bank managed these risks in 2017.

Credit Risk

DEFINITION

Credit risk reflects the risk of loss if one or more counterparties fails to meet all or part of their obligations to the Bank. Credit risk also includes concentration risk.

Concentration risk derives from increased exposure to large client groups, sectors or geographies.

SOURCES

Deteriorating macroeconomic conditions can affect ADCB's performance and credit risk profile.

ADCB's credit portfolio can worsen due to quality of assets and increased exposure to particular economic sectors or large client groups.

CHARACTER AND IMPACT ON ADCB

Losses can vary materially across portfolios. Problems may include the risk of loss due to the concentration of credit risk related to a specific product, asset class, sector or counterparty. Credit risk has the potential to damage ADCB's financial performance and capital.

HOW WE FARED IN 2017

During 2017, our collective loan-impairment allowance 1.79% of credit-risk-weighted assets remained in excess of the Central Bank of the UAE's mandated collective impairment allowance of 1.50%. The non-performing loan ratio dropped to 2.1% (compared with 2.7% in 2016), Provision coverage improved to 162.9% (from 129.9% in 2016).

The top 20 exposures as percentage of gross loans has steadily dropped the last 3 years

37.01%	35.38%	34.85%
2015	**2016**	**2017**

SPECIFIC RISK-MANAGEMENT PROCESS

Measurement—We measure the amount that could be lost if a customer or counterparty fails to make repayments.

Monitoring—The Bank monitors concentrations on a continuous basis by customer group, by industry, by geography and by credit risk profile. We strictly enforce Risk Adjusted Return on Capital when screening proposed new business to ensure that all facilities are appropriately structured and that the expected income justifies the expected risk weight of assets to be booked.

Management—ADCB attempts to mitigate this risk by diversifying our portfolio, managing concentrations and adhering to disciplined credit review and underwriting guidelines. ADCB's risk strategy focuses on growth of granular exposures, and risk parameters are set to encourage granular growth with an improvement in average portfolio quality. The Bank's underwriting guidelines and minimum credit acceptance criteria ensure that new bookings improve portfolio quality.

Refer to Note 43 of the audited financial statements and the Pillar 3 report for further details.

Principal Risks Affecting ADCB and Risk Coverage continued

Market Risk

DEFINITION

Market risk is the risk that the Bank's income or the valuation of financial instruments will fluctuate because of changes in external market factors that affect pricing.

SOURCES

Changes in interest rates, credit spreads, exchange rates, commodity prices and equity prices.

CHARACTER AND IMPACT ON ADCB

The traded market risk exposure arises in transactions in financial instruments such as debt securities, loans, deposits and equities, as well as in transactions in securities financing and derivatives.

The majority of the non-traded market risk exposure arises from retail and commercial banking activities in all franchises from assets and liabilities that are not classified as held-for-trading.

HOW WE FARED IN 2017

Metrics as at 31 December 2017 (AED)

VaR 1d 99% Confidence Level	Credit Value Adjustment (CVA)
(10,786,584)	(36,666,187)
SVaR 1d 99% Confidence Level	**Earnings at Risk (EaR)**
(33,559,730)	(236,748,759)
Expected Shortfall (1d)	**Economic Value of Equity (EVE)**
(16,103,273)	(768,492,748)

SPECIFIC RISK-MANAGEMENT PROCESS

Measurement—Our Market Risk function implements valuation and risk policies for all Level 1 and Level 2 financial instruments in the trading book. All valuation models are independently vetted and approved for mathematical integrity and suitability. We use these models to measure market risk within a 99% confidence level through VaR, SVaR, Expected Shortfall, and First Order Greeks (Delta and Vega). VaR and SVaR are used to estimate potential valuation losses on risk positions due to movements in market rates and prices over a specified time horizon and to a given level of confidence, augmented with stress/sensitivity testing to evaluate the potential impact on valuations of more extreme, though plausible, events or movements in a set of financial variables (non-statistical measures).

Monitoring—We apply the sensitivity of net interest income and the sensitivity of structural foreign exchange to the market risk positions within each risk type using measures including the valuation of interest rate, foreign exchange rate, fixed income and commodity derivatives.

Management—Using risk limits approved by the Management Risk Credit Committee (MRCC), all limit breaches are reported according to their materiality to appropriate levels of authorities.

Refer to Note 47 of the audited financial statements for further details.

Liquidity and Funding Risk

DEFINITION

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when financial liabilities fall due or is unable to replace funds when they are withdrawn. Funding risk is the risk that the Bank will be unable to achieve its business plans due to its capital position, liquidity position or structural position.

SOURCES

Liquidity risk arises from mismatches in the timing of cash flows, such as when the cash needed to fund lending commitments exceeds deposits and other available liquid assets.

Funding risk arises when the Bank cannot obtain the funds needed to meet current and future cash flow and collateral requirements at the expected terms and when required.

CHARACTER AND IMPACT ON ADCB

Liquidity and funding risk varies based on company-specific factors such as maturity profile, the composition of sources and uses of funding, and the quality and size of the liquid asset buffer. Broader market factors, such as wholesale market conditions and depositor and investor behaviour, also play a role. This type of risk can cause the Bank to fail to meet regulatory liquidity requirements, become unable to support normal banking activity or, at worst, cease to be a going concern.

HOW WE FARED IN 2017

Survival horizons under stressed conditions and further drawdown of liquidity facilities are monitored and mandated to be at least two months under idiosyncratic stress.

Idiosyncratic Stress Test 2 months	Systemic Stress Test 2 months
31 December 2017	*31 December 2017*
AED 18,570,247	AED 7,080,373

The Bank manages its LCR at levels higher than mandated by the Basel Committee. LCR as at 31 December 2017 is 135%.

SPECIFIC RISK-MANAGEMENT PROCESS

Measurement—This risk is measured using metrics related to Basel III liquidity ratios and survival horizons under liquidity stress tests and contingency funding plans. Liquidity stress tests are carried out using contractual, behavioural and stressed conditions coupled with contingency funding facilities.

Monitoring—The Asset and Liability Management Committee (ALCO) and the MRCC oversee the Bank's liquidity and funding risk, stress-test-management process and corrective actions.

Management—Funding is diversified and raised through both retail and wholesale operations. In addition, businesses are required to self-fund all new operations. We strive to maintain a large portion of our funding as sticky deposits. Our Treasury department ensures access to diverse sources of funding, ranging from local customer deposits (from both retail and corporate customers) to long-term funding, such as debt securities and subordinated liabilities. Further, the Bank has borrowing facilities from the Central Bank of the UAE to manage liquidity risk during critical times.

Refer to Note 45 of the audited financial statements for further details.

Principal Risks Affecting ADCB and Risk Coverage continued

Operational Risk

DEFINITION	Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. It excludes strategic and reputational risks. Operational Risk could have many possible repercussions, including damage to the Bank's reputation, legal or regulatory implications, and financial losses.
SOURCES	Day-to-day operations, potentially in any aspect of the Bank's business.
CHARACTER AND IMPACT ON ADCB	Losses may be financial in nature (characterised by either frequent small losses or infrequent material losses), or may lead to direct customer or reputational impact (for example, a major breach of customer data leading to use of information for fraudulent activity). Operational risk has the potential to affect the Bank's profitability and capital requirements directly and to impair stakeholder confidence.
HOW WE FARED IN 2017	There were no material operational losses in 2017.
SPECIFIC RISK-MANAGEMENT PROCESS	Identification & Assessment—Operational risk is identified using both the risk analysis and the risk & control assessment process. These tests/reviews/measures assess the level of exposure to risk and the effectiveness of controls. Measurement—Operational risk is measured using the standardised approach prescribed by the Central Bank of the UAE. Reports are submitted to the Central Bank as per its reporting timelines. Monitoring—The Bank uses key indicators, risk thresholds, expected loss and other internal control activities to monitor operational risk. Management—ADCB's operational risk-management process prescribes the escalation of issues and events, leading to greater risk transparency across the organisation. All employees are responsible for identifying and assessing risks, implementing controls to manage them, and monitoring the effectiveness of those controls using the operational risk-management framework. *Refer to the Pillar 3 disclosures for further details.*

Regulatory Risk

DEFINITION	Regulatory risk refers to risk the Bank will be exposed to in the event of regulatory sanctions or fines due to a failure to comply with regulatory guidelines or with laws.
SOURCES	Changes in the regulatory environment in which ADCB functions and our response to new requirements.
CHARACTER AND IMPACT ON ADCB	Regulatory defaults or non-compliance can have an adverse effect on the Bank's customers, strategy, business, financial condition or reputation, primarily due to the threat of regulatory enforcement or other interventions.

Regulatory Risk continued

HOW WE FARED IN 2017	There were no material incidents of regulatory non-compliance in 2017.
SPECIFIC RISK-MANAGEMENT PROCESS	Monitoring—We closely watch and actively try to influence key regulatory developments. In particular, ADCB participates in regulatory consultative meetings and is an active member of various forums, such as the UAE Banks Federation. Regulatory compliance is closely monitored by the Risk and Audit areas under the oversight of the Board-level Committees. Management—We allocate capital to cover any unforeseen sanctions or fines that may arise from changes in the Bank's internal and external regulatory environment. Based on the peer group experience, and considering our own complexity, the Bank sets aside capital commensurate with regulatory risk as part of its Internal Capital Adequacy Assessment Process (ICAAP).

Reputational Risk

DEFINITION	Reputational risk refers to the potential adverse effects that can arise if the Bank's reputation is damaged due to factors such as unethical practices, breach of law or regulation, customer dissatisfaction and complaints, or adverse publicity.
SOURCES	Reputational risk could arise from the failure of the Bank to effectively mitigate the risks described above in any of our businesses.
CHARACTER AND IMPACT ON ADCB	Damage to ADCB's reputation could cause existing clients to reduce or eliminate their business with us and discourage prospective clients from forming business relationships with ADCB.
HOW WE FARED IN 2017	There were no material-reported incidents in 2017 that could lead to reputational risk.
SPECIFIC RISK-MANAGEMENT PROCESS	Identification & Assessment—All employees are responsible for identifying and managing reputational risk in their daily activities. These responsibilities form part of ADCB's Code of Conduct and are further embedded through values-based performance assessments. Monitoring—Reputational risk management is aligned with our focus on creating the most valuable bank in the UAE, our strategic objectives and our risk-appetite goal of maintaining shareholder confidence. Management—ADCB's Risk Management function addresses the reputational risk associated with the Bank's businesses. It sets policy and provides guidance to avoid reputational risk relating to business engagements with, and lending to, clients in sensitive industry sectors. Training and Awareness—ADCB ensures induction training for all new employees and regular refresher programmes for all existing employees to ensure the Bank's policies and procedures are implemented and adhered.

Principal Risks Affecting ADCB and Risk Coverage continued

Information Security Risk

DEFINITION	Information security risk is the risk of loss of confidential information or the disruption of business processes because IT systems are not available for normal operations, and the risk that this loss or disruption may cause financial, reputational or regulatory damage.
SOURCES	Information security risk arises from information leakage, loss or theft.
CHARACTER AND IMPACT ON ADCB	Information security risk gives rise to potential financial loss and reputational damage, which could adversely affect customer and investor confidence. Loss of customer data also constitutes a regulatory violation that could result in the imposition of fines and penalties.
HOW WE FARED IN 2017	There was no material loss of confidential data or disruption of processes due to the unavailability of our IT system reported in 2017.
SPECIFIC RISK-MANAGEMENT PROCESS	Identification & Assessment—ADCB proactively identifies top organisational information security risks by continuously evaluating threats and by benchmarking information security controls against leading industry standards. Monitoring—We maintain and continually update an information-risk heat map that plots the Bank's protection mechanisms against ever-evolving cyber threats. We use knowledge from a variety of sources, such as published research, security forums, threat intelligence and regional events, to keep these mechanisms relevant. Management—The Bank's comprehensive security risk-management programme covers classification of assets, identification of vulnerabilities and assessment of the risks of all internal assets and key third parties, which enables management to prioritise and mitigate information security risks. All critical systems and applications undergo regular security testing (including external third party testing) to ensure effectiveness.

Integrity

Acting with integrity creates the conditions for effective commerce and robust economic growth. The UAE's commitment to integrity is exemplified by its continued focus on economic stewardship, resulting in a level playing field for all market participants to maximise mutually beneficial value.

performance in action


ADCB

Financial Overview

Delivering sustainable growth and long-term value for shareholders

ADCB's 2017 results reflect the strength of our strategy and speak to the discipline and resilience of the Bank. The Bank's underlying performance and fundamentals remain strong and we remain committed to protecting the long-term financial strength of the Bank in our pursuit of sustainable growth.

As part of our discipline, a prudent and robust approach to risk management is a key pillar of the Bank's strategy. We believe this to be a differentiator that sustains us and that favours ADCB going forward, as we manage the Bank for long-term success.

Underscoring our resilience, the Bank's strong results in 2017 were once again delivered in a challenging environment. In the interest of transparency, the following pages take a closer look at the numbers and, at a granular level.

2017 FINANCIAL HIGHLIGHTS

	Year on year trend			Quarterly trend				
			Change %				*Q4'17 Change %*	
Income statement highlights (AED mn)	**2017**	2016	YoY	**Q4'17**	Q3'17	Q4'16	QoQ	YoY
Total net interest and Islamic financing income	**6,701**	6,201	8	**1,718**	1,677	1,573	2	9
Non-interest income	**2,194**	2,294	(4)	**592**	569	598	4	(1)
Operating income	**8,895**	8,495	5	**2,311**	2,247	2,171	3	6
Operating expenses	**(2,948)**	(2,796)	5	**(800)**	(736)	(729)	9	10
Operating profit before impairment allowances	**5,948**	5,700	4	**1,511**	1,511	1,443	0	5
Impairment allowances	**(1,674)**	(1,521)	10	**(441)**	(418)	(437)	6	1
Share in profit of associate	**10**	8	26	**3**	2	2	NM	NM
Profit before taxation	**4,284**	4,187	2	**1,072**	1,094	1,008	(2)	6
Overseas income tax expense	**(6)**	(30)	NM	**(0)**	(2)	(4)	NM	NM
Net profit for the period	**4,278**	4,157	3	**1,072**	1,092	1,004	(2)	7
Net profit attributable to equity shareholders	**4,278**	4,149	3	**1,072**	1,092	1,004	(2)	7

			Change %				*Change%*	
Balance sheet highlights (AED mn)	**2017**	2016	YoY	**Dec'17**	Sep'17	Dec'16	QoQ	YoY
Total assets	**265,003**	258,289	3	**265,003**	259,599	258,289	2	3
Loans and advances to customers, net	**163,282**	158,458	3	**163,282**	165,988	158,458	(2)	3
Deposits from customers	**163,078**	155,442	5	**163,078**	163,122	155,442	0	5

Ratios (%)	**2017**	2016	bps	**Dec'17**	Sep'17	Dec'16	bps	bps
CAR (Capital adequacy ratio)	**19.09**[1]	18.92	17	**19.09**[1]	18.47	18.92	62	17
Tier I ratio	**15.92**[1]	15.66	26	**15.92**[1]	15.25	15.66	67	26
Loan to deposit ratio	**100.1**	101.9	(180)	**100.1**	101.8	101.9	(170)	(180)

Figures may not add up due to rounding differences.

1. Basel III

NET PROFIT
(AED BILLION)

4.278

RETURN ON AVERAGE EQUITY
(ROAE %)[1]

15.04%

RETURN ON AVERAGE ASSETS
(ROAA %)[1]

1.58%

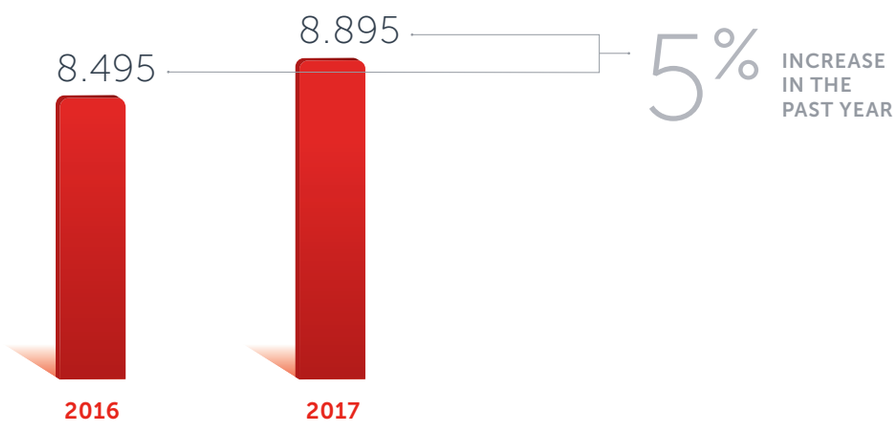
BASIC EARNINGS PER SHARE
(EPS—AED)

0.80

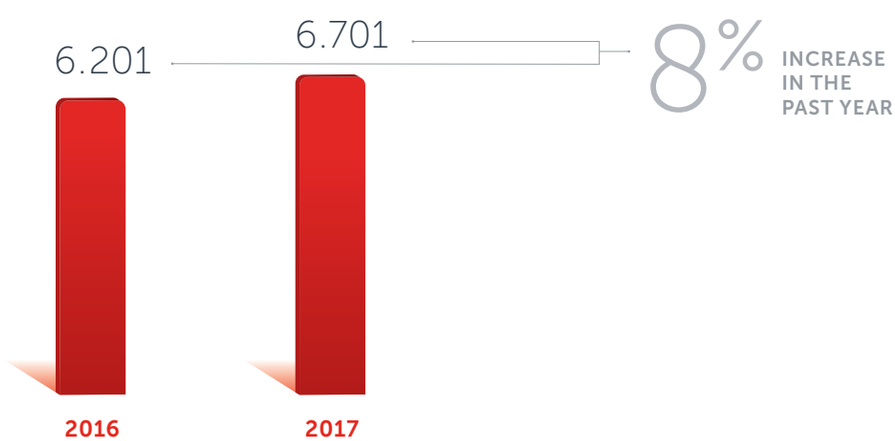
PERCENTAGE CONTRIBUTION
TO OPERATING INCOME

1. For ROE/ROAA calculations, net profit attributable to equity shareholders is considered, i.e., net profit after deducting minority interest and coupon paid on capital notes.

OPERATING INCOME
(AED BILLION)



NET INTEREST INCOME
(AED BILLION)



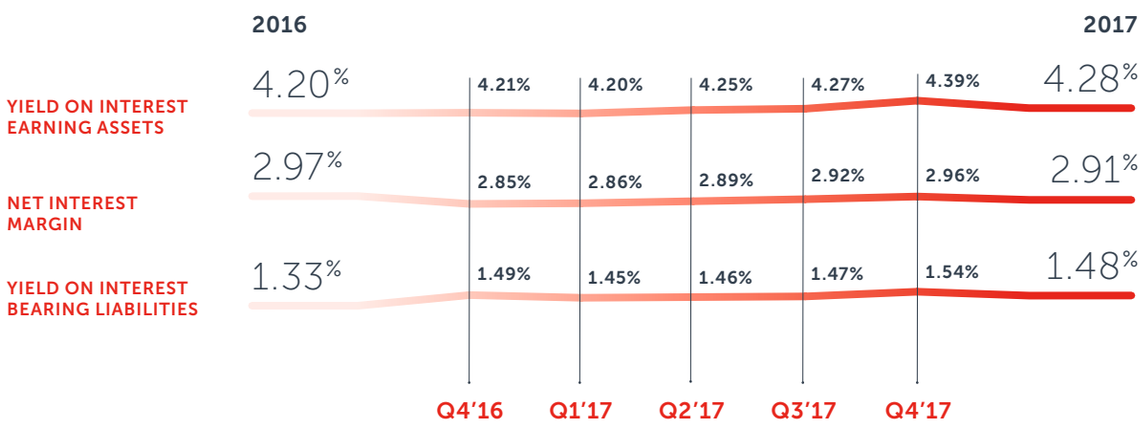
Delivering sustainable growth and long-term value for shareholders

Net profit for the year ended 31 December 2017 was AED 4.278 billion, an increase of 3% year on year, whilst net profit for the fourth quarter of 2017 was AED 1.072 billion, an increase of 7% year on year. The Bank's key financial indicators remained strong with a return on average equity of 15% and a return on average assets of 1.58% for 2017 compared to 15.7% and 1.65% respectively for 2016.

Operating income of AED 8.895 billion was up 5% over 2016, while operating profit before impairment allowances of AED 5.948 billion was up 4% over 2016, reflecting the Bank's strong fundamentals and resilient financial performance in 2017. Each of our business segments delivered good growth and contributed to the Bank's strong results in 2017; Consumer Banking Group comprised 46% of total operating income, whilst Wholesale Banking and Treasury & Investments Groups comprised 31% and 20% respectively.

The Bank reported strong top line growth, with net interest and Islamic financing income of AED 6.701 billion for 2017, an increase of 8% year on year. Gross interest and Islamic financing income of AED 9.854 billion was up 13% over 2016, driven by a 11% increase in average interest earning assets over 2016. The prior year benefited from

EVOLUTION OF YIELDS



interest in suspense reversals which were not repeated in 2017. Average interest bearing liabilities increased 11% over the prior year, resulting in an interest expense of AED 3.153 billion, up 24% year on year. Despite a slight uptick in cost of funds in the last quarter of 2017 (in line with the rising benchmark rates), net interest margin was maintained at 2.91%, whilst asset yields remained healthy at 4.28% in 2017.

Non-interest income of AED 2.194 billion was 4% lower over the previous year and accounted for 25% of operating income in 2017 compared to 27% in 2016. This was mainly on account of weaker trading income of AED 354 million in 2017 compared to AED 522 million reported in 2016, driven by lower FX income against a very strong prior year, which benefited from opportunistic trades. This was partially offset by net fees and commission income of AED 1.507 billion, up 2% and other income of AED 367 million, up 29% over 2016.

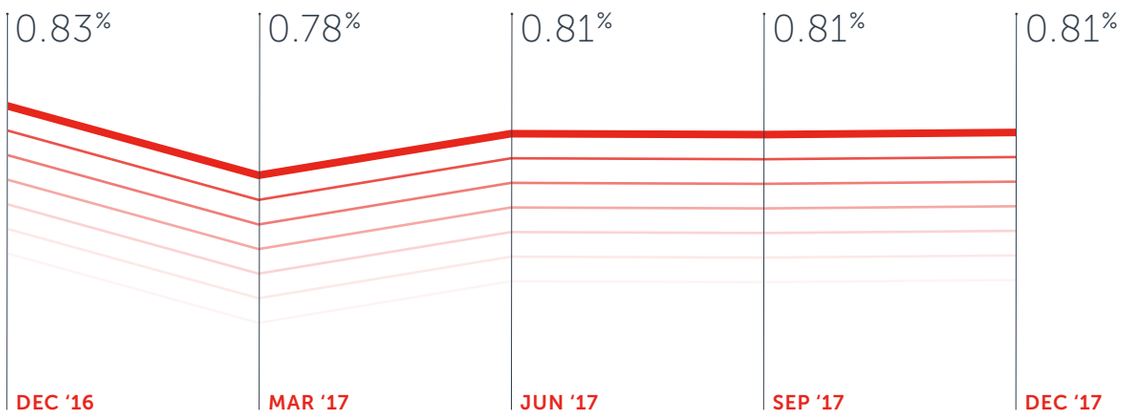
Operating expenses for the year ended 2017 were AED 2.948 billion, up 5% over the prior year and in line with revenue growth. This resulted in a stable cost to income ratio of 33.1% compared to 32.9% in 2016. Staff expenses were up 3% at AED 1.709 billion and comprised 58% of total operating expenses compared to 59% in 2016. General administrative expenses were AED 1.073 billion, 8% higher year on year, primarily attributable to continued investment in our businesses, systems and infrastructure, including a state of the art core banking system and a set of digital initiatives to enhance operational efficiency to offer a superior customer service. During 2017, the Bank completed the migration and consolidation of its core banking system, following two years of complex programming, testing and training.

Healthy asset quality metrics

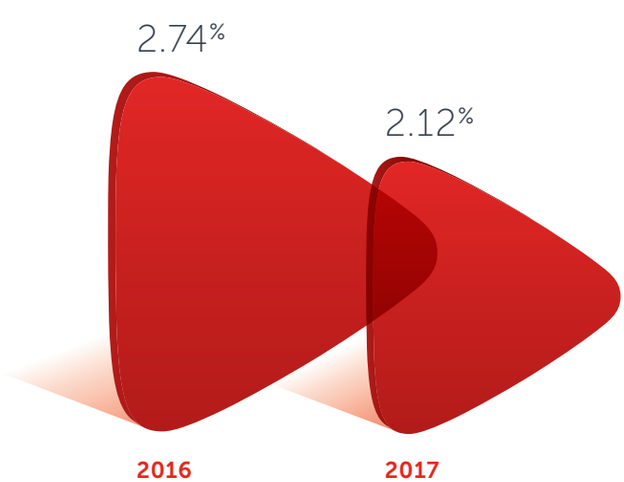
Significant improvement in asset quality indicators, with a non-performing loan (NPL) ratio of 2.1% compared to 2.7% as at 31 December 2016. Similarly, provision coverage ratio improved significantly to 162.9%

COST TO INCOME RATIO

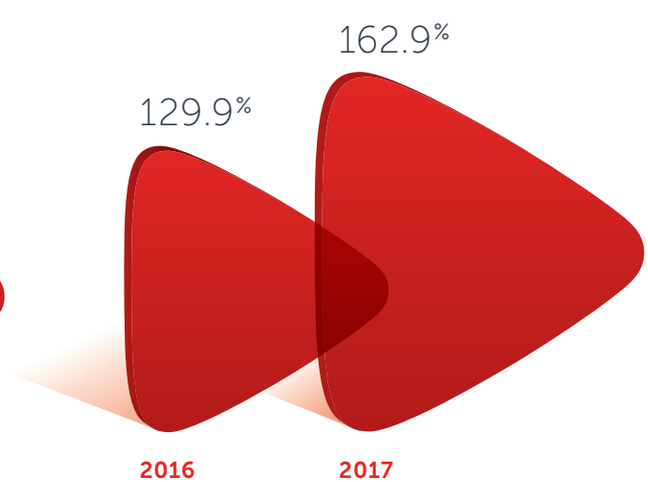
COST OF RISK

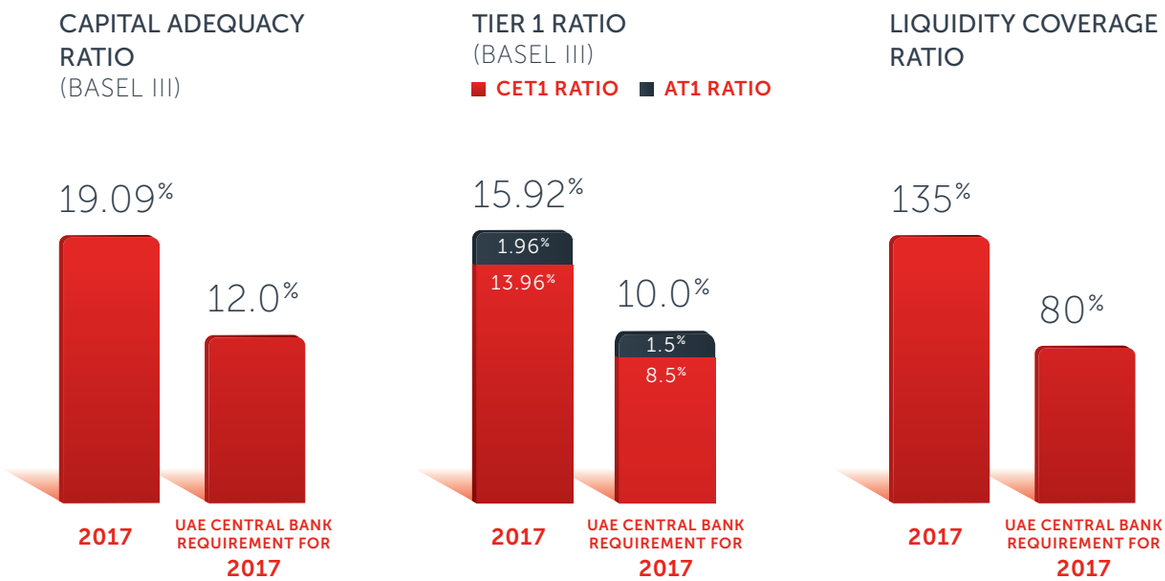


NPL RATIO



PROVISION COVERAGE RATIO





from 129.9% as at 31 December 2016. Non-performing loans were AED 3.692 billion compared to AED 4.600 billion as at 31 December 2016, a decrease of 20% year on year. Cost of risk for 2017 was 0.81% compared to 0.83% in 2016.

Charges for impairment allowances on loans and advances, net of recoveries amounted to AED 1.670 billion compared to AED 1.552 billion in 2016. Whilst recoveries were stronger in 2017 at AED 259 million, compared to recoveries of AED 138 million in 2016, the prior year benefited from significant impairment allowance releases, that were not repeated in 2017, which resulted in a higher net impairment allowance charge for the year. As at 31 December 2017, the Bank's collective impairment allowance balance was AED 3.172 billion and its individual impairment allowance balance was AED 2.862 billion. Collective impairment allowances were 1.79% of credit risk weighted assets, above the minimum 1.5% stipulated by the UAE Central Bank.

Diversified loan growth and continued focus on growing CASA deposits

As at 31 December 2017, total assets were AED 265 billion and net loans were AED 163 billion, an increase of 3% over 2016. Consumer Banking loans increased 2%, while Wholesale Banking loans increased 4% year on year. 94% of loans to customers (gross) were within the UAE, in line with the Bank's UAE centric strategy. Total customer deposits increased to AED 163 billion as at 31 December 2017, up 5% year on year. At year end CASA balances totalled AED 70.7 billion, an increase of 9% over the previous year, and comprised 43.4% of total customer deposits compared to 41.8% in 2016. Loan to deposit ratio improved to 100.1% from 101.9% as at 31 December 2016.

Remain well capitalised and liquid; solid foundation to comply with the evolving regulatory requirements

The Bank continues to maintain a comfortable liquidity position, with a liquidity coverage ratio of 135%, compared to a minimum ratio of 80% prescribed by the UAE Central Bank. As at 31 December 2017, investment securities were AED 49 billion, an increase of 49% over 2016, mainly driven by an increase in government bonds, whilst maintaining a healthy liquidity ratio of 24.5%.

The Bank remains well capitalised with a capital adequacy ratio (Basel III) of 19.09% and a common equity tier 1 (CET1) ratio of 13.96%, well above the minimum capital requirements of 12% and 8.5% (including buffers) respectively prescribed by the UAE Central Bank.

Respect

The UAE continues to promote a multicultural and cohesive society based on respect for all individuals. This dynamic region is home to over 200 different nationalities, who live and work together in harmony.

Business Review

A leading bank in the UAE, ADCB provides world-class customer service and a suite of innovative banking products for a range of clients from individuals to large corporates. Here we review the performance of our business segments and support functions in 2017.

CONSUMER BANKING GROUP (CBG)

With more than 800,000 customers, the Consumer Banking Group provides products and services for both retail and high-net-worth individuals, offering conventional and Shari'ah-compliant banking. We have 47 branches in the UAE, two branches in India, one branch in Jersey, representative offices in London and Singapore, three pay offices, two digital banking centres, 357 ATMs, a 24/7 contact centre, leading online and mobile banking applications, tele-sales and a direct sales force.

Our continued commitment to service excellence, agility in managing the asset portfolio and a determined focus on the developing needs of our customers, helped the Group deliver a good performance over the past year, despite an operating environment that was challenging.

We continued to strengthen our businesses, gaining market share, launching innovative new products, and further investing in digital to ensure we are well-positioned for the future.

Operating income grew by 3% year-on-year to AED 4.081 billion, and operating profit before impairment allowances grew by 3% to AED 2.242 billion. Meanwhile, customer deposits increased by 3% to AED 47 billion over 2016, while loan growth was up 2% over 2016 at AED 73 billion.

In view of prevailing market conditions, the mix of retail asset acquisition changed significantly as we placed a greater emphasis on expanding our secured loan book to diversify and build resilience in the asset portfolio. This agility has successfully reduced the risk level of the portfolio, while gaining market share in secured assets.

Meanwhile, the growth of our liability base was propelled by granular low-cost, current and savings accounts (CASA), which constitute 75% of total consumer banking deposits.

Customer Loyalty

We have continued our commitment to outstanding service, investing in improving the customer journey at every touchpoint. This is part of the reason why the Bank has such strong customer loyalty and consistent brand recognition.

This year we launched a new service guarantee against the nine areas of service that matter most to our customers. We have committed to meet specific service standards or reimburse our customers with up to 5,000 additional TouchPoints (our flagship bank-wide loyalty programme) if we fail to do so.

Almost two thirds of our retail customers have banked with us for more than three years, a strong indication of the level of trust we have developed. A quarter of our customers redeemed their TouchPoints throughout 2017. More than 90% of TouchPoints are now being redeemed digitally—in an instant—at more than 75 merchant partners and over 850 outlets across the UAE as well as online for Etihad Guest miles/Skywards miles or payment of utility bills.

We have also added value to those of our customers who travel regularly, with the successful launch of our Traveller Credit Card in collaboration with MasterCard, Cleartrip and Hotels.com. It offers a range of rewards designed to enhance the experience of regular international travellers and has quickly become ADCB's fastest-growing credit card. It follows the success of our Etihad Guest Above credit and debit cards, which offer Etihad Airways miles as rewards.

Digital Transformation

To enable better engagement and to become the leading digital bank in the UAE, we are quickening the pace at which we launch new products and thinking outside the confines of traditional banking.

Our ongoing investment in digital technology offers another opportunity to improve our service, providing customers with easier, faster and more secure banking, while at the same time markedly increasing our efficiency. Building on our existing robust multichannel infrastructure, this year we plan to roll out further enhancements to our service.

Mobile banking is our fastest-growing digital channel. Adoption and usage of the internet and mobile banking platforms continued to grow in 2017, with the percentage of active users reaching 49% for internet banking and 67% for mobile banking. Over the past year, the number of active users adopting the ADCB Mobile app increased by 38% and monthly log-ins grew almost 10%. The app includes additional security through fingerprint authentication and offers balance previews and international transfers using ADCB credit cards. The app also enables faster remittances to 14 countries through the Xpress Money partnership.

CONSUMER BANKING GROUP

OPERATING INCOME
ROSE BY 3% TO
(AED BILLION)

4.081

ACTIVE MOBILE BANKING USERS

67%

ACTIVE INTERNET BANKING USERS

49%

In total, 96% of our retail financial transactions occurred electronically, with growing use of mobile and internet banking.

We launched our second uBank digital centre in 2017, allowing customers to switch from traditional banking to paperless digital banking with the help of biometric authentication, digital signatures and video assistance from 'virtual relationship officers'.

VoicePass, our multilingual voice authentication system that cuts the time customers must spend proving their identity when calling our contact centre, has also proved to be a hit. Approximately 125,000 customers now make use of the service—the first in the market—with 19% active users every month and more than 1,700 authentications every day.

Meanwhile, our Securities mobile trading app has almost doubled the number of users, with over 5,000 people using the service every month. This, and last year's addition of a dedicated web portal, helped to double our market share in brokerage.

We are making better use of data analytics as our digital footprint grows, helping us to anticipate our customers' needs, likes and behaviours.

We are investing in an integrated approach to digital banking, designed to transform convenience for the customer.

New segments update

ADCB Private, our private banking business, delivered a strong performance, topping AED 11 billion in assets under management at the end of 2017.

With a focus on high net worth individuals and families, we provide a unique combination of in-depth local knowledge with sophisticated international insights to help create bespoke wealth management strategies.

The number of our clients—and their wealth—is growing thanks to our convenient access to global investment and capital markets, specialist lending and high-end concierge services.

In the last quarter of 2017, we launched the Target Date Fund addressing the lack of products in the market focused on retirement planning. The fund, a first in the MENA region, was launched in partnership with US-based Principal Global Investors, a world leader in managing target-date and multi-asset funds. It aims to help residents in the UAE plan for a comfortable retirement by bridging the gap between their mandatory end-of-service benefits and actual retirement needs.

Meanwhile, our popular SimplyLife product suite contributed AED 3.4 billion to the retail asset book in 2017. It offers financial solutions that are simple, fast and accessible with a portfolio of products and services that range from personal and auto loans, to cash-back credit cards.

SimplyLife has swiftly grown to become a sizeable mass-market banking operation. Last year we launched the 'Family Card' which allows customers to personalise the service by choosing a personal photo to feature on their bank cards.

Another significant milestone in 2017 was the launch of our merchant acquiring business, which is quickly gaining ground in a competitive market. By the year-end, we had signed up 440 merchants.

Expansion in Islamic Banking

Islamic banking is an important and rapidly-growing part of the Bank. The business provides high-quality, Shari'ah-compliant financial solutions that meet a range of our customers banking needs and are consistent with their values and traditions.

While still a relatively new part of the business, Islamic banking is one of the fastest-growing areas of the Bank. In 2017, assets grew 17% and deposits grew by 23% over 2016.

Our experienced Islamic banking team is committed to developing innovative products and services, ranging from bespoke Wholesale Banking solutions to pioneering retail financial products.

The team benefits from an extensive training and development programme. ADCB's Islamic Banking Academy enrolled more than 2,000 employees on classroom and online courses in 2017. This training helps staff to educate customers about the underlying Shari'ah-compliant structures of our financial services and to promote the benefits of Islamic banking accordingly.

Our success in this area has drawn praise from across the region and Amr Al Menhali, who heads the division, was named 'Islamic Banker of the Year 2017' at the recent Global Islamic Finance Awards.

Our results illustrate the central role we play in the Bank and our contribution to driving sustainable growth. This year—and beyond—we anticipate that the Bank's digital transformation will help to maintain and fortify our momentum.

WHOLESALE BANKING GROUP (WBG)

We provide a full portfolio of services, including world-class transaction banking and investment banking. Our clients range from government-related entities (GREs) to financial institutions, large corporates, mid-sized corporates and small-to-medium-sized enterprises (SMEs). The Wholesale Banking Group is responsible for our branches in India, as well as the representative offices in London and Singapore. We continue to benefit from our strategic transaction banking relationship with Bank of America Merrill Lynch and a recently formalised relationship with Korea's Kookmin Bank.

While constrained by ongoing regional market challenges, our performance across 2017 was buoyed by rising investment, a partial recovery in the oil price, and easing liquidity. We experienced good underlying performance across all segments and increased our market share.

Our operating income rose by 6% to AED 2.736 billion and operating profit before impairment allowances delivered an increase of 4% to AED 1.958 billion. Customer deposits and net loans both expanded by 4% over 2016 to AED 69 billion and AED 90 billion respectively at year-end.

As elsewhere in the bank, our results were supported by a relentless drive to enhance our customer experience and provide state-of-the-art digital banking services. The upgrade of our core banking system in 2017 has allowed us to better leverage technology, including digital functionality to enhance the excellence of our services.

We saw positive growth in the SME and mid-sized corporate loan book in 2017, building on our considerable gains in market share over the past few years. Our SME business continues to be a net contributor of liabilities to our balance sheet.

In large corporate and the Government sector (GREs), we also grew the loan book and made gains in market share, in cash management and trade finance, in particular. Both large corporates and GREs have kept a sharp focus on making sure debt remains low, limiting their demand for new loans. We are clear about the nature of business we are prepared to underwrite in this segment, and are prepared to decline loans priced on uneconomic terms.

Our increasing investment in digital technology will allow us to sharpen our advantage in customer service, helping us to continue to grow market share, especially in lending to SMEs and mid-sized corporates, and to extend our leadership in transaction banking, including our trade finance business.

World-class banking

Transaction banking has continued to be a priority, offering us the opportunity to cross-sell across other areas of the business. Our cash and trade management business is widely regarded as world-class and its success has helped to fuel customer loyalty.

Once again, transaction banking revenues grew by more than 16% in 2017 as we welcomed a record number of new clients and won almost twice as many cash management mandates as the previous year. In trade finance, open account financing also soared, and revenues increased by 10% year-on-year.

Our cash management business is recognised as a leader in the region. The business is growing quickly due to its excellent customer service. Our implementation quality, range of products and outstanding services are resulting in substantial new business wins. This is helping to drive strong growth in low-cost, sticky current and savings account deposits.

Meanwhile, Pro-Cash, our award-winning online transaction banking platform, has been another strong asset, helping us attract business from a diverse range of clients, ranging from GREs and large corporates through to SMEs. The portal, which is supported by a mobile app, provides easy access, automation and clarity around each transaction.

WHOLESALE BANKING GROUP

OPERATING INCOME
ROSE BY 6% TO
(AED BILLION)

2.736

Our mission is to foster a high-performance culture across the Bank and to ensure our multi-skilled workforce is fully supported and engaged.

In 2017, Euromoney magazine named the bank a 'Five Star Cash Manager', 'Five Star Trade Finance Bank in the Middle East' and 'Best Bank for Transaction Services in the Middle East'. These awards are based on client feedback, and effectively rank ADCB as the leading provider in the region, offering products and services that rank among the best globally.

The quality of our long-term clients combined with our market-leading transaction banking areas of cash management and trade finance, provide a stable platform on which to build profitable growth.

The growth of our transaction banking business has led to an increase in the volume and value of overseas payments sent by ADCB. We are committed to developing sustainable partnerships with a carefully-selected network of correspondent banks and our network management team regularly review our nostro accounts to ensure our customers receive competitive pricing and the very best service levels.

We have also been recognised as the premier real estate escrow account provider in Abu Dhabi, by both the number of accounts and liabilities.

Real estate developers are now required to place investors' deposits in escrow accounts, following a regulation introduced in Abu Dhabi last year. The regulation was designed by the Department of Municipal Affairs after detailed consultation with ADCB.

Driving Digital

We are investing in an integrated approach to digital banking, designed to transform convenience for the customer. We are planning new customer journeys. For example, in cash management and trade finance, we plan to significantly reduce account opening times and to speed up lending decisions, while enhancing the ability of clients to better serve themselves.

This builds on existing initiatives. Most notably, our channel migration programme is rapidly converting clients from physical to electronic banking. Clients are simplifying their banking through practices such as scanning cheques into the Bank's clearance system from their offices. In just two years, the proportion of clients serving themselves in this way has risen from 38% to 80%. This has multiple benefits for ADCB and our customers. Automation improves service levels for WBG customers. Additionally, automated electronic banking makes our operations more cost-efficient.

To support this, we introduced a new tool that allows customers to automatically release payments to customs when their goods reach UAE border posts. The customs

request is automatically sent to the customer's ERP (Enterprise Resource Planning) system and the payment is released. The whole process takes just 15 minutes.

Specialist Investment Banking

We enjoyed a record year in our developing investment banking business. Cash revenue was up 38% as we substantially increased the number of mandates, winning a series of new clients.

The benefits to our clients remain our focus, ahead of pure profitability.

Having started as a pure advisory business specialising in structuring complex transactions, investment banking has additionally developed debt underwriting and distribution services, reinforcing ADCB's presence in the primary and secondary markets. By bringing these services together, we helped the bank to form relationships with leading corporates while executing profitable transactions without absorbing the Bank's capital.

In recognition of our capabilities, Euromoney gave us an award for our debt capital markets activity in the UAE.

Wholesale Banking has a clear strategy for profitable growth, which we believe will continue to deliver value in the years ahead. We plan to maintain our strategy of growing market share, especially in lending to SMEs and mid-sized corporates, and to extend our leadership in transaction banking. Our increasing investment in digital technology will allow us to sharpen our advantage in customer service.

TREASURY & INVESTMENTS GROUP

We offer both conventional and Islamic solutions spanning foreign exchange, money markets, fixed income, equity derivatives, interest rate derivatives, commodity derivatives, structured products and risk management solutions. In 2017, we placed a special focus on the foreign exchange requirements for small, medium-sized corporates and financial institutions to gain inroads in market share.

Treasury enjoyed a strong year with an operating income of AED 1.778 billion and operating profit before impairment allowances of AED 1.569 billion, an increase of 11% and 12% respectively over the previous year. Robust balance sheet management and a healthy investment book, coupled with FX trading opportunities and a growth in product sales yielded strong results across the year.

Treasury's contribution to the bank's profits remains substantial and accounts for 20% of operating income, providing valuable diversification from the Consumer and Wholesale Businesses.

The first half of the year was especially productive, as opportunities were seized to grow the investment book, while helping the Bank's funding costs as we continue to increase customer activity in treasury products such as interest rate and currency hedging.

Despite the regional disputes and widening geopolitical uncertainty that unsettled the market from June 2017, trading remained robust helped by our involvement in the Formosa and Kangaroo markets.

We have been one of the most active banks in the region in the Formosa market over the past year, issuing more than USD 1.5 billion in four transactions throughout 2017.

We were also active in Australia's Kangaroo market for the first time in four years, becoming the only Middle Eastern bank to issue a multi-tranche transaction in this market. We raised AU$ 350 million, swapping it back into US dollars.

TREASURY & INVESTMENTS GROUP

OPERATING INCOME
ROSE BY 11% TO
(AED BILLION)

1.778

Clear strategy

Our strength is based on our strategy, which is simple and clear: customer collaboration, supported by innovative products and solutions, state-of-the-art balance sheet management, rigorous risk management, and investment in cutting-edge technology and talent.

While there are implications for capital and liquidity with the introduction of Basel III, we are well-prepared for these changes, buoyed by our strong capital position and high liquidity coverage ratio.

This strategy, alongside our agile decision-making, has helped us navigate the effects of a volatile market and regulatory change. It has also shaped the creation of best-practice in liquidity coverage, capital management and funding diversification earlier than the rest of the market.

Despite rising benchmark interest rates, our cost of funds remained stable through both customer deposits and capital markets activity. As liquidity in the UAE interbank market eased in 2017, we successfully repriced customer liabilities. We also tactically took advantage of niche capital market opportunities to raise funds at highly-competitive rates.

Wholesale borrowings of AED 41 billion at year-end provided a diversified and stable term structure for our liability profile, and bolstered the Bank for the introduction of Basel III in the UAE in 2018.

Treasury has worked closely with Wholesale Banking throughout the year to provide more complete solutions to ADCB's client base and support cross-selling the Bank's considerable expertise.

Finally, our strategic focus on technology has enabled us to transact in a growing number of products. Our Treasury technology architecture is state-of-the-art and provides management and the ADCB Board with all required risk metrics. The foreign exchange platform continued to be upgraded in 2017, and the implementation and consolidation of the Bank's core banking system enhanced the capabilities of our own Treasury technology.

Property Management

Our Property Management business provides vital services to the UAE's real estate sector, differentiating itself through ADCB's characteristic customer service excellence. The business operates through our wholly-owned subsidiaries, Abu Dhabi Commercial Properties (ADCP) and Abu Dhabi Commercial Engineering Services (ADCE). In addition, Property Management oversees ADCB's investment properties and rental income.

ADCE is the partner of choice for complex medium- and large-size regional development projects. Delivering a full range of building design and construction property development services, ADCE has a sharp focus on efficiency and exceeding customers' requirements—whether they are the Bank's borrowing clients or external parties.

ADCP is a major participant in the UAE real estate sector. On behalf of the Department of Finance of the Government of Abu Dhabi, and others, it manages more than 2,100 buildings, comprising more than 51,000 residential and commercial units throughout the UAE.

In addition, ADCP manages a rapidly growing private portfolio. The units managed on behalf of the Department of Finance are part of a Government initiative, which grants Abu Dhabi nationals plots of land for commercial or residential development. ADCE oversees the construction of those buildings; once they are completed, ADCP provides ongoing facilities-management services.

WHOLESALE BORROWINGS (AED BILLION)

41

In 2017, our Property Management business had an operating income of AED 300 million and collected more than AED 2.8 billion in rent on behalf of its clients in 2017. Illustrating the scale of the business, it also addressed more than 170,652 service requests and resolved over 53,561 landlord-tenant queries.

BUSINESS SUPPORT

Our support services are the backbone of the Bank. They deliver the robust IT infrastructure and highly-skilled people on which our businesses depend. Our Group Business Services (GBS) provides IT infrastructure and is tasked with accelerating digital transformation. Human Resources (HR) is responsible for engaging our workforce, promoting our values and fostering the passion for customer service excellence, that is the hallmark of the Bank.

Group Business Services

As we accelerate our digital transformation, GBS remains a key enabling force behind its successful delivery. By working in collaboration with the departments across the Bank, we are adapting and enhancing our IT infrastructure and helping to create new ways of working.

The highlight for 2017 was the seamless delivery of our new, state-of-the-art, core banking system. This was the Bank's most complex and biggest capital investment project, bringing together around 500 staff from across the business. After two years of programming, testing and training, the diverse collection of aging banking systems was combined into one, future-ready system. The 'go live' was completed in just two and a half days with no interruption to customer service.

The new platform prepares us for the next stage of growth, bringing system resilience, agility, scale, and digital-ready capabilities. As the banking industry is quickly becoming digital-first, we will continue our investment in digital, capitalising on our new system to scale for growth.

The new system has enabled us to prepare and swiftly launch new products, such as a new private banking mobile and internet app, and the new mobile solution for ADCB Securities. This will keep us well ahead of our competitors and deliver additional value for customers.

Our investment in best-in-class cyber defence continues. Effective cyber security substantially protects the Bank

Employee engagement rose to 77% last year, up once again on the results from our previous survey. We are proud of the fact that more than a third of our staff have been with the Bank for more than five years.

and its customers from unauthorised exploitation of systems, networks and technologies.

We have also played a pivotal role in re-engineering the Bank's operational processes, increasing efficiency and reducing costs through ITMAM, our captive shared services centre.

In 2017, ITMAM delivered a solid performance with 99.3% of service level agreements met across Consumer and Wholesale Banking Groups. It also set up a new outsourced operations centre in India.

Transactions processing per staff was up 21% compared to 2016. Despite the extra responsibilities, ITMAM headcount reduced by 8% to 973, clearly demonstrating greater efficiency.

Over the past year, GBS processed double-digit percentage transaction volume increases in businesses such as payments, trade and treasury products. Furthermore, we saw a 140% increase in the number of cheques placed in deposit machines over 2016. Initiatives like these are helping ADCB to grow without adding to the cost base.

This year we will assume responsibility for an increasing range of processes, guaranteeing system resilience while enabling the bank to become agile at scale. We will continue to foster innovative and nimble ways of developing new products and services, while managing costs through automation and process improvements, as well as expanding the role of ADCB's outsourced Indian back office operation.

Human Resources

Our mission is to foster a high-performance culture across the Bank and to ensure our multi-skilled workforce is fully supported and engaged. We want to attract and retain the best available talent to help provide first-class services in every area of the business.

We have made significant progress in this, with an emphasis on our continuing enhancements to career development and growing employee engagement. We are proud of the fact that more than a third of our staff have been with the Bank for more than five years—a testament of our success.

Employee engagement rose to 77% last year, up once again on the results from our previous survey. We have maintained a robust response rate with the majority of our employees, both full-time and outsourced, participating in the annual survey, sharing their views with the management.

The survey also revealed greater attachment—92%—to our values following an internal communication and engagement campaign during the year.

Career development

A new career development framework was also implemented in 2017. Employees can now proactively manage their careers, with the support of their managers and a comprehensive suite of training libraries, guides, tools and other resources.

The career development website highlights potential career moves, and provides a guide for the skills and training they may need for career growth. This initiative empowers our people, giving them greater control of their career progression, while providing more structured individual assessments and a stronger link between performance and rewards.

In partnership with some of the best assessment and professional learning institutions in the region, we launched a comprehensive UAE National Talent Development Programme, supporting our Emiratisation strategy, to effectively fast-track the careers and leadership prospects of the most talented UAE nationals at all organisational levels.

After a period of careful assessment, the top 100 were selected to take part in the programme, where individuals will benefit from a period of targeted evaluation and customised training. At the same time, we are continuing to seek out talented Emirati graduates as candidates for other critical positions across all areas of the Bank.

This flagship development will result in a larger number of UAE nationals being promoted to leadership positions and other critical roles requiring specialist expertise. It will place us in pole position to attract and retain highly-capable UAE national professionals, while building a pipeline of talent to fill key positions throughout the organisation.

SERVICE LEVEL AGREEMENTS DELIVERED BY ITMAM

99.3%

BRANCH ACADEMY PROGRAMME PARTICIPANTS

411

Meanwhile, our Tamooha initiative has prospered. This provides a women-only workspace, telecommuting and part-time options for highly-skilled Emirati women who want a work environment suited to their traditional values. There was a marked improvement in the performance of women working from home, and the group itself is now carrying out a broader range of activities. A small number of these women have also chosen to move from Tamooha into full-time employment with the Bank.

Naturally, with the introduction of our new core banking system alongside the continuing digital transformation of the Bank, we have facilitated additional training for staff across the business.

The learning team played a critical role in ensuring training on the new system was successful and fully embedded with all users. Accordingly, 142 e-learning modules and assessments were designed and delivered internally. With specialist assessments and self-paced learning, new users easily familiarised themselves with the functionalities of the new system.

We also increased the level of activity in the Branch Academy. We further refined the curriculum to include additional specialised programmes for specific categories of branch employees (tellers, customer service representatives and operations staff). During 2017, 411 participants attended Academy programmes and 192

We launched a comprehensive UAE National Talent Development Programme to effectively fast-track the careers and leadership prospects of our most talented UAE nationals.

employees attended the specialised courses. At the same time, preparations are in progress to extend the academy curriculum to include 12 technical learning programmes in addition to the mandatory learning requirements.

Throughout the course of the year, around 60% of the branch network employees went through formal training programmes, in addition to the regular business briefings and knowledge sharing that are part of our usual business.

Several independent organisations that benchmark HR have recognised our team's accomplishments. The Gulf Customer Experience Awards rated us as having an "Innovative Approach to Emiratisation to Deliver Exceptional Customer Experience" for Tamooha, and "Best Employee Engagement in Financial Services".

This year we plan to further enhance our support for automation and digitisation, while continuing to facilitate a high-performance culture across the Bank by promoting our values, expanding training opportunities and augmenting the UAE National Talent Development Programme.

Sustainability

ADCB's commitment to sustainability adopts a multi-pronged approach to deliver long-term value to our investors and community.

Our broad approach to sustainability contributes to our overall business value and UAE economic growth. It consists of:

- Initiatives that manage environmental, social and governance (ESG) risks arising from our business operations (as a major UAE financial services organisation and a large property manager), and
- Programmes that invest in our community and proactively contribute to advancing the goals of the UAE's Visions and the UN Sustainable Development Goals (collectively, the "Goals").

Our approach strategically focuses on the key ESG issues that bring greatest value to our bank and are most relevant to the core business and stakeholders. These material issues have been agreed with Executive Management, with due consideration given to the Goals, and initiatives and activities have been developed in collaboration with strategic partnerships to create lasting mutual benefits.

Below, we describe ADCB's key sustainability initiatives and activities undertaken during 2017 and how they support the Goals.

GOAL: QUALITY EDUCATION

ADCB has invested significantly to support the belief that quality education is a fundamental cornerstone for sustainable development. In 2017, our efforts focused on enhancing financial literacy in the region, as well as deepening our relationships in the education sector through our Banking on Education initiative.

ADCB MoneySense™

During 2017, our greatest priority community investment was MoneySense, our financial literacy initiative. Financial literacy is a key sustainability issue for banks generally, including those in the UAE. The programme educates the community on how to make informed judgments and take effective decisions regarding the use and management of money. MoneySense is the first financial literacy programme of its kind in the UAE, and was developed in collaboration with the Emirates Foundation, a national foundation established to facilitate public-private partnerships to empower youth and deliver programmes on key social issues including financial literacy. The programme formally launched in 2017, following a pilot that was run from 2016 into early 2017, which helped to refine our outreach strategy.

During 2017, our MoneySense outreach programme inducted over 1,000 UAE residents and UAE nationals, providing complimentary mentoring on topics including: budgeting, setting and reaching savings goals, responsible borrowing, and planning for the future. Our outreach also includes our own staff and those of corporate clients through workshops, as well as our customers during the pilot project. MoneySense has also been integrated into our monthly ADCB Health & Wealth Roadshow, which conducts medical tests and complimentary financial health checks. The programme was also integrated into the Mohammed Bin Rashid Housing Establishment's DECOBUILD 2017 event, which supports the grant programme for UAE nationals who qualify to buy housing or plots of land to construct their homes, as well as the Ministry of Education's induction programme for new teachers.

Outreach to the community was also made available online, through our financial literacy web page, and received 2,835 visits in 2017.

UAE RESIDENTS & UAE NATIONALS INDUCTED INTO THE MONEYSENSE OUTREACH PROGRAMME

OVER

1,000

Our success also means helping others and empowering financial literacy remains a significant objective for us. It helps to contribute to the economy and stability of the UAE overall.

GOAL: HEALTH AND WELL-BEING

Promoting health and well-being has been an ongoing focus area for ADCB, with several ongoing initiatives and activities to support this sustainable development goal.

ADCB Pink Month

2017 marked the eighth consecutive year when we have earmarked October as ADCB Pink Month, our award-winning breast cancer awareness programme which aims to help reduce the incidence of breast cancer, one of the most significant health issues facing our society:

- Working in partnership with several significant charities and organisations, we raised approximately AED 99,000 to support breast cancer research and raise awareness about the disease through a variety of activities in 2017. ADCB ATMs gave our customers the opportunity to donate one dirham per ATM transaction to the Al Jalila Foundation, a global philanthropic organisation dedicated to transforming lives through medical education and research. ADCB customers also donated through our internet platform and Tree of Hope initiative, as well as through the ADCB Zayed Sports City 5k & 10k runs.
- ADCB Zayed Sports City 5k & 10k runs during Pink Month attracted more than 1,200 people, who joined the increasingly popular 5k & 10k runs, which are held annually by ADCB and Abu Dhabi Striders at Zayed Sports City. They attracted a total of 3,500 participants in the 2017 season. The races bring together people of all ages and all proceeds go to Breast Cancer Research.

ADCB BIKESHARE EXPANDED FROM 11 LOCATIONS TO

28 LOCATIONS

MONEY RAISED TO SUPPORT BREAST CANCER RESEARCH (AED)

99,000

ADCB Bikeshare

ADCB Bikeshare was launched in 2014 in partnership with Cyacle, a private bike-sharing venture of the Khalifa Fund for Enterprise Development. Bikeshare provides a cost-effective and energy-saving alternative method of transport across numerous UAE communities and also supports a healthier lifestyle.

In 2017, the scheme was expanded from the original 11 locations to 28 locations to include NYU campus and the Louvre. In 2017, Bikeshare cyclists burned 1.49 million kcal and avoided emitting more than 9 tons of carbon.

ADCB Health & Wealth Roadshow

ADCB promotes good health and financial well-being in the community through our monthly Health & Wealth Roadshows, organised by our Wealth Management Bancassurance department in collaboration with a prominent medical provider. Select ADCB branches, sales centres and key corporate client offices across the UAE hosted the roadshows in 2017. Participants received basic medical testing, complimentary vouchers for further medical testing, and an opportunity to meet a professional financial advisor and have their current financial circumstances, liquidity position and short-term as well as long-term financial plans reviewed. They can also explore how ADCB might help them to address their financial needs, plan for their future and guide the way to live a healthier and wealthier future.

In 2017, the Health & Wealth Roadshow provided medical and financial checks to over 2,000 participants across the UAE.

ADCB Staff Health & Wellness Week

An internal staff Health & Wellness event was held in 2017, in collaboration with our health insurers and network hospitals to promote health and well-being amongst staff. Approximately 500 staff participated and gained from complimentary doctor consultations, medical testing and promotional offers on important health issues including cholesterol, blood pressure, breast cancer, cardiology and nutrition.

A two-day blood drive with Sheikh Khalifa Medical City was also organised as part the Health & Wellness Week. Approximately 105 participants donated blood to help save lives.

OHSAS 18001

Abu Dhabi Commercial Property (ADCP), a subsidiary of ADCB, was awarded with the OHSAS 18001:2007 Certification for 2017 by Lloyd's Register Quality Assurance (LRQA) Ltd., a leading international certification body, after months of concentrated efforts to implement initiatives to improve the health and safety conditions across their branch network.

ADCP joins our subsidiary Abu Dhabi Commercial Engineering (ADCE) which was awarded ISO certification in 2013 for OHSAS 18001.

GOAL: GENDER EQUALITY

ADCB's Tamooha initiative was launched in 2014 in line with the "Absher" initiative launched by His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the United Arab Emirates and Ruler of Abu Dhabi and Supreme Commander of the UAE Armed Forces, to enhance the participation of national citizens in the employment market. By providing a women-only workspace, telecommuting and part-time options for highly-skilled Emirati women, it is a sustainable and innovative way to contribute to the economic development of the UAE. It advances employment, culture and diversity across the Emirates by giving women the opportunity to join the workforce whilst meeting their everyday life responsibilities in an environment suited to their traditional values.

Tamooha was awarded the "Women in Leadership Achievement" under the category of best DNI (Diversity and Inclusion Initiative) at the Global Women in Leadership Economic Forum 2017, and received the Gulf Customer Experience Award in the category of "Innovative Approach to Emiratisation to Deliver Exceptional Customer Experience."

Tamooha now employs 144 UAE national women. The scope of the Tamooha programme expanded during the year to encompass a broader range of activities as part of an upscaling and cross-training transformation process.

ADCB also promotes gender equality at all levels of seniority. ADCB is one of the few GCC banks to have a female Board Director. Ms Aysha Al Hallami was appointed to the ADCB Board of Directors in 2013 and serves on the Board Audit & Compliance and Risk & Credit Committees.

At senior management level, ADCB is also one of the first banks to support UAE national female talent. Ms Siddiqa Abbas has held several senior level management positions, including General Manager of ITMAM, under which the Tamooha programme sits. Our efforts towards empowering local female talent have been recognised externally—in 2017 Ms Abbas received the "Best Initiative Award" at the Global Women in Leadership Economic Forum.

Approximately 23% of our female staff hold senior management positions.

FEMALE STAFF HOLDING SENIOR MANAGEMENT POSITIONS

23%

TAMOOHA FEMALE EMPLOYEE HEADCOUNT

144

We continue to grow our commitment to this programme.

GOAL: INDUSTRY, INNOVATION & INFRASTRUCTURE

We support economic growth across the UAE by making responsible and efficient investments in infrastructure projects, by supporting business growth and by being a driver of financial services innovation.

The UAE Visions call for building a resilient infrastructure to support a more diverse and sustainable economy, while taking necessary steps to protect the environment. We support this vision by taking part in public-private partnerships that build energy, transport, telecommunications and technology assets.

Sharjah Multi-Fuel Waste-to-Energy Project

ADCB approved credit facilities of up to USD 75 million to finance the construction of a landmark waste-to-energy project in the UAE. Developed by Masdar in partnership

with Bee'ah, the Middle East's leading and award-winning environmental management company, this cutting-edge waste-to-energy plant in Sharjah expects to divert approximately 300,000 tonnes of solid waste away from landfill each year. This marks a significant contribution to Sharjah's effort to reach its "zero waste-to-landfill" target and the UAE's goal of diverting 75% of waste from landfills by 2021.

National Central Cooling Company PJSC (Tabreed)

Tabreed is the region's leading district cooling utility company, and a key part of the district energy systems that are the foundation of sustainable economic and urban development in the UAE. ADCB has been actively supporting Tabreed's growth over the past decade. In 2017, ADCB contributed 40% of the facility amount, in a AED 1.513 billion 10-year Islamic finance facility, which was used to refinance a portion of Tabreed's existing debt and to fund capital expenditure on the construction of additional district cooling plants on behalf of the Government of Abu Dhabi.

With a longer lifecycle and long-term service contracts, district cooling offers unparalleled economies of scale for customers while delivering a cleaner, greener solution, offering:

- Up to 50% less electricity consumption vs traditional cooling or heating systems
- Reduced CO_2 emissions as a consequence of lower energy consumption
- Longer equipment life (district cooling facilities need to be replaced only every 30 years compared to 15 years for traditional air conditioning)
- Greater reliability and substantially lower annual costs.

SMEs

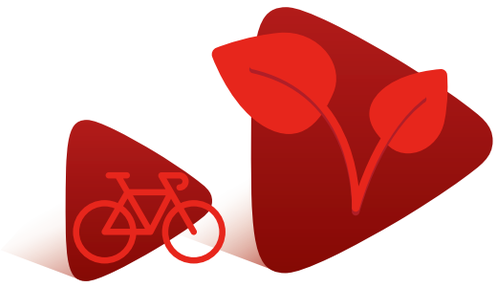
Our Wholesale Banking Group supports economic growth by helping clients to achieve their business goals. In the past two years, we have maintained our support for small and medium-size enterprises (SMEs) at a time when other banks have pulled back. In 2017, the size of our borrowing customer pool for working capital facilities grew by 21%. SMEs are recognised for their strong contribution to economic growth.

GOAL: CLIMATE ACTION

We seek to reduce our impact on climate change by improving efficiencies in energy and resource consumption across our operations. We measure our resource consumption and reduce it in a variety of ways. Similarly, we measure and report our greenhouse gas emissions and our natural resource consumption. Initiatives taken in recent years include the installation of water saver washers, installing light sensors that switch off when people leave the office, managing office temperatures more carefully (especially in off-peak hours) and installing LED lighting in all new projects. We also have a waste recycling programme for paper, cans, plastic and electronic waste, paperless processes in many business areas, and an active e-statement programme.

Our property development and management subsidiaries, Abu Dhabi Commercial Properties (ADCP) and Abu Dhabi Commercial Engineering (ADCE), where environmental impacts are more material, have undertaken numerous initiatives to manage their footprint:

- ADCP has an ongoing agreement with GE's energy start-up Current, powered by GE, to increase energy efficiency throughout the projects ADCP manages. In 2017, ADCP commenced installing LED lighting fixtures across all of its offices and branches.
- ADCP introduced a waste management programme across its portfolio in 2016. By the end of 2017 the programme was well into implementation across over 2,100 properties under management, along with a complementary awareness campaign at all ADCP-managed properties.
- ADCE has integrated environmental practices into its management systems through ISO 14001.
- Construction waste segregation for concrete and wood was introduced in 2016 by ADCE.



PARTNERSHIPS FOR THE GOALS

ADCB partners with other organisations to pursue our sustainability strategy. In addition to those already mentioned in this report, ADCB has nurtured a partnership with Emirates Wildlife Society-WWF (EWS-WWF)—a non-profit organisation driving positive change to conserve the natural heritage of the UAE—supporting them at the highest Platinum and Pearl levels since 2012 to preserve the environment. In 2017, ADCB raised over AED 350,000 for EWS-WWF through ATM and internet banking donations.

In 2017, as part of 'The Year of Giving' declared by the President of the United Arab Emirates, His Highness Sheikh Khalifa bin Zayed Al Nahyan, and the environment endowment initiative launched by The Mohammed Bin Rashid Global Centre for Endowment Consultancy (the MBRGCEC) and EWS-WWF, ADCB was recognised for our continuous support to the sustainability vision of the country, and was granted the Dubai Endowment Sign by the MBRGCEC.

ADCB's commitment to sustainability will see our sustainability framework continue to take shape, by investing in our communities to promote their well-being and by managing our businesses to contribute to UAE economic growth.

Care

Care is a value that is embedded into the cultural fabric of the United Arab Emirates. Whether it is healthcare or hospitality; caring for residents, citizens, and visitors is central to the essence of the country.

Awards

"Best Trade Finance Bank in The U.A.E."
— GLOBAL FINANCE

"Innovative Approach to Emiratisation to Deliver Exceptional Customer Experience" for Tamooha
— GULF CUSTOMER EXPERIENCE AWARDS

"Best Contact Centre in the Region" for Contact Centre
— GULF CUSTOMER EXPERIENCE AWARDS

"Best Business Change or Transformation—Delivery of a Great Customer Experience Through Change" for Operational Excellence Framework 'SIMPLean'
— GULF CUSTOMER EXPERIENCE AWARDS

"Best Insight and Feedback—Listening to Customers to Create an Impact" for Customer Experience and Research
— GULF CUSTOMER EXPERIENCE AWARDS

"Best Employee Engagement in Financial Services" for the Human Resources Team
— GULF CUSTOMER EXPERIENCE AWARDS

"Five Star Cash Manager"
— EUROMONEY

"Best Supply Chain Finance Bank in the Middle East"
— GLOBAL FINANCE

"Mohammed Bin Rashid Al Maktoum Business Innovation Award"
— "THE MOHAMMED BIN RASHID AL MAKTOUM BUSINESS INNOVATION AWARD"

"Outstanding Award for Business Innovation"
— "THE MOHAMMED BIN RASHID AL MAKTOUM BUSINESS INNOVATION AWARD"

"Best Trade Bank in the Middle East"
— TRADE AND FORFAITING REVIEW (TFR)

"Best Bank for Transaction Services in the Middle East"
— EUROMONEY AWARDS FOR EXCELLENCE

"Five Star Trade Finance provider in Middle East"
— EUROMONEY

"3G CSR Award" in recognition of excellence in transparency, good governance and social responsibility
— THE GLOBAL GOOD GOVERNANCE AWARDS "3G AWARDS"

"Five Star Trade Finance provider in the Region (Middle East)"
— EUROMONEY

"UAE Domestic Trade Finance Bank of the Year Award"
— ASIAN BANKING & FINANCE

"'Market Leader' in 2017" —Cash Management
— EUROMONEY

"Debt Capital Markets in UAE"—Real Estate Survey 2017
— EUROMONEY

"APCP—Best Property Management Team—UAE 2017"
— THE CAPITAL FINANCE INTERNATIONAL (CFI)

"The Best Annual Report Category in the Middle East"
— THE 9TH MIDDLE EAST INVESTOR RELATIONS ASSOCIATION (MEIRA) AWARDS

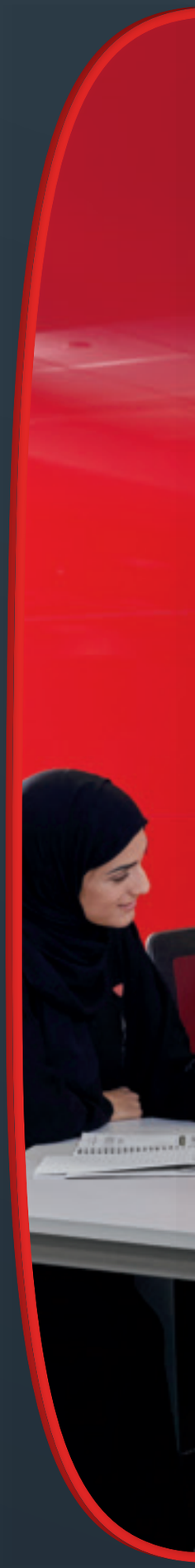
"Best Investor Relations Website in the Middle East"
— THE 9TH MIDDLE EAST INVESTOR RELATIONS ASSOCIATION (MEIRA) AWARDS

"Islamic Banker of the Year 2017 Award"
— GLOBAL ISLAMIC FINANCE AWARDS (GIFA)

"The Institute for Corporate Governance"
— HAWKAMAH

"Women in Leadership Achievement Award" under the category of best DNI (Diversity and Inclusion Initiative) for its Tamooha
— THE 19TH GLOBAL WOMEN IN LEADERSHIP ECONOMIC FORUM

leadership & governance




جامعة الطموح
AMBITION UNIVERSITY

Board of Directors

Eissa Mohamed Al Suwaidi

Chairman
Independent, Non-Executive Director*

Eissa Mohamed Al Suwaidi was appointed by the Abu Dhabi Investment Council (ADIC) to join the ADCB Board of Directors and was elected as Chairman of ADCB in September 2008. Eissa Mohamed Al Suwaidi has more than 20 years of experience in asset management and banking.

Bachelor of Economics
(Northeastern University, USA)

ADCB COMMITTEE MEMBERSHIPS:

Chairman—Risk & Credit Committee

Member—Nomination, Compensation & HR Committee

EXTERNAL APPOINTMENTS:

Chairman—Emirates Telecommunications Corporation (Etisalat Group)

Vice Chairman—Maroc Telecom

Managing Director—Abu Dhabi Investment Council

Board Member—International Petroleum Investment Company, Emirates Investment Authority

Mohamed Sultan Ghannoum Al Hameli

Vice Chairman
Independent, Non-Executive Director*

Prior to joining the Department of Finance—Emirate of Abu Dhabi, Mohamed Sultan Ghannoum Al Hameli was the Assistant Director of the European Equities Department of Abu Dhabi Investment Authority (ADIA). He was appointed by ADIA to join the ADCB Board of Directors in October 2004.

Bachelor of Finance
(Boston University, USA)

General Manager Program, Strategic IQ: Creating Smarter Corporations
(Harvard Business School)

Chartered Financial Analyst (CFA Institute)

ADCB COMMITTEE MEMBERSHIPS:

Chairman—Nomination, Compensation & HR Committee

Member—Risk & Credit Committee

EXTERNAL APPOINTMENTS:

Director General—Abu Dhabi Finance Department

Chairman—National Health Insurance Company (DAMAN)

Board Member—Social Welfare & Minor Affairs Foundation, Emirates Telecommunications Corporation (Etisalat Group) and UAE Federal Tax Authority

*Independent (assessed as per Bank policies)

Mohamed Darwish Al Khoori

Independent, Non-Executive Director*

Mohamed Darwish Al Khoori has 29 years of experience in asset management and its related disciplines. Mr. Al Khoori has been Executive Director of the Operations Department of the Abu Dhabi Investment Authority (ADIA) since 31 May 2015. From 2008–2015, he was the Executive Director of the Internal Equities Department at Abu Dhabi Investment Authority.

In May 2004, Mohamed Darwish Al Khoori was nominated by ADIA to join the ADCB Board of Directors, and in April 2006, he was elected by the ADCB shareholders to be an ADCB Director. He was subsequently nominated to be an ADCB Director by ADIC in March 2009. In March 2015, he was again nominated and elected by shareholders to be an ADCB Director.

Bachelor of Business Administration (Siena Heights University, Michigan, USA)

General Manager Program (Harvard Business School)

ADCB COMMITTEE MEMBERSHIPS:

Chairman—Audit & Compliance Committee

Member—Nomination, Compensation & HR Committee

EXTERNAL APPOINTMENTS:

Chairman—Oman & Emirates Investment Holding Company—Executive Committee

Vice Chairman—Oman & Emirates Investment Holding Company—Board

Member—The Financial Corporation (FINCORP) Board

Chairman—The Financial Corporation (FINCORP)—Audit Committee

Member—Abu Dhabi Global Market (Board)

Member—Abu Dhabi Global Market (Audit Committee)

Executive Director—Abu Dhabi Investment Authority (Operations Department)

Member—ADIA's Investment Committee

Khalid Deemas Al Suwaidi

Independent, Non-Executive Director*

Khalid Deemas Al Suwaidi was appointed by ADIC to join the ADCB Board of Directors in March 2009. In 2012, he was nominated and elected by ADCB shareholders to act as a Director, and in March 2015, he was again nominated and elected by ADIC to act as a Director.

Khalid Deemas Al Suwaidi has approximately 15 years of banking experience, having held senior management positions with National Bank of Abu Dhabi and First Gulf Bank.

Master of Business Administration, minor in Management Information Systems and Strategic Planning (Widener University, USA)

Bachelor of Science/Computer Information Systems (Bethune Cookman College, USA)

ADCB COMMITTEE MEMBERSHIPS:

Member—Corporate Governance Committee

Member—Audit & Compliance Committee

EXTERNAL APPOINTMENTS:

Chairman—Emirates & Morocco Trading & General Investment

Board Member—Manazel Real Estate Company, Vice Chairman—Abu Dhabi National Takaful Company

Group Chief Executive Officer—Das Holding

*Independent (assessed as per Bank policies)

Board of Directors continued

Mohamed Ali Al Dhaheri

Independent, Non-Executive Director*

Mohamed Ali Al Dhaheri was appointed by ADIC to join the ADCB Board of Directors in May 2007. Prior to joining ADIC, Mohamed Ali Al Dhaheri was the Chief Operating Officer of the Treasury Department in Abu Dhabi Investment Authority.

Mr. Al Dhaheri is currently the Executive Director of the Accounting & Financial Services Department, ADIC.

Bachelor of Business Administration (International University of America)

ADCB COMMITTEE MEMBERSHIPS:

Chairman—Corporate Governance Committee

Member—Audit & Compliance Committee

EXTERNAL APPOINTMENTS:

Chairman—Invest AD

Abdulla Khalil Al Mutawa

Independent, Non-Executive Director*

Abdulla Khalil Al Mutawa is a skilled and dedicated investment professional with more than 35 years of experience and a comprehensive background in finance and administration. He was nominated by ADCB shareholders to join the ADCB Board of Directors in March 1997.

Bachelor of Business Administration (University of North Carolina, USA)

ADCB COMMITTEE MEMBERSHIPS:

Member—Nomination, Compensation & HR Committee

Member—Audit & Compliance Committee

EXTERNAL APPOINTMENTS:

General Manager—The Private Office of Sheikh Suroor bin Mohammed Al Nahyan

Board Member—Bank Alfalah Limited; Makhazen Investment Company (Chairman)

Non-Executive Member—EFG Hermes Board

*Independent (assessed as per Bank policies)

Sheikh Sultan bin Suroor Al Dhaheri

Independent, Non-Executive Director*

Sheikh Sultan bin Suroor Al Dhaheri was elected by ADCB shareholders to join the ADCB Board of Directors in March 2009.

Master of Business Administration (Abertay Dundee University, UK)

Bachelor in Business & Marketing (Middlesex University, London, UK)

ADCB COMMITTEE MEMBERSHIPS:

Member—Corporate Governance Committee

EXTERNAL APPOINTMENTS:

Chairman—SSD Group, Abu Dhabi Maritime & Mercantile International Co.

Chairman—Al Dhaana Holding

Faisal Suhail Al Dhaheri

Independent, Non-Executive Director*

Faisal Suhail Al Dhaheri was nominated by ADIC to join ADCB's Board of Directors in March 2016. He is a member of the strategy team of ADIA. Mr. Al Dhaheri manages ADIA's alternative investments mandates, strategic asset allocation, and tactical hedges against strategic portfolios.

Prior to holding this position, Mr. Al Dhaheri served as a Senior Adviser within ADIA's Managing Director's Office spearheading a broad range of investment and organisational reforms.

Chartered Alternative Investment Analyst (CAIA Association)

Chartered Financial Analyst (CFA Institute)

Master of Arts in Mathematics (Boston University, Massachusetts, USA)

Bachelor of Arts in Mathematics (Boston University, Massachusetts, USA)

ADCB COMMITTEE MEMBERSHIPS:

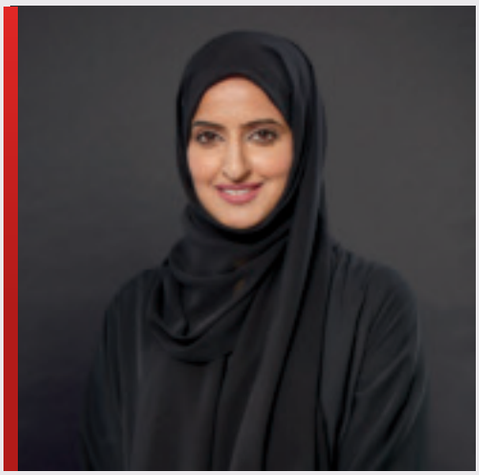
Member—Risk & Credit Committee

EXTERNAL APPOINTMENTS:

Member—The Zayed Bin Sultan Al Nahayan Charitable & Humanitarian Foundation Investment Committee

*Independent (assessed as per Bank policies)

Board of Directors continued



Aysha Al Hallami

Independent, Non-Executive Director*

Aysha Al Hallami is currently a Research Specialist in the Fixed Income and Treasury Department at ADIA. Aysha Al Hallami was elected by ADIC to join the ADCB Board of Directors in April 2013.

Chartered Financial Analyst, CFA Institute

Private Equity and Venture Capital, Harvard Business School

Master of Sciences in Finance & Banking, British University in Dubai in association with Cass Business School, City University, London

Bachelor of Science in Business Sciences: major in Finance, Zayed University, (Abu Dhabi, UAE)

ADCB COMMITTEE MEMBERSHIPS:

Member—Audit & Compliance Committee

Member—Risk & Credit Committee

Khaled H. Al Khoori

Independent, Non-Executive Director*

Khaled H. Al Khoori was elected by ADCB shareholders to join ADCB's Board of Directors in April 2012. Since January 2006, he has been the Chairman of Orient House for Development & Construction.

Master of Civil Engineering (Northeastern University, USA)

Bachelor of Civil Engineering (Northeastern University, USA)

ADCB COMMITTEE MEMBERSHIPS:

Member-Risk & Credit Committee

Member—Corporate Governance Committee

EXTERNAL APPOINTMENTS:

Chairman—Orient House for Development & Construction

NCHR Committee—Abu Dhabi National Hotels (ADNH)

Board Executive Committee—Abu Dhabi National Hotels (ADNH)

Chairman of Board of Director—Abu Dhabi National Hotels (ADNH Compass)

*Independent (assessed as per Bank policies)

Sir Gerry Grimstone

Adviser

ADCB appointed Sir Gerry Grimstone as Adviser to its Board of Directors in January 2013. He brings significant international expertise and experience in investment banking and the financial services industry, and serves on the boards of several high-profile public- and private-sector companies.

Sir Gerry was previously Chairman of TheCityUK, a senior investment banker at Schroders, and an official in the UK's HM Treasury. He was responsible for privatisation and policy for state-owned enterprises and helped oversee HM Treasury's Operational Efficiency Programme. He has also served as one of the UK's business ambassadors.

EXTERNAL APPOINTMENTS:

Chairman—Standard Life Aberdeen plc

Chairman—Barclays International which oversees Barclays' Corporate and Investment Bank and International Cards and Payments businesses

Deputy Chairman—Barclays plc

Lead Non-Executive Director—UK Ministry of Defence

Independent Non-Executive Director—Deloitte North West Europe

*Independent (assessed as per Bank policies)

Executive Management

Ala'a Eraiqat

Group Chief Executive Officer and Member of the Board, Executive Director

Ala'a Eraiqat joined ADCB in January 2004 and since then has held various senior posts before taking over as Chief Executive Officer and also becoming a member of ADCB's Board of Directors in February 2009. He previously held senior positions at Citibank and Standard Chartered Bank, amongst others. His responsibilities extend to chairing the following subsidiaries and committees of ADCB, amongst others: Abu Dhabi Commercial Properties, Abu Dhabi Commercial Engineering Services, ADCB Securities, Itmam Services, the ADCB Management Executive Committee and the ADCB Management Risk & Credit Committee.

Deepak Khullar

Group Chief Financial Officer

Deepak was appointed Group Chief Financial Officer in 2008 and is responsible for Group finance and strategy, investor relations and strategic sourcing. He previously spent 15 years with Standard Chartered Bank in the Middle East and in Korea. Before joining Standard Chartered, he worked for 12 years with Ernst & Young and Price Waterhouse & Co. (now PricewaterhouseCoopers) in the Middle East and India. Deepak is an Associate of the Institute of Chartered Accountants of India and an Associate Member of the Association of Corporate Treasurers (UK).

Jerry Möllenkramer

Group Chief Operating Officer

Jerry was appointed Group Chief Operating Officer following ADCB's acquisition of the Royal Bank of Scotland's retail banking business in the UAE in 2010. He was previously Chief Operating Officer for Royal Bank of Scotland's Middle East and Africa franchise, a position he held from 2008. He also served as an Executive Director for ABN AMRO's Group Services Division, and before that fulfilled various directorships within ABN AMRO's Wholesale Banking Division. Jerry holds a BA from the University of California and an MBA and a Master's degree in Business Informatics from the Rotterdam School of Management.

Colin Fraser

Group Head of Wholesale Banking

Colin completed his Master of Arts in Financial Economics at the University of Dundee, receiving the Bowie Memorial Prize for top economics graduate. He is an Associate of the Chartered Institute of Bankers and a Fellow of the Royal Society for the Arts. Colin joined Barclays Bank in 1992 and undertook various roles as an international banker. In 2007, he was appointed Barclays' Corporate Banking Director, GCC, joining ADCB a year later as Head of the Wholesale Banking Group.

Executive Management continued

Arup Mukhopadhyay

Group Head of Consumer Banking

Arup joined ADCB in 2005 and is Head of the Consumer Banking Group. He had previously spent seven years with Citibank, becoming Head of Wealth Management products and Marketing Director for its UAE Consumer business. Before that, he worked with Unilever in India in several sales and marketing roles. Arup is a mechanical engineering graduate and holds an MBA from the Indian Institute of Management, Lucknow. In 2016, Arup was named the Retail Banker of the Year In the Middle East by *The Asian Banker*, Singapore.

Kevin Taylor

Group Treasurer

Kevin joined ADCB in 2009 as Head of the Treasury & Investments Group. He has held significant treasury and risk positions in global organizations such as ALICO, Citigroup, Westpac Bank and Merrill Lynch. At ADCB, he is responsible for a front office staff of 40, including FX trading and sales, derivative trading and sales, and fixed income and investments personnel along with money market, balance sheet analytics teams. Kevin has over thirty years of global experience in banking and finance and is a member of the UAE Banks Federation Financial Markets Committee and a member of the Board of Directors of Gulf Capital. He holds an MBA from Macquarie University in Australia and a Master of Science in Risk Management from the Stern School of Business, New York University.

Ali Darwish

Group Head of Human Resources

Ali Darwish is a versatile leader with over 20 years of banking experience. A combination of interests in operational excellence, talent engagement and business strategy has accelerated his career through diverse positions in top financial institutions within the UAE. Ali's particular focus on human capital strategy enables him to transform talent into tangible assets for organisations. His in-depth understanding of strategy, performance objectives and drivers enables him to optimise capacity and capability across all business areas of the Bank. Ali is managing a multidisciplinary award winning HR team who keep service excellence at the heart of the HR value proposition.

Abdirizak Mohamed

Group Chief Internal Auditor

Abdirizak has been the Group Chief Internal Auditor at ADCB since 2006, having previously worked at the NASDAQ Stock Market, NASD (FINRA) and OFHEO (FHFA). He has more than 20 years of financial industry experience that spans capital markets management, accounting policy/applications, examinations and auditing, risk management, regulatory oversight, and corporate governance. Currently, he serves as an Audit Committee member of various Abu Dhabi–based companies. Abdirizak is a Certified Public Accountant and holds a Bachelor's degree from the University of Washington in Seattle and a Master's degree from The George Washington University in Washington, DC.

Simon Copleston

Group General Counsel and Board Secretary

Simon has been General Counsel and Board Secretary at ADCB since 2008. After graduating from Durham University in the UK, he practised corporate law in the City of London for eight years. He joined Abu Dhabi Investment Authority in 2006, acting as a lawyer to the Emerging Markets department and the Strategic Investment and Infrastructure teams. He has more than 20 years of experience in banking, finance and corporate law. Simon is a UK-qualified solicitor and has been highly instrumental in the Bank's recent recognition as a regional leader in corporate governance.

Tilak Silva

Acting Group Chief Risk Officer

Tilak was appointed as the Acting Group Chief Risk Officer in March 2017. He has been with ADCB for 37 years with main focus areas on credit underwriting, remedial risk & restructuring. He has an in-depth understanding of the functionalities across all areas of the Bank. Prior to joining ADCB, Tilak worked for Hatton National Bank in Sri Lanka, undertaking different roles within the Credit Group.

Reporting Principles

This Corporate Governance Report outlines some key aspects of the Bank's corporate governance framework. We focus here only on the information we think is most important to our shareholders.

If you would like more detail, you can find the following documents on the Bank's website (http://www.adcb.com):

- Articles of Association
- Code of Corporate Governance
- Codes of Conduct for our employees and our Directors
- External Auditor's Appointment Policy
- Board Performance Evaluation Policy
- Procedures for selecting and appointing the Bank's Directors
- Conflicts of Interest Policy for Directors
- Directors' Share Dealing Policy
- Committee terms of reference

THE WEBSITE ALSO CONTAINS INFORMATION ABOUT THE FOLLOWING SUBJECTS:

- Our disclosure standards, communications with shareholders, and investor relations
- Our strategy-setting process
- The structure and composition of our Board
- Board oversight of risk management
- Our process for inducting new Directors and ensuring the professional development of all Board Members
- Matters reserved for the Board
- How we ensure Board Members are updated about important developments
- Retirement and re-election of Directors
- Remuneration of Directors for service on the Board and Board Committees
- The Board's Adviser
- Directors' independence
- Role of the Board Secretary
- Management committees
- Internal controls
- Audit arrangements
- Internal audits, regulation and supervision
- Diversity
- Succession planning
- Codes, standards and communications
- Our variable pay framework

Corporate Governance Report

ADCB adheres to the highest standards of corporate governance. In many respects, we are pioneers in our region, having voluntarily adopted practices above and beyond those mandated by law. We continuously enhance and improve our governance principles and framework, emphasising transparency, integrity, accountability and fairness.

We believe high standards of corporate governance will contribute to our long-term success, encourage trust and engagement with our stakeholders, and reinforce our culture. To that end, the Bank has established a clear, well-understood governance framework. We regularly review and adjust this framework to reflect changes in the Bank's businesses, regulation, best practices and the external environment.

The Board

MEMBERSHIP, COMMITTEES AND MEETINGS

The Board, which consists of 11 members, met eight times in 2017. Directors received information between meetings about the activities of Board and management committees and developments in the Bank's business. In addition, the Board held an off-site meeting in November to debate and refine the Bank's strategy. Members of senior management were invited to all these meetings to enhance the Board's engagement with management and understanding of the business. In addition, Board members regularly visited divisions of the Bank to enrich their knowledge of our operations.

The Board has four standing Committees, which cover: Audit & Compliance, Corporate Governance, Risk & Credit, and Nomination, Compensation & Human Resources. Each member of the Board, with the exception of Ala'a Eraiqat, the Group Chief Executive Officer, serves on at least one standing Committee. The Committees met a total of 57 times in 2017. Chairmanships and memberships of the Board Committees are reviewed on a regular basis to ensure suitability and are rotated as needed.

The following table shows the amounts paid to the Directors for their service on the Board and its Committees in 2017.

Members	Status	Year of appointment	Expiration of current term of office	Board Member remuneration (AED, paid in 2017 for the year 2016)[2] *Meetings[4]: 8*			Nomination, Compensation & HR Committee *Meetings[4]: 6*		
				Chairman/ Member	Sessions attended	Amount (AED)	Chairman/ Member	Sessions attended	Amount (AED)
Eissa Mohamed Al Suwaidi	Non-Executive Director	2008	2020	C	7	1,150,000	M	4	16,000
Mohamed Sultan Ghannoum Al Hameli	Non-Executive Director	2004	2019	VC	7	875,000	C	6	30,000
Ala'a Eraiqat	Executive Director	2009	N/A	M	8	0			
Khaled H. Al Khoori	Non-Executive Director	2012	2018	M	7	700,000			
Mohamed Darwish Al Khoori	Non-Executive Director	2004	2018	M	8	700,000	M	5	20,000
Abdulla Khalil Al Mutawa	Non-Executive Director	1997	2018	M	8	700,000	M	6	24,000
Mohamed Ali Al Dhaheri	Non-Executive Director	2007	2019	M	7	700,000			
Sheikh Sultan bin Suroor Al Dhaheri	Non-Executive Director	2009	2018	M	7	700,000			
Khalid Deemas Al Suwaidi	Non-Executive Director	2009	2020	M	6	700,000			
Aysha Al Hallami	Non-Executive Director	2013	2019	M	8	700,000			
Faisal Suhail Al Dhaheri	Non-Executive Director	2016	2020	M	7	583,333			
Omar Liaqat	Non-Executive Director	2013	2016	M[1]	0	116,667			
Total						7,625,000			90,000

1 Ceased to be a Member of the Board effective 6 March 2016;

2 Board Member remuneration paid during 2017 (for the year 2016): (C) Chairman of Board: AED 1,150,000, (VC) Vice-Chairman: AED 875,000, and (M) Board Member: AED 700,000.

Note: Ala'a Eraiqat (Board Member and Group Chief Executive Officer) has waived his right to receive Board fees.

3 Non-BRCC members (who attended SBRCC meetings)

4 Meetings attended in 2017 year.

Board Risk & Credit Committee *Meetings[4]: 37*			Audit & Compliance Committee *Meetings[4]: 9*			Corporate Governance Committee *Meetings[4]: 5*			Board Committee meeting fees (AED, paid in 2017)	Total (AED)
Chairman/ Member	Sessions attended	Amount (AED)	Chairman/ Member	Sessions attended	Amount (AED)	Chairman/ Member	Sessions attended	Amount (AED)		
C	26	130,000							146,000	1,296,000
M	32	128,000							158,000	1,033,000
M	37	148,000				M	5	20,000	168,000	868,000
*[3]	4	16,000	C	9	67,500				103,500	803,500
*[3]	7	28,000	M	9	54,000				106,000	806,000
*[3]	6	24,000	M	8	48,000	C	5	25,000	97,000	797,000
						M	3	12,000	12,000	712,000
			M	7	42,000	M	4	16,000	58,000	758,000
M	32	128,000	M	9	54,000				182,000	882,000
M	28	112,000							112,000	695,333
										116,667
		714,000			265,500			73,000	1,142,500	8,767,500

BOARD REMUNERATION

Directors' remuneration is set annually by the Bank's shareholders. Any proposals for changes are considered by the Nomination, Compensation & Human Resources Committee prior to obtaining Board and shareholder approvals. According to applicable laws and the Bank's articles of association, Directors may not receive any remuneration in years when the Bank does not achieve net profits.

As at 31 December 2017, the Bank's Directors were not eligible for any bonus, long-term or other incentive schemes. Directors do not receive any pension benefits from the Bank.

The Board's Agenda in 2017

The Board of Directors regularly discusses certain items that are fundamental to the direction of the Bank, such as business performance, long-term planning, strategy, risk appetite and management, succession planning, and human resources. Details of the agenda items discussed by the Board and its Committees during 2017 are set out on pages 108 and 109.

BOARD AND BOARD COMMITTEE AGENDA ITEMS

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Governance	• 2017 Annual General Assembly agenda • Management Committees' terms of reference • Reports from committee Chairmen, committee minutes and other reports • Capital Expenditure limits • Amendments to the Bank's Articles of Association • Outcome of the 2016/2017 Board Evaluation • Board expenses summary for the year 2016 • Review of Independent directors • Benchmarking of Board fees • External review of corporate governance	• Reports from committee Chairmen, committee minutes and other reports • NCHR and BACC related policy and terms of reference amendments • Delegation of authority over the Bank's Procurement policy • Basel Committee guidance on Corporate Governance principles for banks • Review of Corporate Governance policies • Conflict of interest and related parties update • Review of the Bank's employees code of conduct	• Reports from committee Chairmen, committee minutes and other reports • Updates to governance policies and terms of reference • Conflict of interest and related parties update • Code of Corporate Governance • Board terms of reference • Risk & Credit Committee terms of reference • Corporate Governance Committee terms of reference • Review of Corporate Governance policies • Review of the Bank's corporate culture • Update on sustainability strategy	• Reports from committee Chairmen, committee minutes and other reports • Conflict of interest and related parties update • Annual Report 2017 • Management Executive Committee—amendments to terms of reference • Review of Corporate Governance policies • 2018 Board agenda
Financial Performance, planning and controls	• 2016 financial results, including business performance by group • External Auditor presentation	• Q1 financial results, including business performance by group • Capital Plan 2017–2019 • External auditor presentation	• Q2 financial results, including business performance by group • Forecast for 2018 • External auditor presentation	• Q3 financial results, including business performance by group • Update on VAT implementation and impact
Group Chief Executive/ Business update	• Group CEO's update • Group Business Services (including technology, operations, customer experience and business & control) update • Results of customer satisfaction survey (including NPS) • ADGM license	• Group CEO's update • Wholesale Banking Group update • Abu Dhabi Commercial Properties and Abu Dhabi Commercial Engineering Services update • Core banking update • Real estate update • HR Group update (including recruitment, training and development, and employee services)	• Group CEO's update • Consumer Banking update • Market update	• Group CEO's update • 2018 funding plan • Treasury update
HR Related/ Remuneration	• Employee engagement Survey • Recruitments • Appraisals and Variable pay • Board retirements and re-appointments at the 2017 AGA • New option scheme • Group CEO's evaluation for 2016 and KPIs for 2017	• Group Medical Insurance • Variable Pay effectiveness • Retention plan: 2017 awards • Update on the Bank's Long Term Incentive Plans • Amended terms of the Bank's share scheme	• Performance Recognition reward • Compensation plans • Emerging UAEN talent • Succession planning • Public reporting on remuneration • Remuneration update (including performance recognition rewards, vesting of variable pay, annual report on sales/commission and update on LTIP)	• Annual HR update • Variable pay planning • Remuneration strategy • Update on share scheme • Board elections at the 2018 AGA • Contribution of the Board Adviser

BOARD AND BOARD COMMITTEE AGENDA ITEMS continued

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Internal Controls	• Internal audit update (including financial budget, staff strength, training plan) • Re-appointment of statutory auditors • Audit plan for 2017 • Risk Assessment update • EIBOR Audit • ADAA recommendations on review of internal audit functions • Central Bank follow up examination report on ADCB for 2016 • SCA governance regulations: Changes impacting external audit arrangements • Directors' shareholdings	• Internal audit update • External Auditor Selection Policy • Internal quality assurance assessment review 2016 • Big 4 consultancy fees for the year 2016 • Evaluation of statutory auditor for 2016/re appointment for 2017 • Non audit fees for 2016 • Directors' shareholdings	• Internal audit update • Central Bank examination report • Annual review of external auditor selection policy • External auditor's plan for 2017 • Procurement policy review • Directors' shareholdings	• Internal audit update • Directors' shareholdings
Risk	• Risk update, including risk appetite • Portfolio Risk Update • Operational Risk Appetite • Retail Portfolio Scorecard • Market Risk Valuation system • Risk Adjusted Return on Capital • Risk Appetite Breaches • Compliance Update	• Credit Policy • Reputational Risk Appetite • Portfolio Risk update • Compliance programme review • Anti-Money Laundering • Sanctions programme and sanctions policies • Results of risk culture survey • ICAAP policy • Stress test methodology and results • Compliance Update • Personal trading policy • Liquidity Update • Report from BACC Chairman and Head of Compliance on outcome of Compliance review	• Risk update (including risk appetite statement) • Portfolio risk update • Risk appetite framework • Country prudential thresholds • Credit documentation policy • Stress test results • IT risk and security update • Compliance consultant review • Group Compliance & Enterprise Risk Update	• Compliance consultant review • Asset management compliance policy • ADCB India—appointment of statutory auditors • Compliance update
Strategic Items	• Performance versus strategy • Bank's 5 year strategy and digitalization strategy • Competitor analysis—financial and strategic	• Three year capital plan and forecast • 2017 Strategy day	• Competitor analysis—financial and strategic • Performance versus strategy update • Update on Bank's strategy and digitalization strategy • Implications of Basel III and IFRS 9 • Technology review	• 2018 budget

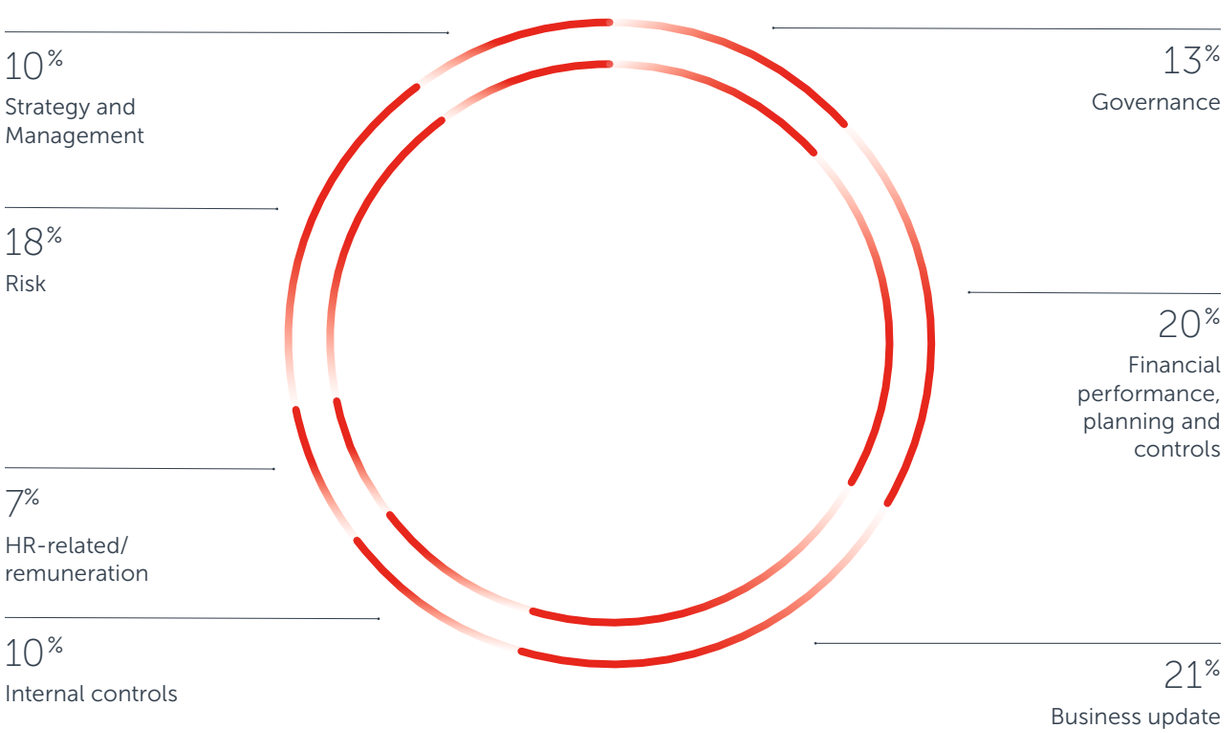
Other Practices and Policies

DIRECTORS' INDEPENDENCE AND MANAGEMENT REPORTING

During 2017, all non-executive Directors were considered independent*. In addition, all of the members of the Audit & Compliance Committee were independent. On the management side, the Group Chief Internal Auditor reports to the Board's Audit & Compliance Committee and the Group Chief Risk Officer reports to the Board's Risk & Credit Committee.

To ensure that the Board has the benefit of a range of independent thinking, the Bank appointed Sir Gerry Grimstone as an independent Board Adviser in January 2013. In 2017, Sir Gerry attended five Board meetings, three Board Committee meetings (NCHR) and the Board strategy session. His background and experience enriches the Board's deliberations, particularly in the areas of strategy, board reporting and effectiveness, performance assessments for senior management and assessment of risk appetite and rewards.

2017 BOARD OF DIRECTOR'S MEETINGS
APPROXIMATE TIME ALLOCATION



*As per SCA guidelines

BOARD OVERSIGHT OF RISK MANAGEMENT

Risk management is a key part of ADCB's corporate governance framework.

The Board of Directors has overall responsibility for setting our risk appetite and for ensuring risk is effectively managed. The Board Risk & Credit Committee (BRCC) oversees risk monitoring and management, and works with management to refine risk strategy as appropriate for particular sectors, geographic regions and customer types. The BRCC also reviews the suitability and effectiveness of the Bank's risk management systems and controls, reviews stress tests and the Bank's stress-testing methodology, oversees the management risk committees, and ensures that our risk governance supports prudent risk-taking at all levels in the Bank.

The Board and management also foster a culture of compliance. They have created an environment where employees at all levels are empowered to confront improper behaviour, raise grievances and suggest better ways to pursue the Bank's strategic goals.

PERFORMANCE EVALUATION*

The Board undergoes a rigorous in-house performance evaluation annually and, in line with global standards, and regularly engages an independent external consultant to conduct a performance evaluation. In late 2016, the Board appointed Sir Gerry Grimstone to conduct an evaluation of the Board's performance. Sir Gerry conducted an independent and comprehensive evaluation relying on his observation of the Board's performance of its duties whilst complimenting those observations with individual interviews of all Board members as well as members of the senior management. The Board Corporate Governance Committee considered and discussed its outcomes including: The most effective manner to use 'closed sessions', evolution of the Board and management's discussions on risk (including risk strategy), assessment of individual Board members' performance, the need to continuously monitor skills and expertise at Board level and to plan for succession, development of the Bank's strategy day and the form and content of management information supplied to the Board. The evaluation also addressed training requirements and the Board ensured that its members received professional development in several areas, including: regulatory developments, digitization and cyber security. The overall review concluded that the Board and its Committees are operating effectively in accordance with high international governance standards.**

APPOINTMENT, RETIREMENT AND RE-ELECTION

All Directors are required to seek re-election by shareholders every three years, and one-third of the Board must seek re-election each year. The Abu Dhabi Investment Council has the right to elect a percentage of the Board that is proportionate to its holdings of the Bank's share capital. As of year-end 2017, the Abu Dhabi Investment Council held 62.52% of the Bank's issued share capital and, consequently had the right to elect six Directors and to vote a further 2.52% of the Bank's capital at the Board elections.

DIVERSITY

In 2013, Aysha Al Hallami became the first woman to be appointed to the Bank's Board of Directors. This is in line with international trends and the Bank's efforts to promote greater diversity at the Board level, and it also corresponds with the Government's efforts to empower Emirati women. The Board's Nomination, Compensation & HR Committee is aware of the need to structure the Board to ensure that it obtains an appropriate balance of skills, experience and knowledge as well as independence.

The Bank's Board is aware of the advantages of all types of diversity. A diverse Board is likely to make better decisions.

INTERNAL CONTROLS

In 2017, the Board Audit & Compliance Committee reviewed the effectiveness of the Bank's systems of internal control, including financial, operational and compliance controls and risk-management systems. The Board received confirmation from the Bank's Internal Audit Group that the internal controls have been assessed to be effective and have been operating as designed, and that management has taken or is taking the necessary action to remedy any failings or weaknesses identified.

*The process and goals for the Bank's Board Performance Evaluation policy can be found on our website.

**Please see further details in the Statement of the Chairman of the Corporate Governance Committee on page 115.

MANAGEMENT COMMITTEES

Management has established the following committees:

Committee name	Number of meetings held in 2017	Responsibilities of the committee
Management Executive (MEC)	44 (including management offsite)	Most senior management committee; oversees all Bank businesses and operations
Senior Management (SMC)	2	Responsible for administration, change management, strategy, and project updates and dissemination of other information; pre-screens certain matters before MEC review
Assets & Liabilities (ALCO)	6	Formulates the Bank's overall assets and liabilities strategy. Makes investments and executes asset/liability transactions within delegated limits; guides the MEC and the Board on investments and asset/liability transactions above those limits
Management Risk & Credit (MRCC)	55 (50 Credit related MRCCs and 5 Policy MRCCs)	Approves credits within delegated limits; considers risk appetite and strategy issues; sets and recommends risk policies; guides the Board Risk & Credit Committee and the Board on credits above delegated limits and on general risk and risk policy issues
Management Recoveries (MRC)	4	Approves recoveries within delegated limits, and guides the MEC and the Board on recoveries above those limits
Capital Expenditure (CEC)	6	Reviews and approves project capital expenditures within delegated limits, and makes recommendations to the MEC and the Board on project capital expenditures above those limits
Liabilities & Initiatives (LICO)	5	Formulates the Bank's tactical liabilities initiatives at the business/product levels with ongoing monitoring of achievements of different product groups; responsible for cross-selling initiatives, monitoring product performance, and approving pricing and marketing of products to ensure a focused approach to the market on gathering deposits
Management HR (MHRC)	4	Acts as a forum for prior screening, discussion and recommendation of all human resources–related matters that are ultimately determined by the MEC
Financial Performance Management (FPMC)	6	Monitors financial performance of the Bank's business lines
International Operations & Alliances (IO&AC)	5	Supports the MEC in its responsibility to oversee and manage the Bank's international operations and alliances (excluding the Bank's Jersey branch), including the India branch, the UK representative office, the Singapore representative office, and alliances in place from time to time

In addition, management has established several working groups that cover, amongst other things, customer experience, insurances and compliance.

AUDIT ARRANGEMENTS

Deloitte & Touche, the external auditors, were appointed at the 2015 Annual General Meeting (AGM) and reappointed at the 2016 and 2017 AGMS. Local laws and bank policy restrict the external auditors' tenure to no more than three consecutive renewals.

Deloitte & Touche is paid on a fixed annual fee basis, as approved by the shareholders at the AGM. In 2017, the audit fees for the Bank and its subsidiaries excluding India operations amounted to AED 1,014,650, and fees for non-audit work amounted to AED 430,542. Non-audit work comprised: a comfort letter related to the Bank's Global Medium Term Note Programme, Prudential Returns for the Bank's Jersey Branch, and consultancy on tax matters.

THE BANK'S APPROACH TO DISCLOSURE

The Bank is committed to high standards of transparency and to enhancing our disclosures regularly to reflect local and international best practices. In this year's annual report, we have focused on giving readers a clearer picture of our performance, business model and strategy and have provided more detail about how the Board allocates its time. In addition, we have refined and streamlined our risk disclosures.

In keeping with our leadership role on governance matters, we are confident the Bank is one of the most transparent institutions in the region. We publicly communicate relevant financial and non- financial information in a timely manner through this annual report, our quarterly market updates, our press releases, the Bank's website and the Abu Dhabi Securities Market (ADX). The Bank's Investor Relations department ensures strong communication with our investors and potential investors. Finally, we take internal communications extremely seriously: Staff are kept aware of all new developments—including the Bank's strategic direction, objectives, ethics, risk policies, general policies and procedures, new regulations, and other relevant information—via internal channels.

STATEMENT FROM THE CHAIRMAN OF THE

Audit & Compliance Committee

Mohamed Darwish Al Khoori (Chairman), Aysha Al Hallami, Khalid Deemas Al Suwaidi, Mohamed Ali Al Dhaheri, and Abdulla Khalil Al Mutawa, Rami Raslan (Secretary)

COMPOSITION AS AT 31 DECEMBER 2017

Dear Shareholders,

During 2017, the Audit & Compliance Committee held nine meetings, during which the Committee:

- Assessed the objectivity and effectiveness of the Bank's financial reporting and disclosure process. This included monitoring of the Bank's choice of accounting policies, principles and judgements;
- Assessed the performance of the external auditor and recommended the external auditors' re-appointment;
- Oversaw the activities of the Bank's Group Compliance and Enterprise Risk Management function, which includes amongst others, regulatory updates, conduct compliance, fraud and operational risk management. The Committee continued to work with the Bank's Compliance function to ensure implementation of the compliance consultant's recommendations made in 2016 and reviewed an updated report from the consultant (see details below);
- Considered the performance, effectiveness and activities of the Bank's Internal Audit function, including the Internal Audit function's annual plan, budgeting, staffing and training activities and delivery against the plan;
- Reviewed and approved the Bank's internal audit plan for year 2017 and the Internal Audit Group (IAG) risk assessment process for selection of audit activities;
- Coordinated its activities with those of the Board Risk & Credit Committee and other Board Committees;
- Reviewed and ensured the existence of an effective system of internal controls;
- Reviewed, and discussed with management and the external auditors, the annual audited financial statements, and considered the soundness of the Bank's specific and general provisions. The Committee noted that the management continued to work (along with the external auditor) on the development of collective impairment models and to assess the impact of, and the Bank's readiness for implementation of, IFRS 9;
- Reviewed audit observations raised by the internal and external auditors, the Central Bank, the Abu Dhabi Accountability Authority (ADAA), and other regulators, and management's responses to such observations and ensured that management is taking action to address these observations;
- Reviewed ADAA's assessment report on the Bank's internal audit function;
- Evaluated the external auditors' qualifications, performance, independence and objectivity, including overseeing all of the external auditors' non-audit activities to ensure that their independence is not compromised. The Committee also reviewed the scope of work proposed by the external auditors for 2017 and ensured that the fees paid to the external auditors were appropriate for the type of work provided;
- Reviewed the Committee's terms of reference and the policies sponsored by the Committee, such as the external auditor selection policy and procurement policy and ensured that new regulations were reflected, where applicable, in relevant policies;
- Ensured the adequate flow of information between the Committee, internal auditors, external auditors, the Bank's management and the Board;
- Reviewed the quarterly report on the Bank's Directors' holdings in the Bank's shares (in compliance with SCA's regulations); and
- Reported regularly to the Bank's Board of Directors.

The Board approved the 2017 annual accounts at the Committee's recommendation based on the external auditors' report and following the Committee's review. The Committee believes that the Bank remains within its guidelines and policies for provisioning purposes and that the provisions for year 2017 remain at an adequate level.

The Committee continued to regularly meet with the external auditors and internal auditors without the presence of the Bank's management. In addition, the Committee members attended joint meetings with the members of the Risk & Credit Committee to ensure suitable coordination of activities and discuss risk-related issues.

The Committee considered future challenges including the UAE's introduction of VAT and the adoption of IFRS 9 and the related implications for the Bank's financials, methodologies and models.

During 2017, the Committee commissioned a leading global consulting firm (Promontory) to conduct an assessment of the Bank's Anti-Money Laundering and Sanctions Compliance programmes (the "Programmes"). The Committee was pleased to note that the consultants found the Programmes to be "strongly" designed, documented, and implemented and that the Bank is a "leading player in the region" for compliance purposes. The consultant commended, amongst other things, the Bank's robust compliance controls and systems, the close monitoring of AML and sanctions' risks, and the overall compliance governance framework. The Committee considered the consultant's report in detail and will develop an action plan to address, where applicable, the recommendations made.

The Committee received confirmation from the Bank's Internal Audit Group that the Bank's internal controls have been assessed to be effective and are operating as designed.

The Committee was pleased to note that it made positive progress during 2017 towards meeting its responsibilities and objectives.

LOOKING AT 2018

The Committee's schedule in 2018 contemplates nine meetings focused, amongst other things, on the integrity of the Bank's financial statements, provisioning models, the activities of the Bank's Internal Audit function, External Audit and Compliance function and ensuring the adequacy of the Bank's internal controls and compliance activities. In particular, the Committee will continue to assess the impact of IFRS 9, Basel III and the introduction of VAT on the Bank's activities and financial statements. The Committee will continue to coordinate its activities with those of the Board Risk & Credit Committee and will work with the Bank's Compliance function to ensure implementation of the compliance consultant's recommendations made in 2017.

MOHAMED DARWISH AL KHOORI
Chairman of the Board's Audit & Compliance Committee

ALLOCATION OF DISCUSSION TIME:

45%	16%	15%	14%	10%
INTERNAL AUDIT UPDATE	FINANCIAL RESULTS	GOVERNANCE RELATED MATTERS	COMPLIANCE UPDATE	POLICY REVIEWS

STATEMENT FROM THE CHAIRMAN OF THE

Corporate Governance Committee

Mohamed Ali Al Dhaheri (Chairman), Sheikh Sultan bin Suroor Al Dhaheri, Khalid Deemas Al Suwaidi, Khaled H. Al Khoori, Rami Raslan (Secretary)

COMPOSITION AS AT 31 DECEMBER 2017

Dear Shareholders,

The Board Corporate Governance Committee held five meetings over the course of 2017. Amongst other things, in 2017 the Committee worked on:

- Engaging the services of an independent consultant (KPMG) to conduct a review of the Bank's corporate governance framework (see details below);
- Assessing the outcome of the board evaluation and the adoption and monitoring of the action plan arising from it (see details below);
- Reviewing the Bank's culture (see details below);
- Reviewing the Bank's progress against its sustainability strategy;
- Preparing for the Board's evaluation for 2017/8;
- Reviewing and recommending amendments to governance policies and the Board and management committees' terms of reference;
- Engaging the Bank's divisions and various businesses on the governance framework and providing guidance on enhancing governance practices;
- Assessing Directors' professional development requirements for 2017, and overseeing the Directors' training programme which included training on Customer Experience in ADCB, Digitization, Liquidity Coverage Ratio, Basel III and IFRS 9, IT Security, and VAT;
- Publishing corporate governance information, including information included in the Bank's annual report and on the Bank's website;
- Monitoring for Directors' conflicts of interest; and
- Monitoring best practices in corporate governance and making recommendations to the Board and Board Committees on governance matters.

During 2017, the Corporate Governance Committee continued its work to maintain and develop the Bank's governance framework. In particular, the Committee commissioned KPMG to benchmark the Bank's governance framework against Basel Guidelines, local regulations and international best practices. The Committee was pleased to note that KPMG found the Bank's governance to be "strong" and "leading in the local market". In particular, KPMG commended the Bank's approach to disclosure and transparency, diversity, customer experience and its overall governance culture. KPMG also made certain observations relating, inter alia, to: The role of risk and credit committees at Board and management level, the process for nomination of directors, independence of directors, rotation of the members of the Board committees, and the Bank's governance operating model. The Committee considered KPMG's report in detail and has developed an action plan to address, where appropriate, the observations made by KPMG. Following this review, the Committee believes the Bank continues to operate a robust governance framework, appropriate for its size and status, but that there remains room for improvement as best practices continue to evolve.

The Committee also took oversight for the Board evaluation process which was externally facilitated by the Board's advisor, Sir Gerry Grimstone. Sir Gerry conducted a comprehensive evaluation and made a report to the Committee and Board which raised various observations that were implemented during 2017. The overall review concluded that the Board and its Committees are operating effectively in accordance with high international governance standards. The Committee considered Sir Gerry's report in detail and developed an action plan to address, where appropriate, the observations raised.

In September 2017, the Committee reviewed and assessed the Bank's overall culture. The Committee was pleased to note that the Bank has developed a positive culture, focussed on values, service, prudent risk management, governance, compliance and ethics. The Committee also considered the Board's role in setting and maintaining culture. During 2018, the Committee will develop KPIs to ensure that the Bank's culture can be continuously assessed and maintained.

The Committee considers that positive progress was made during 2017 in the implementation of the Bank's corporate governance initiatives. The Committee believes that all levels of the Bank, including the Chairman, Board Members, Group Chief Executive Officer and senior management and staff, remain committed to the Bank's corporate governance framework and to maintaining a strong governance culture.

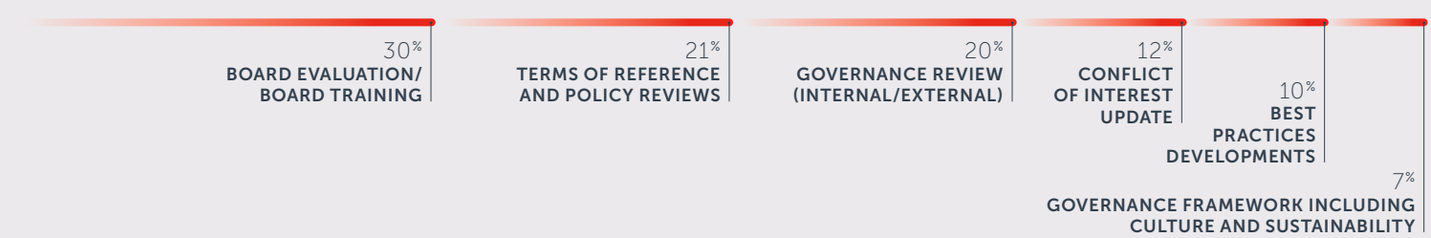
LOOKING AT 2018

The Committee's agenda for 2018 reflects our ongoing commitment to raising governance standards across the Bank. The Committee will continue to focus on key governance areas and will manage the Board evaluation, review the results, and initiate any remedial actions. The Committee will also focus on IT governance, risk governance and procurement governance. Finally, the Committee anticipates that, in 2018, the Central Bank intends to introduce new regulations on corporate governance, and the Committee will ensure that the Bank complies with those regulations.

MOHAMED ALI AL DHAHERI

Chairman of the Board's Corporate Governance Committee

ALLOCATION OF DISCUSSION TIME:



STATEMENT FROM THE CHAIRMAN OF THE

Nomination, Compensation & HR Committee

Mohamed Sultan Ghannoum Al Hameli (Chairman), Eissa Mohamed Al Suwaidi, Abdulla Khalil Al Mutawa, Mohamed Darwish Al Khoori, Ali Darwish (Joint Secretary), Rami Raslan (Joint Secretary)

COMPOSITION AS AT 31 DECEMBER 2017

Dear Shareholders,

During 2017, the Nomination, Compensation & HR Committee focussed on the Bank's Human Resources strategy and policies, remuneration strategy and effectiveness, Board nominations, staff engagement and Emiratisation and succession planning. The Committee met 6 times during 2017. In particular, the Committee:

- Received regular updates from the Bank's Human Resources team;
- Considered the Bank's Human Resources activities and strategy and reviewed data on staff engagement;
- Reviewed the Board's composition, including the nomination and appointment processes for Directors, the Board's election process and Directors' independence;
- Assessed Directors' remuneration and fees;
- Considered the performance evaluation and remuneration of the Bank's Group Chief Executive Officer;
- Reviewed and supervised the operation of the Bank's remuneration framework, including fixed and variable pay, retention awards and performance recognition awards, and assessed the effectiveness of the Bank's remuneration strategy. The Committee also made certain adjustments to the design of the Bank's remuneration schemes;
- Reviewed the framework for, and operation of, the Bank's incentive and commission schemes;
- Considered succession plans for key executives;
- Reviewed the Bank's key Human Resources policies;
- Evaluated the results of "Project Step", the project implemented during 2016 to reduce complexity in the Bank's job grading and titles framework;
- Enhanced the Bank's Emiratisation strategy, and considered case studies and presentations by aspiring UAE nationals. In particular, the Committee analysed the development of UAE nationals working in the Bank over the past few years; and
- Considered and assessed the contributions of the Board Adviser to the Board's activities.

During 2017 the Board appointed KPMG to review the Bank's corporate governance. KPMG reported positively on the Bank's governance, stating that, overall, the Bank's governance activities were "strong and leading" in the market. Having reviewed the Bank's remuneration governance, KPMG expressed no concerns. However, KPMG raised certain observations regarding (a) independence of the Bank's directors, and (b) rotation of the members of the Bank's board committees. The Committee plans to consider these concerns during 2017.

The Committee reviewed the results of the Bank's employee engagement survey for the first time in 2017. The Committee noted strong improvements in employee engagement across all metrics, including quality of leadership, collaboration and empowerment, and learning and growth. These strong results contribute to the Bank's healthy culture (see page 84 for further details).

The Bank's Emiratisation strategy and variable remuneration remained key focus areas during 2017. The Committee continued to develop KPIs to assess the effectiveness of the Bank's remuneration schemes. Applying those KPIs, the Committee observed that the remuneration schemes continue to meet their objectives. Details of these KPIs are disclosed in the corporate governance section of this report. The Committee continues to believe that the Bank's remuneration policies remain appropriate for the Bank's current size and status, and that the remuneration framework is in line with international best practices. Following the release of new regulations related to the design of staff share schemes, the Committee will work on adjustments to the design of the Bank's share schemes during 2018.

In particular, the Committee continues to believe that the Bank's remuneration framework has been effective in attracting and retaining talent; is effectively linked (in both design and scale) to the Bank's long-term performance, KPIs and strategy; and is likely to continue to be effective. Although management has some discretion to distribute variable pay, this is exercised only within and following the Committee's oversight of allocations amongst business groups, staff grades, risk-takers and control staff. Overall, the Committee aims to ensure that payments reward Bank-wide and Group-wide performance, and do not reward under-performance.

The Committee considers that it made positive progress during 2017 towards meeting its responsibilities.

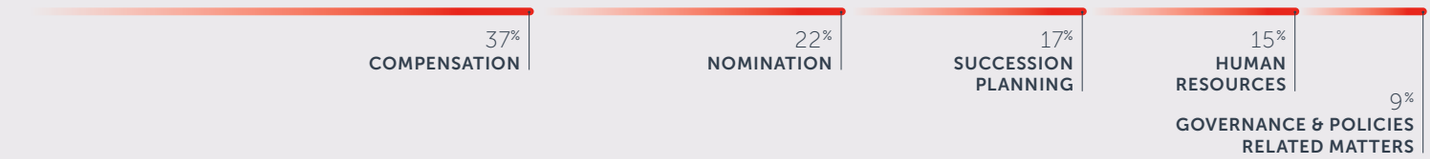
LOOKING AT 2018

In 2018, the Committee will continue to focus on the Bank's Emiratisation strategy and HR activities, will redesign the Bank's staff share schemes to comply with new regulations and will continue to assess of the effectiveness of the Bank's remuneration schemes. The Committee will also consider the observations made by KPMG in its review of the Bank's governance, particularly those related to directors' independence and rotation of the members of the Bank's committees. Additionally, the Committee will oversee the process for the Board elections to be held at the Bank's 2018 annual general assembly.

MOHAMED SULTAN GHANNOUM AL HAMELI

Chairman of the Board's Nomination, Compensation & HR Committee

ALLOCATION OF DISCUSSION TIME:



STATEMENT FROM THE CHAIRMAN OF THE

Risk & Credit Committee

Eissa Mohamed Al Suwaidi (Chairman), Mohamed Sultan Ghannoum Al Hameli, Khaled H. Al Khoori, Aysha Al Hallami, Faisal Suhail Al Dhaheri, Rami Raslan (Secretary)

COMPOSITION AS AT 31 DECEMBER 2017

Dear Shareholders,

During 2017 the Board Risk & Credit Committee continued to focus on the Bank's risk strategy, appetite and analytics. Although the Committee continued (as required by regulation) to review sensitive or high value credit decisions, the Committee further increased the proportion of its time spent on risk strategy, appetite and analytics rather than on credit decisioning. The chart below breaks down the time spent by the Committee on matters relating to 'risk strategy'.

The Committee held 37 meetings over the course of 2017. Amongst other things, in 2017, the Committee:

- Reviewed risks in the Bank's asset portfolios (e.g., retail, small and medium enterprises and mid corporates);
- Considered the Bank's concentration limits and tolerances in various sectors (such as GREs in Abu Dhabi, Dubai and the region, real estate, contracting and hospitality) and countries, and in foreign exchange and derivative transactions;
- Considered the Bank's operational risks and operational risk reporting, as well as liquidity risk, credit risk and market risk;
- Reviewed the Bank's IT, physical security and cyber risks;
- Reviewed UAE economic development and analysed geographic risks;
- Considered the outcome of stress tests and reverse stress tests conducted on various key portfolios, and ensured that outcomes are incorporated into risk-appetite reviews, capital adequacy assessments, budgets and capital and liquidity plans;
- Examined the risk and control deficiencies in the Bank;
- Analysed the formulas, inputs and assumptions used for various risk metrics including the "probability of default" concept, and "loss given default models";
- Reviewed the Bank's retail collection losses and processes;
- Considered the Bank's business continuity plan management;
- Reviewed the Bank's processes for control and monitoring of financial and non-financial covenants;
- Reviewed the Bank's processes for underwriting transactions;
- Reviewed the Bank's counterparty prudential threshold risk appetite;
- Assisted the Board in defining the Bank's risk appetite and risk strategy, and monitored the independence and effectiveness of the Bank's risk management functions;
- Ensured that management has implemented processes to promote the Bank's adherence to risk policies;
- Reviewed the Bank's contingency funding plan and monitored the Bank's liquidity risk management;
- Considered the Bank's unhedged positions against pegged currencies;
- Considered the Bank's capital adequacy assessment process, including its Internal capital adequacy assessment process (ICAAP) methodology; and,
- Considered its agenda for 2018.

Due to the difficult market environment the Committee increased its focus on stress testing during 2017. To ensure the integrity and effectiveness of the Bank's stress testing models, the Committee resolved to appoint an external consultant to validate the effectiveness of the Bank's stress testing methodology and models.

Following the retirement of the Bank's Group Chief Risk Officer early in 2017, the Committee has also been actively involved in recruiting a suitable replacement.

The Committee was pleased to note that it made positive progress during 2017 towards meeting its responsibilities and objectives.

LOOKING AT 2018

The Committee's schedule in 2018 contemplates nine meetings focused, amongst other things, on risk strategy, appetite and analytics and stress testing. In line with local regulations, the Committee will continue to consider high value or sensitive credit decisions.

EISSA MOHAMED AL SUWAIDI

Chairman of the Board's Risk & Credit Committee

ALLOCATION OF DISCUSSION TIME:

ADCB Directors' Shareholdings

as at 31st December 2017

	Shareholding in ADCB		
	As at 31 December 2016	*As at 31 December 2017*	**Change in shareholding**
Abdulla Khalil Al Mutawa	2,347,277	2,347,277	0
Ala'a Eraiqat*	2,328,757	2,271,758	56,999
Aysha Al Hallami	0	0	0
Eissa Mohamed Al Suwaidi	0	0	0
Khalid Deemas Al Suwaidi	0	0	0
Khaled H. Al Khoori	0	0	0
Mohamed Ali Al Dhaheri	0	0	0
Mohamed Darwish Al Khoori	146,265	91,892	54,373
Mohamed Sultan Ghannoum Al Hameli	0	0	0
Faisal Suhail Al Dhaheri	0	0	0
Sheikh Sultan bin Suroor Al Dhaheri	2,835,147	2,835,147	0

**Excluding: 569,797 restricted units in the Bank's LTIP scheme of which (1) 174,549 vested on 31 December 2017, (2) 148,267 will vest on 31 December 2018 subject to early vesting, and (3) 246,981 will vest on 31 December 2019 subject to early vesting.*

Remuneration and Reward

GUIDING PRINCIPLES

ADCB supports levels of remuneration necessary to attract, retain and motivate employees capable of leading, managing and delivering quality service in a competitive environment. However, our remuneration structure is conservative, and we have practices and policies that promote effective risk management. To that end ADCB structures remuneration packages so they reflect duties and responsibilities, are fair and equitable, and incorporate clear and measurable rewards linked to corporate and individual performance. Rewards are based only on the results of a rigorous performance appraisal system with a robust management decision-making, review and approvals process.

As far as possible, bearing in mind market trends and constraints, our remuneration programme incorporates both short- and long-term incentives that align the interests of ADCB's employees with the interests of shareholders and other stakeholders. Performance-related elements are designed to minimise employee turnover and to inspire employees to perform at the highest levels, consistent with effective risk management.

TOTAL REWARD—KEY COMPONENTS

As shown in the following table, employees can receive three types of reward at ADCB: fixed pay, variable pay and retention scheme.

Fixed Pay

Definition	Components	2017 Key Management Fixed Pay
Fixed pay is based on the market rate for each role and is impacted by the employee's contributions over time. Fixed-pay reviews depend on whether the employee achieved specific and measurable objectives and delivered a prescribed performance level.	*Basic Salary Allowances* • Social allowance (UAE nationals) • Job-specific allowances (such as a teller allowance, remote-area allowance or shift allowance) *Benefits based on band,* such as: • Leave fare • Private medical insurance • Life insurance coverage • Education allowance • Annual leave	In 2017, Key Management (defined as the Group CEO and his direct reports) received fixed pay and cash benefits in an aggregate amount of AED 26.539 million.

Variable Pay

Definition	Performance Criteria	2016 Variable Pay Awards
Employees may receive variable pay based on their performance over the year. Because it is performance-based, variable pay is at risk, and the amount received, if any, may change each year.	Individual award amounts are dependent on three things: • Individual performance • Business function performance • Bank overall performance For more information, see "ADCB's Variable Pay Framework & Governance—Key Facts," on page 120.	For performance in 2016, awards to employees in 2017 consisted of cash variable pay awards of AED 136.36 million and deferred compensation plan awards of AED 43.84 million. Key Management received AED 23.475 million in cash and AED 20.725 million in deferred compensation from the amounts set forth above.

Retention Scheme

Definition	Selection Criteria	2017 Retention Scheme Awards
In 2014, ADCB introduced a share-based Retention Scheme for incumbents in key positions deemed 'mission critical' and for UAE nationals deemed to have exceptional growth potential. The Retention Scheme, which is independent of variable pay awards, is designed to ensure business continuity by mitigating turnover risk and the related operational risk. Invitations to join the Retention Scheme are at the sole discretion of the NCHR Committee; members of the Management Executive Committee are not eligible to participate. Retention Scheme awards vest after four years from the award date.	• Incumbents in 'mission critical' positions • UAE nationals with exceptional growth potential	In 2017, we awarded 2,780,000 shares with an aggregate value of AED 18.63 million. Awards were made to 95 employees, of whom 69% were UAE nationals.

ADCB'S BANK-WIDE VARIABLE PAY FRAMEWORK

The Variable Pay framework has been designed to align employees' interests with the long-term interests of Bank's shareholders and to incentivise higher performance, while avoiding excessive risk-taking. It also distinguishes amongst different functions of the Bank, to ensure alignment to the relevant market.

The NCHR Committee oversees the design, operation and effectiveness of the framework and allocation of awards, including overall amounts, distribution amongst business groups and actual awards to senior management (including material risk-takers and senior members of the Bank's control functions).

ADCB uses a balanced scorecard (BSC) approach to measuring performance, including the following KPI categories:

- Financial
- Customer Service (minimum 30% weightage)
- Risk
- Learning and Growth

EFFECTIVENESS OF THE VARIABLE PAY FRAMEWORK

Effectiveness of the variable pay framework is monitored on an annual basis through a set of KPIs, including:

- Correlation between total variable pay pool and the Bank's Net Profits
- Correlation between individual performance and variable pay award
- Attrition rate for the employees awarded deferred variable pay as compared to the overall attrition rate
- Leadership Stability-Attrition rate at senior management level (top 100 executives) as compared to industry average for same level

ADCB'S VARIABLE PAY FRAMEWORK & GOVERNANCE—KEY FACTS

Reflects individual, business function and Bank-wide performance	*Yes*
Distinguishes amongst different functions of the Bank to ensure alignment to the relevant market	*Yes*
Defers variable pay award above specified threshold	*Yes*
Currency of deferred compensation	*Cash and shares*
Duration of deferral of variable pay	*3 years*
Awards subject to thresholds, caps, clawback rules, malus clause, and deferral and retention provisions	*Yes*
Managed by remuneration professionals experienced in the governance of all types of compensation and benefits	*Yes*
Designed in conjunction with, and reviewed by, independent external advisors reporting directly to the Nomination, Compensation & Human Resources Committee	*Yes*
Relies on regular external benchmarking to ensure alignment with evolving global best practices	*Yes*
Incorporates constant monitoring of developments in remuneration governance to ensure all variable pay plans evolve in line with the Bank's needs and external developments	*Yes*
Designed to avoid excessive risk-taking	*Yes*
Includes a minimum shareholding rule for Key Management	*Yes*
Aligns employee interests with the long-term interests of the Bank's shareholders	*Yes*

ISLAMIC BANKING GOVERNANCE

ADCB Islamic Banking is the brand under which we offer retail and corporate Shari'ah-compliant financial solutions to our Consumer, Wholesale and Treasury clients.

ADCB is regulated by the Central Bank of the UAE, and its Islamic banking activities are supervised by an independent Fatwa & Shari'ah Supervisory Board (FSSB). The FSSB operates in accordance with the standards and guidelines issued by the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB), and is the final authority within ADCB regarding all Shari'ah-related matters. ADCB Islamic Banking's Shari'ah governance is implemented and overseen by the Shari'ah Advisory Lead.

Fatwas (pronouncements and approvals) are issued by the FSSB to certify compliance with principles of Shari'ah for all products and services as well as for bespoke structured deals. The FSSB's comprehensive review covers the product structure, the underlying Shari'ah contract, legal documentation, operational process flow and all associated product literature. Fatwas issued by the FSSB are published on the Bank's website and are available at all branches.

ADCB Islamic Banking maintains a separate set of financial records to ensure that the accounts for the Islamic business are completely segregated from ADCB's conventional funds. The Bank's consolidated accounts include the results of ADCB Islamic Banking, and are separately disclosed in the notes.

The respected Shari'ah scholars listed below make up the FSSB of ADCB Islamic Banking.

PROFESSOR JASSEM ALI AL SHAMSI, CHAIRMAN

Professor Jassem is the first Emirati Shari'ah scholar to lead the FSSB of ADCB Islamic Banking. He previously served as Dean of the College of Shari'ah and Law, UAE University. In addition, he chairs or is a member of many other FSSBs for Islamic banks/windows and financial institutions (FIs).

SHEIKH DR. NIZAM YAQUBI, EXECUTIVE MEMBER

Sheikh Dr. Nizam is one of the most prominent Shari'ah scholars in the world, and is recognised globally since he chairs or is a member of the FSSB at several regional and global Islamic banks and FIs. He is known for his deep knowledge of banking and Shari'ah coupled with a progressive approach towards modern banking solutions.

DR. HUMAYON DAR, MEMBER

Dr. Dar holds a PhD in Economics from the University of Cambridge, UK, and is an expert in the field of Islamic banking and finance. He is a member of the FSSB at several Islamic banks and FIs.

MR. KAMRAN KHALID SHERWANI, FSSB SECRETARY

Mr. Kamran is Shari'ah Advisory Lead at ADCB Islamic Banking. He provides Shari'ah guidance on all day-to-day Shari'ah-related matters and obtains FSSB guidance and approvals in respect of each product, service, process and transaction and other Shari'ah-related matters. Mr. Kamran received a degree in Shari'ah and Law from the International Islamic University, and he has served as Shari'ah advisor to several major Islamic banks and FIs.

consolidated financial statements

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THE SHAREHOLDERS
ABU DHABI COMMERCIAL BANK PJSC

Report on the audit of the consolidated financial statements

OPINION

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

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER:

Impairment of loans and advances to customers

The assessment of the Bank's determination of impairment allowances for loans and advances to customer requires management to make significant judgements over both timing of recognition and quantum of such impairment. The audit was focused on this matter due to the materiality of the balances (representing 62% of total assets) and the subjective nature of the calculations.

In wholesale loans and advances, the material portion of impairment is individually calculated. There is a risk that management does not capture all information necessary and available to determine the best estimate of future cash flows and incurred loss at the reporting date. This is specifically relevant as a result of the limited amount of data available over future cash flows and the high volatility of underlying collateral values. There is also the risk that management does not identify impairment triggers in a timely manner for performing loans and may allow bias to influence the impairment allowance.

For retail and performing wholesale loans and advances, the material portion of impairment is calculated on a modelled basis for portfolios. The inputs to these models are subject to management judgements and model overlays are required when management believes the parameters and calculations are not sufficient to cover specific risks. These overlays require significant judgement. We also identified a significant risk over the impairment allowance resulting from external factors, mainly the macro-economic and credit situation in the country. In light of the economic background, there is a risk that the impairment models fail to reflect the current economic conditions when determining the portfolio provisions.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT:

Our audit procedures included the assessment of controls over the monitoring of loans for the purposes of estimating incurred credit losses, and evaluating the methodologies, inputs and assumptions used by the Bank in calculating collectively assessed impairments and assessing the adequacy of impairment allowances for individually assessed loans.

We tested the design and operating effectiveness of relevant controls to determine which loans are impaired and allowances against those assets. These included testing:

- System-based and manual controls over the timely recognition of impaired loans;
- Controls over the approval, accuracy and completeness of the impairment calculation models; and
- Governance controls, including reviewing key meetings that form part of the approval process for loan impairment allowances.

We tested a sample of loans to assess whether impairment events had been identified in a timely manner.

In addition, we also focused on individually significant exposures. We tested the assumptions underlying the impairment identification and quantification, valuation of underlying collateral and estimates of recovery on default.

We paid particular attention to collective impairment methodology, where we reviewed the model to ensure that it meets the requirements of relevant accounting standards, tested inputs and re-performed the calculations. We also assessed the adequacy and movements of management overlays.

KEY AUDIT MATTER:

Valuation of investment securities and derivatives

The valuation of the Bank's financial instruments measured at fair value was a key area of audit focus due to their significance (20% of total assets). In addition, the valuation of certain instruments like derivatives remains a complex area, in particular when the fair value is established using a valuation technique due to the instrument's complexity or due to the lack of availability of market-based data. Those valuations involve significant judgements over the selection of an appropriate valuation methodology and inputs used in the models. Our audit focused on testing the valuation methodology of derivative financial instruments.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT:

Our audit procedures included testing the design and operating effectiveness of relevant controls in the Bank's financial instruments valuation process.

We also involved our valuation specialists to assess the valuation of derivatives and to review the accounting for qualifying hedging relationships including hedge designation and effectiveness assessment. For model-based valuations, we have compared observable inputs against independent sources and externally available market data to evaluate compliance with IFRS 13.

We have also assessed the adequacy of the Bank's disclosures including the accuracy of the categorisation into the fair value measurement hierarchy and adequacy of the disclosure of the valuation techniques, significant unobservable inputs, changes in estimate occurring during the period and the sensitivity to key assumptions.

KEY AUDIT MATTER:

IT systems and controls over financial reporting

We identified IT systems and controls over financial reporting as an area of focus because the Bank's financial accounting and reporting systems are vitally dependent on complex technology due to the extensive volume and variety of transactions which are processed daily and there is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. Moreover, the Bank completed the migration of its core banking systems and consolidated multiple systems into a single core banking platform during the reporting period. A particular area of focus related to logical access management and segregation of duties. The underlying principles are important because they ensure that changes to applications and data are appropriate, authorised and monitored. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT:

Our audit approach relies on automated controls and therefore procedures were designed to test access and control over IT systems. Given the IT technical characteristics of this part of the audit, we involved our IT audit specialists. Our audit procedures included:

- Update the IT understanding on applications relevant to financial reporting including Swift/FTS messaging and the infrastructure supporting these applications;
- Test of IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations;
- Examine computer generated information used in financial reports from relevant applications;

- Assess relevant controls over data migration in relation to the upgrade of the core banking system during the reporting period;
- Assess the reliability and continuity of the information system environment;
- Perform testing on the key automated controls on significant IT systems relevant to business processes; and
- Perform journal entry testing as stipulated by the International Standard on Auditing.

The combination of the test of controls and substantive tests performed, provided us sufficient evidence to enable us to rely on the continued operations of the IT systems for the purpose of our audit.

OTHER INFORMATION

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material

uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities of the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the consolidated financial statements of the Bank have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Bank has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the Bank's books of account;
- note 41 to the consolidated financial statements of the Bank discloses purchased or investment in shares during the financial year ended 31 December 2017;
- note 37 to the consolidated financial statements of the Bank discloses material related party transactions, the terms under which these were conducted and principles of managing conflict of interests;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2017; and
- note 53 to the consolidated financial statements of the Bank discloses social contributions made during the financial year ended 31 December 2017.

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

Deloitte & Touche (M.E.)

Signed by:

Mohammad Khamees Al Tah

Registration No. 717

28 January 2018

Abu Dhabi

United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017 AED'000	2016 AED'000	2017 USD'000
Assets				
Cash and balances with central banks	5	**19,997,123**	19,261,902	**5,444,357**
Deposits and balances due from banks, net	6	**11,451,956**	24,663,615	**3,117,875**
Reverse-repo placements	7	**98,578**	1,524,806	**26,839**
Trading securities	8	**485,301**	418,758	**132,127**
Derivative financial instruments	9	**3,820,364**	3,971,789	**1,040,121**
Investment securities	10	**49,191,657**	33,059,466	**13,392,773**
Loans and advances to customers, net	11	**163,282,230**	158,457,695	**44,454,732**
Investment in associate	12	**205,372**	204,977	**55,914**
Investment properties	13	**634,780**	659,776	**172,823**
Other assets	14	**14,857,038**	15,120,988	**4,044,933**
Property and equipment, net	15	**960,096**	926,685	**261,393**
Intangible assets	16	**18,800**	18,800	**5,118**
Total assets		**265,003,295**	258,289,257	**72,149,005**
Liabilities				
Due to banks	17	**5,177,129**	3,842,714	**1,409,510**
Derivative financial instruments	9	**4,234,481**	4,792,529	**1,152,867**
Deposits from customers	18	**163,078,386**	155,442,207	**44,399,234**
Euro commercial paper	19	**2,909,845**	8,728,533	**792,226**
Borrowings	20	**40,555,195**	38,015,030	**11,041,436**
Other liabilities	21	**16,603,319**	17,117,359	**4,520,370**
Total liabilities		**232,558,355**	227,938,372	**63,315,643**
Equity				
Share capital	22	**5,198,231**	5,198,231	**1,415,255**
Share premium		**2,419,999**	2,419,999	**658,862**
Other reserves	23	**7,484,927**	7,437,283	**2,037,823**
Retained earnings		**13,341,783**	11,295,372	**3,632,394**
Capital notes	26	**4,000,000**	4,000,000	**1,089,028**
Total equity		**32,444,940**	30,350,885	**8,833,362**
Total liabilities and equity		**265,003,295**	258,289,257	**72,149,005**

These consolidated financial statements were approved by the Board of Directors and authorised for issue on 28 January 2018 and signed on its behalf by:

Eissa Al Suwaidi
Chairman

Ala'a Eraiqat
Group Chief Executive Officer

Deepak Khullar
Group Chief Financial Officer

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

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 AED'000	2016 AED'000	2017 USD'000
Interest income	27	**8,772,562**	7,907,603	**2,388,392**
Interest expense	28	**(3,031,135)**	(2,411,589)	**(825,248)**
Net interest income		**5,741,427**	5,496,014	**1,563,144**
Income from Islamic financing	24	**1,081,671**	843,678	**294,493**
Islamic profit distribution	24	**(122,040)**	(138,519)	**(33,226)**
Net income from Islamic financing		**959,631**	705,159	**261,267**
Total net interest and Islamic financing income		**6,701,058**	6,201,173	**1,824,411**
Net fees and commission income	29	**1,507,042**	1,472,303	**410,303**
Net trading income	30	**353,977**	521,853	**96,373**
Net (losses)/gains from investment properties	13	**(34,173)**	15,582	**(9,304)**
Other operating income	31	**367,420**	284,536	**100,032**
Operating income		**8,895,324**	8,495,447	**2,421,815**
Operating expenses	32	**(2,947,581)**	(2,795,862)	**(802,499)**
Operating profit before impairment allowances		**5,947,743**	5,699,585	**1,619,316**
Impairment allowances	33	**(1,673,620)**	(1,520,518)	**(455,655)**
Share in profit of associate	12	**9,845**	7,821	**2,680**
Profit before taxation		**4,283,968**	4,186,888	**1,166,341**
Overseas income tax expense		**(6,360)**	(29,820)	**(1,732)**
Net profit for the year		**4,277,608**	4,157,068	**1,164,609**
Attributed to:				
Equity holders of the Bank		**4,277,608**	4,148,651	**1,164,609**
Non-controlling interests		**–**	8,417	**–**
Net profit for the year		**4,277,608**	4,157,068	**1,164,609**
Basic earnings per share (AED/USD)	34	**0.80**	0.77	**0.22**
Diluted earnings per share (AED/USD)	34	**0.79**	0.77	**0.22**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 AED'000	2016 AED'000	2017 USD'000
Net profit for the year	**4,277,608**	4,157,068	**1,164,609**
Items that may be re-classified subsequently to the consolidated income statement			
Exchange difference arising on translation of foreign operations (Note 23)	**13,546**	(5,481)	**3,688**
Net movement in cash flow hedge reserve (Note 23)	**(46,877)**	(146,550)	**(12,763)**
Net movement in fair value of available-for-sale investments (Note 23)	**45,830**	114,197	**12,477**
	12,499	(37,834)	**3,402**
Items that may not be re-classified subsequently to the consolidated income statement			
Actuarial gains on defined benefit obligation (Note 21)	**2,022**	1,573	**551**
Total comprehensive income for the year	**4,292,129**	4,120,807	**1,168,562**
Attributed to:			
Equity holders of the Bank	**4,292,129**	4,112,390	**1,168,562**
Non-controlling interests	**–**	8,417	**–**
Total comprehensive income for the year	**4,292,129**	4,120,807	**1,168,562**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital AED'000	Share premium AED'000	Other reserves AED'000	Retained earnings AED'000	Capital notes AED'000	Equity attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total equity AED'000
As at 1 January 2017	**5,198,231**	**2,419,999**	**7,437,283**	**11,295,372**	**4,000,000**	**30,350,885**	**–**	**30,350,885**
Net profit for the year	**–**	**–**	**–**	**4,277,608**	**–**	**4,277,608**	**–**	**4,277,608**
Other comprehensive income for the year	**–**	**–**	**12,499**	**2,022**	**–**	**14,521**	**–**	**14,521**
Other movements (Note 23)	**–**	**–**	**35,145**	**1,939**	**–**	**37,084**	**–**	**37,084**
Dividends paid to equity holders of the Bank	**–**	**–**	**–**	**(2,079,292)**	**–**	**(2,079,292)**	**–**	**(2,079,292)**
Capital notes coupon paid (Note 34)	**–**	**–**	**–**	**(155,866)**	**–**	**(155,866)**	**–**	**(155,866)**
As at 31 December 2017	**5,198,231**	**2,419,999**	**7,484,927**	**13,341,783**	**4,000,000**	**32,444,940**	**–**	**32,444,940**
As at 1 January 2016	5,595,597	3,848,286	5,656,564	9,627,315	4,000,000	28,727,762	5,041	28,732,803
Net profit for the year	–	–	–	4,148,651	–	4,148,651	8,417	4,157,068
Other comprehensive (loss)/ income for the year	–	–	(37,834)	1,573	–	(36,261)	–	(36,261)
Other movements (Note 23)	–	–	(7,100)	(4,950)	–	(12,050)	–	(12,050)
Dividends paid to equity holders of the Bank	–	–	–	(2,339,204)	–	(2,339,204)	–	(2,339,204)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(13,458)	(13,458)
Capital notes coupon paid (Note 34)	–	–	–	(138,013)	–	(138,013)	–	(138,013)
Cancellation of treasury shares (Note 23)	(397,366)	(1,428,287)	1,825,653	–	–	–	–	–
As at 31 December 2016	5,198,231	2,419,999	7,437,283	11,295,372	4,000,000	30,350,885	–	30,350,885

For the year ended 31 December 2017, the Board of Directors has proposed to pay a cash dividend representing 42% of the paid up capital (Note 22).

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 AED'000	2016 AED'000	2017 USD'000
OPERATING ACTIVITIES			
Profit before taxation	**4,283,968**	4,186,888	**1,166,341**
Adjustments for:			
Depreciation on property and equipment, net (Note 15)	**165,114**	144,813	**44,953**
Gain on sale of property and equipment, net	**(73,844)**	–	**(20,105)**
Net losses/(gains) from investment properties (Note 13)	**34,173**	(15,582)	**9,304**
Impairment allowance on loans and advances, net (Note 43.6)	**1,929,269**	1,689,913	**525,257**
Share in profit of associate (Note 12)	**(9,845)**	(7,821)	**(2,680)**
Discount unwind (Note 43.6)	**(51,515)**	(64,359)	**(14,025)**
Net gains from disposal of available-for-sale investments (Note 31)	**(46,715)**	(53,090)	**(12,718)**
Recoveries on available-for-sale investments and other impairment allowances (Note 33)	**3,257**	(31,798)	**887**
Interest income on available-for-sale investments	**(1,208,585)**	(629,703)	**(329,046)**
Dividend income on available-for-sale investments (Note 31)	**(1,850)**	(5,929)	**(504)**
Interest expense on borrowings and euro commercial paper	**1,006,264**	732,589	**273,962**
Net losses/(gains) from trading securities (Note 30)	**7,785**	(5,514)	**2,120**
Ineffective portion of hedges — (gains)/losses (Note 9)	**(20,720)**	3,278	**(5,641)**
Employees' incentive plan expense (Note 25)	**37,084**	34,304	**10,096**
Cash flow from operating activities before changes in operating assets and liabilities	**6,053,840**	5,977,989	**1,648,201**
Increase in balances with central banks	**(128,555)**	(775,245)	**(35,000)**
(Increase)/decrease in due from banks, net	**(3,200,020)**	5,149,073	**(871,228)**
Decrease in reverse-repo placements	**–**	2,032,852	**–**
Net movement in derivative financial instruments	**(166,985)**	(49,024)	**(45,463)**
Net purchase of trading securities	**(74,328)**	(350,983)	**(20,236)**
Increase in loans and advances to customers, net	**(6,685,248)**	(13,902,534)	**(1,820,106)**
Increase in other assets	**(176,596)**	(432,651)	**(48,079)**
(Decrease)/increase in due to banks	**(297,792)**	1,056,196	**(81,076)**
Increase in deposits from customers	**7,635,514**	11,917,003	**2,078,822**
Increase in other liabilities	**202,487**	594,541	**55,128**
Net cash from operations	**3,162,317**	11,217,217	**860,963**
Overseas tax paid, net	**(7,044)**	(15,724)	**(1,918)**
Net cash from operating activities	**3,155,273**	11,201,493	**859,045**
INVESTING ACTIVITIES			
Recoveries on available-for-sale investments (Note 33)	**–**	19,209	**–**
Proceeds from redemption/disposal of available-for-sale investments	**10,406,784**	9,240,329	**2,833,320**
Net purchase of available-for-sale investments	**(26,267,582)**	(21,551,793)	**(7,151,533)**
Interest received on available-for-sale investments	**1,338,123**	828,715	**364,313**
Dividends received on available-for-sale investments (Note 31)	**1,850**	5,929	**504**
Dividends received from associate	**9,450**	–	**2,573**
Net (additions to)/proceeds from disposal of investment properties (Note 13)	**(1,000)**	3,453	**(272)**
Net proceeds from disposal of property and equipment	**74,040**	–	**20,158**
Net purchase of property and equipment	**(198,721)**	(236,353)	**(54,103)**
Net cash used in investing activities	**(14,637,056)**	(11,690,511)	**(3,985,040)**
FINANCING ACTIVITIES			
Net (decrease)/increase in euro commercial paper	**(5,883,329)**	2,931,445	**(1,601,778)**
Net proceeds from borrowings	**19,789,726**	21,840,794	**5,387,892**
Repayment of borrowings	**(18,284,459)**	(17,295,347)	**(4,978,072)**
Interest/swap costs paid on borrowings and euro commercial paper	**(744,568)**	(573,295)	**(202,714)**
Dividends paid to equity holders of the Bank	**(2,079,292)**	(2,339,204)	**(566,102)**
Dividends paid to non-controlling interests	**–**	(13,458)	**–**
Purchase of employees' incentive plan shares (Note 23)	**–**	(46,354)	**–**
Capital notes coupon paid (Note 34)	**(155,866)**	(138,013)	**(42,436)**
Net cash (used in)/from financing activities	**(7,357,788)**	4,366,568	**(2,003,210)**
Net (decrease)/increase in cash and cash equivalents	**(18,839,571)**	3,877,550	**(5,129,205)**
Cash and cash equivalents at the beginning of the year	**34,651,119**	30,773,569	**9,434,010**
Cash and cash equivalents at the end of the year (Note 36)	**15,811,548**	34,651,119	**4,304,805**

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

1. Activities and areas of operations

Abu Dhabi Commercial Bank PJSC ("ADCB" or the "Bank") is a public joint stock company with limited liability incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE). ADCB is principally engaged in the business of retail, commercial and Islamic banking and provision of other financial services through its network of forty seven branches and three pay offices in the UAE, two branches in India, one offshore branch in Jersey, its subsidiaries and two representative offices located in London and Singapore.

The registered head office of ADCB is at Abu Dhabi Commercial Bank Head Office Building, Sheikh Zayed Bin Sultan Street, Plot C- 33, Sector E-11, P. O. Box 939, Abu Dhabi, UAE.

The Bank has amended its Articles of Association to ensure its compliance with the provisions of the UAE Federal Law No. 2 of 2015, which came into effect on 1 July 2015.

2. Application of new and revised International Financial Reporting Standards (IFRSs)

In the current year, the Group has applied a number of new and revised IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2017. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group's future transactions or arrangements.

- Amendments to IAS 12 Income Taxes relating to the recognition of deferred tax assets for unrealised losses.
- Amendments to IAS 7 Statement of Cash Flows to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Annual Improvements to IFRSs 2014–2016 Cycle — Amendments to IFRS 12.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2017.

STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

The Group has not early adopted any new and revised IFRSs that have been issued but are not yet effective.

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9.	1 January 2018
IFRS 7 Financial Instruments: Disclosures requiring additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	1 January 2018

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
IFRS 15 Revenue from Contracts with Customers — In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: Step 1: Identify the contract(s) with a customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract. Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	1 January 2018
IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014) issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas: **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.	1 January 2018

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019
IFRS 17 Insurance Contracts requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.	1 January 2021
Annual Improvements to IFRSs 2014–2016 Cycle amending IFRS 1 and IAS 28.	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration — the interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.	1 January 2018
Amendments to IFRS 2 Share-based Payment regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 Insurance Contracts relating to different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 Investment Property stating that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	1 January 2018
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments: The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	1 January 2019

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
Amendments in IFRS 9 Financial Instruments relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019
Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these IFRSs and amendments will be adopted in the Group's consolidated financial statements in the initial period when they become mandatorily effective. Among the new standards, only the application of IFRS 9 will have a major impact on the Group's consolidated financial statements.

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition and in November 2013 to include the new requirements for general hedge accounting. Final version of IFRS 9 was issued in July 2014 mainly to include:

a) Impairment requirements for financial assets; and

b) Limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

IFRS 9 Financial Instruments is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

In October 2017, the IASB issued prepayment features with negative compensation (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The Group has decided not to early adopt the aforementioned amendments.

KEY REQUIREMENTS OF IFRS 9

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at 'fair value through profit or loss' (FVTPL), IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the

credit risk or that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

In accordance with the transition requirements for hedge accounting under IFRS 9, the Group has made an accounting policy choice to continue to apply the hedge accounting requirements in IAS 39.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 October 2017 and the facts and circumstances that exist at that date, we assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

CLASSIFICATION AND MEASUREMENT

1. Loans and advances to customers, deposits and balance due from banks, balances with central banks and reverse-repo placements as disclosed in Note 11, Note 6, Note 5 and Note 7 respectively are carried at amortised cost; these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9.
2. Government securities and bonds forming part of the available for sale instruments as disclosed in Note 10 are mainly held within a business model whose objective is to collect the contractual cash flows and generate cash flows by selling the bonds for managing liquidity. The bonds contractual terms give rise to cash flows on the specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at FVTOCI upon the application of IFRS 9, and the fair value gains or losses will continue to be subsequently reclassified to profit or loss when these assets are derecognised or reclassified.
3. Listed and unlisted shares and mutual funds classified as available for sale investments in Note 10 are irrevocably designated to be measured at FVTOCI under IFRS 9. However, the fair value gains or losses accumulated will no longer be subsequently reclassified to profit or loss which is different from the current treatment. This will affect the amounts recognised in the Group's consolidated income statement but will not affect the total comprehensive income.
4. All other financial assets will be measured at FVTPL, whereas liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.
5. Embedded derivatives in a financial asset host contract are no longer required to be separated under IFRS 9. Instead, the hybrid financial asset as a whole will be assessed for classification.

IMPAIRMENT — FINANCIAL ASSETS, LOAN COMMITMENTS AND FINANCIAL GUARANTEE CONTRACTS

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments, i.e. debt investment securities and loans and advances to customers;
- Lease receivables; and
- Loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires entities to determine whether the credit risk on a financial instrument has increased significantly since initial recognition. With the exception of purchased or originally credit impaired financial assets, ECLs are required to be measured at an amount equal to 12-month ECL (referred to as Stage 1). Full lifetime ECL is recognised if there is a significant increase in credit risk or if an exposure is credit impaired (referred to as Stage 2 and Stage 3, respectively). Interest revenues for financial assets under Stage 3 are calculated on the net carrying amount.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within 12 months after the reporting date.

The Group will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases for which the amount recognised will be 12-month ECLs:

- Debt investment securities that are determined to have low credit risk at the reporting date. The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the definition of 'investment-grade'; and
- Other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

INPUTS INTO MEASUREMENT OF ECLS

The key inputs into the measurement of ECLs are the term structures of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data; they will be adjusted to reflect forward-looking information as described below. The Group will leverage the existing parameters of the regulatory framework and risk management practice.

PD estimates are estimates at a certain date which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate or sovereign counterparties.

If a counterparty or exposure migrates between ratings' classes, then this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities or exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group will estimate LGD parameters based on the history of recovery rates or claims against defaulted counterparties. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan to value (LTV) ratios are a key parameter in determining LGD. LGD estimates will be calibrated for different economic scenarios and, for real-estate lending, to reflect possible changes in property prices. They will be calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure at a future default date. The Group will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation and payment of principal and interest. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on credit conversion factors.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk.

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be ranked on the basis of shared risk characteristics that include:

- Instrument type;
- Credit risk grading;
- Collateral type;
- LTV ratio for retail mortgages;
- Date of initial recognition;
- Industry; and
- Geographic location of the borrower.

The groupings will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

IMPACT ASSESSMENT

The most significant impact on the Group's consolidated financial statements on implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

The transitional impact of IFRS 9 will be recognised in the opening equity as at 1 January 2018. The Management has estimated the impact of IFRS 9, based on the portfolio as at 31 October 2017, which is likely to be a reduction of 40bps to 59bps in Common equity tier 1 (CET1) capital and Capital adequacy ratio (CAR).

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- The Group has conducted parallel runs in the second half of 2017, the new systems and associated controls have not been operational for a more extended period;
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first consolidated financial statements that include the date of initial application;
- ECL calculations and models are being refined and finalised; and
- The Group is finalising the testing and assessment of controls over its new IT systems and changes to its governance framework.

3. Summary of significant accounting policies

3.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

IFRSs comprise accounting standards issued by the IASB as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

As required by the Securities and Commodities Authority of the UAE ("SCA") Notification No. 2624/2008 dated 12 October 2008, the Group's exposure in cash and balances with central banks, deposits and balances due from banks, trading and investment securities outside the UAE have been presented under the respective notes.

Certain disclosure notes have been rearranged from the Group's prior year consolidated financial statements to conform to the current year's presentation.

3.2 MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention except as modified by the revaluation of financial assets and liabilities at fair value through profit and loss, available-for-sale financial assets and investment properties.

3.3 FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are prepared and presented in United Arab Emirates Dirhams (AED), which is the Group's functional and presentation currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

The United States Dollar (USD) amounts in the primary financial statements are presented for the convenience of the reader only by converting the AED balances at the pegged exchange rate of 1 USD = 3.673 AED.

3.4 USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 4.

3.5 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of Abu Dhabi Commercial Bank PJSC and its subsidiaries (collectively referred to as the "Group").

SUBSIDIARIES

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When a company has less than a majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time the decision needs to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to owners of the Bank and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Bank and non-controlling interests even if this results in non-controlling interests having a deficit balance.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to align their accounting policies with the Bank's accounting policies.

All intragroup balances and income, expenses and cash flows resulting from intragroup transactions are eliminated in full on consolidation.

CHANGES IN THE BANK'S OWNERSHIP INTERESTS IN EXISTING SUBSIDIARIES

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Bank's interests is adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the shareholders of the Bank.

When the Bank loses control of a subsidiary, a gain or loss is recognised in the consolidated income statement and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to income statement or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

SPECIAL PURPOSE ENTITIES

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Bank, the Bank has power over the SPE, is exposed to or has rights to variable returns from its involvement with the SPE and its ability to use its power over the SPE at inception and subsequently to affect the amount of its return, the Bank concludes that it controls the SPE.

The assessment of whether the Bank has control over a SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Bank and the SPE except whenever there is a change in the substance of the relationship between the Bank and a SPE.

FUNDS UNDER MANAGEMENT

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Bank controls the entity, as referred to above. Information about the Funds managed by the Bank is set out in Note 50.

INVESTMENT IN ASSOCIATE

Associates are those entities in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investment in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of investment in associate, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 — Impairment of Assets as a single asset by comparing the recoverable amount (higher of value in use and fair value less cost of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of the impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of equity method of accounting from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at the date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date equity method was discontinued and the fair value of the retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation of that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

JOINT ARRANGEMENTS

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

Joint operation — when the Group has rights to the assets and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Joint venture — when the Group has rights only to the net assets of the arrangements, it accounts for its interest using the equity method, as for associates.

3.6 FOREIGN CURRENCIES

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Group are presented in AED, which is the Group's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the statement of financial position date. Any resulting exchange differences are included in the consolidated income statement. Non-monetary assets and liabilities are translated at historical exchange rates or year-end exchange rates if held at fair value, as appropriate. The resulting foreign exchange gains or losses are recognised in either consolidated income statement or consolidated other comprehensive income statement depending upon the nature of the asset or liability.

In the consolidated financial statements, the results and financial positions of branches and subsidiaries whose functional currency is not AED, are translated into the Group's presentation currency as follows:

(a) assets and liabilities at the rate of exchange prevailing at the statement of financial position date;

(b) income and expenses at the average rates of exchange for the reporting period; and

(c) all resulting exchange differences arising from the retranslation of opening assets and liabilities and arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end are recognised in other comprehensive income and accumulated in equity under 'foreign currency translation reserve' (Note 23).

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated income statement on a proportionate basis, except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, where the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement.

3.7 FINANCIAL INSTRUMENTS

INITIAL RECOGNITION

All financial assets and liabilities are initially recognised on the date at which the Group becomes a party to the contractual provision of the instrument except for "regular way" purchases and sales of financial assets which are recognised on settlement date basis (other than derivative contracts). Settlement date is the date that the Group physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Any significant change in the fair value of assets which the Group has committed to purchase at the consolidated statement of financial position date is recognised in the consolidated income statement for assets classified as held for trading, in other comprehensive income for assets classified as available-for-sale and no adjustments are recognised for assets carried at cost or amortised cost.

Financial assets are classified into the following categories: financial assets at 'fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'. The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired or incurred and their characteristics.

All financial instruments are measured initially at their fair value, plus transaction costs directly attributable to the acquisition, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction costs are recognised immediately in profit or loss.

FINANCIAL ASSETS AND LIABILITIES CLASSIFIED AS FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Financial assets and liabilities are classified as at FVTPL when either held for trading or when designated as at FVTPL.

A financial asset or liability is classified as held for trading if:

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

A financial asset or liability other than held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise for measuring assets or liabilities on a different basis; or
- it forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives and IAS 39 — Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets and liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in consolidated income statement.

HELD-TO-MATURITY

Investments which have fixed or determinable payments with fixed maturities which the Group has the positive intention and ability to hold to maturity are classified as held-to-maturity investments.

Held-to-maturity investments are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses, with revenue recognised on an effective yield basis.

Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective interest rate method.

If there is objective evidence that an impairment on held-to-maturity investments carried at amortised cost has been incurred, the amount of impairment loss recognised in the consolidated income statement is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the investments' original effective interest rate.

Investments classified as held-to-maturity and not close to their maturity, cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to interest rate or prepayment risk, reflecting the longer-term nature of these investments.

AVAILABLE-FOR-SALE

Investments not classified as either "fair value through profit or loss" or "held-to-maturity" are classified as "available-for-sale". Available-for-sale assets are intended to be held for an indefinite period of time and may be sold in response to liquidity requirements or changes in interest rates, commodity prices or equity prices.

Available-for-sale investments are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at fair value. The fair values of quoted financial assets in active markets are based on current prices. If the market for a financial asset is not active, and for unquoted securities, the Group establishes fair value by using valuation techniques (e.g. recent arm's length transactions, discounted cash flow analysis and other valuation techniques). Only in very rare cases where fair value cannot be measured reliably, investments are carried at cost and tested for impairment, if any.

Gains and losses arising from changes in fair value are recognised in the other comprehensive income statement and recorded in cumulative changes in fair value with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is included in the consolidated income statement for the year.

If an available-for-sale investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the consolidated income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in equity. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively

related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value.

- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income, accumulating in equity. A subsequent decline in the fair value of the instrument is recognised in the consolidated income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security. Impairment losses recognised on the equity security are not reversed through the consolidated income statement.

LOANS AND RECEIVABLES

Loans and receivables include non-derivative financial assets originated or acquired by the Group with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investments will be recovered other than because of credit deterioration. The Group's loans and receivables include deposits and balances due from banks and loans and advances, net. Placements with banks represent time bound term deposits.

After initial measurement at fair value plus any directly attributable transaction costs, deposits and balances due from banks and loans and advances, net are subsequently measured at amortised cost using the effective interest rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognised in the consolidated income statement.

LOAN IMPAIRMENT

Refer to credit risk management section — Note 43.6.

FINANCIAL LIABILITIES AND EQUITY

Debt and equity instruments are classified as either financial liability or equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

A financial instrument is classified as equity if, and only if, both conditions (a) and (b) below are met.

(a) The instrument includes no contractual obligation:

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group.

(b) If the instrument will or may be settled in the Group's own equity instruments, it is:

- a non-derivative that includes no contractual obligation for the Group to deliver a variable number of its own equity instruments; or
- a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

DEBT ISSUED AND OTHER BORROWED FUNDS

Financial instruments issued by the Group are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. These are recognised initially at fair value, net of transaction costs.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component.

MANDATORY CONVERTIBLE SECURITIES

The components of mandatory convertible securities issued by the Group are classified separately as equity and financial liability in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using

the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the convertible securities as a whole. This is recognised and included as a separate component in the consolidated statement of changes in equity and is not subsequently re-measured.

OTHER FINANCIAL LIABILITIES

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

RECLASSIFICATION OF FINANCIAL ASSETS

Reclassifications are recorded at fair value at the date of reclassification, which is recognised as the new amortised cost.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the consolidated income statement.

The Group may in rare circumstances reclassify a non-derivative trading asset out of the held for trading category into the loans and receivables category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate.

Reclassification is at the election of management and is determined on an instrument by instrument basis. The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - the Group has transferred substantially all the risks and rewards of the asset, or
  - the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has neither transferred its rights to receive cash flows from an asset nor has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or extinguishment is treated as a derecognition of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid is recognised in the consolidated income statement.

Offsetting

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

The Group is party to a number of arrangements, including master netting agreements that give it the right to offset financial assets and financial liabilities but, where it does not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented on a gross basis.

3.8 SALE AND REPURCHASE AGREEMENTS

Securities sold subject to a commitment to repurchase them at a predetermined price at a specified future date (repos) are continued to be recognised in the consolidated statement of financial position and a liability is recorded in respect of the consideration received under borrowings. The difference between sale and repurchase price is treated as interest expense using the effective interest rate yield method over the life of the agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse-repos) are not recognised in the consolidated statement of financial position. Amounts placed under these agreements are included in Reverse-repo placements. The difference between purchase and resale price is treated as interest income using the effective yield method over the life of the agreement.

3.9 SECURITIES BORROWING AND LENDING

Securities borrowing and lending transactions are usually secured by cash or securities advanced by the borrower. Borrowed securities are not recognised in the statement of financial position nor are lent securities derecognised. Cash collateral received or given is treated as a financial asset or liability. However, where securities borrowed are transferred to third parties, a liability for the obligation to return the securities to the stock lending counterparty is recorded. The securities borrowing and lending activity arrangements are generally entered into through repos and reverse-repos.

3.10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, balances held with central banks, deposits and balances due from banks, due to banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.11 AMORTISED COST MEASUREMENT

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

3.12 FAIR VALUE MEASUREMENT

The Group measures its financial assets and liabilities at market price that it would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence in the most advantageous market for the assets or liabilities. The Group considers principal market as the market with the greatest volume and level of activity for financial assets and liabilities.

The Group measures its non-financial assets at a price that take into account a market participant's ability to generate economic benefits by using the assets for their highest and best use.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique

incorporates all the factors that market participants would take into account into pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or a liability nor based on valuation technique that uses only data from observable markets, the instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, the difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid and an ask price, the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either the market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

3.13 DERIVATIVES

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index.

Derivative financial instruments are initially measured at fair value at trade date, and are subsequently re-measured at fair value at the end of each reporting period. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle the cash flows on a net basis.

Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the consolidated income statement under net gain on dealing in derivatives (Note 30).

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

3.14 HEDGE ACCOUNTING

Derivatives designated as hedges are classified as either: (i) hedges of the change in the fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); (ii) hedges of the variability in future cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect future reported net income ('cash flow hedges'); or (iii) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to derivatives designated in this way provided certain criteria are met.

At the inception of a hedging relationship, to qualify for hedge accounting, the Group documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Group also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest income and expense on designated qualifying hedge instruments is included in 'Net interest income'.

FAIR VALUE HEDGES

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the changes in fair value of both the derivative and the hedged item attributable to hedged risk are recognised in the consolidated income statement and the carrying amount of the hedged item is adjusted accordingly. If the derivative expires, is sold, terminated, exercised, no longer

meets the criteria for fair value hedge accounting or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point to the carrying value of a hedged item, for which the effective interest method is used, is amortised in the consolidated income statement as part of the recalculated effective interest rate over the period to maturity or derecognition.

CASH FLOW HEDGES

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective part is recognised immediately in the consolidated income statement. Amounts accumulated in equity are reclassified from other comprehensive income and transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss, in the same line of the consolidated income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting.

Any cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement from other comprehensive income.

NET INVESTMENT HEDGE

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

HEDGE EFFECTIVENESS TESTING

To qualify for hedge accounting, the Group requires that at the inception of the hedge and through its life, each hedge must be expected to be highly effective (prospective effectiveness) and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness depends on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent. Hedge ineffectiveness is recognised in the consolidated income statement.

DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement in "net gains from dealing in derivatives" under net trading income (Note 30).

3.15 TREASURY SHARES AND CONTRACTS ON OWN SHARES

Own equity instruments of the Group which are acquired by the Group or any of its subsidiaries (treasury shares) are deducted from other reserves and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity.

No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of own equity instruments.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

3.16 FINANCIAL GUARANTEES

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantee contracts are initially recognised at their fair value, which is likely to equal the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

3.17 ACCEPTANCES

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

Acceptances have been considered within the scope of IAS 39 — Financial Instruments: Recognition and Measurement and are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

3.18 COLLATERAL REPOSSESSED

The Bank acquires collaterals in settlement of certain loans and advances. These collaterals are recognised at net realisable value on the date of acquisition and are classified as investment properties. Subsequently, the fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on these collaterals are included in the consolidated income statement in the period in which these gains or losses arise.

3.19 LEASING

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee — Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rentals payable are recognised as an expense in the period in which they are incurred.

Group as a lessor — Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Rental income are recognised in the consolidated income statement on a straight line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

3.20 INVESTMENT PROPERTIES

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is reflected at valuation based on fair value at the statement of financial position date. Refer Note 3.12 for policy on fair valuation.

The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

Investment properties under development that are being constructed or developed for future use as investment property are measured initially at cost including all direct costs attributable to the design and construction of the property including related staff costs. Subsequent to initial recognition, investment properties under development are measured at fair value. Gains and losses arising from changes in the fair value of investment property under development is included in the consolidated income statement in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property and investment property under development are permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3.21 PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is charged to the consolidated income statement so as to write off the depreciable amount of property and equipment over their estimated useful lives using the straight-line method. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated.

Estimated useful lives are as follows:

Freehold properties	15 to 25 years
Leasehold and freehold improvements	7 to 10 years
Furniture, equipment and vehicles	3 to 5 years
Computer equipment, software and accessories	4 to 10 years

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated income statement.

3.22 CAPITAL WORK IN PROGRESS

Capital work in progress is stated at cost. When the asset is ready for use, capital work in progress is transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

3.23 INTANGIBLE ASSETS

The Group's intangible assets other than goodwill include intangible assets acquired in business combinations.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets acquired separately are measured on initial recognition at fair value and subsequently at cost less accumulated amortisation and impairment loss.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date which is regarded as their cost.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates and accounted for on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Estimated useful lives are as follows:

Credit card customer relationships	3 years
Wealth Management customer relationships	4 years
Core deposit intangible	5 years

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in consolidated income statement when the asset is derecognised.

3.24 BORROWING COSTS

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

3.25 BUSINESS COMBINATIONS AND GOODWILL

The purchase method of accounting is used to account for business acquisitions by the Group. The cost of acquisition is measured at the fair value of the consideration given at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of

the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the business acquired, the difference is recognised immediately in the consolidated income statement.

Goodwill acquired on business combination is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss of goodwill is recognised directly in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

3.26 IMPAIRMENT OF NON-FINANCIAL ASSETS

At each consolidated statement of financial position date, the Group reviews the carrying amounts of its non-financial 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 assets 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.27 EMPLOYEE BENEFITS

(i) Employees' end of service benefits

(a) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the statement of financial position in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Past-service costs are recognised immediately in income, unless the changes to the gratuity plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in other comprehensive income. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions.

The Group provides end of service benefits for its expatriate 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.

(b) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated income statement in the periods during which services are rendered by employees.

Pension and national insurance contributions for the UAE and GCC citizens are made by the Group to the Abu Dhabi Retirement Pensions and Benefits Fund in accordance with UAE Federal Law No. 7 of 1999.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Employees' incentive plan shares

The cost of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding incentive plan shares is reflected in the computation of diluted earnings per share (Note 34).

3.28 PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions for onerous contracts are recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset only if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

3.29 SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Refer to Note 39 on Business Segment reporting.

3.30 TAXATION

Provision is made for taxes at rates enacted or substantively enacted as at statement of financial position date on taxable profits of overseas branches and subsidiaries in accordance with the fiscal regulations of the respective countries in which the Group operates.

3.31 REVENUE AND EXPENSE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments classified as fair value through profit or loss, interest and similar income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Dividend income

Dividend income is recognised on the ex-dividend date when the Group's right to receive the payment is established.

(iii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

(b) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

3.32 ISLAMIC FINANCING

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Ijara, Salam, Mudaraba, Sukuk and Wakala.

MURABAHA FINANCING

A sale contract whereby the Group sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Group purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

IJARA FINANCING

Ijara financing is an agreement whereby the Group (lessor) leases or constructs an asset based on the customer's (lessee) request and promise to lease the assets for a specific period against certain rent instalments. Ijara could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Group transfers substantially all the risks and rewards related to the ownership of the leased asset to the lessee. Ijara income is recognised on an effective profit rate basis over the lease term.

MUDARABA

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal. Income is recognised based on expected results adjusted for actual results on distribution by the Mudarib, whereas if the Group is the Rab Al Mal the losses are charged to the Group's consolidated income statement when incurred.

SALAM

Bai Al Salam is a sale contract where the customer (seller) undertakes to deliver/supply a specified tangible asset to the Group (buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

WAKALA

An agreement between the Group and customer whereby one party (Rab Al Mal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction.

Estimated income from Wakala is recognised on the effective profit rate basis over the period, adjusted by actual income when received. Losses are accounted for when incurred.

SUKUK

Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity. It is asset-backed trust certificates evidencing ownership of an asset or its usufruct (earnings or benefits) and complies with the principle of Shari'ah.

4. Significant accounting judgements, estimates and assumptions

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of these consolidated financial statements. IFRS requires the management, in preparing the Group's consolidated financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Group's accounting policies that are considered by the Board of Directors (the "Board") to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Application of the methodology for assessing loan impairment, as set out in Note 43.6, involves considerable judgement and estimation. For individually significant loans, judgement is required in determining first, whether there are indications that an impairment loss may have already been incurred, and then estimating the amount and timing of expected cash flows, which form the basis of the impairment loss that is recorded.

For collectively assessed loans, judgement is involved in selecting and applying the criteria for grouping together loans with similar credit characteristics, as well as in selecting and applying the statistical and other models used to estimate the losses incurred for each group of loans in the reporting period. The benchmarking of loss rates, the assessment of the extent to which historical losses are representative of current conditions, and the ongoing refinement of modelling methodologies, provide a means of identifying changes that may be required, but the process is inherently one of estimation.

IMPAIRMENT OF AVAILABLE-FOR-SALE INVESTMENTS

The Group exercises judgement to consider impairment on the available-for-sale investments. This includes determination of whether any decline in the fair value below cost of equity instruments is significant or prolonged. In making this judgement, the Group evaluates among other factors, the normal volatility in market price. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

VALUATION OF FINANCIAL INSTRUMENTS

The best evidence of fair value is a quoted price for the instrument being measured in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that include one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values are discussed in Note 41. The main assumptions and estimates which management consider when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument. These cash flows are estimated based on the terms of the instrument, and judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. The determination of this rate is based on an assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate; and
- when applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

FAIR VALUATION OF INVESTMENT PROPERTIES

The fair values of investment properties is based on the highest and best use of the properties, which is their current use. The fair valuation of the investment properties is carried out by independent valuers based on models whose inputs are observable in an active market such as market conditions, market prices, future rental income etc.

The fair value movements on investment properties are disclosed in more detail in Note 13.

CONSOLIDATION OF FUNDS

The changes introduced by IFRS 10 — Consolidated Financial Statements require an investor to consolidate an investee when it controls the investee. The investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The new definition of control requires the Group to exercise significant judgement on an ongoing basis to determine which entities are controlled, and therefore are required to be consolidated.

5. Cash and balances with central banks

	2017 AED'000	2016 AED'000
Cash on hand	**2,729,930**	1,145,235
Balances with central banks	**2,779,542**	3,109,498
Reserves maintained with central banks	**10,814,651**	9,900,556
Certificate of deposits with UAE Central Bank	**3,673,000**	5,013,645
Reverse-repo with Central Bank	**–**	92,968
Total cash and balances with central banks	**19,997,123**	19,261,902
The geographical concentration is as follows:		
Within the UAE	**19,950,521**	19,106,421
Outside the UAE	**46,602**	155,481
	19,997,123	19,261,902

Reserves maintained with central banks represents deposit with the central banks at stipulated percentages of its demand, savings, time and other deposits. These are only available for day to day operations under certain specified conditions.

6. Deposits and balances due from banks, net

	2017 AED'000	2016 AED'000
Nostro balances	**1,700,600**	724,047
Margin deposits	**18,989**	40,660
Time deposits	**3,808,135**	19,955,290
Wakala placements	**810,100**	360,000
Loans and advances to banks	**5,241,378**	3,686,987
Gross deposits and balances due from banks	**11,579,202**	24,766,984
Less: Allowance for impairment (Note 43.6)	**(127,246)**	(103,369)
Total deposits and balances due from banks, net	**11,451,956**	24,663,615
The geographical concentration is as follows:		
Within the UAE	**3,285,682**	10,098,340
Outside the UAE	**8,293,520**	14,668,644
	11,579,202	24,766,984
Less: Allowance for impairment (Note 43.6)	**(127,246)**	(103,369)
	11,451,956	24,663,615

The Group hedges its foreign currency time deposits for foreign currency exchange rate risk using foreign exchange swap contracts and designates these instruments as cash flow hedges. The net negative fair value of these swaps was AED 4,708 thousand as at 31 December 2017 (31 December 2016 — AED Nil).

The Group entered into structured financing repurchase agreements whereby loans and advances to banks were pledged and held by counterparties as collateral. The risks and rewards relating to the loans pledged remains with the Group. The loans placed as collateral are governed under collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements. The following table reflects the carrying value of these loans and the associated financial liabilities:

	2017		2016	
	Carrying value of pledged loans AED'000	Carrying value of associated liabilities AED'000	Carrying value of pledged loans AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	**412,711**	**269,677**	1,624,801	1,098,684

7. Reverse-repo placements

	2017 AED'000	2016 AED'000
Banks and financial institutions	**98,578**	1,524,806
The geographical concentration is as follows:		
Within the UAE	**48,443**	–
Outside the UAE	**50,135**	1,524,806
	98,578	1,524,806

The Group enters into reverse repurchase agreements under which bonds with fair value of AED 99,832 thousand (31 December 2016 — bonds with fair value of AED 1,574,002 thousand) and cash collateral of AED 275 thousand (31 December 2016 — AED Nil) were received as collateral against reverse-repo placements. The risks and rewards relating to these bonds remains with the counterparties. The terms and conditions of these collaterals are governed by Global Master Repurchase Agreements (GMRA).

8. Trading securities

	2017 AED'000	2016 AED'000
Bonds	**485,301**	418,758
The geographical concentration is as follows:		
Within the UAE	**177,175**	141,138
Outside the UAE	**308,126**	277,620
	485,301	418,758

Bonds represent investments mainly in banks and public sector. The fair value of trading securities is based on quoted market prices.

9. Derivative financial instruments

In the ordinary course of business the Group enters into various types of derivative transactions that are affected by variables in the underlying instruments.

A derivative is a financial instrument or other contract with all three of the following characteristics:

(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');

(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

(c) it is settled at a future date.

Derivative financial instruments which the Group enters into includes forward foreign exchange contracts, interest rate futures, forward rate agreements, commodity swaps, interest rate swaps and currency and interest rate options.

The Group uses the following derivative financial instruments for hedging and trading purposes.

FORWARD AND FUTURES TRANSACTIONS

Currency forwards represent commitments to purchase foreign and domestic currencies, including non-deliverable forward transactions (i.e. the transaction is net settled). Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price established in an organised financial market. The credit risk for futures contracts is negligible as they are collateralised by cash or marketable securities and changes in the futures' contract value are settled daily with the broker. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate based on a notional principal amount.

SWAP TRANSACTIONS

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example: fixed rate for floating rate) or a combination of all these (for example: cross-currency interest rate swaps). No exchange of principal takes place except for certain cross currency interest rate swaps. The Group's credit risk represents the potential loss if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis through market risk limits on exposures and credit risk assessment of counterparties using the same techniques as those of lending activities.

OPTION TRANSACTIONS

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a specific rate of interest or any financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer over the counter (OTC).

Derivative contracts can be exchange traded or OTC. The Group values exchange traded derivatives using inputs at market-clearing levels. OTC derivatives are valued using market based inputs or broker/dealer quotations. Where models are required, the Group uses a variety of inputs, including contractual terms, market prices, market volatilities, yield curves and other reference market data.

FAIR VALUE MEASUREMENT MODELS

For OTC derivatives that trade in liquid markets such as generic forwards, swaps and options, model inputs can generally be verified and model selection conforms to market practice. Certain OTC derivatives trade in less liquid markets with limited pricing information and the determination of fair value for these derivatives is inherently more difficult. Subsequent to initial recognition, the Group only updates valuation inputs when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker dealer quotations or other empirical market data. In the absence of such evidence, Management's best estimates are used.

DERIVATIVES HELD OR ISSUED FOR TRADING PURPOSES

The Group's trading activities are predominantly related to offering hedging solutions to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks. The Group also manages risk taken as a result of client transactions or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices.

DERIVATIVES HELD OR ISSUED FOR HEDGING PURPOSES

The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in currency and interest rates. The Group uses forward foreign exchange contracts, cross currency interest rate swaps and interest rate swaps to hedge currency rate and interest rate risks. In all such cases, the hedging relationship and objectives including details of the hedged item and hedging instrument are formally documented and the transactions are accounted for based on the type of hedge.

The table below shows the positive (assets) and negative (liabilities) fair values of derivative financial instruments.

	Fair values		
	Assets AED'000	Liabilities AED'000	Notional AED'000
2017			
Derivatives held or issued for trading			
Foreign exchange derivatives	**484,546**	**379,890**	**160,934,849**
Interest rate and cross currency swaps	**2,225,651**	**2,313,951**	**114,787,801**
Interest rate and commodity options	**314,164**	**333,158**	**19,709,867**
Forward rate agreements	**159**	**163**	**1,000,000**
Futures (exchange traded)	**1,670**	**1,267**	**19,261,014**
Commodity and energy swaps	**256,134**	**248,041**	**2,064,593**
Swaptions	**129,968**	**94,311**	**7,138,959**
Total derivatives held or issued for trading	**3,412,292**	**3,370,781**	**324,897,083**
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	**287,165**	**621,855**	**57,337,746**
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	**8,753**	**217,367**	**6,492,894**
Forward foreign exchange contracts	**112,154**	**24,478**	**15,908,953**
Total derivatives held as cash flow hedges	**120,907**	**241,845**	**22,401,847**
Total derivative financial instruments	**3,820,364**	**4,234,481**	**404,636,676**
2016			
Derivatives held or issued for trading			
Foreign exchange derivatives	606,608	416,641	113,962,359
Interest rate and cross currency swaps	2,401,276	2,424,337	165,014,702
Interest rate and commodity options	256,446	225,476	14,707,345
Forward rate agreements	972	1,130	4,471,101
Futures (exchange traded)	10,612	1,290	20,353,204
Commodity and energy swaps	213,716	200,638	3,098,707
Swaptions	51,174	29,098	5,047,292
Total derivatives held or issued for trading	3,540,804	3,298,610	326,654,710
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	352,416	973,647	52,411,284
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	43,658	187,205	7,152,434
Forward foreign exchange contracts	34,911	333,067	10,874,259
Total derivatives held as cash flow hedges	78,569	520,272	18,026,693
Total derivative financial instruments	3,971,789	4,792,529	397,092,687

The notional amounts indicate the volume of outstanding contracts and are neither indicative of the market risk nor credit risk. Refer to Note 47 for market risk measurement and management.

The net hedge ineffectiveness gains/(losses) recognised in the consolidated income statement are as follows:

	2017 AED'000	2016 AED'000
Losses on the hedged items attributable to risk hedged	**(265,700)**	(18,597)
Gains on the hedging instruments	**286,444**	15,421
Fair value hedging ineffectiveness	**20,744**	(3,176)
Cash flow hedging ineffectiveness	**(24)**	(102)
Net hedge ineffectiveness gains/(losses)	**20,720**	(3,278)

The table below provides the Group's forecast of net cash flows in respect of its cash flow hedges and the periods in which these cash flows are expected to impact consolidated income statement, excluding any hedging adjustment that may be applied.

Forecasted net cash flows	Less than 3 months AED'000	3 months to less than 1 year AED'000	1 year to less than 2 years AED'000	2 years to less than 5 years AED'000	Above 5 years AED'000	Total AED'000
2017	**(352)**	**90,326**	**29,292**	**(51,991)**	**(399)**	**66,876**
2016	(58,653)	(249,376)	37,508	(63,737)	(60,451)	(394,709)

As at 31 December 2017, the Group received cash collateral of AED 340,556 thousand (31 December 2016 — AED 253,524 thousand) and received bonds with fair value of AED 40,239 thousand (31 December 2016 — AED 3,167 thousand) against positive fair value of derivative assets.

As at 31 December 2017, the Group placed cash collateral of AED 26,225 thousand (31 December 2016 — AED 120,878 thousand) and bonds of AED 1,631,481 thousand (31 December 2016 — AED 2,012,757 thousand) against the negative fair value of derivative liabilities. These collaterals are governed by collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements.

10. Investment securities

	UAE AED'000	Other GCC(*) countries AED'000	Rest of the world AED'000	Total AED'000
2017				
Available-for-sale investments				
Quoted:				
Government securities	**4,811,873**	**4,988,214**	**9,167,331**	**18,967,418**
Bonds — Public sector	**5,143,005**	**312,498**	**3,186,957**	**8,642,460**
Bonds — Banks and financial institutions	**4,150,039**	**933,557**	**4,198,707**	**9,282,303**
Bonds — Corporate	**544,191**	**88,869**	**259,062**	**892,122**
Equity instruments	**490**	**–**	**–**	**490**
Mutual funds	**77,541**	**–**	**85,802**	**163,343**
Total quoted	**14,727,139**	**6,323,138**	**16,897,859**	**37,948,136**
Unquoted:				
Government securities	**10,910,384**	**–**	**–**	**10,910,384**
Equity instruments	**319,502**	**–**	**13,635**	**333,137**
Total unquoted	**11,229,886**	**–**	**13,635**	**11,243,521**
Total available-for-sale investments	**25,957,025**	**6,323,138**	**16,911,494**	**49,191,657**
2016				
Available-for-sale investments				
Quoted:				
Government securities	3,556,811	2,356,584	3,275,588	9,188,983
Bonds — Public sector	5,383,401	456,788	1,336,649	7,176,838
Bonds — Banks and financial institutions	3,189,513	975,724	3,034,272	7,199,509
Bonds — Corporate	565,698	–	254,575	820,273
Equity instruments	548	–	–	548
Mutual funds	74,690	–	83,368	158,058
Total quoted	12,770,661	3,789,096	7,984,452	24,544,209
Unquoted:				
Government securities	8,178,003	–	–	8,178,003
Equity instruments	323,872	–	13,382	337,254
Total unquoted	8,501,875	–	13,382	8,515,257
Total available-for-sale investments	21,272,536	3,789,096	7,997,834	33,059,466

(*) Gulf Cooperation Council

The Group hedges interest rate and foreign currency risks on certain fixed rate and floating rate investments through interest rate and currency swaps and designates these as fair value and cash flow hedges, respectively. The net negative fair value of these swaps at 31 December 2017 was AED 314,720 thousand (31 December 2016 — net positive fair value AED 269,512 thousand). The hedge ineffectiveness gains and losses relating to these hedges were included in the consolidated income statement.

The Group entered into repurchase agreements whereby bonds were pledged and held by counterparties as collateral. The risks and rewards relating to the investments pledged remains with the Group. The bonds placed as collateral are governed under Global Master Repurchase Agreements (GMRA). The following table reflects the carrying value of these bonds and the associated financial liabilities:

	2017		2016	
	Carrying value of pledged securities AED'000	**Carrying value of associated liabilities AED'000**	Carrying value of pledged securities AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	**323,660**	**301,180**	275,351	264,835

Further, the Group pledged investment securities with fair value amounting to AED 1,305,506 thousand (31 December 2016 — AED 2,028,708 thousand) as collateral against margin calls. The risks and rewards on these pledged investments remains with the Group.

11. Loans and advances to customers, net

	2017 AED'000	2016 AED'000
Overdrafts (retail and corporate)	**4,420,471**	5,689,706
Retail loans	**30,006,710**	29,661,611
Corporate loans	**125,438,313**	121,242,781
Credit cards	**4,367,578**	3,873,572
Other facilities	**4,955,902**	3,932,400
Gross loans and advances to customers	**169,188,974**	164,400,070
Less: Allowance for impairment (Note 43.6)	**(5,906,744)**	(5,942,375)
Total loans and advances to customers, net	**163,282,230**	158,457,695

For Islamic financing assets included in the above table, refer Note 24.

The Group hedges certain fixed rate and floating rate loans and advances to customers for interest rate risk using interest rate swaps and designates these instruments as fair value and cash flow hedges, respectively. The net negative fair value of these swaps at 31 December 2017 was AED 49,785 thousand (31 December 2016 — net negative fair value of AED 128,190 thousand).

The Group entered into structured financing repurchase agreements whereby loans and advances to customers were pledged and held by counterparties as collateral. The risks and rewards relating to the loans pledged remains with the Group. The loans placed as collateral are governed under collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements. The following table reflects the carrying value of these loans and the associated financial liabilities:

	2017		2016	
	Carrying value of pledged loans AED'000	**Carrying value of associated liabilities AED'000**	Carrying value of pledged loans AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	**30,618**	**22,848**	322,814	165,697

Further, the Group entered into a security lending and borrowing arrangement, under which loans and advances to customers with nominal value of AED 766,629 thousand (31 December 2016 — AED 795,475 thousand) were lent against high quality bonds with nominal value of AED 554,630 thousand (31 December 2016 — AED 558,296 thousand). The risks and rewards relating to loans lent and bonds borrowed remains with respective counterparties. The arrangement is governed under the terms and conditions of Global Master Securities Lending Agreement (GMSLA).

12. Investment in associate

Investment in associate represents the Bank's interest in an associate representing 35% equity stake in the entity. The Bank has determined that it exercises significant influence based on the representation in the management of the entity.

The investment in associate has been accounted in the consolidated financial statements using the equity method at the net fair value of the identifiable assets and liabilities of the associate on the date of acquisition.

Details of the investment in associate as at 31 December 2017 and 2016 are as follows:

Name of associate	Ownership interest	Country of incorporation	Principal activities
Four N Property LLC	35%	UAE	Residential facilities for lower income group

For balances and transactions with associate, refer Note 37.

13. Investment properties

	AED'000
As at 1 January 2016	647,647
Additions during the year	505
Disposals during the year	(4,401)
Revaluation of investment properties	16,025
As at 1 January 2017	**659,776**
Additions during the year	**9,177**
Revaluation of investment properties	**(34,173)**
As at 31 December 2017	**634,780**

For the year 2016, net gains from investment properties includes losses of AED 443 thousand on disposals during the year.

Additions during the year include AED 8,177 thousand (31 December 2016 — AED Nil), being real estate acquired on settlements of certain loans and advances. This being a non-cash transaction has not been reflected in the consolidated statement of cash flows.

FAIR VALUATIONS

Valuations are carried out by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. The properties were valued during the last quarter of the year.

In estimating the fair values of the properties, the highest and best use of the properties is their current use.

The valuation methodologies considered by external valuers include:

- Direct Comparable method: This method seeks to determine the value of the property from transactions of comparable properties in the vicinity applying adjustments to reflect differences to the subject property.
- Investment method: This method is used to assess the value of the property by capitalising the net operating income of the property at an appropriate yield an investor would expect for an investment of the duration of the interest being valued.

All investment properties of the Group are located within the UAE.

Details of rental income and direct operating expenses relating to investment properties during the year are as follow:

	2017 AED'000	2016 AED'000
Rental income	**46,250**	49,435
Direct operating expenses	**8,568**	8,323

14. Other assets

	2017 AED'000	2016 AED'000
Interest receivable	**1,867,461**	1,584,558
Advance tax	**7,129**	5,575
Prepayments	**76,196**	58,553
Acceptances (Note 21)	**12,593,697**	13,262,942
Others	**312,555**	209,360
Total other assets	**14,857,038**	15,120,988

15. Property and equipment, net

	Freehold properties and improvements AED'000	Leasehold improvements AED'000	Furniture, equipment and vehicles AED'000	Computer equipment, software and accessories AED'000	Capital work in progress AED'000	Total AED'000
Cost or valuation						
As at 1 January 2016	870,667	157,088	190,411	696,848	72,242	1,987,256
Exchange difference	(83)	–	(55)	(110)	(23)	(271)
Additions during the year	294	47	3,648	3,102	229,422	236,513
Transfers	13,447	18,596	8,814	102,092	(142,949)	–
Transfer to expenses	–	–	–	–	(27)	(27)
Disposals during the year	–	–	(2,155)	(452)	–	(2,607)
As at 1 January 2017	**884,325**	**175,731**	**200,663**	**801,480**	**158,665**	**2,220,864**
Exchange difference	**194**	**(1)**	**136**	**299**	**64**	**692**
Additions during the year	**–**	**1,884**	**2,562**	**5,844**	**193,877**	**204,167**
Transfers	**2,709**	**14,017**	**12,133**	**241,139**	**(269,998)**	**–**
Transfer to expenses	**–**	**–**	**–**	**–**	**(5,755)**	**(5,755)**
Disposals during the year	**(14,446)**	**(211)**	**(2,197)**	**(1,546)**	**–**	**(18,400)**
As at 31 December 2017	**872,782**	**191,420**	**213,297**	**1,047,216**	**76,853**	**2,401,568**
Accumulated depreciation						
As at 1 January 2016	338,866	121,391	153,926	537,928	–	1,152,111
Exchange difference	(23)	(1)	2	(121)	–	(143)
Charge for the year	38,457	11,521	11,119	83,716	–	144,813
Transfers	–	–	38	(38)	–	–
Disposals during the year	–	–	(2,152)	(450)	–	(2,602)
As at 1 January 2017	**377,300**	**132,911**	**162,933**	**621,035**	**–**	**1,294,179**
Exchange difference	**58**	**2**	**54**	**269**	**–**	**383**
Charge for the year	**38,603**	**13,275**	**13,433**	**99,803**	**–**	**165,114**
Disposals during the year	**(14,446)**	**(114)**	**(2,103)**	**(1,541)**	**–**	**(18,204)**
As at 31 December 2017	**401,515**	**146,074**	**174,317**	**719,566**	**–**	**1,441,472**
Carrying amount						
As at 31 December 2017	**471,267**	**45,346**	**38,980**	**327,650**	**76,853**	**960,096**
As at 31 December 2016	507,025	42,820	37,730	180,445	158,665	926,685

16. Intangible assets

On 1 October 2010, the Bank acquired the retail banking, wealth management and small and medium enterprise businesses (the "Business") of The Royal Bank of Scotland ("RBS") in the UAE for a consideration of AED 168,900 thousand. Based on the fair valuation and purchase price allocation exercise performed by an external consultant immediately following the acquisition in 2010, the Bank recognised AED 143,400 thousand as intangible assets and AED 18,800 thousand as goodwill.

GOODWILL

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which goodwill is monitored for internal management purposes, which is not higher than the Group's business segments.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	AED'000
Cash generating unit (CGU)	
Credit cards	10,784
Loans	5,099
Overdrafts	94
Wealth management business	2,823
Total goodwill	**18,800**

OTHER INTANGIBLE ASSETS

Customer relationships	Customer relationship intangible assets represent the value attributable to the business expected to be generated from customers that existed as at the acquisition date. In determining the fair value of customer relationships, credit card and wealth management customers were considered separately, given their differing risk profiles, relationships and loyalty. These relationships are expected to generate material recurring income in the form of interest, fees and commission.
Core deposit intangible	The value of core deposit intangible asset arises from the fact that the deposit base of the Group represents a cheaper source of funding than wholesale or money market funding. The spread between the cost of deposit funding and the cost of wholesale/money market funding represents the value of the core deposit intangible.

Other intangible assets have been fully amortised as at 31 December 2015.

IMPAIRMENT ASSESSMENT OF GOODWILL

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

The recoverable amounts for the CGUs have been assessed based on their value in use. Value in use for each unit was determined by discounting the future cash flows expected to be generated from the continuing use of these units. Value in use was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and the business plan in 2017. Cash flows were extrapolated using a rate expected to be realised by these businesses. The forecast period is based on the Group's current perspective with respect to the operation of these units.
- Appropriate discount rates were applied in determining the recoverable amounts for the CGUs. These discount rates were estimated based on capital asset pricing model using data from U.S. bond and UAE capital markets.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonable changes in these assumptions are not expected to cause the recoverable amount of the units to decline below the carrying amount.

17. Due to banks

	2017 AED'000	2016 AED'000
Vostro balances	**822,121**	267,453
Margin deposits	**327,814**	245,402
Time deposits	**4,027,194**	3,329,859
Total due to banks	**5,177,129**	3,842,714

The Bank hedges certain foreign currency time deposits for foreign currency risk using foreign exchange swap contracts and designates these as cash flow hedges. The net positive fair value of these swaps at 31 December 2017 was AED 2 thousand (31 December 2016 — AED Nil).

18. Deposits from customers

	2017 AED'000	2016 AED'000
Time deposits	**80,765,754**	84,044,103
Current account deposits	**55,741,567**	51,596,345
Savings deposits	**13,758,208**	12,644,918
Murabaha deposits	**11,190,454**	6,011,966
Long term government deposits	**397,282**	411,313
Margin deposits	**1,225,121**	733,562
Total deposits from customers	**163,078,386**	155,442,207

For Islamic deposits (excluding Murabaha deposits) included in the above table, refer Note 24.

The Bank hedges certain foreign currency time deposits for foreign currency and floating interest rate risks using foreign exchange and interest rate swaps and designates these swaps as either cash flow or fair value hedges. The net positive fair value of these swaps at 31 December 2017 was AED 38,976 thousand (31 December 2016 — net negative fair value of AED 88,191 thousand).

19. Euro commercial paper

The details of euro commercial paper (ECP) issuances under the Bank's ECP programme are as follows:

	2017 AED'000	2016 AED'000
Currency		
US dollar (USD)	**1,159,843**	5,972,681
Euro (EUR)	**1,279,166**	1,309,526
GB pound (GBP)	**470,836**	1,446,326
Total euro commercial paper	**2,909,845**	8,728,533

The Bank hedges certain ECP for foreign currency exchange rate risk through foreign exchange swap contracts and designates these instruments as cash flow hedges. The net positive fair value of these hedge contracts as at 31 December 2017 was AED 71,418 thousand (31 December 2016 — net negative fair value of AED 161,942 thousand).

The effective interest rate on ECPs issued ranges between negative 0.35% p.a. to positive 2.11% p.a. (31 December 2016 — negative 0.03% p.a. to positive 1.76% p.a.).

Reconciliation of ECP movement to cash flows arising from financing activities is as follows:

	AED'000
As at 1 January 2017	**8,728,533**
Net proceeds from issuances	**9,304,817**
Repayments	**(15,188,146)**
Other movements	**64,641**
As at 31 December 2017	**2,909,845**

Net proceeds from issuances include effects of changes in foreign exchange rates and other movements include discount amortised.

20. Borrowings

The details of borrowings as at 31 December 2017 are as follows:

Instrument	Currency	Within 1 year AED'000	1–3 years AED'000	3–5 years AED'000	Over 5 years AED'000	Total AED'000
Global medium term notes	Australian dollar (AUD)	–	**726,523**	**887,069**	**427,269**	**2,040,861**
	Chinese renminbi (CNH)	–	**393,335**	–	–	**393,335**
	Euro (EUR)	–	**229,550**	–	**87,677**	**317,227**
	Swiss franc (CHF)	–	–	**301,908**	–	**301,908**
	Japanese yen (JPY)	–	**48,973**	–	–	**48,973**
	Hong Kong dollar (HKD)	–	**149,837**	**225,346**	**178,076**	**553,259**
	US dollar (USD)	**2,753,878**	**8,503,789**	**146,833**	**8,968,534**	**20,373,034**
		2,753,878	**10,052,007**	**1,561,156**	**9,661,556**	**24,028,597**
Bilateral loans — floating rate	US dollar (USD)	**1,285,550**	**2,746,000**	–	–	**4,031,550**
Syndicated loan — floating rate	US dollar (USD)	**734,081**	**2,932,211**	–	–	**3,666,292**
Certificate of deposits issued	Indian rupee (INR)	**283,304**	–	–	–	**283,304**
	US dollar (USD)	**1,852,189**	**1,934,096**	–	–	**3,786,285**
Subordinated notes — fixed rate	US dollar (USD)	–	–	–	**3,786,625**	**3,786,625**
	Swiss franc (CHF)	–	–	–	**378,837**	**378,837**
Borrowings through repurchase agreements	US dollar (USD)	**305,030**	–	–	**202,333**	**507,363**
	Indian rupee (INR)	**86,342**	–	–	–	**86,342**
		7,300,374	**17,664,314**	**1,561,156**	**14,029,351**	**40,555,195**

The Group hedges certain borrowings for foreign currency exchange rate risk and interest rate risk using either interest rate or cross currency swaps and designates these swaps as either fair value or cash flow hedges. The net negative fair value of these swaps as at 31 December 2017 was AED 196,811 thousand.

The details of borrowings as at 31 December 2016 are as follows:

Instrument	Currency	Within 1 year AED'000	1–3 years AED'000	3–5 years AED'000	Over 5 years AED'000	Total AED'000
Global medium term notes	Australian dollar (AUD)	–	672,505	77,142	–	749,647
	Chinese renminbi (CNH)	157,452	350,729	–	–	508,181
	Euro (EUR)	–	164,183	46,691	73,796	284,670
	Malaysian ringgit (MYR)	576,215	–	–	–	576,215
	Swiss franc (CHF)	388,677	–	284,354	–	673,031
	UAE dirham (AED)	500,358	–	–	–	500,358
	Japanese yen (JPY)	47,263	47,647	–	–	94,910
	Hong Kong dollar (HKD)	–	–	294,740	103,451	398,191
	US dollar (USD)	3,203,777	7,686,977	3,096,121	2,749,226	16,736,101
		4,873,742	8,922,041	3,799,048	2,926,473	20,521,304
Bilateral loans — floating rate	US dollar (USD)	2,018,887	1,285,550	–	–	3,304,437
Syndicated loan — floating rate	US dollar (USD)	734,600	2,919,383	–	–	3,653,983
Certificate of deposits issued	Great Britain pound (GBP)	898,422	–	–	–	898,422
	Euro (EUR)	189,304	–	–	–	189,304
	Indian rupee (INR)	307,793	–	–	–	307,793
	US dollar (USD)	1,707,110	1,835,966	–	–	3,543,076
Subordinated notes — fixed rate	US dollar (USD)	–	–	–	3,702,602	3,702,602
	Swiss franc (CHF)	–	–	–	364,893	364,893
Borrowings through repurchase agreements	US dollar (USD)	956,327	370,556	–	202,333	1,529,216
		11,686,185	15,333,496	3,799,048	7,196,301	38,015,030

The Group hedges certain borrowings for foreign currency exchange rate risk and interest rate risk using either interest rate or cross currency swaps and designates these swaps as either fair value or cash flow hedges. The net negative fair value of these swaps as at 31 December 2016 was AED 954,122 thousand.

Interests are payable in arrears and the contractual coupon rates as at 31 December 2017 are as follows:

Instrument	CCY	Within 1 year	1–3 years	3–5 years	Over 5 years
Global medium term notes	AUD	–	Fixed rate of 4.75% p.a.	Fixed rate between 3.73% p.a. to 3.92 % p.a. and quarterly coupons with 138 basis points over bank bill swap rate (BBSW)	Fixed rate of 4.50% p.a.
	CNH	–	Fixed rate between 3.85% p.a. to 4.50% p.a.	–	–
	EUR	–	Quarterly coupons between 46 to 59 basis points over Euribor	–	Fixed rate of 0.75% p.a.
	JPY	–	Fixed rate of 0.68% p.a.	–	–
	HKD	–	Fixed rate between 2.30% p.a. to 2.46% p.a.	Fixed rate between 2.69% p.a. to 3.20% p.a.	Fixed rate between 2.84% p.a. to 2.87% p.a.
	USD	Fixed rate of 2.50% p.a.	Fixed rate between 2.63% p.a. to 3.00% p.a. and quarterly coupons between 61 to 90 basis points over Libor	Quarterly coupons between 100 to 105 basis points over Libor	Fixed rate between 4.30% p.a. to 5.13% p.a. (*)
Bilateral loans — floating rate	USD	Monthly coupons between 80 to 85 basis points over Libor	Monthly coupons between 60 to 75 basis points over Libor and quarterly coupons with 60 basis points over Libor	–	–
Syndicated loan — floating rate	USD	Quarterly coupons with 60 basis point over Libor	Monthly coupons with 73 basis points over Libor and quarterly coupons of 95 basis points over Libor	–	–
Certificate of deposits issued	INR	Fixed rate between 6.35% p.a. to 7.05% p.a.	–	–	–
	USD	Fixed rate of 2.00% p.a.	Fixed rate between 2.41% p.a. to 2.48 % p.a. and quarterly coupons with 114 basis points over Libor	–	–
Subordinated notes — fixed rate	USD	–	–	–	Fixed rate between 3.13% p.a. to 4.50% p.a.
	CHF	–	–	–	Fixed rate of 1.89% p.a.
Borrowings through repurchase agreements	USD	Quarterly coupons between 130 to 145 basis points over Libor	–	–	Semi-annual coupons between negative 20 to negative 18 basis points over Libor
	INR	Fixed rate between 3.00% p.a. to 6.05 % p.a.	–	–	–

(*) includes AED 8,269,456 thousand 30 year accreting notes with yield ranging between 4.30% p.a. to 5.13% p.a. and are callable at the end of every 5th or 6th year from issue date.

The subordinated fixed rate notes qualify as Tier 2 subordinated loan capital for the first 5 year period till 2018 and thereafter are amortised at the rate of 20% per annum until 2023 for capital adequacy calculation (Note 52). This has been approved by the Central Bank of the UAE. Subordinated notes of AED 1,474,949 thousand mature in 2023 but are callable after 5 years from the issuance date.

Reconciliation of borrowings movement to cash flows arising from financing activities is as follows:

	AED'000
As at 1 January 2017	**38,015,030**
Net proceeds from issuances	**19,789,726**
Repayments	**(18,284,459)**
Other movements	**1,034,898**
As at 31 December 2017	**40,555,195**

Net proceeds from issuances include effects of changes in foreign exchange rates on borrowings. Other movements include interest capitalised on accreting notes, discount on issuances amortised and fair value hedges.

21. Other liabilities

	2017 AED'000	2016 AED'000
Interest payable	**1,015,277**	1,022,845
Recognised liability for defined benefit obligation	**453,866**	421,275
Accounts payable and other creditors	**249,627**	271,313
Deferred income	**631,168**	635,476
Acceptances (Note 14)	**12,593,697**	13,262,942
Others	**1,659,684**	1,503,508
Total other liabilities	**16,603,319**	17,117,359

DEFINED BENEFIT OBLIGATION

The Group provides gratuity benefits to its eligible employees in UAE. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out in the last quarter of 2017 by a registered actuary in the UAE. The present value of the defined benefit obligation and the related current and past service cost, were measured using the Projected Unit Credit Method.

Key assumptions used in the actuarial valuation are as follows:

Discount rate:	3.25% p.a.
Salary increment rate:	5.00% p.a. in 2018 and 3.00% p.a. thereafter.

Demographic assumptions for mortality and retirement were used in valuing the liabilities and benefits under the plan.

The liability would be higher by AED 13,829 thousand had the discount rate used in the assumption been lower by 0.50% and the liability would be lower by AED 13,033 thousand had the discount rate used in the assumption been higher by 0.50%. Similarly, the liability would be higher by AED 13,375 thousand had the salary increment rate used in the assumption been higher by 0.50% and the liability would be lower by AED 12,728 thousand had the salary increment rate used in the assumption been lower by 0.50%.

The movement in defined benefit obligation is as follows:

	2017 AED'000	2016 AED'000
Opening balance	**421,275**	384,677
Net charge during the year(*)	**56,029**	55,847
Actuarial gains on defined benefit obligation	**(2,022)**	(1,573)
Benefits paid	**(21,416)**	(17,676)
Closing balance	**453,866**	421,275

(*) recognised under "staff costs" in the consolidated income statement

DEFINED BENEFIT CONTRIBUTION

Under defined contribution plans, the Group pays contributions to Abu Dhabi Retirement Pensions and Benefits Fund for UAE National employees and to respective pension funds for other GCC National employees. The charge for the year in respect of these contributions is AED 32,769 thousand (2016 — AED 28,863 thousand). As at 31 December 2017, pension payable of AED 3,764 thousand has been classified under other liabilities — others (31 December 2016 — AED 3,461 thousand).

22. Share capital

	Authorised AED'000	Issued and fully paid 2017 AED'000	2016 AED'000
Ordinary shares of AED 1 each	**10,000,000**	**5,198,231**	5,198,231

During the year, the Bank's Articles of Association were amended and as per the new articles, the authorised share capital of the Bank has been increased to AED 10,000,000 thousand comprising of 10,000,000 thousand shares having a nominal value of AED 1 per share.

In December 2016, the Board of Directors approved cancellation of 397,366,172 shares which were acquired by the Bank during the buyback period (Note 23). The cancellation is effective from 8 January 2017 as the period of two years for the sale of purchased shares ended on 5 January 2017. The cancellation of treasury shares being a non-cash transaction has not been reflected in the consolidated statement of cash flows.

As at 31 December 2017, Abu Dhabi Investment Council held 62.523% (31 December 2016 — 62.523%) of the Bank's issued and fully paid up share capital.

DIVIDENDS

For the year ended 31 December 2017, the Board of Directors has proposed to pay a cash dividend of AED 2,183,257 thousand, being AED 0.42 dividend per share and representing 42% of the paid up capital (31 December 2016 — AED 2,079,292 thousand, being AED 0.40 dividend per share and representing 40% of the paid up capital). This is subject to the approval of the shareholders in the Annual General Meeting.

23. Other reserves

Reserves movement for the year ended 31 December 2017:

	Treasury shares AED'000	Employees' incentive plan shares, net AED'000
As at 1 January 2017	**–**	**(100,059)**
Exchange difference arising on translation of foreign operations	**–**	**–**
Net fair value changes on cash flow hedges	**–**	**–**
Net fair value changes reclassified to consolidated income statement	**–**	**–**
Net fair value changes on available-for-sale investments	**–**	**–**
Net fair value changes released to consolidated income statement on disposal of available-for-sale investments	**–**	**–**
Total other comprehensive gain/(loss) for the year	**–**	**–**
Fair value adjustments	**–**	**(1,939)**
Shares — vested portion (Note 25)	**–**	**37,084**
As at 31 December 2017	**–**	**(64,914)**
As at 1 January 2016	(1,825,653)	(92,959)
Exchange difference arising on translation of foreign operations	–	–
Net fair value changes on cash flow hedges	–	–
Net fair value changes reclassified to consolidated income statement	–	–
Net fair value changes on available-for-sale investments	–	–
Net fair value changes released to consolidated income statement on disposal of available-for-sale investments	–	–
Total other comprehensive (loss)/gain for the year	–	–
Shares purchased	–	(46,354)
Fair value adjustments	–	4,950
Shares — vested portion (Note 25)	–	34,304
Cancellation of treasury shares (Note 22)	1,825,653	–
As at 31 December 2016	–	(100,059)

For more information on reserves refer Note 52.

Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Cash flow hedge reserve AED'000	Cumulative changes in fair values AED'000	Total AED'000
2,797,799	**2,797,799**	**2,000,000**	**150,000**	**(78,741)**	**(143,493)**	**13,978**	**7,437,283**
–	**–**	**–**	**–**	**13,546**	**–**	**–**	**13,546**
–	**–**	**–**	**–**	**–**	**320,765**	**–**	**320,765**
–	**–**	**–**	**–**	**–**	**(367,642)**	**–**	**(367,642)**
–	**–**	**–**	**–**	**–**	**–**	**92,545**	**92,545**
–	**–**	**–**	**–**	**–**	**–**	**(46,715)**	**(46,715)**
–	**–**	**–**	**–**	**13,546**	**(46,877)**	**45,830**	**12,499**
–	**–**	**–**	**–**	**–**	**–**	**–**	**(1,939)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**37,084**
2,797,799	**2,797,799**	**2,000,000**	**150,000**	**(65,195)**	**(190,370)**	**59,808**	**7,484,927**
2,797,799	2,797,799	2,000,000	150,000	(73,260)	3,057	(100,219)	5,656,564
–	–	–	–	(5,481)	–	–	(5,481)
–	–	–	–	–	(314,683)	–	(314,683)
–	–	–	–	–	168,133	–	168,133
–	–	–	–	–	–	167,287	167,287
–	–	–	–	–	–	(53,090)	(53,090)
–	–	–	–	(5,481)	(146,550)	114,197	(37,834)
–	–	–	–	–	–	–	(46,354)
–	–	–	–	–	–	–	4,950
–	–	–	–	–	–	–	34,304
–	–	–	–	–	–	–	1,825,653
2,797,799	2,797,799	2,000,000	150,000	(78,741)	(143,493)	13,978	7,437,283

24. Islamic financing

Islamic financing assets

	2017 AED'000	2016 AED'000
Murabaha	**3,453,938**	2,589,031
Ijara financing	**11,452,962**	9,552,393
Salam	**7,044,886**	6,564,582
Others	**150,381**	169,878
Gross Islamic financing assets	**22,102,167**	18,875,884
Less: Allowance for impairment	**(434,002)**	(376,892)
Net Islamic financing assets	**21,668,165**	18,498,992

Gross Ijara and related present value of the minimum Ijara payments

	2017 AED'000	2016 AED'000
Not later than one year	**1,078,293**	1,018,822
Later than one year but not later than five years	**5,598,134**	4,868,456
Later than five years	**7,271,664**	6,068,848
Gross Ijara	**13,948,091**	11,956,126
Less: Deferred income	**(2,495,129)**	(2,403,733)
Net Ijara	**11,452,962**	9,552,393
Net present value		
Not later than one year	**885,400**	812,845
Later than one year but not later than five years	**4,596,702**	3,890,182
Later than five years	**5,970,860**	4,849,366
Total net present value	**11,452,962**	9,552,393

Income from Islamic financing

	2017 AED'000	2016 AED'000
Murabaha	**128,322**	101,525
Ijara financing	**465,743**	320,557
Salam	**479,055**	414,896
Others	**8,551**	6,700
Total income from Islamic financing	**1,081,671**	843,678

Islamic deposits

	2017 AED'000	2016 AED'000
Current account deposits	**4,751,338**	3,480,635
Margin deposits	**61,028**	40,556
Mudaraba savings deposits	**6,530,040**	5,840,816
Mudaraba term deposits	**882,892**	1,009,604
Wakala deposits	**2,498,714**	1,615,814
Total Islamic deposits	**14,724,012**	11,987,425

Islamic profit distribution

	2017 AED'000	2016 AED'000
Mudaraba savings and term deposits	**64,435**	51,937
Wakala deposits	**57,605**	37,973
Sukuk	**–**	48,609
Total Islamic profit distribution	**122,040**	138,519

In November 2011, ADCB through its subsidiary ADCB Islamic Finance (Cayman) Limited (Sukuk company) issued a Shari'ah compliant financing arrangement — Sukuk amounting to USD 500,000 thousand (AED 1,836,500 thousand). The Sukuk carried a profit rate of 4.07% p.a. payable semi annually and matured in November 2016. The Sukuk was listed on London Stock Exchange.

25. Employees' incentive plan shares, net

The Group operates Deferred Compensation Plan (the "Plan") to recognise and retain good performing employees. Under the Plan, the employees are granted shares of the Bank when they meet the vesting conditions at a price prevailing at the grant date. These shares are acquired and held by a subsidiary of the Bank until vesting conditions are met. The Group's Nomination, Compensation and HR Committee determines and approves the shares to be granted to employees based on the Group's key performance indicators.

For the year ended 31 December 2017, the Group had five incentive plans in force as described below:

Grant date	1 January 2017	1 January 2017	1 January 2016	1 January 2016	1 January 2015
Number of shares granted	2,675,000	2,845,312	2,075,000	4,096,402	1,795,000
Fair value of the granted shares at the grant date in AED thousand	18,458	19,633	13,674	26,995	12,619
Vesting date	31 December 2020	31 December 2019	31 December 2019	31 December 2018	31 December 2018

Vesting conditions — Three/four years' service from the grant date or meeting special conditions during the vesting period (death, disability, retirement, termination or achieving the budgeted performance).

The movement of plan shares is as follows:

	2017	2016
Opening balance	**9,067,135**	6,727,404
Shares granted during the year	**5,520,312**	6,171,402
Exercised during the year	**(4,724,993)**	(3,670,727)
Forfeited during the year	**(248,432)**	(160,944)
Closing balance	**9,614,022**	9,067,135
Amount of "Plan" cost recognised under "staff costs" in the consolidated income statement (AED '000)	**37,084**	34,304

Total number of un-allotted shares under the Plan as at 31 December 2017 were 3,343,244 shares (31 December 2016 — 8,615,124 shares). These un-allotted shares include forfeited shares and shares purchased for future plans. The Group's Nomination, Compensation and HR Committee's intention is to include these shares in the next incentive plan scheme.

26. Capital notes

In February 2009, the Department of Finance, Government of Abu Dhabi subscribed to ADCB's Tier I regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes").

The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank. The Notes are direct, unsecured, subordinated obligations of the Bank and rank pari passu without any preference among themselves and the rights and claims of the Note holders will be subordinated to the claims of Senior Creditors. The Notes bore interest at the rate of 6% per annum payable semi-annually until February 2014, and bear a floating interest rate of six month Eibor plus 2.3% per annum thereafter. However the Bank may at its sole discretion elect not to make a coupon payment. The Note holders do not have a right to claim the coupon and an election by the Bank not to service the coupon is not considered an event of default. In addition, there are certain circumstances ("non-payment event") under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date.

If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Notes except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full.

27. Interest income

	2017 AED'000	2016 AED'000
Loans and advances to banks	**440,271**	477,720
Loans and advances to customers	**7,104,867**	6,791,680
Available-for-sale investments	**1,214,010**	632,233
Trading securities	**13,414**	5,970
Total interest income	**8,772,562**	7,907,603

28. Interest expense

	2017 AED'000	2016 AED'000
Deposits from banks	**46,810**	23,363
Deposits from customers	**2,002,789**	1,654,764
Euro commercial paper	**104,671**	97,024
Borrowings	**876,865**	636,438
Total interest expense	**3,031,135**	2,411,589

29. Net fees and commission income

	2017 AED'000	2016 AED'000
Fees and commission income		
Card related fees	**864,153**	775,016
Loan processing fees	**583,274**	527,277
Accounts related fees	**55,601**	42,526
Trade finance commission	**263,645**	252,450
Insurance commission	**72,605**	89,424
Asset management and investment services	**109,600**	99,014
Brokerage fees	**15,796**	16,831
Other fees	**106,572**	92,607
Total fees and commission income	**2,071,246**	1,895,145
Fees and commission expense	**(564,204)**	(422,842)
Net fees and commission income	**1,507,042**	1,472,303

30. Net trading income

	2017 AED'000	2016 AED'000
Net gains from dealing in derivatives	**12,102**	81,961
Net gains from dealing in foreign currencies	**349,660**	434,378
Net (losses)/gains from trading securities	**(7,785)**	5,514
Net trading income	**353,977**	521,853

31. Other operating income

	2017 AED'000	2016 AED'000
Property management income	**152,170**	150,017
Rental income	**57,444**	61,148
Dividend income	**1,850**	5,929
Net gains from disposal of available-for-sale investments	**46,715**	53,090
Losses arising from retirement of hedges	**(4,454)**	(8,598)
Others	**113,695**	22,950
Total other operating income	**367,420**	284,536

32. Operating expenses

	2017 AED'000	2016 AED'000
Staff expenses	**1,709,057**	1,656,860
Depreciation (Note 15)	**165,114**	144,813
General administrative expenses	**1,073,410**	994,189
Total operating expenses	**2,947,581**	2,795,862

33. Impairment allowances

	2017 AED'000	2016 AED'000
Charge for the year	**1,929,269**	1,689,913
Recoveries during the year	**(258,906)**	(137,597)
Impairment allowance on loans and advances, net (Note 43.6)	**1,670,363**	1,552,316
Recoveries on available-for-sale investments	**–**	(19,209)
Impairment allowance/(release) — others	**3,257**	(12,589)
Total impairment allowances	**1,673,620**	1,520,518

34. Earnings per share

BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Bank and the weighted average number of equity shares outstanding. Diluted earnings per share is calculated by adjusting the weighted average number of equity shares outstanding for the dilutive effects of potential equity shares held on account of employees' incentive plan.

	2017 AED'000	2016 AED'000
Net profit for the year attributable to the equity holders of the Bank	**4,277,608**	4,148,651
Less: Coupon paid on capital notes (Note 26)	**(155,866)**	(138,013)
Net adjusted profit for the year attributable to the equity holders of the Bank (a)	**4,121,742**	4,010,638
	Number of shares in thousand	
Weighted average number of shares in issue throughout the year	**5,198,231**	5,595,597
Less: Weighted average number of treasury shares arising on buy back (Note 22)	**–**	(397,366)
Less: Weighted average number of shares resulting from Employees' incentive plan shares	**(16,607)**	(17,115)
Weighted average number of equity shares in issue during the year for basic earnings per share (b)	**5,181,624**	5,181,116
Add: Weighted average number of shares resulting from Employees' incentive plan shares	**16,607**	17,115
Weighted average number of equity shares in issue during the year for diluted earnings per share (c)	**5,198,231**	5,198,231
Basic earnings per share (AED) (a)/(b)	**0.80**	0.77
Diluted earnings per share (AED) (a)/(c)	**0.79**	0.77

35. Operating lease

GROUP AS LESSEE

Operating leases relates to leases of branch premises, offices and ATMs of the Group with lease terms mainly up to three years. The Group has the option to renew the lease agreements but not the option to purchase the leased premises at the expiry of the lease periods.

	2017 AED'000	2016 AED'000
Payments recognised as an expense		
Minimum lease payments	**85,855**	82,728
Non-cancellable operating lease commitments		
Not later than one year	**46,412**	43,822
Later than one year but not later than five years	**91,703**	78,278
Later than five year	**36,053**	2,833
Total non-cancellable operating lease commitments	**174,168**	124,933

GROUP AS LESSOR

Operating leases relate to properties owned by the Group with varied lease terms, with an option to extend the lease term. All operating lease contracts contain market review clause in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental incomes earned by the Group from its investment properties and direct operating expenses arising on the investment properties for the year are set out in Note 13.

	2017 AED'000	2016 AED'000
Non-cancellable operating lease receivables		
Not later than one year	**26,733**	22,932
Later than one year but not later than five years	**30,229**	35,196
Later than five years	**36,229**	35,531
Total non-cancellable operating lease receivables	**93,191**	93,659

36. Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flow comprise the following statement of financial position amounts:

	2017 AED'000	2016 AED'000
Cash and balances with central banks	**19,997,123**	19,261,902
Deposits and balances due from banks, net (excluding loans and advances to banks, net)	**6,337,824**	21,079,997
Reverse-repo placements	**98,578**	1,524,806
Due to banks	**(5,177,129)**	(3,842,714)
	21,256,396	38,023,991
Less: Cash and balances with central banks, deposits and balances due from banks, net and reverse-repo placements — with original maturity of more than three months	**(6,641,189)**	(4,867,005)
Add: Due to banks — with original maturity of more than three months	**1,196,341**	1,494,133
Total cash and cash equivalents	**15,811,548**	34,651,119

37. Related party transactions

The Group enters into transactions with the parent and its related entities, associate, funds under management, directors, senior management and their related entities and the Government of Abu Dhabi (ultimate controlling party and its related entities) in the ordinary course of business at commercial interest and commission rates.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the directors, chief executive officer and his direct reports.

Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Details of all transactions in which a Director and/or related parties might have actual or potential conflicts are provided to the Board of Directors (the "Board") for its review and approval. Where a Director is interested, that Director neither participates in the discussions nor votes on such matters. The Bank's policy is, so far as possible, to engage in transactions with related parties only on arm's length terms and in accordance with relevant laws and

regulations. The Board Secretariat maintains a conflicts and related parties register which is regularly reviewed by the Board Corporate Governance Committee. In addition, the Board maintains awareness of other commitments of its Directors and senior management. The Bank has implemented a Directors' conflict of interest policy and, for senior management, a Code of Conduct. As a result of written declarations submitted by each of the Board members, the Board satisfies itself that the other commitments of the Directors do not conflict with their duties or that, where conflicts arise, the Board is sufficiently aware and policies are in place to minimise the risks.

PARENT AND ULTIMATE CONTROLLING PARTY

Abu Dhabi Investment Council holds 62.523% (31 December 2016 — 62.523%) of the Bank's issued and fully paid up share capital (Note 22). Abu Dhabi Investment Council was established by the Government of Abu Dhabi pursuant to law No. 16 of 2006 and so the ultimate controlling party is the Government of Abu Dhabi.

Related party balances and transactions included in the consolidated statement of financial position and consolidated income statement, respectively, are as follows:

	Ultimate controlling party and its related parties AED'000	Directors and their related parties AED'000	Key management AED'000	Associate and funds under management AED'000	Total AED'000
2017					
Balances:					
Deposits and balances due from banks	1,071,407	–	–	–	1,071,407
Reverse-repo placements	48,443	–	–	–	48,443
Trading securities	53,113	–	–	–	53,113
Derivative financial instruments — assets	1,169,555	–	–	–	1,169,555
Investment securities	17,225,691	–	–	163,343	17,389,034
Loans and advances to customers	21,373,743	208,409	30,661	266,562	21,879,375
Other assets	165,685	3,698	9	3,472	172,864
Due to banks	116,516	–	–	–	116,516
Derivative financial instruments — liabilities	375,215	–	–	–	375,215
Deposits from customers	38,745,988	248,796	40,694	61,551	39,097,029
Other liabilities	181,805	2,592	12,017	520	196,934
Capital notes	4,000,000	–	–	–	4,000,000
Commitments and contingent liabilities	1,842,273	150,802	2,260	29,266	2,024,601
Transactions:					
Interest, Islamic financing income, fees and other income	1,396,374	10,875	1,123	42,690	1,451,062
Interest expense and Islamic profit distribution	631,852	1,036	665	1	633,554
Derivative income	180,271	–	–	–	180,271
Share in profit of associate	–	–	–	9,845	9,845
Coupon paid on Capital notes	155,866	–	–	–	155,866

	Ultimate controlling party and its related parties AED'000	Directors and their related parties AED'000	Key management AED'000	Associate and funds under management AED'000	Total AED'000
2016					
Balances:					
Deposits and balances due from banks	8,365,227	–	–	–	8,365,227
Trading securities	27,660	–	–	–	27,660
Derivative financial instruments — assets	1,366,421	–	–	–	1,366,421
Investment securities	13,106,324	–	–	158,085	13,264,409
Loans and advances to customers	23,653,122	304,837	36,371	293,232	24,287,562
Other assets	113,542	1,230	–	6,618	121,390
Due to banks	90,949	–	–	–	90,949
Derivative financial instruments — liabilities	532,920	–	–	–	532,920
Deposits from customers	34,839,067	216,577	30,075	58,814	35,144,533
Borrowings	51,164	–	–	–	51,164
Other liabilities	220,116	1,252	9,555	636	231,559
Capital notes	4,000,000	–	–	–	4,000,000
Commitments and contingent liabilities	7,291,066	92,007	1,633	28,096	7,412,802
Transactions:					
Interest, Islamic financing income, fees and other income	491,222	11,407	1,216	56,816	560,661
Interest expense and Islamic profit distribution	334,390	1,578	293	4	336,265
Derivative income	62,168	–	–	–	62,168
Share in profit of associate	–	–	–	7,821	7,821
Coupon paid on Capital notes	138,013	–	–	–	138,013

As at 31 December 2017, Funds under management held 4,232,646 shares (31 December 2016: 6,313,612 shares) of the Bank. During the year, the Bank paid dividend of AED 2,279 thousand (2016: AED 2,903 thousand) to these Funds.

Remuneration of key management employees and Board of Directors fees and expenses during the year are as follows:

	2017 AED'000	2016 AED'000
Short term benefits	**26,539**	25,623
Post-employment benefits	**2,260**	2,292
Variable pay benefits	**23,475**	29,650
	52,274	57,565
Board of Directors fees and expenses	**10,001**	9,629

In addition to the above, the key management personnel were granted long term deferred compensation including share based payments of AED 20,725 thousand (2016 — AED 26,900 thousand).

38. Commitments and contingent liabilities

The Group had the following commitments and contingent liabilities as at 31 December:

	2017 AED'000	2016 AED'000
Letters of credit	**3,869,821**	6,400,474
Guarantees	**25,214,764**	27,321,772
Commitments to extend credit — revocable (*)	**12,024,786**	11,021,112
Commitments to extend credit — irrevocable	**11,877,423**	13,656,251
Total commitments on behalf of customers	**52,986,794**	58,399,609
Commitments for future capital expenditure	**380,094**	307,268
Commitments to invest in investment securities	**59,683**	57,202
Total commitments and contingent liabilities	**53,426,571**	58,764,079

(*) includes AED 6,805,627 thousand (31 December 2016: AED 7,032,650 thousand) for undrawn credit card limits.

CREDIT-RELATED COMMITMENTS

Credit-related commitments include commitments to extend credit, letters of credit and guarantees which are designed to meet the requirements of the Bank's customers. Irrevocable commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Revocable commitments to extend credit represent commitments to make loan and advances and revolving credits which can be cancelled by the Bank unconditionally without any contractual obligations. Commitments generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. These contracts would be exposed to market risk if issued or extended at a fixed rate of interest. However these contracts are primarily made at floating rates.

Commitments and contingent liabilities which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Bank's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to the Bank's normal credit approval processes.

39. Operating segments

The Group has four reportable segments as described below. These segments offer different products and services and are managed separately based on the Group's management and internal reporting structure. The Group's Management Executive Committee (the Chief Operating Decision Maker "CODM"), is responsible for allocation of resources to these segments, whereas, the Group's Performance Management Committee, based on delegation from CODM reviews the performance of these segments on a regular basis.

The following summary describes the operations in each of the Group's reportable segments:

Consumer banking	comprises of retail, wealth management, Islamic financing and investment in associate. It includes loans, deposits and other transactions and balances with retail customers and corporate and private accounts of high net worth individuals and fund management activities.
Wholesale banking	comprises of business banking, cash management, trade finance, corporate finance, small and medium enterprise financing, investment banking, Indian operations, Islamic financing, infrastructure and asset finance, government and public enterprises. It includes loans, deposits and other transactions and balances with corporate customers.
Investments and treasury	comprises of central treasury operations, management of the Group's investment portfolio and interest rate, currency and commodity derivative portfolio and Islamic financing. Investments and treasury undertakes the Group's funding and centralised liquidity management activities through borrowings, issue of debt securities and use of derivatives for risk management. It also undertakes trading and corporate finance activities and investing in liquid assets such as short-term placements, corporate and government debt securities.
Property management	comprises of real estate management and engineering service operations of subsidiaries — Abu Dhabi Commercial Properties LLC, Abu Dhabi Commercial Engineering Services LLC and rental income of ADCB.

Information regarding the results of each reportable segment is shown below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Performance Management Committee. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The following is an analysis of the Group's revenue and results by operating segment for the year:

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
2017					
Net interest income	**2,626,237**	**1,732,196**	**1,294,052**	**88,942**	**5,741,427**
Net income from Islamic financing	**481,956**	**238,017**	**234,366**	**5,292**	**959,631**
Total net interest and Islamic financing income	**3,108,193**	**1,970,213**	**1,528,418**	**94,234**	**6,701,058**
Non-interest income	**973,237**	**765,445**	**250,073**	**205,511**	**2,194,266**
Operating expenses	**(1,838,997)**	**(777,348)**	**(209,550)**	**(121,686)**	**(2,947,581)**
Operating profit before impairment allowances	**2,242,433**	**1,958,310**	**1,568,941**	**178,059**	**5,947,743**
Impairment allowances	**(1,182,838)**	**(487,525)**	**–**	**(3,257)**	**(1,673,620)**
Share in profit of associate	**9,845**	**–**	**–**	**–**	**9,845**
Profit before taxation	**1,069,440**	**1,470,785**	**1,568,941**	**174,802**	**4,283,968**
Overseas income tax expense	**–**	**(6,360)**	**–**	**–**	**(6,360)**
Net profit for the year	**1,069,440**	**1,464,425**	**1,568,941**	**174,802**	**4,277,608**
Capital expenditure					**199,721**
As at 31 December 2017					
Segment assets	**76,824,996**	**110,022,054**	**77,549,185**	**607,060**	**265,003,295**
Segment liabilities	**52,560,262**	**83,237,479**	**96,711,511**	**49,103**	**232,558,355**
2016					
Net interest income	2,557,455	1,730,381	1,096,797	111,381	5,496,014
Net income from Islamic financing	431,726	180,482	89,224	3,727	705,159
Total net interest and Islamic financing income	2,989,181	1,910,863	1,186,021	115,108	6,201,173
Non-interest income	963,611	668,334	413,995	248,334	2,294,274
Operating expenses	(1,781,678)	(701,123)	(197,110)	(115,951)	(2,795,862)
Operating profit before impairment allowances	2,171,114	1,878,074	1,402,906	247,491	5,699,585
Impairment (allowances)/recoveries	(942,934)	(596,793)	19,209	–	(1,520,518)
Share in profit of associate	7,821	–	–	–	7,821
Profit before taxation	1,236,001	1,281,281	1,422,115	247,491	4,186,888
Overseas income tax expense	–	(29,820)	–	–	(29,820)
Net profit for the year	1,236,001	1,251,461	1,422,115	247,491	4,157,068
Capital expenditure					236,858
As at 31 December 2016					
Segment assets	73,885,539	105,660,754	78,147,077	595,887	258,289,257
Segment liabilities	51,659,677	80,948,903	95,283,613	46,179	227,938,372

OTHER DISCLOSURES

The following is the analysis of the total operating income of each segment between income from external parties and inter-segment.

	External		Inter-segment	
	2017 AED'000	2016 AED'000	**2017 AED'000**	2016 AED'000
Consumer banking	**5,069,944**	4,975,754	**(988,514)**	(1,022,962)
Wholesale banking	**3,667,982**	3,269,908	**(932,324)**	(690,711)
Investments and treasury	**(21,633)**	14,001	**1,800,124**	1,586,015
Property management	**179,031**	235,784	**120,714**	127,658
Total operating income	**8,895,324**	8,495,447	**–**	–

GEOGRAPHICAL INFORMATION

The Group operates in two principal geographic areas i.e. domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the UAE branches and subsidiaries. International area represents the operations of the Group that originates from its branches in India, Jersey and through its subsidiaries outside UAE. The information regarding Group's revenue and non-current assets by geographical location are detailed as follows:

	Domestic		International	
	2017 AED'000	2016 AED'000	**2017 AED'000**	2016 AED'000
Income				
Net interest and Islamic financing income	**6,703,609**	6,198,091	**(2,551)**	3,082
Non-interest income	**2,176,550**	2,270,639	**17,716**	23,635
Non-current assets				
Investment in associate	**205,372**	204,977	**–**	–
Investment properties	**634,780**	659,776	**–**	–
Property and equipment, net	**954,697**	921,938	**5,399**	4,747
Intangible assets	**18,800**	18,800	**–**	–

40. Financial instruments

CATEGORIES OF FINANCIAL INSTRUMENTS

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IAS 39.

	Held-for-trading AED'000	Hedging derivatives AED'000	Available-for-sale AED'000	Amortised cost AED'000	Total AED'000
2017					
Assets					
Cash and balances with central banks	–	–	–	19,997,123	19,997,123
Deposits and balances due from banks, net	–	–	–	11,451,956	11,451,956
Reverse-repo placements	–	–	–	98,578	98,578
Trading securities	485,301	–	–	–	485,301
Derivative financial instruments	3,412,292	408,072	–	–	3,820,364
Investment securities	–	–	49,191,657	–	49,191,657
Loans and advances to customers, net	–	–	–	163,282,230	163,282,230
Other assets	–	–	–	14,780,842	14,780,842
Total financial assets	3,897,593	408,072	49,191,657	209,610,729	263,108,051
Liabilities					
Due to banks	–	–	–	5,177,129	5,177,129
Derivative financial instruments	3,370,781	863,700	–	–	4,234,481
Deposits from customers	–	–	–	163,078,386	163,078,386
Euro commercial paper	–	–	–	2,909,845	2,909,845
Borrowings	–	–	–	40,555,195	40,555,195
Other liabilities	–	–	–	15,514,521	15,514,521
Total financial liabilities	3,370,781	863,700	–	227,235,076	231,469,557
2016					
Assets					
Cash and balances with central banks	–	–	–	19,261,902	19,261,902
Deposits and balances due from banks, net	–	–	–	24,663,615	24,663,615
Reverse-repo placements	–	–	–	1,524,806	1,524,806
Trading securities	418,758	–	–	–	418,758
Derivative financial instruments	3,540,804	430,985	–	–	3,971,789
Investment securities	–	–	33,059,466	–	33,059,466
Loans and advances to customers, net	–	–	–	158,457,695	158,457,695
Other assets	–	–	–	15,062,435	15,062,435
Total financial assets	3,959,562	430,985	33,059,466	218,970,453	256,420,466
Liabilities					
Due to banks	–	–	–	3,842,714	3,842,714
Derivative financial instruments	3,298,610	1,493,919	–	–	4,792,529
Deposits from customers	–	–	–	155,442,207	155,442,207
Euro commercial paper	–	–	–	8,728,533	8,728,533
Borrowings	–	–	–	38,015,030	38,015,030
Other liabilities	–	–	–	16,057,147	16,057,147
Total financial liabilities	3,298,610	1,493,919	–	222,085,631	226,878,160

41. Fair value hierarchy

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

QUOTED MARKET PRICES — LEVEL 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions.

VALUATION TECHNIQUES USING OBSERVABLE INPUTS — LEVEL 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs include financial instruments such as swaps and forwards which are valued using market standard pricing techniques and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

The category includes derivative financial instruments such as OTC derivatives, commodity derivatives, foreign exchange spot and forward contracts, certain investment securities and borrowings.

These instruments are valued using the inputs observable in an active market. Valuation of the derivative financial instruments is made through discounted cash flow method using the applicable yield curve for the duration of the instruments for non-optional derivatives and standard option pricing models such as Black-Scholes and other valuation models for derivatives with options.

VALUATION TECHNIQUES USING SIGNIFICANT UNOBSERVABLE INPUTS — LEVEL 3

Financial instruments and investment properties are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Financial instruments under this category mainly includes private equity instruments and funds. The carrying values of these investments are adjusted as follows:

a) Private equity instruments — using the latest available net book value; and

b) Funds — based on the net asset value provided by the fund manager.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Refer Note 13 in respect of valuation methodology used for investment properties.

Except as detailed in the following table, the Management considers that the carrying amounts of financial assets and liabilities recognised in the consolidated financial statements does not materially differ from their fair values.

	Notes	Level 1 Quoted market prices AED'000	Level 2 Observable inputs AED'000	Level 3 Significant unobservable inputs AED'000	Total fair value AED'000	Carrying value AED'000
2017						
Assets at fair value						
Trading securities	**8**	**485,301**	**–**	**–**	**485,301**	**485,301**
Derivative financial instruments	**9**	**1,670**	**3,818,694**	**–**	**3,820,364**	**3,820,364**
Investment securities	**10**					
— Quoted		**35,669,196**	**2,278,940**	**–**	**37,948,136**	**37,948,136**
— Unquoted		**–**	**10,910,384**	**333,137**	**11,243,521**	**11,243,521**
Investment properties	**13**	**–**	**–**	**634,780**	**634,780**	**634,780**
Total		**36,156,167**	**17,008,018**	**967,917**	**54,132,102**	**54,132,102**
Liabilities at fair value						
Derivative financial instruments	**9**	**1,267**	**4,233,214**	**–**	**4,234,481**	**4,234,481**
Liabilities at amortised cost						
Borrowings	**20**	**16,707,322**	**23,176,117**	**–**	**39,883,439**	**40,555,195**
Total		**16,708,589**	**27,409,331**	**–**	**44,117,920**	**44,789,676**
2016						
Assets at fair value						
Trading securities	8	418,758	–	–	418,758	418,758
Derivative financial instruments	9	10,612	3,961,177	–	3,971,789	3,971,789
Investment securities	10					
— Quoted		23,494,544	1,049,665	–	24,544,209	24,544,209
— Unquoted		–	8,178,003	337,254	8,515,257	8,515,257
Investment properties	13	–	–	659,776	659,776	659,776
Total		23,923,914	13,188,845	997,030	38,109,789	38,109,789
Liabilities at fair value						
Derivative financial instruments	9	1,290	4,791,239	–	4,792,529	4,792,529
Liabilities at amortised cost						
Borrowings	20	17,228,384	20,671,150	–	37,899,534	38,015,030
Total		17,229,674	25,462,389	–	42,692,063	42,807,559

The Group's OTC derivatives in the trading book are classified as Level 2 as they are valued using inputs that can be observed in the market.

Reconciliation showing the movement in fair values of Level 3 available-for-sale investments is as follows:

	2017 AED'000	2016 AED'000
Opening balance	**337,254**	413,621
Purchases, net	**13,991**	4,130
Disposals including capital refunds	**(20,004)**	(50,623)
Adjustment through comprehensive income	**1,896**	(29,874)
Closing balance	**333,137**	337,254

The purchases under Level 3 category represents capital contributions made during the year into private equity and funds under existing capital commitments.

Gain of AED 3,827 thousand was realised on disposal of Level 3 investments during the year (2016: AED 11,315 thousand).

There were no transfers between Level 1 and Level 2 available-for-sale investments during 2017 and there is no change in valuation techniques used during the year.

The significant unobservable inputs used in the fair value measurement of the Group's investment properties are rental income and capitalisation rates. Significant decrease in rental income, or increase in capitalisation rates, in isolation would result in a significant lower fair value measurement. Generally, a change in the assumption used for rental income should be accompanied by a change in the assumption for capitalisation rates in the same direction as increase in rental income increases the expectations of the seller to earn from the investment property. Therefore, the effects of these changes partially offset each other.

UNCONSOLIDATED STRUCTURED ENTITY

Level 1 financial instruments include the Bank's investments in certain Funds. The total carrying value of investments in these Funds as at 31 December 2017 was AED 163,343 thousand (31 December 2016 — AED 158,085 thousand). The Bank has also extended revocable overdraft facilities to these Funds amounting to AED 28,365 thousand (31 December 2016 — AED 28,365 thousand), out of which AED 18 thousand was utilised and outstanding as at 31 December 2017 (31 December 2016 — AED 1,188 thousand). The maximum exposure to loss in these Funds is equal to the carrying value of the investments and credit risk carried in the facilities extended.

42. Risk management

Risk governance structure emphasises and balances strong central oversight and control of risk with clear accountability for ownership of risk within each business unit. Under the Group's approach to risk governance, the business primarily owns the risk that it generates and is equally responsible for assessing risk, designing and implementing controls and monitoring and reporting their ongoing effectiveness to safeguard the Group from exceeding its risk appetite.

Ultimate responsibility for setting out risk appetite and effective management of risk rest with the Board. This is managed through various Board level committees; namely Board Risk & Credit Committee (BRCC) and Board Audit & Compliance Committee (BACC), which ensure that risk taking authority and policies are cascaded down from the Board to the appropriate business units.

Acting within the authority delegated by the Board, the BRCC has overall responsibility for oversight and review of credit, market, operational, liquidity, fraud and reputational risks. It periodically reviews and monitors compliance with the Group's overall risk appetite and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems and controls, overseeing the management risk committees and ensuring that the Group's risk governance is supportive of prudent risk taking at all levels in the Group.

The BRCC receives on a regular basis, portfolio level briefings from the Group Chief Risk Officer along with regular reports on risk management, including portfolio trends, policy parameters, key risk indicators, results of stress testing and changes to the assumptions, liquidity measures, capital adequacy and planning, and also is authorised to investigate or seek any information relating to any activity within its terms of reference. The BRCC also conducts 'deep dive' reviews on a rolling basis of different sections of the consolidated group risk information report.

The Management Executive Committee (MEC) has primary responsibility for implementing, overseeing and taking ownership for the enforcement of risk strategy and internal control directives laid down by the Board and Board committees.

The Management level committees also actively manage risk particularly the Assets and Liabilities Management Committee (ALCO), Management Risk & Credit Committee (MRCC) and Management Recoveries Committee (MRC). The Risk Management function headed by the Group's Chief Risk Officer reports independently to BRCC. The risk function is independent of the origination, trading and sales function to ensure balance in risk reward decision is not compromised and to ensure transparency of

decisions in accordance with laid down standards and policies. The risk function exercises control over credit, market, liquidity, operational and compliance risk.

BACC provides assistance to the Board to fulfil its duties to ensure and oversee the Group's financial statements, independence and performance of the Group's external and internal auditors, compliance with legal and regulatory requirements and internal policies and internal control over financial reporting.

The Internal Audit division (IAD) aims to apply a systematic and disciplined approach to evaluating and improving the effectiveness of the Group's risk management, control and governance processes. The IAD reports directly to BACC. The IAD consists of a team of auditors, whose tasks are, among other things, to evaluate the quality of the Group's lending portfolio, controls in operational processes and the integrity of the Group's information systems and databases. The IAD auditors, alongside the compliance department, also ensure that transactions undertaken by the Group are conducted in compliance with applicable legal and regulatory requirements and in accordance with the Group's internal procedures, thereby minimising the risk of fraudulent, improper or illegal practices.

43. Credit risk management

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation.

The Group's risk function follows the approaches listed below for credit risk management, depending on the type of customer.

Individual account management — These accounts are managed by a relationship manager and a credit manager. This category includes customers of wholesale banking, private accounts and financial institutions. Risk management is conducted through expert analysis backed by tools to support decision-making based on internal models of risk assessment.

Portfolio management — This category generally includes individuals, sole proprietorships and partnerships and certain smaller SME's. Management of these risks is based on internal models of assessment and score card based decisions complemented by internal portfolio analytics.

The Group controls credit risk by aggregating and monitoring credit exposures (both direct and indirect exposures) on the loans and advances, investment securities, non-funded exposures and due from banks. The Group sets transaction limits for specific counterparties and continually assesses the creditworthiness of counterparties. The Group sets and monitors limits for country, industry, product and tenor risks and uses its own internal rating models for assigning customer ratings which measures the degree of risk of a customer. Each rating corresponds to a certain probability of default. The Group has various internal rating models for different customer segments.

In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Group wide credit policies and standards are approved by BRCC. These govern all delegated lending authorities and include policies, standards, metrics, strategies and procedures specific to each of the different business segments and are decided based on the macro economic conditions, the risk appetite of the Group, market data and internal skill sets and capabilities. They are regularly reviewed and modified to ensure they stay current, relevant and protect the Group's interest in changing operating conditions. In addition to Group wide policies, there are underwriting standards set for each portfolio segment.

43.1 ANALYSIS OF MAXIMUM EXPOSURE TO CREDIT RISK

The following table presents the maximum exposure of credit risk for on and off-balance sheet financial instruments as at 31 December 2017 and 2016, after allowance for impairment and netting where appropriate and after taking into account any collateral held or other credit risk mitigants (CRMs).

The gross exposure to credit risk for on balance sheet items is their carrying value. For financial guarantees recorded off balance sheet, the gross exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees were to be called upon. For loans and other credit related commitments that are irrevocable over the life of the respective facilities, the gross exposure to credit risk is the full amount of the committed facilities.

The analysis of credit risk under this section includes only financial instruments subject to credit risk. Other financial assets such as trading portfolio which are exposed only to market risk have been excluded. Where financial instruments are recorded at fair value, the amounts shown below represent the current credit exposure but not the maximum risk exposure that could arise in the future as a result of changes in fair values.

	On-balance sheet AED'000	Off-balance sheet AED'000	Gross credit risk exposure AED'000	Gross CRM AED'000	Maximum credit risk exposure AED'000
2017					
Deposits and balances due from banks, net	**11,451,956**	**–**	**11,451,956**	**–**	**11,451,956**
Reverse-repo placements	**98,578**	**–**	**98,578**	**98,578**	**–**
Derivative financial instruments	**3,820,364**	**–**	**3,820,364**	**3,004,769**	**815,595**
Investment securities	**49,191,657**	**–**	**49,191,657**	**–**	**48,694,687**
Loans and advances to customers, net	**163,282,230**	**40,962,008**	**204,244,238**	**120,500,517**	**83,743,721**
Other assets	**14,857,038**	**–**	**14,857,038**	**–**	**14,773,713**
Total	**242,701,823**	**40,962,008**	**283,663,831**	**123,603,864**	**159,479,672**
2016					
Deposits and balances due from banks, net	24,663,615	–	24,663,615	–	24,663,615
Reverse-repo placements	1,524,806	–	1,524,806	1,524,806	–
Derivative financial instruments	3,971,789	–	3,971,789	2,512,087	1,459,702
Investment securities	33,059,466	2,695	33,062,161	–	32,566,301
Loans and advances to customers, net	158,457,695	47,378,497	205,836,192	118,272,602	87,563,590
Other assets	15,120,988	–	15,120,988	–	15,056,860
Total	236,798,359	47,381,192	284,179,551	122,309,495	161,310,068

43.2 CONCENTRATION OF CREDIT RISK

Concentration of credit risk arises when a number of counterparties or exposures have comparable economic characteristics or such counterparties are engaged in similar activities or operate in the same geographical areas or economic sectors that would impact their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The analysis of credit risk concentrations presented below are based on the location of the counterparty or customer or the economic activity in which they are engaged.

(a) CREDIT RISK CONCENTRATION BY GEOGRAPHICAL SECTOR

	Domestic (UAE) AED'000	Other GCC countries AED'000	Other Arab countries AED'000	Asia AED'000	Europe AED'000	USA AED'000	Rest of the world AED'000	Total AED'000
2017								
Assets								
Deposits and balances due from banks, net	**3,270,999**	**1,132,077**	**207,249**	**2,721,914**	**2,809,119**	**71,102**	**1,239,496**	**11,451,956**
Reverse-repo placements	**48,443**	**–**	**–**	**16,725**	**33,410**	**–**	**–**	**98,578**
Derivative financial instruments	**1,821,819**	**13,857**	**–**	**7,104**	**1,869,295**	**–**	**108,289**	**3,820,364**
Investment securities	**25,559,492**	**6,323,138**	**322,659**	**8,406,907**	**3,123,326**	**4,108,612**	**850,553**	**48,694,687**
Loans and advances to customers, net	**153,398,807**	**4,237,042**	**883,704**	**2,753,692**	**291,857**	**–**	**1,717,128**	**163,282,230**
Other assets	**4,331,604**	**502,020**	**9,671**	**2,078,799**	**2,821,140**	**4,770,993**	**259,486**	**14,773,713**
Total	**188,431,164**	**12,208,134**	**1,423,283**	**15,985,141**	**10,948,147**	**8,950,707**	**4,174,952**	**242,121,528**
Commitment and contingent liabilities	**34,754,686**	**2,323,520**	**57,357**	**1,534,007**	**1,972,662**	**182,432**	**137,344**	**40,962,008**
2016								
Assets								
Deposits and balances due from banks, net	10,086,945	10,494,538	187,030	1,183,529	827,613	313,746	1,570,214	24,663,615
Reverse-repo placements	–	–	–	–	1,524,806	–	–	1,524,806
Derivative financial instruments	1,980,575	6,168	–	62,261	1,805,504	–	117,281	3,971,789
Investment securities	20,873,426	3,789,096	527,924	4,679,056	1,603,317	474,907	615,880	32,563,606
Loans and advances to customers, net	149,546,974	3,569,807	94,017	3,379,068	421,511	801	1,445,517	158,457,695
Other assets	9,531,950	376,384	9,655	1,857,813	308,288	2,920,411	52,359	15,056,860
Total	192,019,870	18,235,993	818,626	11,161,727	6,491,039	3,709,865	3,801,251	236,238,371
Commitment and contingent liabilities	37,707,647	2,037,393	210,924	2,404,408	3,624,923	1,139,044	256,853	47,381,192

(b) CREDIT RISK CONCENTRATION BY ECONOMIC/INDUSTRY SECTOR

The economic activity sector composition of the loans and advances to customers is as follows:

	2017			2016		
	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000
Economic activity sector						
Agriculture	**209,241**	**–**	**209,241**	207,906	–	207,906
Energy	**1,292,858**	**454,944**	**1,747,802**	98,138	410,237	508,375
Trading	**5,115,397**	**1,036,909**	**6,152,306**	4,117,854	1,302,085	5,419,939
Real estate investment & hospitality	**59,886,952**	**1,524,985**	**61,411,937**	56,682,307	1,387,668	58,069,975
Transport	**1,815,749**	**1,153,523**	**2,969,272**	2,019,289	1,584,562	3,603,851
Personal	**39,722,120**	**178,963**	**39,901,083**	40,429,267	236,162	40,665,429
Government & public sector entities	**34,362,873**	**255,388**	**34,618,261**	35,138,681	990,422	36,129,103
Financial institutions (*)	**10,468,012**	**3,576,142**	**14,044,154**	10,205,802	2,639,883	12,845,685
Manufacturing	**2,310,086**	**2,028,034**	**4,338,120**	2,239,667	1,645,144	3,884,811
Services	**2,810,682**	**263,441**	**3,074,123**	2,084,554	230,353	2,314,907
Others	**670,918**	**51,757**	**722,675**	678,063	72,026	750,089
	158,664,888	**10,524,086**	**169,188,974**	153,901,528	10,498,542	164,400,070
Less: Allowance for impairment			**(5,906,744)**			(5,942,375)
Total loans and advances to customers, net			**163,282,230**			158,457,695

(*) includes investment companies

As at reporting date, the 20 largest customer loan exposures constitute 34.85% of the gross loans and advances to customers (31 December 2016 — 35.38%).

The industry sector composition of other exposures is as follows:

	Commercial and business AED'000	Personal AED'000	Public sector AED'000	Government AED'000	Banks and financial institutions AED'000	Total AED'000
2017						
Assets						
Deposits and balances due from banks, net	–	–	–	–	11,451,956	11,451,956
Reverse-repo placements	–	–	–	–	98,578	98,578
Derivative financial instruments	1,034,626	121,930	355,833	14,602	2,293,373	3,820,364
Investment securities	892,122	–	8,642,460	29,877,802	9,282,303	48,694,687
Other assets	8,983,358	330,248	109,477	183,803	5,166,827	14,773,713
Total	10,910,106	452,178	9,107,770	30,076,207	28,293,037	78,839,298
Commitment and contingent liabilities	26,955,350	2,320,455	4,240,746	1,375,117	6,070,340	40,962,008
2016						
Assets						
Deposits and balances due from banks, net	–	–	–	–	24,663,615	24,663,615
Reverse-repo placements	–	–	–	–	1,524,806	1,524,806
Derivative financial instruments	1,074,639	10,448	394,192	14,801	2,477,709	3,971,789
Investment securities	820,273	–	7,176,838	17,366,986	7,199,509	32,563,606
Other assets	11,356,547	314,820	612,320	195,217	2,577,956	15,056,860
Total	13,251,459	325,268	8,183,350	17,577,004	38,443,595	77,780,676
Commitment and contingent liabilities	29,547,460	4,594,988	3,003,226	1,156,399	9,079,119	47,381,192

43.3 CREDIT RISK MANAGEMENT OVERVIEW

ORGANISATIONAL FRAMEWORK

The risk management structure of the Group is clearly established with well defined roles and responsibilities as explained in Note 42.

The committees responsible for managing credit risk are MRCC and MRC. The Group risk management practices and strategies are an integral part of business planning and budgeting process. All risk management areas are centralised under the Credit and Risk division.

BRCC is responsible for approving high value credits and is responsible for the approval of credit policies and processes in line with growth, risk management and strategic objectives. In addition, the Group manages the credit exposure by obtaining collaterals where appropriate and limiting the duration of exposure. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Regular audits of business units and the Group's credit processes are undertaken by the Internal Audit and Compliance divisions.

43.4 CREDIT RISK MEASUREMENT AND MITIGATION POLICIES

Loans and advances to customers is the main source of credit risk although the Group can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. The Group's risk management policies and processes are designed to identify and analyse risk, to set appropriate risk appetite and to monitor the risks and adherence to limits by means of reliable and timely data. The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties (Note 43.5).

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate.

COLLATERAL

The Group holds collateral against various credit risk exposures in the form of mortgage interests over property, other registered securities over assets, fixed deposits and guarantees. Estimates of fair value of the

collateral (including shares) are updated on a regular basis. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The principal collateral types for loans and advances are:

- Cash and marketable securities;
- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities; and
- Guarantees.

The estimated fair value of collateral and other security enhancements held against various credit risk exposures for the year ended 31 December 2017 was AED 183,993,759 thousand (31 December 2016 — AED 164,856,273 thousand).

Collateral held as security against impaired loans primarily relates to commercial and residential properties and securities. Where the estimated fair value of collateral held exceeds the outstanding loan, any excess on realisation is paid back to the customers and is not available for offset against other loans.

DERIVATIVES

The Group maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. positive fair value of assets), which in relation to derivatives is a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers together with potential exposures from market movements.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risks arising from the Group's market transactions on any single day.

MASTER NETTING ARRANGEMENTS

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of statement of financial position assets and liabilities, as transactions are usually settled on a gross basis, hence the impact of netting in practice is immaterial.

However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a year, as it is affected by each transaction subject to the arrangement.

43.5 PORTFOLIO MONITORING AND IDENTIFYING CREDIT RISK

Credit Risk Management division is actively involved in identifying and monitoring credit risk on loans. It monitors the portfolio through system generated MIS data analysis and periodic reviews giving due consideration to industry/general economic trends, market feedback and media reports.

Within the retail portfolios comprising of homogeneous assets, statistical techniques are deployed to monitor potential weaknesses within a particular portfolio. The approach is consistent with the Group's policy of raising a specific impairment allowance as soon as objective evidence of impairment is identified. Retail accounts are classified according to specified categories of arrears status (days past due buckets), which reflects the level of contractual payments which are overdue on a loan.

The probability of default increases with the number of contractual payments missed, thus raising the associated impairment requirement. In the event, where a decision is taken to write off a loan, the account is moved to legal recovery function. However, in certain cases, an account may be charged off directly from a performing status, such as in the case of insolvency or death.

EXPOSURE TO CREDIT RISK BY DAYS PAST DUE

The Group's risk classification of loans and advances which is in adherence with the recommendations of Central Bank of the United Arab Emirates guidelines is as follows:

Risk Category	
Neither past due nor impaired	Up to 30 days past due
Past due but not impaired	Between 31 and 90 days past due
Past due and impaired	Over 91 days past due

The classification of loans and advances to customers by days past due are as follows:

	2017 AED'000	2016 AED'000
Neither past due nor impaired	**159,477,889**	156,862,836
Past due but not impaired	**6,019,261**	2,937,273
Past due and impaired	**3,691,824**	4,599,961
	169,188,974	164,400,070
Less: Allowance for impairment	**(5,906,744)**	(5,942,375)
Loans and advances to customers, net	**163,282,230**	158,457,695

Analysis of the age of past due but not impaired loans as at the end of the reporting period is as follows:

	2017 AED'000	2016 AED'000
31–60 days	**4,182,482**	2,168,307
More than 60 days	**1,836,779**	768,966
Total past due but not impaired loans	**6,019,261**	2,937,273

EXPOSURE TO CREDIT RISK BY INTERNAL RISK GRADES

The Group uses an internal grading system which employs ten grades that categorise the Group's wholesale and high net worth (HNW) customers based on various qualitative and quantitative factors such as borrower financial strength, industry risk factors, management quality, operational efficiency, company standing, liquidity, capital structure, peer group analysis, etc. Some of these grades are further sub-classified with a plus or a minus sign. Lower grades are indicative of a lower likelihood of default. Credit grades 1–7 are assigned to performing customers or accounts while credit grades 8–10 are assigned to non-performing or defaulting customers.

Credit ratings are used by the Group to decide the maximum lending amount per customer group and also to set minimum pricing thresholds. Retail customers or individual borrowers are not assigned a credit rating under this structure. However, retail banking division uses behaviour scoring for its customers.

The internal credit grade system is not intended to replicate external credit grades but factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a higher internal credit grade.

The following table represents credit quality of loans and advances to customers, net that are neither past due nor impaired and derivative financial assets as at 31 December:

	2017		2016	
	Loans and advances to customers, net AED'000	**Derivative financial assets AED'000**	Loans and advances to customers, net AED'000	Derivative financial assets AED'000
Internal risk grades				
Grades 1 to 4	**65,577,379**	**3,691,202**	69,786,621	3,884,351
Grades 5 to 6	**50,572,143**	**126,008**	43,787,697	87,326
Grade 7	**8,392,423**	**53**	8,765,784	112
Ungraded — including retail loans	**34,935,944**	**3,101**	34,522,734	–
	159,477,889	**3,820,364**	156,862,836	3,971,789

EXTERNAL CREDIT RATINGS

The table below presents the external credit ratings as at 31 December of the Group's deposits and balances due from banks, gross, reverse-repo placements and available-for-sale bond securities based on Standard & Poor's rating scale. Bond issuer level ratings are used in case ratings are not available at issuance level. Wherever Standard & Poor's ratings are not available, comparable Fitch or Moody's equivalent ratings scale is used.

	2017			2016		
	Deposits and balances due from banks, gross AED'000	**Reverse-repo placements AED'000**	**Available-for-sale bonds AED'000**	Deposits and balances due from banks, gross AED'000	Reverse-repo placements AED'000	Available-for-sale bonds AED'000
Ratings						
AAA to AA-	**286,811**	**10,868**	**12,549,650**	1,984,049	–	6,941,123
A+ to A-	**4,629,023**	**70,985**	**10,618,728**	17,230,632	1,524,806	6,194,170
BBB+ to BBB-	**2,505,973**	**–**	**8,316,647**	3,252,390	–	6,779,436
BB+ to B-	**3,323,504**	**–**	**3,870,193**	1,907,404	–	2,558,913
CCC+ to C-	**–**	**–**	**324,442**	–	–	–
UAE Sovereigns	**–**	**–**	**12,719,303**	–	–	9,863,410
Unrated	**833,891**	**16,725**	**295,724**	392,509	–	226,554
	11,579,202	**98,578**	**48,694,687**	24,766,984	1,524,806	32,563,606

UAE Sovereigns and unrated available-for-sale bond securities internal ratings with comparable external ratings are as follows:

	Internal Rating	External Rating	**2017 AED'000**	2016 AED'000
UAE Sovereigns	Grade 2 to 3	AA to A	**12,719,303**	9,863,410
Unrated	Grade 2 to 5	AA- to BB+	**295,724**	226,554
			13,015,027	10,089,964

43.6 IDENTIFICATION OF IMPAIRMENT

At each reporting date, the Group assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security or other observable data relating to a Group's asset such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group.

The Group considers evidence of impairment for loans and advances and investment securities measured at amortised cost at both individual and collective level.

INDIVIDUALLY ASSESSED LOANS AND ADVANCES

Impairment losses for individually assessed loans are determined by an evaluation of objective evidence relating to each exposure on a case-by-case basis. This procedure is applied to all classified loans and advances to corporate, commercial, high net worth individual and banks which are individually significant accounts or are not subject to a portfolio-based-approach. Specific factors considered by management when determining allowance for impairment on significant individual loans and advances includes the Group's aggregate exposure to the customer, viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations, the amount and timing of expected receipts and recoveries, likely dividend available on liquidation or bankruptcy, extent of other creditors' commitments ranking ahead of or pari passu with the Group, likelihood of other creditors continuing to support the customers,

realisable value of security (or other credit mitigants) and likelihood of successful repossession and likely deduction of any costs involved in recovery of amounts outstanding.

The amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows excluding future credit losses but including amounts recoverable from guarantees and collateral, discounted at the loan's original effective interest rate, when it became delinquent under the contract. The amount of the loss is recognised using an allowance account and is included in the consolidated income statement line — impairment allowances.

The Group's policy requires regular review of the level of impairment allowances on individual facilities, regular valuation of the collateral and consideration of its enforceability. Impaired loans continue to be classified as impaired unless they are fully current and the collection of scheduled interest and principal is considered probable.

COLLECTIVELY ASSESSED LOANS AND ADVANCES

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which may have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogenous groups of loans that are not considered individually significant.

INCURRED BUT NOT YET IDENTIFIED LOSS ON INDIVIDUAL LOANS

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or loan rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group may have incurred as a result of events occurring before the reporting date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. As soon as information becomes available which identifies losses on individual loans within the group of the customer, those loans are excluded from collective impairment assessment and assessed on an individual basis. The management of the Group assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of loans which may be impaired but not identified as of the reporting date.

In assessing collective impairment, the Group uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

The collective impairment allowance is determined after taking into account factors such as historical loss experience in portfolios of similar credit risk characteristics, past restructurings, estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against individual loans and management's judgement based on experience as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio.

HOMOGENOUS GROUPS OF LOANS AND ADVANCES

Statistical methods are used to determine impairment losses on a collective basis for homogenous groups of loans that are not considered individually significant, because individual loan assessment is impracticable. Losses in these groups of loans are recorded on individual basis when individual loans are written off, at which point they are removed from the group.

Impairment of retail loans is calculated by applying a formula approach which allocates progressively higher loss rates in line with the overdue instalment date.

All unsecured retail loans falling under similar overdue categories are assumed to carry similar credit risk and an allowance for impairment is taken on a portfolio basis. In cases of secured loans where the Group possesses collateral (mortgage) the realisable value of the collateral is taken into consideration in assessing the allowance for impairment.

WRITE-OFF OF LOANS AND ADVANCES

Loan and advances (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realising the security have been received. All retail loans (except mortgages) are written off at 181 days past due based on approved write off policies. However, recovery efforts continue on these loans.

The movement in individual and collective impairment allowance on loans and advances is as follows:

	2017			2016		
	Individual impairment AED'000	**Collective impairment AED'000**	**Total AED'000**	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
Opening balance	**2,851,323**	**3,194,421**	**6,045,744**	3,375,998	2,968,889	6,344,887
Charge for the year	**1,952,033**	**(22,764)**	**1,929,269**	1,464,214	225,699	1,689,913
Recoveries during the year	**(258,906)**	**–**	**(258,906)**	(137,597)	–	(137,597)
Net charge for the year	**1,693,127**	**(22,764)**	**1,670,363**	1,326,617	225,699	1,552,316
Discount unwind	**(51,515)**	**–**	**(51,515)**	(64,359)	–	(64,359)
Net amounts written-off	**(1,631,744)**	**–**	**(1,631,744)**	(1,786,884)	–	(1,786,884)
Currency translation	**757**	**385**	**1,142**	(49)	(167)	(216)
Closing balance	**2,861,948**	**3,172,042**	**6,033,990**	2,851,323	3,194,421	6,045,744

Allocation of impairment allowance on loans and advances to customers and banks is as follows:

	2017			2016		
	Individual impairment AED'000	**Collective impairment AED'000**	**Total AED'000**	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
Loans and advances to customers (Note 11)	**2,861,948**	**3,044,796**	**5,906,744**	2,851,323	3,091,052	5,942,375
Loans and advances to banks (Note 6)	**–**	**127,246**	**127,246**	–	103,369	103,369
Total impairment allowance on loans and advances	**2,861,948**	**3,172,042**	**6,033,990**	2,851,323	3,194,421	6,045,744

REVERSAL OF IMPAIRMENT

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the consolidated income statement in the period in which it occurs.

DERIVATIVE RELATED CREDIT RISK

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The Group enters into derivative contracts with financial institutions and corporates which are of satisfactory credit standing as per the Group's independent credit assessment. Credit risk in derivatives is mitigated through limit control and master netting agreements as explained in Note 43.4.

OFF-BALANCE SHEET

The Group applies the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

43.7 RENEGOTIATED LOANS

The contractual terms of a loan may be modified for a number of reasons, and not limited to credit deterioration of the customer. When determining whether a renegotiated loan should be derecognised and a new loan to be recognised, the Group performs a quantitative and qualitative evaluation of whether the changes to the original contractual terms result in a substantially different financial instrument, in which case an existing loan is derecognised and the renegotiated loan is recognised at fair value. For loans under credit deterioration, irrespective of whether the loan is derecognised on renegotiation, it remains disclosed at same risk grade until there is sufficient evidence of improvement.

44. Interest rate risk framework, measurement and monitoring

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Group's Treasury division, which uses derivative instruments like interest rate swaps and cross currency interest rate swaps to manage the overall interest rate risk arising from the Group's interest bearing financial instruments.

Financial assets and liabilities exposed to interest rate risk are financial assets and financial liabilities with either a fixed or a floating contractual rate of interest. A significant portion of the Group's loans and advances, deposits and balances due from banks, investment securities, deposits from customers, due to banks, and borrowings fall under this category.

Financial assets that are not subject to any interest rate risk mainly comprise of investments in equity investments, cash and balances with central banks excluding certificate of deposits and reverse-repo.

The off-balance sheet gap represents the net notional amounts of the off-balance sheet financial instruments, such as interest rate and cross currency interest rate swaps which are used to manage interest rate risk.

The Group uses financial simulation tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by the Asset and Liability Committee (ALCO).

The Group's interest rate sensitivity position based on contractual repricing arrangements as at 31 December 2017 is as follows. Derivative financial instruments (other than those designated in a hedge relationship) and trading book assets and liabilities (excluding non-interest bearing) are included in the 'less than 3 months' column at their fair value. Derivative financial instruments designated in a hedge relationship are included according to their contractual next re-pricing tenor.

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks	3,673,000	–	–	–	–	16,324,123	19,997,123
Deposits and balances due from banks, net	7,744,376	1,784,126	350,100	–	–	1,573,354	11,451,956
Reverse-repo placements	98,578	–	–	–	–	–	98,578
Trading securities	485,301	–	–	–	–	–	485,301
Derivative financial instruments	2,961,434	1,473	2,953	–	–	854,504	3,820,364
Investment securities	20,035,832	837,256	1,651,808	8,368,946	17,800,845	496,970	49,191,657
Loans and advances to customers, net	101,861,079	26,373,213	1,092,483	11,503,929	29,134,733	(6,683,207)	163,282,230
Investment in associate	–	–	–	–	–	205,372	205,372
Investment properties	–	–	–	–	–	634,780	634,780
Other assets	7,236	–	–	–	–	14,849,802	14,857,038
Property and equipment, net	–	–	–	–	–	960,096	960,096
Intangible assets	–	–	–	–	–	18,800	18,800
Total assets	136,866,836	28,996,068	3,097,344	19,872,875	46,935,578	29,234,594	265,003,295
Liabilities and equity							
Due to banks	3,675,040	457,433	222,535	–	–	822,121	5,177,129
Derivative financial instruments	3,496,786	83,875	145	–	–	653,675	4,234,481
Deposits from customers	76,036,337	15,624,421	22,213,152	6,962,243	135,077	42,107,156	163,078,386
Euro commercial paper	1,027,214	815,129	1,067,502	–	–	–	2,909,845
Borrowings	16,282,111	286,410	28,575	9,146,431	14,811,668	–	40,555,195
Other liabilities	77,823	–	–	–	–	16,525,496	16,603,319
Equity	–	–	–	–	–	32,444,940	32,444,940
Total liabilities and equity	100,595,311	17,267,268	23,531,909	16,108,674	14,946,745	92,553,388	265,003,295
On-balance sheet gap	36,271,525	11,728,800	(20,434,565)	3,764,201	31,988,833	(63,318,794)	–
Off-balance sheet gap	(16,530,741)	1,824,346	(572,813)	7,257,444	8,021,764	–	–
Total interest rate sensitivity gap	19,740,784	13,553,146	(21,007,378)	11,021,645	40,010,597	(63,318,794)	–
Cumulative interest rate sensitivity gap	19,740,784	33,293,930	12,286,552	23,308,197	63,318,794	–	–

Non-interest bearing items under loans and advances to customers, net include mainly loan loss provisions.

The Group's interest rate sensitivity position based on contractual repricing arrangements as at 31 December 2016 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks	5,106,613	–	–	–	–	14,155,289	19,261,902
Deposits and balances due from banks, net	23,456,909	582,296	1,059	–	–	623,351	24,663,615
Reverse-repo placements	1,524,806	–	–	–	–	–	1,524,806
Trading securities	418,758	–	–	–	–	–	418,758
Derivative financial instruments	3,035,420	27,556	1,291	–	–	907,522	3,971,789
Investment securities	11,136,292	1,115,803	1,877,216	5,570,319	12,863,976	495,860	33,059,466
Loans and advances to customers, net	102,808,107	21,978,078	983,007	10,263,812	29,265,091	(6,840,400)	158,457,695
Investment in associate	–	–	–	–	–	204,977	204,977
Investment properties	–	–	–	–	–	659,776	659,776
Other assets	80,218	–	–	–	–	15,040,770	15,120,988
Property and equipment, net	–	–	–	–	–	926,685	926,685
Intangible assets	–	–	–	–	–	18,800	18,800
Total assets	147,567,123	23,703,733	2,862,573	15,834,131	42,129,067	26,192,630	258,289,257
Liabilities and equity							
Due to banks	2,924,638	280,000	370,623	–	–	267,453	3,842,714
Derivative financial instruments	3,797,437	1,781	–	–	–	993,311	4,792,529
Deposits from customers	72,031,911	18,245,571	12,408,630	4,010,122	5,823,325	42,922,648	155,442,207
Euro commercial paper	4,194,486	2,583,440	1,950,607	–	–	–	8,728,533
Borrowings	14,624,830	2,408,763	1,807,246	8,757,859	10,416,332	–	38,015,030
Other liabilities	31,677	–	–	–	–	17,085,682	17,117,359
Equity	–	–	–	–	–	30,350,885	30,350,885
Total liabilities and equity	97,604,979	23,519,555	16,537,106	12,767,981	16,239,657	91,619,979	258,289,257
On-balance sheet gap	49,962,144	184,178	(13,674,533)	3,066,150	25,889,410	(65,427,349)	–
Off-balance sheet gap	(4,800,276)	(5,202,216)	(317,368)	6,154,031	4,165,829	–	–
Total interest rate sensitivity gap	45,161,868	(5,018,038)	(13,991,901)	9,220,181	30,055,239	(65,427,349)	–
Cumulative interest rate sensitivity gap	45,161,868	40,143,830	26,151,929	35,372,110	65,427,349	–	–

Non-interest bearing items under loans and advances to customers, net include mainly loan loss provisions.

45. Liquidity risk framework, measurement and monitoring

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replenish funds when they are withdrawn. The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

LIQUIDITY RISK MANAGEMENT PROCESS

The Group has Board of Directors (BOD) approved liquidity risk appetite framework which establishes the minimum liquidity to be carried by the Group in order to survive a stress environment for a stipulated time horizon. The BOD has delegated to Management Executive Committee (MEC) the responsibility of liquidity management which is overseen on their behalf by the Asset Liability Committee (ALCO) on a day to day basis. ALCO sets and monitors liquidity ratios and regularly revises and calibrates the liquidity management policies to ensure that the Group is in a position to meet its obligations as they fall due. ALCO also ensures that the bank remains compliant with all regulatory and internal policy guidelines pertaining to liquidity risk.

The Group's liquidity management process, as carried out within the Group and monitored by the Group's Treasury division includes:

- Monitoring of liquidity position on a daily, weekly and monthly basis. This entails forecasting of future cash inflows/outflows and ensuring that the Group can meet the required outflows;
- Conducting regularly liquidity stress testing of the Group's liquidity position under a variety of scenarios covering both normal and more severe market conditions with well defined triggers and suggested actions;
- Ensuring regular compliance with the liquidity ratios such as Advances to Stable Resources (ADR) ratio, Eligible Liquid Assets ratio (ELAR) and Liquidity Coverage ratio (LCR) stipulated by the Central Bank of the UAE and internally approved management triggers for liquidity risk;
- Monitoring Basel-III based NSFR liquidity risk ratio as a measure of long term liquidity stress and maintaining the ratio above the management approved threshold; and
- Conducting regular enterprise wide liquidity stress test which estimates liquidity requirements under idiosyncratic and systemic stress conditions. The enterprise wide stress test incorporates diverse liquidity triggers like currency de-peg, failure of a major local bank, credit rating downgrades in addition to regular stress cash flow analysis.

The Group has set an internal ceiling on the ADR ratio that should not be higher than 1:1 between:

- the amount of loans and advances together with the amount of inter-bank placements with a remaining life of more than three months; and
- the amount of stable resource comprising of free own funds with a remaining life of more than six months, stable customer deposits and standby liquidity facilities.

The above is in line with the definition of Advances to Stable Resources ratio as prescribed by the Central Bank of the UAE.

Monitoring composition of funding sources at a granular level has set triggers for avoiding concentration of funding sources. The concentration of funding sources is monitored as percentage of the total liability position. Some of the ratios monitored are as follows:

- Euro commercial paper to total liabilities
- Wholesale funds to total liabilities
- Money market deposits to total liabilities
- Core funds to total liabilities
- Non-core funds to total liabilities
- Offshore funds to total liabilities

The Group has established several early warning indicators for liquidity risk in line with the Central Bank of the UAE requirements and monitors them regularly. Some of the key early warning indicators are as follows:

- Credit rating downgrade
- Decline in stock price
- Widening credit-default-swap levels
- Rising retail/wholesale funding costs
- Increased collateral calls

The Group has also established a breach management and escalation process with clear definition of roles and responsibilities.

TOOLS FOR LIQUIDITY MANAGEMENT

The Group through its Treasury division ensures that it has access to diverse sources of funding ranging from local customer deposits from its retail, corporate and institutional customers as well as international sovereign wealth funds and central banks to long term funding such as debt securities and subordinated liabilities issued under the global medium term note program.

Whilst the Group's debt securities and sub-debt typically are issued with maturities of greater than one year, deposits from banks and customers generally have shorter maturities which increase the liquidity risk of the Group. The Group's Treasury division manages this risk by:

- Diversification of funding sources and balancing between long term and short term funding sources through borrowing under its global medium term notes issue programs;
- Monitoring the stickiness of liability portfolio and rewarding business units for sticky deposits through the fund transfer pricing process; and
- Investing in various short-term or medium-term but highly marketable assets in line with Basel-III guidelines for High Quality Liquid Assets (HQLA) such as certificate of deposit with Central Bank, investment grade bonds that can be repurchased at short notices, etc.

Further, the Bank also has the following facilities from the Central Bank of the UAE to manage its liquidity risk during critical times:

- Overdraft facility against its cash reserves at overnight rate at a spread of 150 basis points;
- Overdraft facility beyond the cash reserves at overnight spread of 300 basis points; and
- Repo facility against CDs at overnight rate with a spread of 175 basis points.

The Bank has access to Marginal Lending Facility (MLF) initiated by the Central Bank of the UAE effective from March 2014. Under MLF, Bank can borrow from UAE Central Bank by posting eligible collateral. The Bank periodically tests MLF facility with the Central Bank for its operational readiness.

None of the above Central Bank facilities were utilised and outstanding at the end of the year.

The Bank has in place a contingent funding plan which lists out the trigger points to be monitored for invoking the contingent funding plan. The trigger points are based on market observable data points like credit spreads and internal and external events like decline in customer deposits and drying up of wholesale markets. The contingent funding plan clearly defines the roles and responsibilities and is updated with changing market conditions by ALCO.

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the end of the reporting period 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.

Derivative financial instruments (other than those designated in a hedge relationship) and trading portfolio assets and liabilities are included in 'less than 3 months' at their fair value. Liquidity risk on these items is not managed on the basis of remaining maturity since they are not held for settlement according to such maturity and will frequently be settled before remaining maturity at fair value. Derivatives designated in a hedge relationship are included according to their remaining maturity at fair value. Investment securities in equities and mutual funds with no maturity are included in 'over 3 years'.

The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The maturity profile of the assets and liabilities as at 31 December 2017 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	19,997,123	–	–	–	–	19,997,123
Deposits and balances due from banks, net	7,230,538	1,839,367	825,418	1,395,361	161,272	11,451,956
Reverse-repo placements	98,578	–	–	–	–	98,578
Trading securities	485,301	–	–	–	–	485,301
Derivative financial instruments	3,451,483	43,027	40,442	111,484	173,928	3,820,364
Investment securities	7,747,979	1,563,484	1,962,811	19,584,504	18,332,879	49,191,657
Loans and advances to customers, net	20,037,294	4,846,870	2,389,396	25,830,435	110,178,235	163,282,230
Investment in associate	–	–	–	–	205,372	205,372
Investment properties	–	–	–	634,780	–	634,780
Other assets	7,567,394	3,376,744	3,816,335	78,129	18,436	14,857,038
Property and equipment, net	–	–	–	–	960,096	960,096
Intangible assets	–	–	–	–	18,800	18,800
Total assets	66,615,690	11,669,492	9,034,402	47,634,693	130,049,018	265,003,295
Liabilities and equity						
Due to banks	4,497,161	457,433	222,535	–	–	5,177,129
Derivative financial instruments	3,405,796	79,678	4,996	289,805	454,206	4,234,481
Deposits from customers	117,733,564	15,628,841	22,221,379	6,962,243	532,359	163,078,386
Euro commercial paper	1,027,214	815,129	1,067,502	–	–	2,909,845
Borrowings	5,012,959	818,677	1,468,738	17,664,314	15,590,507	40,555,195
Other liabilities	9,339,985	3,010,650	3,798,818	–	453,866	16,603,319
Equity	–	–	–	–	32,444,940	32,444,940
Total liabilities and equity	141,016,679	20,810,408	28,783,968	24,916,362	49,475,878	265,003,295
Balance sheet liquidity gap	(74,400,989)	(9,140,916)	(19,749,566)	22,718,331	80,573,140	–
Off balance sheet						
Financial guarantees and irrevocable commitments	1,239,909	1,549,256	846,554	4,916,608	5,582,306	14,134,633

The maturity profile of the assets and liabilities as at 31 December 2016 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	19,261,902	–	–	–	–	19,261,902
Deposits and balances due from banks, net	21,694,052	494,560	1,179,112	1,117,394	178,497	24,663,615
Reverse-repo placements	1,524,806	–	–	–	–	1,524,806
Trading securities	418,758	–	–	–	–	418,758
Derivative financial instruments	3,577,372	6,711	23,842	107,728	256,136	3,971,789
Investment securities	2,559,515	1,115,803	1,919,397	8,594,384	18,870,367	33,059,466
Loans and advances to customers, net	17,701,538	2,519,066	2,810,152	21,344,744	114,082,195	158,457,695
Investment in associate	–	–	–	–	204,977	204,977
Investment properties	–	–	–	659,776	–	659,776
Other assets	8,586,173	6,220,217	201,466	113,132	–	15,120,988
Property and equipment, net	–	–	–	–	926,685	926,685
Intangible assets	–	–	–	–	18,800	18,800
Total assets	75,324,116	10,356,357	6,133,969	31,937,158	134,537,657	258,289,257
Liabilities and equity						
Due to banks	3,192,091	280,000	370,623	–	–	3,842,714
Derivative financial instruments	3,375,505	273,986	306,268	286,344	550,426	4,792,529
Deposits from customers	114,534,445	18,250,019	12,412,350	4,010,122	6,235,271	155,442,207
Euro commercial paper	4,194,486	2,583,440	1,950,607	–	–	8,728,533
Borrowings	3,310,229	3,938,361	4,437,595	15,333,496	10,995,349	38,015,030
Other liabilities	10,453,470	5,944,548	184,933	113,132	421,276	17,117,359
Equity	–	–	–	–	30,350,885	30,350,885
Total liabilities and equity	139,060,226	31,270,354	19,662,376	19,743,094	48,553,207	258,289,257
Balance sheet liquidity gap	(63,736,110)	(20,913,997)	(13,528,407)	12,194,064	85,984,450	–
Off balance sheet						
Financial guarantees and irrevocable commitments	1,986,474	2,073,031	1,502,320	6,876,685	3,145,407	15,583,917

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2017 and 2016 based on contractual undiscounted repayment obligations. As interest payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. Derivative financial instruments held for trading are included in "less than 3 months" column at their fair value. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	Carrying Amount AED'000	Gross outflow AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000
2017							
Liabilities							
Due to banks	**5,177,129**	**5,200,218**	**4,504,333**	**466,231**	**229,654**	**–**	**–**
Derivative financial instruments	**4,234,481**	**3,450,014**	**3,220,854**	**148,831**	**(108,720)**	**16,438**	**172,611**
Deposits from customers	**163,078,386**	**165,019,265**	**118,627,024**	**15,753,960**	**22,723,354**	**7,361,768**	**553,159**
Euro commercial paper	**2,909,845**	**2,917,572**	**1,028,726**	**816,437**	**1,072,409**	**–**	**–**
Borrowings	**40,555,195**	**67,949,072**	**5,339,338**	**961,085**	**1,847,674**	**18,708,939**	**41,092,036**
Total financial liabilities	**215,955,036**	**244,536,141**	**132,720,275**	**18,146,544**	**25,764,371**	**26,087,145**	**41,817,806**
2016							
Due to banks	3,842,714	3,859,662	3,200,015	282,557	377,090	–	–
Derivative financial instruments	4,792,529	3,873,255	3,345,536	360,939	227,028	251,144	(311,392)
Deposits from customers	155,442,207	157,460,668	115,369,820	18,383,402	12,649,285	4,211,579	6,846,582
Euro commercial paper	8,728,533	8,756,624	4,198,566	2,590,704	1,967,354	–	–
Borrowings	38,015,030	47,910,490	3,570,904	4,110,051	4,687,354	16,641,356	18,900,825
Total financial liabilities	210,821,013	221,860,699	129,684,841	25,727,653	19,908,111	21,104,079	25,436,015

46. Foreign exchange risk framework, measurement and monitoring

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored on a daily basis. The sensitivity of currency fluctuation risk is given in Note 47. The off balance sheet position represents the nominal value of foreign currency swaps, options currency, etc. and outstanding under the Group's trading and hedging portfolio at reporting date. The analysis of currency concentrations of the Group's statement of financial position are presented below:

	AED AED'000	USD AED'000	EUR AED'000	CHF AED'000	GBP AED'000	Others AED'000	Total AED'000
2017							
Assets							
Cash and balances with central banks	14,504,751	5,445,259	142	–	–	46,971	19,997,123
Deposits and balances due from banks, net	2,063,438	7,436,761	1,612,669	42,877	30,410	265,801	11,451,956
Reverse-repo placements	–	98,578	–	–	–	–	98,578
Trading securities	–	485,301	–	–	–	–	485,301
Derivative financial instruments	1,150,191	2,540,359	1,661	–	–	128,153	3,820,364
Investment securities	259,782	41,220,069	5,817,192	–	–	1,894,614	49,191,657
Loans and advances to customers, net	139,715,293	22,771,460	68,667	–	7	726,803	163,282,230
Investment in associate	205,372	–	–	–	–	–	205,372
Investment properties	634,780	–	–	–	–	–	634,780
Other assets	1,545,289	13,052,772	115,870	4,780	5,282	133,045	14,857,038
Property and equipment, net	954,711	–	–	–	–	5,385	960,096
Intangible assets	18,800	–	–	–	–	–	18,800
Total assets	161,052,407	93,050,559	7,616,201	47,657	35,699	3,200,772	265,003,295
Liabilities and equity							
Due to banks	1,597,936	3,355,215	47,094	–	5,963	170,921	5,177,129
Derivative financial instruments	1,581,096	2,534,631	401	–	25	118,328	4,234,481
Deposits from customers	102,099,129	45,936,179	1,503,256	34,570	737,664	12,767,588	163,078,386
Euro commercial paper	–	1,159,843	1,279,166	–	470,836	–	2,909,845
Borrowings	–	36,151,149	317,227	680,745	–	3,406,074	40,555,195
Other liabilities	4,761,740	11,747,428	38,651	4,941	–	50,559	16,603,319
Equity	32,243,751	201,189	–	–	–	–	32,444,940
Total liabilities and equity	142,283,652	101,085,634	3,185,795	720,256	1,214,488	16,513,470	265,003,295
Net balance sheet position	18,768,755	(8,035,075)	4,430,406	(672,599)	(1,178,789)	(13,312,698)	–
Net off balance sheet position	1,798,008	(1,809,604)	(6,637,655)	698,926	990,099	4,960,226	–
Net FX open position	20,566,763	(9,844,679)	(2,207,249)	26,327	(188,690)	(8,352,472)	–

	AED AED'000	USD AED'000	EUR AED'000	CHF AED'000	GBP AED'000	Others AED'000	Total AED'000
2016							
Assets							
Cash and balances with central banks	12,442,019	6,664,063	–	–	–	155,820	19,261,902
Deposits and balances due from banks, net	1,800,481	19,484,771	485,547	12,304	540,549	2,339,963	24,663,615
Reverse-repo placements	–	1,524,806	–	–	–	–	1,524,806
Trading securities	–	418,758	–	–	–	–	418,758
Derivative financial instruments	1,256,420	2,650,981	365	–	244	63,779	3,971,789
Investment securities	243,784	28,807,910	3,083,936	99,359	–	824,477	33,059,466
Loans and advances to customers, net	137,642,396	19,814,901	43,023	1	7	957,367	158,457,695
Investment in associate	204,977	–	–	–	–	–	204,977
Investment properties	659,776	–	–	–	–	–	659,776
Other assets	1,304,183	13,527,265	101,431	6,622	10,988	170,499	15,120,988
Property and equipment, net	921,977	–	–	–	–	4,708	926,685
Intangible assets	18,800	–	–	–	–	–	18,800
Total assets	156,494,813	92,893,455	3,714,302	118,286	551,788	4,516,613	258,289,257
Liabilities and equity							
Due to banks	1,611,120	2,199,155	–	–	8	32,431	3,842,714
Derivative financial instruments	1,850,394	2,886,563	1,194	–	–	54,378	4,792,529
Deposits from customers	90,539,715	54,348,820	3,078,875	41,765	939,653	6,493,379	155,442,207
Euro commercial paper	–	5,972,681	1,309,526	–	1,446,326	–	8,728,533
Borrowings	500,358	32,469,415	473,974	1,037,924	898,422	2,634,937	38,015,030
Other liabilities	4,213,737	12,617,699	71,343	4,913	461	209,206	17,117,359
Equity	31,055,648	(704,763)	–	–	–	–	30,350,885
Total liabilities and equity	129,770,972	109,789,570	4,934,912	1,084,602	3,284,870	9,424,331	258,289,257
Net balance sheet position	26,723,841	(16,896,115)	(1,220,610)	(966,316)	(2,733,082)	(4,907,718)	–
Net off balance sheet position	980,821	(11,876,456)	102,050	962,821	2,276,172	7,554,592	–
Net FX open position	27,704,662	(28,772,571)	(1,118,560)	(3,495)	(456,910)	2,646,874	–

47. Market risk framework, measurement and management

The Group's activities expose it primarily to market risk which is defined as the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates, commodity prices and credit spreads (not relating to changes in the obligor's/issuer's credit standing) which will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

- Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

The Group separates its exposure to market risk between trading and banking book as defined below:

MARKET RISK ARISING FROM TRADING BOOK

Trading positions are held by the Treasury division, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis. Realised and unrealised gains and losses on these positions are reported in consolidated income statement.

MARKET RISK ARISING FROM BANKING BOOK

Market risk from banking book arises from execution of the Group's core business strategies, products and services to its customers, that invariably create interest rate risk and open currency positions that the Group endeavours to manage through strategic positions to mitigate the inherent risk caused by these positions.

Banking book includes all positions that are not held for trading such as but not limited to the Group's investments in available-for-sale instruments, loans and advances carried at amortised cost, derivatives used for hedging and other financial assets held for long term.

These exposures can result from a variety of factors including but not limited to re-pricing of gaps in assets, liabilities and off-balance sheet instruments and changes in the level and shape of market interest rate curves.

RISK IDENTIFICATION AND CLASSIFICATION

The MRCC approves market risk policies for the Group. All business segments are responsible for comprehensive identification and verification of market risks within their business units. Regular meetings are held between market risk management and the heads of risk taking businesses to discuss and decide on risk exposures in the context of the market environment.

MANAGEMENT OF MARKET RISK

The Board of Directors have set risk limits based on the Value-at Risk (VaR), Stressed Value at Risk (SVaR), Greeks, sensitivity/stress analysis and foreign exchange open position limits which are closely monitored by the risk management division and reported regularly to the senior management and discussed by ALCO.

Market risk is identified, measured, managed and controlled by an independent risk control function. Market risk management aims to reduce volatility in operating performance and make the Group's market risk profile transparent to senior management, the Board of Directors and Regulators.

Market risk management is overseen by the Management Risk and Credit Committee (MRCC) and performs the following primary functions:

- establishment of a comprehensive mark-to-market valuation policy framework;
- establishment of a comprehensive market risk policy framework;
- independent measurement, monitoring and control of market risk;
- setting and monitoring of limits; and
- hedge effectiveness methodology.

RISK MEASUREMENT

The following are the tools used to measure the market risk, because no single measure can reflect all aspects of market risk. The Group uses various matrices, both statistical and non-statistical, including sensitivity analysis.

STATISTICAL RISK MEASURES

The Group measures the risk of loss arising from future potential adverse movements in market rates, prices and volatilities using VaR methodology. The VaR that the Group measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. This confidence level suggests that potential daily losses in excess of the VaR measure are likely to be experienced, once every hundred days. The Board has set limits for the acceptable level of risks in managing the trading book.

The Group uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VaR represents the risk of portfolios at the close of a business day and intra-day risk levels may vary from those reported at the end of the day. The actual trading results however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, the Group runs both SVaR and Expected Shortfall daily to monitor the tail risk outside the confidence limit. Stressed VaR is the VaR run through a stressed year rather than the previous year as used in VaR.

The Group's VaR for the year ended 31 December is as below:

	2017 AED'000	2016 AED'000
Daily value at risk (VaR at 99% — 1 day)		
Overall risk	**(10,786)**	(5,151)
Average VaR	**(9,423)**	(5,754)

NON-STATISTICAL RISK MEASURES

Non-statistical risk measures, other than stress/sensitivity testing, include independent market valuations to ensure that the Group's valuations are correct and Risk Greeks to ensure that trading is within the risk appetite thresholds. These measures provide granular information of the Group's market risk exposures.

Independent market valuations/Greeks are validated by the market risk function in order to ensure that the market valuations/Greeks are measured correctly. The Group uses first order Risk Greeks to monitor and control market risk on a day to day basis. The interest rate delta and vega and the foreign exchange delta and vega are computed daily and monitored against a limit. The Board has set limits for the delta and the vega within acceptable level of risks in managing the trading book.

SENSITIVITY ANALYSIS

To overcome the VaR limitations mentioned under statistical measure above, the Group also carries out daily stress tests/sensitivity analysis of its portfolio to simulate conditions outside normal confidence intervals in order to analyse potential risk that may arise from extreme market events that are rare but plausible. The results of the stress tests are reported regularly to the Group's ALCO committee for their review.

CURRENCY RISK

The following table depicts the sensitivity of fair valuations in the trading and banking book to hypothetical, instantaneous changes in the level of foreign currency exchange rates — with other market risk factors held constant (including the USD-AED currency pair which is pegged) — which would have an impact on the Group's consolidated income statement:

	2017		2016	
Price Shock in percentage	+5% AED'000	-5% AED'000	+5% AED'000	-5% AED'000
USD-AUD	**900**	**498**	109	606
EUR-USD	**(5,229)**	**23,847**	2,194	2,744
GBP-USD	**2,540**	**2,753**	(3,762)	(265)
USD-JPY	**1,063**	**1,665**	(294)	566
USD-CHF	**527**	**999**	770	125
USD-INR	**(10,783)**	**11,918**	(10,918)	12,063

INTEREST RATE RISK — TRADING BOOK

The following table depicts the sensitivity of fair valuations in the trading book to hypothetical and instantaneous changes in the level of interest rates — with other market risk factors held constant — which would have an impact on the Group's consolidated income statement:

Relative instantaneous rate move shift for all tenors:

	2017		2016	
	+25bps AED'000	-25bps AED'000	+25bps AED'000	-25bps AED'000
AED	**29,424**	**(27,274)**	438	(102)
USD	**(24,052)**	**42,262**	(1,098)	3,137

INTEREST RATE RISK — BANKING BOOK

The following table depicts the sensitivity of fair valuations in the non-trading book to hypothetical and instantaneous changes in the level of interest rates — with other market risk factors held constant — which would have an impact on the Group's consolidated income statement:

	2017		2016	
	+25 bps AED'000	-25 bps AED'000	+25 bps AED'000	-25 bps AED'000
Sensitivity of net interest income	**59,187**	**(59,187)**	95,861	(95,862)

The sensitivity on the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities, including the effect of hedging instruments.

48. Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks can arise from all business processes and activities carried out by the Group and can expose the Group to potentially large losses, regulatory criticism and reputational damage. The Group manages operational risk exposures through a consistent set of management processes that includes but is not limited to: risk identification through analysis of end to end processes within the Group, assessment of risk within those processes on an inherent and residual basis, implementing of control strategies, mitigation and monitoring of risk. The Operational Risk Management Framework is built on elements that allow the Group to effectively manage and measure its operational risk profile and to calculate the amount of operational risk capital it needs to hold to absorb potential losses.

The framework is governed by three lines of defence concept:

- Each business group, as an integral part of their first line of defence responsibilities, is responsible for identifying and managing risks that arise from their activities. Identified operational risk exposures are rated 'Minor', 'Moderate', 'Significant' and 'Major' in accordance with the adopted risk assessment matrix which takes into consideration the likelihood of the event as well as its financial, regulatory, reputational and customer impact. Significant and Major risks are analysed to identify the root cause of any failure for remediation and future mitigation. Additionally, data on operational losses is systematically collected and analysed to identify loss causal factors, trends and concertation and subsequently address the root cause of failures.
- As the second line of defence, Group Operational Risk is responsible for setting and maintaining the standards for operational risk management and control. This includes defining appropriate policies and providing tools to manage and monitor operational risks within the Group's activities as well as providing consolidated operational risk reporting to the Group Management and the Board of Directors. Group Operational Risk function is well supported by the first line Business Operational Risk Managers, for identifying risks that are material to the Group and for maintaining an effective control environment across the organisation. The business lines' inputs to and outputs from the Group's risk management and risk measurement and reporting systems are adequately challenged by the second line Group Operational Risk. New products, material process changes and critical outsourcing arrangements are also assessed and authorised in accordance with the Enterprise Risk Advisory Process and product governance policies and procedures. Operational risk reporting is an integral part of the governance framework. On a quarterly basis reporting is done to the Heads of Business Group, Senior Management Committees and the Board Risk Committee.
- As the third line of defence, Internal Audit function provides further independent review of the Group's operational risk management processes, systems and controls and reports to the Board and Senior Management Committee.

49. Foreign currency balances

Net assets amounting to Indian Rupee equivalent of AED 231,771 thousand (31 December 2016 — AED 206,829 thousand) held in India are subject to the exchange control regulations of India.

50. Trust activities

As at 31 December 2017, the net asset value of the funds under the management of the Group amounted to AED 2,507,245 thousand (31 December 2016 — AED 2,928,980 thousand).

51. Subsidiaries

The following is the list of subsidiaries of the Bank:

Name of subsidiary	Ownership interest	Incorporation		Principal activities
		Year	Country	
ADCB Securities LLC	100%	2005	UAE	Agent in trading of financial instruments and stocks.
Abu Dhabi Commercial Properties LLC	100%	2005	UAE	Real estate property management and advisory services.
Abu Dhabi Commercial Finance Solutions LLC	100%	2005	UAE	Financial investments.
Abu Dhabi Commercial Investment Services LLC	100%	2005	UAE	Financial investments.
Kinetic Infrastructure Development LLC	100%	2006	UAE	Financial investments.
Abu Dhabi Commercial Property Development LLC (*)	100%	2006	UAE	Property development.
Abu Dhabi Commercial Engineering Services LLC	100%	2007	UAE	Engineering services.
ADCB Finance (Cayman) Limited	100%	2008	Cayman Islands	Treasury financing activities.
ADCB Markets (Cayman) Limited (Formerly known as ADCB Holdings (Cayman) Limited)	100%	2008	Cayman Islands	Treasury related activities.
ADCB Holdings (Labuan) Limited (*)(**)	100%	2008	Malaysia	Holding company.
ADCB Holdings (Malaysia) Sdn Bhd (*) (**)	100%	2008	Malaysia	Investment holding company.
ACB LTIP (IOM) Limited	Controlling interest	2008	Isle of Man	Trust activities.
Abu Dhabi Commercial Properties Consultancy LLC (*)(**)	100%	2008	UAE	Real estate consultancy.
Abu Dhabi Commercial Bank (UK Representative Office) Limited	100%	2008	United Kingdom	UK representative office and process service agent.
ADCB Fund Management SARL (**)	100%	2009	Luxembourg	Fund management company.
Abu Dhabi Commercial Islamic Finance Pvt.J.S.C. (**)	100%	2009	UAE	Islamic banking.
ITMAM Services FZ LLC (Formerly known as ADCB Services FZ LLC)	100%	2010	UAE	Transaction processing and back office support for the Group.
ADCB Islamic Finance (Cayman) Limited (*)	100%	2011	Cayman Islands	Islamic financing activities.
AD NAC Ventures WLL	99.75%	2012	Bahrain	Trust activities.
ITMAM Services LLC	100%	2013	UAE	Transaction processing and back office support for the Group.
Abu Dhabi Commercial Enterprises LLC (*)	100%	2013	Qatar	Engineering services.
Omicron Capital	100%	2014	Cayman Islands	Treasury financing activities.
ADCB Structuring I (Cayman) Limited	100%	2016	Cayman Islands	Treasury financing activities.
ADCB Structuring II (Cayman) Limited	100%	2016	Cayman Islands	Treasury financing activities.

(*) These subsidiaries are dormant.

(**) These subsidiaries are under liquidation.

52. Capital adequacy and capital management

CAPITAL MANAGEMENT PROCESS

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- to comply with the capital requirements set by the Central Bank of the United Arab Emirates;
- to safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of the United Arab Emirates. The required information is filed with the regulators on a regular basis as required under Basel II standards.

The UAE Central Bank vide its circular No. 27/2009 dated 17 November 2009 informed all the Banks operating in the UAE to implement Standardised approach of Basel II from the date of the circular. For credit and market risk, the Central Bank has issued guidelines for implementation of Standardised approach and banks are required to comply and report under Pillar 2 — Internal Capital Adequacy Assessment Process (ICAAP) requirements since March 2010. For operational risk, the Central Bank has given banks the option to use the Basic Indicators approach or the Standardised approach and the Group has chosen to use the Standardised approach.

The Bank currently uses the approach defined below for Pillar 1 reporting:

Credit risk: Standardised approach is used by the Group in calculating its capital requirements for credit risk. This approach allows the use of external ratings from designated credit rating agencies, wherever available, in determining the appropriate risk weights. The risk weight is determined by the asset class and the external rating of the counterparty. The net exposure incorporates off balance sheet exposures after applying the credit conversion factors (CCF) and credit risk mitigants (CRM).

Market risk: For the regulatory market risk capital requirement, the Group uses the standardised approach.

Operational risk: Basel II includes a capital requirement for operational risk, again utilising three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach it is one of three different percentages of total operating income under each of eight defined business lines. Both these approaches use an average of the last three financial years' revenues. The Group has adopted the standardised approach in determining the operational risk capital requirements.

The Group also prepares an annual comprehensive ICAAP document. This document is a detailed assessment by the Group of its risk profile, approaches to assess and measure various material risks, capital planning under regular and stress scenarios.

The Group's capital management is driven by long/short term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

The Group seeks to optimise returns on capital and it has always been the objective to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

CAPITAL SUPPLY

As per Basel II requirement, capital should comprise of the following:

Tier 1 capital includes paid-up share capital, share premium, published reserves (including post-tax retained earnings but excluding positive balance of cumulative changes in fair value), hybrid Tier 1 instruments (with prior approval from Central Bank) and non-controlling interests in the equity of subsidiaries less than wholly-owned.

Deductions are made from Tier 1 core capital as per the Basel guidelines/Central Bank of the UAE rules and includes goodwill and other intangibles at net book value, adjustments for the cumulative effect of foreign currency translation, negative balance of cumulative changes in fair value, treasury shares, current year loss/retained losses, shortfall in provisions and other deductions to be determined by the Central Bank of the UAE.

Tier 2 capital includes collective provisions per Basel guidelines and UAE Central Bank rules, undisclosed reserves, asset revaluation reserves/cumulative changes in fair value, hybrid (debt/equity) capital instruments and subordinated term loan.

Tier 3 capital includes principal form of eligible capital to cover market risks and consists of shareholders' equity and retained earnings (Tier 1 capital) and supplementary capital (Tier 2 capital). Subject to prior approval from the Central Bank of the UAE, banks may employ a third tier of capital (Tier 3), consisting of short term subordinated debt as defined in paragraph 49(xiv) of Basel II, for the sole purpose of meeting a proportion of the capital requirements for market risks, subject to the conditions in paragraph 49(xiii) and 49(xiv).

SECURITISED ASSETS

Exposures to securitised assets that are rated B+ and below (long term), below A3/P3 (short term), or are un-rated are deducted from the capital base and the deductions will be 50% from Tier 1 and 50% from Tier 2 capital.

CAPITAL ALLOCATION

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital and the Group's business strategy, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk & Credit and Finance functions and is subject to review by the ALCO as appropriate.

BASEL II CAPITAL ADEQUACY RATIO

The ratio calculated in accordance with Basel II guidelines is as follows:

	2017 AED'000	2016 AED'000
Tier 1 capital		
Share capital (Note 22)	**5,198,231**	5,198,231
Share premium	**2,419,999**	2,419,999
Other reserves (Note 23)	**7,425,119**	7,423,305
Retained earnings	**13,124,950**	11,052,553
Capital notes (Note 26)	**4,000,000**	4,000,000
Less: Intangible assets (Note 16)	**(18,800)**	(18,800)
Less: Investment in associate	**–**	(102,489)
Total tier 1 capital	**32,149,499**	29,972,799
Tier 2 capital		
Collective impairment allowance on loans and advances	**2,212,762**	2,115,655
Cumulative changes in fair value (Note 23)	**26,914**	6,290
Subordinated notes (Note 20)	**4,233,619**	4,217,314
Less: Investment in associate	**–**	(102,488)
Total tier 2 capital	**6,473,295**	6,236,771
Total regulatory capital	**38,622,794**	36,209,570
Risk-weighted assets		
Credit risk	**177,020,965**	169,252,435
Market risk	**10,718,938**	8,343,579
Operational risk	**14,529,229**	13,741,466
Total risk-weighted assets	**202,269,132**	191,337,480
Capital adequacy ratio	**19.09%**	18.92%
Tier 1 ratio	**15.89%**	15.66%
Tier 2 ratio	**3.20%**	3.26%

The capital adequacy ratio was above the minimum requirement of 12% for 31 December 2017 (31 December 2016 — 12%) stipulated by the Central Bank of the UAE.

TIER 1 CAPITAL RESOURCES

(a) Ordinary shareholders' funds, which include the cumulative proceeds from the issuance of ordinary shares at their nominal value net of treasury shares. These instruments confer a share of ownership in the Bank, and carry no obligations.

(b) Statutory and Legal reserves:

(i) Statutory reserve: As required by Article 239 of the UAE Federal Law No. (2) of 2015, 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Transfer to statutory reserve for the year is no longer required as the reserve has reached 50% of the paid up share capital. The statutory reserve is not available for distribution.

(ii) Legal reserve: In accordance with the Article 82 of Union Law No. 10 of 1980 and the Articles of Association of the Bank, 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 equals 50% of the nominal value of the paid up share capital. Transfer to legal reserve for the year is no longer required as the reserve has reached 50% of the paid up share capital. The legal reserve is not available for distribution.

(c) General and Contingency reserves:

(i) General reserve: In accordance with the Articles of Association of the Bank, a further percentage of net profit for the year can be transferred to the general reserve based on the recommendation of the Board of Directors. The Bank may resolve to discontinue such annual transfers when the reserve equals 25% of the nominal value of the paid up share capital. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

(ii) Contingency reserve: The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.

(d) Employees' incentive plan shares: The Bank grants equity-settled share-based payments to employees. These shares are acquired by the Bank for its employees and are deducted from capital.

(e) Cash flow hedge reserve: The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity.

(f) Foreign currency translation reserve: The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(g) Retained earnings which represent the cumulative profits not distributed to shareholders, and other eligible reserves.

(h) Non-controlling interests in equity of subsidiaries.

(i) Capital notes: In February 2009, the Department of Finance, Government of Abu Dhabi subscribed to ADCB's Tier 1 regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes"). The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank.

Deduction from Tier 1 resources includes intangible assets.

TIER 2 CAPITAL RESOURCES

(a) Collective impairment allowance on loans and advances limited to 1.25% of credit risk-weighted assets.

(b) Cumulative changes in fair value — The cumulative changes in fair values includes the cumulative net change in the fair value of available-for-sale investments measured at fair value through other comprehensive income. However, it is limited to 45% if the balance is positive. But if the balance is negative, the entire balance is adjusted in Tier 1 capital.

(c) Eligible subordinated notes (Note 20).

BASEL III CAPITAL ADEQUACY RATIO

In December 2010 (revised in June 2011), the Basel Committee on Banking Supervision issued Basel III, a global regulatory framework, to enhance international capital standards. Basel III is designed to materially improve the quality of regulatory capital and introduces a new minimum common equity capital requirement. Basel III also raises the minimum capital requirements and introduces capital conservation and countercyclical buffers to induce banking organisations to hold capital in excess of regulatory minimums. In February 2017, the Central Bank of the UAE published enhanced regulatory capital rules vide notifications 52 and 60/2017 which implemented Basel III in the UAE.

To achieve broader macro-prudential goal of protecting the banking sector from the periods of excess aggregate credit growth and in addition to the capital conservation buffer (CCB) requirement, banks may be required to implement the countercyclical buffer (CCyB). Banks must meet CCB and CCyB requirement by using CET1 capital. The level of CCyB requirement will vary between

0%–2.5% of risk weighted assets and will be communicated by the Central Bank with adequate notice period. Further, to reduce risks related to the failure of domestic systemically relevant institutions, the Central Bank of the UAE has introduced domestic systematically important banks (D-SIB) buffer of 0.5%. ADCB has been listed as a D-SIB and is required to maintain a D-SIB buffer of 0.5% from 2019.

To enable banks to meet the new standards, the notification contains transitional arrangements commencing 1 January 2017 through 1 January 2019. Transitional requirements result in a phase-in of capital conservation and D-SIB buffer over 3 years. As of January 2019, the banks will be required to meet new minimum requirements related to risk-weighted assets as mentioned below:

Transitional arrangement	2017	2018	2019
CET1 including buffers			
— CET1	7.000%	7.000%	7.000%
— CCB	1.250%	1.875%	2.500%
— D-SIB buffer	0.250%	0.375%	0.500%
CET1 including buffers	8.500%	9.250%	10.000%
Additional tier 1 (AT1) capital	1.500%	1.500%	1.500%
Tier 1	10.000%	10.750%	11.500%
Tier 2	2.000%	2.000%	2.000%
Minimum capital requirement	12.000%	12.750%	13.500%

The ratio calculated in accordance with Basel III guidelines are as follows:

	2017 AED'000
Common equity tier 1 (CET1) capital	
Share capital (Note 22)	**5,198,231**
Share premium	**2,419,999**
Other reserves (Note 23)	**7,680,403**
Retained earnings	**13,124,950**
Regulatory deductions and adjustments	
Intangible assets (Note 16) (*)	**(15,040)**
Cash flow hedge reserve (Note 23) (*)	**(152,296)**
Employee's incentive plan shares, net (Note 23) (*)	**(51,932)**
Cumulative changes in fair value (Note 23)	**26,914**
Total CET1 capital	**28,231,229**
Additional tier 1 (AT1) capital	
Capital notes (Note 26)	**4,000,000**
Transitional deduction from AT1 capital (10% for 2017)	**(27,408)**
Total AT1 capital	**3,972,592**
Total tier 1 capital	**32,203,821**
Tier 2 capital	
Collective impairment allowance on loans and advances	**2,212,762**
Subordinated notes (Note 20)	**4,233,619**
Transitional deduction from tier 2 capital (10% for 2017)	**(27,408)**
Total tier 2 capital	**6,418,973**
Total regulatory capital	**38,622,794**
Risk-weighted assets	
Credit risk	**177,020,965**
Market risk	**10,718,938**
Operational risk	**14,529,229**
Total risk-weighted assets	**202,269,132**
CET1 ratio	**13.96%**
AT1 ratio	**1.96%**
Tier 1 ratio	**15.92%**
Tier 2 ratio	**3.17%**
Capital adequacy ratio	**19.09%**

(*) transitional deduction from CET1 (80% for 2017)

53. Social contributions

The Group made the following social contributions during the year:

	2017 AED'000	2016 AED'000
Donations	**5,560**	6,019
Sponsorships	**12,371**	5,922
Total social contributions	**17,931**	11,941

54. Legal proceedings

The Group is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Group's consolidated financial statements if disposed unfavourably.